DERWENT LONDON

Annual Results 2019 Announcement

DERWENT LONDON

25 February 2020

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

RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019
STRONG RESULTS AND GOOD PROGRESS
NET ZERO CARBON TARGET BROUGHT FORWARD TO 2030

Financial highlights

- Total return of 6.6%, up from 5.3% in 2018
- EPRA NAV[1] 3,958p per share, up 4.8% from 3,776p in December 2018
- Net rental income of £178.0m, up 10.5% from £161.1m in 2018
- EPRA[1] and underlying[1] earnings of £115.1m, or 103.1p per share:
    - underlying earnings per share up 4.0% from 99.1p in 2018
    - EPRA earnings per share of 113.1p in 2018 included non-recurring receipt of 14.0p
- Proposed final dividend raised 10.1% to 51.45p per share from 46.75p in 2018
- Full year dividend of 72.45p per share from 65.85p, up 10.0%
- Four refinancings including £450m revolving credit facility ('RCF')
- Net debt increased to £981.6m from £956.9m in December 2018
- Interest cover 462%, loan-to-value ratio 16.9%
- Undrawn facilities and cash of £511m, up from £274m in December 2018

Portfolio highlights

- New lettings on 498,500 sq ft of £34.0m, 6.9% above ERV, including significant pre-lets
- Three on-site developments totalling 790,000 sq ft – 72% pre-let
- Property disposals of £181.7m (Group share), achieving 6.1% above book value
- Portfolio valued at £5.5bn – an underlying valuation increase of 3.9%
- Underlying valuation uplift on the developments was 21.2%
- True equivalent yield of 4.77%, up 4bp from December 2018
- Total property return of 7.4%, ahead of our benchmark index[2] of 4.1%
- EPRA vacancy rate fell to 0.8% from 1.8% in December 2018
- ERV growth of 1.4% in 2019

Net zero carbon target

- Brought forward our net zero carbon target by twenty years to 2030
- Signed the Better Building Partnership's climate change commitment and became one of the Mayor of London's 11 Business Climate Leaders
- The £450m RCF signed in October 2019 includes a £300m green tranche:
    - use of proceeds linked to projects' green credentials
    - published our Green Finance Framework which meets the LMA[3] Green Loan Principles
    - reporting annually against set criteria and subject to independent assurance

Outlook

- A more confident outlook for London offices following 2019 General Election, despite global uncertainties
- Our guidance for 2020 is for stronger ERV growth of +1% to +4%, with property investment yields to tighten
- Together with our development pre-lets, this encourages us to bring forward further projects

[1] Explanations of how EPRA and underlying figures are derived from IFRS are shown in note 24
[2] MSCI IPD Central London Offices Quarterly Index
[3] Loan Market Association

John Burns, Chairman, commented:

"Alongside our major pre-letting successes, we have progressed our most active development programme to date and completed property disposals above book value. We refinanced our convertible bonds and our main corporate revolving credit facility, extending the longevity of our debt and introducing an innovative green tranche. These achievements demonstrate the considerable progress Derwent London made last year."

Paul Williams, Chief Executive, commented:

"It has been another successful year for the Group, and we start 2020 in a strong position. Due to our pre-letting successes and our positive market outlook, we aim to bring forward further projects, including our next major development at 19-35 Baker Street W1.

Climate change presents an enormous challenge to us all, and our industry must respond. Derwent London has long recognised this; with regeneration at our heart, we have embedded sustainability into the organisation and are focussed on turning 'brown' buildings 'green'. Today we are taking our ambition to the next level bringing our net zero carbon target forward by twenty years to 2030, aligned with COP21's 1.5°C climate scenario."

Webcast and conference call

There will be a live webcast together with a conference call for investors and analysts at 10.00 GMT today. The audio webcast can be accessed via www.derwentlondon.com

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

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

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CHAIRMAN'S STATEMENT

In the last year the Group has made considerable progress. In particular, we have enjoyed significant pre-letting success, moved ahead on our most active development programme to date and recycled capital through property disposals above book value. We refinanced our convertible bonds and our main corporate revolving credit facility, extending the longevity of our debt and introducing an innovative 'green' tranche within. On top of all this activity, we also implemented our Board succession plans.

These positive moves were reflected in a total return for the Group of 6.6%. The main contribution came from the revaluation surplus of £156.4m representing an increase of 3.9% on the underlying portfolio. As a result, IFRS earnings rose 27.5% to £283.4m and our EPRA NAV per share rose 4.8% to 3,958p. On an underlying basis, earnings increased by 4.3% to 103.1p per share or £115.1m. In the prior year EPRA earnings benefitted from non-recurring premiums of £15.6m for access rights. Derwent London's share price increased sharply in the second half and the discount to the year end NAV reversed to a modest premium, which led to a total shareholder return for 2019 of 43.6%.

With the rise in underlying earnings and the de-risking of a significant proportion of the on-site development programme, we are proposing to raise the final dividend by 10.1% to 51.45p per share to be paid on 5 June 2020 to shareholders on the register of members at 1 May 2020. This takes the 2019 full year's dividend to 72.45p, an increase of 10.0%. We propose reintroducing a scrip alternative for the 2019 final dividend.

Derwent London has long recognised the advantages that come from working with our many stakeholders, and we take our environmental impact very seriously. Since the beginning of 2020, we have brought forward our net zero carbon target to 2030 from 2050. We set out our strategy to achieve this under 'Net zero carbon' below.

Over the years, the Group has established a team of people who behave responsibly, work hard and are motivated by what they do. This team is a major part of the Derwent London brand's success. We invested further in our 'Fit for the Future' programme and recently conducted our biennial staff survey. I am pleased to report the latter continues to show high levels of satisfaction, with 96% of respondents saying they are proud to work for the Group. Although our numbers have grown, the team remains compact so each individual's performance counts, and I would like to thank them all for another year of major progress. I would also like to give a special mention to Robbie Rayne, my predecessor as Chairman until May 2019, and Paul Williams, our new Chief Executive, who have helped ensure the Board succession has run smoothly and effectively.

Prolonged low interest rates have helped render this office cycle different to previous ones so that, although valuation yields remain close to historical lows, they are above mid-2016 levels and are relatively attractive compared to other European cities and other asset classes. Global economic growth remains subdued, but London continues to attract businesses looking to expand and office vacancy rates have fallen. Investor confidence has improved noticeably since the 2019 General Election result leading to increased activity and, in the absence of major global disruption, we expect to see a stronger office market in 2020.

CHIEF EXECUTIVE'S STATEMENT

Derwent London has continued its leadership of the central London office sector in 2019, underpinned by another strong performance. With a focus on design and quality, we are delivering our objectives of extending our pipeline for longer-term growth, maintaining our customer focus and building added resilience into the business. Finding ways to respond to climate change has become more urgent than ever before and we are setting out today our target and our route to achieve a net zero carbon portfolio by 2030.

Another successful year

The Group's talented team delivered many significant achievements. These included new lettings on 498,500 sq ft of £34.0m, 6.9% ahead of ERV, mostly on 12-15 year leases and taking the 790,000 sq ft under development to 72% pre-let. Asset management increased headline rents by £5.2m and, £181.7m of property was disposed, 6.1% above book value. We completed several refinancings that extended the longevity of our debt to 7.8 years and included an innovative £300m 'green' tranche which is independently assured and is aligned to the LMA Green Loan Principles. We ended the year with a loan-to-value ratio of 16.9%.

Capturing and extending our income growth

At the beginning of 2019 we added to our on-site developments by signing the construction contracts at Soho Place W1 and The Featherstone Building EC1. These projects added £31.1m or 11% to our portfolio's ERV, with the future income expected to start flowing in 2022. At 31 December 2019 the portfolio's reversion to ERV was estimated at £133.9m, with 49% already contracted and accounted for in our earnings. The remaining £68.2m will contribute to our future income growth, of which 60% is pre-let with the remaining £27.3m still to be captured.

In response to our continuing pre-letting success and more positive market outlook, we aim to bring forward our next major development project at 19-35 Baker Street W1. This property is currently held in a joint venture with the freeholder, The Portman Estate. Following a conditional agreement signed in 2019, the current joint venture will unwind upon commencement of the scheme and Derwent London's 55% interest will convert into a wholly owned long leasehold interest. This would add another 293,000 sq ft to our development programme as early as 2021. We are pursuing other initiatives in the portfolio which could add more than another 300,000 sq ft of development starts in 2021. Beyond this another fifth of the portfolio is earmarked for regeneration.

Maintaining our customer focus

Strong customer relations are a fundamental part of our business**.** We offer good quality space on a wide range of lease terms. In the face of ever increasing occupier demands from a wider range of industries, our buildings provide a wide array of amenities. These range from outstanding reception areas, cafés, roof terraces and, even in one case, a rooftop running track. Today's businesses expect the best quality space and services to attract and retain the best talent, something that Derwent London has been providing for many years. On some of our smaller spaces, we provide furnished and flexible space. These have proved very successful but remain a relatively small part of our business.

Net zero carbon

It is clear that our industry must respond to the challenges of climate change. Derwent London has long recognised this. Our Angel Building EC1 was completed in 2010 and uses biomass boilers, while our innovative White Collar Factory EC1, completed in 2017, incorporated many recycled elements reducing its embodied carbon and, through the use of concrete core cooling, is designed to operate with a lower carbon footprint than a standard project. Brunel Building W2, completed in 2019, uses an aquifer energy storage system.

The Derwent London business model has regeneration at its heart. Our 'long-life loose-fit' buildings reduce future potential obsolescence, reinforce our brand and attract a wider range of occupiers, as demonstrated by our recent successful pre-letting activities.

In 2017 we adopted independently verified science-based targets and published our progress towards a net zero carbon portfolio. In 2019 we issued a new revolving credit facility which contained a 'green' tranche, signed the Better Building Partnership's climate change commitment and became one of the Mayor of London's 11 Business Climate Leaders[1].

We have now taken another important step to bring forward the net zero carbon target on our current portfolio by two decades to 2030. Our science-based targets are being realigned accordingly, bringing Derwent London's activities in line with COP21's more challenging 1.5°C climate scenario.

Our initial route to a net zero carbon portfolio will focus on three elements:

1. **Green developments** The three on-site developments (13% of the portfolio by value) will be net zero carbon buildings. On completion they will be operated using renewable energy and we will off-set any embodied carbon produced in the development process. 80 Charlotte Street W1, which should complete shortly, will be our first 'all-electric' building. In addition to financial appraisals, our future schemes will be subject to carbon appraisals.

2. **Green investment portfolio** The balance of the current portfolio will be operated on a net zero carbon basis by 2030. The aim is to achieve this through reducing energy consumption by working with our occupiers and using renewable sources of energy. Some older buildings will need retrofitting to bring their specifications up to the best standards. This target will also require more focused property management in this area and increased collaboration with our occupiers. We will offset any residual carbon.

3. **Green energy** Sourcing utilities: all the electricity used by the managed portfolio, c.68% of our buildings by value, already comes from renewable sources and shortly its gas consumption will also come from green suppliers. We are pursuing various options to increase and safeguard our supply of renewable energy.

We believe that more energy efficient buildings will command higher rents and values in due course, but these improvements are likely to come at a financial cost: a mixture of additional operational costs and capital expenditure as well as management time. We will provide more information in due course as we continue to develop our detailed plans. Furthermore, acquiring less carbon-efficient buildings is always likely to be part of the Group's strategy. It is these 'brown' buildings that provide the raw material that we can regenerate into the 'green' buildings of the future. Our strategy will evolve along with the science, planning policies and regulations.

A responsible business must work alongside its communities. We have two Community Funds serving our portfolio providing support for local groups, the homeless, and wellbeing. We have nominated two charities for our support: Chickenshed, a pioneering and inclusive theatre company, and Teenage Cancer Trust. In addition, our Sponsorship and Donations Committee ensures that we are reaching out to a wide range of other groups.

Team

Over many years the Group has built up a culture which is so important to us. Our results and our ability to adapt to an ever-evolving London office market are testament to the Derwent London team. The year saw some changes in roles and responsibilities and we have made key hires including new heads of asset management and property management, and additional roles in our sustainability team.

I would like to thank the Board and all our team for their support and the hard work they continue to do. It would be remiss of me not to give John Burns, our Chairman, a special mention. He remains a source of inspiration. I look forward to the work the Derwent London team can achieve in the year ahead.

[1] London Business Climate Change Leaders are working with the Mayor of London to translate global commitments on reducing emissions into local actions.

Outlook

We begin 2020 with a more confident outlook following the decisive 2019 General Election result. Uncertainties remain with the global economic outlook subdued by the increasing impact of the Coronavirus and the UK's future relationship with the EU and the rest of the world yet to be determined. Despite these risks, the central London office market is well-positioned, with occupiers struggling to find the space they want and there is increased investment appetite. In relation to our own portfolio in 2020 we expect to see higher ERV growth of 1% to 4% and property investment yields tighten. This is a stronger forecast than in the past three years which, together with our development pre-lets, is encouraging us to bring forward further projects. This pipeline is well-supported by our financial base and puts Derwent London in a good position to benefit from potential further market upside.

CENTRAL LONDON OFFICE MARKET

See Appendix 1 for supporting graphs

Overall activity was lower in 2019 particularly in the investment market, but picked up significantly in Q4 following the UK election. The signs are that this confidence continued into 2020 supported by the latest business surveys. UK economic growth is expected to be low at c.1% to 1.5% in 2020 but this rate is still amongst the strongest growth rates expected from the larger EU economies. Letting conditions remain favourable based on the real estate metrics of vacancy and supply, particularly for those buildings that are able to match a broad range of occupier requirements.

Occupier take-up started slowly in 2019 after a strong finish to 2018. CBRE reports take-up steadily built up throughout the year to total 12.8m sq ft, which was 7.0% below 2018 levels. The West End performed best with take-up slightly stronger than in 2018, and our activity alone represented c.8% of this submarket's total. As in previous years, Business & Professional Services dominated with 39% of take-up, but Banking & Finance and Creative Industries reversed their positions from 2018 with 24% and 19%, respectively. CBRE estimates that, on average, prime London office rents grew 3.6%, recording growth in 11 out of 13 London submarkets at rates ranging from 3% to 8%.

Flexible office providers comprised 16% of total take-up in 2019, a similar level to that seen over the previous two years. Following several years of significant expansion, this sector represents c.6% of London office stock and may prove less active in 2020.

Development completions totalled 4.9m sq ft in 2019, which once again was significantly below the level predicted at the start of the year. The net impact of 2019 take-up and supply meant the central London vacancy rate fell to 4.0%: its lowest level since December 2016. There is currently 12.3m sq ft under construction for delivery up to 2023, of which 57% is pre-let or under offer. This leaves 5.3m sq ft available in the next four years which is less than the 6.6m sq ft available in December 2018. JLL estimates that there was 9.1m sq ft of active demand at the end of 2019, 6% above the 10-year average.

