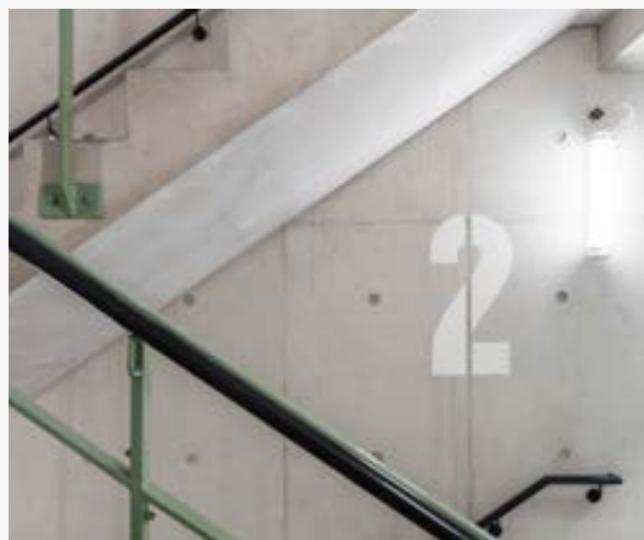


DERWENT LONDON

Report & Accounts 2018

DERWENT LONDON

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Who we are

We are the largest London-focused real estate investment trust (REIT), owning a 5.4 million sq ft portfolio of mainly commercial real estate in 13 'villages' across central London.

Our purpose

Our purpose is to help improve and upgrade the stock of office space in central London, providing above average long-term returns to our shareholders while bringing social and economic benefits to all our stakeholders.

By setting an open and progressive corporate culture and promoting values that include building lasting relationships, our design-led ethos has created a brand of well-designed, flexible and efficient buildings at affordable rents. These not only help our occupiers attract talent but also revitalise neighbourhoods and benefit local communities. Our approach contributes to workforce well-being and will help to maintain London's place as a leading global business hub.

What we do

The majority of our portfolio is income producing. We aim for a balance between properties with potential to add further value through regeneration and those which have already been improved but where our asset management skills can continue to grow value and income. Underlying the business is a strong balance sheet with modest leverage and uncomplicated and flexible financing.

Our culture

- Hard-working and adaptable
- A passion to improve London's office spaces
- Progressive and pragmatic
- 'Open door' and inclusive
- Collaborative and supportive

Our values

- Reputation, integrity and good governance
- Building long-term relationships and trust
- Focus on creative design and embracing change
- Openness and transparency
- Sustainability and responsibility



STEPHEN STREET W1

Since acquisition in 2010 we have refurbished 57% of the office space and completely reconfigured the retail element of this substantial 265,000 sq ft building. During 2018 we extended leases on 83,400 sq ft and took back and re-let 32,000 sq ft of office space including one floor which was let to Odeon Cinemas.

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2018 SUMMARY

Derwent London has continued to make good operational progress, enhanced its stakeholder and responsibility agendas and announced its future leadership team.

OPERATING HIGHLIGHTS

- New lettings of £26.8m, 4.1% above ERV
- Brunel Building W2 64% pre-let at year end, 77% at 26 February 2019 with balance under offer
- 623,000 sq ft development programme, 75% pre-let at 26 February 2019
- Progressed Soho Place W1 and signed the construction contract in February 2019
- Site of The Featherstone Building EC1 vacated ready for demolition
- Asset managers involved in lease events on 833,000 sq ft raising existing rent 20.4% to £38.3m
- Assigned a corporate credit rating of A- by Fitch
- Arranged a £250m US private placement



Right: CGI of Brunel Building W2

STAKEHOLDERS AND RESPONSIBILITY

- Established Responsible Business Committee to be chaired by Cilla Snowball
- Like-for-like managed portfolio carbon intensity down 20%
- Our Community Fund celebrated its fifth anniversary with a further extension to 2021
- Supported staff through 'Fit for the Future' and well-being initiatives



LEADERSHIP

- Robert Rayne to retire as Non-Executive Chairman
- John Burns to become Non-Executive Chairman
- Paul Williams to become Chief Executive
- To become effective 17 May 2019

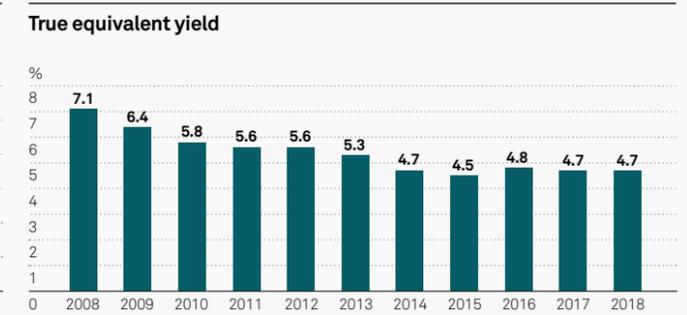
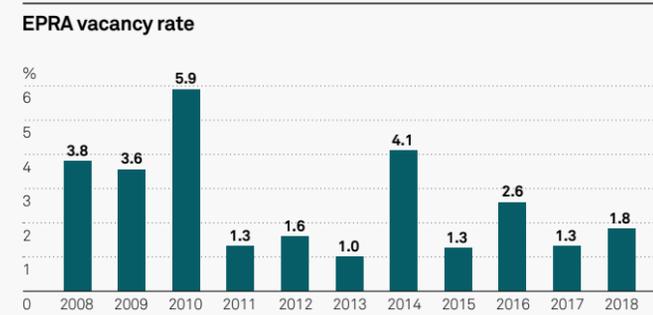
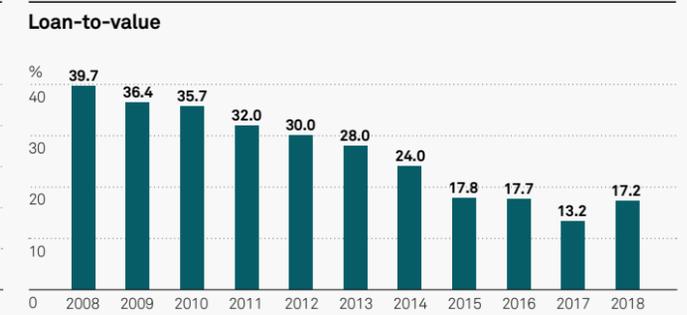
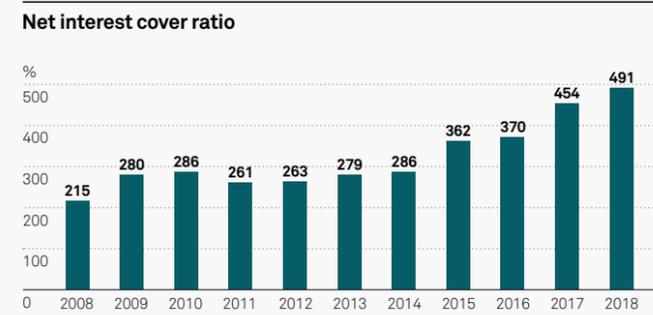


FINANCIAL AND NON-FINANCIAL HIGHLIGHTS

<p>Net property income</p> <p>£185.9m</p> <p>2017: £164.8m +12.8%</p>	<p>Total return</p> <p>5.3%</p> <p>2017: 7.7% -31.2%</p>
<p>EPRA earnings per share</p> <p>113.1p</p> <p>2017: 94.2p +20.0%</p>	<p>Dividend per share²</p> <p>65.9p</p> <p>2017: 59.7p +10.2%</p>
<p>Underlying earnings per share¹</p> <p>99.1p</p> <p>2017: 94.2p +5.1%</p>	<p>EPRA NAV per share</p> <p>3,776p</p> <p>2017: 3,716p +1.6%</p>

¹ Derived by excluding 14p per share of one-off rights of access income in 2018 from EPRA earnings per share

² Excludes 75p special dividend declared in 2017





CHAIRMAN'S STATEMENT

Derwent London continued to make good progress in 2018 despite prolonged political and economic uncertainty.

Against the background of protracted Brexit negotiations, we have achieved £26.8m of new lettings, a 5.1% increase in underlying earnings to 99.1p per share and a 20.0% increase in EPRA EPS to 113.1p per share. The EPRA NAV rose 1.6% to 3,776p per share after paying out dividends of 136.5p. Our financial strength was recognised when we were assigned a corporate credit rating of A- by Fitch, and we have subsequently arranged a £250m US private placement, which was drawn down in January 2019. We adopted the UN Sustainable Development Goals as part of our reporting process, launched an internal management and leadership programme and completed our succession plans.

We propose raising the final dividend 10.3% to 46.75p per share, taking the full year's dividend to 65.85p per share, an increase of 10.2%. Looking forward, we expect to raise the 2019 dividend at a similar rate. For the past decade, our average ordinary dividend growth has been 10.4% per annum and, in addition, we have paid special dividends totalling 127p per share in the last two years.

This month is the twelfth anniversary of the merger between Derwent Valley and London Merchant Securities. I was one of the architects of this transaction and subsequently became the enlarged Group's Chairman. I believe that we have more than delivered on our aspirations, outperforming both the relevant property and equity indices by a substantial margin. As well as growing the business, we have enhanced our brand, designing and creating innovative office space with the flexibility required by today's occupiers, located in improving areas and at middle market rents.

The Group's sustained performance over many years reflects our culture and that can only be nurtured through strong leadership. Derwent London benefits from a talented team, which has been led from the beginning by its exceptional Chief Executive, John Burns. It has been my privilege to have worked with him. However, any achievement can only be measured through its continuing legacy and, with this objective in mind, the Board has focused on succession planning with the aim of ensuring a smooth management handover.

In November 2018, it was announced that I will retire at the next AGM on 17 May 2019 to be succeeded by John Burns as Non-Executive Chairman. The Board agreed that Paul Williams should succeed John as Chief Executive. Paul has been a Board member since 1998, having joined Derwent Valley in 1987. He has been an integral part of the Group's success story. We are pleased by the support this announcement has received from our shareholders, and it provides us with the ongoing leadership to take the Group forward.

After nine years as a Non-Executive Director, Stephen Young will also be retiring at our next AGM and I would like to thank him for his considerable contribution to the business. We already have an excellent replacement in Lucinda Bell, previously Chief Financial Officer of British Land, who was appointed in January 2019. She will follow Stephen as chair of the Audit Committee.

Increasingly, we are focusing on the broader impact of our business on a wider range of stakeholders and we have established a Responsible Business Committee chaired by Non-Executive Director, Cilla Snowball. While we believe that we already have some of the best ESG¹ standards in our industry, we remain committed to improving them and 2018 saw us raise the bar again. White Collar Factory EC1 won numerous awards, including RIBA² National and BCO³ National Innovation awards and 25 Savile Row W1 won a SKA⁴ Gold rating. We have now committed to extending our Community Fund out to 2021, having completed its first five years in 2018, and we saw good progress towards achieving our 2027 science-based carbon targets.

Derwent London has a well located office portfolio and a tried and tested strategy that is constantly being flexed in response to the market. We remain dedicated to creating the space that allows businesses to thrive, as well as benefits both for our investors and for the communities in which we operate. The long-term success of this model is dependent on the skills of our people and the Group's relationships with its many stakeholders.

Finally, I would like to thank all those who have been involved with Derwent London over many years and to wish the Group continuing prosperity. I know that there are plenty of opportunities in the portfolio, and I am very confident that the leadership team will be able to capitalise on them as well as adding fresh initiatives of its own.

Robert Rayne
Chairman

¹ Environmental, social and governance

² Royal Institute of British Architects

³ British Council for Offices

⁴ RICS rating

PERFORMANCE IN 2018

Total property return

Measures the income and capital return on our portfolio

+6.0%

Exceeding our benchmark, the MSCI IPD Central London Offices Index, of +5.3%

Total shareholder return

Measures our share price and dividend performance

+0.9%

Outperforming the FTSE 350 Real Estate index return of -9.2%

BREEAM ratings

Measures environmental impact of commercial buildings

'Excellent'

Both Brunel Building and 80 Charlotte Street are on track to meet this target

CHIEF EXECUTIVE'S STATEMENT

The London office market has remained resilient following the result of the EU referendum over two and a half years ago.

Occupational and investment demand is holding up and London's economy and workforce continue to grow, although at a slower rate. Businesses continue to look beyond the short-term uncertainty, which has created an unusually stable period of rents and values for the second year in succession. Derwent London has again been able to outperform the central London office market, benefitting from its successful development activities, which justifies the positive decision taken in 2016 to progress with our regeneration programme.

Despite average rents and values remaining stable, the underlying market is witnessing a number of dynamic trends as occupiers are increasingly focused on the impact of their workspace in attracting and retaining their employees. These trends include the strength of demand for new space compared to secondhand space, and occupiers' increasing emphasis on lease flexibility, well-being and technology. Demand is no longer purely focused just on location and price. This has seen the proportion of London office space occupied by flexible office providers increase from 3% to 5% in recent years. Meanwhile, in the investment market, the strongest demand remains for properties on longer leases.

Our development at Brunel Building W2 has seen excellent demand with the majority of its space let for a minimum of 12 years before breaks. Some of our smaller spaces in Clerkenwell have been let as fully fitted flexible units on simplified shorter leases. White Collar Factory EC1, as well as winning numerous architectural awards, has also won the NLA well-being award. Additionally, the asset management team has had a busy 2018, extending a number of existing leases on our portfolio, notably creating a new 20-year lease for Burberry at Horseferry House SW1.

We are well positioned to respond to market conditions, reflecting the multiple skills of our team as well as the Group's portfolio and financial structure. Our properties are predominantly income-producing, let off middle market rents, with plenty of opportunities to add value through both management initiatives and regeneration. Our business is underpinned by prudent financing, giving us the freedom to pursue our strategies at our own timing. We vary development exposure by accelerating or slowing the pipeline depending on the letting success of our current projects and our market view. The overall portfolio balance is maintained by disposing of assets where we have maximised the growth and re-investing the proceeds into new opportunities.

From the outset, Derwent London has been passionate about the buildings it creates. We listen to our occupiers which means that, for many years, we have tried to create the most flexible internal space possible and offered communal break-out space and amenities in our multi-let buildings to help create a positive experience. The Group likes to remain innovative and uses a range of materials to provide the most practical, sustainable and aesthetic buildings. Our designs consider a building's impact on the environment and the local community, not just during construction but for the long-term. We do not do this alone but collaborate with specialists who we believe are the best in their field. No Derwent London refurbishment or redevelopment is the same, but all aim to be of the highest quality with a long-lasting positive impact.

The portfolio retains considerable reversionary potential, totalling £114.9m. Nearly half of this growth is already contracted and largely accounted for in the Group's earnings per share, which leaves £59.6m, subject to rental incentives, still to benefit our earnings. This will require another £133m of capital expenditure. We are enhancing this potential income growth in 2019 with our next major developments: Soho Place W1 and The Featherstone Building EC1. These two well-located projects will be major beneficiaries from the opening of the Elizabeth line (now expected in 2020) and have a combined ERV of £30m. They are expected to require an additional £359m of capital expenditure, including the deferred land purchase payable to Crossrail on completion of Soho Place. These projects will extend our development programme out to 2022.

While we have made no significant acquisitions recently, 29% of our existing portfolio, in addition to our current projects, holds substantial potential for major regeneration. This includes two West End schemes, which already have 'resolutions to grant' planning permission, totalling 443,000 sq ft. Both could start by 2022 thereby extending our development programme out to 2025.

After thirty-five years as Chief Executive, I will be stepping down at this year's AGM to become Non-Executive Chairman. It has been a privilege to lead and watch the business grow from total assets of only £1.1m in 1984 to the sizeable operation it is today. From the start, I have been able to work with outstanding colleagues. In particular, Simon Silver's design flair and attention to detail has been so important to the Group's reputation for providing special buildings which has become part of our DNA. I am delighted that he is continuing to play his valuable role within the Group.

The merger with London Merchant Securities in 2007 proved a pivotal moment, doubling the size of the Group and providing a rich seam of opportunities which are still delivering for us today. During my tenure, I have benefitted from the advice of two exemplary Chairmen: first, John Ivey and, subsequent to the merger, Robbie Rayne. Robbie will retire at this year's AGM. I am most grateful for his considered advice and wish him well with his other business and charitable interests.

Derwent London has an excellent team with a broad range of expertise and experience and we have continued to invest in the talent pool through our 'Fit for the Future' programme. Our business is supported by strong relationships with our occupiers, advisers and other stakeholders. Together, we have established a brand recognised for its cutting-edge design, providing the spaces and services needed by today's businesses. I would like to thank all who have been involved in Derwent London's remarkable journey so far, especially my colleagues and family for their support.

Outlook

Making any short-term prediction today is difficult with so many major political decisions unresolved. Longer term, we remain confident about London's prospects and its status as a global city. This belief, shared with many other businesses, continues to support occupier demand. Assuming demand is maintained, we expect the London office market will follow a similar pattern to last year so, for 2019, we estimate our ERV growth at +1% to -2%, with stable investment yields. Our strong financial position means that, were London offices to suffer an unexpected downturn, we would be poised to take advantage of any opportunities that might occur.

With its unique portfolio offering a very strong pipeline of potential projects, I am confident that Derwent London will continue to prosper under the future leadership of Paul Williams. Enhanced by its regeneration skills and the financial strength to invest when opportunities present themselves, this will ensure that the Group continues to deliver great buildings backed up by equally strong returns.

John Burns
Chief Executive



PERFORMANCE IN 2018

Tenant retention/re-lets

Measures our ability to retain or re-let space following lease expiry

90%

Tenant retention alone was 76%, above our target range of 50-75% (see page 125)

Development potential

We monitor the proportion of our portfolio with the potential for refurbishment or redevelopment

41%

Within our target range of 37-47% (see page 125)

Reversionary percentage

Measures the growth in passing rents, assuming the rent increases to ERV and all current developments are completed and let

72%

Up from 69%, reflecting rise in contractual uplifts



OUR PRIORITIES IN 2019

De-risk the pipeline

Derwent London had 623,000 sq ft under development in December 2018, and has started an additional 410,000 sq ft in 2019. We will be seeking additional pre-lets during the year.

Capital recycling

We always look to take advantage of opportunities to either acquire or dispose of assets in the portfolio. At the same time we seek to maintain the balance between core income and future development properties, as well as to ensure that we can meet our various financial targets.

Promote responsible business

The Group has recently established the Responsible Business Committee to focus on social and environmental matters and, as part of its remit, we will be continuing to promote diversity, inclusion and well-being amongst our staff.

CEO SUCCESSION

Questions and answers with Paul Williams, who will succeed John Burns as Chief Executive immediately after our AGM on 17 May 2019. Paul joined Derwent London in 1987, becoming a main Board Director in 1998.

Q How do you think Derwent has changed over the years?

A In some ways very little, as our passion for buildings, creativity, focus on central London offices striving to attract the best tenants and the desire to do the 'right thing' was there from the start. We still focus on buying buildings with 'good bones' that we can regenerate in improving locations. However, one obvious difference is our size, which means that we have taken on larger schemes and increased the depth of our pipeline. It has also meant that we have needed to become increasingly tech 'savvy' as a business.

Q During that time, has there been any specific transaction that you would highlight?

A Over the years there have been many deals which were seen as exceptional at the time, but then we go on to make a further one. Derwent London's approach is very team-orientated and my area of focus has been in leasing, development and seeing potential in sites. Our recent leasing activity has been strong, notably with the pre-letting of most of the commercial space at our largest ever development, 80 Charlotte Street W1, and the success we have had at Brunel Building W2. We continue to work hard to know our occupiers and their needs and that drives us in everything we do.

Q Do you propose to do anything differently to your predecessor?

A Given my predecessor's outstanding track record, there is no need to make any immediate changes, but I will have my own individual style and the Group will continue to evolve. Internally, my appointment will give opportunities to others as I take on new roles and relinquish most of my old ones. Derwent London has a strong set of Executive Directors and an experienced team eager to take on new responsibilities. Externally, we will continue to pursue opportunities to benefit all our stakeholders.

Q You have been the Director responsible for sustainability for over six years now; how do you think this will impact your role as CEO?

A Derwent London has always felt that it is good business to take a long-term view of the environmental and social impact of our buildings on our neighbours and the wider community. We also look to promote well-being initiatives at our larger multi-let buildings.

The Group takes its sustainability disclosures seriously, demonstrated through the publication of our first Annual Sustainability Report in 2009 and the appointment of a Head of Sustainability in 2013. We are continually looking at ways of improving our sustainability performance and adopted the TCFD* reporting framework in 2018. The Group launched a Community Fund in 2013, which has supported 76 projects since inception.

In a further move to ensure we are considering our impact on all our stakeholders and to manage our environmental, social and governance risks and opportunities, we set up the Responsible Business Committee in 2018. This will be chaired by Cilla Snowball, a Non-Executive Director, and I will be a Committee member.

Q What are the biggest challenges that you face?

A I believe it is important that any listed business can demonstrate to its investors that it has good growth potential. We have little control over the office cycle or the challenges of Brexit, but we can generate our own momentum through asset management and development. It is important that our ambition matches our size, and that this in turn is balanced through preserving a suitable risk profile and maintaining strong capital discipline.

Over many years, Derwent London has built a brand through the creation of its buildings. We believe that, in part, this reflects our desire to be the best that we can be in all aspects of our business. One is to ensure that, as far as possible, our buildings are having beneficial impacts on their occupiers and neighbourhoods and that longer term we are minimising any negative impacts they have on the environment. Dealing with potential climate change presents challenges to all businesses, and it is one other area where Derwent London will continue to strive to be among the best in class.

The Group has always aspired to be a market leader in the provision of office space. This means that we cannot afford to stand still. We need to keep investing in our people and investing in new designs and technologies. We must continue to be bold and offer new solutions for each property. Only then can we ensure that we will continue to offer our occupiers the spaces fit for not just today but tomorrow too.

* Task Force on Climate-related Financial Disclosures

LONDON: OPEN FOR BUSINESS

Key to Derwent London buildings

- | | | |
|------------------------------|-------------------------|------------------------|
| 1. The White Chapel Building | 7. Johnson Building | 13. Soho Place |
| 2. Tea Building | 8. Angel Building | 14. Holden House |
| 3. White Collar Factory | 9. 90 Whitfield Street | 15. 19-35 Baker Street |
| 4. The Featherstone Building | 10. Network Building | 16. Brunel Building |
| 5. Morelands | 11. 80 Charlotte Street | 17. Greencoat House |
| 6. Turnmill | 12. 1-2 Stephen Street | 18. Horseferry House |

[p.14](#) For more detail on our short-term outlook for London offices

A global city

With 6.0m jobs and a population of 8.8m, London is a major global city and one of the largest cities in Europe. It is a significant creative, financial and legal centre benefitting from first class cultural, educational, retail and leisure facilities. The London economy recovered strongly in the period 2010 to 2015 but subsequently, growth has slowed, more recently impacted by Brexit uncertainty. Current expectations of annual economic growth are c.1% to 2%¹ over the next two years, with both the population and workforce predicted to increase.

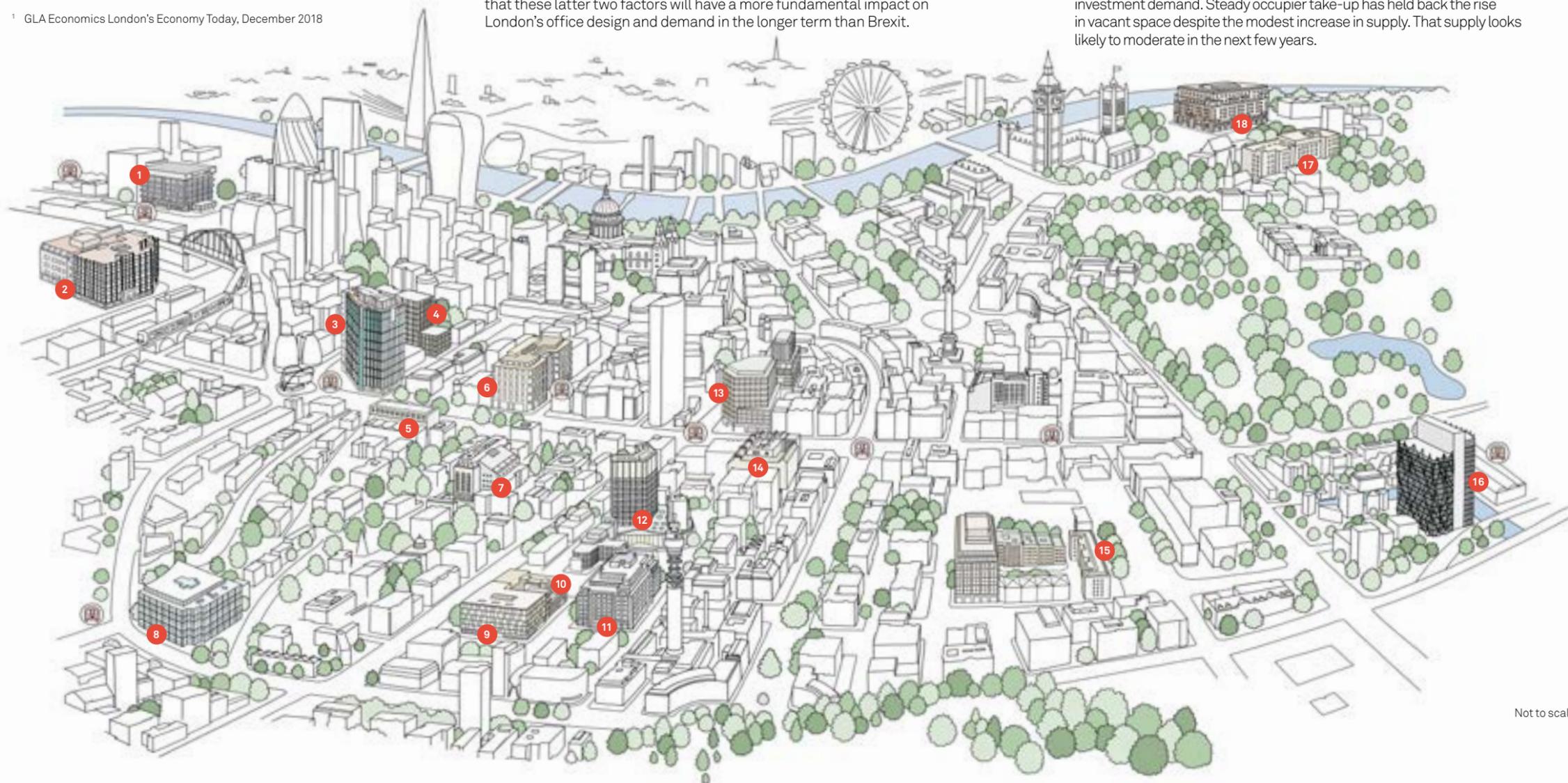
Brexit uncertainty

Forecasting growth in the short-term is particularly difficult given the uncertainty surrounding the outcome of the Brexit negotiations and the impact on trade and immigration. Most commentators appear to be assuming some form of 'soft Brexit' and an extension of the status quo until at least December 2020. However, no final decision has yet been made and the risk of a 'hard Brexit' remains, which we would expect to lead to greater economic disruption, at least in the short-term. To date, the impact on job relocation has been relatively modest but Brexit may well impact future demand patterns. Further information on how Brexit could impact Derwent London is detailed on page 47.

Other factors impacting future demand

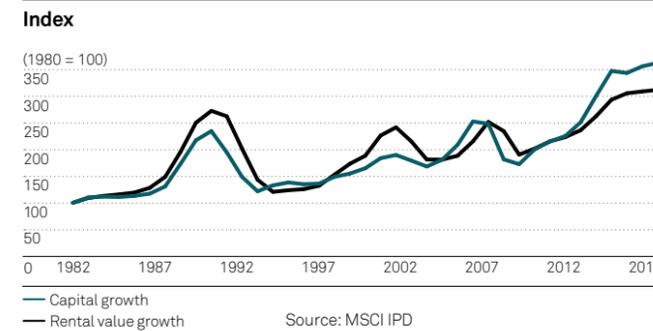
As well as economic and political change, future demand for London offices is likely to be impacted by the rise in agile working practices and the increasing impact of AI (Artificial Intelligence). Some believe that these latter two factors will have a more fundamental impact on London's office design and demand in the longer term than Brexit.

¹ GLA Economics London's Economy Today, December 2018



Not to scale

The London office cycle



Historically, the London office market has been cyclical, with a long-term growth trend broken by a number of downturns, some more significant than others. It can be argued that the London office cycle today is in its mature phase given that there has been no significant downturn for nine years, and rents and yields are near historical highs and lows, respectively. The past two years have seen the London office market unusually stable despite the considerable underlying economic and political uncertainties.

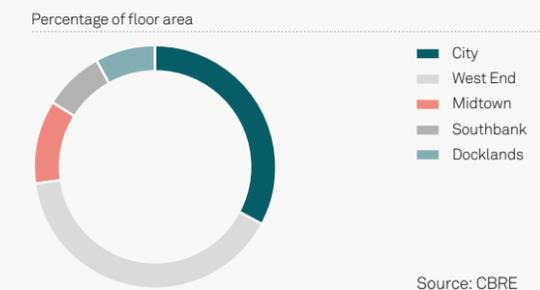
We attribute this stability to the fact that economic growth and occupier demand have been resilient, against a background of historically very low interest rates. The latter has helped support high levels of investment demand. Steady occupier take-up has held back the rise in vacant space despite the modest increase in supply. That supply looks likely to moderate in the next few years.

OUR INTEREST IN THE MARKET

Locations

There is currently 225m sq ft of central London office space predominantly in the West End and the City, as shown in the pie chart below. Our portfolio is concentrated in the West End and in the City Borders. The latter forms the majority of our Tech Belt portfolio which, since 2009, has seen strong growth along with London's creative industries. We have no property in the City, London's main financial district, and our focus on mid-market rents means that we have only one property in Mayfair and St James's, the traditional heart of the West End.

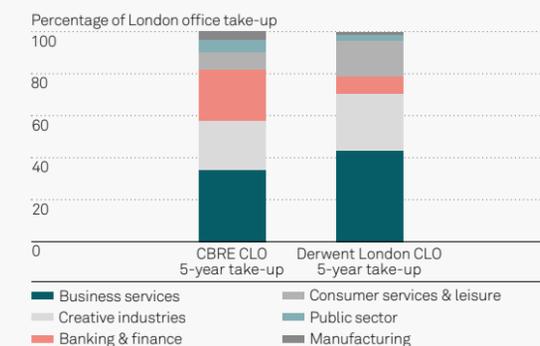
Central London office stock



Recent letting activity

Professional and business services continue to dominate demand closely followed by financial and creative industries. Our own letting activity shows relatively strong interest from creative industries and less from financial services.

Central London offices (CLO) by business sector



Impact of flexible office space

The past few years have experienced significant expansion by various short-term office providers, with WeWork garnering most of the headlines. Despite representing 15-20% of take-up in the last two years, it is estimated¹ that these businesses currently occupy c.5% of the total market. Flexible office users also occupy 5% of our portfolio. In addition, we have created fully fitted flexible spaces in some smaller units at Morelands EC1 and Hardwick Street EC1 in response to changing demand and have also agreed leases on more flexible terms where we believe this is appropriate.

¹ Cushman & Wakefield

CENTRAL LONDON OFFICE MARKET

The London office market is not following the typical cyclical pattern that it has experienced over the last 30 years. Investment yields have remained firm even though rental growth has slowed.

Occupational demand and investment turnover is good, and vacancy levels below average. Interest rates remain close to historical lows. Normally these market fundamentals might be expected to lead to rental growth but the continuing political uncertainty is providing a brake. Property yields, although low, remain attractive against comparable European cities and other asset classes. However, the current political and economic backdrop has meant that occupiers remain discerning over product and disciplined when committing to new occupational costs. These trends are playing to our strengths.

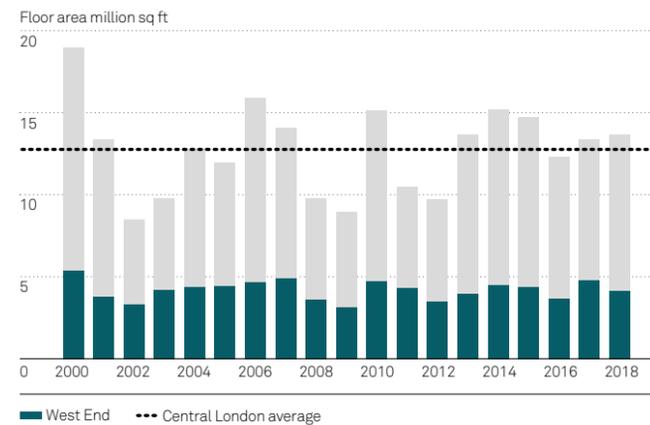
Central London office take-up rose 2.2% in 2018 to 13.7m sq ft, which was 7.2% above the long-term average. Demand remains dominated by business services (27%), creatives (23%) and financial services (19%). During the year, the central London office vacancy rate rose 0.4% to 4.6%, but is below the long-term average of 5.1%. City vacancy rose to 5.4%, while West End vacancy was broadly unchanged at 3.3%. There is 3.3m sq ft of office space under offer, which is the highest year end level since 1999.

Underlying these figures is a dynamic office market. When considering office space, corporate occupiers are increasingly valuing the expected impact on their employees and customers ahead of the traditional focus on cost efficiencies. In our own business this is reflected in the increased use of non-financial measures in our reporting. This shift may explain why new space is letting much faster than secondhand space, and the continuing expansion of the serviced office providers. CBRE report that the availability of secondhand space has been rising steadily since late 2015, so that in Q4 2018 it represented 70% of total availability, and 40% of this (c.4m sq ft) is tenant controlled or 'grey' space. This background suggests that unimproved older space is set to lag the market.

The positive outlook for new space is supported by supply having remained relatively subdued this cycle, and the pre-letting of a high proportion of space under construction. In 2018, 4.6m sq ft of new space was delivered, which was 21% below 2017. This year, supply is expected to pick up with 6.6m sq ft due for completion, of which 57% is pre-let. Overall, there is currently 13.3m sq ft under construction for delivery in the next three years, of which 54% has been pre-let. This leaves c.6m sq ft potentially available or under 3% of the total market. Of this availability, only 20% is located in the West End.

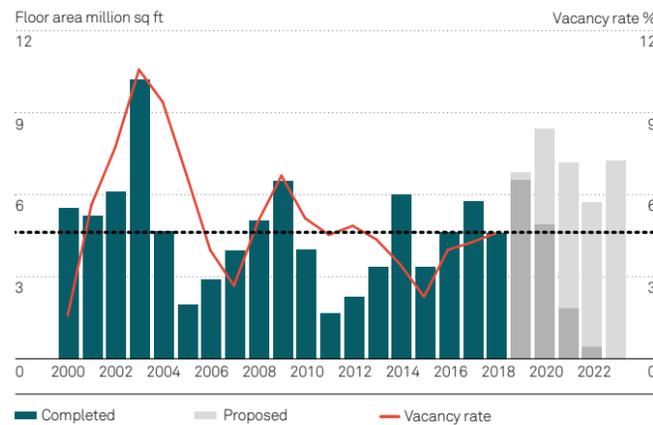
The investment market remained liquid in 2018, with transactions totalling £17.6bn, which was 10% ahead of 2017. Once again the market was led by a number of large deals notably in the City, and dominated by overseas purchasers with a focus on long-term income streams. At the beginning of 2019, CBRE estimated that there was £34bn of equity targeting London office property, which was approximately ten times the £3.3bn that was available on the market at that date.

Central London office take-up



Source: CBRE

Central London office development pipeline



Source: CBRE

PORTFOLIO STATISTICS

£159.5m

Contracted net rental income
2017: £160.1m

3.4%

EPRA net initial yield
2017: 3.4%

6.1 years

Weighted average unexpired lease term (WAULT)
2017: 6.0 years

£274.4m

Estimated rental value¹
2017: £270.1m

4.7%

True equivalent yield
2017: 4.7%

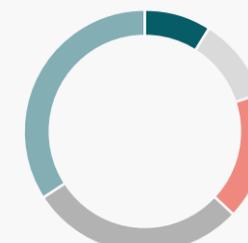
8.2 years

WAULT including rent-frees and pre-lets
2017: 7.8 years

¹ After additional capex of £133m

Central London rent

*Topped-up income %



£0-£30 per sq ft	9
£30-£40 per sq ft	11
£40-£50 per sq ft	17
£50-£60 per sq ft	29
£60+ per sq ft	34

Ten largest tenants

% of rental income²

Expedia	6.1
Burberry	5.9
Government	5.6
WPP Group	3.7
Publicis Groupe	3.3
The Office Group	3.0
IWG	2.5
FremantleMedia Group	2.3
Ticketmaster	1.8
VCCP	1.6

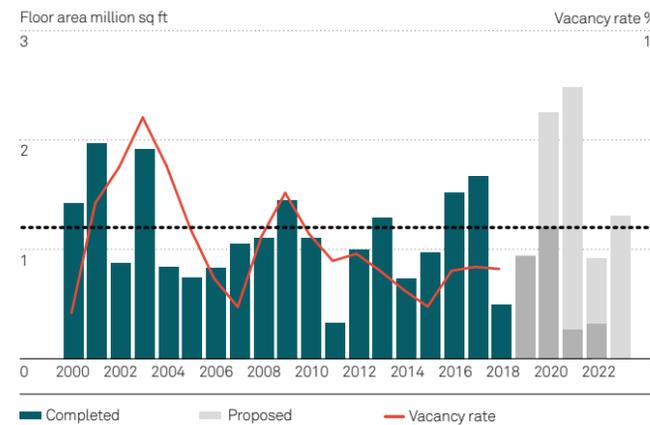
² Based upon contracted net rental income of £159.5m

Tenant diversity³

Media, TV, marketing and advertising	29
Professional and business services	20
Retail head offices	19
Retail and leisure	12
Government and public administration	6
Financial	4
Other	10

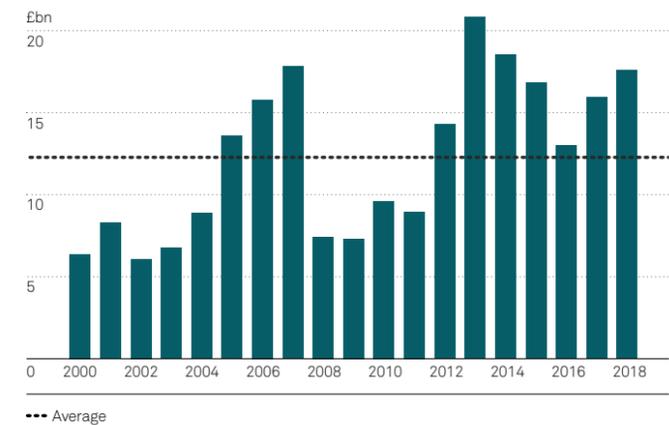
³ Expressed as a percentage of annualised rental income of the whole portfolio

West End office development pipeline



Source: CBRE

Central London office investment transactions



Source: CBRE

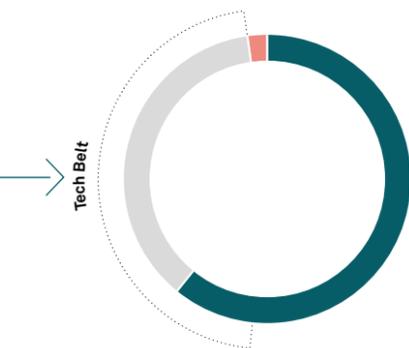
A WELL PLACED PORTFOLIO

98% of our portfolio is located in central London, grouped in 13 'villages', each with its own individual identity.

Our 'villages'

Fitzrovia ¹	30%
Victoria	10%
Paddington	5%
Baker Street/Marylebone	3%
Mayfair	2%
Soho/Covent Garden	2%
Islington/Camden	9%
Clerkenwell	12%
Old Street	11%
Shoreditch/Whitechapel	9%
Holborn	3%
Holborn (non-Tech Belt)	2%
Provincial	2%

¹ Includes North of Oxford Street



Portfolio weighting

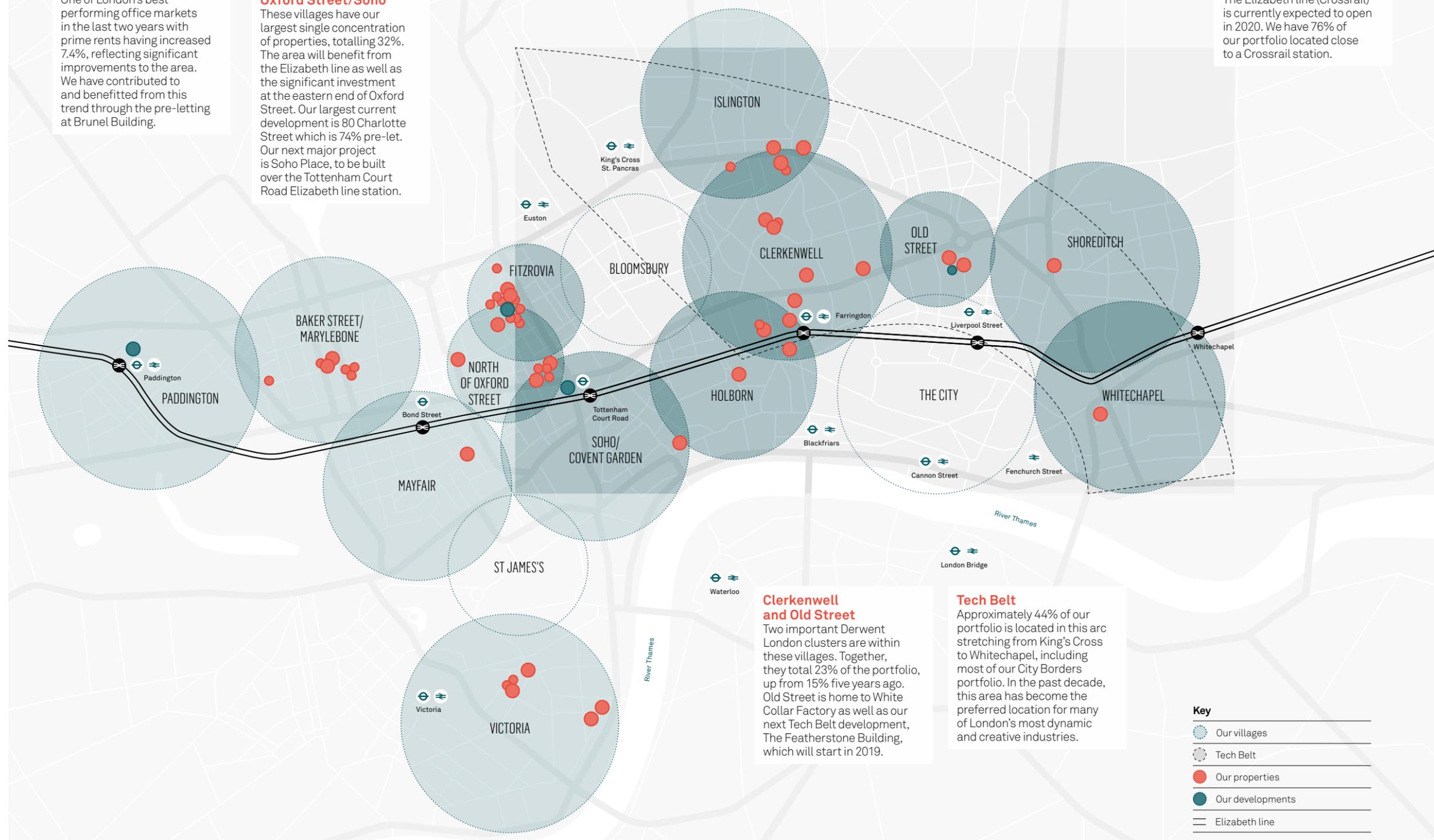
West End	61%
City Borders	37%
Provincial	2%

p.203 Principal properties

Paddington
One of London's best performing office markets in the last two years with prime rents having increased 7.4%, reflecting significant improvements to the area. We have contributed to and benefited from this trend through the pre-letting at Brunel Building.

Fitzrovia/North of Oxford Street/Soho
These villages have our largest single concentration of properties, totalling 32%. The area will benefit from the Elizabeth line as well as the significant investment at the eastern end of Oxford Street. Our largest current development is 80 Charlotte Street which is 74% pre-let. Our next major project is Soho Place, to be built over the Tottenham Court Road Elizabeth line station.

Elizabeth line
The Elizabeth line (Crossrail) is currently expected to open in 2020. We have 76% of our portfolio located close to a Crossrail station.



Clerkenwell and Old Street
Two important Derwent London clusters are within these villages. Together, they total 23% of the portfolio, up from 15% five years ago. Old Street is home to White Collar Factory as well as our next Tech Belt development, The Featherstone Building, which will start in 2019.

Tech Belt
Approximately 44% of our portfolio is located in this arc stretching from King's Cross to Whitechapel, including most of our City Borders portfolio. In the past decade, this area has become the preferred location for many of London's most dynamic and creative industries.

Key

- Our villages
- Tech Belt
- Our properties
- Our developments
- Elizabeth line

IN NUMBERS

86
Buildings

5.4m sq ft
Area (includes 0.6m sq ft of on-site developments)

743
Leases

465
Tenants

OUR STAKEHOLDERS

We believe that, to maximise value and secure our long-term success, we must take account of what is important to our key stakeholders. This is best achieved through proactive and effective engagement.

s172 Companies Act 2006

We set out in the adjacent table our key stakeholder groups, their material issues and how we engage with them. Each stakeholder group requires a tailored engagement approach to foster effective and mutually beneficial relationships.

By understanding our stakeholders, we can factor into Boardroom discussions the potential impact of our decisions on each stakeholder group and consider their needs and concerns, in accordance with s172 of the Companies Act 2006 (see page 94). This in turn ensures we continue to provide office space that our occupiers desire, work effectively with our colleagues and contractors, make a positive contribution to local communities and achieve long-term sustainable returns for our investors.

Acting in a fair and responsible manner is a core element of our business practice as seen in our Responsibility report on pages 74 to 81.

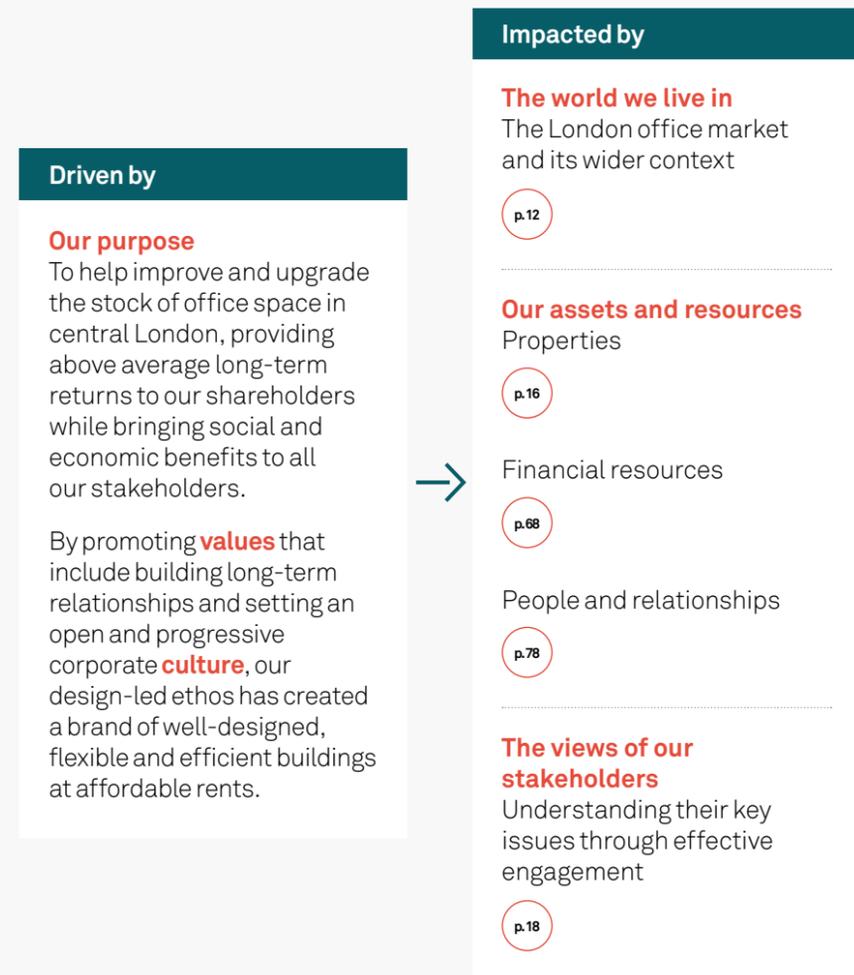
Below: Building management team at White Collar Factory EC1



Our stakeholders	Their material issues	How we engage	2018 highlights	Further links
OCCUPIERS				
The continued strong performance of our business would not be possible without understanding our occupiers' needs and future aspirations. Many of our occupiers have moved within our portfolio as their businesses have grown, which is testament to our proactive approach	<ul style="list-style-type: none"> Suitable lease terms Well-designed and sustainable buildings Well-being and talent attraction/retention 	Via our dedicated asset and property management teams and close Director involvement, we communicate regularly with our existing occupier base to anticipate trends and preferences and incorporate them early into our designs. We do this through meetings, engagement events and forums. This active engagement ultimately ensures our high quality, sustainable space meets their needs and helps them to attract and retain talent.	<ul style="list-style-type: none"> £26.8m of lettings 1.8% EPRA vacancy rate 90% tenant retention/re-lets 	<ul style="list-style-type: none"> p.42 KPIs – tenant retention and void management p.62 Asset management p.125 Executive annual bonus – void management target
EMPLOYEES				
We have an experienced, diverse and dedicated workforce which we recognise as a key asset of our business. Therefore, it is important that we continue to create the right environment to encourage and create opportunities for individuals and teams to realise their full potential	<ul style="list-style-type: none"> Opportunities for development and progression Agile working patterns Opportunity to share ideas and make a difference Diversity and inclusion 	We have an open, collaborative and inclusive management structure and engage regularly with our employees. We do this through an appraisal process, structured career conversations, employee surveys, our intranet site, company presentations, away days and our well-being programme. Employee engagement is frequently measured and we have a designated Non-Executive Director, Cilla Snowball, who chairs the Responsible Business Committee.	<ul style="list-style-type: none"> 90.0% staff retention 90.4% staff satisfaction 'Fit for the Future' initiative launched 	<ul style="list-style-type: none"> p.43 KPI – staff satisfaction p.48 Principal risk – management of succession p.125 Executive annual bonus – staff satisfaction target
LOCAL COMMUNITIES				
We are committed to supporting the communities in which we operate, including local businesses, residents and the wider public	<ul style="list-style-type: none"> Local disruption Impact on the local economy Derwent London being a responsible neighbour 	We engage with the local community not only through the planning process but also through our Community Fund, volunteering, charity work and providing employment and work experience opportunities. We also liaise with Non-Governmental Organisations (NGO's) and industry bodies to enhance the positive impact we have on the communities in which we operate.	<ul style="list-style-type: none"> 141.5 hours of staff volunteering £350k of charitable and community donations Extended our support to the Community Fund until 2021 	<ul style="list-style-type: none"> p.26 Investing in communities p.94 The Featherstone Building case study p.125 Executive annual bonus – carbon intensity target
SUPPLIERS				
We outsource many of our activities to third-party suppliers and providers. As a result, it is crucial that we develop strong working relationships with our suppliers, so we can enhance the efficiency of our business and create value	<ul style="list-style-type: none"> Long-term partnerships Collaborative approach Open terms of business Fair payment terms 	Through effective collaboration, we aim to build long-term relationships with our suppliers so that we can develop and operate great spaces for our occupiers. We are signatories to the CICM Prompt Payment Code and are clear about our payment practices. We expect our suppliers to adopt similar practices throughout their supply chains to ensure fair and prompt treatment of all creditors.	<ul style="list-style-type: none"> £187.5m capital expenditure 28 day average payment Received confirmation that our key suppliers were compliant with our Sustainability Standard 	<ul style="list-style-type: none"> p.47 Brexit p.52 Principal risk – contractor default p.113 Supply Chain Sustainability Standard
CENTRAL AND LOCAL GOVERNMENT				
As a responsible employer and business, we are committed to engaging constructively with central and local government to ensure we are supporting the wider community	<ul style="list-style-type: none"> Openness and transparency Proactive and compliant with new legislation Proactive engagement with local authorities Support for local economic plans and strategies 	We take a constructive, positive approach to working with local authorities to ensure high quality planning applications are submitted. Similarly, we maintain positive and proactive relationships with Government departments such as HMRC via regular dialogue and correspondence. This has helped us maintain a 'low risk' tax rating.	<ul style="list-style-type: none"> 14 units of affordable housing under construction as part of the 80 Charlotte Street development Progressing a public theatre as part of the Soho Place development 	<ul style="list-style-type: none"> p.56 Principal risk – regulatory non-compliance p.70 Taxation p.94 The Featherstone Building case study
DEBT PROVIDERS				
Our debt providers play an important role in our business. We maintain close and supportive relationships with this group of long-term stakeholders, characterised by openness, transparency and mutual understanding	<ul style="list-style-type: none"> Current financial performance Openness and transparency Proactive approach to communication Credit rating 	We arrange debt facilities from a diverse group of providers ranging from banks to institutional pension funds. We engage with these providers and credit rating agencies through regular meetings and presentations to ensure that they remain fully informed on all relevant areas of our business. This high level of engagement helps to support our credit relationships.	<ul style="list-style-type: none"> £250m new long-term debt arranged 491% interest cover 17.2% loan-to-value ratio Fitch assigned corporate credit rating of A- 	<ul style="list-style-type: none"> p.42 KPI – interest cover ratio p.72 Debt and financing arrangements p.170 Note 23: Net debt
SHAREHOLDERS				
Our shareholders play an important role in monitoring and safeguarding the governance of our Group	<ul style="list-style-type: none"> Financial performance Strategy and business model ESG performance Dividend 	Through our investor relations programme which includes regular updates, meetings, roadshows and our Annual General Meeting, we ensure shareholder views are brought into our Boardroom and considered in our decision making.	<ul style="list-style-type: none"> 10.2% increase in dividend 75p special dividend paid in June 260+ investor meetings 	<ul style="list-style-type: none"> p.41 KPI – Total shareholder return (TSR) p.93 Shareholder engagement in 2018 p.125 Remuneration – annual bonus and LTIP

OUR BUSINESS MODEL

We apply our asset management and regeneration skills to the Group's 5.4m sq ft property portfolio using our people, relationships and financial resources to add value and grow income while benefitting the communities in which we operate and the wider environment beyond.



OUR VALUES

- Reputation, integrity and good governance
- Building long-term relationships and trust
- Focus on creative design and embracing change
- Openness and transparency
- Sustainability and responsibility

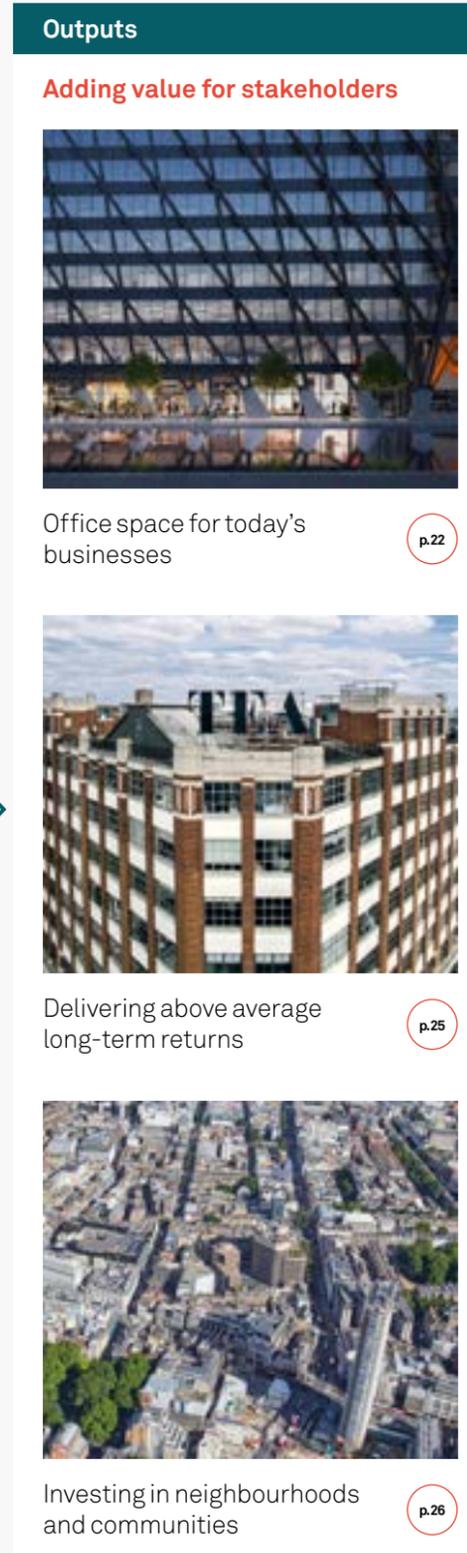
OUR CULTURE

- Hard-working and adaptable
- A passion to improve London's office spaces
- Progressive and pragmatic
- 'Open door' and inclusive
- Collaborative and supportive



DISTINCTIVELY DERWENT

- Investing in emerging locations
- Focus on middle-market rents
- Strong balance sheet
- Experienced and collaborative team
- Proactive occupier relationships
- Design focus and innovation



Outcomes

- 427,100 sq ft**
New lettings in 2018, at a rent of £26.8m pa
- £187.5m**
Capital expenditure in 2018 and over £1bn in past 10 years
- +10.4%**
Average annual ordinary dividend growth over 10 years
- +13.4%**
Average annual total return over 10 years
- £564,000**
Invested to date in local initiatives by our Community Fund
- Measured via our KPIs** (p.40)

OFFICE SPACE FOR TODAY'S BUSINESSES

BRUNEL BUILDING, PADDINGTON W2

Cutting-edge design in a prominent location

Providing good quality cutting-edge office space is a core part of Derwent London's business, with an underlying focus on design excellence. Following our ground-breaking White Collar Factory, our 243,000 sq ft Brunel Building is due for completion in the first half of 2019. Occupying a prominent canalside island site, opposite Paddington station and its new Crossrail entrance, we had the opportunity to create something different. With architects Fletcher Priest, we came up with a striking diagrid structure.

The external steel frame echoes the 19th century industrial aesthetic of Isambard Kingdom Brunel, but is also immensely practical, supporting column-free office floors. The 17,000 sq ft floors are infused with natural light from tall windows and our signature 3.5m ceiling heights, substantially more generous than standard office designs. This follows our view that buildings should work as well on the inside as the outside.

Design inside and out

The building will have a double-storey reception with a ground floor restaurant and café, and glass doors opening up the space to the waterfront. There will be two large terraces on the upper levels, one for communal use, both having excellent views. The development will also open up a new public towpath along the canal which has been inaccessible for over 60 years.

Innovation

Construction work started in 2016 with the groundworks being particularly sensitive due to their position beside the canal and above the Bakerloo underground line. The steel structure incorporated many bespoke pre-fabricated concrete sections that contractors Laing O'Rourke created off-site at their factory in Yorkshire. This approach has enabled a very good quality fast-track construction programme.

Broad appeal

In line with our strategy, we committed to the development on a speculative basis with the aim of de-risking it as the project progressed. During 2018, we pre-let almost two thirds of the building and were very pleased to secure Sony Pictures as the first occupier. We followed this by letting the top two floors to a leading international private equity group. Including a further letting in 2019, the building is now 77% pre-let. Lease terms range from 10 to 15 years and we achieved rents on average 15% above December 2017 ERV. The wide range of occupiers reflects the broad appeal of our space and demonstrates that we are building office space that suits today's businesses.



DELIVERING ABOVE AVERAGE LONG-TERM RETURNS

TEA BUILDING, SHOREDITCH E1

Creating the strategy

'Core income' properties currently represent over half our portfolio balancing the more opportunity-rich elements of the portfolio. However, this doesn't mean that these buildings lack growth and we continually look to enhance them through a series of rolling initiatives. These often attract less public attention than our major developments but are important to keep the portfolio up-to-date.

Our Tea Building, Shoreditch E1 is one such example. It was acquired in 2001 as a warehouse, at one stage owned by Lipton Tea, hence its name. It was first placed in the 'under appraisal' part of the portfolio with a plan to create modern offices serving the City market. An office market downturn intervened but, as we buy buildings with 'good bones' (i.e. good structures), we were able to adapt it. Instead we undertook a low cost rolling refurbishment highlighting the building's industrial heritage.

Delivering the plan

In 2003 the building attracted advertising agency Mother who shared our vision and moved from Midtown into bespoke space in an up-and-coming location. They took a 15-year lease on 44,000 sq ft, which was extended for another 10 years to 2028. Elsewhere the building was typically let as multiple small office suites on five-year leases with rents averaging c.£9 per sq ft. In 2010 Shoreditch House opened its doors, introducing a private members' club and a roof-top swimming pool, reinforcing the building's status as an exciting hub.

The second decade of ownership has seen the building become the heart of an established location for creative businesses. The average size of units has grown with the scale of the occupiers. The ground floor has also been improved with the introduction of Brat, Pizza East, Lyles and The Smoking Goat. The space's environmental performance has also improved, as we rolled out our 'Green Tea' strategy, with upgraded windows and insulation, motion sensitive lighting and the introduction of a thermal loop shifting warm and cool air around the building. This initiative now covers 80% of the building, and the most recent office rent achieved is £58 per sq ft.

Looking forward

Tea Building has become an extraordinary 269,300 sq ft property, which has helped transform the surrounding area into a thriving Tech Belt hub. Our progress has benefitted from significant interaction with the occupiers which has seen our leasing and design strategies evolve not just here but in other properties. Tea Building has produced very good long-term returns for us with its value alone, allowing for capex, increasing by almost 300% since 2001. However, we believe there is more to come as there is reversion to capture, and we are currently transforming the entrance and reception areas to bring these in line with the building's other improvements.

INVESTING IN COMMUNITIES AND NEIGHBOURHOODS

FITZROVIA W1

Long-term commitments

Our roots in Fitzrovia W1 run deep starting with the purchase of The Cartwright Estate by London Merchant Securities in 1958. This was followed by further purchases building up holdings in the area north of Goodge Street. The merger with Derwent Valley in 2007 broadened this exposure adding more properties closer to Oxford Street to the south. Today we own 1.4 million sq ft in the area, c.30% of our portfolio.

Attracting employers

In the 60 years we have invested in the area, we have built headquarter buildings for global engineers Arup and renowned advertising agents Saatchi & Saatchi. The latter were in occupation for 40 years, but recently relocated to new premises. Their property is now the site of our 80 Charlotte Street development, representing a c.£400m capital commitment, started in 2016 and due for completion in 2020. We are very excited that this scheme will accommodate Arup's further expansion for another 20 years, as well as introducing another global brand, The Boston Consulting Group, to the area.

Shifting focus of amenity

Although we are principally known for our office buildings, we have enhanced the retail provision along Tottenham Court Road, diluting the historical dominance of furniture and hi-fi retailers. While a number of furniture retailers remain, including a recently introduced new IKEA in-town concept at our 95 Tottenham Court Road, changing shopping practices have seen most of the hi-fi shops disappear. We created nine new shop units at Tottenham Court Walk which were better suited to current retail requirements and these have been let to retail and restaurant outlets new to the area. Overall there has been a significant increase in businesses that serve the daily needs of local residents and office users. Our next major development, Soho Place in the south of this cluster, includes five retail units and a new theatre as well as 209,000 sq ft of offices.

Our 80 Charlotte Street development includes 55 new residential units helping to ensure that the vibrancy of this wonderfully mixed-use area is maintained.

Supporting local community initiatives

In recognition of our deep involvement in the area, we set up a local community fund in 2013 with the commitment to invest £250,000 into local causes over three years. We honoured that promise supporting 16 local initiatives including Fitzrovia Youth in Action, Fitzrovia Centre, All Souls Club House, All Souls Primary School and the American Church Soup Kitchen. The success of this work has led us to extend the fund, and we recently committed to provide funds until 2021.



OUR STRATEGY

Our purpose is to help improve and upgrade the stock of office space in central London, providing above average long-term returns to our shareholders while bringing social and economic benefits to all our stakeholders.



John Burns
Chief Executive Officer

OUR PRIORITIES IN 2019

- Maintain balance between income generation and development activity
- De-risk the pipeline through further pre-lets
- Capital recycling where opportunities are identified
- Complete Brunel Building W2 and progress 80 Charlotte Street W1, The Featherstone Building EC1 and Soho Place W1
- Manage voids and extend income through renewals and re-gears
- Continue to promote diversity, inclusion and well-being initiatives
- Develop COP21 action plans for properties in the managed portfolio

An open and progressive corporate culture, combined with our focus on design and long-term relationships, has established our brand of well-designed, flexible, efficient and affordable buildings. These help our occupiers attract talent but also revitalise and enhance their neighbourhoods and local communities, contributing to workforce well-being and reinforcing London's place as a leading global business hub.

Our strategy and priorities for 2018

Our strategy has been broadly consistent now for many years but our priorities vary with the property cycle and changes in the general economic environment.

Our main priority for 2018 was to maintain a good balance between income generation and development risk by progressing with our major schemes at 80 Charlotte Street and Brunel Building, Paddington and de-risking them through letting activity. This was successful and has also enabled us to progress the projects at Soho Place and The Featherstone Building.

Our main asset management priorities were to focus on income through extending leases, minimising voids and capturing reversion (i.e. higher rents) through rent reviews or regearing existing leases.

Other priorities were to support well-being initiatives for our staff and for our tenanted buildings, monitor progress against our science-based carbon targets and review our refinancing options. Further details are on page 32.

Risk management

Risk management is an integral part of our business and is monitored regularly. This is split into categories considering the likely impact on strategy, operations, financial position and stakeholders. Our projects may take many years to complete, requiring long-term planning, risk mitigation and financial discipline.

Performance measurement and remuneration

Key Performance Indicators (KPIs) help us measure our performance and assess the effectiveness of our strategy.

These are listed on page 33 for each objective but the principal measures that we apply to ascertain overall business performance are total return (TR), total property return (TPR) and total shareholder return (TSR).

TR combines our dividends with the growth in Net Asset Value (NAV) per share to provide an overall return for the year and is measured against a peer group.

TPR measures the income and growth in value from our properties and is measured against an index of other properties.

TSR compares our dividends and share price performance with the relevant index.

TR, TPR and TSR are the main performance measures we use to determine the variable elements of executive remuneration to ensure there is a strong alignment between the interests of shareholders and our decision makers.