At the end of 2019 CBRE estimates that there was £33bn of equity targeting London office property which was 11 times the c.£3bn of stock that was available on the market at the same date. However, investment transactions in 2019 were 36% down on 2018 at £11.3bn which was attributed to less stock being available on the market and the general political and economic uncertainties. Sentiment improved in Q4 which saw an uptick to £4.9bn of transactions, representing 44% of the total activity for the year. 2019 saw increasing interest from UK investors which represented 48% of the purchasers, up from 25% in 2018 and just 19% in 2017.

VALUATION

See Appendix 2 for supporting graphs and tables

The Group's investment property portfolio was valued at £5.5bn as at 31 December 2019. The valuation surplus for the year was £188.5m, which after accounting adjustments of £33.9m (see note 11), gives a reported surplus of £154.6m. There was an underlying valuation increase of 3.9% which was stronger than the 2.2% reported in 2018. This growth outperformed our capital value benchmarks: the MSCI IPD Quarterly Index for central London offices, up 0.6%, and the wider UK All Property Index which was down 3.3%. By location, our central London properties, which represent 98% of the portfolio, increased in value by 4.1% with the West End up 4.8% and City Borders up 2.9%. Our Scottish holdings, under 2% of the portfolio, declined 8.9%.

Based on the EPRA portfolio, our rental values rose by 1.4% over the year which was above the 1.1% recorded in the previous year. Rents in the City Borders were up 2.7%, with the West End up 0.4%. The portfolio's initial yield was unchanged at 3.4% but, after allowing for the expiry of rent frees and contractual uplifts, rises to 4.7% on a 'topped-up' basis. The true equivalent yield moved out marginally during the year, by 4bp to 4.77%. Office yields were generally flat, with the yield expansion coming from the small retail element within our portfolio.

The Group's total property return was 7.4%, which compares to the MSCI IPD Index of 4.1% for central London offices and 1.2% for UK All Property. The wide disparity in performance reflects the relative impact of our development programme compared to the former index, and our limited retail exposure compared to the latter.

At the start of 2019 we were on site with two major developments, 80 Charlotte Street W1 and Brunel Building W2 and we added Soho Place W1 and The Featherstone Building EC1 in the first half. These four schemes were valued at £1.05bn in December 2019 and delivered a significant 21.2% valuation uplift as good progress was made on delivery and pre-letting. These developments represented 91% of the portfolio's total annual valuation uplift. When excluded, the underlying portfolio rose 0.4%. Brunel Building, which completed in May, is fully let and has been a particularly successful development, delivering a profit on cost of 60%. The three developments still on site were valued at £708.6m, representing 13% of the portfolio and look set to produce further surpluses estimated in December 2019 at £104m as they progress. There is more detail on these under 'Development' below.

Our contracted annualised cash rent in December was £169.1m. This was 6.0% higher over the year, reflecting development and asset management activities, offsetting the loss of income from disposals. The portfolio's ERV of £303.0m includes £133.9m of potential reversion. Looking at this in more detail, £65.7m is contracted through rent-frees and fixed uplifts, which under IFRS accounting treatment is already mostly incorporated in the income statement. Our on-site developments could add £56.6m to rents, of which £40.9m or 72% is already pre-let. Our EPRA vacancy rate is low at only 0.8%, so this element of the reversion only adds £2.6m. The £9.0m balance of potential reversion comes from future reviews and expiries.

ASSET MANAGEMENT AND INVESTMENT ACTIVITY

See Appendix 3 for supporting graphs

Asset management

In 2019 we achieved £34.0m of new lettings across 498,500 sq ft, on average 6.9% above December 2018 ERV. Open market lettings represented 99% of the total and achieved 7.6% above ERV. The average growth was lowered by a short-term letting at 19-35 Baker Street W1 prior to the building's expected redevelopment commencing in 2021.

Letting activity 2019

	Let		Performance against Dec 18 ERV (%)	
	Area sq ft	**Income £m pa**	**Open market**	**Overall[1]**
H1	272,200	18.1	8.7	7.5
H2	226,300	15.9	6.3	6.3
2019	**498,500**	**34.0**	**7.6**	**6.9**

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

By value most of the transactions relate to the pre-lets at 1 Soho Place, Brunel Building and 80 Charlotte Street. On the investment portfolio other lettings of note were the remaining refurbished elements of the Johnson Building EC1, achieving a record rent of £65 per sq ft on Tea Building E1 and the lower ground floor at White Collar Factory EC1. More details can be seen in the table below.

Principal lettings in 2019

Property	Tenant	Area sq ft	Office rent £ psf	Total annual rent £m	Lease term Years	Lease break Year	Rent free equivalent Months
H1							
1 Soho Place W1	G-Research	102,600	94.70	9.7	15	-	32
Brunel Building W2	Splunk	49,600	75.00	3.7	12	-	20
Brunel Building W2	Paymentsense	33,000	77.50	2.6	15	10	20, plus 6 if no break
H2							
1 Soho Place W1	Apollo	83,100	Confidential	Confidential	15	-	Confidential
80 Charlotte Street W1	BCG	40,650	82.50	3.4	15	12	Confidential
Johnson Building EC1	Oktra	18,300	47.50	0.9	10	5	10, plus 8 if no break
Johnson Building EC1	Access Intelligence	17,800	45.00	0.8	10	5	15, plus 12 if no break
Tea Building E1	LoopUp	6,925	65.00	0.5	10	5	10.5, plus 10.5 if no break
White Collar Factory EC1	AHMM	10,600	40.00[1]	0.4	8.5	4.5	14, plus 6 if no break
		362,575	**78.70[2]**	**22.0[2]**			

[1] Lower ground floor space [2] Excludes Apollo letting

The Group was involved in 545,000 sq ft of rent reviews and lease events or c.12% of the investment portfolio (excluding current developments). Overall these transactions were in line with ERV and raised our annual rents by £5.2m to £26.8m, as can be seen in the following table. Both by area and value we carried out twice as many rent reviews as in 2018. Our most significant reviews were at 1 Page Street SW1, 19 Charterhouse Street EC1 and 88 Rosebery Avenue EC1. Renewal activity was lower, but saw the strongest uplift and growth over ERV. The principal assets here were 1 Oliver's Yard EC1 and Charlotte Building W1. In addition, we regeared leases on 369,000 sq ft, a similar level to 2018. This included regearing some of the leases along with rent reviews at The Buckley Building EC1 prior to its disposal in September 2019. At the year end the EPRA vacancy rate had fallen to 0.8% from 1.8% in December 2018. The low vacancy rate reflects occupier demand and our asset managers' work. During 2019 we retained or re-let 90% of all tenant breaks and lease expiries.

Asset management 2019

	Area '000 sq ft	Previous rent £m pa	New rent £m pa	Uplift %	New rent vs Dec 18 ERV %
Rent reviews	413	16.2	19.7	21.6	(0.8)
Lease renewals	132	5.4	7.1	31.4	2.9
Total	**545**	**21.6**	**26.8**	**24.1**	**0.1**

Investment activity

During 2019, we completed £181.7m of disposals. We announced these transactions at the time of our half year results in August 2019. Premier House SW1 was sold vacant, 9 and 16 Prescot Street E1 were relatively small and held in a joint venture, and The Buckley Building EC1 was sold following the completion of its first rent review cycle. In addition, we announced in December 2019 that we had exchanged on the sale of 40 Chancery Lane WC2 for £121.3m before costs. This disposal completed in February 2020.

Major disposals in 2019

Property	Date	Area sq ft[1]	Gross proceeds £m[1]	Gross proceeds £ psf	Net yield to purchaser %	Rent £m[1]
Premier House SW1	Q1	60,700	50.0	820	-	-
9 Prescot Street E1 (50% interest)	Q2	48,500	26.9	560	4.5	1.3
16 Prescot Street E1 (50% interest)	Q3	4,400	1.8	400	2.6	0.05
The Buckley Building EC1	Q3	85,100	103.0	1,210	4.4	4.9
Total		**198,700**	**181.7**	**910**	**-**	**6.25**

[1] Derwent London share

We acquired 3-5 Rathbone Street W1 for £21.0m including costs in June 2019. The property totals 17,800 sq ft of offices, retail and leisure and forms part of our cluster of 450,000 sq ft of property extending from Rathbone Place to Tottenham Court Road, just north of Oxford Street.

Since the year end the Group has acquired the freehold of Blue Star House, 234-244 Stockwell Road SW9. This is Derwent London's first acquisition in Brixton, a relatively underdeveloped London office market. The property totals 41,600 sq ft offices and 12,150 sq ft restaurant and leisure. The rent is £0.8m equating to £14.50 per sq ft on the occupied office space, with 8,260 sq ft of the offices vacant. We believe that there is an opportunity to raise the income both in the short and medium-term and, subject to planning permission, we expect to regenerate the building better utilising the 0.7 acre site.

DEVELOPMENT

See Appendix 4 for supporting graphs and tables

In May 2019, we completed the 243,200 sq ft Brunel Building W2, which has proved highly successful. On completion we estimate that the project showed a 60% profit on cost with a running yield of over 7%. It contributed just under one third of our valuation surplus in 2019, most of which came in the first half.

We currently have three projects on-site totalling 790,000 sq ft of which 72% by area has been pre-let.

80 Charlotte Street W1 is expected to be handed over to the tenants for fit out shortly. All of the 321,000 sq ft office space is let so the vacancy is concentrated in the 14,000 sq ft of retail and the residential space. The residential vacancy divides into 19 units which will be available to let once the island site is complete and 9 units remaining to be sold at the adjoining Asta House.

As well as pre-letting 89% of the office space at Soho Place W1, we have completed the groundworks across the site. The southern element is further advanced with the theatre auditorium box already in situ and the steelwork progressing. At The Featherstone Building EC1, we have completed piling and are now constructing the basement. Both the latter two schemes are on course for handover in the first half of 2022.

<u>Major developments pipeline</u>

Property	Area sq ft	Capex to complete £m[1]	Comment
Completed projects in H1 2019			
Brunel Building, 2 Canalside Walk W2	243,200	-	Offices and retail – 100% let
On-site projects			
80 Charlotte Street W1	380,000	40	321,000 sq ft offices, 45,000 sq ft residential and 14,000 sq ft retail – 90% pre-let / pre-sold overall
Soho Place W1	285,000	233[3]	209,000 sq ft offices, 36,000 sq ft retail and 40,000 sq ft theatre – 76% commercial space pre-let[4]
The Featherstone Building EC1	125,000	61	110,000 sq ft offices, 13,000 sq ft workspaces and 2,000 sq ft retail
	790,000	**334**	
Major planning consents			
19-35 Baker Street W1	293,000[2]		206,000 sq ft offices, 52,000 sq ft residential and 35,000 sq ft retail
Holden House W1	150,000		Retail flagship or retail and office scheme
	443,000		
Total (excluding completions)	**1,233,000**		

[1] As at 31 Dec 2019 [2] Total area - Derwent London currently has a 55% share of the joint venture
[3] Includes remaining site acquisition cost and profit share to Crossrail [4] In addition the 40,000 sq ft theatre is pre-let

Our strong letting progress and positive outlook has led the Group to bring forward several schemes which could start in 2021. In 2019 we signed a conditional development agreement with our freeholder and joint venture partner on 19-35 Baker Street W1, where we have planning for 293,000 sq ft of offices, retail and residential. In addition, we are looking at further schemes that could more than double this amount but are still subject to planning. These include Network Building W1 and Angel Square EC1.

In Victoria we have two adjoining properties that could form the basis of a significant scheme. However, we have decided to defer the larger project and instead focus on two major refurbishments. These comprise 32,000 sq ft at 6-8 Greencoat Place SW1, which is expected to start in 2020, and 40,000 sq ft at Francis House SW1 which we aim to start one year later. These refurbishments will each take about 12 months to complete.

Beyond these projects we have another one million sq ft of existing space earmarked for future development. In January 2020 we added to this potential with our Brixton acquisition (see above).

FINANCE REVIEW

See Appendix 5 for supporting graphs and tables

Financial overview

Derwent London delivered another strong financial performance in 2019, generating a total return of 6.6% or 250p per share and raising underlying rental income, allowing us to increase the 2019 final dividend by 10%. These results illustrate the benefits of our business model, balancing long-term income growth with value creation.

Rental income and cash rents collected both increased as recent developments provided higher earnings contributions and further reversion was captured from the core portfolio. The increased recurring income came despite significant disposals during the year, all of which were above book values. In our most active year of regeneration projects to date, we invested another £204m of capital expenditure but the disposals kept debt levels low.

Four major refinancing transactions through the year, including a £300m 'green' tranche for our newly extended £450m Revolving Credit Facility (RCF), have also increased our available resources for future acquisitions and developments, as well as linking part of our financing to our projects' green credentials. This is an example of our response to the environmental challenges and responsibilities facing us all. We have also invested more in our people, particularly in areas such as responsibility, sustainability, property management, health and safety and 'smarter' technology, and focussed on more engagement with our many stakeholders.

All of this took place against an uncertain political and economic background. Some of that uncertainty reduced with the result of the UK general election in December but the economic growth outlook is constrained with unclear future trading relationships and interest rates have remained very low. After the modest fall in inflation-adjusted property values for London offices since the Brexit vote in 2016, conditions appear to be re-emerging in our markets that should support some rental growth and London yields look attractive on a comparative basis. These factors were not missed by equity markets and our shares returned to a premium over net asset value in late 2019 after almost three and a half years at varying levels of discount. This provided a very strong shareholder return of 43.6% for 2019.

See Appendix 5 for financial highlights table

Further net asset value growth

Our main financial pillars are the creation of value through property regeneration and growth in earnings by driving rental income, built on a lowly geared balance sheet. Total return (ie dividends paid plus EPRA net asset value growth per share) is the best single measure of our performance but we also focus on recurring earnings growth and dividend cover to support the distributions we pay our shareholders.

The total return in 2019 was 6.6% or 250p per share compared with 5.3% and 197p, respectively, in 2018. In the three full calendar years since the Brexit vote, a period during which central London office rents showed almost no underlying growth and only a 6bp tightening in our property investment yield, we have been able to provide a total return of 719p per share or just over 20% based on December 2016 EPRA net asset value. We are also recommending another 10% increase in the final dividend to 51.45p per share, while the total dividend for the year of 72.45p was 1.4 times covered by EPRA earnings per share (EPS). EPRA EPS are explained in more detail below.

The main movements in EPRA NAV per share during the year compared to 2018 are summarised in the chart below. Revaluation gains generated 139p per share with 80 Charlotte Street and Brunel Building contributing 112p.

	2019 p	2018 p
Opening EPRA NAV	3,776	3,716
Revaluation movement	139	75
Profit on disposals	14	5
EPRA earnings	103	113
Ordinary dividends paid	(68)	(62)
Special dividend	-	(75)
Redemption of 2019 convertible bonds	(8)	-
Issue of 2025 convertible bonds	7	-
Interest rate swap termination costs	(2)	(3)
Other	(3)	7
Closing EPRA NAV	**3,958**	**3,776**

See Appendix 5 for EPRA NAV per share movements for the year

Property portfolio

The fair value of our property portfolio was independently valued at £5.5bn as at 31 December 2019, following acquisitions and capital expenditure during the year of £236.2m and disposals (at book value) totalling £136.8m. A new leasing standard, IFRS 16, replaced SIC-15 and IAS 17 during 2019 and, as before, requires us to spread any incentives such as rent-free periods over the expected life of the occupational leases and to 'gross-up' leasehold liabilities by recognising both an asset and liability in our balance sheet. The asset balances that this gives rise to do not increase the overall carrying value but are an apportionment of part of the fair value. As a result, the balance sheet allocation of the property fair values was as follows at 31 December 2019 and 2018:

	Dec 2019 £m	Dec 2018 £m
Investment property	5,174.3	5,028.2
Non-current asset held for sale	118.6	-
Owner-occupied property	45.3	47.0
Trading property	40.7	36.3
Property carrying value	5,378.9	5,111.5
Accrued income (non-current)	134.4	123.1
Accrued income (current)	18.7	15.8
Grossing up of headlease liabilities	(59.5)	(60.7)
Revaluation of trading property/other	2.7	1.0
Fair value of property portfolio	**5,475.2**	**5,190.7**

The revaluation uplift on our investment property portfolio increased to £156.4m in 2019 (2018: £83.4m) while a deficit of £1.8m (2018: surplus of £0.7m) was recognised on the owner-occupied property at 25 Savile Row W1. A surplus of £171.3m came from our developments with the rest of the portfolio showing a small overall deficit.

As the sale of 40 Chancery Lane WC2 had exchanged prior to the year end, this property has been shown as an 'asset held for sale'. Completion occurred in February 2020.

Accrued income from the 'straight-lining' of rental income under IFRS 16 increased to £153.1m (2018: £138.9m) of which £134.4m (2018: £123.1m) was non-current, ie due to reverse in more than 12 months from the balance sheet date. With several of our large recently completed developments and re-gears remaining within tenant incentive periods, rental income accrued in advance of cash receipts during 2019 grew to £27.3m (2018: £13.4m) but the sale of 40 Chancery Lane has reduced the year-end balance by £14.7m.

The properties at 9 and 16 Prescot Street E1, held in a 50% joint venture, were sold during the year. The Group's share of the profit on disposal was £1.7m with the excess funds dealt with via a dividend and the repayment of most of the partners' loans. As a result, we currently hold no properties within unconsolidated joint ventures and the net carrying value of joint venture investments at 31 December 2019 fell to £1.3m (2018: £29.1m). The Baker Street properties, currently owned with The Portman Estate, are included within our investment property portfolio as we hold 55% and have day-to-day control.

Property income and earnings

Gross property and other income increased marginally to £230.3m from £228.0m in 2018 but the prior year was boosted by non-recurring net surrender and access rights premiums totalling £20.9m while premiums received in 2019 were only £1.0m. More representative of the underlying portfolio, gross rental income increased significantly reaching £191.7m for the year, a 9.5% increase from £175.1m in 2018. Net rental income was up by 10.5% to £178.0m from £161.1m a year earlier. This rental growth came mainly from new lettings of £15.3m (with £6.3m from Brunel Building which completed in May 2019) while reviews and regears provided a further £3.8m and acquisitions £1.6m. Disposals reduced rental income by £1.8m while breaks and lease expiries removed only £2.3m compared to the prior year as our asset managers' proactive approach ensured that most lease breaks or expiries resulted in a re-gear rather than a vacancy. Irrecoverable property costs and ground rents were £13.7m against £14.2m in 2018 and other income, mainly asset management and development management fees, rose 22% to £3.6m. With the substantially lower premiums referred to above and no dilapidations receipts in 2019, net property and other income fell slightly to £182.6m versus £185.9m in 2018.

Our approach in areas such as corporate responsibility, sustainability, property management and health and safety has seen headcount grow from 124 at the beginning of 2019 to 135 at year end giving a £0.7m increase in salary costs. In addition, the Group's comparative performance was particularly strong when measured against our remuneration targets for 2019 such that variable rate pay for both staff and Directors showed a substantial increase being about £3m above the long-term average. Accordingly, administrative expenses for the year grew to £37.0m from £32.3m in 2018, with 79% of the increase coming from salaries, bonus payments and staff incentives. Note that, unlike many of our peers, we do not capitalise any of our administrative expenses.

	2019 (£m)	2018 (£m)	Increase (%)
Salaries	13.1	12.4	5.6
Bonuses, incentives and compensation	12.6	9.6	31.3
Pensions	2.1	2.2	(4.5)
Total staff costs	**27.8**	**24.2**	**14.9**
Other overheads	9.2	8.1	13.6
Total	**37.0**	**32.3**	**14.6**

As a result, our EPRA cost ratio including direct vacancy costs rose to 23.9% in 2019 from 23.3% in 2018 but, if a more typical level of variable rate pay had been expensed in 2019, the ratio would have been largely unchanged.

See Appendix 5 for cost ratios table

The investment portfolio's revaluation surplus, after accounting adjustments, was £156.4m for the year (2018: £83.4m). A deficit of £1.8m (2018: surplus of £0.7m) arose in the comprehensive income statement in relation to the offices that we own and occupy. The profit on disposal of fixed assets increased from £5.2m in 2018 to £13.8m of which £13.2m related to property disposals with gross proceeds of £155.2m. This includes additional overage of £3.8m in relation to the residential site at Balmoral Grove N7 which we sold in 2016, taking the total to date to £5.8m. The balance related to the sale of artwork above book value.

With higher average borrowings, finance costs increased to £26.7m in 2019 compared to £23.5m in 2018 after capitalising £13.0m of interest (2018: £10.7m). In addition, £7.7m was taken to the income statement redeeming the Group's 2019 convertible bonds and writing off £0.1m of unamortised arrangement costs. Financial derivative termination and mark-to-market costs were £2.8m and our share of joint venture results for the year totalled £1.9m (2018: £2.1m), including a profit on disposal from the Prescot Street properties of £1.7m. These factors combined to bring the Group's IFRS profit before tax for the year to £280.6m compared with £221.6m in 2018.

EPRA earnings, which exclude fair value movements and profits on disposals of investment properties, fell by 8.7% to £115.1m from £126.1m in 2018. As noted last year, the comparative figure included the non-recurring £15.6m access rights receipt at Holden House net of fees. Stripping this out, 'underlying' earnings increased year on year by 4.2% to £115.1m from £110.5m in 2018. EPRA and underlying earnings per share (EPS) were 103.09p in 2019, showing a 4.0% increase over 2018 underlying EPS but a fall compared with 2018 EPRA EPS for the same reason. A table providing a reconciliation of the IFRS results to EPRA earnings per share is included in note 24 and is summarised in Appendix 5.

See Appendix 5 for charts showing gross rental income and EPRA and underlying earnings

EPRA like-for-like rental income

The unusually high level of premiums received in 2018 meant that EPRA like-for-like net property income fell 7.2% in the year but, more representative of the underlying position, the increase based on gross and net rental income was 4.4% and 4.7%, respectively. This demonstrates our continuing success in capturing reversion.

See Appendix 5 for the EPRA like-for-like rental income table

Taxation

The corporation tax charge for the year ended 31 December 2019 was £1.7m. This was made up of £0.5m in respect of joint venture interests outside the REIT regime with the balance from trading and other income.

The movement in deferred tax for the year was a credit of £0.6m, (2018: £0.5m credit); a £0.8m charge was taken through the income statement mainly due to the recognition of overage from a property previously disposed of and £0.1m was credited through other comprehensive income in relation to the owner-occupied property at Savile Row. In addition, £1.3m was credited through retained earnings in relation to future tax deductions for equity-settled share-based payments.

As well as other taxation paid during the year, in accordance with our status as a REIT, £6.4m of tax was paid to HMRC relating to tax withheld from shareholders on property income distributions (PIDs).

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

Borrowings, net debt and cash flow

This has been a particularly active year for us in terms of both our large and smaller projects with £204.0m of cash invested in the portfolio plus cash paid on acquisitions of £31.6m. Offsetting this outflow were £159.3m of property disposal proceeds and £30.3m of dividends received and loans repaid from the joint venture that previously owned the Prescot Street properties. Net debt, which includes leasehold liabilities and takes account of the cash balance, increased by 2.6% to £981.6m at 31 December 2019 from £956.9m at 31 December 2018. While cash held at the year end increased by £36.2m to £54.5m, Group borrowings increased from £914.5m at 31 December 2018 to £976.6m at 31 December 2019. However, the upward property revaluation at year end brought the Group's loan-to-value ratio down marginally to 16.9% from 17.2% a year earlier. Interest cover for the year was 462% compared with 454% for the first half of 2019, but was a little lower than the 491% reported for 2018.

We continue to focus on growing recurring cash flow, though this is naturally affected by disposals and by the rent-free or half rent periods offered to incoming tenants as incentives. Cash from operating activities was £97.1m in 2019, considerably below the equivalent figure in 2018 when the exceptional cash premiums were received. If these are excluded, the annual trend was flat but operating cash flow was 16.3% higher than in 2017, largely due to the strong increase in property income received as cash.

See Appendix 5 for tables of debt facilities and reconciliation to borrowings and net debt

Debt and financing arrangements

The past year has seen a significant amount of refinancing activity, including the publication of our Green Finance Framework and an innovative £300m 'green' tranche in our newly extended main Group revolving credit facility (RCF).

The drawdown of £250m of senior unsecured US private placement (USPP) notes arranged in late 2018 was completed on 31 January 2019. This added significant borrowing headroom at attractive long-term fixed rates from 2.68% to 3.09% with maturities from seven to 15 years. We are very pleased to welcome six new valued USPP relationship lenders to join our four existing ones and we continue to see this market as one of our key sources of debt finance.

In order to minimise dilution risk in a year of volatile share prices, in mid-2019 we repurchased the £150m convertible bonds due to expire or convert in July 2019. This followed a tender offer and the announcement of a concurrent new issue of six-year convertible bonds. The repurchased bonds had a conversion price of £31.43 so that, over the life of the bonds and taking account of the interest paid to bondholders and the 5.7% premium paid at redemption, the annual interest rate equated to about 2.1% pa. The £175m of new 2025 convertible bonds will pay a cash coupon of 1.5% and have an initial conversion price of £44.96, the 37.5% conversion premium above the reference share price being the highest so far achieved by a UK REIT.

The new bonds have been bifurcated for accounting purposes and have an IFRS interest rate of 2.3%. The equity component of the bonds recognised at issue was £7.5m (or 7p per share), roughly equivalent to the £8.5m (or 8p per share) redemption premium paid to the 2019 bondholders to redeem their bonds.

The final refinancing in 2019 was the extension of our principal £450m Group RCF provided by HSBC, NatWest and Barclays. This provides a new five-year term with extension options out to seven years with attractive pricing and these important long-term banking relationships were key in delivering an important step towards our goal of embedding green principles within our financing model. We first published our Green Finance Framework in October 2019 which has been prepared to be compliant with the Loan Market Association ('LMA') 'Green Loan Principles'. In accordance with our commitments, we have reported the loan amounts that have been drawn and how the proceeds have been invested in qualifying 'green' projects. All the relevant data has been subject to 'reasonable assurance' reporting from our non-financial audit assurance provider, Deloitte. Further details will be found in our Responsibility Report to be published in April 2020.

We only had one active interest rate swap outstanding at the year end; this was the £28m swap linked to the loan secured on the Baker Street properties and which terminates in March 2020. The other swaps all have forward start dates; we paid £2.7m in 2019 to defer them and to terminate the £70m 3.99% swap which also ran to March 2020.

Following the year's refinancing activities, undrawn facilities and cash increased to £511m at 31 December 2019. With low levels of drawn bank debt, the Group's weighted average interest rate rose marginally over the year to 3.54% on a cash basis but was unchanged on an IFRS basis at 3.68%. The weighted average maturity of our borrowings has risen from 5.9 years at 31 December 2018 to 7.8 years at 31 December 2019. Overall, this means that our financing position is even stronger now than it was a year ago.

See Appendix 5 for tables of debt facilities and reconciliation to borrowings and net debt, graphs showing maturity profile of debt facilities and debt: key stats

Dividend

Our dividend cover remains strong and, with 80 Charlotte Street due to reach practical completion shortly, we have good visibility in relation to rental growth through 2020. We have also considered our capital expenditure commitments in the context of the increased level of available facilities as well as our obligations to other stakeholders; in particular, our pension fund liabilities are not material. Together with the earnings uplift seen in 2019, we have therefore been able to propose another increase of 10% in the final dividend per share, taking it to 51.45p. This will be paid in June 2020 with 34.45p to be paid as a PID and the balance of 17.00p as a conventional dividend. We will again be offering a scrip dividend alternative for those shareholders who wish to receive shares rather than cash.

PRINCIPAL RISKS AND UNCERTAINTIES

We have identified certain principal risks and uncertainties that could prevent the Group from achieving its strategic objectives and have assessed how these risks could best be mitigated through a combination of internal controls, risk management and the purchase of insurance cover. These risks are reviewed and updated on a regular basis and were last formally assessed by the Board in February 2020.

The principal risks and uncertainties facing the Group in 2020 are set out on the following pages together with the potential impact and the mitigating actions and controls in place. The Group's approach to the management and mitigation of these risks is included in the 2019 Annual Report.

Covid-19 is a new strain of coronavirus, first identified in China, which could have a considerable impact on the global economy. The Board is monitoring the impact on London, our business and supply chain. The outbreak is not currently classified as a principal risk to our business but could be, were it to become an epidemic in the UK.

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 stakeholder expectations.

Risk, effect and progression	Controls and mitigation
1. Failure to implement the Group's strategy	
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: • an economic downturn and/or the Group's development programme being inconsistent with the current economic cycle; • London losing its global appeal with a consequential impact on the property investment or occupational markets. During 2019, the Group continued to benefit from a resilient central London office market despite continuing political uncertainty.	• 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 our income through lease renewals and regearing. • The Group aims to de-risk the development programme through pre-lets during the construction phase. • The Group maintains sufficient headroom in all the Group's key ratios and financial covenants with a focus on interest cover.

2. Adverse international trade negotiations following Brexit

International trade negotiations following Brexit result in arrangements which are damaging to the London economy. As a predominantly London-based Group, we are particularly impacted by any factors which affect London's growth and demand for office space.

Following the UK leaving the EU on 31 January 2020, the focus is now on the UK's ability to negotiate international trade agreements during the transition period.