OUR FIVE STRATEGIC OBJECTIVES

1. TO OPTIMISE RETURNS AND CREATE VALUE FROM A BALANCED PORTFOLIO

p.34

2. TO GROW RECURRING EARNINGS AND CASH FLOW

p.36

3. TO ATTRACT, RETAIN AND DEVELOP TALENTED EMPLOYEES

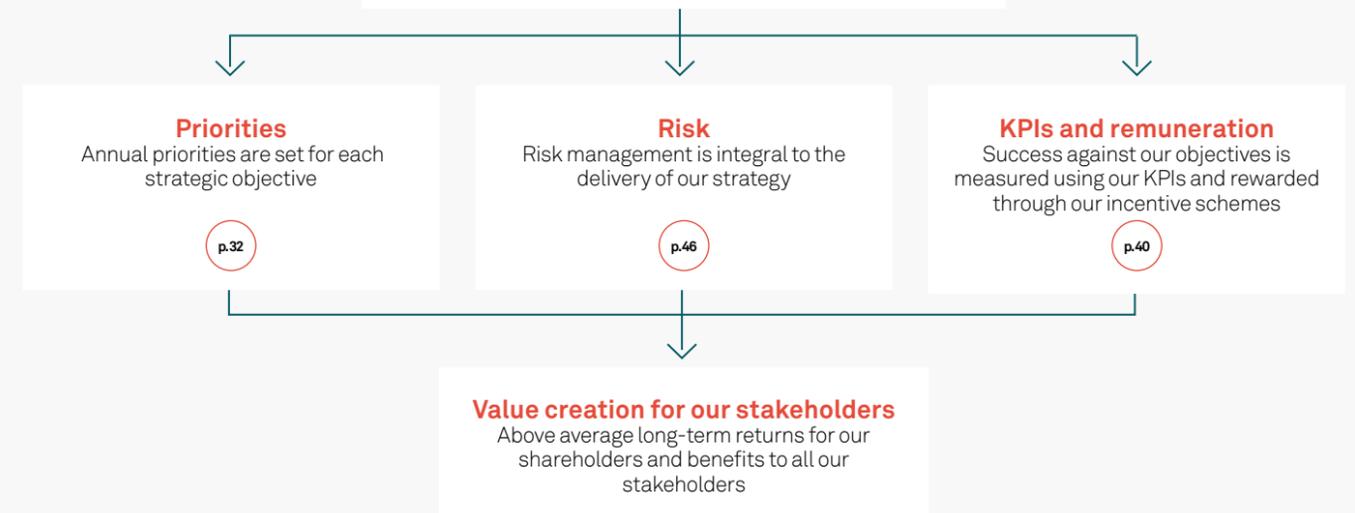
p.37

4. TO DESIGN, DELIVER AND OPERATE OUR BUILDINGS RESPONSIBLY

p.38

5. TO MAINTAIN STRONG AND FLEXIBLE FINANCING

p.39



OUR STRATEGY CONTINUED

Total return and total shareholder return measure our performance across all our strategic objectives

Key

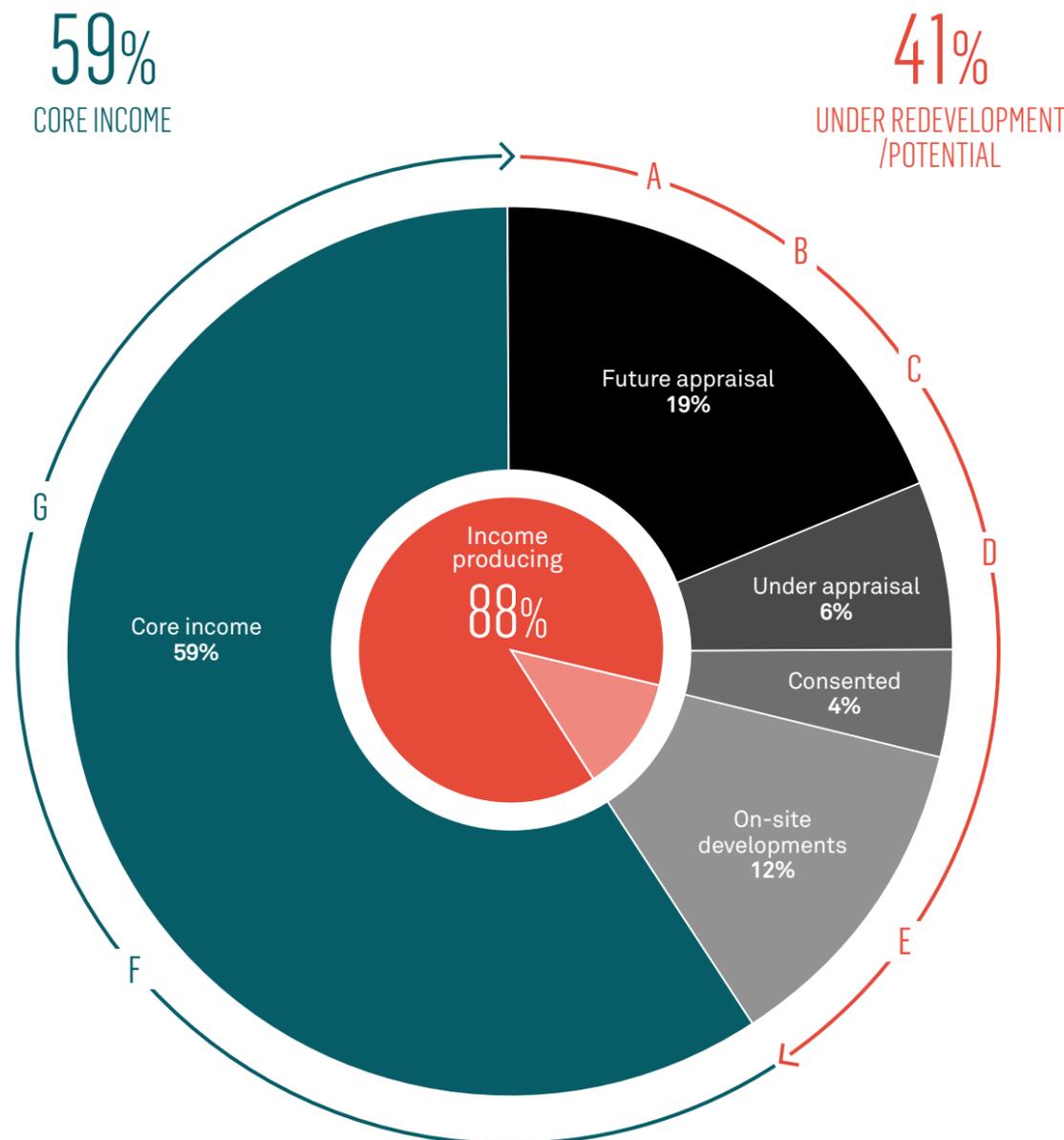
- Achieved
- ◐ Still in progress
- Not achieved

2018 priorities	2018 progress	Priorities for 2019	Key performance measures	Risks
<h2 style="margin: 0;">1. TO OPTIMISE RETURNS AND CREATE VALUE FROM A BALANCED PORTFOLIO p.34</h2>				
Seek acquisitions that meet our criteria	◐ A 36-year leasehold interest in 88-94 Tottenham Court Road W1, which forms a cluster with other Derwent London properties, acquired for £44.3m	<ul style="list-style-type: none"> Continue to seek acquisitions and disposals that meet our criteria Maintain balance between income generation and development activity Complete Brunel Building Progress 80 Charlotte Street, Soho Place and The Featherstone Building De-risk the pipeline through further pre-lets Advance regeneration opportunities within the portfolio 	<ul style="list-style-type: none"> Total property return EPRA earnings per share Reversionary percentage Development potential Void management 	<ul style="list-style-type: none"> Failure to implement the Group's strategy Adverse Brexit settlement Management of succession Fall in property values Reduced development returns 'On-site' risk Contractor/subcontractor default Cyber attack Terrorism or other business interruption Reputational damage Non-compliance with health and safety legislation Climate change and non-compliance with environmental and sustainability legislation
Maintain balance between income generation and development activity	● Balance maintained with 41% of the portfolio having development potential, or currently being developed			
Progress 80 Charlotte Street W1, Brunel Building W2 and Soho Place W1	● Brunel Building and 80 Charlotte Street progressing well Good progress made towards fixing the price of the contract at Soho Place			
De-risk the pipeline through further pre-lets	◐ 80 Charlotte Street and Brunel Building were 70% pre-let at the end of 2018			
Advance regeneration opportunities within the portfolio	● Site demolition commenced for The Featherstone Building EC1 and planning consents achieved at 19-35 Baker Street W1 and Holden House W1. Beyond these, 25% of the portfolio is designated for future development			
<h2 style="margin: 0;">2. TO GROW RECURRING EARNINGS AND CASH FLOW p.36</h2>				
Manage voids and maximise income from good asset management	● Considerable progress in void management and re-letting vacant space; at 31 Dec 2018 the vacancy rate was at 1.8%	<ul style="list-style-type: none"> Continuously monitor portfolio for further asset management initiatives Extend income through renewals and regears for properties not earmarked for regeneration Manage voids and maximise income from good asset management Secure further pre-lets 	<ul style="list-style-type: none"> Total property return EPRA earnings per share Reversionary percentage Tenant retention Void management 	<ul style="list-style-type: none"> Failure to implement the Group's strategy Adverse Brexit settlement Management of succession Reduced development returns 'On-site' risk Contractor/subcontractor default Cyber attack Terrorism or other business interruption Reputational damage Non-compliance with health and safety legislation
Continuously monitor portfolio for further asset management initiatives	● Asset management activity covered 833,000 sq ft (17% of the completed portfolio) New lettings achieved £26.8m of income, 4.1% above Dec 2017 ERV, across 427,100 sq ft. Rent reviews increased income by 24% to £8.0m on 188,000 sq ft			
Extend income through renewals and regears for properties not earmarked for regeneration	● Our retention and re-let rate was 90% in 2018 Renewals and regears increased income by 20% to £30.3m on 645,000 sq ft			
Secure further pre-lets	● During 2018, pre-lets were secured on 155,100 sq ft of the Brunel Building, 64% of the total. 80 Charlotte Street is 74% pre-let/pre-sold			
<h2 style="margin: 0;">3. TO ATTRACT, RETAIN AND DEVELOP TALENTED EMPLOYEES p.37</h2>				
Continue the 'Fit for the Future' programme	◐ Staff in managerial roles started a 12 month management and development programme. Other staff attended core skills workshops	<ul style="list-style-type: none"> Continue to develop the 'talent pipeline' via the 'Fit for the Future' programme Continue to promote diversity, inclusion and well-being initiatives Arrange a Company away day that focuses on team building Conduct our next employee survey 	<ul style="list-style-type: none"> Staff satisfaction 	<ul style="list-style-type: none"> Management of succession Cyber attack Terrorism or other business interruption Reputational damage Non-compliance with health and safety legislation Climate change and non-compliance with environmental and sustainability legislation Other regulatory non-compliance
Identify additional well-being initiatives	● Private medical and dental insurance extended to all employees Various initiatives run, including a 'Heart Disease & Diabetes' workshop			
Establish working group to recommend improvements to lower scoring areas identified by the staff survey	● All key recommendations made by the working group were endorsed by the Executive Committee and either have been enacted or will be during 2019			
<h2 style="margin: 0;">4. TO DESIGN, DELIVER AND OPERATE OUR BUILDINGS RESPONSIBLY p.38</h2>				
Develop our framework for health and well-being in developments	◐ We are continuing to develop our framework to encompass all aspects of our business	<ul style="list-style-type: none"> Finalise and launch our corporate framework for health and well-being in developments Develop COP21 action plans for properties in the managed portfolio Deliver the next rounds of our Community Fund 	<ul style="list-style-type: none"> Energy performance certificates BREEAM ratings Carbon intensity 	<ul style="list-style-type: none"> Failure to implement the Group's strategy Management of succession 'On-site' risk Contractor/subcontractor default Cyber attack Terrorism or other business interruption Reputational damage Non-compliance with health and safety legislation Climate change and non-compliance with environmental and sustainability legislation Other regulatory non-compliance
Implement a new carbon analysis tool to monitor progress against our science-based targets	● Our new carbon scenario analysis tool was successfully developed			
Deliver the next rounds of our Community Fund	● Three rounds of funding were successfully delivered, with over £106,000 invested across a range of projects			
<h2 style="margin: 0;">5. TO MAINTAIN STRONG AND FLEXIBLE FINANCING p.39</h2>				
Review refinancing options for the 2019 convertible bonds	◐ Several potential options are being considered and monitored	<ul style="list-style-type: none"> Continue to review refinancing options for the 2019 convertible bonds Maintain or strengthen available facilities Maintain good interest cover 	<ul style="list-style-type: none"> Interest cover ratio Gearing and available resources Reversionary percentage 	<ul style="list-style-type: none"> Failure to implement the Group's strategy Adverse Brexit settlement Management of succession Fall in property values Reduced development returns Cyber attack Terrorism or other business interruption Reputational damage Non-compliance with health and safety legislation Other regulatory non-compliance
Maintain or strengthen available facilities	● £250m of US Private Placement notes agreed in Nov 2018, with a weighted average coupon of 2.89% and a weighted average maturity of 10.8 years			
Maintain good interest cover	● Interest cover increased to 491% in 2018			

OUR STRATEGY CONTINUED

1. TO OPTIMISE RETURNS AND CREATE VALUE FROM A BALANCED PORTFOLIO

The chart below shows how our 5.4m sq ft portfolio is balanced between properties with potential to add further value through regeneration and those which have already been improved but where our asset management skills can continue to grow value and income. This section also sets out the typical life cycle (A to G) of our properties, explaining how maintaining that portfolio balance is a key consideration in the strategy we pursue for each property.



A Acquiring opportunities
Our property life cycle starts with the acquisition of buildings with low capital values. These are usually income producing but often with low rents. We particularly look for potential to add area to the building and/or to improve the quality of the space. They may also be in locations which have underperformed or are due to benefit from infrastructure upgrades. If these features are not apparent or we do not see good value, we are disciplined in our capital allocation and are not 'forced buyers'.

B The importance of cash flow
By acquiring properties that are almost always occupied and provide cash flow, we have time to work up our plans while enjoying an income yield, giving us the necessary flexibility to assess what to do and when to do it. Our plans for a building regularly go through several iterations before settling on an optimal solution.

C Dialogue with tenants and landlords
When exploring the best plan for the building, we speak with existing tenants and, where appropriate, any ultimate landlord. This helps us extend income but with landlord breaks at future dates to provide us with flexibility. This can involve accepting income below market levels but helps us retain cash flow until we are ready to commence a scheme. During this period, we will negotiate with landlords if we do not hold the property freehold, and will work with our many design team relationships, including experts in minimising the social and environmental impact, to arrive at a firm design. This also requires liaising with the relevant planning authorities to seek planning consent and consulting with local communities and other key stakeholders.

D Risk mitigation
We try to achieve the appropriate balance of overall risk for the business. This enables us to start schemes speculatively, i.e. without any pre-letting in place. By ensuring the end-product will appeal to as many occupiers as possible, we often receive early interest from potential tenants once we are on site. Design and construction of these large and complex projects requires considerable skill, experience and teamwork so we work with a chosen group of consultants, contractors and subcontractors to minimise the risks of delivery. Those risks principally relate to time delays and/or cost overruns, but there are many technical and physical constraints too. Preparation of an annual 'five-year plan' helps us anticipate and maintain a balance between income/dividend growth and value adding through our riskier projects, both now and into the future.

E Pre-letting during construction
Supported by our reputation for delivering well-designed and affordable buildings, we will typically de-risk each project by agreeing pre-letting terms with one or more tenants during the construction phase. The momentum that this provides encourages us to consider the next phase of our project pipeline too, adding further value where we see opportunities.

F Income and reversion
Once a building is completed and let, it moves to the 'core income' sector of our so-called 'doughnut' chart. Here, we focus our portfolio management skills on satisfying our tenants' needs, growing our income and adding further value where we see opportunities.

G Recycling assets
We will normally look to sell on a property when we believe that we have extracted most of the upside in value, or where it no longer satisfies our investment criteria. This frees up time and finance for the next generation of acquisitions and projects.

Our brand

Getting our marketing and branding right is another area where we devote significant resource and we have a dedicated internal team who engage specialist consultants to ensure that we present our product in a fresh and positive way and at the right time.

Teamwork

As we are a small team, we work with many experts in their respective fields in areas such as planning, architecture and design, engineering and other technical areas, lawyers, accountants and contractors. We value and enjoy their input and recognise the important contribution that they make. We believe that they also enjoy working with us, many having worked with us for a number of years, and they share our satisfaction in improving the environment around our buildings. Together, we strive to improve with each job that we do.

OUR STRATEGY CONTINUED

2.

TO GROW RECURRING EARNINGS AND CASH FLOW

The value of property is essentially determined by contracted and expected future cash flows.

Creating and then capturing reversion

By establishing the right conditions for a property, we can both add value and increase cash flow but they can occur at different times of the property cycle. The value creation normally comes first as expectations of rental growth emerge thereby giving rise to what we call 'reversion', i.e. the expectation that income will grow from its current passing level.

Asset management actions

Our asset managers seek to capture the increased rents through rent reviews, lease regears or other lease restructuring. This is underpinned by strong relationships with

occupiers and always with a focus on the needs of our local communities and other stakeholders.

What we do to capture reversion

- we work with tenants and consultants to arrive at appropriate rent review uplifts;
- we negotiate to extend leases or remove break clauses;
- we arrange 'block dates' to gain access to buildings at an appropriate time;
- we review levels of 'grey' space, i.e. floor area that is let but which is not currently occupied or is being marketed by a tenant;
- we look to reduce irrecoverable costs, as measured by the EPRA cost ratio;
- we try to anticipate our tenants' needs, thereby optimising income. Examples are fixed or minimum rental uplifts and a flexible approach to dilapidations and alienation clauses in leases; and

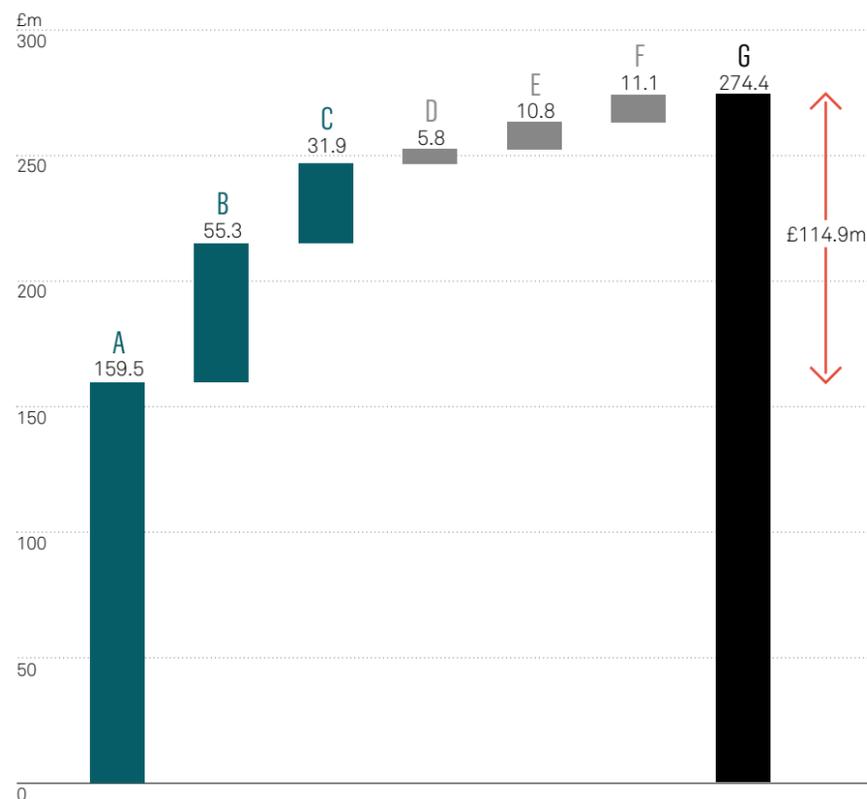
- occupiers are increasingly looking for flexibility. We have long taken a flexible approach at many buildings, like the Tea Building for example, to keep lease lengths shorter, while at other buildings aiming for longer leases, particularly on larger lettings.

Performance measures

We use like-for-like rent analysis (see EPRA definitions on page 205) to measure how net and gross rental income has grown within the non-development part of the portfolio. We monitor irrecoverable costs through the EPRA cost ratio and void percentages. We also place considerable emphasis on growing EPRA earnings and returns to shareholders.

Our reversion

We measure and monitor the level of portfolio reversion as follows:



A – Contracted rent

Passing as at December 2018

B – Contracted rental uplifts

This comes from the 'burning off' of rent-free or half rent periods, or through fixed or minimum future rental increases

C – Pre-let developments and refurbishments

Where the contracted income increases both on delivery of the scheme and again as rental incentives expire

D – Vacant space

When let at open market rents, this leads to increases in contracted income

E – Developments and refurbishments

This is the estimated rental value of current schemes which are not yet pre-let

F – Marking to current market values

This is the pure 'reversion' inherent in the existing leases taking their income to estimated current rental value

G – Estimated rental value (ERV)

Our valuers' estimate of the total rental value of our portfolio, including developments and refurbishments under construction

3.

TO ATTRACT, RETAIN AND DEVELOP TALENTED EMPLOYEES

A talented team that embraces our values and thrives in our culture is essential if Derwent London is to fulfil its purpose.

We place great importance on having a progressive, pragmatic and collaborative culture coupled with a consultative and professional leadership style – one that focuses on teamwork and acting with integrity in order to build long-term relationships with our colleagues and other stakeholders. Our employees are ambassadors for our brand and we therefore invest considerable time and resources in recruiting outstanding individuals, who bring new ideas, skills and competencies to the business. Once with us, we strive to ensure they are highly engaged and our success in this is demonstrated by our exceptional staff retention rates and satisfaction scores, as well as by the fact that 30% of employees have been with us for more than ten years.

Our reputation stems from the behaviours and values promoted by our Board and these are reinforced through our induction programme, performance management process, core skills workshops and our new management and leadership development programmes entitled 'Fit for the Future.' Our structure enables complex transactions to be managed effectively and decisions made quickly with the overall aim of creating value and driving income growth across our portfolio. Although we are structured by discipline, we assemble teams for specific projects that draw on expertise from across the business. We believe this collaborative approach increases creativity and innovation. Collaboration is also facilitated through a number of supporting committees (for example the Cost, Credit and Health & Safety Committees) which, together with the project teams, report into our Executive Committee (see page 87).

This ensures accountability across the business and enables changes in the Group's strategic focus to be communicated and implemented.

Diversity and well-being initiatives have been high on the agenda during 2018 and these will continue into 2019. Other initiatives have been implemented during the year as a result of the employee survey carried out in 2017; part of our focus on making Derwent London an even better place to work.

Further information on employee engagement and development can be found in the responsibility section



91%

Response rate to our staff survey

90%

Staff satisfaction

90%

Staff retention

Left: The Featherstone Building project team

OUR STRATEGY CONTINUED

4.

TO DESIGN, DELIVER AND OPERATE OUR BUILDINGS RESPONSIBLY

Delivering well-designed, sustainable, occupier-focused buildings is an integral part of our business model. These buildings offer better long-term value for occupiers and tend to let quickly and on better terms.

Setting high standards in terms of design and sustainability builds flexibility, longevity and climate resilience into our portfolio – not just in our new developments but also the spaces we manage. This will ensure our portfolio is fit for purpose over the long-term and continues to generate the returns we expect. Our approach to climate resilience is set out in further detail in our Responsibility section on pages 76 to 77, with a summary of our TCFD (Task Force on Climate-related Financial Disclosures) disclosures. Recently, our science-based targets were validated by the Science Based Targets Initiative.

We work with our stakeholder groups to ensure we are meeting their expectations and standards, as well as acting responsibly. This can range from working with the local communities in and around our buildings, through to designers and contractors, to ensure our buildings meet the standards we set (see page 18 for more on stakeholder engagement).

75%

Waste recycling rate

20%

Reduction in like-for-like carbon intensity

Below: Johnson Building EC1



5.

TO MAINTAIN STRONG AND FLEXIBLE FINANCING

We finance our business using a combination of debt and equity, applying policies which have been consistent and well-proven over many years.

Our overriding principle is one of low leverage with an emphasis on interest cover. Using a combination of unsecured flexible revolving bank facilities and longer-term fixed rate debt, we can tailor the level of drawn debt to our needs through the cycle. By keeping adequate headroom, acquisitions can be funded without delay and there is visibility to us and our stakeholders that the development pipeline is capable of being delivered without overstressing the balance sheet.

Derwent London's financing model is based on the following principles:

- i) conservative financial leverage to balance the business's relatively high operational leverage;
- ii) a growing focus on interest cover to support the credit rating;
- iii) borrowing from a diverse group of relationship lenders, both banks and institutions, who understand and support our business model;
- iv) managing the cost of debt but also looking to have significant protection against possible interest rate rises while extending debt maturities; and
- v) keeping structures and covenants simple and understandable and thinking ahead.

This approach provides financial stability and helps us when considering issues such as going concern and viability statements.

Our unsecured debt facilities have essentially the same financial covenant package so our lending relationships are on a level playing field. In recent years, we have also taken on more non-bank debt which has extended the Group's unexpired duration of debt.

Finally, relationships with our funders – key stakeholders in our business – are of great importance to us and we communicate with them all frequently.

p.68 For further reading see the Finance review



Our REIT status

Derwent London plc has been a Real Estate Investment Trust (REIT) since July 2007.

The REIT regime (see page 206) was launched to provide a structure which closely mirrors the tax position of an investor holding property directly and seeks to provide potential holdings in liquid publicly quoted vehicles to a wide range of investors. REITs are principally asset managers with tax exempt property rental businesses, but remain subject to corporation tax on non-exempt income and gains. In addition, we are required to deduct withholding tax from certain shareholders on property income distributions and in 2018 £6.3m was paid to HMRC.

Left: Members of the Finance team

17.2%

LTV ratio
(2017: 13.2%)

491%

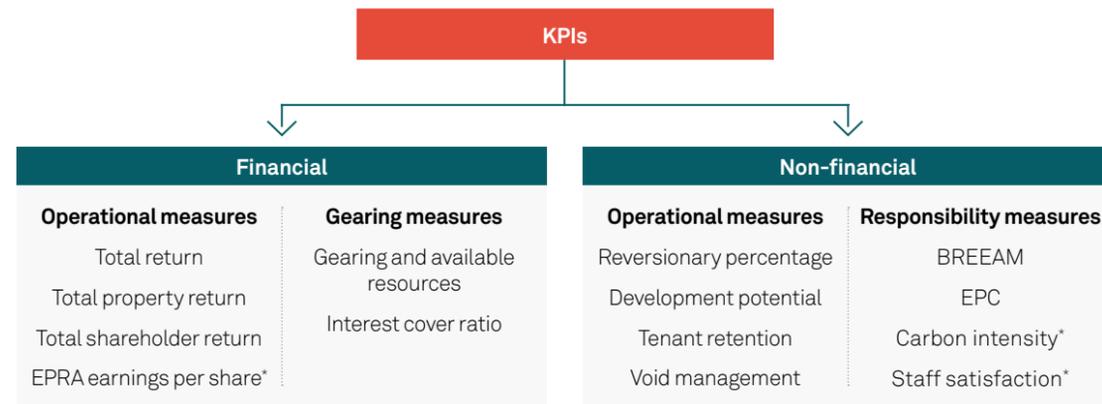
Interest cover
(2017: 454%)

£274m

Cash and undrawn facilities
(2017: £523m)

MEASURING OUR PERFORMANCE

We use a balance of financial and non-financial key performance indicators (KPIs) to measure our performance and assess the effectiveness of our strategy. They are also used to monitor the impact of the principal risks that have been identified and a number are used to determine remuneration.



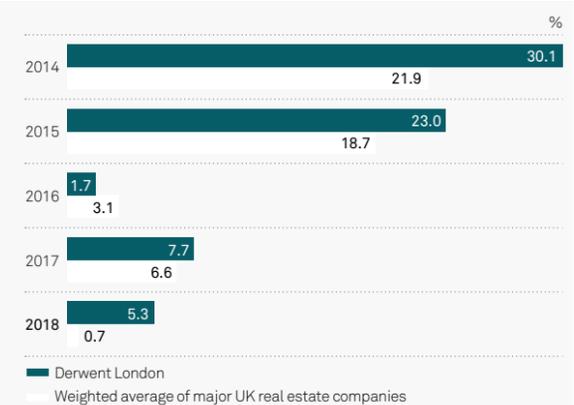
* KPI introduced in 2018

Financial KPIs Our performance

TOTAL RETURN 1. 2. 3. 4. 5. R

Total return equates to the combination of NAV growth plus dividends paid during the year. We aim to exceed our benchmark, which is the average of other major real estate companies.

Our total return in 2018 was 5.3%, which comfortably exceeded the benchmark return of 0.7%. Derwent London's average annual return of 12.8% over the past five years against a benchmark of 9.9% p.a. demonstrates the ability of our business model to generate above average long-term returns.



- Key Strategic objectives**
- To optimise returns and create value from a balanced portfolio
 - To grow recurring earnings and cash flow
 - To attract, retain and develop talented employees
 - To design, deliver and operate our buildings responsibly
 - To maintain strong and flexible financing

- Other**
- Remuneration

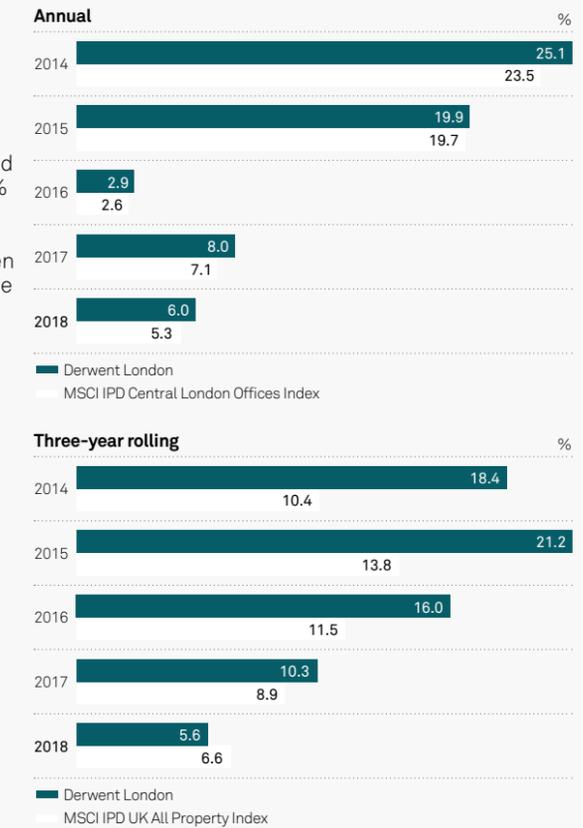
* KPI introduced in 2018

Financial KPIs Our performance

TOTAL PROPERTY RETURN 1. 2. 3. 4. 5. R

Total property return is used to assess progress against our property-focused strategic objectives. We aim to exceed the MSCI IPD Central London Offices Index on an annual basis and the MSCI IPD UK All Property Index on a three-year rolling basis.

Continued strong pre-letting at our developments and active asset management meant we outperformed MSCI IPD's Central London Offices Index by 70 bps during 2018. Although over three years we marginally underperformed their UK All Property Index, our 6.0% return in 2018 equalled the annual index. This demonstrates London's continued attraction, which has seen rents and yields remain firm, and the particular appeal of our middle market rental product.



TOTAL SHAREHOLDER RETURN (TSR) 1. 2. 3. 4. 5. R

To measure the Group's achievement of providing above average long-term returns to its shareholders, we compare our performance against the FTSE UK 350 Super Sector Real Estate Index, using a 30-day average of the returns in accordance with industry best practice.

Derwent London outperformed its benchmark index in 2018 by 10.1%. Our ability to deliver above average long-term returns is demonstrated by the fact that £100 invested in Derwent London at the start of 2009 was worth £495 at the end of 2018, compared with £214 for the benchmark index.



EPRA EARNINGS PER SHARE (EPS)* 1. 2. 3. 4. 5.

EPRA EPS is the principal measure used to assess the Group's operating performance and a key determinant of the annual dividend. A reconciliation of this figure back to the IFRS profit can be found in note 38.

EPRA EPS rose by 20.0% in 2018 and has increased by 98% since 2014. In 2018 we have also reported an underlying EPS, which excludes a one-off receipt of 14p per share. On this basis, EPS rose 5.1% to 99.08p.



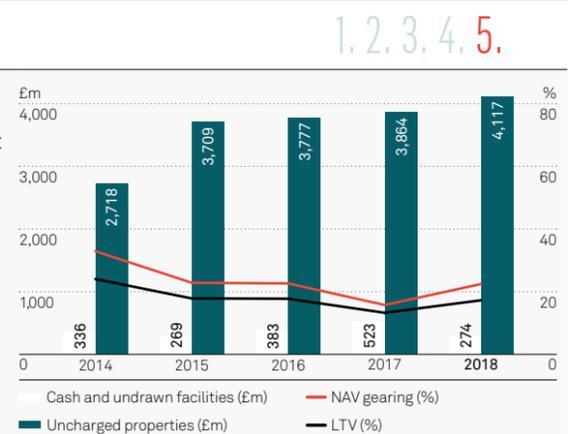
MEASURING OUR PERFORMANCE CONTINUED

Financial KPIs Our performance

GEARING AND AVAILABLE RESOURCES

The Group monitors capital on the basis of NAV gearing and the LTV ratio. We also monitor our undrawn facilities and cash, and the level of uncharged properties, to ensure that we have sufficient flexibility to take advantage of acquisition and development opportunities.

Cash and undrawn facilities fell in the year due to net investment in our portfolio of £228.6m. This also meant an increase in the NAV gearing and LTV ratio, but both remain at a low level. In January 2019 we drew down on £250m of proceeds from a private placement, which increased available funds to over £500m, on a proforma basis.



INTEREST COVER RATIO (ICR)

We aim for our interest payable to be covered at least two times by net rents. The basis of calculation is similar to the covenant included in the loan documentation for our unsecured bank facilities. Please see note 40 for the calculation of this measure.

Due to both an increase in property income and decrease in finance costs, the net interest cover ratio increased during 2018. Rental income would need to fall by over 70% before the main ICR covenant was breached.



Non-financial KPIs Our performance

REVERSIONARY PERCENTAGE

This is the percentage by which the cash flow from rental income would grow were the passing rent to be increased to the estimated rental value (ERV) and assuming the on-site schemes are completed and let. It is used to monitor the potential future income growth of the Group.

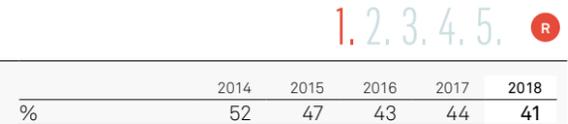
New lettings helped increase the reversion to 72%, giving a portfolio ERV of £274.4m. Asset management and letting activity in the year meant that the proportion of the reversion that is contracted, either through fixed uplifts or pre-let schemes, increased from 62% to 76%.



DEVELOPMENT POTENTIAL

We monitor the proportion of our portfolio with the potential for refurbishment or redevelopment to ensure that there are sufficient opportunities for future value creation in the portfolio.

The percentage of our portfolio that had redevelopment, regeneration or refurbishment potential was 41% at the end of 2018. We continue to seek acquisitions that would provide value creation opportunities.



TENANT RETENTION

Maximising tenant retention following tenant lease breaks or expiries when we do not have redevelopment plans minimises void periods and contributes towards net rental income.

Our retention and re-let rate was 90% in 2018 and averaged 87% over the past five years, evidence of the strong relationships we have with our tenants and the appeal of our mid-market product.



Non-financial KPIs Our performance

VOID MANAGEMENT

To optimise our rental income we plan to minimise the space immediately available for letting. We aim that this should not exceed 10% of the portfolio's estimated rental value.

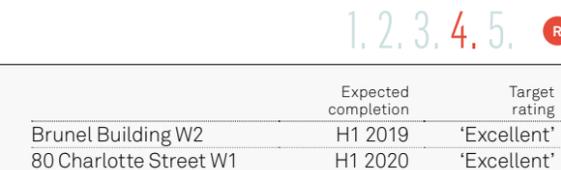
With two refurbishments that completed in H1 2018 substantially let by the year end, our vacancy rate fell from 4.2% to 1.8% between June and December 2018. Our ability to retain tenants and let space, particularly at our on-site developments, has kept the vacancy rate low.



BREEAM RATINGS

BREEAM is an environmental impact assessment method for commercial buildings. Performance is measured across a series of ratings: 'Pass', 'Good', 'Very good', 'Excellent' and 'Outstanding'. We target minimum BREEAM ratings of 'Excellent' for both major developments and major refurbishments.

We have not completed any major developments or refurbishments during the year, but have been focusing on Brunel Building W2 and 80 Charlotte Street W1, the two developments due to complete in the next 18 months.



ENERGY PERFORMANCE CERTIFICATES (EPC)

EPCs indicate how energy efficient a building is by assigning a rating from 'A' (very efficient) to 'G' (inefficient). We target a minimum certification of 'A' for major new-build schemes and 'B' for major refurbishments.

During 2018 we undertook activities that improved the EPC ratings within 14 of our buildings.



CARBON INTENSITY*

This is measured by emissions intensity per sq m of landlord-controlled floor area across our managed like-for-like portfolio. Our target is an annual decrease of between 2% and 4% per annum.

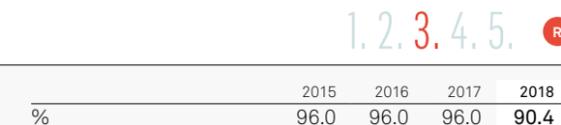
In 2018, we reduced our landlord (scope 1 & 2) emissions intensity in the like-for-like portfolio by 20%. A 43% reduction since our base year of 2013 means that we are on target to meet our emissions target reduction by 2027.



STAFF SATISFACTION*

The satisfaction of our employees is assessed through a number of questions in a staff survey. We aim to keep the satisfaction rate above 80%.

Although the rate fell in 2018, staff satisfaction remained over 90%. This exceptional level is testament to our collaborative and supportive corporate culture.



The Directors annually review the Group's KPIs to ensure they reflect the measures employed to assess performance. Following the review in 2017, the Directors agreed to introduce three new KPIs in 2018 (shown with an asterisk in this section). They also agreed that while capital return and tenant receipts were important measures, others were more effective in assessing progress against objectives.

VIABILITY STATEMENT

In accordance with the 2016 UK Corporate Governance Code, the Directors and the senior management team have assessed the prospects of the Company over a longer period than the 12 months required by the 'Going Concern' provision.

Time period

The Directors have determined that the five-year period to 31 December 2023 is an appropriate period over which to assess its viability based on the following:

- for a major scheme, five years is a reasonable approximation of the typical time taken from obtaining planning permission for a development to letting the property; and
- most leases contain a five-year rent review pattern or break options. Therefore five years allows for the forecasts to include the reversion arising from those reviews and to assess the potential impact of income lost from breaks exercised.

This time period is challenged annually to ensure it remains appropriate. Although the Board's viability review focused on a five-year period, it did consider a number of longer-term factors when considering the Group's future prospects, including:

- the weighted average lease length of 8.2 years (including rent-frees and pre-lets);
- due to the long-term nature of our business, some of our borrowings extend beyond five years;
- the nature of the property cycle and our expectations of how this impacts us; and
- changes in technology and tenant expectations.

Assessment of prospects

The Board has assessed the Group's prospects and long-term viability with due consideration to:

- our current position and performance (pages 4 to 43);
- business model flexibility (pages 20 to 21);
- financing arrangements (page 72); and
- principal risks (pages 48 to 57).

The assessment highlighted that the Group has:

- a proven business model which has allowed us to remain flexible and resilient during previous property cycle downturns;
- a high-quality customer base of tenants, with none of our occupiers being responsible for more than 7% of our total rental income;
- income visibility for the life of our leases which on average are 8.2 years (including rent-frees and pre-lets) with upward only or contracted rent reviews;
- good interest in our mid-market space with strong pre-let interest in our schemes;
- good relationships with our bankers and no issues anticipated with respect to the renewal of our revolving credit facilities which are due to expire in 2022; and
- a low loan-to-value ratio of 17.2% and an additional £250m of long-term debt raised via the recent US private placement.

Principal risks

The Schedule of Principal Risks is routinely subject to a comprehensive review by the Executive Committee, Risk Committee and the Board. Consideration is given to the risk likelihood, impact and velocity (speed at which the risk could impact on the Group). It was agreed that none of the changes in risk likelihood or probability during the year (see page 46) had a significant impact on the Group's viability.

The Directors identified that, of the principal risks detailed on pages 48 to 57, the following are the most important to the assessment of the viability:

- Adverse Brexit settlement: As a predominantly London-based Group, we are particularly susceptible to changes which can adversely impact London's future prosperity. Although an adverse Brexit settlement for London would negatively impact our business, it would be unlikely to significantly affect the viability of the Group within the five-year review period.
- Risk arising from our development activities: Our current development pipeline is sizeable and its delivery remains a top priority. Despite developments being inherently risky, our pipeline is expected to be a significant driver of our earnings growth over the next five years. In addition, development uplifts should enhance valuation returns even in a flat or declining market.

The Directors considered that none of the individual principal risks would in isolation compromise the Group's viability.

[p.46](#) Our principal risks

Qualifications and assumptions

The key assumptions which underpin our strategic plan are:

- the Group's business model remains broadly unchanged and continues to focus on the central London office market;
- we continue to operate a progressive dividend policy whilst ensuring dividend cover remains in or above the range of 1.25% to 1.5%; and
- our portfolio remains approximately the same size.

We have the ability to flex our business model to react to unforeseen circumstances or changes in the property cycle by either selling a property to generate additional cash flow or commencing or stopping development projects to manage our capital expenditure. We aim to maintain an adequate level of cash and available financial facilities. Regular financial forecasting enables us to identify and plan for additional funding requirements in advance.

Assessment of viability

To assess the Group's viability, the business model and strategy were stress tested against our principal risks (in isolation and combination), various Brexit scenarios and other sensitivities.

Sensitivity analysis of our strategy

A detailed five-year strategic review was conducted which considers the Group's cash flows, dividend cover, REIT compliance and other key financial ratios over the period.

These metrics were subjected to sensitivity analysis to assess the impact of the principal risks to the Group's ability to deliver its strategic objectives, which are set out on page 31, both individually and in unison.

VIABILITY STATEMENT

Based on the Board's assessment, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the five-year period to 31 December 2023.

Stress testing our risk resilience

The Directors stress tested our strategy against a combination of principal and emerging risks which were likely to have a significant impact on the Group's solvency and liquidity over the five-year review period. A scenario was modelled that assumed a severe decrease in property values combined with significant letting delays at the Group's developments and a fall in rental income.

As at 31 December 2018, the value of the portfolio could fall by 69% without breaching the gearing covenants and our property income could fall by 73% before breaching the interest cover covenant.

Brexit scenarios

The Board, under the stress testing of our risk resilience, tested the potential impact of various Brexit scenarios, by estimating their financial impact and overlaying this on the detailed financial forecasts included within the strategic plan and five-year forecasts for viability.

A range of Brexit scenarios of 'soft', 'hard' and 'disorderly' were modelled with various levels of impact on our property values and rental income. In all scenarios, our net interest cover remained above 350% and our loan-to-value ratio below 40%, both of which are comfortably within our financial covenants.

[p.47](#) Brexit

OUR PRINCIPAL RISKS

At Derwent London we aim to deliver on our strategic objectives for the benefit of our stakeholders whilst operating within the risk tolerance levels set by our Board.

The risk profile of the Group

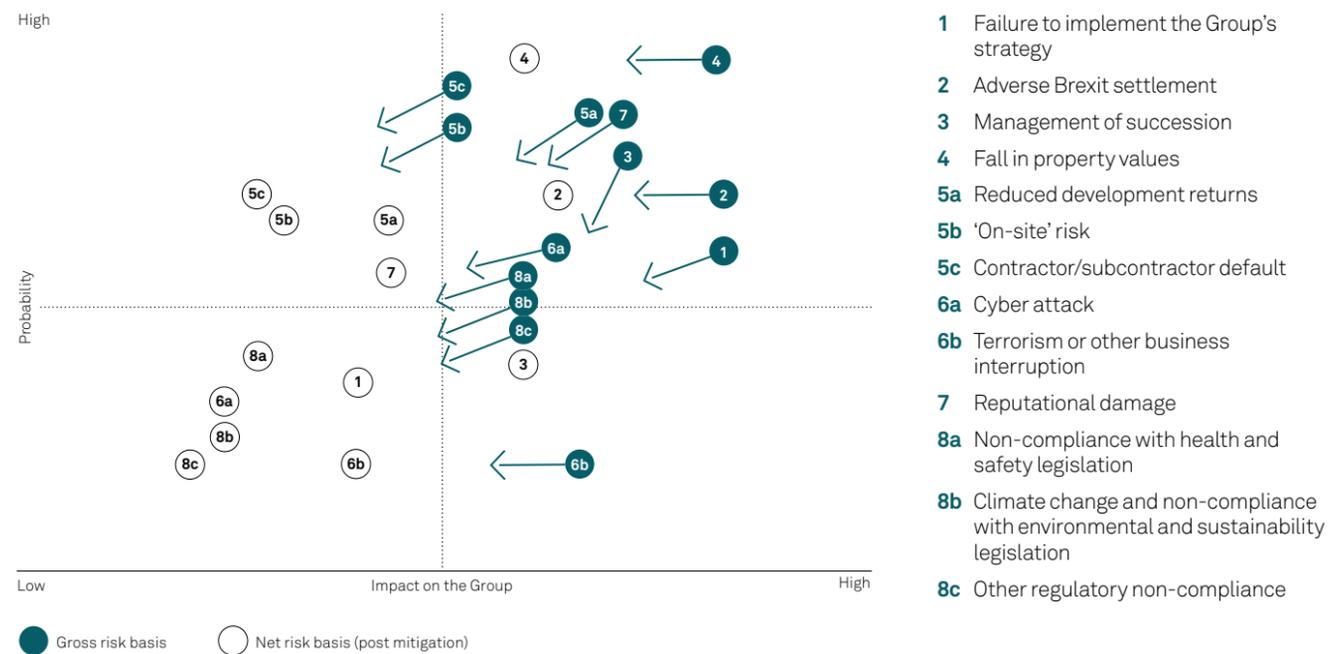
As a predominantly London-based Group, we are particularly sensitive to factors which impact upon central London's growth and demand for office space. Any decline in the demand for London office space or a significant increase in supply could negatively impact upon:

- the value of our property portfolio;
- occupancy rates and, subsequently, our income; and
- availability of properties for acquisition and the ease of disposal and refinancing.

The London office market has proven to be cyclical and can be impacted by a number of external and internal factors. For example, changes in political agendas or economic factors can impact upon:

- the ease of gaining planning permission for new development projects;
- cost of acquisitions, e.g. stamp duty land tax; and
- value of our properties to overseas investors due to exchange rate fluctuations.

Effect of mitigation actions on our principal risks



Changes to our principal risks

The principal risks and uncertainties facing the Group in 2019 are set out on pages 48 to 57 together with the potential impact and the mitigating actions and controls in place. Our principal risks are not an exhaustive list of all risks facing the Group but are a snapshot of the Company's main risk profile as at 26 February 2019.

During the year under review, there has been a number of changes to our principal risks:

New principal risk

- (i) 'Management of succession' has been elevated to a principal risk, due to the importance of retaining our senior management team and maintaining our culture (see page 48).

Increasing risks

- (i) As at 26 February 2019, arrangements to leave the EU have not been agreed and subsequently the risk that negotiations result in arrangements which are damaging to the London economy has increased.
- (ii) The possibility that property values will fall has increased due to Brexit uncertainty and as we approach the end of the current property cycle. Recent property cycles last for approximately seven years and the current cycle is over eight years.
- (iii) Due to our successful programme to de-risk our developments through pre-lets, there is increased 'on-site' risk of completing 80 Charlotte Street on time. Practical completion of 80 Charlotte Street is expected to be in the first half of 2020, making 2019 an important year. If late, we could face penalties and a loss of rental income.
- (iv) Partly driven by Brexit uncertainty and the concerns over contractor business models, the risk of reduced development returns has increased.

Risk management

Risk is inherent in running any business. Our risk management procedures are routinely reviewed and strengthened to ensure that all foreseeable and emerging risks are identified, understood and managed. Our overall low risk tolerance (see page 112), alongside a transparent and collaborative work style, ensures that any potential risk is identified quickly. Our approach to risk management is contained on pages 111 to 112.

The role of our Board, with support from the Risk Committee, is to ensure that our risk management and internal controls are robust so that we remain able to swiftly identify and react to new threats and uncertainties. Balanced with the maintenance of a flexible business model and strong financial structure, this better enables us to weather uncertainties and take advantage of opportunities.

BREXIT

Since the referendum decision in June 2016 to leave the EU, we have been operating through a period of heightened economic and political uncertainty.

- If a deal is not agreed between the UK and the EU by 29 March 2019, or no alternative arrangements are agreed, trade to and from the UK will default to WTO (World Trade Organization) rules with the associated tariffs.
- If a deal is reached with a 'transition period' to 31 December 2020 or such other date that is agreed, there will be less impact on our business over the next two years or so. However, uncertainty is likely to continue until new trade and international agreements have been finalised and this may take some time.

As outlined on page 45, we have considered various Brexit scenarios when reviewing our five-year strategy. Although 'no deal' and more adverse Brexit scenarios would likely cause a decrease in earnings and NAV, our financial covenants were not close to being compromised in any of the scenarios, and we continued to be able to carry on with our current business plans.

How could Brexit impact us?

Our core income

Derwent London has no buildings in the City and few occupants from the financial services industry (4% of our portfolio). Our EPRA vacancy rate is low at 1.8% and the majority of recent rent reviews have been above ERV. To date we have not seen, nor are we forecasting in our base case, any significant impact on our operating performance in respect to Brexit.

The current market is supply limited, a situation that may even have been enhanced by the Brexit vote, which has maintained the demand for our buildings and developments leading to substantial pre-letting of the Brunel Building W2 and 80 Charlotte Street W1 developments.

If a deal is reached, we would not expect a significant short-term change in supply within the central London property market and rents would likely remain stable during the transition period. In a 'no deal' situation, if the importance of London as a global centre is diminished, demand for space could decline over time which would likely see an increase in void periods and risk of lower rents when leases come up for renewal. However, our focus on good value, well-designed, middle market rent properties means we are less susceptible to reductions in tenant demand.

Our developments

The highest potential impact on Derwent London will be in respect of our developments. In the event of a 'no deal' Brexit, the cost and timeline of our developments could be impacted where we are importing building materials or components from Europe, as they may be subject to tariffs and border delays.

Derwent London brand

The Derwent London brand is well-regarded and respected within our industry and is recognised for its innovation and for developing design-led buildings. The protection of our brand and our reputation is important to the future success of the Group (see page 54).

Development risks

Our developments are large, high-value projects with life cycles which can be up to five years. The success of our development activities is reliant on taking managed and carefully considered risk, which aims to deliver the office space our occupiers desire when it is needed. In August 2018, the Risk Committee visited the 80 Charlotte Street development to see first-hand how construction and health and safety risks are managed (see page 112).

In addition, development costs are likely to increase due to:

- devaluation of the pound leading to price inflation for imported materials on contracts that are not at fixed prices; and
- shortage of skilled construction workers leading to increased labour costs on future development projects.

There will be a heightened risk of contractor or subcontractor default due to the increased costs arising from the risks stated above, which will be carefully monitored as we work closely with our contractors to mitigate this issue.

We have been working with our principal contractors to determine the likely effect of a 'no deal' Brexit on 80 Charlotte Street. As a contingency measure, our contractors have started to pre-order materials and store them in advance of use, where required. Any increase in handling or storage costs of materials will be a contractual cost for our contractors.

The Brunel Building and 80 Charlotte Street developments have not yet been noticeably impacted by Brexit and their building contracts do not contain Brexit clauses. Currently any risks arising on these developments from Brexit are the responsibility of the principal contractor, although delays in completion could potentially result in a reduction in our revenue. In respect to new developments, such as Soho Place and The Featherstone Building, we may be required to accept additional risks in respect to delays and increased costs.

Value of our buildings

Since the decision to leave the EU, the valuation of our portfolio has continued to grow, albeit more slowly: 2018: +2.2%, 2017 +3.9%. If a deal is not reached and there is a significant reduction in demand for central London properties, the value of our buildings may decrease. Our external valuers, CBRE, might also add market uncertainty clauses into their valuation (as they did in the 2008 financial crisis).

Although a decrease in value will not have a direct impact on our business model, it will reduce the headroom available for our covenants. Our internal modelling indicated that, as at 31 December 2018, the value of the portfolio could fall by 69% without breaching the gearing covenants.

If there is a fall in property values, there could be opportunities to buy property for future development. Alongside a fall, the devaluation of the pound could increase demand for London properties from overseas buyers, as was seen immediately after the referendum decision. With increased investment in London property, this will provide underlying support for the value of our buildings.

OUR PRINCIPAL RISKS CONTINUED

STRATEGIC RISKS

That 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	Our key controls	Potential impact	What we did in 2018	Further mitigating actions for 2019
<p>1. FAILURE TO IMPLEMENT THE GROUP'S STRATEGY</p> <p>The Group's strategy is not met due to poor strategy implementation or a failure to respond appropriately to internal or external factors such as:</p> <ul style="list-style-type: none"> • an economic downturn and/or the Group's development programme being inconsistent with the current economic cycle; and • London losing its global appeal with a consequential impact on the property investment or occupational markets. <p>Movement during the year: Risk unchanged →</p> <p>The Board considers this risk to have remained broadly the same. Throughout the year, the Group continued to benefit from a resilient central London office market despite continuing political uncertainty.</p> <p>Executive responsibility: John Burns</p>	<ul style="list-style-type: none"> • The Group conducts an annual five-year strategic review and prepares a budget and three rolling forecasts covering the next two years. • 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'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 to maintain income from properties until development commences and has an ongoing strategy to extend income through lease renewals and regearing. • The Group aims to de-risk the development programme through pre-lets. • The Group maintains sufficient headroom in all the Group's key ratios and financial covenants with a focus on interest cover. 	<p>Strategic objectives</p> <p>1. 2. 4. 5.</p> <p>Business model</p> <p>Could potentially impact on all aspects of our business model</p> <p>KPIs</p> <ul style="list-style-type: none"> • Total return • Total property return • Total shareholder return 	<ul style="list-style-type: none"> • The annual strategic review was performed by the Executive Committee and reviewed at the Board's strategy meeting on 13 June 2018. • The Board considered the sensitivity of our KPIs to changes in underlying assumptions including interest rates, timing of projects, level of capital expenditure and the extent of capital recycling. • Three rolling forecasts and a budget for 2019 were prepared. • In respect to our de-risking strategy, 77% (188,100 sq ft) of the Brunel Building and 74% (279,600 sq ft) of 80 Charlotte Street have now been pre-let. • The Group's loan-to-value ratio remained low, its net interest cover ratio was 491% and the REIT ratios were comfortably met. • The Board has committed to The Featherstone Building and Soho Place developments. 	<p>Movement during the year</p> <ul style="list-style-type: none"> ↗ Risk increased → Risk unchanged ↘ Risk decreased <ul style="list-style-type: none"> • Continue to de-risk the Brunel Building development through pre-letting strategy and monitoring of construction progress. • Market The Featherstone Building and Soho Place to start de-risking these developments via our pre-letting strategy. • Monitor our portfolio for further asset management activities and manage the vacancy rate. • Extend income through renewals and regears for properties not earmarked for regeneration. • Examine opportunities for disposals. • Focus on maintaining our credit rating of A- assigned by Fitch in August 2018.
<p>2. ADVERSE BREXIT SETTLEMENT</p> <p>Risk that negotiations to leave the European Union result in arrangements which are damaging to the London economy.</p> <p>As a predominantly London-based group, we are particularly sensitive to any factors which impact upon London's growth and demand for office space.</p> <p>Movement during the year: Slight increase ↗</p> <p>Further commentary on Brexit can be found on page 47.</p> <p>Executive responsibility: John Burns</p>	<ul style="list-style-type: none"> • The Group's strong financing and covenant headroom enables it to weather a downturn. • The Group's diverse and high-quality tenant base provides resilience against tenant default. • The Group focuses on good value, middle market rent properties which are less susceptible to reductions in tenant demand. The Group's average 'topped' up office rent is only £53.25 per sq ft (2017: £49.74 per sq ft). • The Group develops properties in locations where there is good potential for future demand, such as near Crossrail stations. • Income is maintained at future developments for as long as possible. • Ongoing strategy is to extend income through lease renewals and regearing and to de-risk the development programme through pre-lets. • Updates received on occupier trends by engaging with our current tenants and advisers. 	<p>Strategic objectives</p> <p>1. 2. 5.</p> <p>Business model</p> <p>Could potentially impact on all aspects of our business model</p> <p>KPIs</p> <ul style="list-style-type: none"> • Total return • Total property return • Total shareholder return 	<ul style="list-style-type: none"> • A detailed review of our construction contracts was performed which included foreign currency impact. • Put in place contingency plans with our principal contractors. • Brexit risk assessments have been performed to understand how the different Brexit scenarios could impact on our business model and strategy. • Monitored Brexit negotiations and discussed potential outcomes with external advisers. • Monitored letting progress and demand for our buildings. • As at 31 December 2018, the Group had cash and undrawn facilities of £274m. 	<ul style="list-style-type: none"> • Extend loan durations, where appropriate. • Redemption or conversion of the unsecured convertible bonds. • We will continue with our current controls and mitigating actions including operating the business on a basis that balances risk and income generation.
<p>3. MANAGEMENT OF SUCCESSION</p> <p>Risk that the Board's succession plans, due to become effective during 2019, fail to retain our senior management team and lead to a loss of our culture and/or talent.</p> <p>Movement during the year: New principal risk</p> <p>Executive responsibility: John Burns</p>	<ul style="list-style-type: none"> • John Burns will be the Non-Executive Chairman until May 2021 and will aim to retain the culture of the Group and ensure an orderly succession. • Simon Fraser, Senior Independent Director, acts as a 'sounding board' for the Chairman and an independent point of contact for Directors and Shareholders. • Remuneration packages are benchmarked regularly. • Six-monthly performance appraisals identify training requirements and career aspirations. • The Board monitors the culture of the Group (see page 85). 	<p>Strategic objectives</p> <p>1. 2. 3. 4. 5.</p> <p>Business model</p> <p>Could potentially impact on all aspects of our business model</p> <p>KPIs</p> <p>Could impact on any Group KPIs</p>	<ul style="list-style-type: none"> • We have continued to cultivate the 'talent pipeline' via the 'Fit for the Future' programme to identify key individuals and enable them, in future, to take on key roles. • Appointed Cilla Snowball, Non-Executive Director, as the Director responsible for gathering the views of the workforce (see page 92). • A working group proposed ideas to the Executive Committee in November 2018 on how to address the higher priority areas arising from the latest employee survey. 	<ul style="list-style-type: none"> • The Remuneration Committee will be reviewing the effectiveness of the incentive schemes to retain and motivate the senior management team. • Conduct the third biennial employee survey. • Continue to support the Group in creating a working environment that promotes individual well-being and a respectful, inclusive and collaborative culture.

OUR PRINCIPAL RISKS CONTINUED

FINANCIAL RISKS

Significant steps have been taken in recent years to reduce or mitigate the Group's financial risks such that few are now considered to be principal risks of the Group. 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	Our key controls	Potential impact	What we did in 2018	Further mitigating actions for 2019
4. FALL IN PROPERTY VALUES (previously, 'Increase in property yields') Increasing property yields, which may be a consequence of rising interest rates, would cause property values to fall. Interest rates have remained low for an extended period and are expected to rise gradually over the next few years. Though there is no direct relationship, this may cause property yields to increase. The underlying value of our investment portfolio has remained resilient, increasing by 2.2% in 2018, despite the continuing economic uncertainties. Movement during the year: Slight increase  The possibility that property values will fall has increased over the last year as we approach the end of the current property cycle (normal property cycles last for approximately seven years and we are currently at just over eight years). The Bank of England's Monetary Policy Committee increased interest rates during the year from 0.5% to 0.75%. Despite this rise, future interest rate increases are anticipated to be slow and incremental. Executive responsibility: Nigel George	<ul style="list-style-type: none"> The impact of yield changes is considered when potential projects are appraised. The impact of yield changes on the Group's financial covenants and performance is monitored regularly and subject to sensitivity analysis to ensure that adequate headroom is preserved. The Group's mainly unsecured financing makes the management of our financial covenants straightforward. The Group's low loan-to-value ratio reduces the likelihood that falls in property values have a significant impact on our business. 	Strategic objectives 1.5. Business model <ul style="list-style-type: none"> Our assets and resources Adding value for stakeholders KPIs <ul style="list-style-type: none"> Interest cover ratio Total return Total property return Gearing and available resources 	<ul style="list-style-type: none"> The Group produced a budget, five-year strategic review and three rolling forecasts during the year which contain detailed sensitivity analyses, including the effect of changes to yields. Quarterly management accounts were provided to the Board and included the Group's performance against the financial covenants. 	<ul style="list-style-type: none"> Continue with our current controls and mitigating actions. Examine opportunities for disposals.

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.

5. RISKS ARISING FROM OUR DEVELOPMENT ACTIVITIES

a. Reduced development returns

The Group's development projects do not produce the targeted financial returns due to one or more of the following factors: <ul style="list-style-type: none"> delay on site; increased construction costs; and adverse letting conditions. For example: delays could lead to penalties payable to pre-let tenants at 80 Charlotte Street. Movement during the year: Slight increase  Due to our significant development pipeline, with a number of key projects currently under construction including 80 Charlotte Street and the Brunel Building, the risk of delays to our projects and/or cost overruns remain a principal risk. By the end of 2018 we had largely de-risked these projects. Executive responsibility: Paul Williams	<ul style="list-style-type: none"> Investment appraisals, which include contingencies and inflationary cost increases, are prepared and sensitivity analysis is undertaken to measure that an adequate return is made in all likely circumstances. 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. 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. The Group's pre-letting strategy reduces or removes the letting risk of the development as soon as possible. Detailed reviews are performed on construction projects to ensure that forecasts are aligned with our contractors. 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. 	Strategic objectives 1.2.5. Business model Could potentially impact on all aspects of our business model KPIs <ul style="list-style-type: none"> Total shareholder return 	<ul style="list-style-type: none"> Demand for our developments is evidenced by the significant pre-letting activity in the year. In respect to our de-risking strategy, 77% (188,100 sq ft) of the Brunel Building and 74% (279,600 sq ft) of 80 Charlotte Street have now been pre-let. Construction costs now substantially fixed on the 80 Charlotte Street and the Brunel Building developments. The Board and Executive Committee received regular updates on our principal developments. Approved The Featherstone Building development. 	<ul style="list-style-type: none"> Further de-risk the Brunel Building, The Featherstone Building and Soho Place developments through our pre-letting strategy. Continue with our current controls and mitigating actions with a major focus on project monitoring.
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Key Strategic objectives	Movement during the year
1. To optimise returns and create value from a balanced portfolio	 Risk increased
2. To grow recurring earnings and cash flow	 Risk unchanged
3. To attract, retain and develop talented employees	 Risk decreased
4. To design, deliver and operate our buildings responsibly	
5. To maintain strong and flexible financing	

OUR PRINCIPAL RISKS CONTINUED

OPERATIONAL RISKS CONTINUED

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	Our key controls	Potential impact	What we did in 2018	Further mitigating actions for 2019
<h4>5. RISKS ARISING FROM OUR DEVELOPMENT ACTIVITIES</h4>				
<h5>b. 'On-site' risk</h5>				
<p>Risk of project delays and/or cost overruns caused by unidentified issues, e.g. asbestos in refurbishments or ground conditions in developments.</p> <p>For example, delays could lead to penalties payable to pre-let tenants at 80 Charlotte Street. Our pre-let strategy has increased this risk.</p> <p>Movement during the year: Slight increase </p> <p>Due to our successful pre-letting programme, there is increased risk on completing 80 Charlotte Street on time. If late, we could face a loss of rental income and penalties.</p> <p>Executive responsibility: Paul Williams</p>	<ul style="list-style-type: none"> Prior to construction beginning on site, we conduct site investigations including the building's history and various surveys to identify any potential issues. Regular monitoring of our contractors' cash flows. Off-site inspection of key components to ensure they have been completed to the requisite quality. Frequent meetings with key contractors and subcontractors to review their work programme. 	<p>Strategic objectives</p> <p>1.2.4.</p> <p>Business model</p> <ul style="list-style-type: none"> Our core activities Adding value for stakeholders <p>KPIs</p> <ul style="list-style-type: none"> Total return Total property return Total shareholder return 	<ul style="list-style-type: none"> The Board and Executive Committee received regular updates on our principal developments. Quarterly cost reports provided an update on development progress from a cost, profitability and programme perspective. Our development teams have managed to substantially fix the costs for 80 Charlotte Street and the Brunel Building. 	<ul style="list-style-type: none"> We will aim to substantially fix the costs and programme for the Soho Place scheme through the appointment of a main contractor. Fix the costs for The Featherstone Building in Q2 2019. Seek to provide the tenants with early access to 80 Charlotte Street to avoid penalties if practical completion is delayed. Continue with our current controls and mitigating actions.
<h5>c. Contractor/subcontractor default</h5>				
<p>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.</p> <p>Movement during the year: Risk unchanged </p> <p>There have been well-publicised issues for a number of major contractors, including the insolvency of Carillion and the funding problems of other major contractors. Although the insolvency of Carillion did not significantly impact on our contractors (or subcontractors) it did highlight the ongoing issues within the construction industry and the level of risk (and thin profit margins) being accepted by contractors. We regularly monitor our contractors who are currently not showing any trading concerns.</p> <p>Executive responsibility: Paul Williams</p>	<ul style="list-style-type: none"> The financial standing of our main contractors is reviewed prior to awarding the project contract. 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. Whenever possible the Group uses contractors/subcontractors that it has previously worked with successfully. Regular on-site supervision by a dedicated Project Manager. Monitor contractor performance and identify problems at an early stage, thereby enabling remedial action to be taken. Payments to contractors to incentivise them to achieve agreed project timescale and damages agreed in the event of delays/cost overruns. Performance bonds are sought if considered necessary. Our main contractors are responsible, and assume the immediate risk, for subcontractor default. We use known contractors with whom we have established long-term working relationships. Contractors are paid promptly and are encouraged to pay subcontractors promptly. 	<p>Strategic objectives</p> <p>1.2.4.</p> <p>Business model</p> <ul style="list-style-type: none"> Our core activities Adding value for stakeholders <p>KPIs</p> <ul style="list-style-type: none"> Total return Total property return Total shareholder return 	<ul style="list-style-type: none"> The Board and Executive Committee received regular updates on our principal developments. Quarterly cost reports provided an update on development progress from a cost, profitability and programme perspective. To mitigate risk at Soho Place, we conducted a two-stage procurement process which allowed us to assess and have input into the selection of subcontractors. Maintained regular contact with our contractors and major subcontractors. Suppliers were paid on average within 28 days. 	<ul style="list-style-type: none"> Continue with our current controls and mitigating actions.

Key Strategic objectives	Movement during the year
1. To optimise returns and create value from a balanced portfolio	 Risk increased
2. To grow recurring earnings and cash flow	 Risk unchanged
3. To attract, retain and develop talented employees	 Risk decreased
4. To design, deliver and operate our buildings responsibly	
5. To maintain strong and flexible financing	

OUR PRINCIPAL RISKS CONTINUED

OPERATIONAL RISKS CONTINUED

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	Our key controls	Potential impact	What we did in 2018	Further mitigating actions for 2019
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6. RISK OF BUSINESS INTERRUPTION

a. Cyber attack

The Group is subject to a cyber attack that results in it being unable to use its IT systems and/or losing data. This could lead to an increase in costs while a significant diversion of management time would have a wider impact.

Movement during the year: Slight reduction



Considerable time has been spent assessing cyber risk and strengthening our controls and procedures.

Executive responsibility: Damian Wisniewski

- The Group's Business Continuity Plan is regularly reviewed and tested.
- Independent internal and external 'penetration' tests are regularly conducted to assess the effectiveness of the Group's security.
- Multifactor authentication exists for remote access to our systems.
- Incident response and remediation policies are in place.
- The Group's data is regularly backed up and replicated and our IT systems are protected by anti-virus software and firewalls that are frequently updated.
- Annual staff awareness and training programmes are implemented.
- Security measures are regularly reviewed by the IT Liaison Committee.

Key

Strategic objectives

1. To optimise returns and create value from a balanced portfolio
2. To grow recurring earnings and cash flow
3. To attract, retain and develop talented employees

Movement during the year

- Risk increased
- Risk unchanged
- Risk decreased

Strategic objectives

1. 2. 3. 4. 5.

Business model

Could potentially impact on all aspects of our business model

KPIs

- Total shareholder return

- A full business continuity test was conducted on 21 and 22 September (see page 115).
- Independent internal and external 'penetration' tests were conducted to assess the effectiveness of the Group's security.
- Independent benchmarking review of the Group's cyber security was carried out in November.
- Upgraded firewall protection to enhance cyber defences.
- Conducted 'social engineering' and simulated 'phishing' exercises as part of the ongoing security awareness programme.
- Reviewed whether the Group would benefit from cyber insurance.

- Perform an exercise to better understand the potential impact of a cyber attack on our Group.
- Further develop our IT governance framework and incident response plans.
- Enhance data breach notification mechanisms.

b. Terrorism or other business interruption

Considered a principal risk due to attacks in European cities.

Movement during the year: Slight reduction



The risk that an act of terrorism interrupts the Group's operations is considered a principal risk due to terrorist activity in European cities.

Executive responsibility: All Executive Directors

- 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.
- 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 is performed for each property in our managed portfolio.

Strategic objectives

1. 2. 3. 4. 5.

Business model

Could potentially impact on all aspects of our business model

KPIs

Could impact on any Group KPIs

- Updated our incident management procedures for each of the buildings in the managed portfolio.
- Provided training to our building managers on the management of major incidents.

- Continue with our current controls and mitigating actions.

7. REPUTATIONAL DAMAGE

The Group's reputation is damaged, for example through unauthorised and/or inaccurate media coverage or failure to comply with relevant legislation.

Movement during the year: Risk unchanged



The Board considers this risk to have remained broadly the same during the year. We have invested significantly in developing a well-regarded and respected brand. Our strong culture, low overall risk tolerance and established procedures and policies mitigate against the risk of internal wrongdoing.

Executive responsibility: All Executive Directors

- 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.

Strategic objectives

1. 2. 3. 4. 5.

Business model

Could potentially impact on all aspects of our business model

KPIs

- Total return
 - Total property return
 - Total shareholder return
- Could indirectly impact on a number of our other KPIs

- Monitored investor views and press comments while maintaining contact with other stakeholders (see page 18).
- Strengthened our whistleblowing procedures through the introduction of an independent helpline for employees to report their concerns anonymously.
- Implemented the social media strategy, including providing some staff with additional social media training.

- Continue with our current controls and mitigating actions.