- 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 that are less susceptible to reductions in tenant demand. The Group's average 'topped-up' office rent is only £57.47 per sq ft (2018: £53.25 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 development sites for as long as possible.
- Brexit negotiations are being monitored and potential outcomes discussed with external advisers.

Financial risks

Significant steps have been taken in recent years to reduce or mitigate the Group's financial risks such that only one is now considered to be a principal risk 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, effect and progression	Controls and mitigation

3. Risks arising from changing macroeconomic factors

A. Fall in property values

Increasing property yields, which may be a consequence of rising interest rates, could potentially cause property values and rents to fall. Interest rates have remained low for an extended period and could 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 3.9% in 2019, despite the continuing economic uncertainties.

Following the Conservative majority win in December 2019, political uncertainty reduced which led to an increase in market confidence. It is now considered more likely that property values will rise in the short term, rather than to fall.

- 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 are monitored regularly and are 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.

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

Risk, effect and progression	Controls and mitigation

4. Risks arising from our development activities

A. Reduced development returns

The Group's development projects do not produce the targeted financial returns due to one or more of the following factors:

- delay on site
- increased construction costs
- adverse letting conditions

Due to our significant development pipeline, with a number of key projects currently under construction including 80 Charlotte Street, Soho Place and The Featherstone Building, the risk of delays to our projects and/or cost overruns remain a principal risk. In respect of future projects, there is an increased risk that construction cost inflation could occur, particularly if certain skills or trades are in short supply.

- Investment appraisals, which include contingencies and inflationary cost increases, are prepared and sensitivity analysis is undertaken to judge whether an adequate return is made in all likely circumstances.
- The 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.

B. 'On-site' risk

Risk of project delays and/or cost overruns caused by unidentified issues e.g. asbestos in refurbishments or ground conditions in developments.

For example, our successful pre-letting programme at 80 Charlotte Street means we could face a loss of rental income and penalties if the project is delayed.

There has been good progress at our major development projects, 80 Charlotte Street, Soho Place and The Featherstone Building during 2019 and 80 Charlotte Street is expected to complete in spring 2020. In 2020, we will be monitoring the progress of the Immigration Bill and the introduction of a points-based system and how this could impact on our development projects.

- 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.

C. Contractor/subcontractor default

Returns from the Group's developments are reduced due to delays and cost increases caused by either a main contractor or major subcontractor defaulting during the project.

There have been 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 our contractors or subcontractors, it did highlight the ongoing issues within the construction industry and the level of risk and narrow profit margins being accepted by contractors. We regularly monitor our contractors for any trading concerns.

- 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.
- Key construction packages are acquired early in the project's life to reduce the risks associated with later default.
- Regular on-site supervision by a dedicated project manager who monitors contractor performance and identifies problems at an early stage, thereby enabling remedial action to be taken.
- 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 and subcontractors with whom we have established long-term working relationships.
- Contractors are paid promptly and are encouraged to pay subcontractors promptly.

5. Risk of business interruption

A. Cyber attack on our IT systems

The Group 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 whilst a significant diversion of management time would have a wider impact.

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

- 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.
- Security measures are regularly reviewed by the IT department.
- The Group has recently been awarded the 'Cyber Essentials' badge to demonstrate our commitment to cyber security.

B. Cyber attack on our buildings

The Group is subject to a cyber attack that results in data breaches or significant disruption to IT-enabled tenant services. Buildings are becoming ‘smarter’, with an increase in internet enabled devices broadening the cyber security threat landscape.

Due to the rise in ‘smart building’ technology within our portfolio, and the associated cyber-related risks, we have separated our reporting on cyber risks between those that pose a risk to our IT systems and those that could impact on our ‘smart buildings’.

- Each building has incident management procedures which are regularly reviewed and tested.
- Physical segregation between the building’s core IT infrastructure and tenant’s corporate IT networks.
- Physical segregation of IT infrastructure between buildings across the portfolio.

C. Terrorism related or other business interruption

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

- 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 are performed for each property in our managed portfolio.

6. Reputational damage

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

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.

- 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, through whom we maintain regular contact with external media sources.
- A Group whistleblowing system for staff is maintained to report wrongdoing anonymously.
- Social media channels are monitored.
- Ongoing engagement with local communities in areas where the Group operates.
- Staff training and awareness programmes.

7. Our resilience to climate change

The Group fails to respond appropriately, and sufficiently, to climate change risks or adapt to benefit from the potential opportunities. This could lead to damage to our reputation, loss of income and/or property values, and loss of our licence to operate.

Although climate change risks remain unchanged for the Group, the impacts of climate change can already be seen and will become more severe and widespread as global temperatures rise. In response, we have accelerated our ambition to become 'net zero carbon' to 2030.

- 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 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 Responsibility Report, the key data points and performance of which are externally assured.

8. Non-compliance with regulation

A. Non-compliance with health and safety legislation

The Group's cost base is increased and management time is diverted through an incident or breach of health and safety legislation leading to reputational damage and/or loss of our licence to operate.

Following independent review of our health and safety procedures, the Group has gained a better understanding of health and safety risks.

- 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.
- 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.

B. Other regulatory non-compliance

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.

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

Financial instruments – risk management

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

- credit risk;
- market risk; and
- liquidity risk.

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

There have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous years.

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 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 £0.3m (2018: £1.3m) or a decrease of £0.3m (2018: £1.3m).

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 2019, the proportion of fixed debt held by the Group was 93% (2018: 70%), higher than the target range following a property disposal in September 2019. During both 2019 and 2018, 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. All the Group's long-term borrowings are 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 significant portion of its 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 2019, the Group's strategy, which was unchanged from 2018, was to maintain the NAV gearing below 80% in normal circumstances. These two gearing ratios, as well as the net interest cover ratio, are defined in the list of definitions at the end of this announcement and are derived in note 25.

The Group is also required to ensure that it has sufficient property assets which are not subject to fixed or floating charges or other encumbrances. Most of the Group's debt is unsecured and, accordingly, there was £4.4bn of uncharged property as at 31 December 2019.

Directors' responsibilities
The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 Company and of the profit or loss of the Group and Company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed for the Group and Company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

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

On behalf of the Board
Paul M. Williams
Chief Executive

Damian M.A. Wisniewski
Chief Financial Officer

25 February 2020

GROUP INCOME STATEMENT

	Note	**2019 £m**	2018 £m
Gross property and other income	5	**230.3**	228.0
Net property and other income	5	**182.6**	185.9
Administrative expenses		**(37.0)**	(32.3)
Revaluation surplus	11	**156.4**	83.4
Profit on disposal	6	**13.8**	5.2
Profit from operations		**315.8**	242.2
Finance income	7	**0.2**	-
Finance costs	7	**(26.7)**	(23.5)
Bond redemption premium	7	**(7.8)**	-
Movement in fair value of derivative financial instruments		**(0.1)**	4.3
Financial derivative termination costs	8	**(2.7)**	(3.5)
Share of results of joint ventures	9	**1.9**	2.1
Profit before tax		**280.6**	221.6
Tax charge	10	**(2.5)**	(2.7)
Profit for the year		**278.1**	218.9
Attributable to:			
- Equity shareholders		**283.4**	222.3
- Non-controlling interest		**(5.3)**	(3.4)
		278.1	218.9
Earnings per share	24	**253.82p**	199.33p
Diluted earnings per share	24	**253.11p**	198.91p

GROUP STATEMENT OF COMPREHENSIVE INCOME

	Note	**2019 £m**	2018 £m
Profit for the year		**278.1**	218.9
Actuarial losses on defined benefit pension scheme		**(0.6)**	-
Revaluation (deficit)/surplus of owner-occupied property	11	**(1.8)**	0.7
Deferred tax credit on revaluation	19	**0.1**	0.1
Other comprehensive (expense)/income that will not be reclassified to profit or loss		**(2.3)**	0.8
Total comprehensive income relating to the year		**275.8**	219.7
Attributable to:			
- Equity shareholders		**281.1**	223.1
- Non-controlling interest		**(5.3)**	(3.4)
		275.8	219.7

GROUP BALANCE SHEET

	Note	**2019 £m**	2018 £m
Non-current assets			
Investment property	11	**5,174.3**	5,028.2
Property, plant and equipment	12	**50.2**	53.1
Investments	13	**1.3**	29.1
Pension scheme surplus		**0.5**	0.3
Other receivables	14	**134.4**	123.1
		5,360.7	5,233.8
Current assets			
Trading property	11	**40.7**	36.3
Trade and other receivables	15	**58.6**	61.4
Cash and cash equivalents	21	**54.5**	18.3
		153.8	116.0
Non-current assets held for sale	16	**118.6**	-
Total assets		**5,633.1**	5,349.8
Current liabilities			
Borrowings	18	**-**	148.4
Trade and other payables	17	**112.5**	103.1
Corporation tax liability		**0.3**	2.1
Provisions		**0.9**	0.3
		113.7	253.9
Non-current liabilities			
Borrowings	18	**976.6**	766.1
Derivative financial instruments	18	**3.7**	3.6
Leasehold liabilities	18	**59.5**	60.7
Provisions		**1.5**	0.3
Deferred tax	19	**1.2**	1.8
		1,042.5	832.5
Total liabilities		**1,156.2**	1,086.4
Total net assets		**4,476.9**	4,263.4
Equity			
Share capital		**5.6**	5.6
Share premium		**193.0**	189.6
Other reserves		**936.2**	943.5
Retained earnings		**3,286.4**	3,063.2
Equity shareholders' funds		**4,421.2**	4,201.9
Non-controlling interest		**55.7**	61.5
Total equity		**4,476.9**	4,263.4

GROUP STATEMENT OF CHANGES IN EQUITY

	Attributable to equity shareholders						
	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Equity shareholders' funds £m	Non-controlling interest £m	Total equity £m
At 1 January 2019	5.6	189.6	943.5	3,063.2	4,201.9	61.5	4,263.4
Profit/(loss) for the year	-	-	-	283.4	283.4	(5.3)	278.1
Other comprehensive expense	-	-	(1.7)	(0.6)	(2.3)	-	(2.3)
Share-based payments	-	3.4	(0.8)	4.6	7.2	-	7.2
Bond redemption	-	-	(12.3)	11.4	(0.9)	-	(0.9)
Bond issue	-	-	7.5	-	7.5	-	7.5
Dividends paid	-	-	-	(75.6)	(75.6)	(0.5)	(76.1)
At 31 December 2019	**5.6**	**193.0**	**936.2**	**3,286.4**	**4,421.2**	**55.7**	**4,476.9**

	Attributable to equity shareholders						
	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Equity shareholders' funds £m	Non-controlling interest £m	Total equity £m
At 1 January 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

GROUP CASH FLOW STATEMENT

	Note	**2019 £m**	2018 £m
Operating activities			
Rents received		**171.0**	159.5
Surrender premiums and other property income		**0.5**	22.2
Property expenses		**(18.6)**	(19.1)
Cash paid to and on behalf of employees		**(24.4)**	(22.0)
Other administrative expenses		**(9.9)**	(5.2)
Interest received		**0.2**	-
Interest paid	7	**(18.8)**	(17.4)
Other finance costs	7	**(3.0)**	(2.6)
Other income		**3.6**	2.9
Tax paid in respect of operating activities		**(3.5)**	(3.1)
Net cash from operating activities		**97.1**	115.2
Investing activities			
Acquisition of properties		**(31.6)**	(57.3)
Capital expenditure on the property portfolio	7	**(204.0)**	(187.5)
Reimbursement of capital expenditure		**3.5**	15.9
Disposal of investment properties		**159.3**	0.3
Investment in joint ventures		**(0.6)**	(0.8)
Receipts from joint ventures		**30.3**	13.5
Purchase of property, plant and equipment		**(0.3)**	(0.8)
Disposal of property, plant and equipment		**1.3**	-
VAT (paid)/received		**(2.2)**	7.6
Net cash used in investing activities		**(44.3)**	(209.1)
Financing activities			
Net proceeds of bond issue		**171.0**	-
Net movement in revolving bank loans		**(203.1)**	180.5
Bond redemption		**(150.0)**	-
Bond redemption premium		**(8.5)**	-
Drawdown of private placement notes		**248.8**	(0.2)
Financial derivative termination costs		**(2.7)**	(3.5)
Net proceeds of share issues		**3.5**	0.4
Dividends paid to non-controlling interest holder		**(0.5)**	-
Dividends paid	20	**(75.1)**	(152.0)
Net cash (used in)/from financing activities		**(16.6)**	25.2
Increase/(decrease) in cash and cash equivalents in the year		**36.2**	(68.7)
Cash and cash equivalents at the beginning of the year		**18.3**	87.0
Cash and cash equivalents at the end of the year	21	**54.5**	18.3

NOTES TO THE FINANCIAL STATEMENTS

1. Basis of preparation

The financial information does not constitute the Group's statutory accounts for either the year ended 31 December 2019 or the year ended 31 December 2018, but is derived from those accounts. The Group's statutory accounts for 2018 have been delivered to the Registrar of Companies and those for 2019 will be delivered following the Company's Annual General Meeting. The Auditor's reports on both the 2018 and 2019 accounts were unmodified, did not draw attention to any matters by way of an emphasis of matter and did not contain any statement under Section 498 of the Companies Act 2006.

The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS), IFRS IC 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
Under Provision 30 of the UK Corporate Governance Code 2018, the Board needs 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.
- The headroom under the Group's financial covenants.
- The risks included on the Group's risk register that could impact on the Group's liquidity and solvency over the next 12 months.
- The risks on the Group's risk register that could be a threat to the Group's business model and capital adequacy.

In particular the Directors have considered the relatively long-term and stable nature of the cash flows receivable under the tenant leases, the Group's year-end loan-to-value ratio for 2019 of 16.9%, the interest cover ratio of 462% and the £511m total of undrawn facilities and cash at 31 December 2019. They have also considered the fact that the average maturity of borrowings was 7.8 years at 31 December 2019.

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

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

2. Changes in accounting policies

The accounting policies used by the Group in these condensed financial statements are consistent with those applied in the Group's financial statements for the year to 31 December 2018, 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 current accounting period and had no material impact on the financial statements.

IFRIC 23 – Uncertainty over Income Tax Treatments;
IFRS 9 (amended) – Prepayment Features with Negative Compensation and modifications of financial liabilities;
IAS 28 (amended) – Long-term interests in Associates and Joint Ventures;
IAS 19 (amended) – Plan Amendment, Curtailment or Settlement;
Annual Improvements to IFRSs (2015 – 2017 cycle).

IFRS 16 Leases (effective 1 January 2019)
IFRS 16, which replaces IAS 17 and SIC-15, removes the distinction between operating and finance leases for lessees and results in almost all leases being recognised on balance sheet.

The Group and Company adopted IFRS 16 on 1 January 2019, using the modified retrospective approach under which comparatives are not restated. As the Group already accounted for investment properties held under operating leases as if they were held under finance leases, the adoption of IFRS 16 has had no impact on the Group's financial statements.

The Company has leased the space occupied at 25 Savile Row W1 from a subsidiary for which has been accounted for in accordance with IFRS 16 since 1 January 2019. As a result, the Company has recognised a lease liability, which was initially measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate as of 1 January 2019. A right-of-use asset has also been recognised on the balance sheet.

The impacts on transition at 1 January 2019, and on the balance sheet as at 31 December 2019, are shown below:

	31 December 2019 £m	1 January 2019 £m
Right-of-use asset	20.4	21.5
Lease liability	(26.4)	(25.4)

The Company's profit in 2019 was £0.4m lower as a result of adopting IFRS 16. In addition, £0.5m was charged to retained earnings on the date of transition, which was derived as follows:

	2019 £m
Reversal of rent previously expensed	3.4
Depreciation adjustment	(2.2)
Interest adjustment	(1.7)
	(0.5)

In applying IFRS 16 for the first time, the Group and Company have used the following practical expedients permitted by the standard:

- Applying a single discount rate to a portfolio of leases with reasonably similar characteristics.
- Excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application.
- Using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group and Company have elected not to reassess whether contracts entered into before the transition date were leases, or contained leases, at the date of initial application and instead have relied on their initial assessment made when applying IAS 17 and IFRIC 4 'Determining whether an Arrangement Contains a Lease'.

Standards in issue but not yet effective

The following standards, amendments and interpretations were in issue at the date of approval of these financial statements but were not yet effective for the current accounting period and have not been adopted early. Based on the Group's current circumstances, the Directors do not anticipate that their adoption in future periods will have a material impact on the financial statements of the Group.

References to Conceptual Framework in IFRSs (amended);
IFRS 17 – Insurance Contracts;
IFRS 10 and IAS 28 (amended) – Sale or Contribution of Assets between an investor and its Associate or Joint Venture.

3. Significant judgments, 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. Not all of these accounting policies require management to make difficult, subjective or complex judgements or estimates. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may differ from those estimates. The following is intended to provide an understanding of the policies that management consider critical because of the level of complexity, judgement or estimation involved in their application and their impact on these condensed financial statements.

Key sources of estimation uncertainty

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

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

Significant judgements

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

The Group met all the criteria in 2019 with a substantial margin in each case, thereby ensuring its REIT status is maintained. The Directors intend that the Group should continue as a REIT for the foreseeable future.

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

4. Segmental information

IFRS 8 Operating Segments requires operating segments to be identified on the basis of internal financial reports about components of the Group that are regularly reviewed by the chief operating decision maker (which in the Group's case is the Executive Committee comprising the five executive Directors and five 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 24. 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 buildings[1] by value at 31 December 2019 (2018: 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% (2018: 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.

Gross property income

	2019			2018		
	Office buildings £m	Other £m	**Total £m**	Office buildings £m	Other £m	Total £m
West End central	87.3	0.1	**87.4**	95.5	0.1	95.6
West End borders	19.3	-	**19.3**	19.3	-	19.3
City borders	81.1	0.5	**81.6**	76.1	0.5	76.6
Provincial	-	4.4	**4.4**	-	4.5	4.5
	187.7	5.0	**192.7**	190.9	5.1	196.0

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

Property portfolio

	2019			2018		
	Office buildings £m	Other £m	**Total £m**	Office buildings £m	Other £m	Total £m
Carrying value						
West End central	2,933.6	58.0	**2,991.6**	2,659.4	53.8	2,713.2
West End borders	434.8	-	**434.8**	439.2	-	439.2
City borders	1,860.2	7.7	**1,867.9**	1,859.5	7.7	1,867.2
Provincial	-	84.6	**84.6**	-	91.9	91.9
	5,228.6	150.3	**5,378.9**	4,958.1	153.4	5,111.5
Fair value						
West End central	2,944.1	60.5	**3,004.6**	2,658.1	54.9	2,713.0
West End borders	464.2	-	**464.2**	462.5	-	462.5
City borders	1,912.8	7.7	**1,920.5**	1,913.7	7.7	1,921.4
Provincial	-	85.9	**85.9**	-	93.8	93.8
	5,321.1	154.1	**5,475.2**	5,034.3	156.4	5,190.7

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

5. Property and other income

	2019 **£m**	2018 £m
Gross rental income	**191.7**	175.1
Surrender premiums received	**1.0**	3.2
Other property income	**-**	17.7
Gross property income	**192.7**	196.0
Service charge income	**34.0**	29.1
Other income	**3.6**	2.9
Gross property and other income	**230.3**	228.0
Gross rental income	**191.7**	175.1
Ground rent	**(1.5)**	(1.4)
Service charge income	**34.0**	29.1
Service charge expenses	**(36.1)**	(32.0)
	(2.1)	(2.9)
Other property costs	**(10.1)**	(9.7)
Net rental income	**178.0**	161.1
Other property income	**-**	17.7
Other income	**3.6**	2.9
Other costs	**-**	(0.4)
Surrender premiums received	**1.0**	3.2
Reverse surrender premiums	**-**	(0.1)
Dilapidation receipts	**-**	1.7
Write-down of trading property	**-**	(0.2)
Net property and other income	**182.6**	185.9

Gross rental income includes £27.3m (2018: £13.4m) relating to rents recognised in advance of cash receipts.

In the prior year, other property income included £15.8m for granting a new access rights deed to a neighbouring property owner, with the remaining £1.9m relating to rights of light income.

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

	2019 £m	2018 £m
Investment property		
Gross disposal proceeds	**155.2**	5.4
Costs of disposal	**(1.9)**	-
Net disposal proceeds	**153.3**	5.4
Carrying value	**(136.8)**	(0.2)
Adjustment for lease costs and rents recognised in advance	**(3.3)**	-
Profit on disposal of investment property	**13.2**	5.2
Artwork		
Gross disposal proceeds	**1.2**	-
Carrying value	**(0.6)**	-
Profit on disposal of artwork	**0.6**	-
Profit on disposal	**13.8**	5.2

Gross disposal proceeds include £3.8m (2018: £2.0m) of accrued overage in relation to Balmoral Grove N7, which was originally sold in December 2016.

7. Finance income and total finance costs

	2019 £m	2018 £m
Finance income		
Other	**0.2**	-
Finance income	**0.2**	-
Finance costs		
Bank loans and overdraft	**2.1**	3.6
Non-utilisation fees	**2.1**	1.9
Unsecured convertible bonds	**3.9**	3.9
Secured bonds	**11.4**	11.4
Unsecured private placement notes	**15.0**	8.3
Secured loan	**3.3**	3.3
Amortisation of issue and arrangement costs	**2.2**	2.1
Amortisation of the fair value of the secured bonds	**(1.2)**	(1.2)
Finance lease costs	**0.7**	0.7
Other	**0.2**	0.2
Gross interest costs	**39.7**	34.2
Less: interest capitalised	**(13.0)**	(10.7)
Finance costs	**26.7**	23.5
Bond redemption premium	**7.8**	-
Total finance costs	**34.5**	23.5

Finance costs of £13.0m (2018: £10.7m) 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 2019 were £34.8m (2018: £30.7m) of which £13.0m (2018: £10.7m) was included in capital expenditure on the property portfolio in the Group cash flow statement under investing activities.

Included in the bond redemption premium of £7.8m is £0.1m of unamortised loan arrangement costs written off.

8. Financial derivative termination costs

The Group incurred costs of £2.7m in the year to 31 December 2019 (2018: £3.5m) deferring, re-couponing or terminating interest rate swaps.

9. Share of results of joint ventures

	2019 £m	2018 £m
Revaluation deficit	**-**	(0.1)
Profit on disposal of investment property	**1.7**	1.3
Other profit from operations after tax	**0.2**	0.9
	1.9	2.1

In 2019, Prescot Street GP Limited and Prescot Street Nominees Limited, in which the Group has a 50% shareholding, disposed of the freehold interest in 9 and 16 Prescot Street E1 for £57.5m before costs, generating a profit of £3.4m net of tax.

See note 13 for further details on the Group's joint ventures.

10. Tax charge

	2019 £m	2018 £m
Corporation tax		
UK corporation tax and income tax in respect of profit for the year	**1.0**	2.9
Other adjustments in respect of prior years' tax	**0.7**	0.2
Corporation tax charge	**1.7**	3.1
Deferred tax		
Origination and reversal of temporary differences	**0.8**	(0.4)
Deferred tax charge/(credit)	**0.8**	(0.4)
Tax charge	**2.5**	2.7

In addition to the tax charge of £2.5m (2018: £2.7m) that passed through the Group income statement, a deferred tax credit of £0.1m (2018: £0.1m) 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 2019 is lower (2018: lower) than the standard rate of corporation tax in the UK. The differences are explained below:

	2019 **£m**	2018 £m
Profit before tax	**280.6**	221.6
Expected tax charge based on the standard rate of corporation tax in the UK of 19.00% (2018: 19.00%)[1]	**53.3**	42.1
Difference between tax and accounting profit on disposals	**(2.6)**	(1.0)
REIT exempt income	**(11.2)**	(10.7)
Revaluation surplus attributable to REIT properties	**(29.2)**	(15.2)
Expenses and fair value adjustments not allowable for tax purposes	**(4.4)**	(8.1)
Capital allowances	**(5.5)**	(4.6)
Other differences	**1.4**	-
Tax charge on current year's profit	**1.8**	2.5
Adjustments in respect of prior years' tax	**0.7**	0.2
Tax charge	**2.5**	2.7

[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 in the main 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.

11. Property portfolio

	Freehold £m	Leasehold £m	Total investment property £m	Owner-occupied property £m	Assets held for sale £m	Trading property £m	Total property portfolio £m
Carrying value							
At 1 January 2019	4,034.1	994.1	5,028.2	47.0	-	36.3	5,111.5
Acquisitions	21.0	11.0	32.0	-	-	-	32.0
Capital expenditure	110.7	76.8	187.5	0.1	-	3.6	191.2
Interest capitalisation	7.7	4.5	12.2	-	-	0.8	13.0
Additions	139.4	92.3	231.7	0.1	-	4.4	236.2
Disposals	(137.1)	0.3	(136.8)	-	-	-	(136.8)
Transfers	-	(107.0)	(107.0)	-	107.0	-	-
Revaluation	84.8	71.6	156.4	(1.8)	-	-	154.6
Transfer from prepayments and accrued income	-	-	-	-	14.6	-	14.6
Movement in grossing up of headlease liabilities	-	1.8	1.8	-	(3.0)	-	(1.2)
At 31 December 2019	**4,121.2**	**1,053.1**	**5,174.3**	**45.3**	**118.6**	**40.7**	**5,378.9**
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

Adjustments from fair value to carrying value

	Freehold £m	Leasehold £m	Total investment property £m	Owner-occupied property £m	Assets held for sale £m	Trading property £m	Total property portfolio £m
At 31 December 2019							
Fair value	**4,257.7**	**1,010.2**	**5,267.9**	**45.3**	**119.0**	**43.0**	**5,475.2**
Selling costs relating to assets held for sale	-	-	-	-	(0.4)	-	(0.4)
Revaluation of trading property	-	-	-	-	-	(2.3)	(2.3)
Lease incentives and costs included in receivables	(136.5)	(16.6)	(153.1)	-	-	-	(153.1)
Grossing up of headlease liabilities	-	59.5	59.5	-	-	-	59.5
Carrying value	**4,121.2**	**1,053.1**	**5,174.3**	**45.3**	**118.6**	**40.7**	**5,378.9**
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

Reconciliation of fair value

	2019 £m	2018 £m
Portfolio including the Group's share of joint ventures	**5,475.2**	5,217.6
Less: joint ventures	**-**	(26.9)
IFRS property portfolio	**5,475.2**	5,190.7

The property portfolio is subject to semi-annual external valuations and was revalued at 31 December 2019 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 £5,443.0m (2018: £5,157.8m) and other valuers at £32.2m (2018: £32.9m), giving a combined value of £5,475.2m (2018: £5,190.7m). Of the properties revalued by CBRE, £45.3m (2018: £47.0m) relating to owner-occupied property was included within property, plant and equipment and £43.0m (2018: £37.3m) was in relation to trading property.

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

Following exchange of contracts in December 2019 for the sale of its long leasehold interest in 40 Chancery Lane WC2, the Group transferred £107.0m from investment property to assets held for sale.

Reconciliation of revaluation surplus

	2019 £m	2018 £m
Total revaluation surplus	**188.5**	100.2
Less:		
Share of joint ventures	**-**	(0.2)
Lease incentives and costs	**(32.2)**	(16.5)
Assets held for sale selling costs	**(0.4)**	-
Trading property revaluation (surplus)/deficit	**(1.3)**	0.4
IFRS revaluation surplus	**154.6**	83.9
Reported in the:		
Revaluation surplus	**156.4**	83.4
Write-down of trading property	**-**	(0.2)
Group income statement	**156.4**	83.2
Group statement of comprehensive income	**(1.8)**	0.7
	154.6	83.9

Historical cost

	2019 £m	2018 £m
Investment property	**3,009.7**	2,924.5
Owner-occupied property	**19.7**	19.6
Assets held for sale	**76.2**	-
Trading property	**48.6**	44.2
Total property portfolio	**3,154.2**	2,988.3

12. Property, plant and equipment

	Owner-occupied property £m	Artwork £m	Other £m	Total £m
At 1 January 2019	47.0	1.6	4.5	53.1
Additions	0.1	-	0.2	0.3
Disposals	-	(0.6)	(0.1)	(0.7)
Depreciation	-	-	(0.7)	(0.7)
Revaluation	(1.8)	-	-	(1.8)
At 31 December 2019	**45.3**	**1.0**	**3.9**	**50.2**
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
Net book value				
Cost or valuation	45.3	1.0	6.9	53.2
Accumulated depreciation	-	-	(3.0)	(3.0)
At 31 December 2019	**45.3**	**1.0**	**3.9**	**50.2**
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

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, after allowing for the artwork disposal in 2019, 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 2019 was £1.0m (2018: £1.6m). See note 11 for the historical cost of owner-occupied property.

13. Investments

Although the respective property interests have now been disposed of, the Group has a continuing 50% interest in three joint venture vehicles, Dorrington Derwent Holdings Limited, Primister Limited and Prescot Street Limited Partnership.

	2019 £m	2018 £m
At 1 January	**29.1**	39.7
Share of results of joint ventures (see note 9)	**1.9**	2.1
Additions	**0.6**	0.8
Repayment of shareholder loan	**(21.3)**	-
Distributions received	**(9.0)**	(13.5)
At 31 December	**1.3**	29.1

Following the disposal of 9 and 16 Prescot Street E1, Prescot Street GP Limited and Prescot Street Nominees Limited repaid £21.3m of shareholder loans and made further distributions of £9.0m.