OUR PRINCIPAL RISKS CONTINUED

OPERATIONAL RISKS CONTINUED

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	Our key controls	Potential impact	What we did in 2018	Further mitigating actions for 2019
8. NON-COMPLIANCE WITH REGULATION				
a. Non-compliance with health and safety legislation				
<p>The Group's cost base is increased and management time is diverted through an incident or breach of health and safety legislation leading to reputational damage and/or loss of our licence to operate.</p> <p>Movement during the year: Risk unchanged →</p> <p>Following independent review of our health and safety procedures, the Group has gained a better understanding of health and safety risks. There is no evidence that this risk has increased for the Group.</p> <p>Executive responsibility: Paul Williams</p>	<ul style="list-style-type: none"> The Group has a qualified health and safety team whose performance is monitored and managed by the Health and Safety Committee. External advisers (ORSA) appointed to advise on construction health and safety. The Board and Executive Committee receive regular updates and presentations on key health and safety matters. All our properties have health, safety and fire management procedures in place which are reviewed annually. External project managers review health and safety on each construction site on a monthly basis. 	<p>Strategic objectives</p> <p>1. 2. 3. 4. 5.</p> <p>Business model</p> <p>Could potentially impact on all aspects of our business model</p> <p>KPIs</p> <ul style="list-style-type: none"> Total shareholder return <p>A significant diversion of time could affect a wider range of KPIs</p>	<ul style="list-style-type: none"> Recruited a new Head of Health and Safety. The Executive Committee approved the composition and revised terms of reference of the Health and Safety Committee. ORSA reported to the Risk Committee and the Health and Safety Committee on construction health and safety matters. Deloitte performed an independent review of construction health and safety and our health and safety indicators during the year. Performed a detailed health and safety audit of all residential properties. The Risk Committee received regular updates on the Group's review of insulation cladding and fire protection procedures. The Health and Safety Committee received regular reports from each external Project Manager on health and safety at each of our construction sites during the year. 	<ul style="list-style-type: none"> Continue with our current controls and mitigating actions.
b. Climate change and non-compliance with environmental and sustainability legislation				
<p>The Group's cost base is increased and management time is diverted due to the impacts of climate change on our portfolio and/or a breach of any legislation. This could lead to damage to our reputation, loss of income and/or property value, and loss of our licence to operate.</p> <p>Movement during the year: Risk unchanged →</p> <p>Executive responsibility: Paul Williams</p>	<ul style="list-style-type: none"> The Board and Executive Committee receive regular updates and presentations on environmental and sustainability performance and management matters. The Sustainability Committee monitors our performance and management controls. Employment of a qualified team led by an experienced Head of Sustainability. The Group benchmarks its ESG (environmental, social and governance) reporting against various industry benchmarks. The Group has set long-term, science-based carbon targets and actively monitors portfolio performance against these. Production of an Annual Sustainability Report, the key data points and performance of which are externally assured. 	<p>Strategic objectives</p> <p>1. 3. 4.</p> <p>Business model</p> <p>Could potentially impact on all aspects of our business model</p> <p>KPIs</p> <ul style="list-style-type: none"> Total return BREEAM rating Science based target performance <p>A significant diversion of time could affect a wider range of KPIs</p>	<ul style="list-style-type: none"> The Group continues to set sustainability targets which are monitored during the year. Reviewed and updated our sustainability policy and strategy. Implementation of a new carbon measurement tool to help the Group track its performance against the new science-based targets. 	<ul style="list-style-type: none"> Project approval forms to be updated to ensure any capital expenditure will not adversely affect our carbon target performance or the EPC rating of the property. Continue with our current controls and mitigating actions.
c. Other regulatory non-compliance				
<p>The Group's cost base is increased and management time is diverted through a breach of any of the legislation that forms the regulatory framework within which the Group operates. This could lead to damage to our reputation and/or loss of our licence to operate.</p> <p>Movement during the year: Risk unchanged →</p> <p>Considerable time has been spent during the year on areas such as GDPR and the project to prevent and detect any facilitation of tax evasion (see page 114).</p> <p>Executive responsibility: Damian Wisniewski</p>	<ul style="list-style-type: none"> 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. 	<p>Strategic objectives</p> <p>3. 4. 5.</p> <p>Business model</p> <p>Could potentially impact on all aspects of our business model</p> <p>KPIs</p> <ul style="list-style-type: none"> Total shareholder return <p>A significant diversion of time could affect a wider range of KPIs</p>	<ul style="list-style-type: none"> Quarterly review of our anti-bribery and corruption procedures by the Risk Committee. Board and Risk Committee received updates on General Data Protection Regulations (GDPR) and preventing the facilitation of tax evasion. Governance procedures were reviewed to determine our compliance with the 2018 UK Corporate Governance Code from 1 January 2019. As part of our 2018 staff performance appraisals, all employees confirmed they have reviewed and understood Group policies. 	<ul style="list-style-type: none"> Continue with our current controls and mitigating actions.

Key Strategic objectives	Movement during the year
1. To optimise returns and create value from a balanced portfolio	↗ Risk increased
2. To grow recurring earnings and cash flow	→ Risk unchanged
3. To attract, retain and develop talented employees	↘ Risk decreased
4. To design, deliver and operate our buildings responsibly	
5. To maintain strong and flexible financing	

PROPERTY REVIEW

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 Development & refurbishment.....65



VALUATION

The Group's investment portfolio was valued at £5.2bn at 31 December 2018. The valuation surplus was £100.2m, which after accounting adjustments of £16.3m (see note 16) is a reported surplus of £83.9m.



Nigel George
Executive Director

This reflects an underlying valuation increase of 2.2% (3.9% in 2017) and an outperformance against our benchmarks: the MSCI IPD Index for Central London Offices of 1.8% and 1.4% for the wider MSCI IPD UK All Property Index. By location, our central London properties, 98% of the portfolio, were up 2.4%, with the West End at 2.3% and the City borders, principally the Tech Belt, at 2.6%. The balancing 2% of the portfolio is our non-core Scottish holdings, and these declined 8.0%, due to the weak retail market.

The principal contribution to the valuation uplift came from our two on-site developments, with the underlying portfolio producing a more modest 0.4%. Brunel Building W2 and 80 Charlotte Street W1 saw excellent progress both on delivery and pre-lettings. Valued at £618.8m, these were up 18.0% after allowing for capital expenditure. At Brunel Building the structure and cladding are complete, with building delivery scheduled for H1 2019. We commenced marketing in February and by the end of the year 64% of the space had been pre-let (now 77%). At 80 Charlotte Street, which had been predominantly pre-let in 2017, there was also good construction progress and delivery is scheduled for 2020.

On an EPRA basis the portfolio's initial yield was 3.4% and unchanged over the year. The 'topped-up' yield, after the expiry of rent free periods and contractual rental uplifts, increased from 4.4% to 4.6%, following our asset management actions increasing net rents. The true equivalent yield remained at 4.73%, however this represented a 3 basis point rise in the second half, a reversal of the tightening in the first half.

As evidenced by our strong lettings, London remains active, however rental growth has generally levelled off, a market trend since 2016. Our EPRA ERV was up 1.1% compared to 1.7% in 2017.

While the development team had one of its busiest years, our asset managers were also very active, focusing on maintaining our low vacancy rate, locking in reversion, building out income and managing lease dates for our future developments. There is more detail in the Asset Management section. Several properties added long-term value through significantly extended lease lengths, thereby building in longer sustainable cashflows. These helped to take our portfolio's average weighted lease length, including rent-free periods and pre-lets, over the year from 7.8 to 8.2 years. However, as part of these initiatives, rent-free incentives were granted, which initially impact value. Overall, our portfolio activities translated to a 6.0% total property return in 2018 (8.0% in 2017). This was above the 5.3% MSCI IPD Total Return Index for Central London Offices and in line with the 6.0% for UK All Property.

Total property return



¹ Quarterly Index

Left: Johnson Building EC1

VALUATION CONTINUED

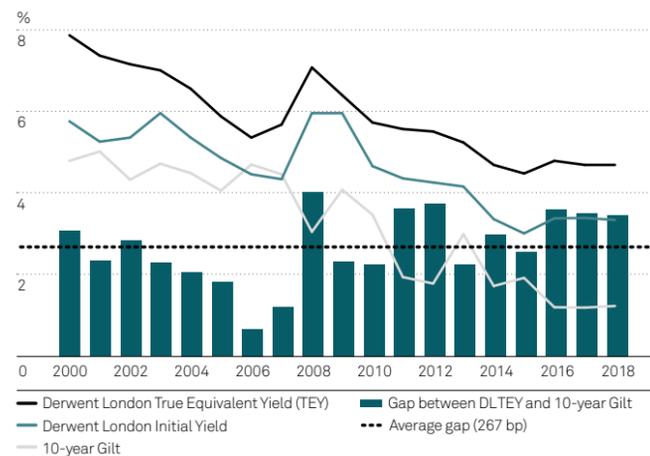
Our year end annualised contracted rent stood at £159.5m with the portfolio's ERV of £274.4m, representing £114.9m of reversionary potential. Within this, £55.3m is contracted under existing leases from the expiry of rent-free periods and fixed uplifts. This is already accounted for in our income statement under the IFRS accounting treatment. Future growth is expected to come from our development pre-lets of £31.9m, and there is a further £16.6m from letting space, either available to occupy or under construction. Of this, 65% is the balance of the on-site developments, and we have already let some of this space since the year end. The £11.1m final component of the reversion comes from achieving market rents at future lease events on the existing portfolio.

Looking forward, our reversion has been further enhanced with the commencement this year of the next two major developments: Soho Place W1 and The Featherstone Building EC1. These vacant sites, which were valued at £85.2m, could add £30.0m of rental income to the portfolio post development. Further details, including the associated costs to complete, are provided in the Development section.

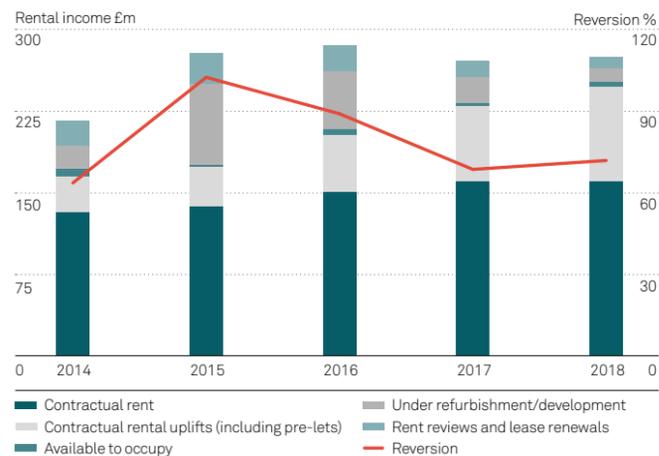


Above: Members of the Valuation team

Valuation yields



Portfolio income potential



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	2,713.0	52	2.6	2,316	16	19	200	2,551	
Borders	462.5	9	0.5	494	0	0	0	494	
	3,175.5	61	2.3	2,810	16	19	200	3,045	
City									
Borders	1,948.3	37	2.6	1,924	82	12	0	2,018	
Central London	5,123.8	98	2.4	4,734	98	31	200	5,063	
Provincial	93.8	2	(8.0)	338	9	0	0	347	
Total portfolio									
	2018	5,217.6	100	2.2	5,072	107	31	200	5,410
	2017	4,897.6	100	3.9	5,000	67	97	348	5,512

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		159.5
Contractual rental increases across the portfolio	55.3	
Contractual rental from 423,000 sq ft pre-lets on developments	31.9	
Letting 107,000 sq ft available floor area	4.1	
Completion and letting 31,000 sq ft of refurbishments	1.7	
Completion and letting 200,000 sq ft of developments	10.8	
Anticipated rent review and lease renewal reversions	11.1	
Portfolio reversion		114.9
Potential portfolio rental value		274.4

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 reversions ¹ per annum £m	Portfolio estimated rental value per annum £m	Average unexpired lease length ² Years	
West End							
Central	72.0	31.41	12.9	59.3	144.2	6.5	
Borders	15.9	32.09	0.0	9.7	25.6	7.9	
	87.9	31.53	12.9	69.0	169.8	6.8	
City							
Borders	66.4	35.33	3.7	29.1	99.2	5.5	
Central London	154.3	33.07	16.6	98.1	269.0	6.2	
Provincial	5.2	15.46	0.0	0.2	5.4	3.5	
Total portfolio							
	2018	159.5	31.90	16.6	98.3	274.4	6.1 ³
	2017	160.1	32.42	27.3	82.7	270.1	6.0

¹ Contractual uplifts, rent review/lease renewal reversion and pre-lets

² Lease length weighted by rental income at year end and assuming tenants break at first opportunity

³ 8.2 years after adjusting for 'topped-up' rents and pre-lets

ASSET MANAGEMENT & INVESTMENT ACTIVITY

In 2018, we achieved £26.8m of new lettings across 427,100 sq ft, on average 4.1% above December 2017 ERV.



David Silverman
Executive Director

Asset management

By value, open market lettings represented 90% of the total and these achieved 9.0% above ERV, with the overall average brought down by a number of short-term lettings principally to preserve income on 19-35 Baker Street W1, which we intend to redevelop. Second half activity proved busier than the first, with 47% of our lettings by value achieved in the final quarter.

Letting activity 2018

	Let		Performance against Dec 17 ERV (%)	
	Area sq ft	Income £m pa	Open market	Overall ¹
H1	130,300	7.8	8.1	8.2
H2	296,800	19.0	9.4	2.5
2018	427,100	26.8	9.0	4.1

¹ Includes short-term lettings at properties earmarked for redevelopment

New lettings (see table on page 63) included the five pre-lets at Brunel Building W2, which totalled £11.3m and were on average 15% above December 2017 ERV. We also achieved this level of growth on the pre-let of the office space at Asta House, part of our 80 Charlotte Street W1 project. Other major transactions include two floors at 1-2 Stephen Street W1, all the available space at 25 Savile Row W1 and one floor at Johnson Building EC1.

Most of the short-term lettings related to the part of 19-35 Baker Street W1 occupied by House of Fraser. Following going into administration in 2018, House of Fraser vacated some of their space, relinquishing the remainder in Q1 2019. All of this space has been let at a low rent, reflecting a landlord's rolling option to break from 2021, as we plan to redevelop the building. The Group has a 55% interest in this property held in a joint venture with The Portman Estate.

We show our 2018 asset management activity in the table below. In total it covered 833,000 sq ft (17% of our portfolio by area), and we increased rents from £31.8m to £38.3m, which represented an uplift of 20.4% but was marginally below December 2017 ERV. As well as agreeing new rents, we lengthened a number of tenures, notably at Horseferry House SW1 where we extended the term certain of the lease with Burberry from five to 20 years. We also introduced fixed uplifts in years five and 10. We extended VCCP's leases in Greencoat and Gordon House SW1 by five years to 2025, The Doctors Laboratory lease at 60 Whitfield Street W1 by 13 years to 2042 and FremantleMedia's leases in 1-2 Stephen Street W1 by three years to 2024 term certain. These regears have the benefit of increasing and extending core income but required additional incentives.

Asset management 2018

	Area '000 sq ft	Previous rent £m pa	New rent £m pa	Uplift %	Income vs Dec17 ERV %
Rent reviews	188	6.5	8.0	24.0	2.6
Lease renewals	265	12.7	15.3	20.3	(3.6)
Lease regears	380	12.6	15.0	18.8	(1.2)
Total	833	31.8	38.3	20.4	(1.4)

Included in the table above is £14.9m of income that was subject to breaks or expiries in 2018. Of this, 90% was retained or re-let with 10% remaining vacant at the year end. Our year end vacancy rate remains low at 1.8%, up from 1.3% a year earlier but down from 4.2% in June 2018.

Principal lettings 2018

Property	Tenant	Area sq ft	Office rent £ psf	Total annual rent £m	Lease term Years	Lease break Year	Rent free equivalent Months
Brunel Building W2	Various (5)	155,100	72.90	11.3	10-15	10-12	20-32
Johnson Building EC1	Metropolitan Housing Trust	22,200	62.50	1.4	10	-	21
Angel Building EC1	Expedia	17,100	62.50	1.1	11.5	-	0
1 Stephen Street W1	Odeon	11,100	75.00	0.8	10	-	18
Holden House W1 retail	Clarks	2,900	-	0.8	10	2	8
Tea Building E1	Newell Rubbermaid	13,200	57.20	0.8	5	-	9
25 Savile Row W1	Alken Asset Management	6,900	102.50	0.7	10	5	12, plus 10 if no break
80 Charlotte St (Asta) W1	Elliott Wood	11,000	56.10	0.6	10	5	12, plus 6 if no break
19-35 Baker Street W1	Knotel	14,600	41.00	0.6	5	3	9
25 Savile Row W1	Hanover Investors	5,600	108.00	0.6	10	0	21
45-51 Whitfield Street W1	Knotel	12,800	48.00	0.6	5.5	3.5	6
25 Savile Row W1	Harris Williams	6,200	102.50	0.6	10	5	12, plus 7 if no break
Charlotte Building W1	First Quantum Minerals	6,800	73.20	0.5	10	5	11, plus 9 if no break
19-35 Baker Street W1	Howard de Walden Estate	18,300	26.30	0.5	2	-	4
		303,800	68.80	20.9			

Like our development schemes, our managed properties are subject to some of the highest sustainability standards – a key feature of our management approach. One of the targets we have set ourselves is to reduce landlord carbon intensity by 55% by 2027 compared to our 2013 emissions level. So far, we have made good progress towards this with a 43% reduction since 2013. We will be using our COP21 scenario analysis tool to map a five-year programme to ensure the target is met.

Investment activity

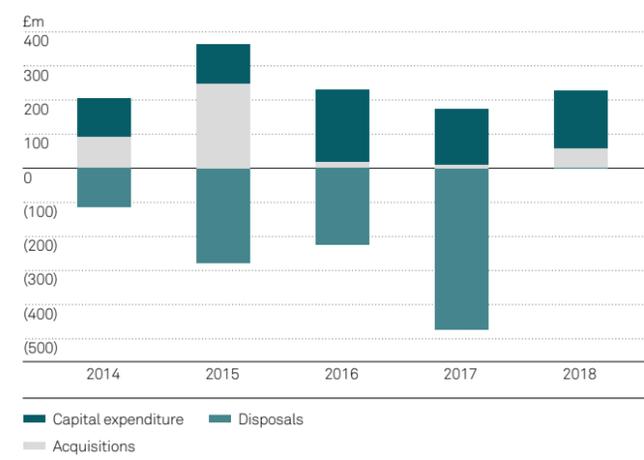
During 2018, we acquired £57.2m of property with the larger transactions previously announced. The main acquisition was a 36-year leasehold interest in 88-94 Tottenham Court Road W1 for £44.3m after costs, which comprises 37,400 sq ft of offices and 8,500 sq ft of retail. We already owned the freehold, which adjoins a number of existing ownerships and is located in our Fitzrovia village. Longer term, these could form the basis of a significant development. The main disposal was Porters North N1, which was sold at a 5% premium to book value early in 2018 following a lease extension and refurbishment programme. The building was held in a joint venture and our share of the net proceeds was £22.3m.

Since the year end the Group has exchanged contracts on the sale of 9 Prescott Street E1 for £53.85m before costs, which represents a small premium to December 2018 book value. The property produced a net rental income of £2.3m per annum, and was held in 50:50 joint venture with LaSalle Investment Management. The joint venture retains 16 Prescott Street.

Below: Members of the Asset Management team



Net investment

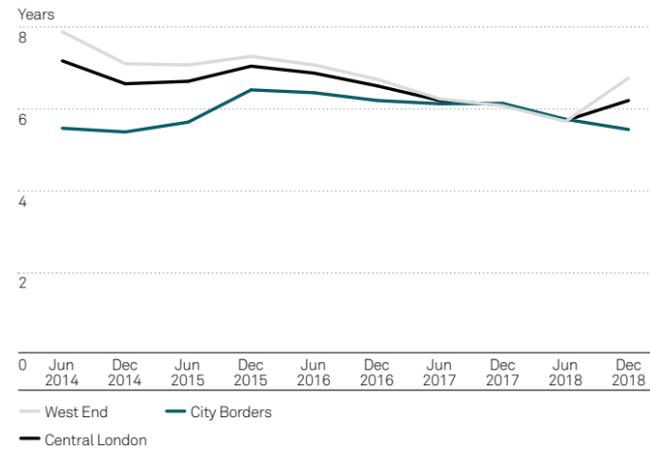


ASSET MANAGEMENT & INVESTMENT ACTIVITY CONTINUED

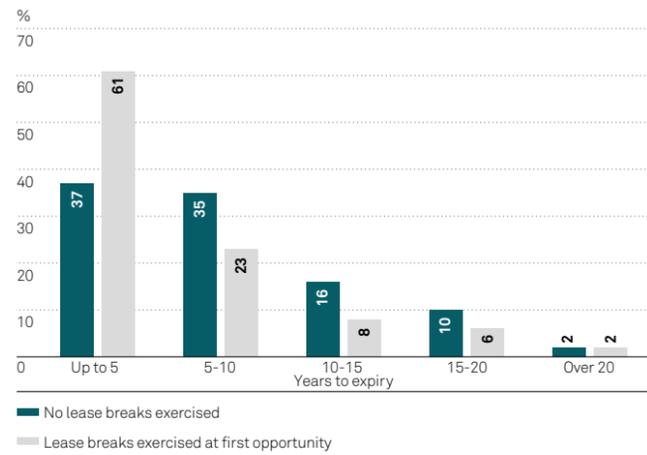
Rental value growth



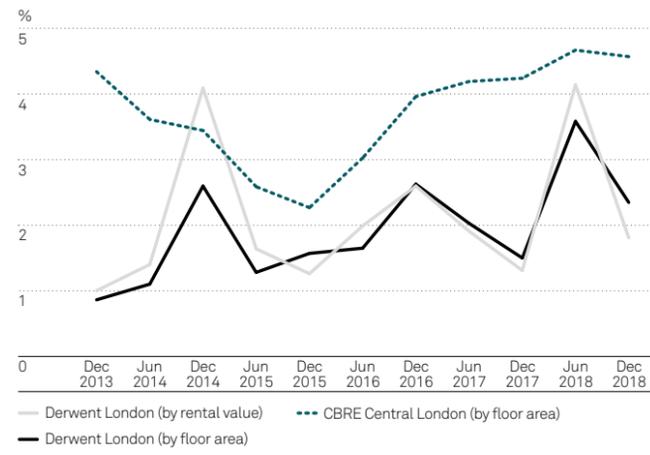
Average unexpired lease length



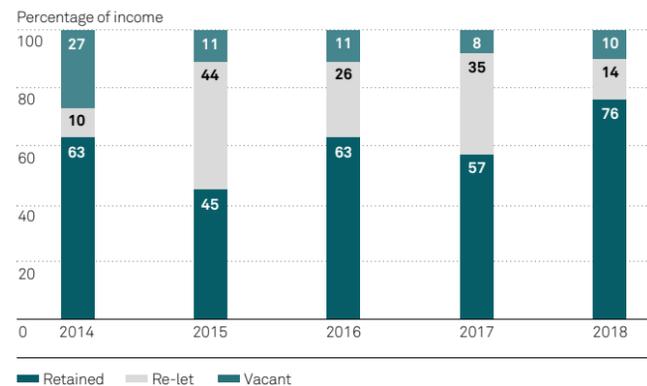
Profile of rental income expiry



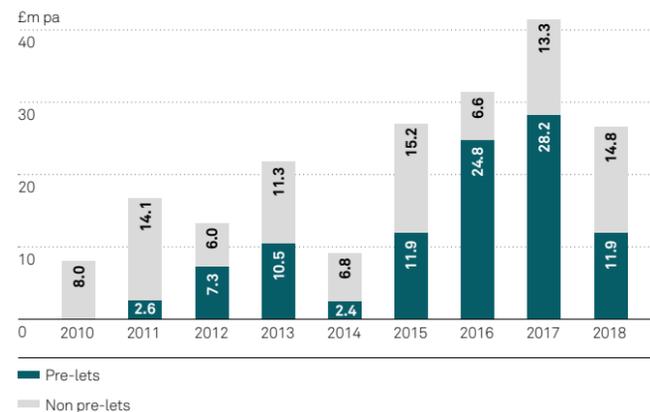
Five-year vacancy trend



Retaining occupiers – Lease expiry and break analysis



Letting activity by rental income



DEVELOPMENT & REFURBISHMENT

We have made good progress on our two major schemes. At the year end, we had 623,000 sq ft under construction which is now 75% pre-let, up from 45% a year earlier.



Simon Silver
Executive Director

Brunel Building W2 is now 77% pre-let with the remaining three office floors under offer. This project is due for completion in the first half of 2019, while 80 Charlotte Street W1 is on course for completion one year later. The commercial element is 80% pre-let, principally to Arup and The Boston Consulting Group, which was announced in 2017. During 2018, we pre-let the 11,000 sq ft office space in the adjoining Asta House to Elliott Wood. Together, our two on-site projects have an ERV of £42.7m, and require £133m of capex to complete. 80 Charlotte Street also has 55 residential units of which we expect to let 19 and sell 36. The latter includes 14 affordable units, which we have agreed to sell.

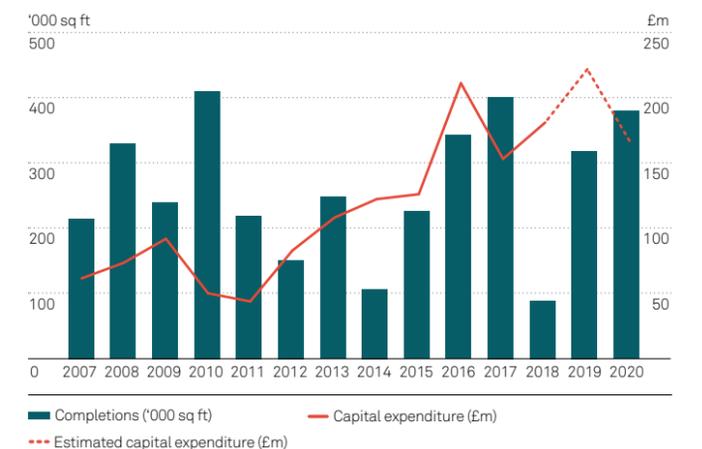
We have also made further progress on our next two major schemes. The preliminary site works at Soho Place W1 are ongoing and we signed the main construction contract with Laing O'Rourke last week. Demolition work has recently started at The Featherstone Building EC1. The first project is one of the most strategic positions in London's West End over the Tottenham Court Road Elizabeth line station and at the eastern end of Oxford Street. The latter is beside our highly successful White Collar Factory. Together, the ERV is £30m and the estimated additional capital expenditure and site costs total £359m. We expect the projects to complete in the first half of 2022.

Our developments are designed to some of the highest sustainability standards. Both Brunel Building and 80 Charlotte Street are on track for BREEAM Excellent and LEED Gold. Our new projects, Soho Place and The Featherstone Building, are set to meet their minimum BREEAM and LEED ratings of Excellent and Gold respectively and, if possible, we are looking to exceed them. Moreover, we require our main contractors to work proactively with local communities to ensure disruption is minimised and to foster positive relationships.

Looking further out, we have two significant potential West End projects that have a 'resolution to grant' planning. These buildings are currently let at least until 2021, which means that we are unlikely to start redevelopment until 2022. Beyond these, we have a further 25% of the portfolio, or 1.4m sq ft of existing space, identified for future development. These include properties such as Network Building W1, Francis House SW1 and Bush House (South West Wing) WC2.

At the beginning of 2018, we had three refurbishment projects: The White Chapel Building E1 Phase 2, the upper floors at 25 Savile Row W1 and parts of the lower floors at Johnson Building EC1. Together, these projects totalled 166,000 sq ft with an ERV of £7.5m. They were completed in 2018 and 78% let by the year end (by ERV), up from 32% in August 2018. The remaining 36,300 sq ft of space, with an ERV of £1.8m is at Johnson Building and forms part of our year end vacancy reported above. We had no significant refurbishment schemes under way at the year end.

Completions and capital expenditure



DEVELOPMENT & REFURBISHMENT CONTINUED

Major developments pipeline

Property	Area sq ft	Delivery	Capex to complete £m ¹	Comment
On-site projects				
Brunel Building, 2 Canalside Walk W2	243,000	H1 2019	16	Offices – 77% pre-let
80 Charlotte Street W1	380,000	H2 2020	117	321,000 sq ft offices, 45,000 sq ft residential and 14,000 sq ft retail – 74% pre-let overall
	623,000		133	
2019 starts				
Soho Place W1	285,000		283 ⁴	209,000 sq ft offices, 36,000 sq ft retail and 40,000 sq ft theatre
The Featherstone Building EC1	125,000		76	110,000 sq ft offices, 13,000 sq ft workspaces and 2,000 sq ft retail
	410,000		359	
Other major planning consents				
19-35 Baker Street W1 ²	293,000 ³			206,000 sq ft offices, 52,000 sq ft residential and 35,000 sq ft retail
Holden House W1 ²	150,000			Retail flagship or retail and office scheme
	443,000			
Grand total	1,476,000			

¹ As at 31 December 2018

² Resolution to grant planning permission

³ Total area – Derwent London has a 55% share of the joint venture

⁴ Includes remaining site acquisition cost and profit share to Crossrail



Left: 80 Charlotte Street W1

Project summary – current

Property	Current net income £m pa	Pre-scheme area '000 sq ft	Proposed area '000 sq ft	2019 capex £m	2020 capex £m	2021+ capex £m	Total capex to complete £m	Delivery date	Current office c.ERV psf
On site									
Brunel Building W2	(0.1)	78	243	16	–	–	16	H1 2019	£75.00
80 Charlotte Street W1	–	234	380	92	25	–	117	H1 2020	£80.00
	(0.1)	312	623	108	25	–	133		
2019 starts									
Soho Place W1	–	–	285	53	94	136	283 ¹	H1 2022	
The Featherstone Building EC1	–	–	125	17	32	27	76	H1 2022	
	–	–	410	70	126	163	359		
Other	–	–	–	29	6	8	43		
Total	(0.1)	312	1,033	207	157	171	535		
Capitalised interest	–	–	–	15	10	12	37		
Total including interest	(0.1)	312	1,033	222	167	183	572		

¹ Includes remaining site acquisition cost and profit share to Crossrail

Project summary – future

Property	Current net income £m pa	Pre-scheme area '000 sq ft	Proposed area '000 sq ft	Earliest possession year	Comment
Consented					
19-35 Baker Street W1 ¹	3.2	143	293	2021	Joint venture – The Portman Estate
Holden House W1	5.8	90	150	2021	Eastern end of Oxford Street
	9.0	233	443		
Adjustment for JV	(1.4)	(64)	(132)		19-35 Baker Street W1 – Derwent 55% interest
	7.6	169	311		
Under appraisal²					
Premier House SW1	2.1	62	80	2018	Potential disposal
Network Building W1	3.6	64	100	2021	
Francis House SW1 ³	2.1	86	130	TBC	
Angel Square EC1	4.8	126	126	TBC	Rolling refurbishment
	12.6	338	436		
Consented and under appraisal	20.2	507	747		
On-site and 2019 starts	(0.1)	312	1,033		Previous table
Pipeline	20.1	819	1,780		

¹ Includes 88-100 George Street, 30 Gloucester Place and 69-85 Blandford Street W1

² Areas proposed are estimated from initial studies

³ Includes 6-8 Greencoat Place SW1



Left: Members of the Development team

FINANCE REVIEW

Against a background of significant asset management and letting activity, it was development uplifts that drove our valuation and net asset performance again in 2018.



Damian Wisniewski
Finance Director

PRESENTATION OF FINANCIAL RESULTS

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). In common with usual and best practice in our sector, alternative performance measures have also been provided to supplement IFRS based on the recommendations of the European Public Real Estate Association (EPRA). EPRA Best Practice and Policy Recommendations (BPR) have been adopted widely throughout this report and are used within the business when considering our operational performance as well as matters such as dividend policy and elements of our Directors' remuneration. Full reconciliations between IFRS and EPRA figures are provided in note 38 and all the EPRA definitions are included in the list of definitions.

Financial overview

While the underlying central London office rental market was relatively flat, high-quality space in newly constructed buildings was in short supply in our villages; as a result, the Brunel Building at Paddington attracted rents well above our estimates and helped the total return for the year to 5.3%.

EPRA earnings have grown strongly again, enhanced by non-recurring premiums received during the year, and we have been able to propose an increase in the final dividend of just over 10%.

Project expenditure has raised our debt level from its low point in December 2017 but leverage remains modest and, with uncertainty persisting both in the UK and internationally, we remain alive to the risks to the economic outlook; our operational priorities have therefore been to pre-let space and capture early rental uplifts where we can rather than to wait.

Financial highlights

	2018	2017
IFRS NAV	£4,263.4m	£4,193.2m
EPRA NAV per share	3,776p	3,716p
Property portfolio at fair value	£5,190.7m	£4,850.3m
Net rental income	£161.1m	£161.1m
Profit before tax	£221.6m	£314.8m
EPRA earnings per share (EPS)	113.07p	94.23p
Underlying earnings per share (EPS)	99.08p	94.23p
Interim and final dividend per share	65.85p	59.73p
LTV ratio	17.2%	13.2%
NAV gearing	22.4%	15.7%
Net interest cover ratio	491%	454%

Delivering above average long-term returns

Our well-established business model aims to balance risk through the economic cycle, growing returns from our regeneration projects while also focusing on long-term sustainable earnings growth. While our total return (i.e. dividends plus EPRA net asset value growth per share) is the best single measure of our performance, we also focus on EPRA earnings growth as this provides resilience to the business and enhances the distributions we can pay our shareholders.

The total return in 2018 slowed a little to 5.3% from 7.7% in 2017 but represented 196.5p per share with the EPRA net asset value per share up 60p to 3,776p after 61.5p of ordinary dividends and 75p of special dividends paid in the year. Revaluation gains provided 75p per share with Brunel Building contributing 64p alone following earlier than expected pre-lets at strong rents. EPRA earnings are dealt with in more detail below.

Looking at the longer term performance too, the table below shows how growth in the annual dividend/PID (excluding specials) and total return have performed over one, two, five and ten years:

	Ordinary dividend growth % pa	Total return %	Total return % pa
Year to 31 December 2018	10.2	5.3	5.3
2 years to 31 December 2018	12.1	13.2	6.4
5 years to 31 December 2018	12.5	83	12.8
10 years to 31 December 2018	10.4	251	13.4

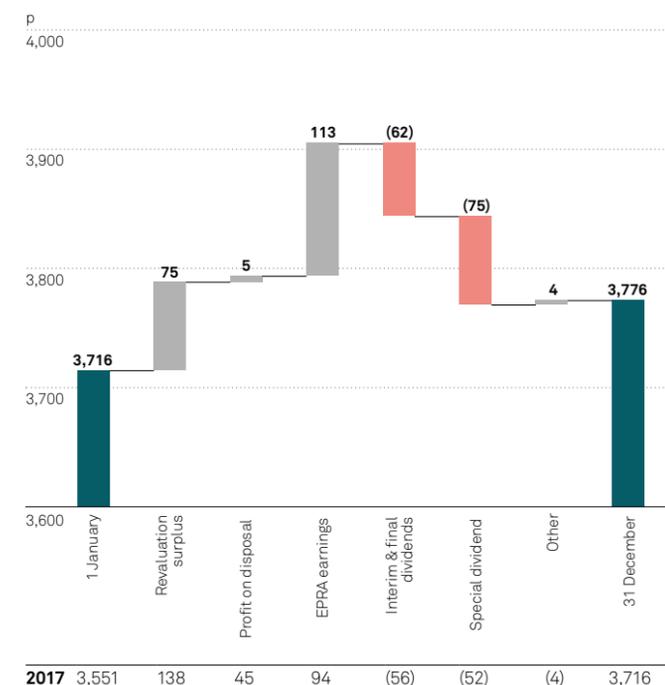
Property portfolio

The value of our property portfolio increased to £5.2bn as at 31 December 2018 from £4.9bn a year earlier, allocated across the balance sheet as follows:

	Dec 2018 £m	Dec 2017 £m
Investment property	5,028.2	4,670.7
Owner occupied property	47.0	46.5
Trading property	36.3	25.3
Property carrying value	5,111.5	4,742.5
Accrued income (non-current)	123.1	105.2
Accrued income (current)	15.8	15.4
Grossing up of headlease liabilities	(60.7)	(14.1)
Revaluation of trading property	1.0	1.3
Fair value of property portfolio	5,190.7	4,850.3

Capital expenditure added £181.5m and, out of the total revaluation gain for the year of £84.1m, £83.4m related to the investment property portfolio. An additional £0.7m came from our own offices at 25 Savile Row W1, the latter figure appearing in the Group Statement of Comprehensive Income. Property acquisitions during the year totalled £57.2m, mainly at 88-94 Tottenham Court Road W1, and we recognised a further £46.6m of discounted headlease liabilities in the balance sheet of which £45.9m relates to Soho Place W1. This takes total headlease liabilities to £60.7m at the year end (2017: £14.1m) with an equal and opposite amount included in net debt.

EPRA net asset value per share



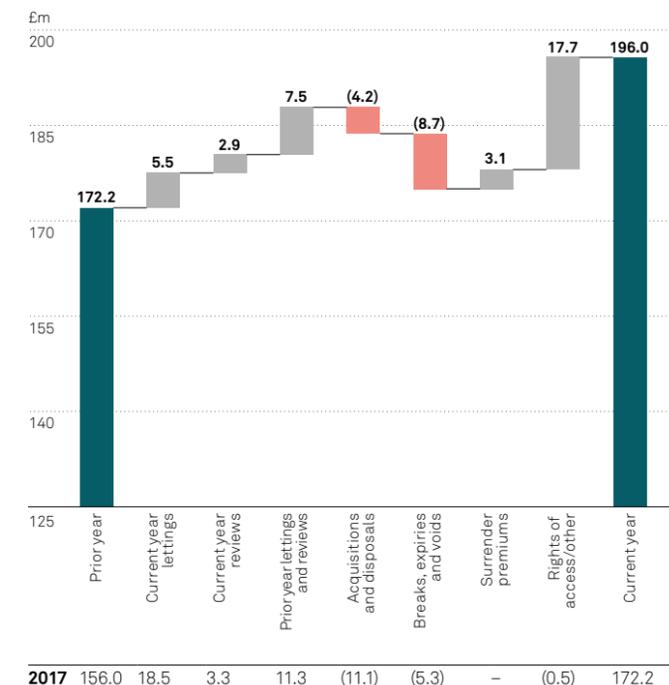
Accrued income from the 'straight-lining' of rental income under IAS17 and SIC15 has increased to £138.9m (2017: £120.6m) due partly to rent incentives at recently completed developments (e.g. White Collar Factory EC1) or where leases have been regeared (e.g. Angel Building EC1). In addition, the lease extension and rent review at Horseferry House SW1 agreed in 2018 was accompanied by incentives which added £6.4m to the balance, including an additional rent-free period, to extend the lease by 15 years.

The net carrying value of joint venture investments at 31 December 2018 fell to £29.1m (2017: £39.7m) following the sale of Porters North N1 in March. After repaying the related bank loan within the joint venture company, we received a dividend of £13.5m in H2 2018. 9 and 16 Prescott Street E1 are now our only joint venture property holdings but contracts have now been exchanged to sell 9 Prescott Street later in 2019.

Property income and earnings

Gross property and other income increased to £228.0m from £202.6m in 2017 due mainly to a number of non-recurring property items; these included net surrender premiums of £3.2m (2017: £0.1m) and rights of light/access receipts totalling £17.7m. After the record net property disposals in 2017 which reduced rental income in 2018 by £4.2m, gross rental income was up by 2% over the year to £175.1m. Lettings in 2017 and 2018 added £12.4m of rent while reviews provided a further £3.5m but breaks and lease expiries reduced income by £8.7m. With ground rents and other property costs increasing to £14.0m, net rental income was unchanged at £161.1m. However, net property and other income, which includes dilapidations receipts and the one-off premiums referred to above, rose by 13% to £185.9m from £164.8m in 2017.

Gross property income



FINANCE REVIEW CONTINUED

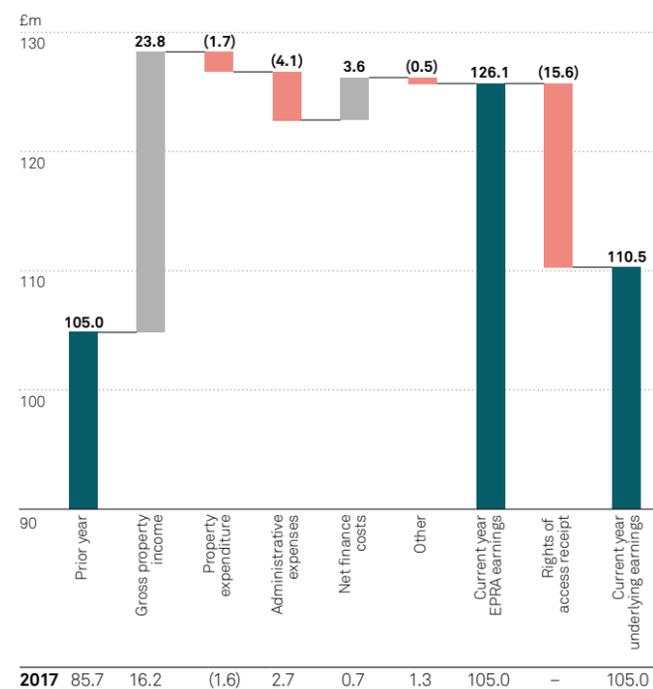
Administrative expenses increased to £32.3m from £28.2m in 2017, the prior year figure having been reduced by the reversal of an overprovision in variable rate pay and the current year figure taking account of an underprovision in 2017. Adjusting for these, administration costs increased year-on-year by £2.2m or 7%, the increase being mainly attributable to higher staff costs and variable pay. We have also seen costs rise in areas such as staff training, GDPR compliance, pensions legislation and recruitment, altogether adding over £0.6m compared with 2017. Our development team of 14 people works entirely on regeneration projects; direct employment costs of this team totalled £3.0m but, as in previous years, we have not capitalised any of these costs or other overheads.

In line with these cost increases and our policy of not capitalising overheads, our EPRA cost ratio (see note 38 for calculation) has increased to 23.3% in 2018 (2017: 20.8%) or 20.8% excluding direct vacancy costs (2017: 19.3%).

Cost ratios

	2018 %	2017 %
EPRA cost ratio, incl. direct vacancy costs	23.3	20.8
EPRA cost ratio, excl. direct vacancy costs	20.8	19.3
Portfolio cost ratio, incl. direct vacancy costs	0.8	0.7

EPRA and underlying earnings



There were no significant disposals of investment properties in 2018 but we have booked a further £3.0m of overage in relation to the residential project at Riverwalk House SW1. This takes the total overage booked over the past two years to £8.0m in relation to the site that was sold in 2012. In addition, sales at the residential site at Balmoral Grove N7 sold in 2016 are now over 70% contracted so we have recognised £2.0m of overage with more to come if current pricing levels prevail on the remainder.

Although debt increased over the year, average borrowings were actually slightly lower in 2018 than in 2017 and total finance costs fell to £23.5m from £27.1m in 2017 after capitalised interest of £10.7m (2017: £9.4m). Derivative financial instruments also showed a small overall gain of £0.8m in 2018 (2017: £2.1m) as medium-term interest rates moved up slightly during the year.

Our share of the results at our unconsolidated joint ventures fell to £2.1m (2017: £5.0m), following the sale of Porters North in March 2018.

Due mainly to the lower uplifts on revaluation and disposals, IFRS profit before tax fell to £221.6m for the year ended 31 December 2018 against £314.8m in the prior year. However, on an EPRA basis, which excludes fair value movements and profits on disposals of investment properties, earnings increased by 20.1% to £126.1m from £105.0m in 2017. EPRA earnings per share (EPS) were up by a similar amount to 113.1p from 94.2p a year earlier. As EPRA earnings and EPS include the non-recurring £15.6m access rights receipt at Holden House net of fees, we have also provided 'underlying' figures, giving an adjusted EPS of 99.1p, a rise of 5.1% over 2017. Note that the underlying figures do include rights of light and dilapidations receipts of £3.6m as these items occur frequently within our ongoing property operations. A table providing a reconciliation of the IFRS results to EPRA earnings per share is included in note 38.

EPRA like-for-like rental income

The unusually high level of premiums received in 2018, with a corresponding sacrifice of short-term rental income while the buildings are re-let, has distorted EPRA like-for-like income in 2018. Adjusting the EPRA like-for-like net rental income by removing the £15.6m (net) access rights premium and treating as rent that part of the surrender premium which relates to 2018 gives an increase in gross rent of 3.6%, net rent of 2.8% and net property income of 5.1% when compared with 2017. Without adjustment, the EPRA like-for-like income figures range from 0.6% to 15.4%.

Taxation

The corporation tax charge for the year ended 31 December 2018 was £3.1m, broadly in line with the previous year's tax charge of £3.3m.

The movement in deferred tax liabilities for the year was a credit of £0.5m, of which £0.4m (2017: £1.5m credit) passed through the income statement due to the valuation impact for non-REIT Group properties and £0.1m through comprehensive income in relation to the owner-occupied property at Savile Row.

In addition to other taxation and levies paid during the year, in accordance with our status as a REIT, £6.3m of tax was withheld from shareholders on property income distributions and paid to HMRC during the year.

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.

EPRA like-for-like rental income

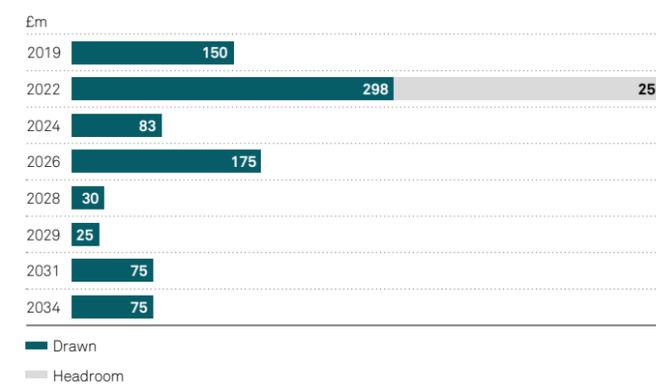
	Total £m	Development property £m	Acquisitions and disposals £m	Properties owned throughout the year		
				EPRA £m	Adjustments ¹ £m	Underlying £m
2018						
Gross rental income	175.1	(15.9)	(0.7)	158.5	2.6	161.1
Property expenditure	(14.0)	3.6	0.5	(9.9)	0.7	(9.2)
Net rental income	161.1	(12.3)	(0.2)	148.6	3.3	151.9
Other property income	17.7	-	-	17.7	(15.8)	1.9
Other ¹	7.1	-	0.2	7.3	(3.1)	4.2
Net property income	185.9	(12.3)	-	173.6	(15.6)	158.0
2017						
Gross rental income	172.1	(11.8)	(4.8)	155.5	-	155.5
Property expenditure	(11.0)	3.1	0.1	(7.8)	-	(7.8)
Net rental income	161.1	(8.7)	(4.7)	147.7	-	147.7
Other ¹	3.7	(1.0)	-	2.7	-	2.7
Net property income	164.8	(9.7)	(4.7)	150.4	-	150.4
Increase based on gross rental income				1.9%		3.6%
Increase based on net rental income				0.6%		2.8%
Increase based on net property income				15.4%		5.1%

¹ Includes surrender premiums paid or received, dilapidation receipts and other income

Net debt and cash flow

Group borrowings increased to £914.5m at 31 December 2018 from £730.8m a year earlier after capital expenditure invested in our projects, dividend payments totalling £152.0m and net property acquisitions of £57.3m. Grossing up for leasehold liabilities and netting off cash balances, net debt increased from £657.9m to £956.9m at December 2018. This has raised the Group loan-to-value ratio from its low point in December 2017 of 13.2% to 17.2% in December 2018, but it remains at the second lowest year-end level over the past decade. Interest cover rose again to 491% for the year compared with 454% in 2017. Note that interest cover is calculated on net rental income and does not include surrender premiums for rights of light/access premiums. Full details of the calculation are in note 40.

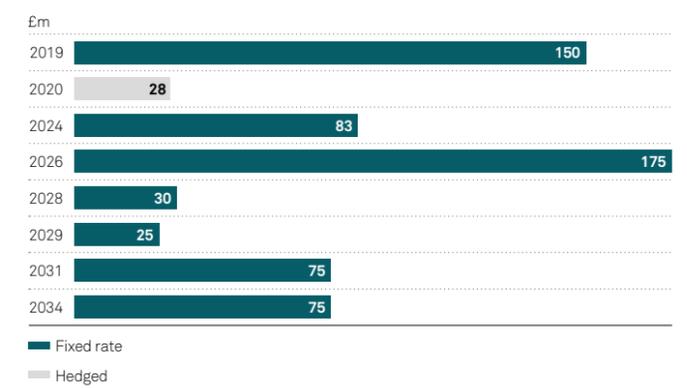
Maturity profile of debt facilities as at 31 December 2018



The cash received from the various premiums in 2018 has driven a significant rise in net cash from operating activities to £115.2m from £83.5m in 2017. However, even if these premiums are ignored, the underlying cash flow from operations increased by over 10% over the year.

Capital spend on projects increased to £187.5m in 2018 but was partially offset by £15.9m of reimbursed expenditure, £7.2m of which was in connection with the Soho Place project. In 2019, we expect to invest a further £207m in capital expenditure plus £15m of capitalised interest across the portfolio.

Maturity profile of fixed rates and swaps as at 31 December 2018



FINANCE REVIEW CONTINUED

Debt and financing arrangements

The only change to our debt facilities during the year was the repayment of a small bank facility within the Porters North joint venture.

In relation to interest rate hedging, we extended the swap on the £28m bank facility secured on the Baker Street properties out to March 2020 and paid £0.6m to reduce the fixed rate from 3.525% to 0.875%. We also paid £2.9m to defer £110m of 'forward start' swaps; the £70m 3.99% swap is now due to start in March 2019 and the £40m 2.45% swap in October 2019. In addition, a £75m swap at 1.36% is due to commence in April 2019.

These changes brought the proportion of fixed rate and swapped debt down to 70% at December 2018, helping reduce the average cost of our debt. At December 2018, the weighted average interest rate was 3.43% (2017: 3.80%) or 3.68% (2017: 4.11%) allowing for the IFRS charge on our convertible bonds. The bonds have a current conversion price of £31.78 and fall due in July 2019 so they are shown as a current liability as at the balance sheet date. As our share price was below this level at the year-end, the dilutive impact on conversion of the bonds has not been included in earnings per share or net asset per share measures. Were the bonds to convert, the impact on net asset value per share would be a reduction of about 25 pence per share and we continue to weigh up our options to redemption or conversion of the bonds; these considerations will partially be dependent on the share price movement over the next few months.

In August 2018, we received an upgrade to our corporate credit rating. Fitch assigned Derwent London a long-term issuer default rating of A- and a senior unsecured debt rating of A. The London Merchant Securities Ltd senior secured bonds 2026 were subsequently given a Fitch rating of A+. At our request, Standard & Poors withdrew their corporate and bond ratings on 3 October 2018.

Borrowings and net debt

	2018 £m	2017 £m
Bank facilities	297.5	117.0
3.99% secured loan 2024	83.0	83.0
6.5% secured bonds 2026	175.0	175.0
Acquired fair value of secured bonds less amortisation	11.8	12.9
3.46% unsecured private placement notes 2028	30.0	30.0
4.41% unsecured private placement notes 2029	25.0	25.0
3.57% unsecured private placement notes 2031	75.0	75.0
4.68% unsecured private placement notes 2034	75.0	75.0
1.125% unsecured convertible bonds 2019	150.0	150.0
Equity components and unwinding of discounts on convertible bonds	(1.3)	(3.5)
Unamortised issue and arrangement costs	(6.5)	(8.6)
Borrowings	914.5	730.8
Leasehold liabilities	60.7	14.1
Cash	(18.3)	(87.0)
Net debt	956.9	657.9

The higher year end level of debt has brought cash and undrawn facilities down to £274m at December 2018 from £523m in 2017. In anticipation of this and following the credit rating upgrade, we took action in the second half of 2018 to raise fresh debt.

An agreement was signed in November 2018 with eight institutional investors for a private placement of £250m new senior unsecured notes. The issue was made up of four tranches with maturities ranging between 7 and 15 years. The weighted average coupon of the fixed rate notes was 2.89% with a weighted average maturity of 10.8 years. In addition to our usual debt covenants, a test requiring unencumbered assets to be at least 1.6 times unsecured debt has been provided and this is gradually being extended to our other unsecured lenders. Funds were drawn on 31 January 2019 and used to repay existing Group revolving credit facilities.

The weighted average maturity of our debt was 5.9 years at 31 December 2018 (2017: 7.6 years) but increases on a proforma basis with the drawdown of the new senior £250m notes to around 8.0 years.

Dividend

Our dividend policy has been consistent for many years: to maintain a progressive dividend supported by rising recurring earnings. The earnings increase in 2018 means we have been able to propose another increase of just over 10% in our final dividend per share, taking it to 46.75p. This will be paid in June 2019 with 30.0p to be paid as a PID with the balance of 16.75p as a conventional dividend. The full year's dividend is 1.5 times covered by underlying earnings and 1.7 times by EPRA earnings. There will not be a scrip dividend alternative.

Gearing and interest cover ratio

	2018 %	2017 %
Loan-to-value ratio	17.2	13.2
NAV gearing	22.4	15.7
Net interest cover ratio	491	454

Debt facilities

	£m	Maturity
6.5% secured bonds	175	March 2026
3.99% secured loan	83	October 2024
1.125% unsecured convertible bonds	150	July 2019
4.41% unsecured private placement notes	25	January 2029
4.68% unsecured private placement notes	75	January 2034
3.46% unsecured private placement notes	30	May 2028
3.57% unsecured private placement notes	75	May 2031
Non-bank debt	613	
Bilateral term – secured	28	July 2022
Bilateral revolving credit – unsecured	75	July 2022
Club revolving credit – unsecured	450	January 2022
Committed bank facilities	553	
At 31 December 2018	1,166	

Debt summary

	2018 £m	2017 £m
Bank loans		
Floating rate	269.5	89.0
Swapped	28.0	28.0
	297.5	117.0
Non-bank debt		
3.99% secured loan 2024	83.0	83.0
6.5% secured bonds 2026	175.0	175.0
1.125% unsecured convertible bonds 2019	150.0	150.0
Unsecured private placement notes 2028 – 2034	205.0	205.0
	613.0	613.0
Total	910.5	730.0

Hedging profile (%)

	2018	2017
Fixed	67	84
Swaps	3	4
	70	88

Percentage of debt that is unsecured (%)	69	61
Percentage of non-bank debt (%)	67	84

Weighted average interest rate – cash basis (%)	3.43	3.80
Weighted average interest rate – IFRS basis (%)	3.68	4.11

Weighted average maturity of facilities (years)	5.3	6.3
Weighted average maturity of borrowings (years)	5.9	7.6

Undrawn facilities and cash	274	523
Uncharged properties	4,117	3,864

RESPONSIBILITY

As a responsible business, we understand, balance and manage our environmental, social and governance (ESG) risks and opportunities.



Dame Cilla Snowball
Chair of the Responsible Business Committee

Dear Stakeholder,

This Responsibility section integrates the reporting on the ESG aspects of our business and provides an overview of how we manage ESG matters. We do this to reduce risk and create new, or maximise existing, opportunities. The Responsibility section should be read in conjunction with our Annual Sustainability Report, which provides a comprehensive review of our environmental and community-based work.

Being a responsible business is embedded in Derwent London – it is visible in our culture, approach to risk and in the design and the management of our buildings. Central to the success of this approach is the linkage of ESG matters to our strategy. Two of our five strategic objectives, detailed on pages 37 to 38, focus on our stakeholder responsibilities:

- Objective 3: to attract, retain and develop talented employees
- Objective 4: to design, deliver and operate our buildings responsibly

Our management structure and style ensure that we can respond to changes in regulation and occupier demand. Likewise, they enable us to plan more effectively for the long-term and ensure we are putting the right systems and processes in place to maintain our position as London's leading office-focused REIT.

In 2018 we continued to make progress against our strategic objectives and sustainability priorities. Board oversight of environmental and social issues has been strengthened through the establishment of a new Board-level Committee, the Responsible Business Committee, which will be dedicated to overseeing our corporate responsibility agenda and stakeholder engagement. I will chair the new Committee and am delighted to have been designated by the Board to act as the dedicated Non-Executive Director for gathering the views of our workforce. During 2019, two employees will be nominated by the workforce to become members of the Responsible Business Committee (see page 92).

ESG matters are interlinked and cannot be managed in isolation. In 2019 the Group will be undertaking a strategic review of its sustainability work. The aim of the review is to ensure that each of our ESG priorities is set into a specifically designed structure which will allow for even greater efficiency in management and reporting.

INTEGRATED REPORTING

The table below summarises where key elements of our ESG reporting are disclosed. Some of these are integrated with other sections of the Annual Report.

Environmental	Social	Governance
p.76 Climate resilience	p.26 Communities	p.01 Culture
p.76 Science-based carbon targets	p.102 Gender diversity targets	p.18 Our stakeholders
p.113 Supply Chain Sustainability Standard	p.79 Health and well-being	p.87 Our governance framework
p.76 SECR disclosure	p.75 Protection of human rights	p.111 Risk management
p.77 TCFD summary	p.75 Modern Slavery Statement	p.113 Anti-bribery and corruption
	p.108 Whistleblowing	p.114 GDPR and preventing the facilitation of tax evasion

The Annual Sustainability Report can be downloaded from our website at: www.derwentlondon.com/sustainability

Stakeholder engagement

Effective stakeholder engagement is critical to fostering mutually beneficial relationships and securing our long-term success. Our engagement programmes for key stakeholders are described on pages 18 to 19 of the Strategic report and pages 92 to 93 of the Corporate governance statement.

Developing and maintaining strong relationships within the communities in which we operate is an essential part of our management approach. Being active in and contributing positively to the neighbourhoods in which our properties are located means we can understand the needs of our community stakeholders in greater depth. This is backed by our Community Fund which supports numerous grass roots projects and initiatives across our Tech Belt and Fitzrovia/West End villages.

We also support a variety of organisations through 'pro bono' work, volunteering, employment opportunities and mentoring. Full details of our community initiatives can be found within our Annual Sustainability Report.

Human rights

The protection of human rights and fundamental freedoms is one of our key ESG priorities which we manage from an internal (within our business) and external perspective (within our supply chain and our relationships with contractors).

Internally, the Board monitors our culture to ensure we maintain our values and high standards of transparency and integrity. Our Human Resources team ensures that we have the right systems and processes in place to strengthen and sustain our culture. Further information on the development of our employees can be found on page 78. The Board's role in managing the Group's culture can be found in the Introduction from the Chairman on page 85.

Alongside other stakeholders, the interests and well-being of our employees and the local and wider community is factored into Boardroom decisions (see page 94).

Externally, we are active in ensuring our ESG standards are clearly communicated to our supply chains, principally via our Supply Chain Sustainability Standard (more on page 113). In addition, we are clear on our zero-tolerance position with regards to slavery and human trafficking as set out in our Modern Slavery Statement, which can be found at: www.derwentlondon.com/investors/governance/modern-slavery-act

Reporting frameworks

We report under several frameworks to provide a complete picture of our progress and activities and to allow comparison with our peers and other companies. Our reporting aims to show not only a property-sector specific perspective (EPRA Best Practice Reporting measures) but also a broader international perspective (the Global Reporting Index and the United Nations Sustainable Development Goals). For further details on our EPRA measures, please see pages 201 to 202, and for our Global Reporting Index disclosures and United Nations Sustainable Development Goals alignment, see our Annual Sustainability Report.

Data assurance

As part of our commitment to robust and transparent reporting, Deloitte LLP assure our environmental data points and health and safety data. Our audit assurance statement from Deloitte LLP is available in our Annual Sustainability Report.

Further engagement

I will be available at this year's AGM, on 17 May, if you wish to ask any questions in respect to the role or remit of the newly established Responsible Business Committee. If you wish to contact me, I am available via our Company Secretary, David Lawler (telephone: +44 (0)20 7659 3000 or email: company.secretary@derwentlondon.com)

Dame Cilla Snowball

Chair of the Responsible Business Committee
26 February 2019

Non-financial reporting

As we have fewer than 500 employees, the Non-Financial Reporting requirements contained in the Companies Act 2006 do not apply to us. However, due to our commitment to promoting transparency in our reporting and business practices, we have elected to provide further information in the table below.

	Key policies and standards	Additional information
Environmental matters	<ul style="list-style-type: none"> • Sustainability Policy • Science-based carbon targets • Task Force on Climate-related Financial Disclosures • Streamlined Energy and Carbon Reporting (SECR) disclosure 	<ul style="list-style-type: none"> • Annual Sustainability Report • Climate change resilience (see page 76) • Executive Directors' annual bonus (see page 125) • Our principal risks (see page 56)
Social and employee matters	<ul style="list-style-type: none"> • Volunteering Policy • Equal Opportunities & Diversity Policy • Professional Development & Training • Shared Parental Leave • Flexible Working Policy 	<ul style="list-style-type: none"> • Community (see pages 18 and 26) • Our employees (see pages 18 and 78) • Promoting diversity (see page 79 and 102) • Our principal risks (see page 48)
Respect for human rights	<ul style="list-style-type: none"> • Individual Rights Policy • Health & Safety Policy Statement • Supply Chain Sustainability Standard • Modern Slavery Statement 	<ul style="list-style-type: none"> • Health and safety (see page 80 and 112) • Human rights and modern slavery (see page 75) • Supply Chain Sustainability Standard (see page 113)
Anti-bribery and corruption issues	<ul style="list-style-type: none"> • Anti-bribery Policy • Whistleblowing Policy • Expenses Policy • Money Laundering & Terrorist Financing Policy • Preventing facilitation of Tax Evasion Policy 	<ul style="list-style-type: none"> • Audit Committee's report (see pages 104 to 109) • Risk Committee's report (see pages 110 to 115) • Our principal risks (see page 54)

[p.20](#) Business model

[p.42](#) Non-financial key performance indicators

[p.102](#) Board diversity

RESPONSIBILITY CONTINUED

Climate resilience

Climate change represents a principal long-term risk for our business. We invest significant time and effort into ensuring we are managing the risks it presents.

OUR ACHIEVEMENTS IN 2018

- 20% reduction in like-for-like carbon intensity (tCO₂e/m²)
- 75% waste recycling rate

OUR FOCUS AREAS FOR 2019

- Develop COP21 action plans for each managed property in our five-year plan
- Undertake our statutory audit programme for phase 2 of Energy Savings Opportunity Scheme (ESOS)
- Complete an evaluation of the environmental and social impact study of our White Collar Factory building

As a real estate investment trust (REIT) we invest in, develop and manage property. Our properties are subject to physical climate-related risks, such as increasing temperatures, which could lead to greater stresses on our properties and cost increases. We therefore factor climate resilience into our new developments and our management approach to existing buildings. Significant focus is given to energy and carbon reduction to ensure our buildings operate as efficiently as possible.

Science-based carbon targets

In 2016, Derwent London agreed its first set of science-based targets, aligned with the International Energy Agency's (IEA) Energy Technology Perspectives 2°C scenario data and the UK Carbon Plan 2050 Futures model. Recently, the Science Based Targets Initiative validated our science-based targets, which are to reduce scope 1 and 2 emissions 55% per m² and scope 3 emissions by 20% per m² by 2027 from a 2013 and 2017 base line, respectively.

Our existing portfolio and development pipeline incorporate the right resilience measures to mitigate any potential negative impacts and ensure we meet our targets.

We made good progress over the past year with a reduction of 20% in carbon intensity across the like-for-like portfolio. This means we are on track to meet our targets by 2027 (see our Annual Sustainability Report).

Energy efficiency actions taken during 2018

As part of our ongoing energy efficiency programme, we have installed advanced energy analytics in several of our multi-let properties as a means of driving down their energy consumption profiles. During 2018 these included BMS optimisations, chiller staging and lockout, optimised night purging, variable speed drive optimisations and eliminating heating and cooling conflicts, which resulted in savings of over 4.5m kWh of energy during the year.

Streamlined Energy and Carbon Reporting (SECR) disclosure

Following the Government announcing the replacement of the CRC Energy Efficiency Scheme and extension of the scope of the Mandatory Carbon Reporting, we now report in line with new SECR regulations, which are provided below:

GHG and energy data	2018	2017
Total Scope 1 emissions (tCO ₂ e)	4,223	4,189
Total Scope 2 emissions (tCO ₂ e)		
Location based	3,458	3,538
Market based	4,478	5,475
Total Scope 3 emissions (tCO ₂ e)	12,538	14,859
Carbon intensity ratio (tCO ₂ e/m ²)	0.019	0.020
Total energy use (kWh of electricity, gas and biomass use)	34,297,942	29,207,987

For further analysis of our GHG emissions, energy consumption and renewable energy generation, use and procurement see our Annual Sustainability Report.

SECR data notes	
Reporting period	1 January to 31 December 2018
Boundary (consolidation approach)	Operational control, based on our corporate activities and property portfolio all of which are in central London (UK) only.
Alignment with financial reporting	The only variation is that the GHG emission/energy data presented does not account for single-let properties or properties for which we do not have management control. This is because we have no control or influence over the utility consumption in these buildings. However, the rental income of these properties is included in our consolidated financial statements.
Reporting method	We arrange our GHG emissions reporting in line with the Greenhouse Gas (GHG) Protocol Corporate Accounting and Reporting Standard. For further details on our data calculation methodology please see the data section of our Annual Sustainability Report.
Emissions factor source	DEFRA, 2018 – www.gov.uk/government/collections/government-conversion-factors-for-company-reporting for all emissions factors apart from the Scope 2 market based (residual mix) factor which is from Reliable disclosure systems for Europe, 2014 European residual mixes – www.reliable-disclosure.org/documents
Scope 3 emissions	We use the GHG Protocol Scope 3 Standard to collate and report on our relevant Scope 3 emissions. Our relevant emissions categories include fuel and energy-related activities, waste generated in operations, business travel and emissions from downstream leased assets (tenant emissions).
Independent assurance	Public reasonable assurance (using ISAE 3000) provided by Deloitte LLP over all Scope 1, 2 and 3 GHG emissions data, intensity ratio and energy data. Our assurance statement can be found in our Annual Sustainability Report.

TCFD summary

The Task Force on Climate-related Financial Disclosures (TCFD) released its first draft disclosure guidelines in June 2017. We present a summary of our disclosures below. Our full disclosures can be found in our Annual Sustainability Report.

GOVERNANCE

Describe the Board's oversight of climate-related risks and opportunities	<ul style="list-style-type: none"> • Our Responsible Business Committee, a principal committee of the Board, oversees the management of our climate-related risks and opportunities, which is in turn informed by our Sustainability Committee.
Describe management's role in assessing and managing climate-related risks and opportunities	<ul style="list-style-type: none"> • Paul Williams is the main Board Director with overall accountability for sustainability. As part of his role as chair of the Sustainability Committee, he oversees the review and performance of our climate-related work.

STRATEGY

Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long-term	<ul style="list-style-type: none"> • Short-term (0-5 years): market shift in terms of stricter legislation, e.g. the introduction in the UK of the new minimum energy efficiency standards (MEES) for commercial and domestic property. • Medium-term (5-10 years): market demand from occupiers in terms of buildings and spaces with higher levels of efficiency and low carbon footprint. • Long-term (15+ years): the changing climate conditions in London, principally temperature increases and their effect on our buildings.
Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning	<ul style="list-style-type: none"> • As a property investor, climate-related issues affect the way we develop new buildings and how we manage existing ones. • To help us plan climate-related investments into our managed properties, we have built a scenario analysis tool. This allows us to test the impact of different energy/carbon management measures into specific buildings to estimate the effect they will have on our science-based carbon targets.
Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario	<ul style="list-style-type: none"> • Our business strategy involves both investing in new developments and acquiring older properties with future regeneration opportunities. We ensure a high degree of resilience in our new developments and the regeneration of older properties by setting high standards for environmental sustainability. When managing our core income portfolio, we have a significant focus on energy and carbon reduction, ensuring our buildings operate as efficiently as possible. As a result, our strategy centres around the concept of continual improvement which ensures a high degree of both climate and financial resilience. Ultimately we do not envisage having to make changes to our strategic approach when considering climate related scenarios. • Our properties are subject to climate-related risks such as increasing temperatures which could lead to greater stresses on our properties and in turn increase our cost base, e.g. management and utility costs and our GHG emissions.

RISK MANAGEMENT

Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management	<ul style="list-style-type: none"> • Each year senior managers from various areas of the business collate their key risks, which includes sustainability/climate change related risks. The risks are assessed by the Executive Committee to understand their severity, likelihood and the optimal controls and/or mitigation required.
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METRICS AND TARGETS

Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process	<ul style="list-style-type: none"> • We report an extensive range of consumption and intensity metrics relating to energy, carbon, waste and water in our Annual Sustainability Report.
Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks	<ul style="list-style-type: none"> • Streamlined Energy and Carbon Reporting (SECR) disclosures on page 76.
Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets	<ul style="list-style-type: none"> • Following our review of the Paris Agreement on international climate change in 2016, we developed a set of science-based targets to ensure we align our carbon reduction programme with this agreement, and ensure we minimise our risk exposure to the effects of climate change on our managed portfolio.

RESPONSIBILITY CONTINUED

People

Our objective is to attract, retain and develop talented employees.

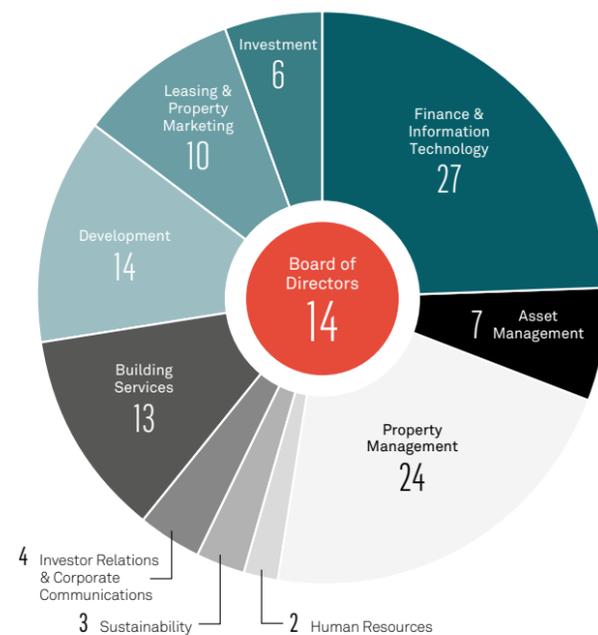
OUR ACHIEVEMENTS IN 2018

- Continued to manage our 'talent pipeline' via the 'Fit for the Future' management and leadership programme
- Established a steering group to address priority areas arising from the 2017 employee survey
- Organised initiatives to promote well-being and ensure a respectful, inclusive, collaborative and safe culture

OUR FOCUS AREAS FOR 2019

- Design and conduct our next employee survey
- Continue to develop and promote diversity, inclusion and well-being initiatives
- Continue to cultivate the 'talent pipeline' via the 'Fit for the Future' programme
- Arrange a Company 'away day' to focus on team building and knowledge sharing

Headcount by department



Attracting and optimising talent

Our employees are the most important ambassadors of the Derwent London brand. In order to maintain our excellent employee engagement and retention rates year-on-year, we want all our employees to feel valued and have the opportunity to develop within their roles. It is extremely important for us to support individual aspirations and have robust succession plans in place, which are fundamental to the future growth and stability of the business.

Although 30% of our employees have been with us for more than 10 years, a similar number have joined the business over the past three years. We encourage the diversity of thought, competencies and experience that make up our business. In addition, we work hard to maintain the Derwent London culture, values and reputation, which have stemmed from the behaviours and values promoted by our Board.

We support staff through:

- an induction programme;
- biannual performance reviews;
- personal development plans and open discussions;
- external training courses and internal technical workshops;
- executive coaching;
- sponsorship of professional qualifications; and
- 360 degree feedback.

Following an in-depth review of the business-critical roles and 'talent pipeline' within the Group, 2018 saw the launch of our 'Fit for the Future' initiative. This is being run as three 12-18 month modular management and leadership development programmes for 30 of our employees. Each module is run by a dedicated Executive Coach and sponsored by two Executive Directors who are involved in the design and content of the modules, which tie in with our values. The modules are focused on increasing self-awareness, learning and collaboration and are supplemented with one-to-one and group coaching sessions. Inclusivity is important to us and this initiative sits alongside a new 'Core Skills' programme available to all employees, whatever their role or level of experience, to aid their personal development.

Enabling employees to move into new roles helps them fulfil their potential. We were delighted, therefore, to announce 10 internal promotions during 2018, several of whom were participants in the 'Fit for the Future' programme.

124

Employees

90%

Retention rate

10

Internal promotions

57/43

Male/Female ratio %

98%

Are proud to work at Derwent

Employee engagement

We gather feedback regularly from our employees to assess their levels of engagement. We conduct a formal biennial employee survey, designed and developed in conjunction with an independent provider and sponsored by the Executive Directors. Recently, the Directors have started hosting monthly forums with small groups of employees to encourage feedback and provide an opportunity for employees to propose innovative ideas (see page 19 and 92).

We were delighted with the 97% response rate to our 2017 employee survey and a steering group was established in 2018 to discuss the results and suggest improvements for the lower scoring areas. The steering group presented suggestions to the Executive Committee and various initiatives have since been launched. The impact of these changes will be measured via the next survey in Q4 2019.

In January 2019, we conducted a short 'pulse check' to obtain interim feedback and enable us to support our employees during the forthcoming period of change. We were pleased that we achieved a 91.0% response rate and that the overall employee satisfaction levels were 90.4%.

Diversity and inclusion

The Group is committed to being an inclusive and respectful employer that welcomes diversity and promotes equality, acceptance and teamwork.

We regularly review our recruitment and working practices to identify how we can continue to attract and retain a diverse workforce. Our definition of diversity extends beyond the traditional facets of gender, ethnicity, age and sexual orientation to include personality, communication and work styles. We recognise that diversity enriches our creative solutions and adds value for our stakeholders.

In accordance with our Equal Opportunities Policy, we give full and fair consideration to all employment applicants. Recruitment, training, reward and career progression are based purely on merit. Wherever possible, we also accommodate part-time, agile and flexible working requests.

Our employee base is relatively well balanced in respect to gender, with 57% male and 43% female while, within our senior management team, about one-third are female. Around three-quarters of our employees classify themselves as white and a quarter as non-white.

Current activities to advance diversity include:

- mandatory unconscious bias training for all our line managers in partnership with the charity Chickenshed;
- nurturing a culture of transparency and openness which encourages people to raise concerns and to speak out about bias or discrimination;
- a review of our agile working procedures. In addition, wider adoption across the business is being encouraged by management, who are leading by example and using agile working;
- attracting women into our industry through work experience opportunities and school presentations to raise awareness of real estate careers;
- requiring recruitment agencies to provide gender balanced shortlists; and
- introducing parental transition coaching for employees before, during and when returning from maternity or shared parental leave.

Please refer to pages 102 to 103 for further details of our diversity and our progress against the recommendations of the Hampton-Alexander Review.

Health and well-being

The health and well-being of our employees is a priority. We recognise that individuals work best and can achieve sustainable high-performance over time when they are healthy and feeling valued. This is supported by our culture, leadership and how we manage our people.

Our HR team and Directors operate an open-door policy with the hope that individuals feel able to discuss any issues they have at work or in their private lives and can receive reassurance and support. Our absence levels continue to be very low and wherever necessary we work with our occupational health provider to support our employees appropriately.

In addition to launching agile working, we received extremely positive feedback on our Savile Row office refurbishment with 94% of respondents saying that the new facilities supported their well-being. We continue to provide healthy breakfasts and fruit and vegetables throughout the day. We work closely with our occupational health provider and offer well-being seminars, on topics including cholesterol, heart disease and diabetes, and services such as flu vaccinations. Attendance and feedback have been excellent and similar seminars, on subjects such as emotional and mental health, will be run in 2019.

During 2018 we reviewed our benefit package and introduced dental insurance to all employees regardless of seniority, in addition to private medical insurance and a healthcare cash plan. Through the healthcare cash plan, all employees have access to an Employee Assistance Programme, fitness and exercise discounts and other health and well-being resources.

ENGAGING WITH STAKEHOLDERS

As part of a combined well-being initiative for our staff, occupiers and charities, our building management team at White Collar Factory EC1 organised a relay marathon on the building's unique rooftop running track in September 2018. With considerable support via social media, they raised over £6,000 for Macmillan Cancer Support.



RESPONSIBILITY CONTINUED

Health and safety

We continued to improve our health and safety performance in 2018 as we strive to create an industry leading capability.

OUR ACHIEVEMENTS IN 2018

- A comprehensive review of fire safety procedures undertaken across our portfolio
- Updated our reporting criteria and key performance indicators
- Increased our health and safety compliance resources and upskilled our building managers
- Completed over 600 hours of health and safety training
- Reduced our accident frequency rate (AFR) from 0.12 in 2017 to 0.09, with an increase in hours worked of over 35%

OUR FOCUS AREAS FOR 2019

- Deliver against our health and safety strategy
- Progress our employee well-being and mental health initiatives
- Invest in new air and water quality initiatives to support wellness
- Complete our review of the regulatory framework and guidance issued by the Secretary of State for Housing, Communities and Local Government

Our integrated approach to health and safety (H&S) compliance



Acquisitions
Due diligence
Identify risks/non-compliance

Development
Design for safety
Operations & management review

Construction
Site reviews & audits

Leasing
Tenant fit-out guides

Property & Asset Management
Building handbooks
Occupier relationships
5-year property strategy
H&S management system
Supplier management
Pre-sale enquiries
Documentation

We have an excellent health and safety record and have made further progress in 2018 (key statistics are on page 81). We aim to achieve an industry leading capability across a wide range of health and safety aspects, including well-being and mental health. During the year we recruited a new Head of Health and Safety, who will be developing the team to deliver our strategy and support our integrated approach (illustrated in the chart below).

This integrated approach ensures that health and safety and well-being are considered at every stage during the life cycle of our properties, from acquisition, through to management, development and leasing. The principles of ensuring safe buildings and working practices are achieved by specifying the materials and design of our buildings, whilst ensuring that maintenance operations can be safely carried out. This approach should ensure our occupiers, staff and visitors are safe, well and productive.

Development and construction

2018 was a busy year for development, with more than two million hours worked across the portfolio. This included the on-site developments at Brunel Building W2, 80 Charlotte Street W1 and Soho Place W1, as well as major refurbishments at The White Chapel Building E1 and Johnson Building EC1.

Health and safety is a key element of Derwent London's Construction, Design and Management (CDM) of development projects, demonstrated by our performance during 2018:

- 1.96m man hours worked without a reportable accident; and
- an accident frequency rate (AFR) of 0.09, well below the construction industry average.

Our performance is monitored using a robust set of standards and procedures which are applied to all construction projects. We strive to be at the forefront of construction best practice and continue to support industry-wide initiatives. For example, we partner with the appointed Principal Contractors to monitor on-site occupational and mental health. During 2019, we are committed to achieving the ambitious targets set for our project teams.

Wellness

We work hard to ensure our buildings support the well-being of our occupiers, for example through the provision of terraces and cycling facilities. We also ensure diligent maintenance of lighting, water and air quality in our buildings and will be investing in new initiatives in 2019 to enhance environmental conditions for our occupiers.

1.96m

Man hours worked without a reportable accident

0.09

Development accident frequency rate

600

Hours of health and safety training

Portfolio review

Following the tragic events at Grenfell Tower, we surveyed all our properties to establish if aluminium composite materials (ACM) were present, and we enhanced our fire safety procedures across the portfolio. We commissioned Arup to assess the façades and fire precautions of our high rise residential and office buildings. The results of our surveys confirmed an isolated area of ACM and, although this did not represent a significant risk to life safety, it was replaced with a composite material.

In addition to the surveys and risk assessments, we have strengthened our inspection regimes, changed the specification of materials to be used in the construction of new developments and increased management focus on any locations which we define as 'high risk', including all residential locations and commercial buildings that are ten storeys or more in height. We also covered locations that are not under our direct management by working more closely with managing agents or long leaseholders.

Training

We delivered more than 600 hours of training to 412 attendees during 2018. The training ranged from health and safety leadership to Construction Skills Certification Scheme (CSCS) cards. We have also introduced an online programme that enables improved management of our data and training plans.

Our in-house Building Management conferences serve as an excellent forum to share information, ideas, solutions and training. Their success has led us to increase their frequency to quarterly during 2019.

Compliance Management System

Our electronic management system, Quooda, has been updated to improve the tracking of actions across our portfolio. In addition, Quooda generates reports which focus on the key management priorities. In accordance with our standard protocols, we are undertaking a comprehensive review of our procedures, particularly around water hygiene and accident reporting, to ensure they are aligned to our integrated management approach. We have revised our health and safety KPIs to enable the identification of trends and the introduction of preventative measures.

Health and safety statistics

The table below details our key health and safety statistics and accident frequency rate (AFR) for 2017 and 2018.

	Employees		Managed portfolio		Developments	
	2018	2017	2018	2017	2018	2017
Man hours worked	n/a	n/a	n/a	n/a	2,196,901	1,606,311
Minor accidents	1	2	28	35	20	23
RIDDORS	0	0	0	2	2	2
Fatalities	0	0	0	0	0	0
Improvement notices	0	0	0	0	0	0
Prohibition notices	0	0	0	0	0	0
RIDDOR (AFR)	n/a	n/a	n/a	n/a	0.09	0.12

Public reasonable assurance provided by Deloitte LLP over all minor accidents, RIDDORS, fatalities and improvement notices data. Our assurance statement can be found in our Annual Sustainability Report.

OUR RESPONSE TO THE HACKITT REVIEW

We continue to monitor changes to the regulatory framework that are likely to arise as a result of the Hackitt Review and the guidance contained in 'Building a Safer Future' issued in December 2018 by the UK Government. Although the guidance relates primarily to high-rise residential buildings, it is the Group's opinion that many of the recommendations will become best practice across the whole industry.

Our aim is to stay ahead of legislative changes and to implement best practice wherever possible. Therefore, we are carefully reviewing the guidance issued and will be implementing improvements to the way we undertake construction and property management activities. These will include:

- maintaining a digital record of our buildings by extending our current use of Building Information Modelling (BIM) and Computer Aided Facilities Management Systems (CAFM);
- an ongoing review of materials and components specified in our new developments;
- greater focus on competence assessments and training;
- improvements to how and what we communicate to tenants, adding to our existing communications on fire safety procedures;
- reviewing the new role of Building Duty Holder and roles of the project team; and
- implementing a more rigorous 'gateway' design, construction and management process aligned with the digital building record.



Above: Members of the Property Management team



WHITE COLLAR FACTORY EC1

The White Collar Factory totals 291,400 sq ft, incorporating many of our latest building innovations. It was completed in 2017, achieving a 96% profit on cost, BREEAM Outstanding, LEED and WiredScore Platinum. During 2018 it received a further eight awards, including RIBA and BCO National awards, a New London Wellbeing award, and the MIPIM UK/Estates Gazette Visionary Building of the Year.

GOVERNANCE

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INTRODUCTION FROM THE CHAIRMAN



Robert Rayne
Chairman

FOCUS AREAS IN 2019

- Ensure an orderly succession following Robert Rayne's retirement on 17 May 2019
- Monitor the progress of our key development projects: 80 Charlotte Street W1, The Featherstone Building EC1 and Soho Place W1
- Review the Group's strategy, five-year plan and budget
- Monitor the success of initiatives which aim to improve our diversity pipeline
- Begin the search for an independent Non-Executive Chairman

Dear Shareholder,

On behalf of the Board, I am pleased to introduce the Group's Corporate governance statement for 2018.

Governance

During the year ended 31 December 2018, we have been compliant with the provisions and principles of good governance contained in the 2016 UK Corporate Governance Code (the 2016 Code).

The 2018 UK Corporate Governance Code (the 2018 Code), published in July, became effective for Derwent London from 1 January 2019. We welcomed the simplification of the Code and the additional direction contained in the FRC's Guidance on Board Effectiveness.

The Board and its Committees have spent considerable time reviewing the 2018 Code to ensure our continuing compliance. Further information on the Code can be found on the Financial Reporting Council's website at: www.frc.org.uk

Management changes

After 12 years as Chairman, I have decided to retire at the 2019 AGM. I am delighted to hand over the chairmanship to John Burns and wish Paul Williams every success in his new role as Chief Executive.

The Nominations Committee's decision to appoint John as my successor for a two-year transition period was made after careful deliberation and consultation with major shareholders. It reflects our desire to protect our culture and facilitate an orderly succession. Simon Fraser has provided additional detail within the Nominations Committee's report, on page 100, on the safeguards being implemented to ensure the separation of leadership between the Chairman and the Chief Executive.

I would also like to extend a personal welcome to Lucinda Bell, who joined us as a Non-Executive Director from 1 January 2019.

Stakeholders

The Board takes seriously its responsibility for ensuring the Group is capable of delivering on our strategic objectives and operating in the best interests of our stakeholders over the long-term. This has led to the establishment of a new principal committee – the Responsible Business Committee.

The Committee will strengthen our oversight of environmental and social issues and will monitor the Group's corporate responsibility, sustainability and stakeholder engagement activities (see pages 74 to 81 of the Responsibility report).

The Committee is chaired by Cilla Snowball, who is the designated Director for gathering the views of the workforce. In addition to Cilla, the Committee is currently composed of Claudia Arney and Paul Williams.

It has been agreed that, during 2019, two Group employees will become members of the Committee. Nominations are open to all employees who have worked at Derwent London for at least two years as at 1 January 2019. We hope that the addition of employee representation on a principal Board Committee will further improve our engagement with the wider workforce and bring their voice to the forefront of our discussions.

The Responsible Business Committee's terms of reference were approved in December 2018 and are available to view on the corporate website.

BOARD MEMBERS AND ATTENDANCE

	Attendance
Chairman	
Robert Rayne	100%
Executive Directors	
John Burns	100%
Nigel George	100%
Simon Silver	100%
David Silverman	100%
Paul Williams	100%
Damian Wisniewski	100%
Independent Non-Executive Directors	
Claudia Arney	100%
Richard Dakin	100%
Simon Fraser	100%
Helen Gordon	100%
Cilla Snowball	100%
Stephen Young	100%

- Percentages based on the meetings entitled to attend for the 12 months ended 31 December 2018
- Lucinda Bell joined the Board as a Non-Executive Director on 1 January 2019

Diversity

The Board is committed to ensuring that the Group is free of discrimination and is equitable to all employees. It has been a Board priority during the year to monitor the initiatives to improve diversity across the Group and reassess our targets and focus areas (further information on diversity is provided on pages 102 to 103).

Human rights

We support and respect the protection of human rights and are guided by the principles of the International Labour Organization's declaration on Fundamental Principles and Rights at Work, amongst others.

On an annual basis, we publish our statement under the Modern Slavery Act 2015 on our website, reporting on the steps we have taken to ensure that slavery and human trafficking is not taking place in any part of our business or our supply chain.

Although we consider the risk of slavery and human trafficking taking place in our business to be negligible, and in our supply chain to be low, we have established policies and procedures to ensure that any potential issues can be identified and prevented.

Reporting

We continue to be pleased that the transparency of our reporting is recognised. This is an area that the Company works hard to improve year-on-year. Further details of the awards received for our 2018 Annual Report are available on the inside back cover (IBC).

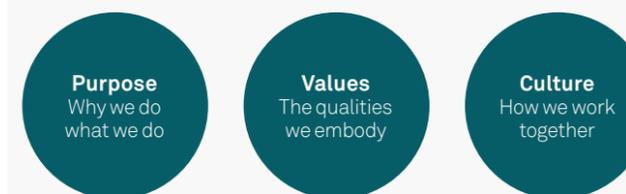
Annual General Meeting

As in previous years, I would encourage you to attend the Company's Annual General Meeting on 17 May 2019 where you will have the opportunity to meet the Chairs of the Board Committees and members of senior management. This year, upon request from a shareholder, we will be providing a presentation on our business which I hope will be a valuable addition to the meeting's proceedings.

Robert Rayne

Chairman
26 February 2019

THE IMPORTANCE OF PURPOSE, VALUES AND CULTURE



Purpose and values

The Board has established the Group's purpose and values which are disclosed on page 01.

The Group's purpose was reviewed by the Responsible Business Committee in December 2018 and approved by the Board in February 2019.

Culture

Our culture is a key strength of our business and we see the benefits of our strong culture in our employees' engagement, retention and productivity. Our culture is described on page 01.

As the cultural tone of a business comes from the Boardroom, safeguarding our culture was a key factor in the development of Board succession plans following Robert Rayne's decision to retire as Chairman (see page 100).

The Board monitors and assesses the culture of the Group by regularly meeting with management and reviewing the outcomes of employee surveys. The Board also assesses cultural indicators such as management's attitude to risk, behaviours and compliance with the Group's policies and procedures.

The Executive Committee has been delegated responsibility for ensuring that policies and behaviours set at Board level are effectively communicated and implemented across the business. Our intranet is used as a platform for employees to access our policies and be kept fully informed of the latest Group news.

If the Board is concerned or dissatisfied with any behaviours or actions, it seeks assurance from the Executive Committee that corrective action is being taken. The Board did not have to seek corrective action during 2018.

GOVERNANCE AT A GLANCE

At Derwent London, we do not view corporate governance as an exercise in compliance but as an evolving and core discipline which generates value for our stakeholders and underpins our success.

HIGHLIGHTS AT A GLANCE

65.9p

Dividend per share in 2018. An increase of 10.2%

90%

Employee retention rate for the year ended 31 December 2018

100%

Board and Committee meeting attendance for the year ended 31 December 2018

54%

Board independence as at 1 January 2019

29%

Female representation on our Board as at 1 January 2019. This will improve to 33% following the implementation of the Board's succession plans

BOARD CHANGES

Board succession and strengthening the independence of the Board was a key priority for 2018.

- Robert Rayne will retire at the 2019 AGM after 12 years as Board Chairman.
- From the 2019 AGM, John Burns will become Non-Executive Chairman for two years (until May 2021).
- Paul Williams, who has been a Director of the Group since 1998, will become Chief Executive from 17 May 2019.
- Lucinda Bell joined the Board as a Non-Executive Director on 1 January 2019 and will become the Audit Committee Chair when Stephen Young steps down from the Board.
- Received positive feedback from major shareholders, representing 57.5% of our share capital, during consultation on the Board's succession plans.

[p.100](#) Nominations Committee's report

GOVERNANCE IMPROVEMENTS

The Board has taken a number of steps during the year under review to further strengthen its governance framework and processes including:

- Appointed Cilla Snowball as the designated Director for gathering the views of the workforce.
- Appointed RSM to act as an outsourced internal audit/business assurance function.
- Appointed Deloitte as the Remuneration Committee's new independent advisers.
- Updated and approved the Board's procedures and Committee's Terms of Reference in response to the 2018 UK Corporate Governance Code.
- Strengthened whistleblowing procedures through the introduction of an independent reporting line for anonymous reporting of concerns.
- Established the Responsible Business Committee to focus on social and environmental matters.

[p.92](#) Corporate governance statement

MAJOR BOARD DECISIONS

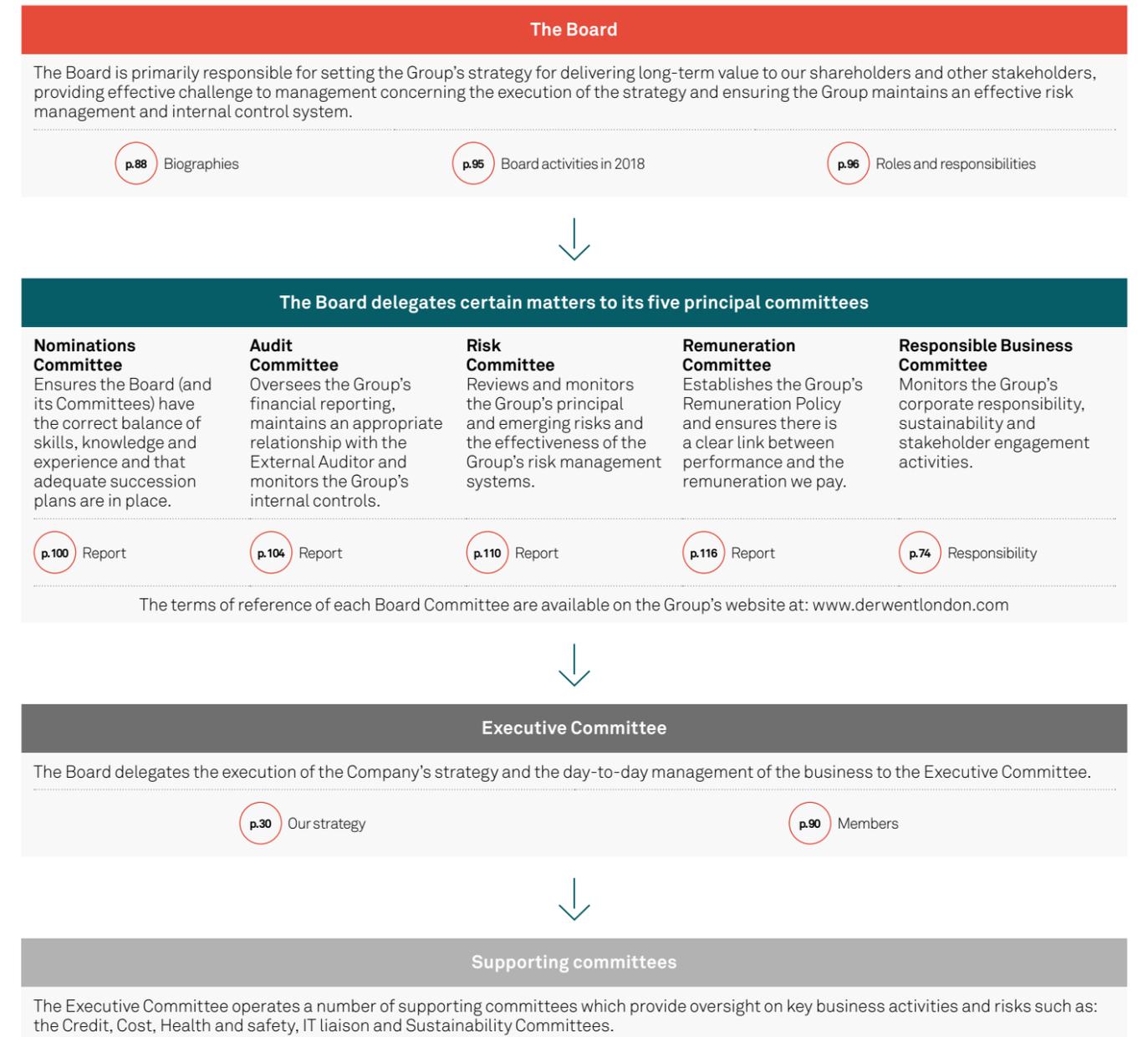
The Board factored the needs and concerns of our stakeholders into its decisions in accordance with s172 of the Companies Act 2006 (see pages 18 to 19). The major decisions taken by the Board and its Committee's during 2018 include:

- Approved Soho Place development which will deliver 285,000 sq ft of offices, retail and a new public theatre.
- Approved the comprehensive redevelopment of The Featherstone Building which will deliver c.125,000 sq ft of commercial and retail space (a substantial 95% increase on the existing net area of 64,100 sq ft).
- Approved the US private placement which raised £250 million via senior unsecured notes drawn down in January 2019.
- Approved the acquisition of the 45,900 sq ft 36-year leasehold interest in 88-94 Tottenham Court W1.

[p.95](#) Key activities of the Board during 2018

GOVERNANCE FRAMEWORK

We pride ourselves on conducting our business in an open and transparent manner. Our well-established culture ensures that our governance framework remains flexible, allowing for fast decision making and effective oversight.



BOARD OF DIRECTORS

1. The Hon. Robert A. Rayne, 70

Non-Executive Chairman. Appointed to the Board: 2007
Due to retire from the Board: 17 May 2019

Skills and expertise: Robert Rayne was Chief Executive Officer of London Merchant Securities plc and has been on the boards of a number of public companies, including First Leisure Corporation plc and Crown Sports plc. **Other current appointments:**

Non-Executive Director of LMS Capital plc and Richoux Group plc and Chairman of Voreda Capital and The Rayne Foundation.

2. John D. Burns, 74

Chief Executive. Appointed to the Board: 1984

Skills and expertise: A chartered surveyor and founder of Derwent Valley Holdings in 1984, John has overall responsibility for Group strategy, business development and day-to-day operations. From 17 May 2019, John will become the Non-Executive Chairman of Derwent London plc.

Other current appointment: Member of the Strategic Board of the New West End Company Limited.

3. Damian M.A. Wisniewski, 57

Finance Director. Appointed to the Board: 2010

Skills and expertise: A chartered accountant who, prior to joining Derwent London, held senior finance roles at Chelsfield plc, Wood Wharf Limited Partnership and Treveria Asset Management. Damian has overall responsibility for financial strategy, treasury, taxation and financial reporting.

Other current appointments: Trustee and member of the governing body at the Royal Academy of Music and Non-Executive Director at the ABRSM.

4. Simon P. Silver, 68

Executive Director. Appointed to the Board: 1986

Skills and expertise: Co-founder of Derwent Valley Holdings, Simon has overall responsibility for the Group's development and regeneration programme together with the commissioning of architects. He is also at the forefront of the Company's brand identity. He is an honorary fellow of the Royal Institute of British Architects.

5. Paul M. Williams, 58

Executive Director. Appointed to the Board: 1998

Skills and expertise: Paul is a chartered surveyor who joined the Group in 1987. He has overall responsibility for lease management and lettings, sustainability, and the delivery of the Group's substantial projects. He takes a leading role in Derwent London's support for Teenage Cancer Trust. From 17 May 2019 Paul will become the Chief Executive of Derwent London plc.

Other current appointments: Chairman of The Paddington Partnership, Director of Sadler's Wells Foundation, member of BCO and Deputy Chairman of the Westminster Property Association. **Committee:** Responsible Business.

6. Nigel Q. George, 55

Executive Director. Appointed to the Board: 1998

Skills and expertise: Nigel is a chartered surveyor who joined the Group in 1988. His responsibilities include acquisitions and disposals and investment analysis. **Other current appointment:** Director of the Chancery Lane Association Limited.

7. David G. Silverman, 49

Executive Director. Appointed to the Board: 2008

Skills and expertise: David is a chartered surveyor who joined the Group in 2002. His responsibilities include overseeing the Group's investment acquisitions and disposals. David is a past Chairman of the Westminster Property Association.

Other current appointment: Chairman of Chickenshed Property Co.



8. Helen C. Gordon, 59

Non-Executive Director. Appointed to the Board: 2018

Skills and expertise: Helen is a chartered surveyor and is CEO of Grainger plc. Previously, she was Global Head of Real Estate Asset Management of Royal Bank of Scotland plc and has held senior property positions at Legal & General Investment Management, Railtrack and John Laing Developments.

Other current commitments: Chief Executive Officer of Grainger plc, Vice President of the British Property Federation, Board Member of EPRA (European Public Real Estate Association).

Committees: Remuneration, Nominations.

9. Richard D.C. Dakin, 55

Non-Executive Director. Appointed to the Board: 2013

Skills and expertise: Richard has been Managing Director of Capital Advisors Limited, part of CBRE, since 2014. Previously, he had been employed at Lloyds Bank since 1982 where he undertook a variety of roles and gained an extensive knowledge of property finance and the real estate sector. He is a Fellow of the Royal Institution of Chartered Surveyors and an Associate Member of Corporate Treasurers.

Committees: Risk (chair), Audit, Nominations.

10. Claudia I. Arney, 48

Non-Executive Director. Appointed to the Board: 2015

Skills and expertise: Claudia was Group Managing Director of Emap until 2010. Prior to that she held senior roles at HM Treasury, Goldman Sachs and the Financial Times.

Other current appointments: Chair of the Governance Committee of Aviva PLC, chair of the Remuneration Committee of Halfords PLC, Interim Chairman of the Premier League and Non-Executive Director of Kingfisher plc. **Committees:** Remuneration (chair), Audit, Responsible Business, Nominations.

11. Dame Cilla D. Snowball, 60

Non-Executive Director. Appointed to the Board: 2015

Skills and expertise: Cilla is the former Group Chairman and Group CEO at AMV BBDO, the UK's largest advertising agency. **Other current appointments:** Women's Business Council (chair), Private Sector Council, GREAT campaign (chair).

Committees: Responsible Business (chair), Nominations, Risk.

12. Simon W.D. Fraser, 55

Senior Independent Director. Appointed to the Board: 2012

Skills and expertise: Simon started his career in the City in 1986 and, from 1997 to his retirement in 2011, worked at Bank of America Merrill Lynch where from 2004 he was Managing Director and co-head of corporate broking. **Other current appointments:** Non-Executive Director of Lancashire Holdings Limited, Cathedral Underwriting Limited and of Legal and General Investment Management Holdings and Trustee of Glydebourne Estate.

Committees: Nominations (chair), Audit, Remuneration.

13. Stephen G. Young, 63

Non-Executive Director. Appointed to the Board: 2010

Due to step down from the Board: 17 May 2019

Skills and expertise: Stephen is a chartered management accountant. Previously, he has held a number of senior positions, including Chief Executive of Meggitt PLC and Group Finance Director at Meggitt PLC, Thistle Hotels plc and the Automobile Association.

Other current appointment: Non-Executive Director of The Weir Group PLC and Non-Executive Director of Mondj Limited and Mondj plc.

Committees: Audit (chair), Risk, Remuneration.

14. Lucinda Bell, 54

Non-Executive Director. Appointed to the Board: 2019

Skills and expertise: Lucinda is a chartered accountant and from 2011 to 2018 was CFO of The British Land Company plc ('British Land'). Prior to that, she held a range of finance and tax roles at British Land. **Other current appointments:**

Non-Executive Director of Crest Nicholson Holdings plc and Rotork plc. Treasurer and National Trustee at Citizens Advice. **Committees:** Audit, Risk, Nominations.

SENIOR MANAGEMENT



EXECUTIVE SENIOR MANAGEMENT

1. **Ben Ridgwell** Head of Asset & Property Management 2. **Jennifer Whybrow** Head of Financial Planning & Analysis
3. **David Lawler** Company Secretary 4. **Richard Baldwin** Head of Development 5. **Emily Prideaux** Head of Leasing
6. **Rick Meakin** Group Financial Controller



SENIOR MANAGEMENT

7. **Giles Sheehan** Head of Investment 8. **Katy Levine** Head of Human Resources 9. **David Westgate** Head of Tax
10. **Umar Loane** Head of Property Accounts 11. **Quentin Freeman** Head of Investor Relations & Corporate Communications
12. **John Davies** Head of Sustainability 13. **Lesley Bufton** Head of Property Marketing

CORPORATE GOVERNANCE STATEMENT

Structure of the Governance section

The Governance section has been reorganised to follow the structure of the 2018 UK Corporate Governance Code (the 'Code'). Although we are not required to report under the 2018 Code until the 2019 Annual Report (due to be published in April 2020), we wished to transition our reporting to demonstrate how we will meet the new requirements and to provide additional disclosure on our governance arrangements.

BOARD LEADERSHIP AND COMPANY PURPOSE

An effective Board

Our Board is composed of highly skilled professionals who bring a range of skills, perspectives and corporate experience to our Boardroom (biographies are on pages 88 to 89). It is through this diversity, its deep understanding of our business, culture and stakeholders, that the Board generates sustainable long-term value.

Matters reserved for the Board

The Board maintains a formal schedule of matters which are reserved solely for its approval. These matters include decisions relating to the Group's strategy, capital structure, financing, any major property acquisition or disposal, the risk appetite of the Group and the authorisation of capital expenditure above the delegated authority limits.

Board approval is required for:

Major property acquisitions or disposals	Valued above £20m
Major capital expenditure projects	Projected costs above £10m
Material occupier leases or contracts	Rental income greater than 7.5% of the Group's total rental income

Although the Board is formally required to authorise capital expenditure above this limit, the open nature of our organisation means that the Board is aware of all active projects within our portfolio. The Board reviewed and approved the 'Schedule of matters reserved for the Board' in February 2019.

Annual strategy review

On an annual basis, the Board conducts a detailed review of its strategy to ensure it remains relevant, flexible and capable of adapting to our changing environment.

Through its review, the Board is able to assess and identify changing or emerging risks which could impact on the Group in the short and medium-term (further information on our principal risks is on pages 48 to 57). Our risk management procedures are discussed on page 111 to 112 of the Risk Committee's report.

The Board, Executive Committee and members of the senior management team met on 13 June 2018 to review, discuss and challenge the strategy. The meeting included:

- presentations from external advisers with insights into the political environment and how new technology may impact on our business;
- reviewing the five-year plan, various scenarios and sensitivity tests and the key assumptions underlying the projections; and
- discussions with senior management on occupier trends, our 'Fit for the Future' initiative (see page 78) and planning policy changes expected after local elections.

Information sharing

The Directors utilise an electronic Board paper system which provides immediate and secure access to papers. The Chairman of the Board and the chairs of the Committees set the agendas for upcoming meetings with support from the Company Secretary.

We aim to ensure that the information shared with our Board is of sufficient depth to facilitate debate and to fully understand the content without becoming unwieldy and unproductive. Papers are required to be clear and concise with any background material included as an appendix.

Stakeholder engagement

We recognise the importance of clear communication and proactive engagement with all of our stakeholders. A summary of our stakeholder engagement programmes is provided on pages 18 to 19.

How do we generate value for our stakeholders?

Through our core activities, illustrated in our business model, we add value to our unique portfolio and deliver long-term benefits to our stakeholders (more on our business model on pages 20 to 21).

Our shareholders have seen value through the total shareholder returns (TSR) achieved over the last 10 years (+395%) which has significantly outperformed the FTSE 350 Real Estate Super Sector (+114%). We have a progressive dividend policy – the compound growth of the ordinary dividend over the past ten years is 10.4%.

Further information on value creation for our other key stakeholders is on pages 18 to 19 of the Strategic report.

How do we engage with our employees?

We have an experienced, diverse and dedicated workforce which is recognised as a key asset of our business. The Board and its Committees routinely invite members of the management team to attend meetings to present on the matters being discussed, enabling their input into discussions. In order to reach all employees, the Board utilises the following additional engagement methods:

- Cilla Snowball is the dedicated Non-Executive Director for gathering the views of the workforce and oversees our employee engagement methods as chair of the newly established Responsible Business Committee;
- During 2019, two employees will be nominated by the workforce to become members of the Responsible Business Committee;
- The Directors host regular informal lunches with small groups of employees to share ideas, gather feedback and discuss the future of the Group;
- Our whistleblowing system includes an anonymous reporting line for employees to raise any concerns directly with the Board; and
- 'Town hall' meetings are frequently hosted by our Chief Executive. Employees can ask questions, anonymously if they wish, which are then answered to the whole workforce.

We are fortunate that more than 95% of our staff are based at a single location, 25 Savile Row, which enables effective and daily engagement.

How do we engage with our shareholders?

Shareholders play a valuable role in safeguarding the Group's governance through, for example, the annual re-election of Directors, monitoring and rewarding their performance and engagement and constructive dialogue with the Board.

Calendar of our main shareholder events in 2018

January	Property conference (London)
February	2017 results presentation, Roadshow (London)
March	Roadshows (Netherlands and UK), Property conferences (London, Miami and New York), salesforce presentations
April	Investor meetings (Brussels)
May	Annual General Meeting, 2018 Q1 Business update, Property conferences (London and Amsterdam)
June	Property conference (London)
July	Sustainability roadshow (Netherlands)
August	2018 H1 Results presentation, Roadshow (UK)
September	Roadshow (Netherlands), Property conferences (Berlin, London and New York)
October	Property conference (London)
November	2018 Q3 Business update, Investor presentation and property tour, Property conference (London)
December	Property conference (Cape Town)

Shareholder consultation

In November 2018, our Senior Independent Director (Simon Fraser) consulted with 10 major shareholders (representing 57.5% of our issued share capital) on the Board's succession plans in respect of John Burns becoming Chairman for a two-year term. The Board were pleased with the level of support received from the consultation process (further information can be found on page 100).

We will always seek to engage with shareholders when considering material changes to either our Board, strategy or remuneration policies. In 2019, with the Remuneration Committee reassessing the Remuneration Policy for Executive Directors, shareholders will be consulted on any proposed changes in advance of its submission for shareholder approval at the 2020 AGM.

Investor meetings

During 2018, the Group held over 260 investor meetings with 200 existing and potential investors. Of these, 78 were shareholders at the year-end and their ownership represented circa 60% of the shares in issue.

Investor meetings are predominantly attended by our CEO, Finance Director and at least one other senior executive. After our announcement on 23 November that Paul Williams would succeed John Burns as Chief Executive, Paul also attended most meetings.

The meetings focused on the Group's portfolio, strategy, the London office outlook and Board succession. Where significant views were expressed, either during or following the meetings, these were recorded and circulated to all Directors.

Investor presentations and property tours

On 30 November 2018, we hosted an investor and analyst day. We briefly presented on lettings, asset management and development to 31 investors and analysts, in addition to tours of our Paddington and Fitzrovia buildings.

Property conferences

In 2018, we attended 13 property conferences in Amsterdam, Berlin, Brussels, Cape Town, London, Miami and New York.

Annual General Meeting (AGM)

Our 2018 AGM was held on 18 May 2018 and we were delighted to receive in excess of 90% votes in favour for all of our resolutions. In total, 84.49% of our shareholders (voting capital) voted at the 2018 AGM, which was an 8.95% increase from the prior year's AGM.

The 2019 AGM is to be held on 17 May at The Westbury hotel, 37 Conduit Street, London W1S 2YF and we encourage our shareholders to attend. The AGM provides an opportunity for private shareholders, in particular, to question the Directors and the chairs of each of the Board Committees.

As requested by a shareholder last year, we will be providing a short presentation on our business at the forthcoming AGM, which we hope will prove to be a valuable addition to the meeting.

In the event we receive 20% or more votes against a recommended resolution at a General Meeting, we would announce the actions we intend to take to engage with our shareholders to understand the result, in accordance with the Code. We would follow this announcement with a further update within six months of the meeting, with an overview of our shareholders' views on the resolutions and the remedial actions we have taken. To date, the Board has not been required to follow these procedures due to the high level of support received from shareholders.

Annual Report

Our Annual Report is available to all shareholders. Through our electronic communication initiatives, we aim to make our Annual Report as accessible as possible. Shareholders can opt to receive a hard copy in the post or PDF copies via email or from our website. Additionally, if a shareholder holds their Derwent London shares via a nominee account and encounters difficulty receiving our Annual Report via their nominee provider, they are welcome to contact the Company Secretary to request a copy.

Corporate website

Our website, www.derwentlondon.com, has a dedicated investor section which includes our Annual Reports, results presentations (which are made to analysts and investors at the time of the interim and full year results) and our financial and dividend calendar for the upcoming year.

We also create websites for specific developments which are used to explain the Group's current projects in greater detail. For example, you can find further information on the Brunel Building W2 and 80 Charlotte Street W1 here:

- www.brunelbuilding.com
- www.80charlottestreet.com

Senior Independent Director

If shareholders have any concerns, which the normal channels of communication to the CEO, Finance Director or Chairman have failed to resolve, or for which contact is inappropriate, then our Senior Independent Director, Simon Fraser, is available to address them.

Other contacts

Contact details for our Investor Relations team, Company Secretary and our Registrars are available on page 208.

CORPORATE GOVERNANCE STATEMENT CONTINUED

Factoring our stakeholders into our decisions

By thoroughly understanding our key stakeholder groups, we can factor their needs and concerns into Boardroom discussions (further information on our stakeholders is on pages 18 to 19).

The Board's procedures have been updated to require a stakeholder impact analysis to be completed for all material decisions requiring its approval that could impact on one or more of our stakeholder groups.

The stakeholder impact analysis assists the Directors in performing their duties under s172 of the Companies Act 2006 and provides the Board with assurance that the potential impacts on our stakeholders are being carefully considered by management when developing plans for Board approval.

The stakeholder impact analysis identifies:

- potential benefits and areas of concern for each stakeholder group;
- the procedures and plans being implemented to mitigate against any areas of concern; and
- who is responsible for ensuring the mitigation plans are being effectively implemented.

We have detailed in the case study below an overview of the key benefits and concerns which arose from the stakeholder impact analysis for The Featherstone Building.

THE FEATHERSTONE BUILDING EC1

In June 2018, the Board approved the redevelopment of Monmouth House 58-64 City Road and 19-23 Featherstone Street into a new development – The Featherstone Building – which will see the existing buildings demolished and the new development constructed on the existing site. The Featherstone Building will provide 110,000 sq ft of commercial office space, 2,000 sq ft of retail space on the ground floor and 13,000 sq ft of small/micro workspace on the ground and lower floors.

In addition to making a satisfactory return to our shareholders, our stakeholder impact analysis identified the following additional key benefits to our stakeholders:

- The Featherstone Building will assist with the regeneration of the Old Street Yard area through its design, additional retail and office space and employment opportunities.
- To assist small local businesses and start-ups, the small/micro workspace will be let at 75% of market rent and will be fully fitted out for immediate occupancy.
- Construction trainees will be employed through Skanska (the project's principal contractor) to provide employment and development opportunities.
- Where possible, we will use local procurement opportunities.
- As part of our planning obligations, we are required to provide funding (s106 contributions and Community Infrastructure Levy) for local infrastructure, including affordable housing, carbon offsetting, employment, Crossrail and TfL cycle hire.

Our stakeholder impact analysis identified the following key concerns:

- increased traffic in the area during development;
- increased noise during the project; and
- general disruption to the surrounding area including local businesses.

To mitigate the impact on the local neighbourhood, we have produced neighbourhood liaison plans which set out the project phases, timetable and details of site representatives to contact if any issues arise during the project. In addition, monthly newsletters will be sent throughout the project to local residents. Although cycles routes and pedestrian routes will be redirected during construction, we will ensure they are safely maintained for the duration of the works. Extensive consultation has been undertaken with Islington Council to develop our construction management and logistic plans.



KEY ACTIVITIES OF THE BOARD DURING 2018

Overview

The Board met seven times during the year (including the Annual General Meeting). One meeting every year is arranged specifically to consider the Group's strategy and five-year plan. Additional meetings are arranged if necessary for the Board to properly discharge its duties. An overview of our Board's key activities is provided below.

Property portfolio

- Approved the Soho Place development
- Approved The Featherstone Building development
- Approved the purchase of the leasehold interest in 88-94 Tottenham Court W1
- Provided with regular updates on asset management, leasing and investment from the senior management team
- Reviewed and approved the independent valuations of the Group's property portfolio
- Received regular updates on the key construction projects:
 - Brunel Building W2
 - 80 Charlotte Street W1
 - White Chapel Building E1 (Phase II)
- Reviewed quarterly project cost reports

Strategy and financing

- Annual strategic review in June 2018 to approve the five-year plan which included receiving presentations from the Executive Committee and updates from external advisers
- Ongoing updates from the Executive Committee on the implementation of strategy throughout the year
- Regularly considered the impact of Brexit on our business and strategy
- Considered the emerging risks and scenarios which could impact on the Group over the long-term
- Regularly reviewed the Group's financial structure and position
- Approved the US private placement of £250m senior unsecured notes (see page 32)

Risk management and internal control

- Regularly reviewed the Group's principal risks and considered emerging risks which could impact on the five-year plan
- Received updates from the Risk and Audit Committee Chairs on the key areas discussed
- Approved the appointment of RSM as the Group's outsourced internal audit function
- Received regular reports on health and safety matters

Corporate reporting and performance monitoring

- Reviewed the Group's KPIs and agreed changes for 2018 (see page 40)
- Reviewed the rolling forecast and approved the 2019 budget
- Received updates from the chair of the Remuneration Committee on the key areas discussed
- Conducted a review of the Company's viability over the next five-year period
- Approved the year end and interim results
- Approved the Q1 and Q3 business updates
- Reviewed the 2018 Annual Report to check it is fair, balanced and understandable

Stakeholder engagement

- Met shareholders at the Annual General Meeting (AGM) held on 18 May 2018
- Established the Responsible Business Committee to focus on social and environmental matters.
- Received updates on our investor engagement programme and regular investor relations reports
- Received an update on the actions taken since the last employee survey and the success of the 'Fit for the Future' initiative
- Received updates on our sustainability initiatives

Governance

- Approved the Nominations Committee's succession plans (see page 100)
- Reviewed the new requirements arising from the 2018 UK Corporate Governance Code and developed an action plan
- Agreed diversity targets and focus areas to improve female representation in senior management and on our Board (see pages 102 to 103)
- Approved the schedule of matters reserved for the Board
- Evaluated the performance of the Board, its Committees and all Directors

CORPORATE GOVERNANCE STATEMENT CONTINUED

DIVISION OF RESPONSIBILITIES

Board roles

There is clear division between executive and non-executive responsibilities which ensure accountability and oversight. The roles of Chairman and Chief Executive are separately held and their responsibilities are well defined, set out in writing and regularly reviewed by the Board.

Chairman

- Responsible for the effective running of the Board and ensuring it is appropriately balanced to deliver the Group's strategic objectives
- Promote a Boardroom culture that is rooted in the principles of good governance and enables transparency, debate and challenge
- Ensure that the Board as a whole plays a full and constructive part in the development of strategy and that there is sufficient time for Boardroom discussion
- Effective engagement between the Board and its shareholders

Senior Independent Director

- Provide a 'sounding board' for the Chairman in matters of governance or the performance of the Board
- Available to shareholders if they have concerns which have not been resolved through the normal channels of communication with the Company
- To at least annually lead a meeting of the Non-Executive Directors without the Chairman present to appraise the performance of the Chairman
- To act as an intermediary for Non-Executive Directors when necessary
- To act as an independent point of contact in the Group's whistleblowing procedures

Non-Executive Directors (NEDs)

- Provide constructive challenge to our executives, help to develop proposals on strategy and monitor performance against our KPIs
- Ensure that no individual or group dominates the Board's decision making
- Promote the highest standards of integrity and corporate governance throughout the Company and particularly at Board level
- Determine appropriate levels of remuneration for the senior executives
- Review the integrity of financial reporting and that financial controls and systems of risk management are robust

Chief Executive

- Execute the Group's strategy and commercial objectives together with implementing the decisions of the Board and its Committees
- To keep the Chairman and Board apprised of important and strategic issues facing the Group
- To ensure that the Group's business is conducted with the highest standards of integrity, in keeping with our culture
- Manage the Group's risk profile, including the maintenance of appropriate health, safety and environmental policies

Finance Director and other Executive Directors

- Support the CEO in developing and implementing strategy
- Oversee the day-to-day activities of the Group
- Manage, motivate and develop staff
- Develop business plans in collaboration with the Board
- Ensure that the policies and practices set by the Board are adopted at all levels of the Group

Company Secretary

- Secretary to the Board and its Committees
- Develop Board and Committee agendas and collate and distribute papers
- Ensure compliance with Board procedures
- Advise on regulatory compliance and corporate governance
- Facilitate induction programmes
- Responsible for the organisation of the Annual General Meeting
- Available to support all Directors

Executive Committee

Delivering the Board's strategy is the collective responsibility of the Executive Committee. Following Jennifer Whybrow's promotion to the Committee in July 2018, it is composed of six Executive Directors and six senior managers (see page 90).

To assist the Committee, a number of supporting committees have been established, to provide additional oversight of key business activities and risks (see page 87). The Committee usually meets monthly and can also meet on an ad hoc basis. This, together with the close proximity within which we work, enables us to handle complex transactions and make quick decisions, with the overall aim of creating value and driving income growth.

Board independence

Chairman

It was announced on 23 November that John Burns would succeed Robbie Rayne as Non-Executive Chairman for a two-year term from 17 May 2019.

As John is our current Chief Executive, he will not be considered independent upon appointment which is in contradiction to a provision of the Code. The Nominations Committee report on page 100 sets out how we intend to mitigate any potential governance risks this deviance from the Code could cause.

The Nominations Committee has confirmed to shareholders that the subsequent Non-Executive Chairman will be independent upon appointment, in compliance with the Code.

Non-Executive Directors

The Non-Executive Directors play an important role in ensuring that no individual or group dominates the Board's decision making. It is therefore of paramount importance that their independence is maintained.

The Chairman held a number of meetings with the Non-Executive Directors without executive management being present. These meetings are useful to safeguard the independence of our Non-Executive Directors by providing them with time to discuss their views in a more private environment.

Any Director who has concerns about the running of the Group or a proposed course of action is encouraged to express those concerns which are then minuted. No such concerns were raised during 2018.

All Directors have confirmed (as they are required to do annually) that they have been able to allocate sufficient time to discharge their responsibilities effectively.

The Board considers that our Non-Executive Directors remain independent from executive management and free from any business or other relationship which could materially interfere with the exercise of their judgement.

Other external appointments

Our Directors are required to notify the Chairman of any alterations to their external commitments that arise during the year with an indication of the time commitment involved.

On 1 May 2018, Stephen Young became a Non-Executive Director of Mondi Limited and Mondi plc and on 1 November 2018, Claudia Arney became a Non-Executive Director of Kingfisher plc. Stephen and Claudia both notified our Chairman in advance of their appointments, and the Board has confirmed that it does not believe that these additional directorships will affect either Stephen's or Claudia's commitment to, or involvement with, the Derwent London Board nor will it give rise to a potential conflict of interest.

Executive Directors

Executive Directors may accept a non-executive role at another company with the approval of the Board. Currently, none of our Executive Directors are directors of other listed companies. However, several of our Executive Directors are Trustees of charitable organisations or members of industry-related bodies.

Conflict of interests

Directors are required to notify the Company as soon as they become aware of a situation that could give rise to a conflict or potential conflict of interest. The register of potential conflicts of interest is regularly reviewed by the Board to ensure it remains up-to-date. The Board is satisfied that potential conflicts have been effectively managed throughout the year.

As a Non-Executive Director's independence could be impacted where a Director has a conflict of interest, the Board operates a policy that restricts a Director from voting on any matter in which they might have a personal interest unless the Board unanimously decides otherwise. Prior to all major Board decisions, the Chairman requires the Directors to confirm that they do not have a potential personal conflict with the matter being discussed. If a conflict does arise, the Director is excluded from discussions.

An example of this policy in effect, is in relation to Richard Dakin, who is the Managing Director of Capital Advisors Limited (a wholly-owned subsidiary of CBRE) who are the Group's external valuers. To mitigate against a potential conflict of interest, Richard does not take part in any discussions on the valuation of the Group's property portfolio at either Board or Committee level. In addition, he has no involvement in any decisions regarding the appointment of CBRE or the fees paid to them. During the annual performance evaluation of the Board, its Committees and individual Directors, the impact of this role on Richard's independence has been considered.

The Board continue to conclude that Richard remains independent both in character and judgement.

COMPOSITION, SUCCESSION AND EVALUATION

Training and development

With the ever-changing environment in which Derwent London operates, it is important for our Executive and Non-Executive Directors to remain aware of recent, and upcoming, developments. We require all Directors to keep their knowledge and skills up-to-date and include training discussions with the Chairman in their annual performance reviews.

As required, we invite professional advisers to provide in-depth updates. Updates and training are not solely reserved for legislative developments but aim to cover a range of issues including, but not limited to, market trends, the economic and political environment, environmental, technological and social considerations. Our Company Secretary provides regular updates to the Board and its Committees on regulatory and corporate governance matters.

During 2019, we have organised presentations for the Board and its Committees on the following topics:

- climate change;
- responsibility reporting;
- cyber risk management;
- regular Audit Committee training sessions (which will include an update on accounting standards); and
- executive remuneration trends and best practice.

All Directors have access to the services of the Company Secretary and any Director may instigate an agreed procedure whereby independent professional advice may be sought at the Company's expense.

CORPORATE GOVERNANCE STATEMENT CONTINUED

Board composition

At Derwent London, we ensure that appointments to our Board are made solely on merit with the overriding objective of ensuring that the Board maintains the correct balance of skills, length of service and knowledge of the Group to successfully determine the Group's strategy.

Appointments are made based on the recommendation of the Nominations Committee with due consideration given to the benefits of diversity in its widest sense, including gender, social and ethnic backgrounds. The charts on page 99 provide an overview of our Boardroom diversity.

The UK Corporate Governance Code 2016 recommends that at least half of the Board, excluding the Chairman, should be composed of independent Non-Executive Directors. Our Board is composed

of 53.8% independent Non-Executive Directors (excluding the Chairman) as at 1 January 2019. Following the Board succession changes and the retirement of Robbie Rayne and Stephen Young, the Board will be composed of 54.5% independent Non-Executive Directors (excluding the Chairman) as at 31 December 2019.

As part of the Board's annual effectiveness review, described on page 99, the Nominations Committee considers the composition of the Board and its Committees in terms of its balance of skills (detailed in the table below), experience, length of service, knowledge of the Group and wider diversity considerations.

The Nominations Committee has confirmed that the membership of the Committees continues to be appropriate and in accordance with best practice and the UK Corporate Governance Code.

Directors' skills and experiences

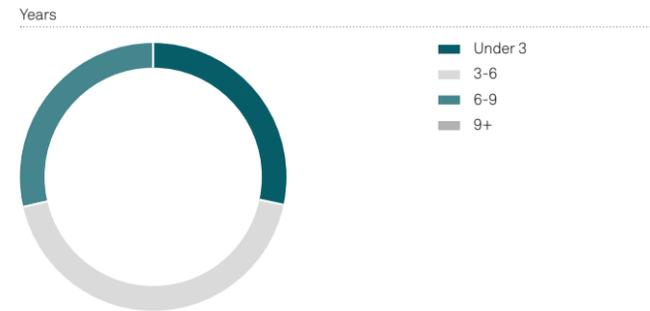
An effective Board requires the right mix of skills and experience. Our Board is a diverse and effective team focused on promoting the long-term success of the Group. The table below provides an overview of the skills and experience of our Directors as at 1 January 2019. Following the appointment of Lucinda Bell as a Non-Executive Director, we have further increased our Board's financial, property and corporate responsibility experience.

Skills and experience (i)	Number of Non-Executive Directors (including the Chairman)	Number of Executive Directors
Executive and strategic leadership		
Senior executive and directorship experience	8	6
Financial acumen		
Senior executive experience in financial accounting, reporting or corporate finance	5	3
Property and real estate		
Experience in property development, construction or real estate management	4	6
Governance and compliance		
Prior experience as a Board member, industry or membership of governance bodies	8	4
Corporate responsibility and community relations		
Experience in corporate or social responsibility, charitable bodies or human resources	5	5
Health and safety, risk management		
Experience in health and safety, risk management or internal controls	5	2
Investor relations and engagement		
Experience in investor relations (private or institutional) and engagement	8	6
Capital projects		
Experience working in an industry with projects involving large-scale capital outlays and long-term investment horizons	7	6
Remuneration		
Prior Remuneration Committee membership and/or experience in relation to remuneration including incentive programmes	5	1

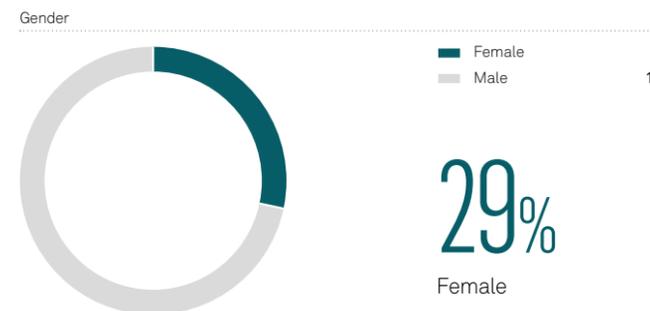
Notes:
 (i) Requires senior management or executive level responsibility relative to that skill

Board composition as at 1 January 2019

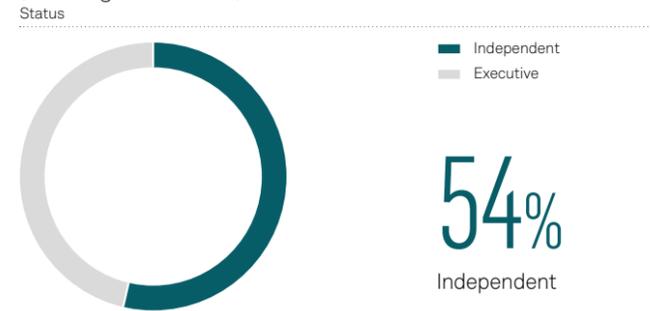
Tenure of the Non-Executive Directors



Gender balance of the Board



Independence of the Board (excluding the Chairman)



Evaluation

On an annual basis, an evaluation process is undertaken which considers the effectiveness of the Board, its Committees and individual Directors. This review identifies areas for improvement, informs training plans for our Directors and identifies areas of knowledge, expertise or diversity which should be considered in our succession plans.

The evaluation for the year ended 31 December 2018 was conducted in Q1 2019 and consisted of a questionnaire which focused on any areas raised for further improvement in the prior year evaluation and how the Board handled particular topics in 2018, including:

Areas of focus for 2018	Progress
People and talent management	<ul style="list-style-type: none"> Oversaw the introduction of 'Fit for the Future' initiatives (see page 78). Appointed Cilla Snowball to be the Director responsible for gathering the views of our workforce.
Gender pay	<ul style="list-style-type: none"> Established targets and focus areas to improve the representation of women in senior management (see page 102). Monitored the gender balance of new recruits, leavers and interns (see page 103).
Succession planning at Board level	<ul style="list-style-type: none"> Finalised Board succession plans for the Non-Executive Chairman and Chief Executive (see page 100). Received positive feedback from major shareholders (representing 57.5% of our issued share capital) on the Board's succession plans.
Compliance matters (including GDPR)	<ul style="list-style-type: none"> Received regular updates on the Group's project to ensure GDPR compliance from May 2018. The policies and procedures to prevent the facilitation of tax evasion (see page 114).

In addition, the questionnaire sought feedback on the following matters:

- composition of the Board and its Committees (including diversity considerations);
- knowledge, skills and experience of the Committees;
- how the Directors work together and contribute to meetings; and
- the quantity, quality and timeliness of reports/papers.

The responses were collated and provided on an anonymous basis to the Chairman of the Board and the Chairs of the Committees.

As a result of this evaluation, the Board is satisfied that its structure, balance of skills and operation continues to be satisfactory and appropriate for the Group. The Board has identified a number of areas which it wishes to focus upon during 2019:

- support the new Chief Executive and Non-Executive Chairman;
- establish the Responsible Business Committee and ensure it operates effectively;
- ensure the Group is adequately prepared for Brexit; and
- monitor the progress of key development projects.

We conduct externally facilitated reviews at least every three years. As the last external review was for the year ended 31 December 2016, we anticipate that our next externally facilitated review will be conducted in Q1 2020 for the year ending 31 December 2019.

NOMINATIONS COMMITTEE REPORT



Simon Fraser
Chair of the Nominations Committee

FOCUS AREAS IN 2019

- Continue to focus on succession planning and our talent pipeline
- Monitor the induction programme for Lucinda Bell
- Begin the search for our next Non-Executive Chairman

Dear Shareholder,

I am pleased to present to you the report of the work of the Nominations Committee for 2018.

As previously identified in our 2017 Annual Report, Board succession has been a key priority during 2018. We had been mindful for some time that Robbie Rayne and John Burns might wish to retire from their current roles and had factored this possibility into our succession discussions.

A key factor in our succession plans has always been the importance of retaining the culture of the Group, which is a valuable core strength of the business. The appointment of John Burns as the next Non-Executive Chairman of the Company, for a two-year term, was a natural transitional step to preserve our culture and ensure an orderly succession.

In advance of finalising our succession plans, I consulted with 10 major shareholders (representing 57.5% of our issued share capital) to explain the Committee's rationale for John's appointment. During my discussions with shareholders and proxy voting agencies, I provided assurance that the Committee had factored the principles of good corporate governance into its planning, which included the following 'safeguards' to ensure the separation of leadership between the Chairman and Chief Executive:

- John's appointment is for a finite period of two years and he will be based at a separate office (not 25 Savile Row);
- The responsibilities of Chairman and Chief Executive are clearly defined and regularly reviewed;
- The next Non-Executive Chairman will be independent upon appointment; and
- I remain available as an intermediary to shareholders and Directors to raise any questions and concerns.

I was pleased with the overwhelming support received from our shareholders who posed no objections to our proposals and support John stepping into the role of Chairman until May 2021.

In conjunction with our Chairman succession planning, we undertook a thorough recruitment process for the role of Chief Executive. The calibre of our internal senior team is outstanding, and the Committee commends them for their commitment and passion for the business. It was after careful deliberation that the Committee unanimously recommended the appointment of Paul Williams as Chief Executive from 17 May 2019.

If you wish to discuss any aspect of the Committee's activities or succession plans, I will be attending the forthcoming AGM on 17 May 2019 and would welcome your questions. I am also available via our Company Secretary, David Lawler (telephone: +44 (0)20 7659 3000 or email: company.secretary@derwentlondon.com).

I would like to take this opportunity to thank our shareholders for their continuing support.

Simon Fraser
Chair of the Nominations Committee
26 February 2019

Committee composition

Our Committee consists of three independent Non-Executive Directors. At the request of the Committee, members of the Executive Committee, senior management team and external advisers may be invited to attend all or part of any meeting, as and when appropriate.

	Independent	Number of meetings	Attendance
Simon Fraser, Chair	Yes	4	100%
Cilla Snowball	Yes	4	100%
Richard Dakin	Yes	4	100%

It has been agreed by the Board that all Non-Executive Directors would become members of the Nominations Committee to ensure they are involved in discussions relating to succession planning and talent management. Therefore, with effect from 1 January 2019, Claudia Arney, Lucinda Bell and Helen Gordon will become members of the Nominations Committee. The Committee's role and responsibilities are set out in the terms of reference, which were last updated in August 2018 and are available on the Company's website at: www.derwentlondon.com/investors/governance/board-committees

Meetings of the Committee

During the year under review, the Committee held four meetings (in May, August, and two in November) (2017: four meetings).

In addition to the scheduled meetings, the chair of the Committee met with advisers and brokers for three meetings and held ad hoc calls in relation to Board succession.

Board composition

As part of the Board's annual effectiveness review, described on page 99, the Committee considers the composition of the Board and its Committees in terms of its balance of skills, experience, length of service, knowledge of the Group and wider diversity considerations. In addition, consideration was given to the Committee(s) which Lucinda Bell would join following her appointment. The Committee consulted its succession plans and considered Lucinda's skills and experience before recommending her memberships to the Board.

Following the annual effectiveness review, it was confirmed that the membership of the Committees continues to be appropriate and in accordance with best practice and the 2016 UK Corporate Governance Code.

Succession planning

As Directors we have a duty to ensure the long-term success of the Company, which includes ensuring that we have a steady supply of talent for executive positions and established succession plans for Board changes. The Committee considers the Group's succession planning on a regular basis to ensure that changes to the Board are proactively planned and co-ordinated.

Non-Executive Directors (NED) terms of appointment

The Committee monitors a schedule on the length of tenure of the Non-Executive Directors, and reviews potential departure dates assuming the relevant Directors are not permitted to serve more than three three-year terms (see the table below).

	Appointment	Term of Appointment		
		3 years	6 years	9 years
Stephen Young ⁽ⁱ⁾	2 August 2010	3 August 2013	4 August 2016	5 August 2019
Simon Fraser	1 September 2012	1 September 2015	1 September 2018	1 September 2021
Richard Dakin	6 August 2013	6 August 2016	6 August 2019	6 August 2022
Claudia Arney	18 May 2015	18 May 2018	18 May 2021	18 May 2024
Cilla Snowball	1 September 2015	1 September 2018	1 September 2021	1 September 2024
Helen Gordon	1 January 2018	1 January 2021	1 January 2024	1 January 2027
Lucinda Bell	1 January 2019	1 January 2022	1 January 2025	1 January 2028

Note:

⁽ⁱ⁾ Stephen Young will step down from the Board on 17 May 2019.

Chief Executive

Russell Reynolds Associates, an independent search agency, were retained to assist the Committee with the search for a new Chief Executive (they perform no other work for the Group and are signatories to the voluntary code of conduct for executive search firms). Russell Reynolds Associates carried out a detailed assessment of the available external candidates as well as the internal candidates.

The importance of retaining the Group's strong culture and the extensive experience of the senior management team was of paramount importance. It was after careful deliberation that the Committee unanimously recommended the appointment of Paul Williams as Chief Executive from 17 May 2019.

Non-Executive Directors

At the beginning of the year, we began the search for a successor for Stephen Young who intends to step down, after nine years on the Board, in May 2019. Stephen has brought considerable knowledge and oversight as chair of the Audit Committee. It was therefore a key component of our specification that a new member of the Board bring a similar level of financial expertise and experience. Due to its wide network of contacts, the Committee was able to identify potential candidates without the use of an external search consultancy or open advertising.

We were delighted that Lucinda Bell joined our Board on 1 January 2019 and will succeed Stephen as chair of the Audit Committee. Lucinda's biography is available on page 89.

Executive Committee

The Committee also monitors the development of the executive team below the Board to ensure that there is a diverse supply of senior executives and potential future Board members with appropriate skills and experience. The Executive Committee considers the adequacy of the Group's succession plans below the Board as part of the five-year strategy review and provides updates to the Committee.

Appointment review

The Committee performed a rigorous review of Claudia Arney's, Cilla Snowball's and Simon Fraser's appointments, as their current term of office was due to expire in 2018. None of the Non-Executive Directors were present when their term of appointment was considered by the Committee.

The Committee is pleased to report that it is satisfied with the ongoing performance and commitment of Claudia, Cilla and Simon and has recommended that their appointments be extended for another three years.

NOMINATIONS COMMITTEE REPORT CONTINUED

Induction

The Company provides new Directors with a comprehensive and tailored induction process which includes visiting a number of the Group's properties with senior management, meetings with the Group's audit partner and corporate lawyer together with meetings with members of the senior management team.

If considered appropriate, new Directors are provided with external training that addresses their role and duties as a Director of a quoted public company.

Lucinda's induction programme followed a similar structure to Helen Gordon's, which was described in detail on page 103 of the 2017 Annual Report. Induction programmes are developed by the Group's Company Secretarial department and approved by the Chair of the Committee.