14. Other receivables (non-current)

	2019 £m	2018 £m
Prepayments and accrued income	**134.4**	123.1

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 £18.7m (2018: £15.8m), which was included as accrued income within trade and other receivables (see note 15), these amounts totalled £153.1m at 31 December 2019 (2018: £138.9m).

15. Trade and other receivables

	2019 £m	2018 £m
Trade receivables	**7.9**	10.7
Other receivables	**4.4**	4.1
Prepayments	**20.6**	20.6
Accrued income	**25.7**	26.0
	58.6	61.4

16. Non-current assets held for sale

	2019 £m	2018 £m
Transferred from investment properties (see note 11)	**118.6**	-

In December 2019, the Group exchanged contracts on the sale of its long leasehold interest in 40 Chancery Lane WC2. The property was valued at £119.0m at 31 December 2019. In accordance with IFRS 5 Non-current Assets Held for Sale, this property was recognised as a non-current asset held for sale and, after deducting selling costs of £0.4m, the carrying value was £118.6m.

17. Trade and other payables

	2019 £m	2018 £m
Trade payables	**7.2**	1.4
Other payables	**19.8**	17.8
Other taxes	**2.1**	2.5
Accruals	**38.6**	38.7
Deferred income	**44.8**	42.7
	112.5	103.1

18. Net debt and derivative financial instruments

	2019		2018	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Current liabilities				
1.125% unsecured convertible bonds 2019	**-**	**-**	148.4	152.3
	-	**-**	148.4	152.3
Non-current liabilities				
1.5% unsecured convertible bonds 2025	**164.5**	**183.9**	-	-
6.5% secured bonds 2026	**184.8**	**222.8**	185.9	222.1
2.68% unsecured private placement notes 2026	**54.7**	**55.3**	-	-
3.46% unsecured private placement notes 2028	**29.9**	**31.7**	29.8	30.9
4.41% unsecured private placement notes 2029	**24.8**	**29.8**	24.8	29.0
2.87% unsecured private placement notes 2029	**92.5**	**95.6**	-	-
2.97% unsecured private placement notes 2031	**49.8**	**51.9**	-	-
3.57% unsecured private placement notes 2031	**74.6**	**79.2**	74.6	76.4
3.09% unsecured private placement notes 2034	**51.7**	**54.8**	-	-
4.68% unsecured private placement notes 2034	**74.4**	**95.4**	74.4	90.9
3.99% secured loan 2024	**82.1**	**87.8**	81.9	87.0
Unsecured bank loans	**65.0**	**68.5**	267.0	269.5
Secured bank loans	**27.8**	**28.0**	27.7	28.0
	976.6	**1,084.7**	766.1	833.8
Borrowings	**976.6**	**1,084.7**	914.5	986.1
Derivative financial instruments expiring in greater than one year	**3.7**	**3.7**	3.6	3.6
Total borrowings and derivative financial instruments	**980.3**	**1,088.4**	918.1	989.7

	2019	2018
Reconciliation to net debt:		
Borrowings and derivative financial instruments	**980.3**	918.1
Adjustments for:		
Leasehold liabilities	**59.5**	60.7
Derivative financial instruments	**(3.7)**	(3.6)
Cash and cash equivalents	**(54.5)**	(18.3)
Net debt	**981.6**	956.9

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

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

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

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

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

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

There have been no transfers between Level 1 and Level 2 or Level 2 and Level 3 in either 2019 or 2018.

19. Deferred tax

	Revaluation surplus £m	Other £m	Total £m
At 1 January 2019	3.6	(1.8)	1.8
(Credited)/charged to the income statement	(0.2)	1.0	0.8
Credited to other comprehensive income	(0.1)	-	(0.1)
Credited to equity	-	(1.3)	(1.3)
At 31 December 2019	**3.3**	**(2.1)**	**1.2**
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

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.

20. Dividend

	Payment date	Dividend per share PID p	Non-PID p	Total p	**2019 £m**	2018 £m
Current year						
2019 final dividend[1]	5 June 2020	34.45	17.00	51.45	**-**	-
2019 interim dividend	18 October 2019	21.00	-	21.00	**23.4**	-
Distribution of current year profit		55.45	17.00	72.45		
Prior year						
2018 final dividend	7 June 2019	30.00	16.75	46.75	**52.2**	-
2018 interim dividend	19 October 2018	19.10	-	19.10	**-**	21.3
Distribution of prior year profit		49.10	16.75	65.85		
2017 final dividend	8 June 2018	35.00	7.40	42.40	**-**	47.3
2017 special dividend	8 June 2018	-	75.00	75.00	**-**	83.6
Dividends as reported in the Group statement of changes in equity					**75.6**	152.2
2019 interim dividend withholding tax	14 January 2020				**(2.8)**	-
2018 interim dividend withholding tax	14 January 2019				**2.3**	(2.3)
2017 interim dividend withholding tax	14 January 2018				**-**	2.1
Dividends paid as reported in the Group cash flow statement					**75.1**	152.0

[1] Subject to shareholder approval at the AGM on 15 May 2020.

21. Cash and cash equivalents

	2019 **£m**	2018 £m
Cash at bank	**54.5**	18.3

22. Post balance sheet events

In February 2020, the Group acquired the freehold interest in Blue Star House, 234-244 Stockwell Road, Brixton SW9 for £38.1m before costs. Additionally, the Group also completed the disposal of the long leasehold interest in 40 Chancery Lane WC2 for £121.3m before rental top-ups and costs.

23. Related parties

There have been no related party transactions for the year ended 31 December 2019 that have materially affected the financial position or performance of the Group. All related party transactions are materially consistent with those disclosed by the Group in its financial statements.

24. EPRA performance measures (unaudited)

Number of shares

	Earnings per share Weighted average		Net asset value per share At 31 December	
	2019 **'000**	2018 '000	**2019** **'000**	2018 '000
For use in basic measures	**111,652**	111,521	**111,773**	111,540
Dilutive effect of share-based payments	**315**	239	**400**	239
For use in diluted measures	**111,967**	111,760	**112,173**	111,779

The £150m unsecured convertible bonds 2019 ('2019 bonds') were repurchased in the year, and £175m of new unsecured convertible bonds 2025 ('2025 bonds') were issued. The 2025 bonds have an initial conversion price set at £44.96. The Group recognises the effect of conversion of the bonds if they are both dilutive and, based on the share price, likely to convert. For the year ended 31 December 2018, the Group did not recognise the dilutive impact of the conversion of the 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. For the year ended 31 December 2019, conversion of the bonds was not dilutive.

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

A – Disposal of investment and trading property (including the Group's share in joint ventures), and associated tax and non-controlling interest
B – Revaluation movement on investment property and in joint ventures, write-down of trading property and associated deferred tax and non-controlling interest
C – Fair value movement and termination costs relating to derivative financial instruments, associated non-controlling interest and the fair value part of the bond redemption premium

In addition to the EPRA performance measures, underlying performance measures that 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 is presented below.

Earnings and earnings per share

		Adjustments			EPRA
	IFRS	A	B	C	basis
	£m	£m	£m	£m	£m
Year ended 31 December 2019					
Net property and other income	182.6	-	-	-	182.6
Total administrative expenses	(37.0)	-	-	-	(37.0)
Revaluation surplus	156.4	-	(156.4)	-	-
Profit on disposal of investments	13.8	(13.8)	-	-	-
Net finance costs	(34.3)	-	-	7.8	(26.5)
Movement in fair value of derivative financial instruments	(0.1)	-	-	0.1	-
Financial derivative termination costs	(2.7)	-	-	2.7	-
Share of results of joint ventures	1.9	(1.7)	-	-	0.2
Profit before tax	280.6	(15.5)	(156.4)	10.6	119.3
Tax charge	(2.5)	0.7	(0.2)	-	(2.0)
Profit for the year	278.1	(14.8)	(156.6)	10.6	117.3
Non-controlling interest	5.3	-	(7.5)	-	(2.2)
Earnings attributable to equity shareholders	**283.4**	**(14.8)**	**(164.1)**	**10.6**	**115.1**
Earnings per share	**253.82p**				**103.09p**
Diluted earnings per share	253.11p				102.80p

		Adjustments			EPRA
	IFRS	A	B	C	basis
	£m	£m	£m	£m	£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 investments	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

Underlying earnings and underlying earnings per share

	2019 £m	2018 £m
EPRA earnings attributable to equity shareholders	**115.1**	126.1
Net income from grant of access rights	**-**	(15.6)
Underlying earnings attributable to equity shareholders	**115.1**	110.5
Underlying earnings per share	**103.09p**	99.08p

Net asset value and net asset value per share

	£m	Undiluted p	Diluted p
At 31 December 2019			
Net assets attributable to equity shareholders	4,421.2	3,956	3,941
Adjustment for:			
Revaluation of trading properties	2.3		
Deferred tax on revaluation surplus	3.3		
Fair value of derivative financial instruments	3.7		
Fair value adjustment to secured bonds	10.6		
Non-controlling interest in respect of the above	(0.8)		
EPRA net asset value (EPRA NAV)	**4,440.3**	**3,973**	**3,958**
Adjustment for:			
Mark-to-market of secured bonds 2026	(47.8)		
Mark-to-market of secured loan 2024	(4.8)		
Mark-to-market of unsecured private placement notes	(38.7)		
Mark-to-market of 1.5% unsecured convertible bonds 2025	(15.9)		
Deferred tax on revaluation surplus	(3.3)		
Fair value of derivative financial instruments	(3.7)		
Unamortised issue and arrangement costs	(11.5)		
Non-controlling interest in respect of the above	0.8		
EPRA triple net asset value (EPRA NNNAV)	**4,315.4**	**3,861**	**3,847**
At 31 December 2018			
Net assets attributable to equity shareholders	4,201.9	3,767	3,759
Adjustment for:			
Revaluation of trading properties	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 (EPRA NAV)	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	(22.2)		
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 (EPRA NNNAV)	4,131.1	3,704	3,696

EPRA published its latest Best Practices Recommendations in October 2019 which included three new Net Asset Valuation metrics, namely EPRA Net Reinstatement Value (NRV), EPRA Net Tangible Assets (NTA) and EPRA Net Disposal Value (NDV). These metrics are effective from 1 January 2020 but have been presented below as at 31 December 2019 to provide a comparison to the current measures, EPRA NAV and EPRA NNNAV.

	EPRA NRV £m	EPRA NTA £m
At 31 December 2019		
EPRA net asset value	4,440.3	4,440.3
Adjustment for:		
Purchasers' costs[1]	372.3	-
Deferred tax adjustment[2]	-	(1.7)
	4,812.6	**4,438.6**
Per share measure	**4,290p**	**3,957p**

As the Group's EPRA NDV is the same as the EPRA NNNAV, there are no reconciling items.

	EPRA NDV £m
At 31 December 2019	
EPRA net disposal value	**4,315.4**
Per share measure	**3,847p**

[1] Includes Stamp Duty Land Tax. Total costs assumed to be 6.8% of the portfolio's fair value.
[2] Only 50% of the deferred tax on the revaluation surplus is excluded, rather than the 100% under EPRA NAV.

Cost ratios

	2019 £m	2018 £m
Administrative expenses	**37.0**	32.3
Other property costs	**10.1**	9.7
Dilapidation receipts	**-**	(1.7)
Other costs	**-**	0.4
Net service charge costs	**2.1**	2.9
Service charge costs recovered through rents but not separately invoiced	**(0.5)**	(0.3)
Management fees received less estimated profit element	**(3.6)**	(2.9)
Share of joint ventures' expenses	**0.3**	0.4
EPRA costs (including direct vacancy costs) (A)	**45.4**	40.8
Direct vacancy costs	**(2.6)**	(4.4)
EPRA costs (excluding direct vacancy costs) (B)	**42.8**	36.4
Gross rental income	**191.7**	175.1
Ground rent	**(1.5)**	(1.4)
Service charge components of rental income	**(0.5)**	(0.3)
Share of joint ventures' rental income less ground rent	**0.5**	1.7
Adjusted gross rental income (C)	**190.2**	175.1
EPRA cost ratio (including direct vacancy costs) (A/C)	**23.9%**	23.3%
EPRA cost ratio (excluding direct vacancy costs) (B/C)	**22.5%**	20.8%

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.

Property portfolio at fair value (D)	**5,475.2**	5,190.7
Portfolio cost ratio (A/D)	**0.8%**	0.8%

The Group has not capitalised any overheads in either 2019 or 2018.

25. Gearing and interest cover

NAV gearing

	2019 £m	2018 £m
Net debt	**981.6**	956.9
Net assets	**4,476.9**	4,263.4
NAV gearing	**21.9%**	22.4%

Loan-to-value ratio

	2019 £m	2018 £m
Net debt	**981.6**	956.9
Fair value adjustment of secured bonds	**(10.6)**	(11.8)
Unamortised issue and arrangement costs	**11.5**	6.5
Leasehold liabilities	**(59.5)**	(60.7)
Drawn debt net of cash	**923.0**	890.9
Fair value of property portfolio	**5,475.2**	5,190.7
Loan-to-value ratio	**16.9%**	17.2%

Net interest cover ratio

	2019 £m	2018 £m
Net property and other income	**182.6**	185.9
Adjustments for:		
Other income	**(3.6)**	(2.9)
Other property income	**-**	(17.7)
Surrender premiums received	**(1.0)**	(3.2)
Write-down of trading property	**-**	0.2
Reverse surrender premiums	**-**	0.1
Adjusted net property income	**178.0**	162.4
Finance income	**(0.2)**	-
Finance costs	**26.7**	23.5
Adjustments for:		
Finance income	**0.2**	-
Other finance costs	**(0.2)**	(0.2)
Amortisation of fair value adjustment to secured bonds	**1.2**	1.2
Amortisation of issue and arrangement costs	**(2.2)**	(2.1)
Finance costs capitalised	**13.0**	10.7
Net interest payable	**38.5**	33.1
Net interest cover ratio	**462%**	491%

26. Total return

	2019	2018
	p	p
EPRA net asset value on a diluted basis		
At end of year	**3,958**	3,776
At start of year	**(3,776)**	(3,716)
Increase	**182**	60
Dividend per share	**68**	137
Increase including dividend	**250**	197
Total return	**6.6%**	5.3%

27. List of definitions

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.

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.

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

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

- **EPRA earnings per share**

Earnings from operational activities.

- **EPRA net asset value per share**

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 per share**

EPRA NAV adjusted to include the fair values of (i) financial instruments, (ii) debt and (iii) deferred taxes on revaluations, where applicable.