Diversity and inclusion

Having a diverse, highly talented and skilled group of people at all levels at Derwent London is fundamental to our business success. Diversity and inclusion bring new ideas and fresh perspectives which fuel innovation and creativity. This is why we actively work to attract, retain and develop employees to improve our talent pipeline.

We fully support, and are signatories to, the Property Week Diversity Charter and the RICS Inclusive Employer Quality Mark. We are founding supporters of Real Estate Balance and we are also members of the City Women Network (CWN) which provides membership to all our senior female employees.

During the year, we hosted a CWN event at 25 Savile Row on the 'Changing workplace' presented by Monica Parker (HATCH Analytics). Monica was an exceptional speaker who brought to the forefront the importance of change to facilitate diversity in a practical and thought-provoking manner. We were delighted that a large number of our own staff attended the event.

Board diversity

A diversified Board brings constructive challenge and fresh perspectives to discussions. We consider diversity, in its widest sense (and not limited to gender), during our Board composition reviews and during the development of recruitment specifications. Our gender diversity policy ensures that, where possible, each time a Director is recruited, at least one of the short list of candidates is female.

While we have identified areas where we could further improve our diversity balance, principally our ethnic and gender diversity, we do not positively discriminate during the recruitment process and are conscious that altering the diversity of the Board can only be done in conjunction with the underlying Board refreshment programme.

Gender diversity targets

The Board are aiming to achieve the recommendations of the Hampton-Alexander Review and have 33% female representation on its Board, Executive Committee and senior management teams (direct reports to the Executive Committee) by 31 December 2020.

Following the appointment of Lucinda Bell on 1 January 2019, our gender balance at Board level has further improved to be 29% women (2017: 23%). From 17 May 2019, the Board's succession plans become effective, which results in:

- the gender balance of the Executive Committee being 18% women (the combined gender balance of the Executive Committee and its direct reports is 29.2% women); and
- Boardroom diversity improving to 33% women which achieves the Hampton-Alexander targets well in advance of the 31 December 2020 deadline.

The Board is confident it will achieve the gender balance target for the direct reports to the Executive Committee, however the gender balance of the Executive Committee is likely to remain a challenge. Improving the diversity of the Executive Committee can only be achieved through either increasing the size of the Committee (which is not considered a practical or effective solution) or through natural succession changes. Although it is disappointing that this target might not be achieved within the deadline, the Committee is focusing on the talent pipeline to the Executive Committee and the Board's focus areas which aim to improve diversity throughout the Group.

Hampton-Alexander Review

Target		Progress during 2018	1 January 2019	Note ⁽ⁱ⁾
Achieve the recommendations of the Hampton-Alexander Review and have 33% female representation	Board	+6%	29%	33%
	Executive Committee ⁽ⁱⁱ⁾	+8%	17%	18%
	Direct reports to the Executive Committee ⁽ⁱⁱⁱ⁾	+3%	32%	n/a

Notes:

⁽ⁱ⁾ Diversity balance of the Board and Executive Committee following the implementation of the announced succession plans due to become effective from 17 May 2019.

⁽ⁱⁱ⁾ The combined diversity balance of the Executive Committee and its direct reports (excluding administrative and support staff) is 28.6% women as at 1 January 2019.

⁽ⁱⁱⁱ⁾ Direct reports to the Executive Committee, excluding administrative and support staff, is 32.4% women. Direct reports to the Executive Committee, including administrative and support staff, is 46.0% women.

Diversity focus areas

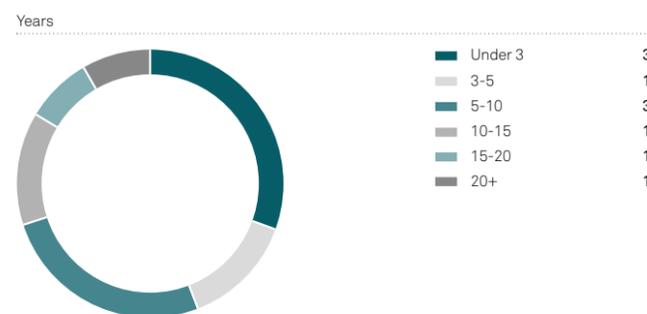
The Board has established clear focus areas which aim to promote the importance of diversity at all stages from attracting diverse and talented employees through to retention and promotion.

Area	Focus	Actions
Attracting diverse, highly skilled and talented employees	Tackle unconscious bias	<ul style="list-style-type: none"> • Unconscious bias training to be provided to all staff involved in recruitment or performance appraisals in May 2019. • Executives and Heads of Departments will complete tests to enhance awareness of own unconscious bias. • Monitored the gender balance of new recruits and leavers (67% of professional recruits since 1 January 2018 were female).
	Candidate shortlists to have gender balance	
	All recruiters are signatories to the Standard Voluntary Code of Practice	
Retaining the best talent	Recruit from a wide pool of talent (including women returning to work)	<ul style="list-style-type: none"> • Identified the perceived barriers to agile working which will be addressed during 2019. • Introduction of parental transition coaching for men and women taking paternity/maternity leave which is provided in advance, during and upon their return.
	Focus on women returning to work	
Promoting diversity	Promote the importance of work/life balance	<ul style="list-style-type: none"> • Four female Group employees took part in an 'Inspire' event which aimed to challenge industry stereotypes. • Two young women recruited through the Hackney 100 work experience scheme. • 24% of our interns were female (2017: 29%). Two of our interns were via the 'Fitzrovia Youth in Action' charity.
	Gender balance within our internships and work experience placements	
	Aim to encourage more girls to be interested in the construction and property industry and challenge harmful gender stereotyping	
	Heads of Department demonstrate that we are an inclusive employer	

The Group's composition and diversity

We have an experienced, diverse and dedicated workforce. The charts below provide a breakdown of our diversity as at 1 January 2019. The Board's composition as at 1 January 2019 is shown on page 99.

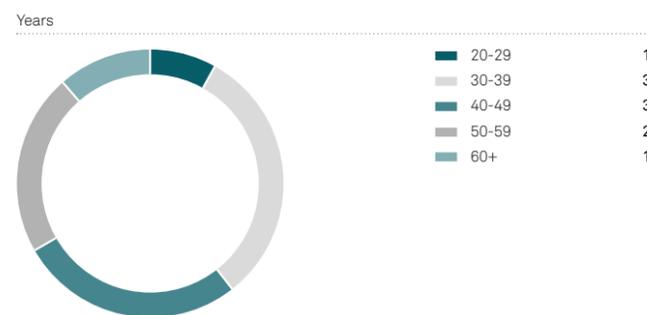
Length of service



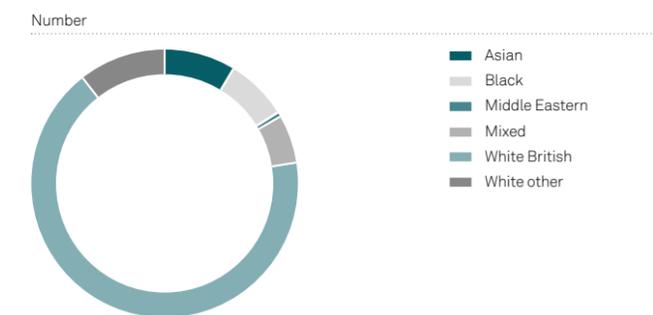
Gender diversity



Employees by age



Ethnic origin



AUDIT COMMITTEE REPORT



Stephen Young
Chair of the Audit Committee

FOCUS AREAS IN 2019

- Ensure a smooth transition as John Waters becomes the new audit partner
- Approve the 2019 internal audit plan and review the outcome of the assurance reviews
- Review the significant judgements applied in the preparation of the Annual Report and Accounts
- Review our internal financial control procedures to ensure they continue to operate effectively

Dear Shareholder,

I am pleased to present our Audit Committee report for 2018 which describes our activities and areas of focus.

Financial reporting

Our review of the significant financial judgements made during the year and key financial reporting issues are described on page 105 of this report.

We were pleased to advise the Board that the 2018 Annual Report is fair, balanced and understandable and provides the necessary information for our shareholders to assess the Company's position, prospects, business model and strategy. Our review process is described in greater detail on page 108.

Audit quality

During the year, the FRC conducted an audit quality review (AQR) of our 2017 year end audit which had been performed by PwC. The Committee was delighted with the outcome of the AQR which confirmed there were no significant recommendations for further improvement (see page 107).

Internal audit

In conjunction with our review of the Group's internal financial controls, we consider on an annual basis whether Derwent London could benefit from an internal audit function. After detailed discussions with management in August 2018, it was agreed that an outsourced internal audit function would be established to improve the Group's procedures and to help achieve the highest standards for governance and compliance. Following a tender process, RSM have been appointed, initially for a three-year period. The 2019 internal audit plan will be approved by the Committee in May 2019.

Further information on the review of the internal financial controls and the establishment of an outsourced internal audit function can be found on pages 108 to 109.

Succession

After serving as a Non-Executive Director for nine years, and as chair of the Audit Committee since April 2011, I will be stepping down in May 2019 after a comprehensive handover to Lucinda Bell. Lucinda is a qualified accountant and has significant and recent financial experience, having been CFO of The British Land Company plc for seven years. I am confident she will make an excellent Audit Committee Chair.

Following the 2018 year-end audit, Craig Hughes will step down as our audit partner in accordance with the five-year rotation and will be succeeded by John Waters. After discussing the handover process in detail with Craig Hughes and our Finance Director, Damian Wisniewski, we are confident that the transition and handover period will be efficiently managed.

Further engagement

I welcome questions from shareholders on the Committee's activities. If you wish to discuss any aspect of this report, please contact me via our Company Secretary, David Lawler (telephone: +44 (0)20 7659 3000 or email: company.secretary@derwentlondon.com).

I will be attending the 2019 AGM, alongside my fellow Board members, and look forward to meeting you there.

Stephen Young
Chair of the Audit Committee
26 February 2019

Committee composition

During the year under review, the Committee was composed of four independent Non-Executive Directors with a wide range of experience, including real estate and finance. The Chair, Stephen Young, is a qualified accountant and has an appropriate level of recent and relevant financial experience to discharge his duties as chair of the Committee. Lucinda Bell, who joined the Committee on 1 January 2019, will become chair of the Committee following Stephen Young's retirement from the Board on 17 May 2019.

	Independent	Number of meetings	Attendance
Stephen Young, Chair	Yes	3	100%
Simon Fraser	Yes	3	100%
Richard Dakin	Yes	3	100%
Claudia Arney	Yes	3	100%

The Committee's role and responsibilities are set out in the terms of reference, which were last updated in August 2017 and are available on the Company's website at: www.derwentlondon.com/investors/governance/board-committees

Meetings of the Committee

During the year under review, the Committee met three times, in February, August and November (2017: four meetings). In addition to the Committee members, meetings are attended by the external Auditor and members of the Group's senior management team, at the request of the Committee Chair. Two additional meetings are held each year with the Group's external property valuers to consider the valuation of our property portfolio.

Significant financial judgements

Any key accounting issues or judgements made by management are monitored and discussed with the Committee throughout the year. The table below provides information on the key issues discussed with the Committee in 2018 and the judgements adopted.

Issue	Judgement
Valuation of the Group's property portfolio	
The Committee considers this to be a major area of judgement in determining the accuracy of the financial statements as it is the principal component of the Group's net asset value	The valuation is performed by CBRE Limited and Savills (UK) Limited (the 'external valuers') and, due to its significance, is also reviewed by the external Auditor. The valuation is determined without management being present (see page 106). The Committee reviewed the underlying assumptions used in the valuation and the external valuers' independence and methodology. These procedures enabled the Committee to be satisfied with the assumptions and judgements used in the valuation of the Group's property portfolio.
Taxation and REIT compliance	
Should the Group not comply with the REIT regulations, it could incur tax penalties or ultimately be expelled from the REIT regime, which would have a significant effect on the financial statements	The Group employs a qualified and experienced Head of Tax whom the Committee meets at least annually. The Committee noted the frequency with which compliance with the regulations was reported to the Board and considered the margin by which the Group complied. Based on this and the level of headroom shown in the latest Group forecasts the Committee agreed that, once again, no further action was required for the current year.
Borrowings and derivatives	
Calculation of the fair values of the Group's financial instruments, such as the 2019 convertible bonds and interest rate swaps	The Committee noted that the valuations were carried out by an independent third party which had valued the instruments in previous years and that the external Auditor used its own treasury specialists to re-perform the valuation and to assess the reasonableness thereof. The external Auditor subsequently confirmed that no issues had arisen relating to the valuation. The Committee was satisfied with the level of assurance gained from these procedures.

Financial reporting

One of the Committee's principal responsibilities is to review and report to the Board on the clarity and accuracy of the Group's financial statements, including the Annual Report and interim statement. When conducting its reviews, the Committee considers the overall requirement that the financial statements present a 'true and fair view' and the following:

- the accounting policies and practices applied (see page 109 of this report for further details on internal financial controls);
- material accounting judgements and assumptions made by management;
- significant judgements or key audit matters identified by the external Auditor (see pages 105 and 140); and
- compliance with relevant accounting standards and other regulatory financial reporting requirements including the UK Corporate Governance Code.

In order to assess the financial statements, the Committee regularly reviews reports from members of the finance team and external Auditors who are invited to attend the Committee's meetings. Through face-to-face discussions and detailed written reports, the Committee are able to understand the business rationale for transactions and how they are being recorded and disclosed in the financial statements.

AUDIT COMMITTEE REPORT CONTINUED

Valuation

Our property portfolio is valued by the external valuers for our interim and year end results. As at 31 December 2018, it was valued at £5.2 billion (2017: £4.9 billion) and principally consists of 86 properties in 13 'villages' across London.

The valuation of the portfolio underlies the net asset value. Movements in that valuation are a significant part of how we measure our progress and a key determinate of the Group's total return (a KPI and a performance measure for our Executive Directors' variable remuneration – see pages 40 and 125). Due to its significance, the Committee monitors the objectivity and independence of the external valuers' work and hosts the valuation meetings without management being present.

The valuation meetings typically occur in February and July prior to Audit Committee meetings. Due to his position as Managing Director of Capital Advisors Limited (a wholly-owned subsidiary of CBRE Limited), Richard Dakin does not take part in discussions regarding the valuation of the Group's property portfolio (see page 97).

Key matters discussed during the meetings include the assumptions underlying the valuation, any valuation which required a greater level of judgement than normal, for example development properties, and any valuation movements that were not broadly in line with that of the MSCI Investment Property Databank (IPD) benchmark. The assumptions are discussed with the external Auditor and an update on the matters discussed at the meetings is provided to the Board.

External Auditor

The Committee has primary responsibility for overseeing the relationship with the external Auditor, including assessing their performance, effectiveness and independence annually and recommending to the Board their reappointment or removal.

Following a comprehensive tender in 2014, PricewaterhouseCoopers LLP (PwC) were appointed as the Group's Auditor. Prior to this appointment, BDO had been the Group's Auditor since 1985. The Committee anticipates that the next competitive tender will be conducted no later than 2024 in accordance with current regulation that requires a tender every 10 years. There are no contractual obligations which restrict the Committee's choice of Auditor or a minimum appointment period.

The Company has complied with the provisions of the Competition and Markets Authority's Order for the financial year under review in respect to audit tendering and the provision of non-audit services.

Change in audit partner

Craig Hughes will reach the end of his term as audit partner following the 2018 year end audit. The Committee met with the new audit partner, John Waters, during the year. The transitional arrangements were discussed in detail with PwC and our Finance Director to ensure a smooth handover and induction process. The first audit under the supervision of John Waters will be the 2019 year end audit.

Working with the Auditor

The external Auditor (the lead audit partner and his team) attends the Committee's meetings to provide insight and challenge and to present their reports on the review of the half-year results and audit of the year end financial statements. To further facilitate open dialogue and assurance, the Committee holds private sessions with the Auditor without members of management being present.

Annual review of the external Auditor

Following the year end audit, the Committee assessed the effectiveness of the external Auditor. The assessment took into account the views of senior management and was supported by a questionnaire which covered the Auditor's resources, objectivity, character, knowledge, organisation, judgements and quality of reporting.

As part of their review, the Committee reviewed the audit plan, which was focused on risk and materiality, and considered the quality of their planning, whether the agreed plan had been met, the extent to which it was tailored to our business and its ability to respond to any changes in the business.

An important aspect of managing the external Auditor relationship is ensuring there are adequate safeguards to protect Auditor objectivity and independence. In assessing this matter, the Committee considered the following:

- the Auditor's independence letter which annually confirms their independence and compliance with the Financial Reporting Council's (FRC) Ethical Standard;
- the operation, and compliance with, the Group's policy on non-audit work being performed by the Auditor;
- the tenure of the external Auditor and the lead audit partner;
- how the Auditor identified risks to audit quality and how these were addressed, including the network level controls the Auditor relied upon; and
- the outcome of the FRC's inspection of PwC's audit quality (further information is provided below).

After taking all of these matters into account, the Committee concluded that PwC had performed their audit effectively, efficiently and to a high quality. Accordingly, the Committee has recommended to the Board that PwC be reappointed as Auditor to the Group for the year ending 31 December 2019. Any feedback arising from the annual assessment will be discussed with the external Auditor for implementation into the audit plan for the next year end audit.

FRC's Audit quality review

The FRC's Audit Quality Review team (AQR) carried out a review of the audit of our financial reporting for the 31 December 2017 financial year as part of their routine process. The chair of the Committee was involved in the planning for the review which included a preparatory call with the FRC. Following completion of the AQR, the Committee was provided with a report from the FRC's AQR Team and received a verbal update on the outcome from PwC. The Committee were pleased to note that there were no significant recommendations made by the FRC for further improvement.

Non-audit services

The objective of maintaining the Non-Audit Services Policy is to ensure that the provision of such services do not impair the external Auditor's independence or objectivity. During 2018, PwC provided non-audit services which totalled £45,095, including the review of our half-year results (2017: £43,715).

£'000	2018	2017
Audit of Derwent London plc and subsidiaries	350	340
Review of interim results	41	40
Other non-audit services	4	4
Total fees	395	384

Overview of our Non-Audit Services Policy

Under the policy, all services provided by the external Auditor (other than the audit itself) are regarded as non-audit services. Our policy draws a distinction between permissible services (which could be provided subject to conditions set by the Committee) and prohibited services (which may not be provided by the external Auditor except in exceptional circumstances when the Auditor has been provided with approval by the Financial Conduct Authority). The type of non-audit services deemed to be permissible include: review of the half-year results, assurance work on non-financial data, tax services, including tax advisory, and reporting best practice.

The Committee has provided pre-approval which allows management to appoint the external Auditor to conduct permissible non-audit services if they fall below a set fee level. The Committee review the pre-approval limit on an annual basis and it is currently set at £25,000. Permissible services which are above the pre-approval limit require approval from at least two members of the Audit Committee (including the Committee Chair). When considering if the services should be approved, the Committee will ensure that the Auditor's objectivity and independence are not threatened. Any non-audit service provided by the external Auditor is reported to the Board. In the unlikely event that the provision of non-audit services would exceed £100,000, the Committee would request Board approval.

AUDIT COMMITTEE REPORT CONTINUED

Internal audit

On an annual basis, the Committee considers whether Derwent London would benefit from the establishment of an internal audit function. Although historically this was not deemed necessary – due to the relatively small scale and level of complexity of the organisation, the focused nature of the Group's business and the close involvement of Directors in day-to-day operations – it was agreed in August 2018 that an outsourced internal audit function would be established to provide additional assurance and suggestions for best practice improvements.

In November, four internal audit firms presented to the Committee Chair and executive team. It was agreed that RSM would be appointed to provide an outsourced internal audit function, initially for a three-year period, to conduct a series of risk-based internal audits and projects. RSM perform no other work for the Group and are considered by the Committee to be independent.

The Committee will approve the internal audit plan for 2019 in May 2019 in liaison with the Risk Committee. RSM will attend each Committee meeting to present their findings and progress against the internal audit plan. The other Board Committees will be kept updated on the outcome of any reviews which fall within their areas of responsibility.

Viability statement

We have reviewed the process and assessment of the Company's prospects and viability made by management for the next five years which formed the basis for the viability statement (see page 44).

Whistleblowing

As a business, we seek to conduct ourselves with honesty and integrity and believe that it is our duty to take appropriate measures to identify and remedy any malpractice within or affecting the Company. Our employees embrace our high standards of conduct and are encouraged to speak out if they witness any wrongdoing which falls short of those standards.

Our whistleblowing procedures are included within our staff handbook, on our Group intranet and staff noticeboards. In addition to an independent reporting line for anonymous reporting of concerns, the Senior Independent Director acts as an independent point of contact for whistleblowing concerns.

Our whistleblowing policy ensures that any significant issues relating to potential fraud are escalated to the chair of the Committee immediately. The Committee receives updates from the Company Secretary on the operation of the whistleblowing system. During the year under review, we did not receive any whistleblowing messages (2017: no messages).

Review of the 2018 Annual Report

At the request of the Board, the Committee was asked to review the Group's Annual Report and to consider whether, taken as a whole, it was fair, balanced and understandable. In carrying out its review, the Committee had regard to the following:

Fairness and balance

- Is the report open and honest, are we reporting on our weaknesses, difficulties and challenges alongside our successes and opportunities?
- Do we provide clear explanations of our KPIs and is there strong linkage between our KPIs and our strategy?
- Do we show our progress over time and is there consistency in our metrics and measurements?

Understandable

- Do we explain our business model, strategy and accounting policies simply using precise and clear language?
- Do we break up lengthy narrative with quotes, tables, case studies and graphics?
- Do we have a consistent tone across the Annual Report?
- Are we clearly 'signposting' to where additional information can be found?

Specific considerations for the 2018 Annual Report

Are we providing clear and detailed explanations in respect of:

- Our Board succession plans and how we intend to mitigate against any governance issues?
- Brexit risk and opportunities?
- The remuneration paid to Executive Directors and senior managers in respect to Board succession changes?

Structural changes to the 2018 Annual Report included:

- the introduction of a dedicated stakeholder section within the Strategic report (see pages 18 to 19);
- restructuring the Responsibility report to provide clearer explanation and linkage (see pages 74 to 81);
- expanded disclosures on our viability assessment (see pages 44 to 45); and
- the introduction of 'Governance at a glance' and 'Remuneration at a glance' to improve readability (see pages 86 and 118).

The Committee paid particular attention to these changes to ensure they did not impact on the balance and clarity of the Annual Report.

Following its review, the Committee confirmed to the Board that the 2018 Annual Report is fair, balanced and provides sufficient clarity for shareholders to understand our business model, strategy, position and performance.

Internal control

On an ongoing basis, the Committee reviews the adequacy and effectiveness of the Group's system of internal financial controls which are described briefly in the table below.

While Derwent London is a large business in terms of the size of its balance sheet and market capitalisation, we are relatively small when considering the number of people working directly in the business. Almost all of our staff work in the same building and are in close proximity to our Executive Committee members, making for close supervision and easy monitoring. Our Group structure is organised to be simple and transparent (i.e. relatively few subsidiaries, no offshore structure, very few joint ventures) and our internal control procedures and policies are well established, reviewed annually and subject to external verification.

The Committee received detailed reports on the operation and effectiveness of the internal controls from members of the senior management team. The outcome of the external audit at year end and the half year review are considered in respect to our internal controls. The Committee also receives updates on the policies and procedures in place and how these are being communicated to and complied with by our staff.

The Committee remains satisfied that the review of internal controls did not reveal any significant weaknesses or failures and they continue to operate effectively.

During 2018, the following changes were made to our system of internal controls:

- **Payroll:** After the Head of HR has approved the payroll, an analytical review is performed by the Group Financial Controller of each employee's pay and changes are investigated. A summary sheet explaining the movements from one month to the next is also now given to the approver and authoriser of the salary BACS.
- **'Know your client' procedures:** These have been subject to in-depth review and have been further strengthened to minimise risk exposure. The Committee reviewed a flowchart of processes at its November meeting, and the forms which require completion for all property acquisitions, disposals and residential lettings. Further information on tenant covenants is available on page 114.
- **Anti-bribery and corruption:** Our procedures have been reviewed and strengthened during the year with a revised anti-bribery policy and Hospitality & Gift Return (see page 113). **Whistleblowing:** The Committee reviewed the whistleblowing procedures and recommended the introduction of an anonymous reporting line for concerns via an independent third party. The new system will be operational in Q2 2019. Further information on whistleblowing is available on page 108.

Overview of internal controls	
Governance framework	Our governance framework (see page 87) supports effective internal control through an approved schedule of matters reserved for decision by the Board and the Executive Committee, supported by defined responsibilities, levels of authority and supporting committees.
Financial reviews and internal procedures	Comprehensive systems of financial reporting and forecasting which are conducted frequently and include both sensitivity and variance analysis. An annual budgeting exercise is carried out with three rolling forecasts prepared. A five-year strategic review is prepared annually. Break-even and sensitivity analyses are included in both the five-year strategic review and the rolling forecasts.
Risk identification and monitoring	The Risk Committee regularly reviews the Group's risk register, the schedule of key controls and key risk indicators. The schedule of key controls provides evidence of how the controls are being operated and their effectiveness. Our risk management procedures are robust and include initiatives such as a 'tenant at risk' register and a back-up IT facility. The Risk Committee's report is on pages 110 to 115.
Training and staff awareness	Staff compliance with internal policies are routinely confirmed to the Committee. Staff are aware of the delegated authority limits set by the Board and confirm their understanding of our internal policies which are contained on our Group intranet and in our employee handbook. Staff have six-monthly performance reviews with any training requirements identified and fulfilled within six months. The Group operates a whistleblowing policy which includes access to an independent helpline for anonymous reporting of concerns.
External verification	During the year, no significant deficiencies had been raised by PwC as a result of their controls testing undertaken as part of the annual audit. The Group's VAT procedures are subject to ongoing periodic review by external advisers. Comprehensive reviews of the Group's financial controls have also been undertaken with assistance from external advisers. Regular annual credit ratings, including risk assessments, are conducted. In 2018, we appointed Fitch to provide our corporate credit rating. Each year, at renewal, a comprehensive review of the Group's insurance cover is prepared by its independent insurance adviser.

RISK COMMITTEE REPORT



Richard Dakin
Chair of the Risk Committee

FOCUS AREAS IN 2019

- The ongoing review of the Group's principal risks
- Monitor health and safety across the Group
- Review the emerging risks which could impact on the Group in the medium to long-term
- Review the risk arising at our key developments: 80 Charlotte Street W1, The Featherstone Building EC1 and Soho Place W1.
- Monitor Brexit and the political environment to assess the potential impact on the Group

Dear Shareholder,

I am pleased to present our Risk Committee report for 2018 which describes our activities and areas of focus during the year.

Risk profile of the Group

The political and economic uncertainty triggered by the referendum decision to leave the EU is likely to continue until the future trade relationship with the EU is finalised.

The Committee's responsibility is to ensure that management are proactively planning for the risks and challenges which could arise from the Brexit negotiations and the eventual outcome. Of particular concern is the impact unfavourable negotiations could have on the UK economy and specifically London which will feed through into our leasing and development activities.

In June 2018, the Board as a whole considered potential Brexit scenarios on the Group's five-year strategic plan and long-term viability (more on page 45). Despite the potential negative impact of 'worst case' scenarios, the Group's strong financial structure and flexible business model provides sufficient flexibility to weather the uncertainty.

Additional information on the potential impact of Brexit on the Group is contained on page 47. The Board's risk tolerance is contained on page 112 of this report.

Key activities of the Committee

2018 was another busy year for the Committee. In addition to routinely reviewing the Group's risk register, the Committee's main areas of focus during 2018 were as follows:

- reviewed the tenant covenant review procedures and the work of the credit committee (see page 114);
- undertook a site tour of the Charlotte Street construction site, including a presentation on the management of construction health and safety risks (see page 112);
- the Board is aware of the well-publicised issues experienced by a number of major contractors, including the insolvency of Carillion, which highlight the ongoing issues within the construction industry. The Committee has been advised of the actions being taken by management to monitor the Group's contractors and are satisfied with the sufficiency of these controls (contractor default is a principal risk, see page 52);
- as part of our anti-bribery and corruption controls, the Committee reviewed the Group's gifts and hospitality register (see page 113) and the Group's conflict of interest register on a quarterly basis;
- received an update on recent legal developments which are of particular relevance to the Risk Committee from the Group's legal advisers, Slaughter & May LLP;
- reviewed frequent updates on the GDPR project (see page 114);
- received regular updates on our cyber security initiatives and received a presentation from Capgemini on the outcome of their benchmarking review (see page 115); and
- received an update on the full testing of the disaster recovery procedures undertaken on 21/22 September 2018 (see page 115).

Further engagement

The forthcoming AGM is on 17 May 2019 and I will be in attendance to answer any questions on the Committee's activities that you may have. If you wish to contact me, I am available via our Company Secretary, David Lawler (telephone: +44 (0)20 7659 3000 or email: company.secretary@derwentlondon.com)

Richard Dakin
Chair of the Risk Committee
26 February 2019

Committee composition

During the year under review, the Committee was composed of three independent Non-Executive Directors. Lucinda Bell will become a Committee member from 1 January 2019 in advance of Stephen Young stepping down as a Director in May 2019. In addition to the Committee members, the Board Chairman, other Directors, senior management or the external Auditor may be invited to attend all or part of any meeting as and when appropriate and necessary.

	Independent	Number of meetings	Attendance
Richard Dakin, Chair	Yes	3	100%
Cilla Snowball	Yes	3	100%
Stephen Young	Yes	3	100%

The Committee's role and responsibilities are set out in the terms of reference, which were last updated in November 2018, and are available on the Company's website at: www.derwentlondon.com/investors/governance/board-committees

Meetings of the Committee

During the year under review, the Risk Committee met three times, in May, August and November (2017: four meetings).

Risk management

At Derwent London, the management of risk is treated as a critical and core aspect of our business activities. A robust assessment of the principal risks facing the Group is regularly performed by the Directors, which takes into account the risks that could threaten our business model, future performance, solvency or liquidity, as well as the Group's strategic objectives over the coming 12 months.

In order to gain a more comprehensive understanding of the risks facing the business and the management thereof, the Committee periodically receives presentations from senior managers and external advisers. Following these reviews, the Committee has confirmed to the Board that it is satisfied that the Group's risk management procedures operated effectively throughout the period. During the annual strategic review of the five-year plan, the Board assesses the emerging risks being those that could impact on the business in the medium to long-term.

Risk management framework

How do we identify risks?

Risks are identified through workshop debates between the Executive Committee and members of senior management, analytical techniques, independent reviews and use of historical data and lessons learnt. At the Board's strategy review on 13 June 2018, scenarios for the future were considered which assisted with the identification of principal or emerging risks and how they could impact on our strategy. The continuous review of strategy and our environment ensures that we do not become complacent and that we respond in a timely manner to any changes.

How do we assess risk?

Following the identification of a potential principal risk, the Executive Committee undertakes a detailed assessment process to:

- gain sufficient understanding of the risk to allow an effective and efficient mitigation strategy to be determined;
- allow the root cause of the risk to be identified;
- estimate the probability of the risk occurring and the potential quantitative and qualitative impacts; and
- understand the Group's current exposure to the risk and the 'target risk profile' (in accordance with the Board's risk appetite) which will be achieved following the completion of mitigation plans.

Emerging risks are kept under review via the 'on watch' register and reassessed during the annual strategy reviews.

How do we monitor risks?

Once a risk has been identified and assessed, a risk owner is assigned who is considered to be in the best position to influence and monitor the outcome of the risk. As part of our risk management procedures, the Executive Committee and Risk Committee routinely conduct monitoring exercises to ensure that risk management activities are being consistently applied across the Group, that they remain sufficiently robust and to identify any weaknesses or enhancements which could be made to the procedures.

Monitoring activities include:

- the regular review and updating of the Schedule of Principal Risks, the Group's risk register and 'on watch' register;
- independent third-party reviews of the risk management process to provide further assurance of its effectiveness;
- alerting the Board to new emerging risks and changes to existing risks;
- monitoring how the risk profile is changing for the Group; and
- providing assurance that risks are being managed effectively and where any assurance gaps exist, identifiable action plans are being implemented.

How do we respond to risk?

We implement controls and procedures in response to identified risks with the aim of reducing our risk exposure, so that it is aligned or below our risk appetite. The successful management of risk cannot be done in isolation without understanding how risks relate and impact upon each other. At Derwent London, we consider the interconnectivity between risks which allows us to prioritise areas that require increased oversight and remedial action. The mitigation plans in place for our principal risks are described in greater detail on pages 48 to 57.

Risk management structure

Although the Board has ultimate responsibility for ensuring the Group has robust risk identification and management procedures in place, certain risk management activities are delegated to the level that is most capable of overseeing and managing the risks. Our risk management structure is illustrated below.



RISK COMMITTEE REPORT CONTINUED

Risk tolerance

Like any business, we face a number of risks and uncertainties. An overview of the Group's risk profile, including commentary on Brexit, is available on page 46 to 47. The Group's risk tolerance is set by the Board and is the level of risk we are willing to accept to achieve our strategic objectives.

Our overall risk tolerance is low and is contained in our Risk Appetite Statement (see the table below for an overview of this statement). This tolerance, alongside our culture, informs how our staff respond to risk. Due to our open and collaborative work style, any potential problem, risk or issue is identified quickly so appropriate action can be taken.

Category	Risk tolerance		
Operational	Operational risks include health and safety risks, continuity of the IT system and retention of the senior management team.	Health and safety	Zero
		IT continuity	Low
		Staff retention	Medium
Financial	Other than market-driven movements that are beyond the Group's immediate control, the Group will not generally accept risks where it is probable that: <ul style="list-style-type: none"> Asset values decline by more than £100m from the Group's annual budget. EPRA profit before tax deviates by more than £5m from the Group's annual budget. Cost overruns occur on capital projects of more than 5% of the approved capex budget. The Group's interest cover ratio will fall to within 20% of the level set in the Group's borrowing covenants. <p>It is recognised that inherent market risk may result in these financial tolerances, in particular the assets limit, being exceeded. The Board accepts this market risk but seeks to manage and mitigate its impact where possible.</p>	REIT status	Low
		Credit rating	Low
		Decrease in asset value (>£100m)	Medium
		Profits (£5m)	Medium
		Cost overruns (>5%)	Medium
		Interest cover (<20%)	Medium
Reputational	The Group has a low tolerance for risk in connection with reputational risk. In particular, this level of risk tolerance relates to any action that could adversely affect the Derwent London brand.	Brand value	Low
Regulatory	The Group's tolerance for regulatory risk arising from statute or the UK Corporate Governance Code and from adherence to 'best practice' guides.	Statutory	Zero
		Governance	Low

Zero:	The Board has a zero tolerance to risk-taking
Low:	The Board is not willing to take any significant risks
Medium:	The Board is willing to take measured risks if they are identified, assessed and controlled
High:	The Board is willing to take significant risks

Health and safety

The Group is committed to providing a safe environment at all our properties for the benefit of tenants, employees, contractors and visitors.

At each Committee meeting, a detailed update is provided on health and safety matters on both the managed portfolio and the development pipeline. The Committee also meet with ORSA, who were appointed as our corporate health and safety advisers for all construction projects from January 2017. ORSA outlined to the Committee the key health and safety risks at the major construction sites, including 80 Charlotte Street, the Brunel Building and Soho Place, and how these are being effectively managed.

The Committee's meeting in August included a site tour of the 80 Charlotte Street development hosted by Executive Directors and the site Project Manager. The tour enabled the Committee to see first-hand the health and safety procedures in place to protect workers, visitors and the local community.

Further information on health and safety matters can be found on page 80 of the Responsibility report. Although the majority of activities covered under the Responsibility report are under the remit of the new Responsible Business Committee, health and safety remains under the oversight of the Risk Committee.

Anti-bribery and corruption

We are committed to the highest standards of ethical conduct and integrity in our business practices and adopt a zero-tolerance approach to bribery and corruption. An overview of our policies and procedures in this area is contained in the table below.

Corporate hospitality	Hospitality must be reasonable in value, appropriate to the occasion and provided openly and transparently. It must not compromise, nor appear to compromise, the Group nor the business judgement of our staff.
Business gifts	Generally, gifts should not be accepted unless valued less than £50, are not cash or a cash equivalent (e.g. gift certificate), are appropriate to the circumstances and are not given with the intention of compromising or influencing the party to whom it is being given.
Hospitality & Gift Returns	All staff are required to complete quarterly Hospitality & Gift Returns which document all instances of third-party hospitality or gifts (given or received) over that three-month period if the value is in excess of £25 for hospitality and £10 for gifts. The Hospitality & Gift Returns are subject to review by the Risk Committee.
Political donations	The Company strictly prohibits any political donations being made on its behalf.
Charitable donations	Charitable donations are handled by the Sponsorships and Donations Committee. 'Know your client' procedures are applied to charitable organisations to ensure we are dealing with a valid body acting in good faith and with charitable objectives.
Contractors and suppliers	Our zero-tolerance approach is communicated to all suppliers, contractors and business partners. Due diligence procedures determine if a third party has previous convictions under the Bribery Act. All contracts with suppliers or contractors prohibit the payment of bribes or engaging in any corrupt practice. The Company has the right to terminate agreements in the event a bribe is paid or other corrupt practice undertaken.
Supply Chain Sustainability Standard	Contains the minimum standards we expect from our major suppliers (further information in the adjacent table).
Payments	All payments made must be warranted, transparent and proper. All payments must be accurately recorded through the normal accounting and financial procedures without any deception or disguise as to the recipient's identity or the purpose of the payment in question. No one approves their own expense claim. All expense claims must be approved by a Director or senior manager.
Facilitation payments	Facilitation payments are bribes and are strictly prohibited.
Conflicts of interest	All conflicts of interest or potential conflicts of interest must be notified to the Company Secretary and a register of such notifications is maintained. The Corporate governance statement on page 97 explains our process for managing potential conflicts.
Training	We provide our employees with guidance notes and regular training on anti-bribery, corruption, ethical standards and the prevention of the facilitation of tax evasion.
Whistleblowing procedures	A confidential helpline is available for staff to report concerns anonymously. Further information on page 108.

Summary of the Supply Chain Sustainability Standard

All suppliers with whom we spend more than £20,000 per annum are required to comply with, and provide evidence of how, they are implementing our Supply Chain Sustainability Standard (the Standard), which includes a minimum requirement that any form of corruption, bribery or anti-competitive behaviour or actions are not tolerated within our supply chain.

A summary of the Standard is below. The complete Standard is available to download on our website.

During 2018, we requested evidence that our major suppliers were compliant with the Standard. The Executive Committee reviewed responses and agreed any follow-up actions required. A further audit of our suppliers is scheduled for 2020.

Aspect	Standards expected from our suppliers
Anti-bribery and corruption	<ul style="list-style-type: none"> Operate an ethical business policy which sets out how they govern their business and supply chains. We will not tolerate any form of corruption, bribery or anti-competitive behaviour in our supply chain.
Employment and labour practices	<ul style="list-style-type: none"> Fair pay and working time practices which ensure compliance with the National Minimum Wage and the London Living Wage together with working time legislation. No use of exclusive 'zero hours' contracts. No illegal, forced or child labour. Suppliers to have appropriate equality and diversity policies to ensure the active promotion of employment diversity.
Health and safety	<ul style="list-style-type: none"> Adequate health and safety policies and management systems appropriate to the nature and scale of their business and service provision. To comply with Derwent London's health and safety standards and procedures.
Community	<ul style="list-style-type: none"> Support us in the successful delivery of our Community Strategy. Development contractors on our larger schemes have to achieve a minimum target score, currently 38) in the Considerate Constructors Scheme, and to undertake at least one community day every year during the life of a project. Offer full and fair opportunity for local suppliers to actively participate in our supply chains. Offer local employment and apprenticeship opportunities.
Environmental	<ul style="list-style-type: none"> Suppliers are to have robust environmental management policies and procedures in place. To comply with the Derwent London Sustainability Framework for Developments and/or Assets. We expect our main contractors to have a certified environmental management system (EMS) in place, accredited to ISO14001 or EMAS (Eco-Management and Audit Scheme).
Payment practices	<ul style="list-style-type: none"> Unless otherwise stated, we aim to pay our suppliers within 30 days or otherwise will do so in accordance with specified contract conditions. We are signatories of the Prompt Payment Code. Suppliers are required to adopt similar payment practices throughout their supply chains to ensure fair and prompt payment.

RISK COMMITTEE REPORT CONTINUED

Tenant covenant review

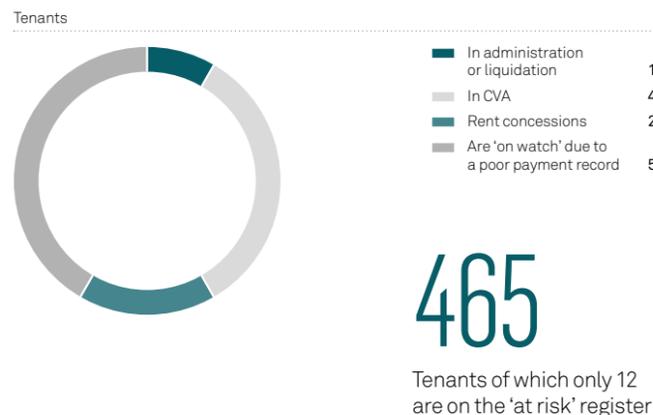
Due to the uncertain economic environment, with a number of large retail businesses going into administration, the Committee conducted a review of how Derwent London assesses and monitors the financial strength of potential and existing tenants. The chart below illustrates that Derwent London has limited exposure to retail or restaurants within our portfolio.

At its meeting in November, the Committee received a detailed overview from the Head of Asset & Property Management and the Group Financial Controller on the workings of the credit committee and how it decides whether potential and existing tenants are financially sound to transact. The Committee was satisfied with the extensive due diligence process undertaken by the credit committee.

Portfolio income



Analysis of the 'tenants at risk' register



Failure to prevent the facilitation of tax evasion

The Company will not tolerate any facilitation of tax evasion by staff, subcontractors or any other of its associates. To address these risks, the Company has established procedures which are designed to prevent its associated persons from deliberately and fraudulently facilitating tax evasion.

All staff have attended compulsory training sessions on our policies and procedures. The training was hosted by our Head of Tax, David Westgate, and included practical examples of how facilitation of fraudulent tax evasion could occur and guidance on how these should be addressed.

General Data Protection Regulations (GDPR)

The GDPR, which came into force on 25 May 2018, require a tougher approach to the handling and using of personal data. Derwent London holds relatively limited personal data, relating mainly to human resources, CCTV and private residential lettings.

The Company's project plan for GDPR commenced well in advance of 25 May 2018 with the establishment of a GDPR Steering Group which met weekly, dedicated Data Protection Champions from each department and compulsory training for all staff. The project to ensure our compliance continued throughout 2018 and included:

GDPR Steering Group	The GDPR Steering Group initially met weekly (for 18 weeks) and now meets fortnightly.
Guidance and training	Ongoing training and support to staff, including compulsory induction training. The creation of a dedicated GDPR intranet page. Short internal video explaining the employee privacy notice.
Contract remediation	Conducted risk assessments of all contracts followed by thorough contract remediation for those processing personal data.
Policies, documentation and procedures	All policies, procedures, guidance notes, contracts of employment, offer letters and consultancy agreements have been updated to be GDPR compliant. New procedures created for subject access requests and Data Protection Impact Assessments (DPIAs). The removal of historical data from our shared drives (soft copies) and the destruction of printed documents (hard copies) is an ongoing exercise.

Since 25 May 2018, all new projects or changes to processes involving data processing are subject to DPIA screening assessments to determine the level of risk. A total of 19 DPIAs have been completed during the year.

The Committee and Board have been routinely updated on the project's progress and, to date, are satisfied that management have undertaken all necessary steps to ensure the Group's ongoing compliance with GDPR. A gap analysis will be performed in 2019 to review our progress and identify areas for further improvement.

CCTV

Our CCTV system is intended to provide an increased level of security for the benefit of those who work in or visit Derwent London properties by acting as a deterrent against crime and protecting our buildings and assets from damage, disruption and vandalism. CCTV images are not released unless satisfactory evidence has been obtained by us that the third party requesting the personal data has a legal and justifiable need.

Since May 2018, we have received 14 access requests for CCTV footage. Requests are authorised in accordance with our CCTV policy and CCTV disclosure procedures. Prior to disclosing CCTV images, we redact any third-party personal data and images (for example, by blurring the images) before saving the images to disc and placing them in a sealed evidence bag.

Privacy notice

Derwent London respects privacy and is committed to protecting personal data. Our privacy notice, which sets out how we use personal data, is available on our website here: www.derwentlondon.com/texts/privacy-policy

We also have tailored privacy notices for employees, recruitment candidates and tenants, which are available upon request from the Company Secretary.

Business continuity and disaster recovery Information and cyber security

To safeguard the security and privacy of information entrusted to us, we have robust procedures in place. The procedures ensure that we:

- safeguard the security and privacy of our customers and employees, to ensure that the business retains their trust and confidence;
- protect the Group's intellectual property rights, financial interests and competitive edge;
- maintain our reputation and brand value; and
- comply with applicable legal and regulatory requirements.

Our cyber security procedures have been strengthened considerably in recent years in response to the increasing threat this poses to businesses, and it remains an area that we keep under continuous review.

During 2018, we requested that Capgemini conduct a benchmarking review of our cyber security procedures. In November, the Committee reviewed the outcome of the audit and were pleased that Capgemini had noted the improvements made since the prior audit. The Committee agreed the responses and timeframes for implementing the audit recommendations. Management will be required to provide the Committee with a status update on the implementation of the recommendations at the Committee's August 2019 meeting.

The Committee reviews a dashboard of key risk indicators at each meeting which includes information security and cyber-risk-related KPIs. During 2018, there were 474 attempted attacks on our systems, none of which resulted in a security breach and 99.9% of the attempts were stopped before they reached the intended targets – this highlights the robustness of our cyber security posture. Our IT team tested the effectiveness of our ongoing security awareness programme by sending fake phishing emails to staff and monitoring their response. Any staff member who clicked on the links contained in the test emails was provided with further training on the dangers.

All staff attend mandatory information security workshops each year which focus on our policies and procedures, cyber and personal security. Our Group intranet also includes a 'tips and tricks' section for our staff with guidance on issues such as cyber security, social media and general security awareness.

Disaster recovery procedures

Derwent London has formal procedures for use in the event of an emergency that disrupts our normal business operations which consist of:

- **Business Continuity Plan (BCP):** The BCP serves as the centralised repository for the information, tasks and procedures that would be necessary to facilitate Derwent London's decision-making process and its timely response to any disruption or prolonged interruption to our normal activities. The aim of the BCP is to enable the recovery of prioritised business operations as soon as practicable.
- **Crisis Management Team (CMT):** The CMT is composed of key personnel deemed necessary to assist with the recovery of the business. The BCP empowers the CMT to make strategic and effective decisions to support the recovery of the business until we are able to return to normal working.
- **Off-site disaster recovery suite:** An off-site disaster recovery suite is available in the event of an emergency, to provide IT and data facilities to our staff who either work on site at the suite or via our 'agile' working capabilities.
- **Testing and review:** The strength of our business continuity and disaster recovery plans are regularly tested to ensure they are continually refined and to reduce the potential for failure. An overview of the disaster recovery tests due to take place during 2019 are provided in the adjacent table.

FULL BUSINESS CONTINUITY TEST

At 5pm on Friday 21 September, our disaster recovery procedures were tested by staging a complete loss of power at our head office building at 25 Savile Row. The test required the evacuation of the building and the transfer of key systems and personnel to our disaster recovery suite.

The migration was overseen by independent verifiers, IT Governance Limited, who assessed our procedures and efficiency.

The Committee was pleased to note that the test was successful and well managed with no major issues identified and no downtime reported. A number of minor suggestions were raised by IT Governance Limited to further strengthen our robust Business Continuity Plan (BCP) which included:

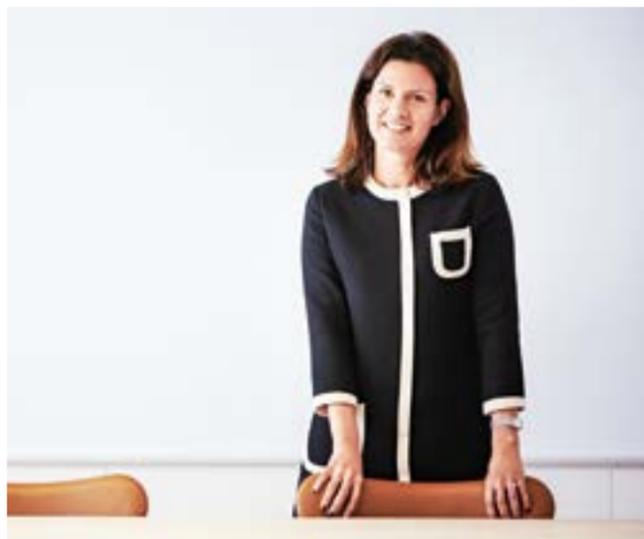
- using the disaster recovery tests as an exercise to raise the awareness, competence and capability of the CMT;
- appoint an individual responsible for noting all actions taken and logging time-delayed actions; and
- monitor the UPS load as systems migrate to the disaster recovery suite.

The entire process from the loss of primary power, transfer to our disaster recovery suite and roll back to Savile Row took 6 hours and 45 minutes (a 3 hour and 20-minute improvement on our last full test completed in October 2016).

Business continuity tests planned for 2019/2020

Test	Purpose	Date
Business Continuity Plan review	The CMT meet to review and update the business continuity plan, review current threat levels and agree on any action points.	Q1 2019
IT Component test	A technical test of the individual components required to carry out a failover of IT services to our disaster recovery suite.	Q1 2019
Desktop review	A desktop exercise which uses a series of scenarios to rehearse decision making and familiarise the CMT members with their roles.	Q2 2019
IT disaster recovery test	A technical test to carry out a full IT systems failover from our offices to the disaster recovery suite.	Q3 2019
Full business continuity test	A full plan invocation exercise covering one disaster scenario and testing all contingency functions at the disaster recovering suite. Representatives from each department will confirm all business-critical functions are still available.	Q4 2020

REMUNERATION COMMITTEE REPORT



Claudia Arney
Chair of the Remuneration Committee

FOCUS AREAS IN 2019

- Remuneration Policy review and consultation with major shareholders and proxy voting agencies
- Review the wider workforce arrangements
- Review incentive performance conditions
- Finalise the Committee's policies in respect of post-employment shareholdings and malus and clawback

ANNUAL STATEMENT

Dear Shareholder,

As chair of the Remuneration Committee and on behalf of the Board, I am pleased to present our report on Directors' remuneration for 2018.

The Annual report on remuneration, describing how the Remuneration Policy has been applied for the year ended 31 December 2018 and how we intend to implement policy for 2019, is provided on pages 119 to 131.

Our Remuneration Policy was last approved by shareholders at the 2017 AGM and received 98.4% of votes cast in favour. Rather than reproduce the policy in full, we have provided a summary on pages 121 to 122. A copy of the complete Remuneration Policy can be found on our website at: www.derwentlondon.com/investors/governance/board-committees

Pay and performance outcomes in 2018

We will continue to be transparent about how pay and performance is reported at Derwent London and how decisions made by the Committee support the strategic direction of the business.

Executive performance is closely aligned to business performance, with a high proportion of total remuneration delivered through variable pay designed to reward achievement of long-term strategic targets. In a remuneration context this means rewarding performance that reflects our strategic objectives (which are disclosed on page 31).

The Group's results for 2018 are outlined in the Strategic report. Despite continuing uncertainty, the Group has achieved a total property return of 6.0% and a total return of 5.3%. Both these financial KPIs are used in assessing the level of performance-related pay for the Executive Directors under the annual bonus.

To ensure that remuneration reflects a balanced performance, a scorecard of additional metrics is taken into account by the Committee when considering the strategic element of the Group's annual bonus scheme.

Taking into account performance against these financial KPIs and strategic targets resulted in a bonus of 102.75% of base salary being earned.

Performance share awards made to Executive Directors in 2016 under the Group's Performance Share Scheme (PSP) will vest in April 2019. These awards were subject to two performance conditions each over 50% of the award and both measured over the three-year period from 1 January 2016 to 31 December 2018. The first element was based on total shareholder return (TSR) performance compared with that of a group of 12 real estate companies. The second part was based on the Group's total property return compared to properties in the MSCI IPD Central London Offices Total Return Index.

The combined assessment of these two performance measures concluded that 46.0% of the total award will vest.

The Committee considered whether it was appropriate to exercise discretion but it believes that the outturn of both the annual bonus and the PSP fairly represents the Group's underlying financial and share price performance and progress against strategic objectives over their respective performance periods.

Further information about the levels of executive remuneration earned in 2018, including details of performance against the relevant targets, are given on pages 123 and 128.

Implementation in 2019

The Committee reviewed the performance and development of our Executive Directors during the year and decided to increase Executive Directors' salaries by 3% from 1 January 2019. This increase is in line with the general cost of living increases across the Group. Annual bonus and long-term incentive plan (LTIP) opportunities remain unchanged for 2019.

The Board reviewed the Non-Executive Director fees during the year (without the Non-Executive Directors being present) and decided to increase the base fee by £5,000 to £47,500 and the Senior Independent Director fee by £4,500 to £10,000. The Board considers this level of fees appropriate for a company of our size and complexity. The last increase to Non-Executive Director fees was with effect from 1 January 2015.

Management changes Robert Rayne's retirement

As announced on 23 November 2018, Robert Rayne will retire as Chairman on 17 May 2019 and will be succeeded by John Burns, the Group's founder and current Chief Executive, for a period of two years. There will be no payment for loss of office on Robert Rayne ceasing to be a Director. Robert Rayne's letter of appointment, currently due to expire on 25 March 2019, will be extended to his retirement date, 17 May 2019, with no changes made to its terms.

John Burns remuneration as Chairman from 17 May 2019

John Burns will remain Chief Executive until 17 May 2019, when he will become Non-Executive Chairman. He will receive a fee of £250,000 per annum as Non-Executive Chairman which the Committee believes is an appropriate fee for a company of our size and complexity. Robert Rayne's current chairman fee has not been increased since 2007 and is positioned towards the lower end of the market for a company of our size.

John Burns will have access to a driver as well as secretarial support. He will also receive a contribution to his office expenses of £50,000 per annum.

John Burns remuneration as Chief Executive to 17 May 2019 and treatment of outstanding incentives

Until he becomes Non-Executive Chairman on 17 May 2019, John Burns will continue to receive his salary, benefits and pension contribution in the role of Chief Executive. The table below provides information on the treatment of his annual bonus and LTIP arrangements.

Annual bonus:	<ul style="list-style-type: none"> • Annual bonus for the year ended 31 December 2018 will be paid in March 2019 based on performance against targets and is detailed on page 125. The deferred element will be released in accordance with the normal timetable. • Eligible to earn a pro rata bonus for the period to 17 May 2019. This will remain subject to performance for the year ending 31 December 2019 and any bonus earned up to 100% of salary will be paid in March 2020 but any portion earned above this level deferred into shares.
PSP awards:	<p>John Burns will not be eligible to receive a PSP grant in 2019 or thereafter. In respect of his outstanding PSP awards, they will:</p> <ul style="list-style-type: none"> • Vest in accordance to their normal vesting timetable subject to the achievement of the relevant performance conditions; • Be subject to the normal holding period of two years; and • Will be subject to a pro rata reduction for the period 17 May 2019 to the end of the performance period.

Paul Williams' remuneration as Chief Executive

Paul Williams will become Chief Executive from 17 May 2019 and will receive a salary of £600,000 per annum. There are no other changes proposed to Paul's benefits, pension, bonus or LTIP package (further information on Paul's current remuneration package can be found on page 121).

UK Corporate Governance Code

Following the publication of the 2018 UK Corporate Governance Code in July, the Board and its Committees have spent considerable time reviewing the new requirements. We already comply with the new Code in a number of areas and will be considering our approach to compliance in the remaining areas during 2019.

One area of immediate change, however, is that in the interest of fairness, the Committee has agreed that pension provision for any new Directors appointed to the Board from 2019 will be aligned to a significant proportion of the wider workforce at 15% of base salary.

The Committee's terms of reference have been updated to reflect the recommendations of the Code and is available on the corporate website.

The Committee welcomes all developments which aim to improve transparency in governance which is why we have voluntarily disclosed our CEO pay ratio on page 128.

Remuneration Policy review

The current Remuneration Policy was approved by shareholders at the 2017 AGM and is now approaching the end of its three-year term. During the coming year, the Committee will conduct a comprehensive review of its remuneration arrangements to ensure it remains closely aligned with the Company's strategic aims, vision, attitude to risk and culture, and will seek consultation with our major shareholders on any proposed changes.

Ongoing and transparent dialogue with our shareholders is important to us and informs the Committee's thinking on remuneration matters. I therefore encourage all of our shareholders to engage with us during the review process.

Shareholder engagement

I look forward to receiving your support at our 2019 AGM on Friday 17 May, where I will be available to respond to any questions shareholders may have on this report or in relation to any of the Committee activities.

In the meantime, if you would like to discuss any aspect of our Remuneration Policy, please feel free to contact me through David Lawler, the Company Secretary, (telephone: +44 (0)20 7659 3000 or email: company.secretary@derwentlondon.com)

Claudia Arney
Chair of the Remuneration Committee
26 February 2019

REMUNERATION AT A GLANCE

To incentivise our employees to achieve our strategy, we provide market competitive remuneration which is both transparent and aligned with our culture.

BOARD SUCCESSION

With effect from 17 May 2019, the Committee agreed:

- John Burns' Non-Executive Chairman fee will be £250,000 per annum
- Paul Williams' CEO base salary will be £600,000 per annum
- There will be no payments for loss of office for Robert Rayne

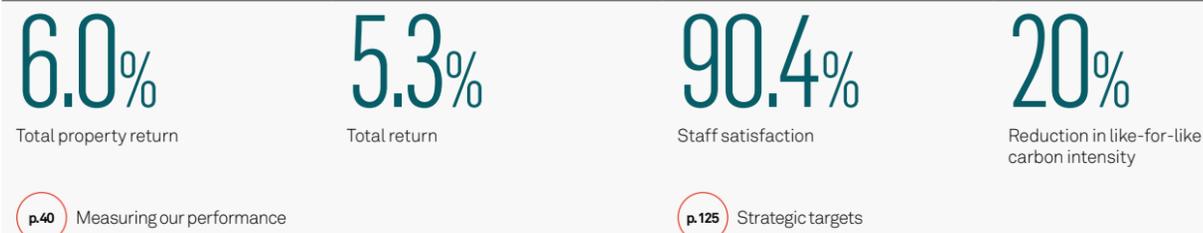
[p.100](#) More information

REMUNERATION POLICY REVIEW

The Committee will develop a post-employment shareholding policy and review its malus and clawback provisions in 2019. This will form part of the wider Remuneration Policy review. Pension opportunity for any new Executive Directors joining the Board from 2019 will be 15% of salary, in line with a significant proportion of our workforce.

[p.117](#) More information

GROUP PERFORMANCE IN 2018



HIGHLIGHTS



ANNUAL REPORT ON REMUNERATION

This part of the Directors' remuneration report explains how we have implemented our Remuneration Policy during 2018. The Remuneration Policy in place for the year was approved by shareholders at the 2017 AGM. We have provided a summary of our Remuneration Policy on pages 121 to 122. Our full Remuneration Policy can be found on our website at: www.derwentlondon.com/investors/governance/board-committees

This Annual report on remuneration will be subject to an advisory vote at our 2019 AGM on 17 May 2019.

Role of the Remuneration Committee

The role of the Committee is to determine and recommend to the Board the Remuneration Policy for Executive Directors, and set the remuneration for the Chairman, Executive Directors and senior management. In doing so, the Committee ensures that the Remuneration Policy is aligned with the Company's key remuneration principles.

Attract, retain and motivate	Support an effective pay for performance culture which enables the Company to attract, retain and motivate Executive Directors who have the skills and experience necessary to deliver the Group's objectives and long-term strategy.
Simple and transparent	Ensure that remuneration arrangements are simple and transparent to key stakeholders and take account of remuneration and related policies for the wider workforce.
Alignment	Align remuneration with the Group's objectives and long-term strategy and reflect our culture through a balanced mix of short and long-term performance-related pay and ensure that performance metrics remain effectively aligned with strategy.
Risk management	Promote long-term sustainable performance through sufficiently stretching performance targets, whilst ensuring that the incentive framework does not encourage Executive Directors to operate outside the Group's risk appetite (see page 112).
Stewardship	Promote long-term shareholdings by Executive Directors that support alignment with long-term shareholder interests.
Fairness	Total remuneration should fairly reflect the performance delivered by the Executive Directors and the Group.

The terms of reference for the Committee can be found on the Company's website at: www.derwentlondon.com/investors/governance/board-committees and were last updated in February 2019 to reflect the requirements of the 2018 UK Corporate Governance Code.

Committee composition

None of the members who have served on the Committee during the year had any personal interest in the matters decided by the Committee and are all considered to be independent. The Company Secretary acted as Secretary to the Committee.

	Independent	Number of meetings	Attendance
Claudia Arney, Chair	Yes	4	100%
Simon Fraser	Yes	4	100%
Stephen Young	Yes	4	100%
Helen Gordon	Yes	4	100%

Lucinda Bell will replace Stephen Young as a member of the Committee from 17 May 2019. The Committee's composition, responsibilities and operation comply with the principles of good governance (as set out in the UK Corporate Governance Code), with the Listing Rules (of the FCA) and with the Companies Act 2006.

Advisers to the Committee

The Committee has authority to obtain the advice of external independent remuneration consultants. New Bridge Street (a trading name for Aon plc) had been retained as the Committee's principal consultants since 2002, with the last competitive tender being conducted in 2012.

During 2018, the Committee completed a competitive tender for the role of its principal consultants which included three independent candidates. Following the completion of the tender, the Committee unanimously appointed Deloitte as its independent remuneration consultants with effect from 2 July 2018.

During the year under review, Deloitte also provided sustainability and health and safety audit assurance consultancy, corporate tax consultancy and employment tax consultancy services to the Group. Prior to appointing Deloitte as its independent consultants, the Committee took this work into account and due to the nature and extent of the work performed, concluded that it did not impair Deloitte's ability to advise the Committee objectively and free from influence. It is the view of the Committee that the Deloitte engagement partner and team that provide remuneration advice to the Committee do not have connections with Derwent London that may impair their independence. The Committee therefore deem Deloitte capable of providing appropriate, objective and independent advice. Deloitte is one of the founding members of the Remuneration Consulting Group. The Committee has been fully briefed on Deloitte's compliance with the voluntary code of conduct in respect of the provision of remuneration consulting services.

For the period 2 July to 31 December 2018, Deloitte provided independent assistance to the Committee on the setting of the Chief Executive's remuneration, the setting of the Chairman's fees and provided updates on market practice and governance (including the requirements of the 2018 UK Corporate Governance Code). The fees paid to Deloitte and New Bridge Street for their services during the year, based on time and expenses, amounted to £30,500 and £32,800 respectively.

REMUNERATION COMMITTEE REPORT CONTINUED

Shareholder voting and engagement

The Committee's resolutions at the Company's 2017 AGM in respect of the Remuneration Policy and the 2018 AGM in respect of the Annual report on remuneration, new Sharesave Plan and revised Employee Share Option Plan, received the following votes from shareholders:

	2018 AGM				2017 AGM			
	Annual report on remuneration		Derwent London Sharesave Plan		Derwent London Employee Share Option Plan		Remuneration Policy	
Votes cast in favour	93.4m	99.7%	93.8m	99.6%	94.1m	99.8%	82.7m	98.4%
Votes cast against	0.2m	0.3%	0.4m	0.4%	0.1m	0.2%	1.3m	1.6%
Votes withheld	0.6m	0.7%	0.0m	0.0%	0.0m	0.0%	0.1m	0.1%
Total votes cast (including withheld)	94.2m		94.2m		94.2m		84.1m	

The Committee was extremely pleased with the level of shareholder support at the 2018 AGM; further information on page 93.

The Committee encourages an open and constructive dialogue with shareholders and their representative bodies and will consult with major shareholders on any material changes to the Remuneration Policy or to how it is implemented. We are aware that the executive remuneration landscape is evolving and of the potential for change and will continue to monitor developments as they arise.

Wider workforce considerations

When making remuneration decisions for Executive Directors, the Committee considers pay policies and practices across the wider workforce.

Remuneration structure of our wider workforce

We value and appreciate our employees and aim to provide market competitive remuneration and benefit packages in order to continue to be seen as an employer of choice. The remuneration structure for our wider workforce is similar to that of our Executive Directors and contains both fixed and performance-based elements. Base salaries are reviewed annually and any increases become effective from 1 January. The Committee is kept informed of salary increases to the wider workforce.

We enrol all of our employees into an annual discretionary bonus scheme. Our approach is to reward our employees on individual performance and their contribution to the performance of the Group. In 2018, 100% of our workforce below Board level received an annual bonus (2017: 98%).

All employees are eligible to participate in our non-contributory occupational pension scheme. We offer all employees who join our pension scheme a complimentary annual meeting with an independent financial adviser to advise them on their investment options. In addition, our employees are invited into a non-contractual healthcare cash plan which offers an affordable way to help with everyday healthcare costs. Further information on our benefit package is available on page 79.

In order to align the interests of our employees and those of our shareholders, we operate an Employee Share Option Plan (ESOP). All of our employees, excluding the Directors, are eligible to join the ESOP subject to performance. The ESOP grants options which are exercisable after three years at a pre-agreed option price. In 2018, we granted 132,600 options to 72% of our workforce below the Board and Executive Committee.

In addition, to encourage Group-wide share ownership, the Committee sought shareholder approval for a new HMRC approved Sharesave Plan (SAYE) at the 2018 AGM. The first grant under the SAYE is planned for April 2019 and will be open to all permanent UK-based employees.

Relative importance of the spend on pay

In order to give shareholders an understanding of how total expenditure on remuneration (for all employees) compares to certain core financial dispersals of the Company, the table below demonstrates the relative importance of the Company's spend on employee pay for the period 2017 to 2018.

£m	2018	2017	% change
Staff costs	24.2	19.9	21.6%
Distributions to shareholders	152.2	120.1	26.7%
Net asset value attributable to equity shareholders	4,202	4,128	1.8%

Outside appointments for Executive Directors

Executive Directors may accept a non-executive role at another company with the approval of the Board. The Executive Director is entitled to retain any fees paid for these services. During 2018, our Executive Directors did not receive fees for their external appointments. Further information on our Executive Directors' external appointments is provided on pages 88 to 89.

Payments to past Directors and for loss of office

No payments were made to past Directors or in respect of loss of office during 2018.

Summary of Remuneration Policy

We have provided a summary of the key elements of the Remuneration Policy for Executive Directors and Non-Executive Directors approved by shareholders at the 2017 AGM on pages 121 to 122. In addition, we have set out how the Remuneration Policy will be implemented in 2019. Our full Remuneration Policy can be found on our website at: www.derwentlondon.com/investors/governance/board-committees

Element	How operated	Maximum opportunity	Implementation for 2019												
Base salary	Normally reviewed annually. Factors taken into account include: <ul style="list-style-type: none"> The role, experience and performance of the individual and the Company. Economic conditions. Increases throughout the rest of the business. Practice in companies with similar business characteristics. 	No maximum but increases will normally be consistent with the policy applied to the workforce generally (in percentage of salary terms).	With effect from 1 January 2019, Executive Directors salaries were increased by 3% which is consistent with the increase received across the wider workforce. <table border="1"> <thead> <tr> <th>Executive Director</th> <th>2019 salary (£'000)</th> <th>2018 salary (£'000)</th> </tr> </thead> <tbody> <tr> <td>John Burns</td> <td>677</td> <td>657</td> </tr> <tr> <td>Simon Silver</td> <td>581</td> <td>564</td> </tr> <tr> <td>Other Executive Directors</td> <td>442</td> <td>429</td> </tr> </tbody> </table>	Executive Director	2019 salary (£'000)	2018 salary (£'000)	John Burns	677	657	Simon Silver	581	564	Other Executive Directors	442	429
Executive Director	2019 salary (£'000)	2018 salary (£'000)													
John Burns	677	657													
Simon Silver	581	564													
Other Executive Directors	442	429													
Benefits	Include, but are not limited to, private medical insurance, car and fuel allowance and life insurance.	Determined by the cost of providing the benefits. Car benefit is limited to £50,000 per annum.	Benefits will continue to include a fully expensed car or car allowance, private medical insurance and life assurance.												
Pension	Executive Directors participate in the Company's defined contribution pension scheme or may receive a cash payment in lieu.	Maximum contribution or cash supplement (or a mix of both) of 20% of salary. Legacy arrangements mean that for some Directors total contributions/allowances are 21% of salary.	No change for current Executive Directors. For any new Executive Directors appointed to the Board, pension allowance will be limited to a maximum of 15% of salary which is in line with the pension opportunity received across a significant proportion of the wider workforce.												
Annual bonus	Bonuses up to 100% of salary are paid as cash. Amounts in excess of 100% of salary are deferred into shares of which 50% are released after 12 months and the balance after 24 months subject to continued employment. Dividend equivalents may accrue on deferred shares. Malus and clawback provisions apply (see the table on page 122). The Committee has discretion to adjust the payment outcome if it is not deemed to reflect appropriately the underlying business performance of the Company over the performance period.	Maximum opportunity of up to 150% of salary may be awarded in respect of a financial year.	Performance metrics and weightings (as a percentage of maximum opportunity): <ul style="list-style-type: none"> financial targets (75%); and strategic objectives (25%). The financial targets, weightings and amounts vesting for threshold and maximum performance are structured the same as in 2018 (see page 125). The real estate companies contained in the total return comparator group will be disclosed in next year's Directors' Remuneration Report. The strategic objectives, weightings and target ranges are broadly the same as those set in 2018 (see note (ii) on page 125).												
Long-term incentives	Award of performance shares which vest after three years subject to performance metrics. The Committee has discretion to adjust the vesting outcome if it is not deemed to reflect appropriately the underlying business performance of the Company over the performance period. A further holding period of two years is required on the after-tax vested shares. Dividend equivalents may accrue on performance shares during the vesting period. Malus and clawback provisions apply (see the table on page 122).	Maximum opportunity of up to 200% of salary may be awarded in respect of a financial year.	Paul Williams' LTIP award for 2019 will be based on his pro rata salary for 2019 to reflect his step up to Chief Executive. An initial award will be made in March at the same time as other Executive Directors at 200% of his current salary with the remaining portion of the award being made around August after he has been appointed as Chief Executive to reflect his new salary. Performance metrics, weightings and amounts vesting for threshold and maximum performance are structured the same as in 2018 (see page 126).												
Share ownership guidelines	Executive Directors are expected to build up a shareholding in the Company equal to 200% of salary. Executive Directors are required to retain at least the after-tax number of any deferred bonus share awards or performance shares vesting until the guideline is met.		As at 26 February 2019, all of our Executive Directors have achieved the share ownership guideline (see page 130).												

REMUNERATION COMMITTEE REPORT CONTINUED

Malus and clawback

Malus and clawback provisions apply to annual bonus, deferred bonus and performance shares over the following time periods:

	Malus	Clawback
Annual bonus	To such time as payment is made.	Up to two years following payment.
Deferred bonus	To such time as the award vests.	Up to two years following award.
Performance shares (LTIP)	To such time as the award vests.	Up to two years following vesting.

Malus and clawback may apply in the following circumstances:

1. Material misstatement of financial results.
2. An error in assessing performance conditions which has led to an overpayment.
3. Dismissal due to gross misconduct.

During 2019, as part of the Committee's review of the Remuneration Policy, consideration will be given to the circumstances in which malus and clawback may be applied to ensure they continue to be appropriate and in the context of the developing guidance.

Summary table for the Chairman and Non-Executive Directors

	Operation	Implementation for 2019												
Chairman	The remuneration of the Chairman is set by the Board (excluding the Chairman). The Chairman receives a consolidated fee and benefits limited to a Company car and driver, secretarial provision and office costs. The Chairman does not receive pension or participate in incentive arrangements.	Robert Rayne will continue to receive a Chairman's fee of £150,000 per annum until his retirement from the Board on 17 May 2019. With effect from 17 May 2019, John Burns will take over the role of Chairman. His Chairman fee from this date will be £250,000 per annum.												
Non-Executive Directors	The remuneration for Non-Executive Directors is set by the Executive Directors. Non-Executive Directors receive a base fee plus additional fees for Committee membership, Committee chairmanship and for the Senior Independent Director. Non-Executive Directors do not receive a pension or participate in incentive arrangements.	With effect from 1 January 2019, the base fee for Non-Executive Directors was increased by £5,000 and the Senior Independent Director fee by £4,500. There are no other fee changes. The last increase made to Non-Executive Director fees was with effect from 1 January 2015. <table border="1"> <thead> <tr> <th></th> <th>2019 (£'000)</th> </tr> </thead> <tbody> <tr> <td>Non-Executive Director fees</td> <td>47.5</td> </tr> <tr> <td>Base fee</td> <td>7.5</td> </tr> <tr> <td>Committee chair</td> <td>7.5</td> </tr> <tr> <td>Senior Independent Director</td> <td>10.0</td> </tr> <tr> <td>Committee membership fee</td> <td>4.0</td> </tr> </tbody> </table> A Committee chair receives a Committee membership fee in addition to the Committee chair fee.		2019 (£'000)	Non-Executive Director fees	47.5	Base fee	7.5	Committee chair	7.5	Senior Independent Director	10.0	Committee membership fee	4.0
	2019 (£'000)													
Non-Executive Director fees	47.5													
Base fee	7.5													
Committee chair	7.5													
Senior Independent Director	10.0													
Committee membership fee	4.0													

Service contracts

As part of his appointment as Chief Executive, Paul Williams entered into a new service contract dated 22 November 2018 which comes into effect on 17 May 2019. All other Executive Directors' service contracts are dated 16 May 2014 and are terminable either by the Company providing 12 months' notice or by the executive providing six months' notice.

The Non-Executive Directors listed below do not have service contracts but are appointed for three-year terms which expire as follows:

Non-Executive Director	Date of latest appointment letter	Expiry date
Robert Rayne ⁽ⁱ⁾	25 March 2016	25 March 2019
Stephen Young ⁽ⁱⁱ⁾	2 February 2017	31 July 2019
Simon Fraser	8 August 2018	1 September 2021
Richard Dakin	2 February 2017	31 July 2019
Claudia Arney	8 August 2018	31 May 2021
Cilla Snowball	8 August 2018	31 August 2021
Helen Gordon	8 November 2017	1 January 2021
Lucinda Bell ⁽ⁱⁱⁱ⁾	8 August 2018	1 January 2022

Notes:

⁽ⁱ⁾ Robert Rayne's letter of appointment will be extended to 17 May 2019.

⁽ⁱⁱ⁾ Stephen Young will step down from the Board on 17 May 2019.

⁽ⁱⁱⁱ⁾ Lucinda Bell's appointment commenced on 1 January 2019.

^(iv) John Burns' letter of appointment in respect of the role of Non-Executive Chairman (effective from 17 May 2019) will expire in May 2021 (see page 100).

Total remuneration in 2018

The table below sets out the remuneration paid to each Director for the financial years ended 31 December 2018 and 31 December 2017 as a single figure. A full breakdown of fixed pay and pay for performance in 2018 can be found on pages 124 to 127.

Executive Directors

(£000)	Fixed pay				Pay for Performance				Total remuneration £'000
	Salary	Taxable benefits	Pension and life assurance	Subtotal	Bonus Cash	Bonus Deferred	Performance LTIPs ⁽ⁱⁱⁱ⁾	Subtotal	
2018									
John Burns	657	71	155	883	657	18	601	1,276	2,159
Simon Silver	564	55	149	768	564	16	515	1,095	1,863
Damian Wisniewski	429	24	93	546	429	12	383	824	1,370
Nigel George	429	26	96	551	429	12	383	824	1,375
Paul Williams	429	24	98	551	429	12	383	824	1,375
David Silverman	429	21	95	545	429	12	383	824	1,369
2017									
John Burns	638	70	150	858	513	–	310	823	1,681
Simon Silver	547	53	146	746	440	–	266	706	1,452
Damian Wisniewski	417	23	93	533	335	–	198	533	1,066
Nigel George	417	24	95	536	335	–	198	533	1,069
Paul Williams	417	23	97	537	335	–	198	533	1,070
David Silverman	417	21	94	532	335	–	198	533	1,065

Non-Executive Directors

(£000)	Year ended 31 December 2018			Year ended 31 December 2017		
	Fees	Taxable benefits	Total	Fees	Taxable benefits	Total
Robert Rayne ⁽ⁱⁱⁱ⁾	150	46	196	150	45	195
Stephen Young	62	–	62	62	–	62
Simon Fraser	68	–	68	68	–	68
Richard Dakin	62	–	62	62	–	62
Claudia Arney	58	–	58	58	–	58
Cilla Snowball	51	–	51	51	–	51
Helen Gordon ^(iv)	47	–	47	–	–	–

Notes:

⁽ⁱ⁾ Performance LTIPs for 2018 relate to the 2016 PSP awards which will vest on 4 April 2019 and for which the performance conditions related to the year ended 31 December 2018. The value is based on an estimate of expected vesting of 46.0% and the average share price over the last three months of the financial year ended 31 December 2018 of £29.23. This amount includes the value of additional shares awarded in respect of dividend equivalents.

⁽ⁱⁱ⁾ In the 2017 Annual Report, the potential value of vesting PSP awards for 2017 was calculated using the average share price for the three months ended 31 December 2017, being £27.95. The 2017 Performance LTIP figures in the table above, have been restated to reflect the actual number of PSP awards which vested on 3 April 2018 (inclusive of dividend equivalents) using the share price on the day of vesting (being, £30.78). The restated value provides a difference of £2.83 per vested share in comparison to the estimates contained in the 2017 Annual Report on page 120. Further details of vesting and dividend equivalents is provided on page 126.

The PSP 2015 awards which vested on 3 April 2018 were granted on 30 March 2015 when the share price was £34.65. Between grant and the vesting date, the share price had depreciated to £30.78 which equated to a reduction in value of each vesting share equivalent to £3.87. The Remuneration Committee did not exercise discretion in respect of the share price depreciation.

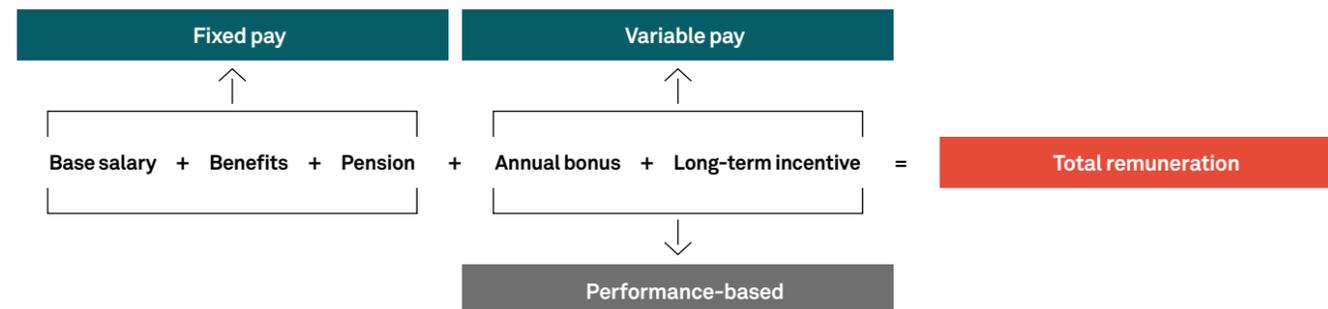
⁽ⁱⁱⁱ⁾ In addition to his fee as Chairman, Robert Rayne's letter of appointment provides for a car and fuel allowance which are included in the table above. In order to undertake his duties, Robert Rayne is also provided with a driver and secretary, together with a contribution to his office running costs.

^(iv) Helen Gordon was appointed to the Board on 1 January 2018.

REMUNERATION COMMITTEE REPORT CONTINUED

Executive Directors' remuneration in 2018

Remuneration for Executive Directors comprises the following elements:



Fixed pay in 2018

Base salary

Salaries for the Executive Directors were increased by 3.0% with effect from 1 January 2018, which was in line with the cost of living increase awarded to the wider workforce (see page 127).

Executive Director	2018 base salary	2017 base salary
John Burns	£657,200	£638,000
Simon Silver	£564,000	£547,500
Other Executive Directors ⁽ⁱ⁾	£429,000	£416,500

Note:

⁽ⁱ⁾ Other Directors are Damian Wisniewski, Paul Williams, Nigel George and David Silverman.

Benefits

Executive Directors are entitled to a car and fuel allowance and private medical insurance. Further details of the taxable benefits paid in 2018 can be found in the table below.

Executive Director	Car and fuel allowance	Private medical insurance	Total 2018 taxable benefits
John Burns	£48,276	£22,890	£71,166
Simon Silver	£38,786	£16,482	£55,268
Damian Wisniewski	£16,000	£7,610	£23,610
Nigel George	£18,428	£7,116	£25,544
Paul Williams	£16,000	£7,813	£23,813
David Silverman	£16,000	£5,648	£21,648

Pension and life assurance

In addition to life assurance, Directors receive a pension contribution or cash supplement (or a mix of both) of up to 20% of salary. Legacy arrangements for some Directors mean that a fixed amount is paid in addition to the 20% contribution, which results in a maximum pension contribution of up to 21% of salary.

There has been no change in the pension contributions or life assurance received by the Executive Directors in 2018. The change in the annual cost of these benefits is due to increases in life assurance premiums.

Pay for performance

Determination of 2018 annual bonus outcome

The performance measures set for the year under review were a combination of financial-based metrics (worth 75% of the bonus potential) and strategic targets (worth 25% of the bonus potential). The maximum bonus potential for Executive Directors is 150% of salary. Based on actual 2018 performance, the annual bonus payment for Executive Directors is 68.5% of the maximum potential (2017: 53.6%; 2016: 23.3%). This has been derived as follows:

Financial based metrics

Performance measure	Weighting % of bonus	Basis of calculation	Threshold ⁽ⁱ⁾ %	Maximum ⁽ⁱⁱ⁾ %	Actual %	Payable %
Total return	37.5	Total return versus other major real estate companies ⁽ⁱ⁾	0.8	6.2	5.3	33.0
Total property return (TPR)	37.5	Versus the MSCI IPD Central London Offices Total Return Index	5.3	8.3	6.0	14.6
Total bonus payable for financial based metrics						47.6%

Notes:

⁽ⁱ⁾ The major real estate companies contained in the comparator group for the 2018 annual bonus are: Big Yellow Group plc, The British Land Company plc, Capital & Regional plc, Capital & Counties Properties plc, Great Portland Estates plc, Hammerson plc, Intu Properties plc, Landsec plc, St Modwen Properties plc, Segro plc, Shaftesbury plc, Workspace Group plc.

⁽ⁱⁱ⁾ For achieving the threshold performance target, i.e. at the MSCI IPD Index or median total return against our sector peers, 22.5% of the maximum bonus opportunity will become payable.

⁽ⁱⁱⁱ⁾ Total return pay-out accrues on a straight-line basis between the threshold level for median performance and maximum payment for upper quartile performance or better. For TPR, the pay-out accrues on a straight-line basis between the threshold level for index performance and maximum payment for index +3.0%.

Strategic targets

Performance measure ⁽ⁱ⁾	Target range ⁽ⁱ⁾	Maximum award	2018 achievement	Proportion awarded for 2018
Void management This is measured by the Group's average EPRA vacancy rate over the year.	8% to 1%	5.0%	1.8%	4.4%
Tenant retention This is measured by the percentage of tenants that remain in their space when their lease expires.	50% to 75%	5.0%	76%	5.0%
Portfolio development potential This is measured by the percentage of the Group's portfolio by area, where a potential development scheme has been identified.	37% to 47%	2.5%	41%	1.0%
Unexpired lease term This is measured by the 'topped-up' weighted average unexpired lease term of the Group's portfolio, including pre-let developments.	5 to 10 years	2.5%	8.2 years	1.6%
Sustainability This is assessed by the Group's achievements against the BREEAM benchmark at its new developments or major refurbishments.	New build – Excellent Major refurbishment – Very good	2.5%	All sustainability targets have been achieved	2.5%
Carbon intensity This is measured by emissions intensity per m ² of landlord-controlled floor area across our managed like-for-like portfolio.	-2% to -4%	2.5%	-20%	2.5%
Staff satisfaction Staff surveys are used to assess this measure.	75% to >95% of staff to be satisfied or better	5.0%	90.4%	3.9%
				20.9%

Notes:

⁽ⁱ⁾ Pay-out accrues on a straight-line basis, between threshold and maximum performance.

⁽ⁱⁱ⁾ The strategic targets for the 2019 annual bonus will be broadly the same as those above except for the following changes: (1) The following target ranges have been amended to be better aligned with our priorities for 2019: void management of 7% to 2%, portfolio development potential of 35% to 45% and staff satisfaction of 80% to 95%; (2) Void management will be worth 7.5% of the bonus potential and unexpired lease term will be worth 5%; and (3) To reduce and simplify the number of strategic targets, tenant retention has been removed for 2019.

The Committee also considered the underlying financial performance of the Group during 2019, taking into account performance against key financial indicators including profits, NAV and share price performance. The Committee concluded the proposed pay-out outcome of 68.5% of maximum to be appropriate. The total bonus for each executive is therefore:

Executive Director	Bonus payable		Cash bonus payable £'000	Deferred bonus	
	% of maximum	% of salary		£'000	% of salary
John Burns	68.5	102.75	657	18	2.75
Simon Silver	68.5	102.75	564	16	2.75
Other Executive Directors ⁽ⁱ⁾	68.5	102.75	429	12	2.75

Note:

⁽ⁱ⁾ Other Directors are Damian Wisniewski, Paul Williams, Nigel George and David Silverman, whose base salary and subsequently, annual bonus pay-out will be identical.

In accordance with our Remuneration Policy, bonuses of up to 100% of base salary are paid as cash. Amounts in excess of 100% are deferred into shares of which 50% are released after 12 months and the balance after 24 months.

REMUNERATION COMMITTEE REPORT CONTINUED

Performance Share Plan (PSP) Vesting of awards

As shown in the table below, the PSP awards granted in 2016 will vest on 4 April 2019 at 46.0%.

Performance measure	Weighting % of award	Basis of calculation	Threshold ⁽ⁱ⁾ %	Three quarter vesting ⁽ⁱⁱ⁾ %	Maximum ⁽ⁱⁱⁱ⁾ %	Actual %	% vesting/ estimated vesting
Total property return (TPR)	50	MSCI IPD Central London Offices Total Return Index	4.2	6.7	9.2	5.6	26.0
Total shareholder return (TSR)	50	TSR of major real estate companies ⁽ⁱ⁾	(17.3)	n/a	2.9	(13.2)	20.0
							46.0

Notes:

⁽ⁱ⁾ The major real estate companies contained in the comparator group for determining our TSR performance are: Big Yellow Group plc, The British Land Company plc, Capital & Regional plc, Capital & Counties Properties plc, Great Portland Estates plc, Hammerson plc, Intu Properties plc, Landsec plc, St Modwen Properties plc, Segro plc, Shaftesbury plc, Workspace Group plc.

⁽ⁱⁱ⁾ For achieving the threshold performance target, i.e. at the MSCI IPD Index or median TSR against our sector peers, 22.5% of the maximum award will vest.

⁽ⁱⁱⁱ⁾ For TSR (which is calculated based on a three month weekday average Return Index excluding UK public holidays ended on: (1) the day before the performance period start date; and (2) the performance period end date) pay-out accrues on a straight-line basis between the threshold level for median performance and maximum payment for upper quartile performance or better. For TPR, the pay-out accrues on a straight-line basis between the threshold level for index performance, three quarter vesting for index +2.5% and maximum pay-out for index +5.0%.

The Committee considered the underlying financial performance of the Group during the performance period, taking into account performance against key financial indicators including profits, NAV and share price performance. The Committee concluded the proposed vesting outcome of 46.0% of maximum to be appropriate.

Therefore, the vesting for each executive will be:

Executive Director	Number of awards granted	Number of shares vesting based on performance (46.0%)	Dividend equivalents ⁽ⁱ⁾ (number of shares)	Total number of shares vesting	Total estimate value of award on vesting
John Burns	40,700	18,722	1,824	20,546	£600,560
Simon Silver	34,925	16,065	1,565	17,630	£515,325
Other Executive Directors⁽ⁱⁱ⁾	25,930	11,928	1,161	13,089	£382,592

Notes:

⁽ⁱ⁾ In accordance with the PSP rules, the Remuneration Committee has discretion to allow PSP participants to receive the benefit of any dividends paid on vesting shares between the grant date and the vesting date in the form of additional vesting shares.

⁽ⁱⁱ⁾ Other Directors are Damian Wisniewski, Paul Williams, Nigel George and David Silverman, who were granted identical number of awards under the PSP grant in 2016.

The value of the vesting awards is based on the average share price over the last three months of the financial year ended 31 December 2018 being £29.23. The estimated value of the vesting awards has been included within the 'single figure' total remuneration table on page 123.

The Company's share price depreciated by £2.82 between the grant date (4 April 2016) and the end of the performance period (31 December 2018) from £31.35 to £28.53. None of the estimated value of the vesting awards detailed in the table above is attributable to share price appreciation. It should be noted that as at 26 February 2019, the Company's share price rose to c.£32.50 (which exceeds the share price at grant by c.3%). The Remuneration Committee will not exercise discretion in respect of share price fluctuations since grant.

Holding period

In accordance with the PSP rules, vested awards are subject to a two-year holding period whereby at least the after-tax number of vested shares must be retained by the executive for a minimum of two years from the point of vesting, i.e. until April 2021. An overview of the holding periods for awards granted since 2015 has been provided below.

Grant	Grant date	Performance period	Vesting date	Holding period	Holding period ceases
2015 Grant	30 March 2015	1 January 2015 to 31 December 2017	3 April 2018	Two years	3 April 2020
2016 Grant	4 April 2016	1 January 2016 to 31 December 2018	4 April 2019	Two years	4 April 2021
2017 Grant	20 March 2017	1 January 2017 to 31 December 2019	20 March 2020	Two years	20 March 2022
2018 Grant	6 March 2018	1 January 2018 to 31 December 2020	8 March 2021	Two years	8 March 2023

Grant of LTIP awards

On 6 March 2018, the Committee made an award under the Group's 2014 PSP to Executive Directors on the following basis:

	Number of shares awarded	Face value of award £
John Burns	44,586	1,314,395
Simon Silver	38,263	1,127,993
Other Executive Directors⁽ⁱ⁾	29,104	857,986

Note:

⁽ⁱ⁾ Other Directors are Damian Wisniewski, Paul Williams, Nigel George and David Silverman, who were granted identical number of awards under the PSP grant in 2018.

Awards were granted as nil-cost options and equivalent to 200% of base salary, with 22.5% of the award vesting at threshold performance. The share price used to determine the level of the award was the closing share price on the day immediately preceding the grant date of £29.48. The performance periods will run over three financial years and, dependent upon the achievement of the performance conditions, the awards will vest on 6 March 2021 and will be subject to a two-year holding period as outlined above.

50% of the award vests according to the Group's relative TSR performance versus the constituents of the FTSE 350 Super Sector Real Estate Index with the following vesting profile:

TSR performance of the Company relative to the TSR of the constituents of the FTSE 350 Super Sector Real Estate Index tested over three years	Vesting (% of TSR part of award)
Below Median	0%
Median	22.5%
Upper quartile and above	100%

Straight-line vesting occurs between these points

50% of the award vests according to the Group's TPR versus the MSCI IPD UK All Property Total Return Index with the following vesting profile:

Annualised TPR versus the MSCI IPD Quarterly UK All Property Index tested over three years	Vesting (% of TSR part of award)
Below Index	0%
At Index	22.5%
Index + 3%	100%

Straight-line vesting occurs between these points

The Committee has discretion to reduce the extent of vesting in the event that it considers that performance against either measure is inconsistent with underlying financial performance. At least the after-tax number of vested shares must be retained for a minimum holding period of two years. To the extent that awards vest, the Committee has discretion to allow the Executive Directors to receive the benefit of any dividends paid over the vesting period in the form of additional vesting shares.

Managing shareholder dilution

The table below sets out the available dilution capacity for the Company's employee share plans based on the limits set out in the rules of those plans that relate to issuing new shares.

	2018
Total issued share capital as at 31 December 2018	111.5m
Investment Association share limits (in any consecutive 10-year period):	
Current dilution for all share plans	2.3%
Headroom relative to 10% limit	7.7%
5% for executive plans – current dilution for discretionary (executive) plans	1.5%
Headroom relative to 5% limit	3.5%

Percentage increase in the remuneration of the Chief Executive

The table below shows the movement in the salary, benefits and annual bonus for the Chief Executive between the current and previous financial year compared to that for an average employee (excluding Directors).

£'000	2018	2017	% change
Chief Executive			
Salary	657.2	638.0	3.0%
Benefits	225.6	220.1	2.5%
Bonus	675.3	513.0	31.6%
Average employee			
Salary	75.3	72.6	3.7%
Benefits	14.2	14.4	(1.3)%
Bonus	27.7	27.0	2.6%

Note:

⁽ⁱ⁾ There has been no reduction in the type of benefits received by the workforce. The 2018 cost reduction is due to negotiating better terms on our insurance benefits.

REMUNERATION COMMITTEE REPORT CONTINUED

Chief Executive pay for performance comparison

The graph below shows the value on 31 December 2018 of £100 invested in Derwent London on 31 December 2008 compared to that of £100 invested in the FTSE 350 Super Sector Real Estate Index. The other points plotted are the values at intervening financial year ends. This index has been chosen by the Committee as it is considered the most appropriate benchmark against which to assess the relative performance of the Company for this purpose.

Total shareholder return



Source: Datastream (Thomson Reuters)

Note: The TSR chart data is based on the 30-day average over the period 2 December to 31 December for each year.

Remuneration of the Chief Executive

Financial year ending	31/12/2009	31/12/2010	31/12/2011	31/12/2012	31/12/2013	31/12/2014	31/12/2015	31/12/2016	31/12/2017	31/12/2018
Total remuneration (single figure) (£000)	1,384	2,304	2,387	2,721	2,478	2,648	2,529	1,403	1,681	2,159
Annual bonus (% of maximum)	62.5	87.5	90.0	85.4	95.0	92.6	74.2	23.3	53.6	68.5
Long-term variable pay (% of maximum)	47.6	50.0	50.0	83.8	55.2	50.0	65.7	24.9	26.5	46.0

Chief Executive pay ratio

As Derwent London has less than 250 employees, we are not required to disclose the CEO pay ratio. However, given our commitment to high standards of transparency and corporate governance, the Committee considers it appropriate to disclose the CEO pay ratio voluntarily.

For the year ended 31 December 2018, the Chief Executive's total remuneration as a ratio against the full-time equivalent remuneration of UK employees is detailed in the table below:

	Base salary	Total remuneration	CEO pay ratio
25th percentile	£45,057	£58,237	37 : 1
50th percentile	£59,250	£76,842	28 : 1
75th percentile	£75,000	£148,867	15 : 1

The Company has calculated the ratio in line with the reporting regulations using 'Method A' (determine total full-time equivalent remuneration for all UK employees for the relevant financial year; rank the data and identify employees whose remuneration places them at the 25th, 50th and 75th percentile). The following should be noted:

- Chief Executive remuneration is the 'single figure' for the year ended 31 December 2018 contained on page 123.
- The workforce comparison is based on the payroll data for the period 1 January 2018 to 31 December 2018 for all employees (including the Chief Executive but excluding the Non-Executive Directors).
- The workforce comparison includes employer pension contributions, life assurance and the healthcare cash plan.
- The CEO pay ratio has been rounded to the nearest whole number.

The Board have confirmed that the ratio is consistent with the Company's wider policies on employee pay, reward and progression.

SCHEDULES TO THE ANNUAL REPORT ON REMUNERATION

(unaudited unless otherwise indicated)

Directors' interests (audited)

Directors' interests in shares

Details of the Directors' interests in shares are provided in the table below.

	Number at 31 December 2018				Number at 31 December 2017			
	Beneficially held	Deferred shares	Conditional shares	Total	Beneficially held	Deferred shares	Conditional shares	Total
Executive								
John Burns	661,497	–	132,536	794,033	656,287	1,124	123,700	781,111
Simon Silver	183,087	–	113,738	296,825	178,617	964	106,150	285,731
Damian Wisniewski	33,181	–	85,884	119,065	29,983	716	79,550	110,249
Nigel George	58,145	–	85,884	144,029	54,568	716	79,550	134,834
Paul Williams	53,708	–	85,884	139,592	50,510	716	79,550	130,776
David Silverman	29,796	–	85,884	115,680	26,219	716	79,550	106,485
Total	1,019,414	–	589,810	1,609,224	996,184	4,952	548,050	1,549,186
Non-Executive								
Robert Rayne	4,120,093	–	–	4,120,093	4,127,125	–	–	4,127,125
Stephen Young	1,000	–	–	1,000	1,000	–	–	1,000
Simon Fraser	2,000	–	–	2,000	2,000	–	–	2,000
Richard Dakin	–	–	–	–	–	–	–	–
Claudia Arney	2,500	–	–	2,500	2,500	–	–	2,500
Cilla Snowball	–	–	–	–	–	–	–	–
Helen Gordon	892	–	–	892	–	–	–	–
Total	4,126,485	–	–	4,126,485	4,132,625	–	–	4,132,625

Notes:

- John Burns acquired and immediately sold 1,124 shares under the Company's deferred bonus scheme when they were released from the 2016 deferral on 23 March 2018. These shares were sold at an average price of £30.26 per share. A dividend equivalent cash payment totalling £1,757 was paid to John based on these released shares. John acquired 9,473 shares from the PSP 2015 grant which vested on 3 April 2018. To satisfy the tax liability arising, John sold 4,263 shares immediately upon vesting at an average share price of £30.78 per share. A dividend equivalent cash payment totalling £18,910 was paid to John based on these vesting shares.
- Simon Silver acquired and immediately sold 964 shares under the Company's deferred bonus scheme when they were released from the 2016 deferral on 23 March 2018. These shares were sold at an average price of £30.26 per share. A dividend equivalent cash payment totalling £1,484 was paid to Simon based on these released shares. Simon acquired 8,128 shares from the PSP 2015 grant which vested on 3 April 2018. To satisfy the tax liability arising, Simon sold 3,658 shares immediately upon vesting at an average share price of £30.78 per share. A dividend equivalent cash payment totalling £16,213 was paid to Simon based on these vesting shares. On 20 April and 12 September 2018, Simon transferred 8,250 and 3,925 shares, respectively, from his executive nominee account to his self-invested personal pension. There was no change in the number of shares beneficially held by Simon and he remains interested in the 8,250 and 3,925 shares that were the subject of the transfers.
- Damian Wisniewski and Paul Williams each acquired and immediately sold 716 shares under the Company's deferred bonus scheme when they were released from the 2016 deferral on 23 March 2018. These shares were sold at an average price of £30.26 per share. Damian and Paul both received a dividend equivalent cash payment totalling £1,060 on these released shares. Damian and Paul each acquired 6,034 shares from the PSP 2015 grant which vested on 3 April 2018. To satisfy the tax liability arising, they each sold 2,836 shares immediately upon vesting at an average share price of £30.78 per share. Damian and Paul both received a dividend equivalent cash payment totalling £12,028 on these vesting shares.
- Nigel George and David Silverman each acquired 716 shares under the Company's deferred bonus scheme when they were released from the 2016 deferral on 23 March 2018. To satisfy the tax liability arising, Nigel and David both sold 337 shares immediately upon their release at an average share price of £30.26 per share. Nigel and David both received a dividend equivalent cash payment totalling £1,060 on these released shares. Nigel and David each acquired 6,034 shares from the PSP 2015 grant which vested on 3 April 2018. To satisfy the tax liability arising, they each sold 2,836 shares immediately upon vesting at an average share price of £30.78 per share. Nigel and David both received a dividend equivalent cash payment totalling £12,028 on these vesting shares.
- On 29 June 2018, Robbie Rayne donated 7,032 shares to BMR Charitable Trust for nil consideration.
- On 1 March 2018, Helen Gordon acquired 858 shares at an average price of £28.98. During 2018, Helen reinvested her dividend to purchase an additional 34 shares.

REMUNERATION COMMITTEE REPORT CONTINUED

Directors' shareholding guideline

The shareholding guideline in place for the year ended 31 December 2018 requires all Executive Directors to work towards holding shares in Derwent London plc equivalent to 200% of base salary. All Executive Committee members granted PSP awards are required to work towards holding shares in Derwent London plc equivalent to 50% of base salary. There is no shareholding guideline for Non-Executive Directors.

Executive Director	Beneficially held shares	2018 salary	Shareholding guideline (%)	
			Target	Achieved
John Burns	661,497	£ 657,200	200%	3022%
Simon Silver	183,087	£ 564,000	200%	975%
Damian Wisniewski	33,181	£ 429,000	200%	232%
Nigel George	58,145	£ 429,000	200%	407%
Paul Williams	53,708	£ 429,000	200%	376%
David Silverman	29,796	£ 429,000	200%	209%

The value of the Executive Directors' beneficially held shares has been calculated using the average closing share price during the year ended 31 December 2018 of £30.02.

The share ownership guidelines for Executive Directors and Executive Committee members requires them to retain at least half of any deferred bonus shares or performance shares which vest (net of tax) until the guideline is met. Only wholly-owned shares will count towards the guideline.

Due to the relatively large shareholdings of our Executive Directors, a small change in our share price would have a material impact on their wealth. For example, a 5% drop in our share price would result in a loss of value for our Chief Executive, John Burns, equivalent to approximately 150% of his base salary.

Long-term incentive plans (audited)

Deferred Bonus Plan

Details of the deferred bonus shares held by the Directors are set out in the table below:

Executive Director	Date of Grant	At Grant		During the year						
		Market price at date of Grant (£)	Original Grant (number)	01 January 2018 (number)	Deferred (number)	Released (number)	31 December 2018 (number)	Market price at date of release (£)	Value at release £000	Release date
John Burns	23/03/2016	31.21	2,249	1,124		1,124	–	30.26	36	23/03/2018
Simon Silver	23/03/2016	31.21	1,929	964		964	–	30.26	31	23/03/2018
Damian Wisniewski	23/03/2016	31.21	1,432	716		716	–	30.26	23	23/03/2018
Nigel George	23/03/2016	31.21	1,432	716		716	–	30.26	23	23/03/2018
Paul Williams	23/03/2016	31.21	1,432	716		716	–	30.26	23	23/03/2018
David Silverman	23/03/2016	31.21	1,432	716		716	–	30.26	23	23/03/2018
Total			9,906	4,952	–	4,952	–		159	

Notes:

⁽ⁱ⁾ The bonus deferred on 23 March 2016 was released in two tranches; 50% of the award was released 12 months after deferral (on 28 March 2017) and the remaining balance was released after 24 months (on 23 March 2018). The bonus released in March 2018 has been valued using the average sale price on the release date and is inclusive of a dividend equivalents payment made in cash (see note ii for further details).

⁽ⁱⁱ⁾ In accordance with the rules which govern the Deferred Bonus Plan, the Remuneration Committee has discretion to allow participants to receive a payment upon the release of their awards, which is equivalent to the value of any dividends paid on those shares between the grant date and the release date. For the 2016 deferral, this dividend equivalent payment was made in cash and equated to dividends paid between March 2016 and March 2018. The dividend equivalent payment has been included in the table above, within the value of the released shares, and equates to £1,757 for John Burns, £1,484 for Simon Silver and £1,060 for the other Executive Directors.

⁽ⁱⁱⁱ⁾ As the 2017 annual bonus did not reach 100% of base salary, there was no bonus deferral during 2018.

^(iv) The 2018 annual bonus in excess of 100% of salary, will be deferred in March 2019 and will be released in two tranches; 50% of the award will be released 12 months after deferral (in March 2020) and the remaining balance after 24 months (in March 2021).

Performance Share Plan (PSP)

The outstanding PSP awards held by Directors are set out in the table below:

Executive Director	Date of Grant	Market price at date of Grant (£)	At Grant				During the year				Value vested (inclusive of dividend equivalents) £000	Earliest vesting date
			01 January 2018 (number)	Granted (number)	Vested (number)	Lapsed (number)	31 December 2018 (number)	Market price at date of vesting (£)				
John Burns	30/03/2015	34.65	35,750	–	9,473	26,277	–	31.00	313	30/03/2018		
	01/04/2016	31.35	40,700	–	–	–	40,700	–	–	04/04/2019		
	20/03/2017	27.00	47,250	–	–	–	47,250	–	–	20/03/2020		
	06/03/2018	29.48	–	44,586	–	–	44,586	–	–	06/03/2021		
			123,700	44,586	9,473	26,277	132,536					
Simon Silver	30/03/2015	34.65	30,675	–	8,128	22,547	–	31.00	268	30/03/2018		
	01/04/2016	31.35	34,925	–	–	–	34,925	–	–	04/04/2019		
	20/03/2017	27.00	40,550	–	–	–	40,550	–	–	20/03/2020		
	06/03/2018	29.48	–	38,263	–	–	38,263	–	–	06/03/2021		
			106,150	38,263	8,128	22,547	113,738					
Damian Wisniewski	30/03/2015	34.65	22,770	–	6,034	16,736	–	31.00	199	30/03/2018		
	01/04/2016	31.35	25,930	–	–	–	25,930	–	–	04/04/2019		
	20/03/2017	27.00	30,850	–	–	–	30,850	–	–	20/03/2020		
	06/03/2018	29.48	–	29,104	–	–	29,104	–	–	06/03/2021		
			79,550	29,104	6,034	16,736	85,884					
Nigel George	30/03/2015	34.65	22,770	–	6,034	16,736	–	31.00	199	30/03/2018		
	01/04/2016	31.35	25,930	–	–	–	25,930	–	–	04/04/2019		
	20/03/2017	27.00	30,850	–	–	–	30,850	–	–	20/03/2020		
	06/03/2018	29.48	–	29,104	–	–	29,104	–	–	06/03/2021		
			79,550	29,104	6,034	16,736	85,884					
Paul Williams	30/03/2015	34.65	22,770	–	6,034	16,736	–	31.00	199	30/03/2018		
	01/04/2016	31.35	25,930	–	–	–	25,930	–	–	04/04/2019		
	20/03/2017	27.00	30,850	–	–	–	30,850	–	–	20/03/2020		
	06/03/2018	29.48	–	29,104	–	–	29,104	–	–	06/03/2021		
			79,550	29,104	6,034	16,736	85,884					
David Silverman	30/03/2015	34.65	22,770	–	6,034	16,736	–	31.00	199	30/03/2018		
	01/04/2016	31.35	25,930	–	–	–	25,930	–	–	04/04/2019		
	20/03/2017	27.00	30,850	–	–	–	30,850	–	–	20/03/2020		
	06/03/2018	29.48	–	29,104	–	–	29,104	–	–	06/03/2021		
			79,550	29,104	6,034	16,736	85,884					
Other employees	30/03/2015	34.65	10,280	–	2,351	7,929	–	31.59	79	30/03/2018		
	30/05/2015	31.35	20,510	–	4,112	16,398	–	30.50	137	22/05/2018		
	02/04/2016	31.35	28,270	–	–	–	28,270	–	–	04/04/2019		
	21/03/2017	27.00	42,640	–	–	–	42,640	–	–	20/03/2020		
	06/03/2018	29.48	–	42,484	–	–	42,484	–	–	06/03/2021		
			101,700	42,484	6,463	24,327	113,394					
Total			649,750	241,749	48,200	140,095	703,204		1,593			

Notes:

⁽ⁱ⁾ The PSP award granted on 30 March 2015 vested on 3 April 2018 at a vesting level of 26.5%. The value of the vesting awards was based on the middle market share price on the vesting date and is inclusive of a dividend equivalents payment made in cash (see note ii for further details).

⁽ⁱⁱ⁾ In accordance with the PSP rules, the Remuneration Committee has discretion to allow PSP participants to receive a payment upon the vesting of their awards, which is equivalent to the value of any dividends paid on those shares between the grant date and the vesting date. For the 2015 PSP grant, this dividend equivalent payment was made in cash and equated to dividends paid between March 2015 and March 2018. The dividend equivalent payment has been included in the table above, within the value of the vesting awards, and equates to £18,910 for John Burns, £16,213 for Simon Silver and £12,028 for the other Executive Directors.

⁽ⁱⁱⁱ⁾ The PSP award granted on 6 March 2018 will vest on 6 March 2021. The performance targets attached to this award are detailed on page 127.

	31/12/2018	31/12/2017	01/01/2017
Weighted average exercise price of PSP awards	–	–	–
Weighted average remaining contracted life of PSP awards	1.22 years	1.24 years	1.31 years

At each year end, none of the outstanding awards were exercisable. The weighted average exercise price of awards that either vested or lapsed in 2018 was £nil (2017: £nil). The weighted average market price of awards vesting in 2018 was £30.78 (2017: £27.73).

DIRECTORS' REPORT



David Lawler
Company Secretary

The Directors' report for the financial year ended 31 December 2018 is set out on pages 132 to 135. Additional information which is incorporated into this Directors' report by reference, including information required in accordance with the Companies Act 2006 and Listing Rule 9.8.4R of the Financial Conduct Authority's Listing Rules, can be located on the following pages:

p.01 Future business developments (throughout the strategic report)	p.121 Long-term incentive schemes
p.18 Stakeholder engagement	p.135 Significant agreements
p.44 Viability statement	p.154 Interest capitalised
p.83 Governance	p.170 Financial instruments
p.102 Diversity	p.178 Financial risk management
p.109 Internal control	p.179 Credit, market and liquidity risks
p.111 Risk management	p.189 Related party disclosure

The Directors present their Annual Report and audited financial statements for the year ended 31 December 2018.

This Annual Report contains certain forward-looking statements. By their nature, any statements about the 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. Each forward-looking statement speaks only as of the date of that particular statement.

No representation or warranty is given in relation to any forward-looking statements made by Derwent London, including as to their completeness or accuracy. Nothing in this report and accounts should be construed as a profit forecast.

Both the Strategic report and the Directors' report have been drawn up and presented in accordance with and in reliance upon applicable English company law, and the liabilities of the Directors in connection with that report shall be subject to the limitations and restrictions provided by such law.

Corporate governance arrangements

During the year ended 31 December 2018, we have applied the principles and complied with the provisions of good governance contained in the UK Corporate Governance Code 2016 (the '2016 Code'). Further details on how we have applied the 2016 Code can be found in the Governance section on pages 83 to 135. From 1 January 2019, we will adopt the new UK Corporate Governance Code 2018 (the '2018 Code'). Both the 2016 Code and the 2018 Code can be found in the Corporate Governance section of the Financial Reporting Council's website: www.frc.org.uk

Company status and branches

Derwent London plc is a Real Estate Investment Trust (REIT) and the holding company of the Derwent London group of companies which includes no branches. It is listed on the London Stock Exchange main market with a premium listing.

Results and dividends

The financial statements set out the results of the Group for the financial year ended 31 December 2018 and are shown on page 145. The Directors recommend a final dividend of 46.75 pence per ordinary share for the year ended 31 December 2018. When taken together with the interim dividend of 19.10 pence per ordinary share paid in October 2018, this results in a total dividend for the year of 65.85 pence (2017: 59.73 pence) per ordinary share. Subject to approval by shareholders of the recommended final dividend, the dividend to shareholders for 2018 will total £74m. If approved, the Company will pay the final dividend on 7 June 2019 to shareholders on the register of members at 3 May 2019.

PID and non-PID dividends

As a REIT, Derwent London must distribute at least 90% of the Group's income profits from its tax-exempt property rental business by way of a dividend, which is known as a Property Income Distribution (PID). These distributions can be subject to withholding tax at 20%. Dividends from profits of the Group's taxable residual business are non-PID and will be taxed as an ordinary dividend.

Substantial shareholders

Table 1 shows the holdings in the Company's issued share capital which had been notified to the Company pursuant to the Financial Conduct Authority's Disclosure Guidance and Transparency Rules. The information below was correct at the date of notification. It should be noted that these holdings may have changed since the Company was notified. However, notification of any change is not required until the next notifiable threshold is crossed.

Table 1	31 December 2018			26 February 2019		
	Direct/indirect	Number of shares (m)	%	Direct/indirect	Number of shares (m)	%
Invesco Limited	Indirect	14.3	12.84	Indirect	14.3	12.84
BlackRock Investment Management (UK) Ltd	Indirect	6.0	5.39	Indirect	6.0	5.39
Norges Bank	Direct	5.6	5.01	Direct	5.6	5.01
Stichting PGGM Depository	Direct	5.6	5.01	Direct	7.4	6.65
Ameriprise Financial Inc (Columbia Threadneedle)	Indirect	4.8	4.75	Indirect	4.8	4.75
Lady Jane Rayne	Direct	3.6	3.56	Direct	3.6	3.56

Employees

The Board recognises the importance of attracting, developing and retaining the right people. In accordance with best practice, we have employment policies in place which provide equal opportunities for all employees, irrespective of sex, race, colour, disability, sexual orientation, religious beliefs or marital status.

During the year under review, Cilla Snowball was designated the Director responsible for gathering the views of the workforce. Further information on the Board's methods for engaging with the workforce are on page 18 and 92.

Directors

The Directors of the Company who were in office during the year, and up to the date of the signing of the financial statements, are set out on pages 88 and 89. Each Director served throughout the financial year ended 31 December 2018, save for Lucinda Bell who was appointed to the Board with effect from 1 January 2019.

The Board shall consist of no fewer than two Directors and not more than 15. Shareholders may vary the minimum and/or maximum number of Directors by passing an ordinary resolution.

Copies of the Executive Directors' service contracts are available to shareholders for inspection at the Company's registered office and at the Annual General Meeting (AGM). Details of the Directors' remuneration and service contracts and their interests in the shares of the Company are set out on pages 116 to 131.

Appointment and replacement of Directors

Directors may be appointed by ordinary resolution of the shareholders, or by the Board. Appointment of a Director from outside the Group is on the recommendation of the Nominations Committee, whilst internal promotion is a matter decided by the Board unless it is considered appropriate for a recommendation to be requested from the Nominations Committee.

At every AGM of the Company, any of the Directors who have been appointed by the Board since the last AGM shall seek election by the members. Notwithstanding provisions in the Company's Articles of Association, the Board has agreed, in accordance with the 2016 Code and in line with previous years, that all of the Directors wishing to continue will retire and, being eligible, offer themselves for re-election by the shareholders at the 2019 AGM.

Directors' indemnity

Directors' and officers' liability insurance is maintained by the Company.

Powers of the Directors

Subject to the Company's Articles of Association, the Companies Act and any directions given by special resolution, the business of the Company will be managed by the Board who may exercise all the powers of the Company, whether relating to the management of the business of the Company or not. In particular, the Board may exercise all the powers of the Company to borrow money, to guarantee, to indemnify, to mortgage or charge any of its undertakings, property, assets (present and future) and uncalled capital and to issue debentures and other securities and to give security for any debt, liability or obligation of the Company or of any third party.

Directors' training and development

Details of the training that has been provided to the executive and Non-Executive Directors during the year can be found on page 97.

Share capital

As at 26 February 2019, the Company's issued share capital comprised a single class of 5p ordinary shares and equalled an amount of £5,576,996 divided into 111,539,937 ordinary shares.

The market price of the 5p ordinary shares at 31 December 2018 was £28.53 (2017: £31.18). During the year, they traded in a range between £27.40 and £32.41 (2017: £24.28 and £31.20).

Details of the ordinary share capital and shares issued during the year can be found in note 27 to the financial statements.

Rights and restrictions attaching to shares

Subject to the Articles of Association, the Companies Act and other shareholders' rights, shares in the Company may be issued with such rights and restrictions as the shareholders may by ordinary resolution decide, or if there is no such resolution, as the Board may decide provided it does not conflict with any resolution passed by the shareholders.

These rights and restrictions will apply to the relevant shares as if they were set out in the Articles of Association. Subject to the Articles of Association, the Companies Act and other shareholders' rights, unissued shares are at the disposal of the Board.

DIRECTORS' REPORT CONTINUED

Variation of rights

The rights attached to any class of shares can be amended if approved, either by 75% of shareholders holding the issued shares in that class by amount, or by special resolution passed at a separate meeting of the holders of the relevant class of shares.

Every member and every duly appointed proxy present at a general meeting or class meeting has, upon a show of hands, one vote and every member present in person or by proxy has, upon a poll, one vote for every share held by him or her. No person holds securities in the Company carrying special rights with regard to control of the Company.

Derwent London shares held by the Group

During the year under review, the Group held 4,952 Derwent London shares in order to deliver the deferred bonus shares to the Directors and other senior executives when the deferral period expired (see page 130). Movements on the holding of these shares are detailed below.

	Year ended 31 December 2018				Year ended 31 December 2017			
	As at 1 January 2018	Acquired	Disposed	As at 31 December 2018	As at 1 January 2017	Acquired	Disposed	As at 31 December 2017
Number of 5p ordinary shares	4,952	–	4,952	–	25,040	–	20,088	4,952
Percentage of issued share capital				0%				0%
Price (£)			30.27				26.73	

Restrictions on transfer of securities in the Company

There are no specific restrictions on the transfer of securities in the Company, which is governed by its Articles of Association and prevailing legislation. The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities.

Powers in relation to the Company issuing or buying back its own shares

At the 2018 AGM, shareholders authorised the Company to allot relevant securities,

- (i) up to a nominal amount of £1,857,728; and
- (ii) up to a nominal amount of £3,716,013, after deducting from such limit any relevant securities allotted under (i), in connection with an offer by way of a rights issue.

This authority is renewable annually. An ordinary resolution will be proposed at the 2019 AGM to grant a similar authority to allot:

- (i) up to a nominal amount of £1,860,601 (being one-third of the issued share capital of the Company); and
- (ii) up to a nominal amount of £3,721,759 (after deducting from such limit any relevant securities allotted under (i)), in connection with an offer by way of a rights issue (being two-thirds of the issued share capital).

At the 2019 AGM, similar to previous years, authority will be sought via a special resolution to enable the Directors to allot securities and/or sell any treasury shares for cash on a non-pre-emptive basis up to a nominal amount of £279,118 (representing 5% of the issued share capital). In addition, authority will be sought via a special resolution to enable the Directors to allot securities and/or sell treasury shares for cash on a non-pre-emptive basis for the purposes of financing (or refinancing, if the authority is to be used within six months after the original transaction) an acquisition or other capital investment. The allotment of equity securities or sale of treasury shares under such authority will also be limited to a nominal amount of £279,118 (representing a further 5% of the issued share capital).

A further special resolution will be proposed to renew the Directors' authority to repurchase the Company's ordinary shares in the market. The authority will be limited to a maximum of 11,164,720 ordinary shares and the resolution sets the minimum and maximum prices which may be paid. The Directors will only purchase the Company's shares in the market if they believe it is in the best interests of shareholders generally.

Voting

Shareholders will be entitled to vote at a general meeting whether on a show of hands or a poll, as provided in the Companies Act.

Where a proxy is given discretion as to how to vote on a show of hands this will be treated as an instruction by the relevant shareholder to vote in the way in which the proxy decides to exercise that discretion. This is subject to any special rights or restrictions as to voting which are given to any shares or upon which any shares may be held at the relevant time and to the Articles of Association.

If more than one joint holder votes (including voting by proxy), the only vote which will count is the vote of the person whose name is listed first on the register for the share.

Restrictions on voting

Unless the Directors decide otherwise, a shareholder cannot attend or vote shares at any general meeting of the Company or upon a poll or exercise any other right conferred by membership in relation to general meetings or polls if he has not paid all amounts relating to those shares which are due at the time of the meeting, or if he has been served with a restriction notice (as defined in the Articles of Association) after failure to provide the Company with information concerning interests in those shares required to be provided under the Companies Act.

The Company is not aware of any agreements between shareholders that may result in restrictions on voting rights.

Significant agreements

There are no agreements between the Company and its Directors or employees providing for compensation for loss of office or employment that occurs because of a takeover bid, except that, under the rules of the Group's share-based remuneration schemes some awards may vest following a change of control.

Some of the Group's banking arrangements are terminable upon a change of control of the Company.

As a REIT, a tax charge may be levied on the Company if it makes a distribution to another Company which is beneficially entitled to 10% or more of the shares or dividends in the Company or controls 10% or more of the voting rights in the Company, (a substantial shareholder), unless the Company has taken reasonable steps to avoid such a distribution being made. The Company's Articles of Association give the Directors power to take such steps, including the power to:

- identify a substantial shareholder;
- withhold the payment of dividends to a substantial shareholder; and
- require the disposal of shares forming part of a substantial shareholding.

There is no person with whom the Group has a contractual or other arrangement which is essential to the business of the Company.

Amendment of Articles of Association

Unless expressly specified to the contrary in the Articles of Association of the Company, the Company's Articles of Association may be amended by a special resolution of the Company's shareholders.

Fixed assets

The Group's portfolio was professionally revalued at 31 December 2018, resulting in a surplus of £100.2m, before accounting adjustments of £16.3m. The portfolio is included in the Group balance sheet at a carrying value of £5,112m. Further details are given in note 16 of the financial statements.

Post-balance sheet events

Details of post-balance sheet events are given in note 35 of the financial statements.

Political donations

There were no political donations during 2018 (2017: nil).

Auditors

PricewaterhouseCoopers LLP, which was appointed in 2014 following a competitive tender process, has expressed its willingness to continue in office as the Group's Auditor and, accordingly, resolutions to reappoint it and to authorise the Directors to determine its remuneration will be proposed at the AGM. These are resolutions 16 and 17 set out in the Notice of Meeting.

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

Greenhouse gas emissions

Due to our commitment to transparent and best practice reporting, we have included our streamlined energy and carbon reporting (SECR) disclosures on page 76 of the Responsibility report alongside our annual GHG (greenhouse gas) emissions footprint and an intensity ratio appropriate for our business, which fulfil the requirements of the Companies Act 2006 (Strategic and Directors' Report) Regulations 2013.

For further analysis and detail on our GHG emissions, please see our Annual Sustainability Report, which can be found at: www.derwentlondon.com/sustainability

Going concern

Under Provision C.1.3 of the 2016 Code, the Board is required to report whether the business is a going concern. 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. Sensitivity analysis is included within these forecasts;
- the headroom under the Group's financial covenants; and
- the risks included on the Group's risk register that could impact on the Group's liquidity and solvency over the next 12 months.

Having due regard to these matters and after making appropriate enquiries, the Directors have a reasonable expectation that the Group and Company have adequate resources to continue in operational existence until at least February 2020. Therefore, the Board continues to adopt the going concern basis in preparing the financial statements.

Annual General Meeting (AGM)

The 35th AGM of Derwent London plc will be held at The Westbury hotel, 37 Conduit Street, London W1S 2YF on 17 May 2019 at 10.30 am. At the request of a shareholder, the 2019 AGM will include a presentation on our business from the Executive Directors.

The Notice of Meeting together with explanatory notes is contained in the circular to shareholders that accompanies the report and accounts.

The Strategic report and Directors' report have been approved by the Board of Directors and signed on its behalf by:

David Lawler

Company Secretary
26 February 2019



THE BUCKLEY BUILDING EC1

This 85,100 sq ft refurbishment was completed in 2013. It has proved highly successful and helped revitalise the Clerkenwell office market and the local economy attracting new occupiers to the area. During 2018 we conducted our first rent review on 20,800 sq ft, ahead of ERV, which saw passing rents rise by over 10%.

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STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the annual report, the report of the Remuneration Committee and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and Company financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the report of the Remuneration Committee comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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.

The Directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position, performance, business model and strategy.

Each of the Directors, whose names and functions are listed on pages 88 and 89, confirm that to the best of their knowledge:

- The Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit and loss of the Group; and
- The Strategic Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

The financial statements on pages 145 to 199 were approved by the Board of Directors and signed on its behalf by:

John Burns
Chief Executive

Damian Wisniewski
Finance Director
26 February 2019

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF DERWENT LONDON PLC

Report on the audit of the financial statements

Opinion

In our opinion, Derwent London plc's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2018 and of the group's profit and the group's and the company's cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the company's financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Report and Accounts (the "Annual Report"), which comprise: the Balance sheets as at 31 December 2018; the Group income statement and Group statement of comprehensive income, the Cash flow statements, and the Statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the company.

Other than those disclosed in note 10 to the financial statements, we have provided no non-audit services to the group or the company in the period from 1 January 2018 to 31 December 2018.

Our audit approach

Overview

Materiality

- Overall group materiality: £53.2 million (2017: £50.1 million), based on 1% of total assets.
- Specific group materiality: £4.0 million (2017: £4.0 million) applied to property and other income, administrative expenses, provisions and working capital balances.
- Overall company materiality: £41.5 million (2017: £34.2 million), based on 2% of total assets.

Scope

- We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the group, the accounting processes and controls, and the industry in which the Group operates.
- The Group's properties are spread across 28 statutory entities with the Group financial statements being a consolidation of these entities, the Company and the Group's joint ventures. Each statutory entity which owned a property was identified as requiring an audit of its complete financial information, either due to size, risk characteristics or statutory requirements. This work, all of which was carried out by the Group audit team, together with additional procedures performed on the consolidation, gave us sufficient appropriate audit evidence for our opinion on the Group financial statements as a whole.

Key audit matters

- Valuation of investment properties (Group).
- Compliance with REIT guidelines (Group).
- Accounting for borrowings and derivatives (Group and parent).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.



INDEPENDENT AUDITOR'S REPORT CONTINUED

We gained an understanding of the legal and regulatory framework applicable to the group and the industry in which it operates, and considered the risk of acts by the group which were contrary to applicable laws and regulations, including fraud. Based on our understanding of the group/industry, we identified that the principal risks of non-compliance with laws and regulations related to non-compliance with health and safety or environmental and sustainability legislation and breaches of the Real Estate Investment Trust (REIT) status section 1158 of the Corporation Tax Act 2010 (see page 105 of the Annual Report). We designed audit procedures at group and significant component level to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. We focused on laws and regulations that could give rise to a material misstatement in the group and company financial statements, including, but not limited to the Companies Act 2006, the Listing Rules, Pensions legislation, and UK tax legislation. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue or reduce expenditure, and management bias in accounting estimates and judgemental areas of the financial statements such as the valuation of investment properties. Our tests included, but were not limited to:

- Discussion with management, including the Company Secretary, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Evaluation of management's controls designed to prevent and detect irregularities;
- Review of the financial statement disclosures to underlying supporting documentation;
- Assessment of matters reported on the group's whistleblowing helpline and the results of management's investigation of such matters where relevant;

- Obtaining confirmation of matters discussed with legal advisors directly from the relevant advisors;
- Review of tax compliance with the involvement of our tax specialists in the audit;
- Procedures relating to the valuation of investment properties described in the related key audit matter below;
- Reviewing relevant meeting minutes, including those of the Risk Committee and the Audit Committee; and
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations or posted by senior management.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter

Valuation of investment properties

Group

Refer to page 105 (Report of the Audit Committee), pages 162 to 165 (Notes to the financial statements - Note 16) and page 197 (Significant accounting policies).

The Group's investment properties were valued at £5,028.2 million as at 31 December 2018 and a revaluation gain of £83.4 million was accounted for under 'revaluation surplus' in the Group income statement. In excess of 98% of the value of the Group's investment property portfolio comprises offices and commercial space within Central London. The remainder of the portfolio represents a retail park, cottages and strategic land in Scotland.

Valuations are carried out by third party valuers in accordance with the RICS Valuation – Professional Standards and IAS 40.

There are significant judgements and estimates to be made in relation to the valuation of the Group's investment properties. Where available, the valuations take into account evidence of market transactions for properties and locations comparable to those of the Group.

The Central London investment property portfolio mainly features office accommodation and includes:

Standing investments: These are existing properties that are currently let. They are valued using the income capitalisation method.

Development projects: These are properties currently under development or identified for future development. They have a different risk and investment profile to the standing investments. These are valued using the residual appraisal method (i.e. by estimating the fair value of the completed project using the income capitalisation method less estimated costs to completion and a risk premium).

The most significant estimates affecting the valuation included yields and estimated rental value ("ERV") growth (as described in note 16 of the financial statements). For development projects, other assumptions including costs to completion and risk premium assumptions are also factored into the valuation.

The surplus on revaluation is primarily driven by the progress on the development projects where further capital expenditure has been incurred and the risk weighting applied to the valuation has decreased – hence increasing the capitalised value. Excluding these properties, the surplus reflects fairly flat ERVs in the central London property market with some significant new lettings being offset by ERV decreases at other sites.

The existence of significant estimation uncertainty, coupled with the fact that only a small percentage difference in individual property valuations when aggregated could result in material misstatement, is why we have given specific audit focus and attention to this area.

How our audit addressed the key audit matter

The valuers used by the Group are CBRE Limited for the Central London portfolio and Savills for the majority of the remaining investment property portfolio in Scotland. They are well-known firms, with sufficient experience of the Group's market. We assessed the competence and capabilities of the firms and verified their qualifications by discussing the scope of their work and reviewing the terms of their engagements for unusual terms or fee arrangements. Based on this work, we are satisfied that the firms remain independent and competent and that the scope of their work was appropriate.

We tested the data inputs underpinning the investment property valuation for a sample of properties, including rental income, acquisitions and capital expenditure, by agreeing them to the underlying property records held by the Group to assess the reliability, completeness and accuracy of the underlying data. The underlying property records were assessed for reliability by reviewing signed and approved lease contracts or sale/purchase contracts and by reviewing approved third party invoices. For the properties currently under development, we traced the costs to date included within development appraisals to quantity surveyor reports. In addition, we visited a number of the key properties in Central London that are under development to confirm the status of developments. We met with the external valuers independently of management and obtained the valuation reports to discuss and challenge the valuation methodology and assumptions.

We involved our internal valuation specialists to compare the valuations of each property to our independently formed market expectations and challenged any differences. In doing this we used evidence of comparable market transactions and focused in particular on properties where the growth in capital values was higher or lower than our expectations based on market indices.

We identified the following categories of assets for further testing: standing investments where the valuation fell outside the expected range; ongoing and planned development projects; high value assets over £100m; and acquisitions.

In relation to these assets, we found that yield rates and ERVs were predominantly consistent with comparable information for Central London offices and assumptions appropriately reflected comparable market information. Where assumptions did not fall within our expected range, we assessed whether additional evidence presented in arriving at the final valuations was appropriate, and, whether this was robustly challenged by the external independent valuers. Variances were predominantly due to property specific factors such as new lettings at higher rents, movements in ERV or yield to reflect market transactions in close proximity or the derisking of development projects nearing completion. We verified the movements to supporting documentation including evidence of comparable market transactions where appropriate.

We challenged the Directors and Audit Committee on the movements in the valuations and found that they were able to provide explanations and refer to appropriate supporting evidence.

We confirmed our understanding of management's approach to ensuring compliance with the REIT regime rules.

We obtained management's calculations and supporting documentation, checking their accuracy by verifying the inputs and calculation. We involved our internal taxation specialists to verify the accuracy of the application of the rules.

We found that the assessment prepared was free from material error and consistent with the UK REIT guidelines.

Compliance with REIT guidelines

Group

Refer to page 105 (Report of the Audit Committee) and page 151 (Significant judgements, key assumptions and estimates).

The UK REIT regime grants companies tax exempt status provided they meet the rules within the regime. The rules are complex and the tax exempt status has a significant impact on the financial statements. The complexity of the rules creates a risk of inadvertently breach and the Group's profit becoming subject to tax.

INDEPENDENT AUDITOR'S REPORT CONTINUED

Key audit matter	How our audit addressed the key audit matter
<p>Accounting for borrowings and derivatives Group and parent</p> <p>Refer to page 105 (Report of the Audit Committee), pages 170 to 179 (Notes to the financial statements – Note 23) and pages 198 to 199 (Significant accounting policies).</p> <p>The Group has secured and unsecured debt totalling £914.5 million (2017: £730.8 million). The debt includes unsecured convertible debt of £148.4 million (2017: £145.6 million) with an option for the Group to convert the debt when certain criteria have been met.</p> <p>The Group uses interest rate swaps on a portion of its debt. The interest rate swaps were valued at 31 December 2018 by external valuers and the fair value was £3.6m million (2017: £7.9 million). The valuation of the swaps is based on market movements which can fluctuate significantly in the year and could have a material impact on the Group financial statements. The valuation also involves the use of estimates and therefore is considered an area of audit focus.</p>	<p>We obtained and reviewed each loan contract to understand the terms and conditions. Where debt covenants were identified, we re-performed management's calculations to verify compliance with the contracts. The carrying value of all debt was agreed to third party confirmations.</p> <p>For derivatives, we agreed the carrying value to valuations obtained directly from the third party valuers, JC Rathbone Associates. We assessed the competence and capabilities of the external valuers by considering their qualifications and market experience. We involved our internal specialists who performed independent valuations to recalculate the value using independent market data.</p> <p>From our work on of the terms of the debt arrangements in place as at 31 December 2018, we consider the borrowings and derivatives to be accounted for appropriately, valued correctly in the context of materiality, and disclosed appropriately.</p>

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

The Group's properties are spread across 28 statutory entities with the Group financial statements being a consolidation of these entities, the Company and the Group's joint ventures. Each statutory entity which owned a property was identified as requiring an audit of its complete financial information, either due to size, risk characteristics or statutory requirements. This work, all of which was carried out by the Group audit team, together with additional procedures performed on the consolidation, gave us sufficient appropriate audit evidence for our opinion on the Group financial statements as a whole. The audit of the Company was also carried out by the Group audit team.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

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

	Group financial statements	Company financial statements
Overall materiality	£53.2 million (2017: £50.1 million).	£41.5 million (2017: £34.2 million).
How we determined it	1% of total assets.	2% of total assets.
Rationale for benchmark applied	The key driver of the business and determinant of the Group's value is direct property investments. Due to this, the key area of focus in the audit is the valuation of investment properties. On this basis, we set an overall Group materiality level based on total assets. In addition, a number of key performance indicators of the Group are driven by income statement items and we therefore also applied a lower specific materiality for testing property and other income, administrative expenses, provisions and working capital balances.	The key driver of the business and determinant of the Company's value is investments in subsidiaries. Due to this, the key area of focus in the audit is the valuation of investments in subsidiaries. On this basis, we set an overall Company materiality level based on total assets.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was calculated based on the materiality of each statutory entity, in all instances this was less than our overall group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £2.6 million (for items audited using overall materiality) and £0.4 million (for items audited using specific materiality) (Group audit) (2017: £2.5 million and £0.4 million) and £2.0 million (Company audit) (2017: £1.7 million) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Going concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the group's and the company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union, which is currently due to occur on 29 March 2019, are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.
We are required to report if the directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006 (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

Strategic Report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' report. (CA06)

The directors' assessment of the prospects of the group and of the principal risks that would threaten the solvency or liquidity of the group

We have nothing material to add or draw attention to regarding:

- The directors' confirmation on page 111 of the Annual Report that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The directors' explanation on pages 44 and 45 of the Annual Report as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report having performed a review of the directors' statement that they have carried out a robust assessment of the principal risks facing the group and statement in relation to the longer-term viability of the group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the "Code"); and considering whether the statements are consistent with the knowledge and understanding of the group and company and their environment obtained in the course of the audit. (Listing Rules)

INDEPENDENT AUDITOR'S REPORT CONTINUED

Other Code Provisions

We have nothing to report in respect of our responsibility to report when:

- The statement given by the directors, on page 138, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the group's and company's position and performance, business model and strategy is materially inconsistent with our knowledge of the group and company obtained in the course of performing our audit.
- The section of the Annual Report on pages 106 to 107 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- The directors' statement relating to the company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

Directors' Remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006. (CA06)

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities set out on page 138, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the Directors on 14 May 2014 to audit the financial statements for the year ended 31 December 2014 and subsequent financial periods. The period of total uninterrupted engagement is 5 years, covering the years ended 31 December 2014 to 31 December 2018.

Craig Hughes (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
26 February 2019

GROUP INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 £m	2017 £m
Gross property and other income	5	228.0	202.6
Net property and other income	5	185.9	164.8
Administrative expenses		(32.3)	(28.2)
Revaluation surplus	16	83.4	147.9
Profit on disposal of investment property	6	5.2	50.3
Profit from operations		242.2	334.8
Finance costs	7	(23.5)	(27.1)
Movement in fair value of derivative financial instruments		4.3	9.4
Financial derivative termination costs	8	(3.5)	(7.3)
Share of results of joint ventures	9	2.1	5.0
Profit before tax	10	221.6	314.8
Tax charge	15	(2.7)	(1.8)
Profit for the year		218.9	313.0
Attributable to:			
Equity shareholders	29	222.3	314.0
Non-controlling interest		(3.4)	(1.0)
		218.9	313.0
Earnings per share	38	199.33p	281.79p
Diluted earnings per share	38	198.91p	281.12p

The notes on pages 150 to 199 form part of these financial statements.

GROUP STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 £m	2017 £m
Profit for the year		218.9	313.0
Actuarial losses on defined benefit pension scheme	14	–	(0.9)
Revaluation surplus of owner-occupied property	16	0.7	1.8
Deferred tax credit/(charge) on revaluation	26	0.1	(0.7)
Other comprehensive income that will not be reclassified to profit or loss		0.8	0.2
Total comprehensive income relating to the year		219.7	313.2
Attributable to:			
Equity shareholders		223.1	314.2
Non-controlling interest		(3.4)	(1.0)
		219.7	313.2

The notes on pages 150 to 199 form part of these financial statements.