- **EPRA net reinstatement value per share (effective from 1 January 2020)**

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

- **EPRA net tangible assets per share (effective from 1 January 2020)**

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

- **EPRA net disposal value per share (effective from 1 January 2020)**

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

- **EPRA cost ratio (including direct vacancy costs)**

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

- **EPRA cost ratio (excluding direct vacancy costs)**

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

- **EPRA net initial yield (NIY)**

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

- **EPRA 'topped up' net initial yield**

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

- **EPRA vacancy rate**

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

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

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

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

Fair value adjustment

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

Ground rent

The rent payable by the Group for its leasehold properties. Under IFRS, 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).

Interest rate swap

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

Key Performance Indicators (KPIs)

Activities and behaviours, aligned to both business objectives and individual goals, against which the performance of the Group is annually assessed.

Lease incentives

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

Loan-to-value ratio (LTV)

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

Mark-to-market

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

MSCI Inc. (MSCI IPD)

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

NAV gearing

Net debt divided by net assets.

Net assets per share or net asset value (NAV)

Equity shareholders' funds divided by the number of ordinary shares in issue at the balance sheet date.

Net debt

Borrowings plus bank overdraft less cash and cash equivalents.

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

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

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

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

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

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

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

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

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

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

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

'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.

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.

Yields

- **Net initial yield**

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

- **Reversionary yield**

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

- **True equivalent yield**

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

- **Yield shift**

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

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

Notes to editors

Derwent London plc

Derwent London plc owns 82 buildings in a commercial real estate portfolio predominantly in central London valued at £5.5 billion (including joint ventures) as at 31 December 2019, making it the largest London-focused real estate investment trust (REIT).

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

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

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

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

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

In 2019, the Group won several awards including EG Offices Company of the Year, the CoStar West End Deal of the Year for Brunel Building, Westminster Business Council's Best Achievement in Sustainability award and topped the real estate sector and was placed ninth overall in the Management Today 2019 awards for 'Britain's Most Admired Companies'. In 2013 the Company launched a voluntary Community Fund and has to date supported 95 community projects in the West End and the Tech Belt.

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

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

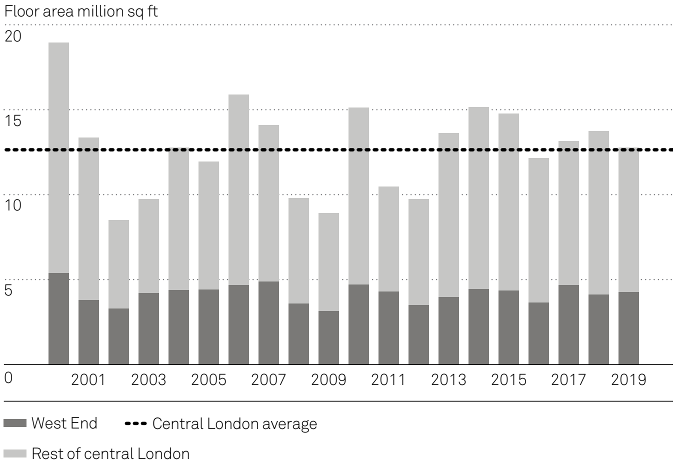
Forward-looking statements

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

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

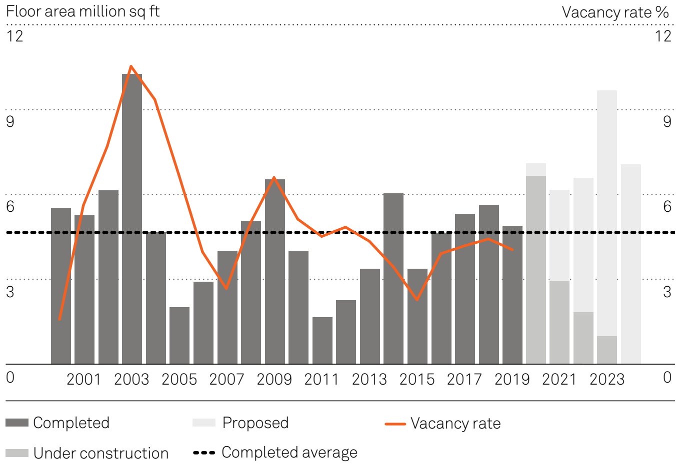
Appendix 1
Our market

Central London office take-up



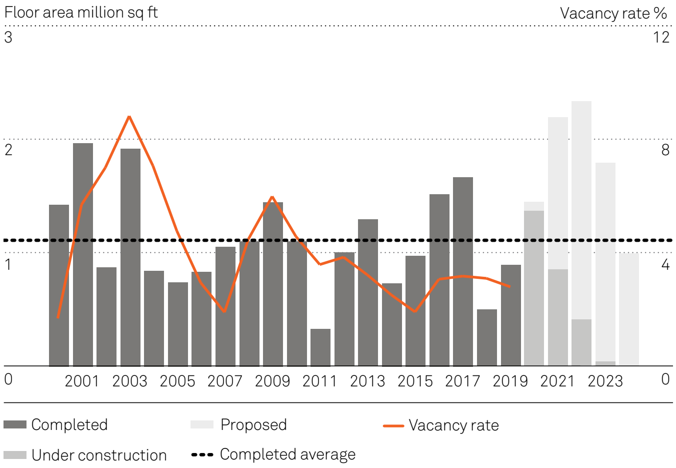
Source: CBRE

Central London development pipeline



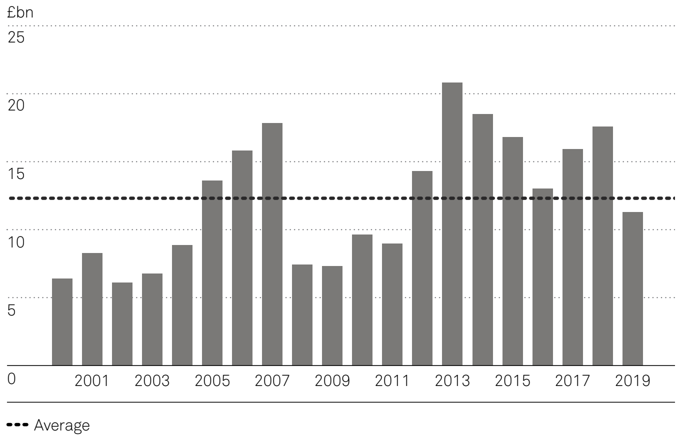
Source: CBRE

West End office development pipeline



Source: CBRE

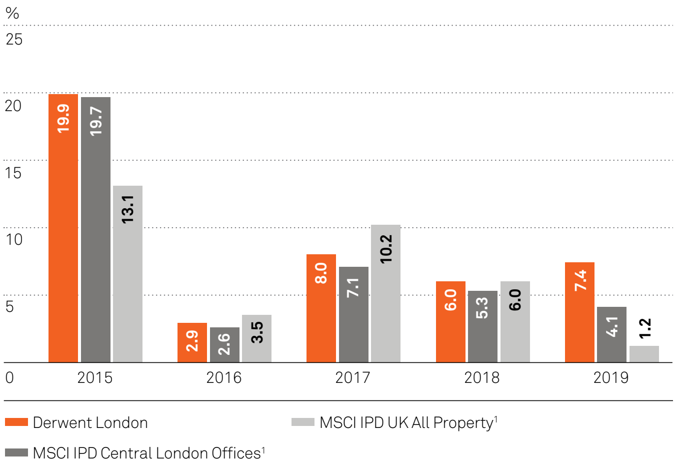
Central London office investment transactions



Source: CBRE

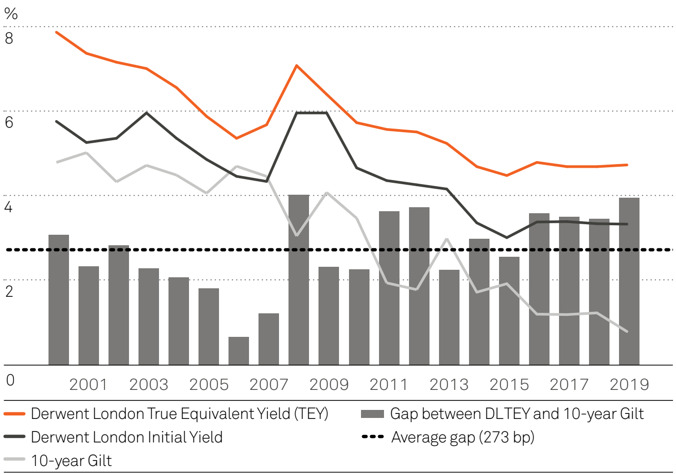
Appendix 2
Valuation

Total property return

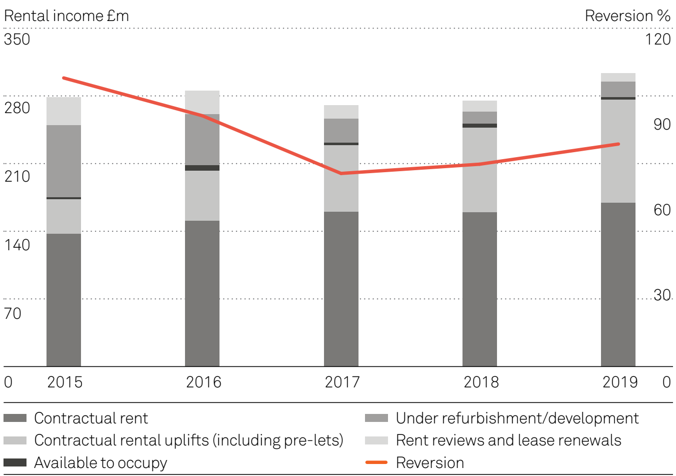


[1] Quarterly Index

Valuation yields



Portfolio income potential



Appendix 2
Valuation

Portfolio statistics – valuation

		Valuation £m	Weighting %	Valuation[1] performance %	Let floor area[2] '000 sq ft	Vacant available floor area '000 sq ft	Vacant refurbishment floor area '000 sq ft	Vacant project floor area '000 sq ft	Total floor area '000 sq ft
West End									
Central		3,004.6	55	5.5	2,638	26	8	115	2,787
Borders		464.2	8	0.3	492	3	0	0	495
		3,468.8	63	4.8	3,130	29	8	115	3,282
City									
Borders		1,920.5	35	2.9	1,863	17	2	125	2,007
Central London		5,389.3	98	4.1	4,993	46	10	240	5,289
Provincial		85.9	2	(8.9)	340	7	0	0	347
Total portfolio	**2019**	**5,475.2**	**100**	**3.9**	**5,333**	**53**	**10**	**240**	**5,636**
	2018	5,217.6	100	2.2	5,072	107	31	200	5,410

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		169.1
Contractual rental increases across the portfolio	65.7	
Contractual rental from 550,000 sq ft pre-lets on developments[1]	40.9	
Letting 53,000 sq ft available floor area	2.1	
Completion and letting 10,000 sq ft of refurbishments	0.5	
Completion and letting 240,000 sq ft of developments	15.7	
Anticipated rent review and lease renewal reversions	9.0	
Portfolio reversion		133.9
Potential portfolio rental value		303.0

1 Includes residential sales exchanged

Portfolio statistics – rental income

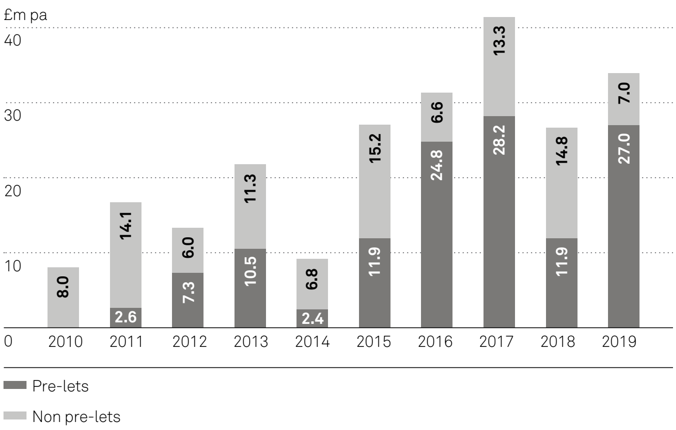
		Net contracted rental income per annum £m	Average rental income £ per sq ft	Vacant space rental value per annum £m	Lease reversion[1] per annum £m	Portfolio estimated rental value per annum £m	Average unexpired lease length[2] Years
West End							
Central		80.9	30.91	9.5	76.3	166.7	6.1
Borders		12.7	25.85	0.1	13.3	26.1	6.6
		93.6	30.12	9.6	89.6	192.8	6.2
City							
Borders		70.7	38.75	8.7	25.6	105.0	5.4
Central London		164.3	33.34	18.3	115.2	297.8	5.8
Provincial		4.8	14.03	0.0	0.4	5.2	3.1
Total portfolio	**2019**	**169.1**	**32.11**	**18.3**	**115.6**	**303.0**	**5.8[3]**
	2018	159.5	31.90	16.6	98.3	274.4	6.1

1 Contracted uplifts, rent reviews/lease renewal reversion and pre-lets
2 Lease length weighted by rental income at year end and assuming tenants break at first opportunity
3 8.3 years after adjusting for 'topped-up' rents and pre-lets