BALANCE SHEETS

AS AT 31 DECEMBER 2018

REGISTERED NO. 1819699

	Note	Group 2018 £m	2017 £m	Company 2018 £m	2017 £m
Non-current assets					
Investment property	16	5,028.2	4,670.7	–	–
Property, plant and equipment	17	53.1	52.2	5.4	5.1
Investments	18	29.1	39.7	1,226.4	1,225.8
Deferred tax	26	–	–	2.1	2.1
Pension scheme surplus	14	0.3	–	0.3	–
Other receivables	19	123.1	105.2	–	–
		5,233.8	4,867.8	1,234.2	1,233.0
Current assets					
Trading property	16	36.3	25.3	–	–
Trade and other receivables	20	61.4	58.0	1,849.8	1,469.6
Cash and cash equivalents	31	18.3	87.0	17.3	85.8
		116.0	170.3	1,867.1	1,555.4
Total assets		5,349.8	5,038.1	3,101.3	2,788.4
Current liabilities					
Borrowings	23	148.4	–	148.4	–
Trade and other payables	21	103.1	86.7	856.4	902.3
Corporation tax liability		2.1	2.1	1.0	1.1
Provisions	22	0.3	0.2	0.3	0.2
		253.9	89.0	1,006.1	903.6
Non-current liabilities					
Borrowings	23	766.1	730.8	552.5	516.3
Derivative financial instruments	23	3.6	7.9	3.6	7.0
Leasehold liabilities	23	60.7	14.1	–	–
Provisions	22	0.3	0.4	0.3	0.4
Pension scheme deficit	14	–	0.4	–	0.4
Deferred tax	26	1.8	2.3	–	–
		832.5	755.9	556.4	524.1
Total liabilities		1,086.4	844.9	1,562.5	1,427.7
Total net assets		4,263.4	4,193.2	1,538.8	1,360.7
Equity					
Share capital	27	5.6	5.6	5.6	5.6
Share premium	28	189.6	189.2	189.6	189.2
Other reserves	28	943.5	942.9	928.9	929.1
Retained earnings ¹	28	3,063.2	2,990.6	414.7	236.8
Equity shareholders' funds		4,201.9	4,128.3	1,538.8	1,360.7
Non-controlling interest		61.5	64.9	–	–
Total equity		4,263.4	4,193.2	1,538.8	1,360.7

¹ Retained earnings for the Company include profit for the year of £327.6m (2017: £125.7m).

The financial statements were approved by the Board of Directors and authorised for issue on 26 February 2019.

John Burns **Damian Wisniewski**
Chief Executive Finance Director

The notes on pages 150 to 199 form part of these financial statements.

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

	Share capital £m	Share premium £m	Other reserves ¹ £m	Retained earnings £m	Equity shareholders' funds £m	Non-controlling interest £m	Total equity £m
Group							
At 1 January 2018	5.6	189.2	942.9	2,990.6	4,128.3	64.9	4,193.2
Profit/(loss) for the year	-	-	-	222.3	222.3	(3.4)	218.9
Other comprehensive income	-	-	0.8	-	0.8	-	0.8
Share-based payments	-	0.4	(0.2)	2.5	2.7	-	2.7
Dividends paid	-	-	-	(152.2)	(152.2)	-	(152.2)
At 31 December 2018	5.6	189.6	943.5	3,063.2	4,201.9	61.5	4,263.4
At 1 January 2017	5.6	188.4	950.4	2,787.9	3,932.3	67.1	3,999.4
Profit/(loss) for the year	-	-	-	314.0	314.0	(1.0)	313.0
Other comprehensive income/(expense)	-	-	1.1	(0.9)	0.2	-	0.2
Transfer of owner-occupied property	-	-	(6.9)	6.9	-	-	-
Share-based payments	-	0.8	(1.7)	2.8	1.9	-	1.9
Dividends paid	-	-	-	(120.1)	(120.1)	(1.2)	(121.3)
At 31 December 2017	5.6	189.2	942.9	2,990.6	4,128.3	64.9	4,193.2
Company							
At 1 January 2018	5.6	189.2	929.1	236.8	1,360.7	-	1,360.7
Profit for the year	-	-	-	327.6	327.6	-	327.6
Share-based payments	-	0.4	(0.2)	2.5	2.7	-	2.7
Dividends paid	-	-	-	(152.2)	(152.2)	-	(152.2)
At 31 December 2018	5.6	189.6	928.9	414.7	1,538.8	-	1,538.8
At 1 January 2017	5.6	188.4	930.8	229.3	1,354.1	-	1,354.1
Profit for the year	-	-	-	125.7	125.7	-	125.7
Other comprehensive expense	-	-	-	(0.9)	(0.9)	-	(0.9)
Share-based payments	-	0.8	(1.7)	2.8	1.9	-	1.9
Dividends paid	-	-	-	(120.1)	(120.1)	-	(120.1)
At 31 December 2017	5.6	189.2	929.1	236.8	1,360.7	-	1,360.7

¹ See note 28.

The notes on pages 150 to 199 form part of these financial statements.

CASH FLOW STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	Group 2018 £m	2017 £m	Company 2018 £m	2017 £m
Operating activities					
Property income		159.5	154.2	-	-
Surrender premiums and other property income		22.2	0.1	-	-
Property expenses		(19.1)	(19.2)	-	-
Cash paid to and on behalf of employees		(22.0)	(19.5)	(21.9)	(19.5)
Other administrative expenses		(5.2)	(7.3)	(5.9)	(7.9)
Interest paid	7	(17.4)	(21.7)	(13.9)	(16.8)
Other finance costs	7	(2.6)	(3.2)	(1.9)	(2.2)
Other income		2.9	2.9	2.8	2.4
Tax paid in respect of operating activities		(3.1)	(2.8)	-	-
Net cash from/(used in) operating activities		115.2	83.5	(40.8)	(44.0)
Investing activities					
Acquisition of properties		(57.3)	(8.5)	-	-
Capital expenditure on the property portfolio	7	(187.5)	(171.0)	-	-
Reimbursement of capital expenditure		15.9	6.0	-	-
Disposal of investment and trading properties		0.3	472.9	-	-
Investment in joint ventures		(0.8)	-	-	-
Repayment of shareholder loan		-	1.3	-	1.3
Dividend from joint venture		13.5	-	-	-
Purchase of property, plant and equipment		(0.8)	(5.0)	(0.8)	(2.7)
VAT received/(paid)		7.6	(11.7)	-	-
Net cash (used in)/from investing activities		(209.1)	284.0	(0.8)	(1.4)
Financing activities					
Net movement in intercompany loans		-	-	(52.7)	420.9
Net movement in revolving bank loans	25	180.5	(170.8)	180.5	(170.4)
Payment of loan arrangement costs		(0.2)	-	(0.2)	-
Financial derivative termination costs		(3.5)	(7.3)	(2.9)	(7.3)
Net proceeds of share issues	27	0.4	0.8	0.4	0.8
Dividends paid to non-controlling interest holder		-	(1.2)	-	-
Dividends paid	30	(152.0)	(119.7)	(152.0)	(119.7)
Net cash from/(used in) financing activities		25.2	(298.2)	(26.9)	124.3
(Decrease)/increase in cash and cash equivalents in the year		(68.7)	69.3	(68.5)	78.9
Cash and cash equivalents at the beginning of the year		87.0	17.7	85.8	6.9
Cash and cash equivalents at the end of the year	31	18.3	87.0	17.3	85.8

The notes on pages 150 to 199 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards, as adopted by the European Union (IFRS), IFRS Interpretations Committee interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention as modified by the revaluation of investment properties, property, plant and equipment and financial assets and liabilities held for trading.

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. Sensitivity analysis is included within these forecasts.
- The headroom under the Group's financial covenants.
- The current and forecast risks included on the Group's risk register that could impact on the Group's liquidity and solvency over the next 12 months from the date of signing.

2 Changes in accounting policies

The principal accounting policies are described in note 41 and are consistent with those applied in the Group's financial statements for the year to 31 December 2017, 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 endorsed by the EU were effective for the first time for the Group's 31 December 2018 year end and had no material impact on the financial statements.

IFRS 2 (amended) – Share Based Payments;
IFRS 4 (amended) – Insurance Contracts;
IAS 40 (amended) – Investment Property;
IFRIC 22 – Foreign Currency Transactions and Advance Consideration;
Annual Improvements to IFRSs (2014 – 2016 cycle).

IFRS 9 Financial Instruments (effective from 1 January 2018)

This standard applies to classification and measurement of financial assets and financial liabilities, impairment provisioning and hedge accounting. The Group's assessment of IFRS 9 determined that the main area of potential impact was impairment provisioning on trade receivables, given the requirement to use a forward-looking expected credit loss model. However, the Group concludes that this has no material impact on its financial statements.

IFRS 15 Revenue from Contracts with Customers (effective from 1 January 2018)

IFRS 15 combines a number of previous standards, setting out a five step model for the recognition of revenue and establishing principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue. The standard is applicable to service charge income, facilities management income, investment property disposals and trading property disposals, but excludes rent receivable, which is within the scope of IFRS 16. The Group has completed its assessment of IFRS 15 and concludes that its adoption has no material impact on the financial statements.

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 year 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 9 (amended) – Prepayment Features with Negative Compensation;
IFRS 17 – Insurance Contracts;
IFRIC 23 – Uncertainty over Income Tax Treatments;
IAS 28 (amended) – Long-term interest in Associates and Joint Ventures;
IAS 19 (amended) – Plan Amendment, Curtailment of Settlement;
Annual Improvements to IFRSs (2015 – 2017 cycle).

IFRS 16 Leases (effective 1 January 2019)

This standard does not substantially affect the accounting for rental income earned by the Group as lessor. The main impact of the standard is the removal of the distinction between operating and finance leases for lessees, which will result in almost all leases being recognised on the balance sheet. As the Group does not hold any material operating leases as lessee, the impact of the standard is not expected to be material to the financial statements.

3 Significant judgements, key assumptions and estimates

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates and judgements. It also requires management to exercise judgement in the process of applying the Group's accounting policies. The Group's significant accounting policies are stated in note 41. 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 the consolidated 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 is based upon assumptions including future rental income, anticipated maintenance costs, future development costs and the appropriate discount rate. The valuers also make reference to market evidence of transaction prices for similar properties. More information is provided in note 16.

Borrowings and derivatives

The fair values of the Group's borrowings and interest rate swaps are based on estimates provided by independent third parties. The estimates are based on the terms of each of the financial instruments using data available in the financial markets. More information is provided in note 23.

Significant judgements

Compliance with the real estate investment trust (REIT) taxation regime

As a consequence of the Group's REIT status, income and chargeable gains on the qualifying property rental business are exempt from corporation tax.

In order for the Group to remain in the REIT regime, it is subject to a number of criteria that it must meet in each accounting period. The Group comfortably met all the criteria in 2018 ensuring its REIT status is maintained. The Directors intend that the Group should continue as a REIT for the foreseeable future.

Income that does not qualify as property income within the REIT rules is subject to corporation tax in the normal way. Such income includes development fees, interest income, sale of trading properties and our interest in unelected joint ventures.

The Group has maintained its low risk rating with HMRC due to the continued regular dialogue we maintain with them and our transparent approach.

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 maker (which in the Group's case is the Executive Committee comprising the six executive Directors and six senior managers) 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 the IFRS figures but also report the 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 38. 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 operating 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 buildings¹ by value at 31 December 2018 (2017: 97%). The Directors consider that these individual properties have similar economic characteristics and therefore have been aggregated into a single operating segment. The remaining 3% (2017: 3%) represented a mixture of retail, hotel, 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 and City borders), with the remainder in Scotland (Provincial).

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

4 Segmental information (continued)

Gross property income

	2018			2017		
	Office buildings £m	Other £m	Total £m	Office buildings £m	Other £m	Total £m
West End central	95.5	0.1	95.6	79.4	0.4	79.8
West End borders	19.3	–	19.3	18.4	–	18.4
City borders	76.1	0.5	76.6	69.0	0.2	69.2
Provincial	–	4.5	4.5	–	4.8	4.8
	190.9	5.1	196.0	166.8	5.4	172.2

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

Property portfolio

	2018			2017		
	Office buildings £m	Other £m	Total £m	Office buildings £m	Other £m	Total £m
Carrying value						
West End central	2,659.4	53.8	2,713.2	2,356.8	42.2	2,399.0
West End borders	439.2	–	439.2	439.3	–	439.3
City borders	1,859.5	7.7	1,867.2	1,799.1	6.5	1,805.6
Provincial	–	91.9	91.9	–	98.6	98.6
	4,958.1	153.4	5,111.5	4,595.2	147.3	4,742.5
Fair value						
West End central	2,658.1	54.9	2,713.0	2,394.9	43.7	2,438.6
West End borders	462.5	–	462.5	459.7	–	459.7
City borders	1,913.7	7.7	1,921.4	1,844.4	6.4	1,850.8
Provincial	–	93.8	93.8	–	101.2	101.2
	5,034.3	156.4	5,190.7	4,699.0	151.3	4,850.3

A reconciliation between the fair value and carrying value of the portfolio is set out in note 16.

5 Property and other income

	2018 £m	2017 £m
Gross rental income	175.1	172.1
Surrender premiums received	3.2	0.1
Other property income	17.7	–
Gross property income	196.0	172.2
Service charge income	29.1	27.7
Other income	2.9	2.7
Gross property and other income	228.0	202.6
Gross rental income	175.1	172.1
Ground rent	(1.4)	(0.7)
Service charge income	29.1	27.7
Service charge expenses	(32.0)	(29.6)
	(2.9)	(1.9)
Other property costs	(9.7)	(8.4)
Net rental income	161.1	161.1
Other property income	17.7	–
Other income	2.9	2.7
Other costs	(0.4)	–
Surrender premiums received	3.2	0.1
Reverse surrender premiums	(0.1)	(0.2)
Dilapidation receipts	1.7	0.1
(Write-down)/reversal of write-down of trading property	(0.2)	1.0
Net property and other income	185.9	164.8

Gross rental income included £13.4m (2017: £17.1m) relating to rents recognised in advance of cash receipts.

Other property income included £15.8m for granting a new access rights deed to a neighbouring property owner. The remaining £1.9m relates to rights of light income in the year.

Other income relates to fees and commissions earned 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.

6 Profit on disposal of investment property

	2018 £m	2017 £m
Gross disposal proceeds	5.4	486.3
Costs of disposal	–	(3.5)
Net disposal proceeds	5.4	482.8
Carrying value	(0.2)	(418.9)
Adjustment for lease costs and rents recognised in advance	–	(19.2)
Adjustment for capital contributions	–	(4.2)
Adjustment for headlease liability	–	9.8
	5.2	50.3

Gross disposal proceeds reflect £3.0m (2017: £5.0m) of accrued overage in relation to Riverwalk House SW1 and Vauxhall Bridge Road SW1, which were originally sold in 2012 and £2.0m (2017: £nil) of accrued overage in relation to Balmoral Grove N7, which was originally sold in December 2016.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

7 Finance costs

	2018 £m	2017 £m
Bank loans and overdraft	3.6	5.9
Non-utilisation fees	1.9	1.8
Unsecured convertible bonds	3.9	3.8
Secured bonds	11.4	11.4
Unsecured private placement notes	8.3	8.3
Secured loan	3.3	3.3
Amortisation of issue and arrangement costs	2.1	2.0
Amortisation of the fair value of the secured bonds	(1.2)	(1.1)
Finance lease costs	0.7	1.0
Other	0.2	0.1
Gross interest costs	34.2	36.5
Less: interest capitalised	(10.7)	(9.4)
	23.5	27.1

Finance costs of £10.7m (2017: £9.4m) 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 2018 were £30.7m (2017: £34.3m) of which £10.7m (2017: £9.4m) 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 £3.5m in the year to 31 December 2018 (2017: £7.3m) deferring, re-couponsing or terminating interest rate swaps.

9 Share of results of joint ventures

	2018 £m	2017 £m
Revaluation (deficit)/surplus	(0.1)	3.9
Profit on disposal of investment property	1.3	–
Other profit from operations after tax	0.9	1.1
	2.1	5.0

In March 2018, Primister Limited, in which the Group has a 50% shareholding, disposed of its freehold interest in Porters North N1 for £45.4m before costs, generating a profit of £2.6m net of tax.

See note 18 for further details of the Group's joint ventures.

10 Profit before tax

	2018 £m	2017 £m
This is arrived at after charging:		
Depreciation and amortisation	0.7	0.7
Contingent rent payable under property finance leases	1.4	0.7
Auditor's remuneration		
Audit – Group	0.3	0.3
Audit – subsidiaries	0.1	0.1

In 2018, audit fees for the Group were £287,200 (2017: £280,000) and for the subsidiaries £63,000 (2017: £60,000). Fees for non-audit services, relating to the half year review and a review of the turnover certificates, were £45,095 (2017: £43,715).

Details of the Auditor's independence are included on pages 106 to 107.

11 Directors' emoluments

	2018 £m	2017 £m
Remuneration for management services	6.2	5.4
Share based payments	1.4	1.4
Post-employment benefits	0.7	0.7
	8.3	7.5
National insurance contributions	1.1	1.0
	9.4	8.5

In accordance with IFRS 2 Share-based Payment, there is £1.5m (2017: £0.3m) relating to the Directors included within the £2.3m (2017: £1.1m) for Share-based payments expense relating to equity-settled schemes in note 12.

Details of the Directors' remuneration awards under the long-term incentive plan and options held by the Directors under the Group share option schemes are given in the report of the Remuneration Committee on page 116. The only key management personnel are the Directors.

12 Employees

	Group 2018 £m	2017 £m	Company 2018 £m	2017 £m
Staff costs, including those of Directors:				
Wages and salaries	17.3	14.8	17.1	14.7
Social security costs	2.4	2.2	2.4	2.1
Other pension costs	2.2	1.8	2.1	1.8
Share-based payments expense relating to equity-settled schemes	2.3	1.1	2.4	1.1
	24.2	19.9	24.0	19.7

The monthly average number of employees in the Group during the year, excluding Directors, was 106 (2017: 105). The monthly average number of employees in the Company during the year, excluding Directors, was 96 (2017: 94). All were employed in administrative or support roles. Of the Group employees there were 10 (2017: 13) whose costs were recharged or partially recharged to tenants.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

13 Share-based payments

Details of the options held by Directors under the Performance Share Plan (PSP) are given in the report of the Remuneration Committee on pages 116 to 131.

Group and Company – equity-settled option scheme

The Employee Share Option Plan (ESOP) is designed to incentivise and retain eligible employees. The ESOP is separate to the PSP disclosed in the report of the Remuneration Committee. The Directors are not entitled to any awards under the ESOP.

Year of grant	Exercise price £	Adjusted exercise price ¹ £	Outstanding at 1 January	Movement in options				Outstanding at 31 December
				Granted	Adjustment ¹	Exercised	Lapsed	
For the year to 31 December 2018								
2009	6.10	6.10	1,000	–	–	(1,000)	–	–
2011	16.60	16.60	200	–	–	–	–	200
2012	17.19	16.49	14,643	–	312	(1,500)	–	13,455
2013	21.99	21.09	39,332	–	814	(2,724)	–	37,422
2014	27.39	26.27	64,402	–	1,029	(11,692)	–	53,739
2015	34.65	33.23	66,718	–	1,423	–	(4,166)	63,975
2016	31.20	29.93	91,936	–	1,866	–	(5,211)	88,591
2017	28.93	27.75	132,993	–	2,627	–	(11,036)	124,584
2018	30.29	29.57	–	132,600	2,938	–	(2,560)	132,978
			411,224	132,600	11,009	(16,916)	(22,973)	514,944

For the year to 31 December 2017

2009	6.10	6.10	1,600	–	–	(600)	–	1,000
2011	16.60	16.60	200	–	–	–	–	200
2012	17.19	16.89	16,420	–	223	(2,000)	–	14,643
2013	21.99	21.61	55,950	–	582	(17,200)	–	39,332
2014	27.39	26.91	76,900	–	862	(13,360)	–	64,402
2015	34.65	34.04	67,450	–	1,018	–	(1,750)	66,718
2016	31.20	30.64	93,250	–	1,336	–	(2,650)	91,936
2017	28.93	28.42	–	131,100	1,893	–	–	132,993
			311,770	131,100	5,914	(33,160)	(4,400)	411,224

	31 December 2018	31 December 2017	1 January 2017
Number of shares:			
Exercisable	168,791	119,577	74,170
Non-exercisable	346,153	291,647	237,600
Weighted average exercise price of share options:			
Exercisable	£27.14	£23.75	£20.57
Non-exercisable	£29.15	£30.41	£30.95
Weighted average remaining contracted life of share options:			
Exercisable	5.26 years	5.79 years	6.06 years
Non-exercisable	8.38 years	8.48 years	8.32 years
Weighted average exercise price of share options that lapsed:			
Exercisable	£33.26	–	–
Non-exercisable	£28.85	£32.57	£29.97

¹ In 2018, following the payment of the special dividend of 75 pence per share (2017: 52 pence per share), the Remuneration Committee exercised their discretion and adjusted the number of outstanding unapproved 'B' options and their option price, to ensure participants were not disadvantaged by the payment to shareholders of the special dividend.

The weighted average share price at which options were exercised during 2018 was £30.90 (2017: £28.87).

The weighted average fair value of options granted during 2018 was £6.83 (2017: £6.05).

The following information is relevant in the determination of the fair value of the options granted during 2018 and 2017 under the equity-settled employee share plan operated by the Group.

	2018	2017
Option pricing model used	Binomial lattice	Binomial lattice
Risk free interest rate	1.1%	0.4%
Volatility	25.0%	24.0%
Dividend yield	2.0%	1.8%

For both the 2018 and 2017 grants, additional assumptions have been made that there is no employee turnover and 50% of employees exercise early when the share options are 20% in the money and 50% of employees exercise early when the share options are 100% in the money.

The volatility assumption, measured as the standard deviation of expected share price returns, is based on a statistical analysis of daily prices over the last four years.

14 Pension costs

The Group and Company operate both a defined contribution scheme and a defined benefit scheme. The latter was acquired as part of the acquisition of London Merchant Securities plc in 2007 and is closed to new members. All new employees are entitled to join the defined contribution scheme. The assets of the pension schemes are held separately from those of the Group companies.

Defined contribution plan

The total expense relating to this plan in the current year was £1.9m (2017: £1.6m).

Defined benefit plan

The Company sponsors the scheme which is a funded defined benefit arrangement. This is a separate trustee-administered fund holding the pension scheme assets to meet long-term pension liabilities for some 63 past and 4 present employees as at 31 October 2016. The level of retirement benefit is principally based on basic salary at the last scheme anniversary of employment prior to leaving active service and is linked to changes in inflation up to retirement for early leavers.

The scheme is subject to the funding legislation, which came into force on 30 December 2005, outlined in the Pensions Act 2004. This, together with documents issued by the Pensions Regulator, and Guidance Notes adopted by the Financial Reporting Council, set out the framework for funding defined benefit occupational pension schemes in the UK.

The trustees of the scheme are required to act in the best interest of the scheme's beneficiaries. The appointment of the trustees is determined by the scheme's trust documentation. It is policy that one third of all trustees should be nominated by the members.

The English High Court ruling in Lloyds Banking Group Pension Trustees Limited v Lloyds Bank plc and others was published on 26 October 2018, and held that UK pension schemes with Guaranteed Minimum Pensions (GMPs) accrued from 17 May 1990 must equalise for the different effects of these GMPs between men and women. The allowance has been estimated based on average impacts for schemes with similar service periods and benefit structures. The impact of insured members has also been recognised.

A full actuarial valuation was carried out as at 31 October 2016 in accordance with the scheme funding requirements of the Pensions Act 2004 and the funding of the scheme is agreed between the Company and the trustees in line with those requirements. These in particular require the surplus/deficit to be calculated using prudent, as opposed to best estimate actuarial assumptions.

This actuarial valuation showed a deficit of £8.3m. The Company agreed with the trustees that it will aim to eliminate the deficit over a period of 7 years and 1 month from 14 November 2017 by the payment of annual contributions of £0.9m payable by each 31 December from 31 December 2017 to 31 December 2024 inclusive. In addition the company has agreed with the trustees that it will pay 91.5% of pensionable salaries including member contributions in respect of the cost of accruing benefits and will meet expenses of the scheme, DIS premiums and levies to the Pension Protection Fund separately.

For the purposes of IAS19 the actuarial valuation as at 31 October 2016, which was carried out by a qualified independent actuary, has been updated on an approximate basis to 31 December 2018 for the non-insured members. For the insured members the liabilities in these disclosures have been calculated by updating the results of the SORP valuations produced by the Scheme Actuary for inclusion in the Trustee Report and Accounts. There have been no changes in the valuation methodology adopted for this period's disclosures compared to the previous period's disclosures.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

14 Pension costs (continued)

Amounts included in the balance sheet

	2018 £m	2017 £m	2016 £m
Fair value of plan assets	49.1	54.7	54.1
Present value of defined benefit obligation	(48.8)	(55.1)	(54.4)
Net asset/(liability)	0.3	(0.4)	(0.3)

The present value of the scheme liabilities is measured by discounting the best estimate of future cash flows to be paid out by the scheme using the projected unit credit method. The value calculated in this way is reflected in the net asset/(liability) in the balance sheet as shown above.

The projected unit credit method is an accrued benefits valuation method in which allowance is made for projected earnings increases. The accumulated benefit obligation is an alternative actuarial measure of the plan liabilities, whose calculation differs from that under the projected unit credit method in that it includes no assumption for future earnings increases. In assessing this figure for the purpose of these disclosures, allowance has been made for future statutory revaluation of benefits up to retirement. At the balance sheet date the accumulated benefit obligation was £48.8m (2017: £55.1m).

All actuarial gains and losses are recognised in the year in which they occur in the Group statement of comprehensive income.

Reconciliation of the impact of the asset ceiling

We have considered the application of IFRIC14 and deemed it to have no material effect on the IAS19 figures.

Reconciliation of the opening and closing present value of the defined benefit obligation

	2018 £m	2017 £m
At 1 January	55.1	54.4
Current service cost	0.1	0.1
Past service cost	0.2	–
Interest cost	1.3	1.4
Actuarial losses due to scheme experience	0.1	1.6
Actuarial gains due to changes in demographic assumptions	(0.4)	(1.6)
Actuarial (gains)/losses due to changes in financial assumptions	(3.0)	1.8
Benefits paid, death in service premiums and expenses	(4.6)	(2.6)
At 31 December	48.8	55.1

There have been no scheme amendments, curtailments or settlements in the year.

Reconciliation of opening and closing values of the fair value of plan assets

	2018 £m	2017 £m
At 1 January	54.7	54.1
Interest income	1.3	1.4
Return on plan assets (excluding amounts included in interest income)	(3.3)	0.9
Contributions by the Group	1.0	0.9
Benefits paid, death in service premiums and expenses	(4.6)	(2.6)
At 31 December	49.1	54.7

The actual return on the plan assets over the year was a loss of £2.0m (2017: gain of £2.3m).

Defined benefit costs recognised in the income statement

	2018 £m	2017 £m
Current service cost	0.1	0.1
Past service cost	0.2	–
Defined benefit costs recognised in the income statement	0.3	0.1

Amounts recognised in other comprehensive income

	2018 £m	2017 £m
(Loss)/gain on plan assets (excluding amounts recognised in net interest cost)	(3.3)	0.9
Experience losses arising on the defined benefit obligation	(0.1)	(1.6)
Gain from changes in the demographic assumptions underlying the present value of the defined benefit obligation	0.4	1.6
Gain/(loss) from changes in the financial assumptions underlying the present value of the defined benefit obligation	3.0	(1.8)
Total loss recognised in other comprehensive income	–	(0.9)

Fair value of plan assets

	2018 £m	2017 £m	2016 £m
UK equities	0.4	0.7	0.6
Overseas equities	0.4	0.7	0.6
Government bonds	2.7	2.7	2.6
Cash	–	1.0	0.8
Other	11.5	12.5	11.3
Insured assets	34.1	37.1	38.2
Total assets	49.1	54.7	54.1

The £11.5m in the 'other' asset class is made up of holdings of £6.9m in equity-linked gilt funds and £4.6m in absolute return funds.

None of the fair values of the assets shown above include any directly held financial instruments of the Group or property occupied by, or other assets used by, the Group. All of the scheme assets have a quoted market price in an active market with the exception of the Trustee's bank account balance and the insured assets. The insured assets have been set equal to the value of the insured liabilities but before allowance has been made for the impact of equalising benefits for the different effects of GMP for males and females.

It is the policy of the trustees and the Group to review the investment strategy at the time of each funding valuation. The Trustees' investment objectives and the processes undertaken to measure and manage the risks inherent in the plan investment strategy are illustrated by the asset allocation at 31 December 2018.

There are no asset-liability matching strategies currently being used by the plan.

Significant actuarial assumptions

	2018 %	2017 %	2016 %
Discount rate	2.90	2.50	2.70
Inflation (RPI)	3.20	3.20	3.40
Salary increases	4.70	4.70	4.90
Allowance for commutation of pension for cash at retirement	75% of Post A Day Pension	75% of Post A Day Pension	75% of Post A Day Pension

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

14 Pension costs (continued)

The mortality assumptions adopted at 31 December 2018 are 80% of the standard tables S2PxA, year of birth, no age rating for males and females, projected using CMI_2017 converging to 1.25% p.a. These imply the following life expectancies:

Life expectancy at age 65

	Years
Male retiring in 2018	23.7
Female retiring in 2018	25.5
Male retiring in 2038	25.0
Female retiring in 2038	27.0

Analysis of the sensitivity to the principal assumptions of the present value of the defined benefit obligation

	Change in assumption	Change in liabilities
Discount rate	Decrease of 0.25% p.a	Increase by 3.8%
Inflation (RPI)	Increase of 0.25% p.a	Increase by 0.1%
Salary increases	Increase of 0.25% p.a	Increase by 0.1%
Rate of mortality	Increase in life expectancy of one year	Increase by 4.9%
Allowance for commutation of pension for cash at retirement	Members commute an extra 10% of Post A Day pension on retirement	Decrease by 0.5%

The sensitivities shown above are approximate and each sensitivity considers one change in isolation. The average duration of the defined benefit obligation at 31 December 2018 was 15 years for the scheme as a whole or 26 years when only considering non-insured members.

The scheme typically exposes the Group to actuarial risks such as investment risk, interest rate risk, salary growth risk, mortality risk and longevity risk. A decrease in corporate bond yields, a rise in inflation or an increase in life expectancy would result in an increase to the scheme's liabilities. This would detrimentally impact the balance sheet position and may give rise to increased charges in the income statement. This effect would be partially offset by an increase in the value of the scheme's bond holdings.

The best estimate of contributions to be paid by the Group to the plan for the year commencing 1 January 2019 is £1.0m.

15 Tax charge

	2018 £m	2017 £m
Corporation tax		
UK corporation tax and income tax in respect of profit for the year	2.9	4.0
Other adjustments in respect of prior years' tax	0.2	(0.7)
Corporation tax charge	3.1	3.3
Deferred tax		
Origination and reversal of temporary differences	(0.4)	(1.2)
Adjustment for changes in estimates	–	(0.3)
Deferred tax credit	(0.4)	(1.5)
Tax charge	2.7	1.8

In addition to the tax charge of £2.7m (2017: £1.8m) that passed through the Group income statement, a deferred tax credit of £0.1m (2017: charge of £0.7m) was recognised in the Group statement of comprehensive income relating to the revaluation of the owner-occupied property at 25 Savile Row W1.

The effective rate of tax for 2018 is lower (2017: lower) than the standard rate of corporation tax in the UK. The differences are explained below:

	2018 £m	2017 £m
Profit before tax	221.6	314.8
Expected tax charge based on the standard rate of corporation tax in the UK of 19.00% (2017: 19.25%) ¹	42.1	60.6
Difference between tax and accounting profit on disposals	(1.0)	(9.8)
REIT exempt income	(10.7)	(10.8)
Revaluation surplus attributable to REIT properties	(15.2)	(27.4)
Expenses and fair value adjustments not allowable for tax purposes	(8.1)	(4.4)
Capital allowances	(4.6)	(4.2)
Other differences	–	(1.5)
Tax charge in respect of profit for the year	2.5	2.5
Adjustments in respect of prior years' tax	0.2	(0.7)
Tax charge	2.7	1.8

¹ Changes to the UK corporation tax rates were substantively enacted as part of the Finance Bill 2015 (on 26 October 2015) and the Finance Bill 2016 (on 7 September 2016). These include reductions to the main rate to reduce the rate to 19% from 1 April 2017 and then to 17% from 1 April 2020. Deferred taxes at the balance sheet date have been measured using the expected enacted tax rate and this is reflected in these financial statements.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

16 Property portfolio

	Freehold £m	Leasehold £m	Total investment property £m	Owner- occupied property £m	Trading property £m	Total property portfolio £m
Group						
Carrying value						
At 1 January 2018	3,867.0	803.7	4,670.7	46.5	25.3	4,742.5
Acquisitions	52.1	5.1	57.2	–	–	57.2
Capital expenditure	84.5	75.7	160.2	(0.2)	10.8	170.8
Interest capitalisation	5.2	5.1	10.3	–	0.4	10.7
Additions	141.8	85.9	227.7	(0.2)	11.2	238.7
Disposals	(0.2)	–	(0.2)	–	–	(0.2)
Revaluation	25.5	57.9	83.4	0.7	–	84.1
Write-down of trading property	–	–	–	–	(0.2)	(0.2)
Movement in grossing up of headlease liabilities	–	46.6	46.6	–	–	46.6
At 31 December 2018	4,034.1	994.1	5,028.2	47.0	36.3	5,111.5
At 1 January 2017	3,959.9	843.9	4,803.8	34.2	11.7	4,849.7
Acquisitions	0.8	–	0.8	–	7.8	8.6
Capital expenditure	73.3	62.7	136.0	2.3	4.7	143.0
Interest capitalisation	4.7	4.6	9.3	–	0.1	9.4
Additions	78.8	67.3	146.1	2.3	12.6	161.0
Disposals	(298.2)	(120.7)	(418.9)	–	–	(418.9)
Transfers	(8.2)	–	(8.2)	8.2	–	–
Revaluation	134.7	13.2	147.9	1.8	–	149.7
Reversal of write-down of trading property	–	–	–	–	1.0	1.0
At 31 December 2017	3,867.0	803.7	4,670.7	46.5	25.3	4,742.5
Adjustments from fair value to carrying value						
At 31 December 2018						
Fair value	4,151.4	955.0	5,106.4	47.0	37.3	5,190.7
Revaluation of trading property	–	–	–	–	(1.0)	(1.0)
Lease incentives and costs included in receivables	(117.3)	(21.6)	(138.9)	–	–	(138.9)
Grossing up of headlease liabilities	–	60.7	60.7	–	–	60.7
Carrying value	4,034.1	994.1	5,028.2	47.0	36.3	5,111.5
At 31 December 2017						
Fair value	3,968.6	808.6	4,777.2	46.5	26.6	4,850.3
Revaluation of trading property	–	–	–	–	(1.3)	(1.3)
Lease incentives and costs included in receivables	(101.6)	(19.0)	(120.6)	–	–	(120.6)
Grossing up of headlease liabilities	–	14.1	14.1	–	–	14.1
Carrying value	3,867.0	803.7	4,670.7	46.5	25.3	4,742.5

Reconciliation of fair value

	2018 £m	2017 £m
Portfolio including the Group's share of joint ventures	5,217.6	4,897.6
Less: joint ventures	(26.9)	(47.3)
IFRS property portfolio	5,190.7	4,850.3

The property portfolio is subject to semi-annual external valuations and was revalued at 31 December 2018 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.

CBRE Limited valued properties at £5,157.8m (2017: £4,817.5m) and other valuers at £32.9m (2017: £32.8m), giving a combined value of £5,190.7m (2017: £4,850.3m). Of the properties revalued by CBRE, £47.0m (2017: £46.5m) relating to owner-occupied property was included within property, plant and equipment and £37.3m (2017: £26.6m) 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 2018, the grossing up of headlease liabilities of £60.7m includes £45.9m for the discounted headlease liabilities in relation to Soho Place W1 where the Group is now actively on site.

Reconciliation of revaluation surplus

	2018 £m	2017 £m
Total revaluation surplus	100.2	177.1
Less:		
Share of joint ventures	(0.2)	(4.9)
Lease incentives and costs	(16.5)	(20.2)
Trading property revaluation surplus/(deficit)	0.4	(1.3)
IFRS revaluation surplus	83.9	150.7
Reported in the:		
Revaluation surplus	83.4	147.9
(Write-down)/reversal of write-down of trading property	(0.2)	1.0
Group income statement	83.2	148.9
Group statement of comprehensive income	0.7	1.8
	83.9	150.7

Valuation process

The valuation reports produced by the external valuers are based on information provided by the Group such as current rents, terms and conditions of lease agreements, service charges and capital expenditure. This information is derived from the Group's financial and property management systems and is subject to the Group's overall control environment. In addition, the valuation reports are based on assumptions and valuation models used by the external valuers. The assumptions are typically market related, such as yields and discount rates, and are based on their professional judgement and market observation. Each property is considered a separate asset class based on the unique nature, characteristics and risks of the property.

Members of the Group's Investment team, who report to the executive Director responsible for the valuation process, verify all major inputs to the external valuation reports, assess the individual property valuation changes from the prior year valuation report and hold discussions with the external valuers. When this process is complete, the valuation report is recommended to the Audit Committee, which considers it as part of its overall responsibilities.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

16 Property portfolio (continued)

Valuation techniques

The fair value of the property portfolio has been determined using an income capitalisation technique, whereby contracted and market rental values are capitalised with a market capitalisation rate. The resulting valuations are cross-checked against the equivalent yields and the fair market values per square foot derived from comparable recent market transactions on arm's length terms.

For properties under construction, the fair value is calculated by estimating the fair value of the completed property using the income capitalisation technique less estimated costs to completion and a risk premium.

These techniques are consistent with the principles in IFRS 13 Fair Value Measurement and use significant unobservable inputs such that the fair value measurement of each property within the portfolio has been classified as Level 3 in the fair value hierarchy.

There were no transfers between Levels 1 and 2 or between Levels 2 and 3 in the fair value hierarchy during either 2018 or 2017.

Gains and losses recorded in profit or loss for recurring fair value measurements categorised within Level 3 of the fair value hierarchy amount to a gain of £83.4m (2017: £147.9m) and are presented in the Group income statement in the line item 'revaluation surplus'. The revaluation surplus for the owner-occupied property of £0.7m (2017: £1.8m) was included within the revaluation reserve.

All gains and losses recorded in profit or loss in 2018 and 2017 for recurring fair value measurements categorised within Level 3 of the fair value hierarchy are attributable to changes in unrealised gains or losses relating to investment property held at 31 December 2018 and 31 December 2017, respectively.

Quantitative information about fair value measurement using unobservable inputs (Level 3)

	West End central	West End borders	City borders	Provincial commercial	Provincial land	Total
Valuation technique	Income capitalisation					
Fair value (£m) ¹	2,713.0	462.5	1,948.3	60.3	33.5	5,217.6
Area ('000 sq ft)	2,551	494	2,018	347	–	5,410
Range of unobservable inputs ² :						
Gross ERV (per sq ft pa)						
Minimum	£15	£40	£10	£3	n/a ³	
Maximum	£176	£60	£62	£15	n/a ³	
Weighted average	£57	£52	£50	£14	n/a ³	
Net initial yield						
Minimum	0.0%	2.4%	1.4%	0.0%	0.0%	
Maximum	5.5%	4.8%	5.8%	13.4%	10.1%	
Weighted average	2.5%	3.2%	3.2%	7.3%	1.6%	
Reversionary yield						
Minimum	3.0%	4.8%	3.4%	6.4%	0.0%	
Maximum	10.5%	6.3%	5.4%	16.3%	9.8%	
Weighted average	4.4%	5.2%	4.6%	7.4%	1.8%	
True equivalent yield (EPRA basis)						
Minimum	2.3%	4.9%	3.6%	7.5%	9.1%	
Maximum	6.3%	5.1%	5.4%	16.3%	11.0%	
Weighted average	4.5%	4.9%	4.8%	7.7%	10.5%	

¹ Includes the Group's share of joint ventures.

² Costs to complete are not deemed a significant unobservable input by virtue of the high percentage that is already fixed.

³ There is no calculation of gross ERV per sq ft pa. The land totals 5,318 acres.

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 was performed to ascertain the impact on the fair value of a 25 basis point shift in true equivalent yield and a £2.50 psf shift in ERV.

	West End central	West End borders	City borders	Provincial commercial	Provincial land	Total
True equivalent yield						
+25bp	(5.3%)	(4.9%)	(5.0%)	(3.1%)	(2.3%)	(5.1%)
– 25bp	5.9%	5.4%	5.5%	3.4%	2.4%	5.6%
ERV						
+£2.50 psf	4.4%	4.8%	5.0%	18.0%	–	4.9%
–£2.50 psf	(4.4%)	(4.8%)	(5.0%)	(18.0%)	–	(4.9%)

Historical cost

	2018 £m	2017 £m
Investment property	2,924.5	2,697.0
Owner-occupied property	19.6	19.8
Trading property	44.2	33.0
Total property portfolio	2,988.3	2,749.8

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

17 Property, plant and equipment

	Owner-occupied property £m	Artwork £m	Other £m	Total £m
Group				
At 1 January 2018	46.5	1.6	4.1	52.2
Additions	(0.2)	–	1.1	0.9
Depreciation	–	–	(0.7)	(0.7)
Revaluation	0.7	–	–	0.7
At 31 December 2018	47.0	1.6	4.5	53.1
At 1 January 2017	34.2	1.5	2.4	38.1
Additions	2.3	0.1	2.6	5.0
Disposals	–	–	(0.2)	(0.2)
Depreciation	–	–	(0.7)	(0.7)
Transfers	8.2	–	–	8.2
Revaluation	1.8	–	–	1.8
At 31 December 2017	46.5	1.6	4.1	52.2
Net book value				
Cost or valuation	47.0	1.6	7.0	55.6
Accumulated depreciation	–	–	(2.5)	(2.5)
At 31 December 2018	47.0	1.6	4.5	53.1
Net book value				
Cost or valuation	46.5	1.6	5.9	54.0
Accumulated depreciation	–	–	(1.8)	(1.8)
At 31 December 2017	46.5	1.6	4.1	52.2
Company				
At 1 January 2018	–	1.0	4.1	5.1
Additions	–	–	1.0	1.0
Depreciation	–	–	(0.7)	(0.7)
At 31 December 2018	–	1.0	4.4	5.4
At 1 January 2017	–	0.9	2.3	3.2
Additions	–	0.1	2.7	2.8
Disposals	–	–	(0.2)	(0.2)
Depreciation	–	–	(0.7)	(0.7)
At 31 December 2017	–	1.0	4.1	5.1
Net book value				
Cost or valuation	–	1.0	6.9	7.9
Accumulated depreciation	–	–	(2.5)	(2.5)
At 31 December 2018	–	1.0	4.4	5.4
Net book value				
Cost or valuation	–	1.0	5.9	6.9
Accumulated depreciation	–	–	(1.8)	(1.8)
At 31 December 2017	–	1.0	4.1	5.1

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 May 2018 and the Directors consider that there have been no material valuation movements since that date. 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 2018 was £1.6m (2017: £1.6m) and £1.0m (2017: £1.0m) in the Company. See note 16 for the historical cost of owner-occupied property and IFRS 13 Fair Value Measurement disclosures.

18 Investments

Group

The Group has a 50% interest in three joint ventures, Dorrington Derwent Holdings Limited, Primister Limited and Prescott Street Limited Partnership.

	2018 £m	2017 £m
At 1 January	39.7	36.0
Share of results of joint ventures (see note 9)	2.1	5.0
Additions	0.8	–
Repayment of shareholder loan	–	(1.3)
Distributions received	(13.5)	–
At 31 December	29.1	39.7

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

	2018		2017	
	Joint ventures £m	Group share £m	Joint ventures £m	Group share £m
Non-current assets	–	–	52.7	26.4
Current assets	59.2	29.6	44.1	22.1
Current liabilities	(2.4)	(1.2)	(15.1)	(7.6)
Non-current liabilities	(41.2)	(20.6)	(43.3)	(21.7)
Net assets	15.6	7.8	38.4	19.2
Loans provided to joint ventures		21.3		20.5
Total investment in joint ventures		29.1		39.7
Income	47.8	23.9	10.6	5.3
Expenses	(43.6)	(21.8)	(0.6)	(0.3)
Profit for the year	4.2	2.1	10.0	5.0

In February 2019, Prescott Street GP Limited and Prescott Street Nominees Limited exchanged contracts for the sale of the freehold interest in 9 Prescott Street E1 for £53.9m before costs with completion expected in May 2019. The property has been included in current assets held for sale as it was being actively marketed for sale as at 31 December 2018.

Company

	Subsidiaries £m	Joint ventures £m	Total £m
At 1 January 2017	1,185.4	1.3	1,186.7
Additions	40.0	–	40.0
Repayment of shareholder loan	–	(1.3)	(1.3)
Reversal of impairment	0.4	–	0.4
At 31 December 2017	1,225.8	–	1,225.8
Reversal of impairment	0.6	–	0.6
At 31 December 2018	1,226.4	–	1,226.4

At 31 December 2018, the carrying value of the investment in wholly owned subsidiaries and joint ventures were reviewed in accordance with IAS 36 Impairment of Assets on both value in use and fair value less costs to sell bases. The Company's accounting policy is to carry investments in subsidiary undertakings and joint ventures at the lower of cost and recoverable amount and recognise any impairment, or reversal thereof, in the income statement.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

19 Other receivables (non-current)

	Group 2018 £m	2017 £m	Company 2018 £m	2017 £m
Prepayments and accrued income	123.1	105.2	–	–

Prepayments and accrued income relates to rents recognised in advance as a result of spreading the effect of rent free and reduced rent periods, capital contributions in lieu of rent free periods and contracted rent uplifts, as well as the initial direct costs of the letting, over the expected terms of their respective leases. Together with £15.8m (2017: £15.4m), which was included as accrued income within trade and other receivables (see note 20), these amounts totalled £138.9m at 31 December 2018 (2017: £120.6m).

20 Trade and other receivables

	Group 2018 £m	2017 £m	Company 2018 £m	2017 £m
Trade receivables	10.7	7.1	–	–
Amounts owed by subsidiaries	–	–	1,845.4	1,459.9
Other receivables	4.1	6.8	2.4	1.3
Prepayments	20.6	17.3	1.7	0.1
Other taxes	–	4.6	0.1	8.2
Accrued income	26.0	22.2	0.2	0.1
	61.4	58.0	1,849.8	1,469.6

Group trade receivables are split as follows:

	2018 £m	2017 £m
less than three months due	10.5	7.1
between three and six months due	0.2	–
	10.7	7.1

Group trade receivables includes a provision for bad debts as follows:

	2018 £m	2017 £m
At 1 January and 31 December	0.3	0.3

The provision for bad debts is split as follows:

	2018 £m	2017 £m
less than three months due	0.3	0.3

None of the amounts included in other receivables are past due and therefore no ageing has been shown.

21 Trade and other payables

	Group 2018 £m	2017 £m	Company 2018 £m	2017 £m
Trade payables	1.4	2.0	0.9	0.4
Amounts owed to subsidiaries	–	–	837.3	890.3
Other payables	17.8	17.8	1.3	0.9
Other taxes	2.5	–	–	–
Accruals	38.7	27.1	16.8	10.6
Deferred income	42.7	39.8	0.1	0.1
	103.1	86.7	856.4	902.3

22 Provisions

	Group £m	Company £m
At 1 January 2018	0.6	0.6
Provided in the income statement	0.2	0.2
Utilised in year	(0.2)	(0.2)
At 31 December 2018	0.6	0.6

Due within one year	0.3	0.3
Due after one year	0.3	0.3
	0.6	0.6

At 1 January 2017	0.7	0.7
Provided in the income statement	0.2	0.2
Utilised in year	(0.3)	(0.3)
At 31 December 2017	0.6	0.6

Due within one year	0.2	0.2
Due after one year	0.4	0.4
	0.6	0.6

The provisions in both the Group and the Company relate to national insurance that is payable on gains made by employees on the exercise of share options granted to them. The eventual liability to national insurance is dependent on:

- the market price of the Company's shares at the date of exercise;
- the number of equity share options that are exercised; and
- the prevailing rate of national insurance at the date of exercise.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

23 Net debt and derivative financial instruments

	Group 2018 £m	2017 £m	Company 2018 £m	2017 £m
Current liabilities				
1.125% unsecured convertible bonds 2019	148.4	–	–	–
Intercompany loan	–	–	148.4	–
	148.4	–	148.4	–
Non-current liabilities				
1.125% unsecured convertible bonds 2019	–	145.6	–	–
6.5% secured bonds 2026	185.9	186.9	–	–
3.46% unsecured private placement notes 2028	29.8	29.8	29.8	29.8
4.41% unsecured private placement notes 2029	24.8	24.8	24.8	24.8
3.57% unsecured private placement notes 2031	74.6	74.5	74.6	74.5
4.68% unsecured private placement notes 2034	74.4	74.3	74.4	74.3
3.99% secured loan 2024	81.9	81.7	81.9	81.7
Unsecured bank loans	267.0	85.6	267.0	85.6
Secured bank loans	27.7	27.6	–	–
Intercompany loan	–	–	–	145.6
	766.1	730.8	552.5	516.3
Borrowings	914.5	730.8	700.9	516.3
Leasehold liabilities				
Derivative financial instruments expiring in greater than one year	3.6	7.9	3.6	7.0
Gross debt	978.8	752.8	704.5	523.3
Reconciliation to net debt:				
Gross debt	978.8	752.8	704.5	523.3
Derivative financial instruments	(3.6)	(7.9)	(3.6)	(7.0)
Cash and cash equivalents	(18.3)	(87.0)	(17.3)	(85.8)
Net debt	956.9	657.9	683.6	430.5

1.125% unsecured convertible bonds 2019

In July 2013 the Group issued £150m of convertible bonds. The unsecured instruments pay a coupon of 1.125% until July 2019 or the conversion date, if earlier. The initial conversion price was set at £33.35 per share but, following the subsequent dividends, the conversion price has been adjusted to £31.78 per share. In accordance with IAS 32, the equity and debt components of the bonds are accounted for separately and the fair value of the debt component has been determined using the market interest rate for an equivalent non-convertible bond, deemed to be 2.67%. As a result, £137.4m was recognised as a liability in the balance sheet on issue and the remainder of the proceeds, £12.6m, which represent the equity component, was credited to reserves. The difference between the fair value of the liability and the principal value is being amortised through the income statement from the date of issue. Issue costs of £3.8m were allocated between equity and debt and the element relating to the debt component is being amortised over the life of the bonds. The issue costs apportioned to equity of £0.3m have not been amortised. The fair value was determined by the ask-price of £102.38 per £100 as at 31 December 2018 (2017: £107.88 per £100). The carrying value at 31 December 2018 was £148.4m (2017: £145.6m).

Reconciliation of nominal value to carrying value:

	£m
Nominal value	150.0
Fair value adjustment on issue allocated to equity	(12.6)
Debt component on issue	137.4
Unamortised issue costs	(0.3)
Amortisation of fair value adjustment	11.3
Carrying amount included in borrowings	148.4

6.5% secured bonds 2026

As a result of the acquisition of London Merchant Securities plc in 2007, the secured bonds 2026 were included at fair value less unamortised issue costs. This difference between fair value at acquisition and principal value is being amortised through the income statement. The fair value at 31 December 2018 was determined by the ask-price of £126.90 per £100 (2017: £128.94 per £100). The carrying value at 31 December 2018 was £185.9m (2017: £186.9m).

3.46% unsecured private placement notes 2028 and 3.57% unsecured private placement notes 2031

In February 2016, the Group arranged unsecured private placement notes, comprising £30m for 12 years and £75m for 15 years. The funds were drawn on 4 May 2016. The fair values were determined by comparing the discounted future cash flows using the contracted yields with those of the reference gilts plus the implied margins. The references were a 6% 2028 gilt and a 4.75% 2030 gilt both with an implied margin which is unchanged since the date of fixing. The carrying values at 31 December 2018 were £29.8m (2017: £29.8m) and £74.6m (2017: £74.5m), respectively.

4.41% unsecured private placement notes 2029 and 4.68% unsecured private placement notes 2034

In November 2013, the Group arranged unsecured private placement notes, comprising £25m for 15 years and £75m for 20 years. The funds were drawn on 8 January 2014. The fair values were determined by comparing the discounted future cash flows using the contracted yields with those of the reference gilts plus the implied margins. The references were a 6% 2028 gilt and a 4.25% 2032 gilt both with an implied margin which is unchanged since the date of fixing. The carrying values at 31 December 2018 were £24.8m (2017: £24.8m) and £74.4m (2017: £74.3m), respectively.

3.99% secured loan 2024

In July 2012, the Group arranged a 12¼-year secured fixed rate loan. The loan was drawn on 1 August 2012. The fair value was determined by comparing the discounted future cash flows using the contracted yield with those of the reference gilt plus an implied margin. The reference was a 5% 2025 gilt with an implied margin which is unchanged since the date of fixing. The carrying value at 31 December 2018 was £81.9m (2017: £81.7m).

Bank borrowings

As all main corporate facilities were refinanced or amended in the past few years, the fair values of the Group's bank loans are deemed to be approximately the same as their carrying amount, after adjusting for the unamortised arrangement fees.

Undrawn committed bank facilities – maturity profile

	< 1 year £m	1 to 2 years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	> 5 years £m	Total £m
Group							
At 31 December 2018	–	–	–	255.5	–	–	255.5
At 31 December 2017	–	–	–	–	436.0	–	436.0
Company							
At 31 December 2018	–	–	–	255.5	–	–	255.5
At 31 December 2017	–	–	–	–	436.0	–	436.0

Intercompany loans

The terms of the intercompany loan in the Company mirror those of the unsecured convertible bonds 2019. As with the bonds, debt and equity components of the intercompany loan have been accounted for separately, and the fair value of the debt components is identical to that of the bonds. The carrying value at 31 December 2018 was £148.4m (2017: £145.6m).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

23 Net debt and derivative financial instruments (continued)

Derivative financial instruments

The derivative financial instruments consist of interest rate swaps, the fair values of which represent the net present value of the difference between the contracted fixed rates and the fixed rates payable if the swaps were to be replaced on 31 December 2018 for the period to the contracted expiry dates.

The Group has a £70m forward starting interest rate swap effective from 29 March 2019, a £40m forward starting interest rate swap effective from 15 October 2019, and a £75m forward starting interest rate swap effective from 1 April 2019. These swaps are not included in the 31 December 2018 figures in the table below, but the financial impact from the effective dates onwards is included in the relevant tables in this note.

The fair values of the Group's outstanding interest rate swaps have been estimated 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.

	Group			Company		
	Principal £m	Weighted average interest rate %	Average life Years	Principal £m	Weighted average interest rate %	Average life Years
At 31 December 2018						
Interest rate swaps	28.0	0.88	1.2	–	–	–
At 31 December 2017						
Interest rate swaps	28.0	3.53	1.2	–	–	–

Secured and unsecured debt

	Group 2018 £m	2017 £m	Company 2018 £m	2017 £m
Secured				
6.5% secured bonds 2026	185.9	186.9	–	–
3.99% secured loan 2024	81.9	81.7	81.9	81.7
Secured bank loans	27.7	27.6	–	–
	295.5	296.2	81.9	81.7
Unsecured				
1.125% unsecured convertible bonds 2019	148.4	145.6	–	–
3.46% unsecured private placement notes 2028	29.8	29.8	29.8	29.8
4.41% unsecured private placement notes 2029	24.8	24.8	24.8	24.8
3.57% unsecured private placement notes 2031	74.6	74.5	74.6	74.5
4.68% unsecured private placement notes 2034	74.4	74.3	74.4	74.3
Unsecured bank loans	267.0	85.6	267.0	85.6
Intercompany loans	–	–	148.4	145.6
	619.0	434.6	619.0	434.6
Borrowings	914.5	730.8	700.9	516.3

At 31 December 2018, the Group's secured bank loan and the 3.99% secured loan 2024 were secured by a fixed charge over £112.4m (2017: £122.1m) and £293.3m (2017: £272.3m), respectively, 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 £668.0m (2017: £592.3m) of the Group's properties.

At 31 December 2018, the Company's 3.99% secured loan 2024 was secured by a fixed charge over £293.3m (2017: £272.3m) of the Group's properties.

Fixed interest rate and hedged debt

At 31 December 2018 and 2017, the Group's fixed rate and hedged debt included the unsecured convertible bonds 2019, the secured bonds 2026, a secured loan 2024, the unsecured private placement notes 2028, 2029, 2031 and 2034 and the hedged bank debt.

At 31 December 2018 and 2017, the Company's fixed rate debt comprised a secured loan 2024, the unsecured private placement notes 2028, 2029, 2031 and 2034, the hedged bank debt and the intercompany loans.

Interest rate exposure

After taking into account the various interest rate hedging instruments entered into by the Group and the Company, the interest rate exposure of the Group's and Company's borrowings were:

	Floating rate £m	Hedged £m	Fixed rate £m	Borrowings £m	Weighted average interest rate ¹ %	Weighted average life Years
Group						
At 31 December 2018						
1.125% unsecured convertible bonds 2019	–	–	148.4	148.4	2.67	0.6
6.5% secured bonds 2026	–	–	185.9	185.9	6.50	7.2
3.46% unsecured private placement notes 2028	–	–	29.8	29.8	3.46	9.3
4.41% unsecured private placement notes 2029	–	–	24.8	24.8	4.41	10.0
3.57% unsecured private placement notes 2031	–	–	74.6	74.6	3.57	12.3
4.68% unsecured private placement notes 2034	–	–	74.4	74.4	4.68	15.0
3.99% secured loan 2024	–	–	81.9	81.9	3.99	5.8
Unsecured bank loans	267.0	–	–	267.0	2.14	3.1
Secured bank loans	–	27.7	–	27.7	2.58	3.6
	267.0	27.7	619.8	914.5	3.68	5.9

At 31 December 2017						
1.125% unsecured convertible bonds 2019	–	–	145.6	145.6	2.67	1.6
6.5% secured bonds 2026	–	–	186.9	186.9	6.50	8.2
3.46% unsecured private placement notes 2028	–	–	29.8	29.8	3.46	10.3
4.41% unsecured private placement notes 2029	–	–	24.8	24.8	4.41	11.0
3.57% unsecured private placement notes 2031	–	–	74.5	74.5	3.57	13.3
4.68% unsecured private placement notes 2034	–	–	74.3	74.3	4.68	16.0
3.99% secured loan 2024	–	–	81.7	81.7	3.99	6.8
Unsecured bank loans	85.6	–	–	85.6	1.73	4.1
Secured bank loans	–	27.6	–	27.6	5.24	4.6
	85.6	27.6	617.6	730.8	4.11	7.6

Company

At 31 December 2018						
3.46% unsecured private placement notes 2028	–	–	29.8	29.8	3.46	9.3
4.41% unsecured private placement notes 2029	–	–	24.8	24.8	4.41	10.0
3.57% unsecured private placement notes 2031	–	–	74.6	74.6	3.57	12.3
4.68% unsecured private placement notes 2034	–	–	74.4	74.4	4.68	15.0
3.99% secured loan 2024	–	–	81.9	81.9	3.99	5.8
Unsecured bank loans	267.0	–	–	267.0	2.14	3.1
Intercompany loans	–	–	148.4	148.4	2.67	0.6
	267.0	–	433.9	700.9	3.03	5.6

At 31 December 2017						
3.46% unsecured private placement notes 2028	–	–	29.8	29.8	3.46	10.3
4.41% unsecured private placement notes 2029	–	–	24.8	24.8	4.41	11.0
3.57% unsecured private placement notes 2031	–	–	74.5	74.5	3.57	13.3
4.68% unsecured private placement notes 2034	–	–	74.3	74.3	4.68	16.0
3.99% secured loan 2024	–	–	81.7	81.7	3.99	6.8
Unsecured bank loans	85.6	–	–	85.6	1.73	4.1
Intercompany loans	–	–	145.6	145.6	2.67	1.6
	85.6	–	430.7	516.3	3.26	7.5

¹ The weighted average interest rates are based on the nominal amounts of the debt facilities.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

23 Net debt and derivative financial instruments (continued)

Contractual undiscounted cash outflows

IFRS 7 Financial Instruments: Disclosure, requires disclosure of the maturity of the Group's and Company's remaining contractual financial liabilities. The tables below show the contractual undiscounted cash outflows arising from the Group's gross debt.

	< 1 year £m	1 to 2 years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	> 5 years £m	Total £m
Group							
At 31 December 2018							
1.125% unsecured convertible bonds 2019	150.0	-	-	-	-	-	150.0
6.5% secured bonds 2026	-	-	-	-	-	175.0	175.0
3.46% unsecured private placement notes 2028	-	-	-	-	-	30.0	30.0
4.41% unsecured private placement notes 2029	-	-	-	-	-	25.0	25.0
3.57% unsecured private placement notes 2031	-	-	-	-	-	75.0	75.0
4.68% unsecured private placement notes 2034	-	-	-	-	-	75.0	75.0
3.99% secured loan 2024	-	-	-	-	-	83.0	83.0
Unsecured bank loans	-	-	-	269.5	-	-	269.5
Secured bank loans	-	-	-	28.0	-	-	28.0
Total on maturity	150.0	-	-	297.5	-	463.0	910.5
Leasehold liabilities	0.8	0.8	0.8	52.4	0.8	194.8	250.4
Interest on borrowings	31.5	30.8	31.1	24.4	23.0	99.4	240.2
Effect of interest rate swaps	1.6	1.2	0.5	0.4	-	(0.1)	3.6
Gross loan commitments	183.9	32.8	32.4	374.7	23.8	757.1	1,404.7

At 31 December 2017

1.125% unsecured convertible bonds 2019	-	150.0	-	-	-	-	150.0
6.5% secured bonds 2026	-	-	-	-	-	175.0	175.0
3.46% unsecured private placement notes 2028	-	-	-	-	-	30.0	30.0
4.41% unsecured private placement notes 2029	-	-	-	-	-	25.0	25.0
3.57% unsecured private placement notes 2031	-	-	-	-	-	75.0	75.0
4.68% unsecured private placement notes 2034	-	-	-	-	-	75.0	75.0
3.99% secured loan 2024	-	-	-	-	-	83.0	83.0
Unsecured bank loans	-	-	-	-	89.0	-	89.0
Secured bank loans	-	-	-	-	28.0	-	28.0
Total on maturity	-	150.0	-	-	117.0	463.0	730.0
Leasehold liabilities	0.8	0.8	0.8	0.8	0.8	187.9	191.9
Interest on borrowings	28.0	28.3	26.8	26.9	24.8	122.6	257.4
Effect of interest rate swaps	2.5	3.1	1.3	0.6	0.4	(0.1)	7.8
Gross loan commitments	31.3	182.2	28.9	28.3	143.0	773.4	1,187.1

Reconciliation to borrowings:

	Gross loan commitments £m	Interest on gross debt £m	Adjustments Effect of interest rate swaps £m	Leasehold liabilities £m	Non-cash amortisation £m	Borrowings £m
Group						
At 31 December 2018						
Maturing in:						
< 1 year	183.9	(31.5)	(1.6)	(0.8)	(1.6)	148.4
1 to 2 years	32.8	(30.8)	(1.2)	(0.8)	-	-
2 to 3 years	32.4	(31.1)	(0.5)	(0.8)	-	-
3 to 4 years	374.7	(24.4)	(0.4)	(52.4)	(2.8)	294.7
4 to 5 years	23.8	(23.0)	-	(0.8)	-	-
> 5 years	757.1	(99.4)	0.1	(194.8)	8.4	471.4
	1,404.7	(240.2)	(3.6)	(250.4)	4.0	914.5
At 31 December 2017						
Maturing in:						
< 1 year	31.3	(28.0)	(2.5)	(0.8)	-	-
1 to 2 years	182.2	(28.3)	(3.1)	(0.8)	(4.4)	145.6
2 to 3 years	28.9	(26.8)	(1.3)	(0.8)	-	-
3 to 4 years	28.3	(26.9)	(0.6)	(0.8)	-	-
4 to 5 years	143.0	(24.8)	(0.4)	(0.8)	(3.8)	113.2
> 5 years	773.4	(122.6)	0.1	(187.9)	9.0	472.0
	1,187.1	(257.4)	(7.8)	(191.9)	0.8	730.8

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

23 Net debt and derivative financial instruments (continued)

	< 1 year £m	1 to 2 years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	> 5 years £m	Total £m
Company							
At 31 December 2018							
3.46% unsecured private placement notes 2028	-	-	-	-	-	30.0	30.0
4.41% unsecured private placement notes 2029	-	-	-	-	-	25.0	25.0
3.57% unsecured private placement notes 2031	-	-	-	-	-	75.0	75.0
4.68% unsecured private placement notes 2034	-	-	-	-	-	75.0	75.0
3.99% secured loan 2024	-	-	-	-	-	83.0	83.0
Unsecured bank loans	-	-	-	269.5	-	-	269.5
Intercompany loans	150.0	-	-	-	-	-	150.0
Total on maturity	150.0	-	-	269.5	-	288.0	707.5
Interest on debt	19.3	18.6	18.9	12.4	11.6	71.0	151.8
Effect of interest rate swaps	1.6	1.2	0.5	0.4	-	(0.1)	3.6
Gross loan commitments	170.9	19.8	19.4	282.3	11.6	358.9	862.9
At 31 December 2017							
3.46% unsecured private placement notes 2028	-	-	-	-	-	30.0	30.0
4.41% unsecured private placement notes 2029	-	-	-	-	-	25.0	25.0
3.57% unsecured private placement notes 2031	-	-	-	-	-	75.0	75.0
4.68% unsecured private placement notes 2034	-	-	-	-	-	75.0	75.0
3.99% secured loan 2024	-	-	-	-	-	83.0	83.0
Unsecured bank loans	-	-	-	-	89.0	-	89.0
Intercompany loans	-	150.0	-	-	-	-	150.0
Total on maturity	-	150.0	-	-	89.0	288.0	527.0
Interest on debt	16.0	16.2	14.6	14.7	12.8	82.8	157.1
Effect of interest rate swaps	1.7	2.9	1.3	0.6	0.4	(0.1)	6.8
Gross loan commitments	17.7	169.1	15.9	15.3	102.2	370.7	690.9

Reconciliation to borrowings:

	Gross loan commitments £m	Interest on gross debt £m	Adjustments Effect of interest rate swaps £m	Non-cash amortisation £m	Borrowings £m
Company					
At 31 December 2018					
Maturing in:					
< 1 year	170.9	(19.3)	(1.6)	(1.6)	148.4
1 to 2 years	19.8	(18.6)	(1.2)	-	-
2 to 3 years	19.4	(18.9)	(0.5)	-	-
3 to 4 years	282.3	(12.4)	(0.4)	(2.5)	267.0
4 to 5 years	11.6	(11.6)	-	-	-
> 5 years	358.9	(71.0)	0.1	(2.5)	285.5
	862.9	(151.8)	(3.6)	(6.6)	700.9

At 31 December 2017

Maturing in:					
< 1 year	17.7	(16.0)	(1.7)	-	-
1 to 2 years	169.1	(16.2)	(2.9)	(4.4)	145.6
2 to 3 years	15.9	(14.6)	(1.3)	-	-
3 to 4 years	15.3	(14.7)	(0.6)	-	-
4 to 5 years	102.2	(12.8)	(0.4)	(3.4)	85.6
> 5 years	370.7	(82.8)	0.1	(2.9)	285.1
	690.9	(157.1)	(6.8)	(10.7)	516.3

Derivative financial instruments cash flows

The following table provides an analysis of the anticipated contractual cash flows for the derivative financial instruments using undiscounted cash flows. These amounts represent the gross cash flows of the derivative financial instruments and are settled as either a net payment or receipt.

	2018 Receivable £m	2018 Payable £m	2017 Receivable £m	2017 Payable £m
Group				
Maturing in:				
< 1 year	1.2	(2.8)	0.6	(3.1)
1 to 2 years	1.6	(2.8)	1.4	(4.5)
2 to 3 years	1.5	(2.0)	1.4	(2.7)
3 to 4 years	1.4	(1.8)	1.4	(2.0)
4 to 5 years	1.0	(1.0)	1.4	(1.8)
> 5 years	1.6	(1.5)	2.6	(2.5)
Gross contractual cash flows	8.3	(11.9)	8.8	(16.6)

Company

Maturing in:				
< 1 year	1.0	(2.6)	0.4	(2.1)
1 to 2 years	1.5	(2.7)	1.4	(4.3)
2 to 3 years	1.5	(2.0)	1.4	(2.7)
3 to 4 years	1.4	(1.8)	1.4	(2.0)
4 to 5 years	1.0	(1.0)	1.4	(1.8)
> 5 years	1.6	(1.5)	2.6	(2.5)
Gross contractual cash flows	8.0	(11.6)	8.6	(15.4)

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

23 Net debt and derivative financial instruments (continued)

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. Further information on risk as required by IFRS 7 is given on pages 46 to 57.

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.

Principal financial instruments

The principal financial instruments used by the Group, from which financial instrument risk arises, are trade receivables, 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 established 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 and trade references. The covenant strength of each tenant is determined based on this review and, if appropriate, a deposit or a guarantee is obtained.

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 quantitative disclosures of the credit risk exposure in relation to trade and other receivables which are neither past due nor impaired are disclosed in note 20.

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 a regular 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 £1.3m (2017: £0.3m) or a decrease of £1.3m (2017: £0.3m).

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 2018, the proportion of fixed debt held by the Group was 70% (2017: 88%). During both 2018 and 2017, 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 2018, the Group's strategy, which was unchanged from 2017, was to maintain the NAV gearing below 80% in normal circumstances. These two gearing ratios, as well as the interest cover ratio, are defined in the list of definitions on page 206 and are derived in note 40.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

24 Financial assets and liabilities and fair values

Categories of financial assets and liabilities

	Fair value through profit and loss £m	Loans and receivables £m	Amortised cost £m	Total carrying value £m
Group				
Financial assets				
Cash and cash equivalents	–	18.3	–	18.3
Other assets – current ¹	–	24.9	–	24.9
	–	43.2	–	43.2
Financial liabilities				
1.125% unsecured convertible bonds 2019	–	–	(148.4)	(148.4)
6.5% secured bonds 2026	–	–	(185.9)	(185.9)
3.46% unsecured private placement notes 2028	–	–	(29.8)	(29.8)
4.41% unsecured private placement notes 2029	–	–	(24.8)	(24.8)
3.57% unsecured private placement notes 2031	–	–	(74.6)	(74.6)
4.68% unsecured private placement notes 2034	–	–	(74.4)	(74.4)
3.99% secured loan 2024	–	–	(81.9)	(81.9)
Bank borrowings due after one year	–	–	(294.7)	(294.7)
Leasehold liabilities	–	–	(60.7)	(60.7)
Derivative financial instruments	(3.6)	–	–	(3.6)
Other liabilities – current ²	–	–	(57.9)	(57.9)
	(3.6)	–	(1,033.1)	(1,036.7)
At 31 December 2018	(3.6)	43.2	(1,033.1)	(993.5)
Financial assets				
Cash and cash equivalents	–	87.0	–	87.0
Other assets – current ¹	–	20.6	–	20.6
	–	107.6	–	107.6
Financial liabilities				
1.125% unsecured convertible bonds 2019	–	–	(145.6)	(145.6)
6.5% secured bonds 2026	–	–	(186.9)	(186.9)
3.46% unsecured private placement notes 2028	–	–	(29.8)	(29.8)
4.41% unsecured private placement notes 2029	–	–	(24.8)	(24.8)
3.57% unsecured private placement notes 2031	–	–	(74.5)	(74.5)
4.68% unsecured private placement notes 2034	–	–	(74.3)	(74.3)
3.99% secured loan 2024	–	–	(81.7)	(81.7)
Bank borrowings due after one year	–	–	(113.2)	(113.2)
Leasehold liabilities	–	–	(14.1)	(14.1)
Derivative financial instruments	(7.9)	–	–	(7.9)
Other liabilities – current ²	–	–	(46.9)	(46.9)
	(7.9)	–	(791.8)	(799.7)
At 31 December 2017	(7.9)	107.6	(791.8)	(692.1)

¹ In 2018, other assets includes all amounts shown as trade and other receivables in note 20 except lease incentives and costs; sales and social security taxes; and prepayments of £36.5m (2017: £37.4m) for the Group and £1.8m (2017: £8.3m) for the Company. All amounts are non-interest bearing and are receivable within one year.

² In 2018, other liabilities for the Group include all amounts shown as trade and other payables in note 21 except deferred income and sales and social security taxes of £45.2m (2017: £39.8m) for the Group and of £0.1m (2017: £0.1m) for the Company. All amounts are non-interest bearing and are due within one year.

	Fair value through profit and loss £m	Loans and receivables £m	Amortised cost £m	Total carrying value £m
Company				
Financial assets				
Cash and cash equivalents	–	17.3	–	17.3
Other assets – current ¹	–	1,848.0	–	1,848.0
	–	1,865.3	–	1,865.3
Financial liabilities				
3.46% unsecured private placement notes 2028	–	–	(29.8)	(29.8)
4.41% unsecured private placement notes 2029	–	–	(24.8)	(24.8)
3.57% unsecured private placement notes 2031	–	–	(74.6)	(74.6)
4.68% unsecured private placement notes 2034	–	–	(74.4)	(74.4)
3.99% secured loan 2024	–	–	(81.9)	(81.9)
Bank borrowings due after one year	–	–	(267.0)	(267.0)
Intercompany loans	–	–	(148.4)	(148.4)
Derivative financial instruments	(3.6)	–	–	(3.6)
Other liabilities – current ²	–	(837.3)	(19.0)	(856.3)
	(3.6)	(837.3)	(719.9)	(1,560.8)
At 31 December 2018	(3.6)	1,028.0	(719.9)	304.5

Financial assets				
Cash and cash equivalents	–	85.8	–	85.8
Other assets – current ¹	–	1,461.3	–	1,461.3
	–	1,547.1	–	1,547.1
Financial liabilities				
3.46% unsecured private placement notes 2028	–	–	(29.8)	(29.8)
4.41% unsecured private placement notes 2029	–	–	(24.8)	(24.8)
3.57% unsecured private placement notes 2031	–	–	(74.5)	(74.5)
4.68% unsecured private placement notes 2034	–	–	(74.3)	(74.3)
3.99% secured loan 2024	–	–	(81.7)	(81.7)
Bank borrowings due after one year	–	–	(85.6)	(85.6)
Intercompany loans	–	–	(145.6)	(145.6)
Derivative financial instruments	(7.0)	–	–	(7.0)
Other liabilities – current ²	–	(890.3)	(11.9)	(902.2)
	(7.0)	(890.3)	(528.2)	(1,425.5)
At 31 December 2017	(7.0)	656.8	(528.2)	121.6

¹ In 2018, other assets includes all amounts shown as trade and other receivables in note 20 except lease incentives and costs; sales and social security taxes; and prepayments of £36.5m (2017: £37.4m) for the Group and £1.8m (2017: £8.3m) for the Company. All amounts are non-interest bearing and are receivable within one year.

² In 2018, other liabilities for the Group include all amounts shown as trade and other payables in note 21 except deferred income and sales and social security taxes of £45.2m (2017: £39.8m) for the Group and of £0.1m (2017: £0.1m) for the Company. All amounts are non-interest bearing and are due within one year.

Reconciliation of net financial assets and liabilities to gross debt:

	Group 2018 £m	2017 £m	Company 2018 £m	2017 £m
Net financial assets and liabilities	(993.5)	(692.1)	304.5	121.6
Other assets – current	(24.9)	(20.6)	(1,848.0)	(1,461.3)
Other liabilities – current	57.9	46.9	856.3	902.2
Cash and cash equivalents	(18.3)	(87.0)	(17.3)	(85.8)
Gross debt	(978.8)	(752.8)	(704.5)	(523.3)

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

24 Financial assets and liabilities and fair values (continued)

Fair value measurement

The table below shows the fair values, where applicable, of borrowings and derivative financial instruments held by the Group, together with a reconciliation to net financial assets and liabilities. Details of inputs and valuation methods used to derive the fair values are shown in note 23.

	Group		Company		Fair value hierarchy
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m	
At 31 December 2018					
1.125% unsecured convertible bonds 2019	(148.4)	(152.3)	–	–	Level 1
6.5% secured bonds 2026	(185.9)	(222.1)	–	–	Level 1
3.46% unsecured private placement notes 2028	(29.8)	(30.9)	(29.8)	(30.9)	Level 2
4.41% unsecured private placement notes 2029	(24.8)	(29.0)	(24.8)	(29.0)	Level 2
3.57% unsecured private placement notes 2031	(74.6)	(76.4)	(74.6)	(76.4)	Level 2
4.68% unsecured private placement notes 2034	(74.4)	(90.9)	(74.4)	(90.9)	Level 2
3.99% secured loan 2024	(81.9)	(87.0)	(81.9)	(87.0)	Level 2
Bank borrowings due after one year	(294.7)	(297.5)	(267.0)	(269.5)	Level 2
Intercompany loan	–	–	(148.4)	(152.3)	Level 2
Derivative financial instruments	(3.6)	(3.6)	(3.6)	(3.6)	Level 2
	(918.1)	(989.7)	(704.5)	(739.6)	
Amounts not fair valued:					
Cash and cash equivalents	18.3		17.3		
Other assets – current	24.9		1,848.0		
Leasehold liabilities	(60.7)		–		
Other liabilities – current	(57.9)		(856.3)		
Net financial assets and liabilities	(993.5)		304.5		
At 31 December 2017					
1.125% unsecured convertible bonds 2019	(145.6)	(158.3)	–	–	Level 1
6.5% secured bonds 2026	(186.9)	(225.6)	–	–	Level 1
3.46% unsecured private placement notes 2028	(29.8)	(31.0)	(29.8)	(31.0)	Level 2
4.41% unsecured private placement notes 2029	(24.8)	(29.3)	(24.8)	(29.3)	Level 2
3.57% unsecured private placement notes 2031	(74.5)	(76.4)	(74.5)	(76.4)	Level 2
4.68% unsecured private placement notes 2034	(74.3)	(91.8)	(74.3)	(91.8)	Level 2
3.99% secured loan 2024	(81.7)	(87.9)	(81.7)	(87.9)	Level 2
Bank borrowings due after one year	(113.2)	(117.0)	(85.6)	(89.0)	Level 2
Intercompany loan	–	–	(145.6)	(158.3)	Level 2
Derivative financial instruments	(7.9)	(7.9)	(7.0)	(7.0)	Level 2
	(738.7)	(825.2)	(523.3)	(570.7)	
Amounts not fair valued:					
Cash and cash equivalents	87.0		85.8		
Other assets – current	20.6		1,461.3		
Leasehold liabilities	(14.1)		–		
Other liabilities – current	(46.9)		(902.2)		
Net financial assets and liabilities	(692.1)		121.6		

There have been no transfers between Level 1 and Level 2 or Level 2 and Level 3 in either 2018 or 2017.

25 Cash flow information

Net debt reconciliation

	2017 £m	Cash flows £m	Non-cash changes				2018 £m
			Amortisation of issue and arrangement costs £m	Fair value adjustments £m	Acquisitions £m	Unwind of discount £m	
Group							
Borrowings	730.8	180.5	2.1	1.1	–	–	914.5
Leasehold liabilities	14.1	–	–	–	45.7	0.9	60.7
Total liabilities from financing activities	744.9	180.5	2.1	1.1	45.7	0.9	975.2
Cash and cash equivalents	(87.0)	68.7	–	–	–	–	(18.3)
Net debt	657.9	249.2	2.1	1.1	45.7	0.9	956.9
Company							
Borrowings	516.3	180.5	1.9	2.2	–	–	700.9
Total liabilities from financing activities	516.3	180.5	1.9	2.2	–	–	700.9
Cash and cash equivalents	(85.8)	68.5	–	–	–	–	(17.3)
Net debt	430.5	249.0	1.9	2.2	–	–	683.6

26 Deferred tax

	Revaluation surplus £m	Other £m	Total £m
Group			
At 1 January 2018	4.5	(2.2)	2.3
(Credited)/charged to the income statement	(0.8)	0.4	(0.4)
Credited to other comprehensive income	(0.1)	–	(0.1)
At 31 December 2018	3.6	(1.8)	1.8
At 1 January 2017	5.3	(2.2)	3.1
Credited to the income statement	(1.0)	(0.2)	(1.2)
Change in tax rates in the income statement	(0.5)	0.2	(0.3)
Charged to other comprehensive income	0.8	–	0.8
Change in tax rates in other comprehensive income	(0.1)	–	(0.1)
At 31 December 2017	4.5	(2.2)	2.3
Company			
At 1 January 2018	–	(2.1)	(2.1)
At 31 December 2018	–	(2.1)	(2.1)
At 1 January 2017	–	(2.2)	(2.2)
Charged to the income statement	–	(0.2)	(0.2)
Change in tax rates in the income statement	–	0.3	0.3
At 31 December 2017	–	(2.1)	(2.1)

Deferred tax on the 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 regime.

Deferred tax assets have been recognised in respect of all tax losses and other temporary differences where the Directors believe it is probable that these assets will be recovered.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

27 Share capital

The movement in the number of 5p ordinary shares in issue is shown in the table below:

Number of shares in issue

	Number
At 1 January 2017	111,389,837
Issued as a result of awards vesting under the Group's Performance Share Plan	51,824
Issued as a result of the exercise of share options ¹	33,160
At 31 December 2017	111,474,821
Issued as a result of awards vesting under the Group's Performance Share Plan	48,200
Issued as a result of the exercise of share options ¹	16,916
At 31 December 2018	111,539,937

¹ Proceeds from these issues were £0.4m (2017: £0.8m).

The number of outstanding share options and other share awards granted to the Directors are disclosed in the report of the Remuneration Committee on pages 116 to 131 and note 13.

28 Reserves

The following describes the nature and purpose of each reserve within shareholders' equity:

Reserve	Description and purpose
Share premium	Amount subscribed for share capital in excess of nominal value less directly attributable issue costs.
Other reserves:	
Merger	Premium on the issue of shares as equity consideration for the acquisition of London Merchant Securities plc (LMS).
Revaluation	Revaluation of the owner-occupied property and the associated deferred tax.
Other	Equity portion of the convertible bonds for the Group and intercompany loans for the Company. Fair value of equity instruments granted but not yet exercised under share-based payments.
Retained earnings	Cumulative net gains and losses recognised in the Group income statement together with other items such as dividends and share-based payments.

Other reserves

	Group 2018 £m	2017 £m	Company 2018 £m	2017 £m
Merger reserve	910.5	910.5	910.5	910.5
Revaluation reserve	14.6	13.8	–	–
Equity portion of the convertible bonds	12.3	12.3	12.3	12.3
Fair value of equity instruments under share-based payments	6.1	6.3	6.1	6.3
	943.5	942.9	928.9	929.1

29 Profit for the year attributable to members of Derwent London plc

Profit for the year in the Group income statement includes a profit of £327.6m (2017: £125.7m) generated by the Company. The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own income statement in these financial statements.

30 Dividend

	Payment date	Dividend per share			2018 £m	2017 £m
		PID p	Non-PID p	Total p		
Current year						
2018 final dividend ¹	7 June 2019	30.00	16.75	46.75	–	–
2018 interim dividend	19 October 2018	19.10	–	19.10	21.3	–
Distribution of current year profit		49.10	16.75	65.85	21.3	–
Prior year						
2017 final dividend	8 June 2018	35.00	7.40	42.40	47.3	–
2017 interim dividend	20 October 2017	17.33	–	17.33	–	19.3
Distribution of prior year profit		52.33	7.40	59.73	47.3	19.3
Special dividend						
2017 special dividend	8 June 2018	–	75.00	75.00	83.6	–
Distribution of accumulated profit		–	75.00	75.00	83.6	–
2016						
2016 final dividend	9 June 2017	32.70	5.80	38.50	–	42.9
2016 special dividend	9 June 2017	–	52.00	52.00	–	57.9
Dividends as reported in the Group statement of changes in equity					152.2	120.1
2018 interim dividend withholding tax						
2018 interim dividend withholding tax	14 January 2019				(2.3)	–
2017 interim dividend withholding tax	14 January 2018				2.1	(2.1)
2016 interim dividend withholding tax	14 January 2017				–	1.7
Dividends paid as reported in the Group cash flow statement					152.0	119.7

¹ Subject to shareholder approval at the AGM on 17 May 2019.

31 Cash and cash equivalents

	Group 2018 £m	2017 £m	Company 2018 £m	2017 £m
Cash at bank	18.3	87.0	17.3	85.8

32 Capital commitments

Contracts for capital expenditure entered into by the Group at 31 December 2018 and not provided for in the accounts relating to the construction, development or enhancement of the Group's investment properties amounted to £147.2m (2017: £253.9m), whilst that relating to the Group's trading properties amounted to £8.7m (2017: £13.2m). At 31 December 2018 and 31 December 2017, there were no material obligations for the purchase, repair or maintenance of investment or trading properties.

33 Contingent liabilities

The Company and its subsidiaries are party to cross guarantees securing certain bank loans. At 31 December 2018 and 31 December 2017, there was no liability that could arise for the Company from the cross guarantees.

Where the Company enters into financial guarantee contracts and guarantees the indebtedness of other companies within the Group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time that it becomes probable that the Company will be required to make a payment under the guarantee.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

34 Leases

	2018 £m	2017 £m
Operating lease receipts		
Minimum lease receipts under non-cancellable operating leases to be received:		
not later than one year	157.7	165.0
later than one year and not later than five years	503.2	545.0
later than five years	706.9	649.6
	1,367.8	1,359.6
	2018 £m	2017 £m
Finance lease obligations		
Minimum lease payments under finance leases that fall due:		
not later than one year	0.8	0.8
later than one year and not later than five years	54.8	3.2
later than five years	194.8	187.9
	250.4	191.9
Future contingent rent payable on finance leases	(25.1)	(19.6)
Future finance charges on finance leases	(164.6)	(158.2)
Present value of finance lease liabilities	60.7	14.1
Present value of minimum finance lease obligations:		
later than one year and not later than five years	45.9	0.1
later than five years	14.8	14.0
	60.7	14.1

In accordance with IAS 17 Leases, the minimum lease payments are allocated as follows:

	2018 £m	2017 £m
Finance charge	0.7	1.0
Contingent rent	1.4	0.7
Total	2.1	1.7

The Group has approximately 740 leases granted to its tenants. These vary dependent on the individual tenant and the respective property and demise but typically are let for a term of five to 20 years, at a market rent with provisions to review to market rent every five years. Standard lease provisions include service charge payments and recovery of other direct costs. The weighted average lease length of the leases commencing during 2018 was 7.2 years (2017: 12.2 years). Of these leases, on a weighted average basis, 88% (2017: 97%) included a rent free or half rent period.

35 Post balance sheet events

In January 2019, £250 million of new unsecured private placement notes were drawn. The issue consists of four tranches with maturities ranging between 7 and 15 years. The weighted average coupon of the fixed rate notes equates to 2.89% with a weighted average maturity of 10.8 years.

In February 2019, Prescott Street GP Limited and Prescott Street Nominees Limited, in which the Group holds a 50% interest, exchanged contracts for the sale of the freehold interest in 9 Prescott Street E1 for £53.9m before costs, with completion expected in May 2019.

The main construction contract for Soho Place W1, one of our next major developments, was signed in February 2019.

36 List of subsidiaries and joint ventures

A full list of subsidiaries and joint ventures as at 31 December 2018 is set out below:

	Ownership ²	Principal activity
Subsidiaries		
Asta Commercial Limited	100%	Property investment
Bargate Quarter Limited	65%	Investment Company
BBR (Commercial) Limited	100%	Property investment
BBR Property Limited ¹	100%	Property trading
Caledonian Properties Limited	100%	Property investment
Caledonian Property Estates Limited	100%	Property investment
Caledonian Property Investments Limited	100%	Property investment
Carlton Construction & Development Company Limited	100%	Dormant
Central London Commercial Estates Limited	100%	Property investment
Charlotte Apartments Limited	100%	Property investment
80 Charlotte Street Limited ¹	100%	Property investment
Derwent Asset Management Limited ¹	100%	Property management
Derwent Central Cross Limited ¹	100%	Property investment
Derwent Henry Wood Limited ¹	100%	Property investment
Derwent London Angel Square Limited ¹	100%	Property investment
Derwent London Asta Limited	100%	Property trading
Derwent London Asta Residential Limited	100%	Dormant
Derwent London Charlotte Street (Commercial) Limited	100%	Property investment
Derwent London Charlotte Street Limited ¹	100%	Property trading
Derwent London Copyright House Limited ¹	100%	Property investment
Derwent London Development Services Limited ¹	100%	Management services
Derwent London Farringdon Limited ¹	100%	Property investment
Derwent London Featherstone Limited ¹	100%	Property investment
Derwent London Grafton Limited ¹	100%	Property investment
Derwent London Holden House Limited ¹	100%	Property investment
Derwent London Howland Limited ¹	100%	Property investment
Derwent London KSW Limited ¹	100%	Property investment
Derwent London Oliver's Yard Limited ¹	100%	Property investment
Derwent London Page Street (Nominees) Limited	100%	Dormant
Derwent London Page Street Limited ¹	100%	Property investment
Derwent London Whitfield Street Limited ¹	100%	Property investment
Derwent Valley Central Limited ¹	100%	Property investment
Derwent Valley Employee Trust Limited ¹	100%	Dormant
Derwent Valley Finance Limited	100%	Finance company
Derwent Valley Limited	100%	Holding company
Derwent Valley London Limited ¹	100%	Property investment
Derwent Valley Property Developments Limited ¹	100%	Property investment
Derwent Valley Property Investments Limited ¹	100%	Property investment
Derwent Valley Property Trading Limited	100%	Property trading
Derwent Valley Railway Company ¹	100%	Dormant
Derwent Valley West End Limited ¹	100%	Property investment
Kensington Commercial Property Investments Limited	100%	Property investment
22 Kingsway Limited ¹	100%	Dormant
LMS (City Road) Limited	100%	Property investment
LMS Finance Limited	100%	Investment Holding
LMS Offices Limited	100%	Property investment
London Merchant Securities Limited ¹	100%	Holding company
LS Kingsway Limited	100%	Dormant
The New River Company Limited	100%	Property investment
West London & Suburban Property Investments Limited	100%	Property investment
Urbanfirst Limited	100%	Investment Holding
Derwent London Capital No. 2 (Jersey) Limited ¹	100%	Finance company
Portman Investments (Baker Street) Limited	55%	Property investment

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

36 List of subsidiaries and joint ventures (continued)

	Ownership ²	Principal activity
Joint ventures		
Dorrington Derwent Holdings Limited	50%	Holding company
Dorrington Derwent Investment Limited	50%	Investment company
Prescot Street GP Limited	50%	Management Company
Prescot Street Leaseco Limited	50%	Property investment
Prescot Street Limited Partnership	50%	Property investment
Prescot Street Nominees Limited	50%	Dormant
Primister Limited	50%	Property investment

¹ Indicates subsidiary undertakings held directly.

² All holdings are of ordinary shares.

The Company controls 50% of the voting rights of its joint ventures, which are accounted for and disclosed in accordance with IFRS 11 Joint Arrangements.

The Company's interest in Portman Investments (Baker Street) Limited is accounted for and disclosed in accordance with IAS 27 Consolidated and Separate Financial Statements. This gives rise to a non-controlling interest within equity in the Group balance sheet and the separate disclosure of the non-controlling interest's share of the Group's profit for the year in the Group income statement and Group statement of comprehensive income.

All of the entities above are incorporated and domiciled in England and Wales, with the exception of 22 Kingsway Limited and Derwent London Capital No. 2 (Jersey) Limited, which are incorporated and domiciled in Jersey. In addition, all the entities are registered at 25 Savile Row, London, W1S 2ER, with the exception of:

- 22 Kingsway Limited and Derwent London Capital No. 2 (Jersey) Limited, which are registered at 47 Esplanade, St Helier, JE1 0BD, Channel Islands;
- Dorrington Derwent Holdings Limited and Dorrington Derwent Investment Limited, which are registered at 16 Hans Road, London, SW3 1RT; and
- Primister Limited, which is registered at Quadrant House, Floor 6, 4 Thomas More Square, London, E1W 1YW.

37 Related party disclosure

Details of Directors' remuneration are given in the report of the Remuneration Committee on pages 116 to 131 and note 11. A full list of subsidiaries and joint ventures is given in note 36. Other related party transactions are as follows:

Group

The Hon. R.A. Rayne is a Director of LMS Capital plc, an investment company, which had a lease over offices owned by the Group for which they paid a commercial rent of £0.1m (2017: £0.3m). This lease terminated on 24 March 2018. During the year, the Group also contributed £0.1m (2017: £0.1m) to LMS Capital plc's running costs.

There are no outstanding balances owed to the Group with respect to any of the above transactions.

At 31 December 2018, included within other receivables in note 20 is an amount owed by the Portman Estate, the minority owner of one of the Group's subsidiaries, of £2.0m (2017: £2.0m).

Company

The Company received interest from and paid interest to some of its subsidiaries during the year. These transactions are summarised below:

	Interest income/(expense)		Balance receivable/(payable)	
	2018 £m	2017 £m	2018 £m	2017 £m
Related party				
22 Kingsway Limited	–	–	(33.5)	(33.5)
80 Charlotte Street Limited	8.6	6.9	200.9	192.0
BBR (Commercial) Limited	(0.1)	(0.1)	(2.5)	(2.4)
BBR Property Limited	(0.2)	(0.2)	(5.8)	(5.5)
Derwent Asset Management Limited	–	–	(0.5)	(0.7)
Derwent Central Cross Limited	8.4	8.5	193.6	198.9
Derwent Henry Wood Limited	2.0	2.0	46.5	46.6
Derwent London Asta Limited	0.7	0.7	17.4	16.4
Derwent London Angel Square Limited	3.6	3.6	82.1	83.1
Derwent London Capital No. 2 (Jersey) Limited ¹	(3.9)	(3.8)	(148.3)	(145.5)
Derwent London Charlotte Street (Commercial) Limited	–	–	(1.1)	(1.0)
Derwent London Charlotte Street Limited	(0.1)	(0.1)	(1.7)	(1.6)
Derwent London Copyright House Limited	(0.6)	3.1	(2.5)	(26.3)
Derwent London Development Services Limited	–	–	2.4	–
Derwent London Farringdon Limited	4.5	4.5	102.0	105.1
Derwent London Grafton Limited	(1.0)	(1.5)	(8.3)	(37.3)
Derwent London Howland Limited	(1.8)	(1.1)	(7.3)	(75.6)
Derwent London KSW Limited	4.0	3.8	93.7	88.6
Derwent London Oliver's Yard Limited	5.3	2.9	122.4	123.0
Derwent London Page Street Limited	0.3	0.5	4.6	10.1
Derwent Whitfield Street Limited	1.6	0.8	41.8	33.1
Derwent Valley Central Limited	(3.0)	(4.4)	(41.2)	(90.1)
Derwent Valley London Limited	10.0	7.2	282.7	180.4
Derwent Valley Property Developments Limited	(1.5)	1.5	(141.9)	40.9
Derwent Valley Holden House Limited	2.5	–	160.3	–
Derwent Valley Featherstone Limited	1.0	–	36.3	–
Derwent Valley Property Investments Limited	(4.1)	(3.7)	(98.1)	(90.6)
Derwent Valley Property Trading Limited	0.3	0.1	8.0	7.3
Derwent Valley Railway Company ²	–	–	(0.2)	(0.2)
Derwent Valley West End Limited	0.1	0.1	2.0	2.2
London Merchant Securities Limited ³	(4.8)	(6.0)	(44.1)	(193.4)
	31.8	25.3	859.7	424.0

¹ The payable balance at 31 December 2018 includes the intercompany loan of £148.4m (2017: £145.6m) included in note 23.

² Dormant company.

³ Balance owed includes subsidiaries which form part of the LMS sub-group.

The Group has not made any provision for bad or doubtful debts in respect of related party debtors. Intercompany balances are repayable on demand except the loan from Derwent London Capital No. 2 (Jersey) Limited, the payment and repayment terms of which mirror those of the convertible bonds.

Interest is charged on the on-demand intercompany balances at an arm's length basis.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

38 EPRA performance measures

Summary table

	2018		2017	
	£m	Pence per share p	£m	Pence per share p
EPRA earnings	£126.1m	113.07	£105.0m	94.23
EPRA net asset value	£4,220.8m	3,776	£4,153.1m	3,716
EPRA triple net asset value	£4,131.1m	3,696	£4,042.8m	3,617
EPRA vacancy rate	1.8%		1.3%	
EPRA cost ratio (including direct vacancy costs)	23.3%		20.8%	
EPRA net initial yield	3.4%		3.4%	
EPRA 'topped-up' net initial yield	4.6%		4.4%	

The definition of these measures can be found on page 205.

Number of shares

	Earnings per share		Net asset value per share	
	Weighted average		At 31 December	
	2018 '000	2017 '000	2018 '000	2017 '000
For use in basic measures	111,521	111,431	111,540	111,475
Dilutive effect of share-based payments	239	267	239	295
For use in diluted measures	111,760	111,698	111,779	111,770

The £150m unsecured convertible bonds 2019 ('2019 bonds') have a current conversion price of £31.78. 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 2018 and 31 December 2017, the Group did not recognise the dilutive impact of the conversion of the 2019 bonds on its earnings per share (EPS) or net asset value (NAV) per share measures as, based on the share price at each year end, 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, and associated tax and non-controlling interest
- B – Revaluation movement on investment property and in joint ventures, write-down/(reversal of 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 the dilutive effect of convertible bonds

In addition to the EPRA performance measures, underlying performance measures, which exclude certain items considered to be non-recurring, are used by the Directors to assess the operating performance of the Group. A reconciliation of the EPRA and underlying earnings for the year to 31 December 2018 is presented below. For the year to 31 December 2017, no adjustments were made to the EPRA earnings to derive the underlying performance.

Earnings and earnings per share

	IFRS £m	Adjustments			EPRA basis £m
		A £m	B £m	C £m	
Year ended 31 December 2018					
Net property and other income	185.9	–	0.2	–	186.1
Total administrative expenses	(32.3)	–	–	–	(32.3)
Revaluation surplus	83.4	–	(83.4)	–	–
Profit on disposal of investment property	5.2	(5.2)	–	–	–
Net finance costs	(23.5)	–	–	–	(23.5)
Movement in fair value of derivative financial instruments	4.3	–	–	(4.3)	–
Financial derivative termination costs	(3.5)	–	–	3.5	–
Share of results of joint ventures	2.1	(1.3)	0.1	–	0.9
Profit before tax	221.6	(6.5)	(83.1)	(0.8)	131.2
Tax charge	(2.7)	0.3	(0.7)	–	(3.1)
Profit for the year	218.9	(6.2)	(83.8)	(0.8)	128.1
Non-controlling interest	3.4	–	(5.5)	0.1	(2.0)
Earnings attributable to equity shareholders	222.3	(6.2)	(89.3)	(0.7)	126.1

Earnings per share 199.33p 113.07p

Diluted earnings per share 198.91p 112.83p

	£m
EPRA earnings attributable to equity shareholders	126.1
Net income from grant of access rights	(15.6)
Underlying earnings attributable to equity shareholders	110.5

Underlying earnings per share 99.08p

	IFRS £m	Adjustments			EPRA basis £m
		A £m	B £m	C £m	
Year ended 31 December 2017					
Net property and other income	164.8	–	(1.0)	–	163.8
Total administrative expenses	(28.2)	–	–	–	(28.2)
Revaluation surplus	147.9	–	(147.9)	–	–
Profit on disposal of investment property	50.3	(50.3)	–	–	–
Net finance costs	(27.1)	–	–	–	(27.1)
Movement in fair value of derivative financial instruments	9.4	–	–	(9.4)	–
Financial derivative termination costs	(7.3)	–	–	7.3	–
Share of results of joint ventures	5.0	–	(3.9)	–	1.1
Profit before tax	314.8	(50.3)	(152.8)	(2.1)	109.6
Tax charge	(1.8)	1.1	(1.5)	–	(2.2)
Profit for the year	313.0	(49.2)	(154.3)	(2.1)	107.4
Non-controlling interest	1.0	–	(3.8)	0.4	(2.4)
Earnings attributable to equity shareholders	314.0	(49.2)	(158.1)	(1.7)	105.0

Earnings per share 281.79p 94.23p

Diluted earnings per share 281.12p 94.00p

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

38 EPRA performance measures (continued)

Net asset value and net asset value per share

	£m	Undiluted p	Diluted p
At 31 December 2018			
Net assets attributable to equity shareholders	4,201.9	3,767	3,759
Adjustment for:			
Revaluation of trading properties net of tax	0.8		
Deferred tax on revaluation surplus	3.6		
Fair value of derivative financial instruments	3.6		
Fair value adjustment to secured bonds	11.8		
Non-controlling interest in respect of the above	(0.9)		
EPRA net asset value	4,220.8	3,784	3,776
Adjustment for:			
Mark-to-market of secured bonds 2026	(47.1)		
Mark-to-market of secured loan 2024	(4.0)		
Mark-to-market of unsecured private placement notes 2029 and 2034	(19.9)		
Mark-to-market of unsecured private placement notes 2028 and 2031	(2.3)		
Mark-to-market of 1.125% unsecured convertible bonds 2019	(3.6)		
Deferred tax on revaluation surplus	(3.6)		
Fair value of derivative financial instruments	(3.6)		
Unamortised issue and arrangement costs	(6.5)		
Non-controlling interest in respect of the above	0.9		
EPRA triple net asset value	4,131.1	3,704	3,696
At 31 December 2017			
Net assets attributable to equity shareholders	4,128.3	3,703	3,694
Adjustment for:			
Revaluation of trading properties net of tax	1.0		
Deferred tax on revaluation surplus	4.5		
Fair value of derivative financial instruments	7.9		
Fair value adjustment to secured bonds	12.9		
Non-controlling interest in respect of the above	(1.5)		
EPRA net asset value	4,153.1	3,726	3,716
Adjustment for:			
Mark-to-market of secured bonds 2026	(50.6)		
Mark-to-market of secured loan 2024	(4.9)		
Mark-to-market of unsecured private placement notes 2029 and 2034	(21.1)		
Mark-to-market of unsecured private placement notes 2028 and 2031	(2.4)		
Mark-to-market of 1.125% unsecured convertible bonds 2019	(11.8)		
Deferred tax on revaluation surplus	(4.5)		
Fair value of derivative financial instruments	(7.9)		
Unamortised issue and arrangement costs	(8.6)		
Non-controlling interest in respect of the above	1.5		
EPRA triple net asset value	4,042.8	3,627	3,617

Cost ratio

	2018 £m	2017 £m
Administrative expenses	32.3	28.2
Other property costs	9.7	8.4
Dilapidation receipts	(1.7)	(0.1)
Other costs	0.4	–
Net service charge costs	2.9	1.9
Service charge costs recovered through rents but not separately invoiced	(0.3)	(0.3)
Management fees received less estimated profit element	(2.9)	(2.7)
Share of joint ventures' expenses	0.4	0.5
EPRA costs (including direct vacancy costs) (A)	40.8	35.9
Direct vacancy costs	(4.4)	(2.5)
EPRA costs (excluding direct vacancy costs) (B)	36.4	33.4
Gross rental income	175.1	172.1
Ground rent	(1.4)	(0.7)
Service charge components of rental income	(0.3)	(0.3)
Share of joint ventures' rental income less ground rent	1.7	1.8
Adjusted gross rental income (C)	175.1	172.9
EPRA cost ratio (including direct vacancy costs) (A/C)	23.3%	20.8%
EPRA cost ratio (excluding direct vacancy costs) (B/C)	20.8%	19.3%
Property portfolio at fair value (D)	5,190.7	4,850.3
Portfolio cost ratio (A/D)	0.8%	0.7%

In addition to the two EPRA cost ratios, the Group has calculated an additional cost ratio based on its property portfolio fair value to recognise the 'total return' nature of the Group's activities.

The Group has not capitalised any overheads in either 2018 or 2017.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

38 EPRA performance measures (continued)

Net initial yield and 'topped-up' net initial yield

	2018 £m	2017 £m
Property portfolio – wholly owned	5,190.7	4,850.3
Share of joint ventures	26.9	47.3
Less non-EPRA properties ¹	(837.1)	(608.4)
Completed property portfolio	4,380.5	4,289.2
Allowance for:		
Estimated purchasers' costs	297.9	291.7
Estimated costs to complete	–	0.8
EPRA property portfolio valuation (A)	4,678.4	4,581.7
Annualised contracted rental income, net of ground rents	158.3	158.6
Share of joint ventures	1.2	1.5
Less non-EPRA properties ¹	(0.7)	(0.8)
Add outstanding rent reviews	2.1	1.1
Less estimate of non-recoverable expenses	(2.8)	(3.4)
	(1.4)	(3.1)
Current income net of non-recoverable expenses (B)	158.1	157.0
Contractual rental increases across the portfolio	55.3	68.4
Less non-EPRA properties ¹	–	(21.8)
Contractual rental increases across the EPRA portfolio	55.3	46.6
'Topped-up' net annualised rent (C)	213.4	203.6
EPRA net initial yield (B/A)	3.4%	3.4%
EPRA 'topped-up' net initial yield (C/A)	4.6%	4.4%

Vacancy rate

	2018 £m	2017 £m
Annualised estimated rental value of vacant premises	4.1	2.8
Portfolio estimated rental value	274.4	270.1
Less non-EPRA properties ¹	(48.1)	(50.3)
	226.3	219.8
EPRA vacancy rate	1.8%	1.3%

¹ In accordance with EPRA best practice guidelines, deductions are made for development properties, land and long-dated reversions.

39 Total return

	2018 p	2017 p
EPRA net asset value on a diluted basis		
At end of year	3,776	3,716
At start of year	(3,716)	(3,551)
Increase	60	165
Dividend per share	137	108
Increase including dividend	197	273
Total return	5.3%	7.7%

40 Gearing and interest cover

NAV gearing

	2018 £m	2017 £m
Net debt	956.9	657.9
Net assets	4,263.4	4,193.2
NAV gearing	22.4%	15.7%

Loan-to-value ratio

	2018 £m	2017 £m
Net debt	956.9	657.9
Fair value adjustment of secured bonds	(11.8)	(12.9)
Unamortised issue and arrangement costs	6.5	8.6
Leasehold liabilities	(60.7)	(14.1)
Drawn debt	890.9	639.5
Fair value of property portfolio	5,190.7	4,850.3
Loan-to-value ratio	17.2%	13.2%

Net interest cover ratio

	2018 £m	2017 £m
Net property and other income	185.9	164.8
Adjustments for:		
Other income	(2.9)	(2.7)
Other property income	(17.7)	–
Surrender premiums received	(3.2)	(0.1)
Write-down/(reversal of write-down) of trading property	0.2	(1.0)
Reverse surrender premiums	0.1	0.2
Adjusted net property income	162.4	161.2
Finance costs	23.5	27.1
Adjustments for:		
Other finance costs	(0.2)	(0.1)
Amortisation of fair value adjustment to secured bonds	1.2	1.1
Amortisation of issue and arrangement costs	(2.1)	(2.0)
Finance costs capitalised	10.7	9.4
Net interest payable	33.1	35.5
Net interest cover ratio	491%	454%

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

41 Significant accounting policies

Basis of consolidation

The Group financial statements incorporate the financial statements of Derwent London plc and all of its subsidiaries, together with the Group's share of the results of its joint ventures.

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement. Interests in joint ventures are accounted for using the equity method of accounting as permitted by IFRS 11 Joint Arrangements, and following the procedures for this method set out in IAS 28 Investments in Associates and Joint Ventures. The equity method requires the Group's share of the joint venture's post-tax profit or loss for the year to be presented separately in the income statement and the Group's share of the joint venture's net assets to be presented separately in the balance sheet.

Intra-group balances and any unrealised gains and losses arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with joint ventures are eliminated to the extent of the Group's interest in the joint venture concerned. Unrealised losses are eliminated in the same way, but only to the extent that there is no evidence of impairment.

Gross property income

Gross property income arises from two main sources:

- (i) Rental income – This arises from operating leases granted to tenants. An operating lease is a lease other than a finance lease. A finance lease is one whereby substantially all the risks and rewards of ownership are passed to the lessee.

Rental income is recognised in the Group income statement on a straight-line basis over the term of the lease in accordance with SIC 15 Operating Leases – Incentives and IAS 17 Leases. This includes the effect of lease incentives given to tenants, which are normally in the form of rent free or half rent periods or capital contributions in lieu of rent free periods, and the effect of contracted rent uplifts and payments received from tenants on the grant of leases.

For income from property leased out under a finance lease, a lease receivable asset is recognised in the balance sheet at an amount equal to the net investment in the lease, as defined in IAS 17 Leases. Minimum lease payments receivable, again defined in IAS 17, are apportioned between finance income and the reduction of the outstanding lease receivable so as to produce a constant periodic rate of return on the remaining net investment in the lease. Contingent rents, being the difference between the rent currently receivable and the minimum lease payments when the net investment in the lease was originally calculated, are recognised in property income in the years in which they are receivable.

- (ii) Surrender premiums – Payments received from tenants to surrender their lease obligations are recognised immediately in the Group income statement. In circumstances where surrender payments received relate to specific periods, they are deferred and recognised in those periods.

Other income

Other income consists of commissions and fees arising from the management of the Group's properties and is recognised in the Group income statement in accordance with the delivery of service.

Expenses

- (i) Lease payments – Where investment properties are held under operating leases, the leasehold interest is classified as if it were held under a finance lease, which is recognised at its fair value on the balance sheet, within the investment property carrying value. Upon initial recognition, a corresponding liability is included as a finance lease liability. Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability so as to produce a constant periodic rate of interest on the remaining finance lease liability. Contingent rents payable, being the difference between the rent currently payable and the minimum lease payments when the lease liability was originally calculated, are charged as expenses within property expenditure in the years in which they are payable.
- (ii) Dilapidations – Dilapidations monies received from tenants in respect of their lease obligations are recognised immediately in the Group income statement, unless they relate to future capital expenditure. In the latter case, where the costs are considered to be recoverable they are capitalised as part of the carrying value of the property.
- (iii) Reverse surrender premiums – Payments made to tenants to surrender their lease obligations are charged directly to the Group income statement unless the payment is to enable the probable redevelopment of a property. In the latter case, where the costs are considered to be recoverable, they are capitalised as part of the carrying value of the property.
- (iv) Other property expenditure – Vacant property costs and other property costs are expensed in the year to which they relate, with the exception of the initial direct costs incurred in negotiating and arranging leases which are, in accordance with IAS 17 Leases, added to the carrying value of the relevant property and recognised as an expense over the lease term on the same basis as the lease income.

Employee benefits

- (i) Share-based remuneration

Equity settled – The Company operates a long-term incentive plan and share option scheme. The fair value of the conditional awards of shares granted under the long-term incentive plan and the options granted under the share option scheme are determined at the date of grant. This fair value is then expensed on a straight-line basis over the vesting period, based on an estimate of the number of shares that will eventually vest. At each reporting date, the non-market based performance criteria of the long-term incentive plan are reconsidered and the expense is revised as necessary. In respect of the share option scheme, the fair value of the options granted is calculated using a binomial lattice pricing model.

Under the transitional provisions of IFRS 1, no expense is recognised for options or conditional shares granted on or before 7 November 2002.

- (ii) Pensions

- (a) Defined contribution plans – Obligations for contributions to defined contribution pension plans are recognised as an expense in the Group income statement in the period to which they relate.
- (b) Defined benefit plans – The Group's net obligation in respect of defined benefit post-employment plans, including pension plans, is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. The discount rate is the yield at the balance sheet date on AA credit rated bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method. Any actuarial gain or loss in the period is recognised in full in the Group statement of comprehensive income.

Business combinations

Business combinations are accounted for under the acquisition method. Any excess of the purchase price of business combinations over the fair value of the assets, liabilities and contingent liabilities acquired and resulting deferred tax thereon is recognised as goodwill. Any discount is credited to the Group income statement in the period of acquisition. Goodwill is recognised as an asset and reviewed for impairment. Any impairment is recognised immediately in the Group income statement and is not subsequently reversed. Any residual goodwill is reviewed annually for impairment.

Investment property

- (i) Valuation – Investment properties are those that are held either to earn rental income or for capital appreciation or both, including those that are undergoing redevelopment. Investment properties are measured initially at cost, including related transaction costs. After initial recognition, they are carried in the Group balance sheet at fair value adjusted for the carrying value of leasehold interests and lease incentive and letting cost receivables. Fair value is the price that would be received to sell an investment property in an orderly transaction between market participants at the measurement date. The valuation is undertaken by independent valuers who hold recognised and relevant professional qualifications and have recent experience in the locations and categories of properties being valued. Surpluses or deficits resulting from changes in the fair value of investment property are reported in the Group income statement in the year in which they arise.
- (ii) Capital expenditure – Capital expenditure, being costs directly attributable to the redevelopment or refurbishment of an investment property, up to the point of it being completed for its intended use, are capitalised in the carrying value of that property. In addition, in accordance with IAS 23 Borrowing Costs, finance costs that are directly attributable to such expenditure are capitalised using the Group's average cost of borrowings during each quarter.
- (iii) Disposal – Properties are treated as disposed when the Group transfers the significant risks and rewards of ownership to the buyer. Generally this would occur on completion of contract. On disposal, any gain or loss is calculated as the difference between the net disposal proceeds and the carrying value at the last year end plus subsequent capitalised expenditure during the year. Where the net disposal proceeds have yet to be finalised at the balance sheet date, the proceeds recognised reflect the Directors' best estimate of the amounts expected to be received. Any contingent consideration is recognised at fair value at the balance sheet date. The fair value is calculated using future discounted cash flows based on expected outcomes with estimated probabilities taking account of the risk and uncertainty of each input.
- (iv) Development – When the Group begins to redevelop an existing investment property for continued use as an investment property or acquires a property with the subsequent intention of developing as an investment property, the property is classified as an investment property and is accounted for as such. When the Group begins to redevelop an existing investment property with a view to sale, the property is transferred to trading properties and held as a current asset. The property is remeasured to fair value as at the date of transfer with any gain or loss being taken to the income statement. The remeasured amount becomes the deemed cost at which the property is then carried in trading properties.

Trading property

Trading property relate to property being developed for sale. In accordance with IAS 2 Inventories, they are held at the lower of cost and net realisable value.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

41 Significant accounting policies (continued)

Property, plant and equipment

- (i) Owner-occupied property – Owner-occupied property is stated at its revalued amount, which is determined in the same manner as investment property. It is depreciated over its remaining useful life (40 years) with the depreciation included in administrative expenses. On revaluation, any accumulated depreciation is eliminated against the gross carrying amount of the property concerned, and the net amount restated to the revalued amount. Subsequent depreciation charges are adjusted based on the revalued amount for each property. Any difference between the depreciation charge on the revalued amount and that which would have been charged under historic cost is transferred, net of any related deferred tax, between the revaluation reserve and retained earnings as the property is utilised. Surpluses or deficits resulting from changes in the fair value are reported in the Group statement of comprehensive income. The land element of the property is not depreciated.
- (ii) Artwork – Artwork is stated at revalued amounts on the basis of open market value.
- (iii) Other – Plant and equipment is depreciated at a rate of between 10% and 25% per annum which is calculated to write off the cost, less estimated residual value of the individual assets, over their expected useful lives.

Investments

Investments in joint ventures, being those entities over whose activities the Group has joint control, as established by contractual agreement, are included in the Group's balance sheet at cost together with the Group's share of post-acquisition reserves, on a net equity basis. Investments in subsidiaries and joint ventures are included in the Company's balance sheet at the lower of cost and recoverable amount. Any impairment is recognised immediately in the income statement.

Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying value will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met if the sale is highly probable, the asset is available for immediate sale in its present condition, being actively marketed and management is committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets, including related liabilities, classified as held for sale are measured at the lower of carrying value and fair value less costs of disposal.

Financial assets

- (i) Cash and cash equivalents – Cash comprises cash in hand and on-demand deposits less overdrafts. Cash equivalents comprise short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.
- (ii) Trade receivables – Trade receivables are recognised and carried at the original transaction value. A provision for impairment is established where there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables concerned.

Financial liabilities

- (i) Bank loans and fixed rate loans – Bank loans and fixed rate loans are included as financial liabilities on the balance sheets at the amounts drawn on the particular facilities. Interest payable is expensed as a finance cost in the year to which it relates.
- (ii) Non-convertible bonds – These are included as a financial liability on the balance sheet net of the unamortised discount and costs on issue. The difference between this carrying value and the redemption value is recognised in the Group income statement over the life of the bond on an effective interest basis. Interest payable to bond holders is expensed in the year to which it relates.
- (iii) Convertible bonds – The fair value of the liability component of a convertible bond is determined using the market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects and is not subsequently re-measured. Issue costs are apportioned between the liability and the equity components of the convertible bonds based on their carrying amounts at the date of issue. The portion relating to the equity component is charged directly against equity. The issue costs apportioned to the liability are amortised over the life of the bond. The issue costs apportioned to equity are not amortised.
- (iv) Finance lease liabilities – Finance lease liabilities arise for those investment properties held under a leasehold interest and accounted for as investment property. The liability is initially calculated as the present value of the minimum lease payments, reducing in subsequent years by the apportionment of payments to the lessor, as described above under the heading for lease payments.
- (v) Interest rate derivatives – The Group uses derivative financial instruments to manage the interest rate risk associated with the financing of the Group's business. No trading in financial instruments is undertaken.
At each reporting date, these interest rate derivatives are measured at fair value, being the estimated amount that the Group would receive or pay to terminate the agreement at the balance sheet date, taking into account current interest rates and the current credit rating of the counterparties. The gain or loss at each fair value remeasurement is recognised in the Group income statement because the Group does not apply hedge accounting.
- (vi) Trade payables – Trade payables are recognised and carried at the original transaction value.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the tax computations, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. In respect of the deferred tax on the revaluation surplus, this is calculated on the basis of the chargeable gains that would crystallise on the sale of the investment portfolio as at the reporting date. The calculation takes account of available indexation on the historical cost of the properties.

Deferred tax is calculated at the tax rates that are expected to apply in the period, based on Acts substantially enacted at the year end, when the liability is settled or the asset is realised. Deferred tax is included in profit or loss for the period, except when it relates to items recognised in other comprehensive income or directly in equity.

Cash flow

Transactions in the cash flow statement under operating, investing and financing activities have been prepared net of value added tax in order to reflect the true cash inflows and outflows of the Group.

Dividends

Dividends payable on the ordinary share capital are recognised in the year in which they are declared.

TEN-YEAR SUMMARY

(UNAUDITED)

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
	£m									
Income statement										
Gross property income	196.0	172.2	156.0	152.0	138.4	131.6	124.8	125.5	119.4	123.8
Net property income and other income	185.9	164.8	149.2	148.6	136.1	124.3	117.0	117.7	113.0	114.8
Profit/(loss) on disposal of properties and investments	5.2	50.3	7.5	40.2	30.2	53.5	10.8	36.1	0.9	(16.6)
Profit/(loss) before tax	221.6	314.8	54.5	779.5	753.7	467.9	228.1	233.0	352.8	(34.9)
Earnings and dividend per share										
EPRA earnings	126.1	105.0	85.7	78.7	58.6	55.1	51.3	52.3	53.6	57.6
EPRA earnings per share (p)	113.07	94.23	76.99	71.34	57.08	53.87	50.36	51.59	52.89	57.14
Dividend paid (p)	136.50	107.83	44.66	40.60	37.40	34.50	31.85	29.70	27.60	24.50
Distribution of years' profit (p)	65.85	59.73	52.36	43.40	39.65	36.50	33.70	31.35	29.00	27.00
Special dividend paid (p)	–	75.00	52.00	–	–	–	–	–	–	–
Net asset value										
Net assets	4,263.4	4,193.2	3,999.4	3,995.4	3,075.7	2,370.5	1,918.0	1,714.5	1,494.7	1,163.9
Net asset value per share (p) – undiluted	3,767	3,703	3,530	3,528	2,931	2,248	1,824	1,636	1,432	1,117
EPRA net asset value per share (p) – diluted	3,776	3,716	3,551	3,535	2,908	2,264	1,886	1,701	1,474	1,161
EPRA triple net asset value per share (p) – diluted	3,696	3,617	3,450	3,463	2,800	2,222	1,764	1,607	1,425	1,126
EPRA total return (%)	5.3	7.7	1.7	23.0	30.1	21.9	12.7	17.4	29.3	(2.9)
Property portfolio										
Property portfolio at fair value	5,190.7	4,850.3	4,942.7	4,954.5	4,168.1	3,353.1	2,859.6	2,646.5	2,426.1	1,918.4
Revaluation surplus/(deficit)	84.1	149.7	(42.6)	651.4	671.9	337.5	175.3	172.1	301.7	(81.1)
Cash flow statement										
Cash flow ¹	(245.9)	247.8	19.6	(43.6)	(57.3)	(65.9)	1.9	18.4	(171.6)	139.5
Net cash from operating activities	115.2	83.5	77.7	76.0	65.6	57.5	52.5	47.2	46.5	66.4
Acquisitions	57.3	8.5	18.0	246.2	92.4	130.1	99.8	91.6	148.0	10.2
Capital expenditure on properties	187.5	165.0	213.5	116.4	113.2	108.4	78.6	42.6	49.5	94.6
Disposals	0.3	472.9	224.7	277.2	114.4	149.7	161.0	131.5	8.5	195.5
Gearing and debt										
Net debt	956.9	657.9	904.8	911.7	1,013.3	949.2	874.8	864.5	887.8	720.8
NAV gearing (%)	22.4	15.7	22.6	22.8	32.9	40.0	45.6	50.4	59.4	61.9
Loan-to-value ratio (%)	17.2	13.2	17.7	17.8	24.0	28.0	30.0	32.0	35.7	36.4
Net interest cover ratio (%)	491	454	370	362	286	279	263	261	286	280

¹ Cash flow is the net cash from operating and investing activities less the dividend paid.

A list of definitions is provided on page 205.

EPRA SUMMARY

(UNAUDITED)

EPRA Measure	Definition	2018	2017
EPRA Performance Measures			
EPRA earnings	Earnings from operational activities	£126.1m	£105.0m
EPRA undiluted earnings per share	EPRA earnings divided by the weighted average number of ordinary shares in issue during the financial year	113.07p	94.23p
EPRA net asset value (NAV)	NAV adjusted to include trading properties and other investment interests at fair value and to exclude certain items not expected to crystallise in a long-term investment property business model	£4,220.8m	£4,153.1m
EPRA diluted NAV per share	EPRA NAV divided by the number of ordinary shares in issue at the financial year end adjusted to include the effects of potential dilutive shares issuable under the Group's share option schemes and the convertible bonds	3,776p	3,716p
EPRA triple NAV	EPRA NAV adjusted to include the fair values of (i) financial instruments, (ii) debt and (iii) deferred taxes on revaluations, where applicable	£4,131.1m	£4,042.8m
EPRA diluted triple NAV per share	EPRA triple NAV divided by the number of ordinary shares in issue at the financial year end adjusted to include the effects of potential dilutive shares issuable under the Group's share option schemes and the convertible bonds	3,696p	3,617p
EPRA vacancy rate	Estimated rental value (ERV) of immediately available space divided by the ERV of the EPRA portfolio	1.8%	1.3%
EPRA cost ratio (including direct vacancy costs)	Administrative & operating costs (including costs of direct vacancy) divided by gross rental income	23.3%	20.8%
EPRA net initial yield	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	3.4%	3.4%
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)	4.6%	4.4%

EPRA Sustainability Performance Measures

Environmental Sustainability Performance Measures

Total electricity consumption	Energy use across our total managed portfolio (landlord/common areas) – annual kWh	12,302,615	10,107,931
Like-for-like total electricity consumption	Energy use across our like-for-like portfolio (landlord/common areas) – annual kWh	8,811,774	7,666,941
Total fuel consumption	Energy use across our total managed portfolio (landlord/common areas); a total of gas, oil and biomass consumption – annual kWh	21,995,327	19,100,056
Like-for-like total fuel consumption	Energy use across our like-for-like portfolio (landlord/common areas); a total of gas, oil and biomass consumption – annual kWh	13,879,199	11,199,989
Building energy intensity	Energy use across our total managed portfolio (landlord/common areas) – kWh per m ²	87.21	75.25
Total direct greenhouse gas (GHG) emissions	Total managed portfolio emissions (landlord influenced portfolio emissions); a total of Scope 1 emissions – annual metric tonnes CO ₂ e	4,223	4,189
Total indirect greenhouse gas (GHG) emissions	Total managed portfolio emissions (landlord influenced portfolio emissions); Scope 2 energy-use – annual metric tonnes CO ₂ e	3,458	3,538
Like-for-like total direct greenhouse gas (GHG) emissions	Like-for-like emissions (landlord influenced portfolio emissions, building related only); Scope 1 energy-use – annual metric tonnes CO ₂ e	2,657	1,957
Like-for-like total indirect greenhouse gas (GHG) emissions	Like-for-like emissions (landlord influenced portfolio emissions, building related only); Scope 2 energy-use – annual metric tonnes CO ₂ e	2,482	2,695
Greenhouse gas (GHG) intensity from building energy consumption	Intensity (Scopes 1 & 2) per m ² /£m turnover/fair market value (reported in tCO ₂ e/m ²) – kg CO ₂ e/m ² /year	0.019	0.020
Total water consumption	Water use across our total managed portfolio (excluding retail consumption) – annual m ³	206,190	195,660
Like-for-like total water consumption	Water use across our like-for-like portfolio (excluding retail consumption) – annual m ³	154,581	117,236
Building water intensity	Water use across our total managed portfolio (excluding retail consumption) – m ³ /m ² /year	0.52	0.52

EPRA SUMMARY CONTINUED

EPRA Measure	Definition	2018	2017
EPRA Sustainability Performance Measures (continued)			
Environmental Sustainability Performance Measures (continued)			
Total weight of waste by disposal route	Waste generated across our total managed portfolio – annual metric tonnes and proportion by disposal route	2,909	2,535
Like-for-like total weight of waste by disposal route	Waste generated across our like-for-like portfolio – annual metric tonnes and proportion by disposal route	1,892	2,004
Social Performance Measures			
Employee gender diversity	Percentage of male and female employees in the organisation's governance bodies (committee or boards responsible for the strategic guidance of the organisation)	See page 103	
Gender pay ratio	Ratio of the basic salary and/or remuneration of men to women. As we have less than 250 employees we are not obliged by the Equality Act 2010 (Gender Pay Gap Information) Regulations 2017 to disclose our gender pay gap information.		
New hires and turnover	Total number and rate of new employee hires and employee turnover during the reporting period	See page 78	
Employee health and safety	Occupational health and safety performance with relation to direct employees	See page 81	
Asset health and safety assessments	Proportion of assets controlled for which health and safety impacts have been reviewed or assessed for compliance or improvement	See page 80	
Asset health and safety compliance	Any incidents of non-compliance with regulations and/or voluntary standards concerning the health and safety impacts of assets assessed during the reporting period	See page 81	
Employees training and development	Average hours of training that the organisation's employees have undertaken in the reporting period	See the EPRA Reporting section in our 2018 Annual Sustainability Report	
Employee performance appraisals	Percentage of total employees who received regular performance and career development reviews during the reporting period		
Community engagement, impact assessments and development programs	Percentage of assets under operational control that have implemented local community engagement, impact assessments and/or development programmes		
Governance Performance Measures			
Composition of the highest governance body	Number of executive board members, number of independent/non-executive board members, average tenure of the governance body and number of independent/non-executive board members with competencies relating to environmental and social topics	See page 88, 89 and 91	
Process for nominating and selecting the highest governance body	Nomination and selection process for the highest governance body and its members, and the criteria used to guide the nomination and selection process	See page 101	
Process for managing conflicts of interest	Process for the highest governance body to ensure conflicts of interest are avoided and managed	See page 97	

PRINCIPAL PROPERTIES
(UNAUDITED)

	Value banding £m	Offices (O), Retail/ restaurant (R), Residential (Re), Industrial (I), Leisure (L)	Freehold (F), Leasehold (L)	Approximate net area sq ft
West End: Central (52%)				
Fitzrovia¹ (30%)				
80 Charlotte Street W1	200+	O/R/Re	F	380,000
1-2 Stephen Street & Tottenham Court Walk W1	200+	O/R/L	F	265,000
90 Whitfield Street W1	100-200	O/R/Re	F	109,100
Holden House, 54-68 Oxford Street W1	100-200	O/R	F	90,200
Henry Wood House, 3-7 Langham Place W1	50-100	O/R/L	L	79,900
Middlesex House, 34-42 Cleveland Street W1	50-100	O	F	65,700
Network Building, 95-100 Tottenham Court Road W1	50-100	O/R	F	64,200
Charlotte Building, 17 Gresse Street W1	50-100	O	L	47,200
88-94 Tottenham Court Road W1	50-100	O/R	F	45,900
80-85 Tottenham Court Road W1	50-100	O/R	F	44,500
60 Whitfield Street W1	50-100	O	F	36,200
43 and 45-51 Whitfield Street W1	25-50	O	F	30,900
Rathbone Studios, 7-10 Rathbone Place W1	0-25	O/R/Re	L	23,300
1-5 Maple Place and 12-16 Fitzroy Street W1	0-25	O	F	20,300
76-78 Charlotte Street W1	0-25	O	F	11,000
50 Oxford Street W1 ²	0-25	O/R	F	6,100
Victoria (10%)				
Horseferry House, Horseferry Road SW1	100-200	O	F	162,700
Greencoat and Gordon House, Francis Street SW1	100-200	O	F	139,000
1 Page Street SW1	100-200	O	F	127,800
Premier House, 10 Greycoat Place SW1	25-50	O	F	62,000
Francis House, 11 Francis Street SW1	25-50	O	F	54,200
6-8 Greencoat Place SW1	25-50	O	F	32,200
Paddington (5%)				
Brunel Building, 2 Canalside Walk W2	200+	O/R	L	243,000
Baker Street/Marylebone (3%)				
19-35 Baker Street W1	50-100	O/R	L	74,500
88-110 George Street W1	25-50	O/R/Re	L	44,800
30 Gloucester Place W1	0-25	O/Re	L	23,600
16-20 Baker Street and 27-33 Robert Adam Street W1	0-25	O/R/Re	L	21,000
17-39 George Street W1	25-50	O/R/Re	L	21,400
Mayfair (2%)				
25 Savile Row W1	50-100	O/R	F	43,000
Soho/Covent Garden (2%)				
Bush House, South West Wing, Strand WC2	25-50	O	F	107,900
Soho Place W1	25-50	O/R/L	L	–

PRINCIPAL PROPERTIES CONTINUED

	Value banding £m	Offices (O), Retail/ restaurant (R), Residential (Re), Industrial (I), Leisure (L)	Freehold (F), Leasehold (L)	Approximate net area sq ft
West End: Borders (9%)				
Islington/Camden (9%)				
Angel Building, 407 St. John Street EC1	200+	O/R	F	261,900
Angel Square EC1	50-100	O	F	126,200
4 & 10 Pentonville Road N1	50-100	O	F	53,400
401 St. John Street EC1	0-25	O	F	12,300
City: Borders (37%)				
Clerkenwell (12%)				
20 Farringdon Road EC1	100-200	O/R/L	L	166,300
88 Rosebery Avenue EC1	50-100	O	F	103,700
Morelands, 5-27 Old Street EC1	50-100	O/R	L	89,000
The Buckley Building, 49 Clerkenwell Green EC1	50-100	O/R	F	85,100
Turnmill, 63 Clerkenwell Road EC1	50-100	O/R	F	70,300
19 Charterhouse Street EC1	50-100	O	F	63,700
5-8 Hardwick Street and 161 Rosebery Avenue EC1	25-50	O	F	35,000
151 Rosebery Avenue EC1	0-25	O	F	24,000
3-4 Hardwick Street EC1	0-25	O	F	12,000
Old Street (11%)				
White Collar Factory, Old Street Yard EC1	200+	O/R/Re	F	291,400
1 Oliver's Yard EC1	100-200	O/R	F	185,100
The Featherstone Building EC1	0-50	O/R	F	-
Shoreditch/Whitechapel (9%)				
Tea Building, 56 Shoreditch High Street E1	200+	O/R/L	F	269,300
The White Chapel Building E1	200+	O	F	272,900
Holborn (5%)				
Johnson Building, 77 Hatton Garden EC1	100-200	O/R	F	158,100
40 Chancery Lane WC2	100-200	O/R	L	103,700
6-7 St. Cross Street EC1	25-50	O	F	33,800
Provincial (2%)				
Scotland (2%)				
Strathkelvin Retail Park, Bishopbriggs, Glasgow	50-100	R/L	F	325,500
Land, Bishopbriggs, Glasgow	25-50	-	F	5,300 acres

¹ Includes North of Oxford Street.

² Includes 36-38 and 42-44 Hanway Street W1.

⁰ Percentages weighted by valuation.

Tech Belt (44%)

LIST OF DEFINITIONS (UNAUDITED)

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.

Carbon Disclosure Project (CDP)

The CDP is an organisation which works with shareholders and listed companies to facilitate the disclosure and reporting of climate change data and information.

Carbon emissions Scopes 1, 2 and 3

Scope 1 – direct emissions;
Scope 2 – indirect emissions; and
Scope 3 – other indirect emissions.

Department for Environment, Food and Rural Affairs (DEFRA)

The government department responsible for environmental protection, food production and standards, agriculture, fisheries and rural communities in the United Kingdom.

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 published its latest Best Practices Recommendations in November 2016. This includes guidelines for the calculation of the following performance measures which the Group has adopted.

- **EPRA earnings**

Earnings from operational activities.

- **EPRA net asset value**

NAV adjusted to include trading properties and other investment interests at fair value and to exclude certain items not expected to crystallise in a long-term investment property business model.

- **EPRA triple net asset value**

EPRA NAV adjusted to include the fair values of (i) financial instruments, (ii) debt and (iii) deferred taxes on revaluations, where applicable.

- **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.

LIST OF DEFINITIONS CONTINUED

Global Real Estate Sustainability Benchmark (GRESB)

The Global Real Estate Sustainability Benchmark is an initiative set up to assess the environmental and social performance of public and private real estate investments and allow investors to understand their performance.

Global 100 most sustainable companies

The Global 100 Index is a ranking of the world's most sustainable corporations. The list is compiled by Toronto-based media and investment advisory firm Corporate Knights. Each year, the latest iteration of the index is announced at the World Economic Forum in Davos, Switzerland.

Ground rent

The rent payable by the Group for its leasehold properties. Under IFRS, these leases are treated as finance leases and the cost allocated between interest payable and property outgoings.

Headroom

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

International Energy Agency's (IEA) Energy Technology Perspectives (ETP)

The IEA's ETP 2°C scenario describes an energy system consistent with an emissions trajectory that recent climate science research indicates would give an 80% chance of limiting average global temperature increase to 2°C.

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. Performance measured against them is referenced in the Annual Report.

Leadership in Energy and Environmental Design (LEED)

LEED is a US based environmental impact assessment method for buildings. Performance is measured across a series of ratings – Certified, Silver, Gold and Platinum.

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.

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. 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.

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.

Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDORs)

The regulations place a legal duty on employers to report work-related deaths, major injuries or over-three-day injuries, work-related diseases and dangerous occurrences (near miss accidents) to the Health and Safety Executive.

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.

SKA

SKA is a sustainability rating method developed specifically for fit-out projects. It sets out a range of good practice criteria and measures. Performance is measured across a series of ratings – Bronze, Silver and Gold.

'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 adjusted net asset value 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 asset value 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.

Weighted average unexpired lease term (WAULT)

The average lease term remaining to first tenant break, or expiry, across the portfolio weighted by contracted net rental income. In addition, we quote a WAULT that includes the rent contracted from the expiry of rent-free periods and uplifts ('top-ups'), and from pre-lets.

Yields

Net initial yield

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 property, increased by estimated purchasers' costs.

Reversionary yield

The anticipated yield, 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 year. Yield compression is a commonly-used term for a reduction in yields.

COMMUNICATION WITH OUR SHAREHOLDERS

Shareholder enquiries

Enquiries relating to shareholders, such as queries concerning notification of change of address, dividend payments and lost share certificates, should be made to the Company's registrars, Equiniti.

The Company has a share account, management and dealing facility for all shareholders via Equiniti Limited. This offers shareholders secure access to their account details held on the share register, to amend address information and payment instructions directly, as well as providing a simple and convenient way of buying and selling the Company's ordinary shares. For internet services visit: www.shareview.co.uk

The Shareview Dealing service is also available by telephone on +44 (0) 3456 037037 between 8.00 am and 4.30 pm, Monday to Friday (excluding public holidays in England and Wales).

The best way to ensure that dividends are received as quickly as possible is to instruct the Company's registrars to pay them directly into a bank or building society account; tax vouchers are then mailed to shareholders separately. This method also avoids the risk of dividend cheques being delayed or lost in the post. Dividend mandate forms are available from the registrars, either from their website at: www.shareview.co.uk or by telephone on the Equiniti general shareholder helpline number.

Advisers

Stockbrokers	JP Morgan Cazenove UBS
Solicitors	Slaughter & May LLP
Auditor	PricewaterhouseCoopers LLP
Registrars	Equiniti

Financial and dividend calendar – 2019

Our forthcoming financial and dividend calendar for 2019 is provided below. These dates are provisional and subject to change. For up-to-date information, refer to the financial calendar on our corporate website at: www.derwentlondon.com/investors/calendar

Financial calendar

Final results announced	26 February
Q1 Business Update	9 May
Annual General Meeting	17 May
Interim results announced	8 August
Q3 Business Update	7 November

Dividend calendar

	Final dividend	Interim dividend
Ex-dividend date	2 May	12 September
Record date	3 May	13 September
Dividend paid	7 June	18 October

Website

Financial information about the Company, including annual reports, public announcements and share price data, is available from the Company's website at: www.derwentlondon.com

Contact details

Our registrars

Equiniti Limited
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AWARDS & RECOGNITION

Derwent London won numerous awards for its achievements and buildings in 2018, a sample of which are shown below.



EPRA Gold award for Annual Report



EPRA Gold for Annual Sustainability Report



Member since 2003



G R E S B
★★★★★ 2018
Global Real Estate Sustainability
Benchmark – 5 star



Carbon Disclosure Project –
Management B rating



Property Company of the Year



White Collar Factory & Savile Row



White Collar Factory



Best Annual Report FTSE 250



Strategic Report of the year





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