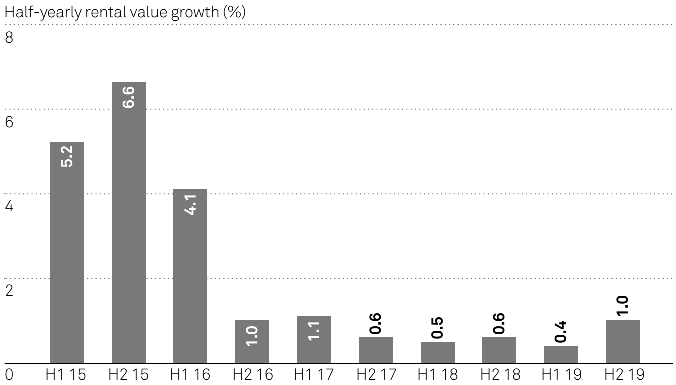
Appendix 3

Asset management and Investment activity

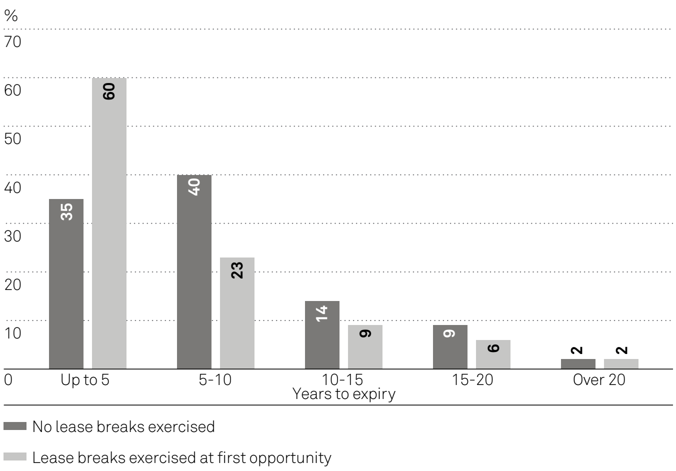
Letting activity by rental income



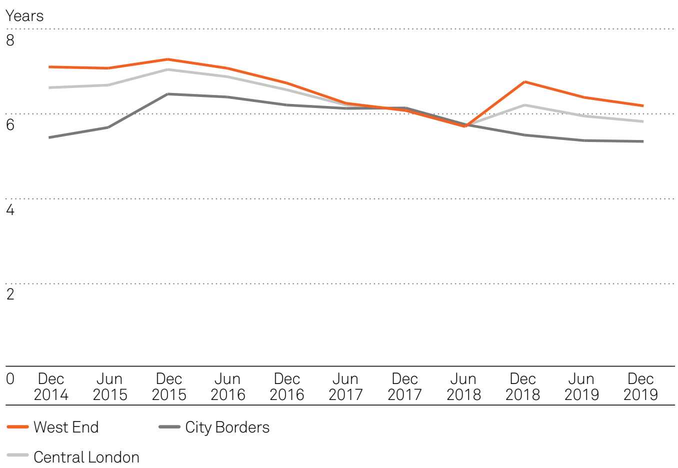
Rental value growth



Profile of rental income expiry

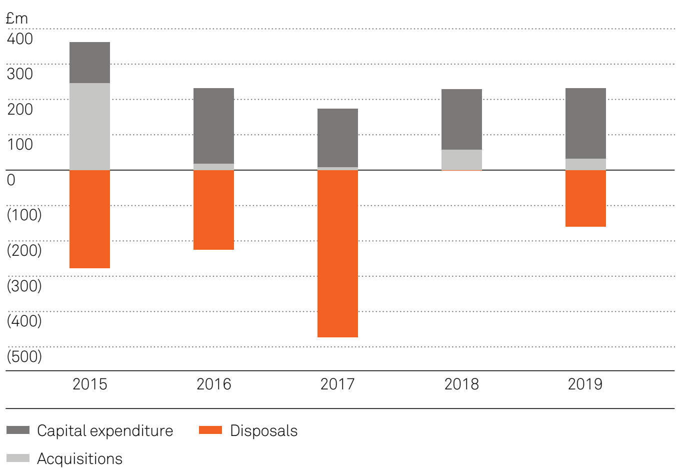


Average unexpired lease length



Five-year vacancy trend

Net investment



Appendix 4
Development and refurbishment

Project summary – current projects

Property	Current net income £m pa	Pre scheme area '000 sq ft	Proposed area '000 sq ft	2020 capex £m	2021 capex £m	2022+ capex £m	Total capex to complete £m	Delivery date	Current office c.ERV psf
On site									
80 Charlotte Street W1	-	234	380	40	-	-	40	H1 2020	£80.00
Soho Place W1	-	107	285	111	48	74	233[1]	H1 2022	£92.50
The Featherstone Building EC1	-	69	125	34	26	1	61	H1 2022	£70.00
	-	**410**	**790**	**185**	**74**	**75**	**334**		
Planning and design	-	-	-	11	3	-	14		
Other[2]	-	-	-	17	20	9	46		
Total	**-**	**410**	**790**	**213**	**97**	**84**	**394**		
Capitalised interest	-	-	-	11	14	1	26		
Total including interest	**-**	**410**	**790**	**224**	**111**	**85**	**420**		

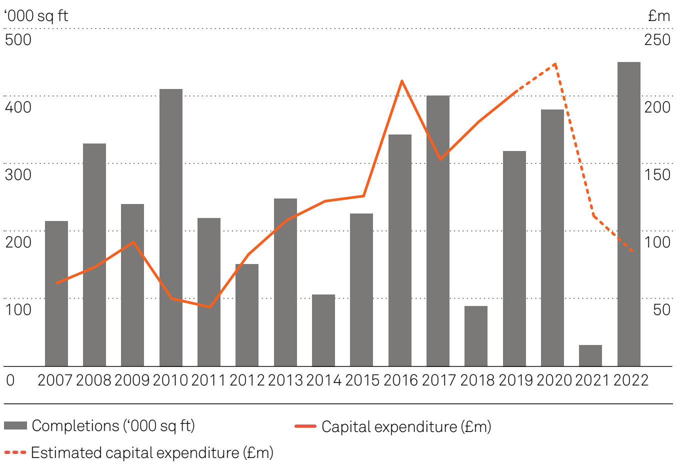
1 Includes remaining site acquisition cost and 16% profit share payaway to freeholder Crossrail 2
Includes 6-8 Greencoat Place and Francis House projects

Project summary – future projects

Property	Current net income £m pa	Pre-scheme area '000 sq ft	Proposed area '000 sq ft	Earliest possession year	Comment
Consented					
19-35 Baker Street W1[1]	4.5	143	293	2021	Currently Derwent 55%, The Portman Estate 45%
Holden House W1	6.6	90	150	2021	Eastern end of Oxford Street
	11.1	**233**	**443**		
Adjustment for JV	(2.0)	(64)	-		19-35 Baker Street W1
	9.1	**169**	**443**		
Under appraisal[2]					
Angel Square EC1	4.7	126	140	2021	
Network Building W1	4.1	64	100	2021	
Bush House WC2	0.0	108	108	TBC	
Francis House SW1	1.0	40	40	2021	Refurbishment
6-8 Greencoat Place SW1	1.0	32	32	2020	Refurbishment
Other	0.4	30	30		
	11.2	**400**	**450**		
Consented and under appraisal	**20.3**	**569**	**893**		
On site	-	410	790		Previous table
Pipeline	**20.3**	**979**	**1,683**		

1 Includes 88-100 George Street, 30 Gloucester Place and 69-85 Blandford Street
2 Areas proposed are estimated from initial studies

Completions and capital expenditure

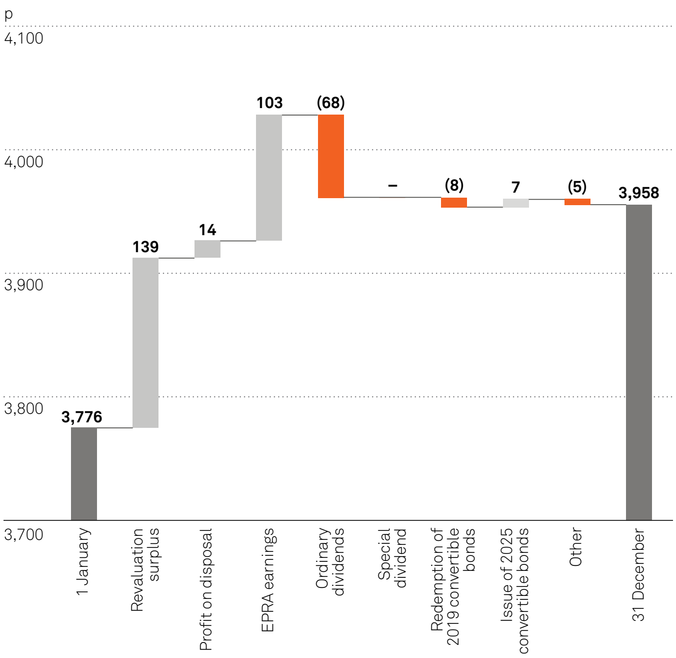


Appendix 5
Finance

Financial highlights

	2019	2018
IFRS NAV	£4,476.9m	£4,263.4m
EPRA NAV per share	3,958p	3,776p
Property portfolio at fair value	£5,475.2m	£5,190.7m
Net rental income	£178.0m	£161.1m
Profit before tax	£280.6m	£221.6m
EPRA earnings per share (EPS)	103.09p	113.07p
Underlying EPS	103.09p	99.08p
Interim and final dividend per share	72.45p	65.85p
LTV ratio	16.9%	17.2%
NAV gearing	21.9%	22.4%
Net interest cover ratio	462%	491%

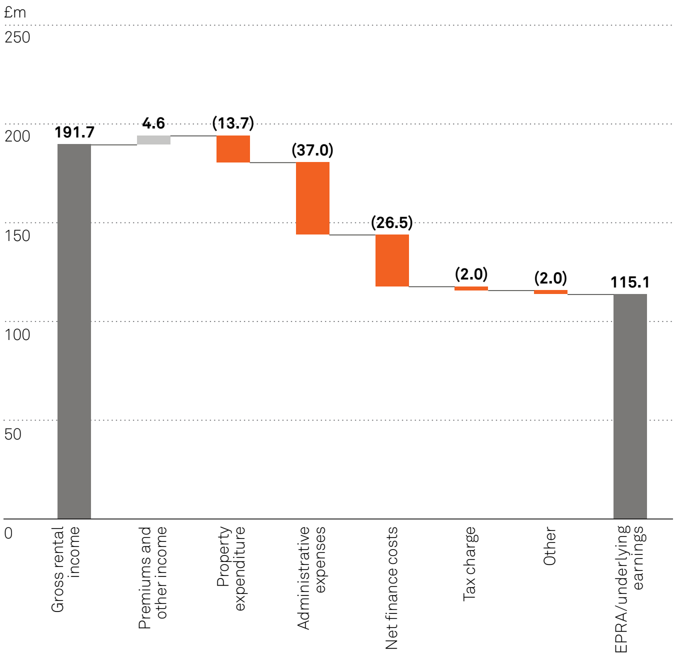
EPRA net asset value per share



2018	3,716	75	5	113	(62)	(75)	–	–	4	3,776

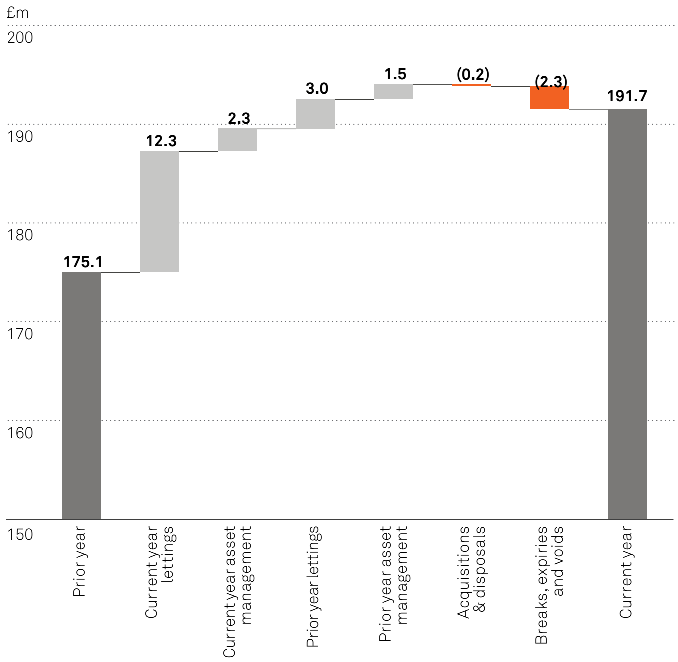
Appendix 5
Finance

EPRA and underlying earnings



2018	175.1	8.0	(12.6)	(32.3)	(23.5)	(3.1)	(1.1)	110.5
					Rights of access receipt			15.6
					EPRA earnings			126.1

Gross rental income



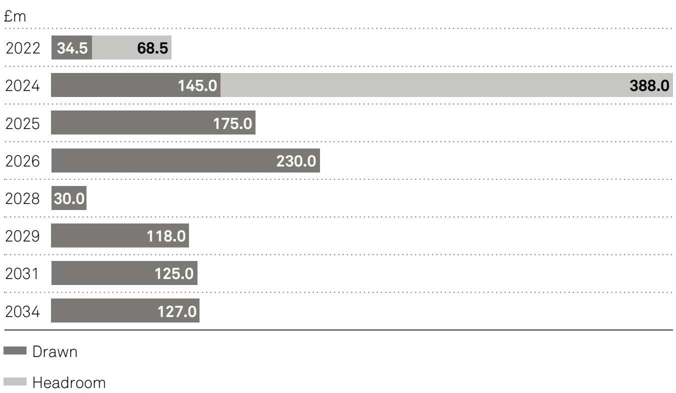
EPRA like-for-like rental income

	2019 %	2018 %
Increase based on gross rental income	4.4	1.9
Increase based on net rental income	4.7	0.6
Increase based on net property income	(7.2)	15.4

Cost ratios

	2019 %	2018 %
EPRA cost ratio, incl. direct vacancy costs	23.9	23.3
EPRA cost ratio, excl. direct vacancy costs	22.5	20.8
Portfolio cost ratio, incl. direct vacancy costs	0.8	0.8

Maturity profile of debt facilities as at 31 December 2019



Appendix 5
Finance

Debt facilities and reconciliation to borrowings and net debt at 31 December 2019

	Drawn £m	Undrawn £m	Total £m	Maturity
6.5% secured bonds	175.0	–	175.0	March 2026
3.99% secured loan	83.0	–	83.0	October 2024
1.5% unsecured convertible bonds	175.0	–	175.0	June 2025
2.68% unsecured private placement notes	55.0	–	55.0	January 2026
3.46% unsecured private placement notes	30.0	–	30.0	May 2028
4.41% unsecured private placement notes	25.0	–	25.0	January 2029
2.87% unsecured private placement notes	93.0	–	93.0	January 2029
2.97% unsecured private placement notes	50.0	–	50.0	January 2031
3.57% unsecured private placement notes	75.0	–	75.0	May 2031
4.68% unsecured private placement notes	75.0	–	75.0	January 2034
3.09% unsecured private placement notes	52.0	–	52.0	January 2034
Non-bank debt	888.0	–	888.0	
Bilateral term – secured	28.0	–	28.0	July 2022
Bilateral revolving credit – unsecured	6.5	68.5	75.0	July 2022
Club revolving credit – unsecured	62.0	388.0	450.0	October 2024
Committed bank facilities	96.5	456.5	553.0	
Debt facilities	984.5	456.5	1,441.0	
Acquired fair value of secured bonds less amortisation	10.6			
Equity adjustment to convertible bonds less amortisation	(7.0)			
Unamortised issue and arrangement costs	(11.5)			
Borrowings	976.6			
Leasehold liabilities	59.5			
Cash and cash equivalents	(54.5)			
Net debt	**981.6**			

Debt: key stats

	2019	2018
Hedging profile (%)		
Fixed	90	67
Swaps	3	3
	93	70
Percentage of debt that is unsecured (%)	71	69
Percentage of non-bank debt (%)	90	67
Weighted average interest rate - cash basis (%)	3.54	3.43
Weighted average interest rate - IFRS basis (%)	3.68	3.68
Weighted average maturity of facilities (years)	6.8	5.3
Weighted average maturity of borrowings (years)	7.8	5.9
Undrawn facilities and cash	511	274
Uncharged properties	4,423	4,117