DERWENT LONDON

Annual Results 2018 Announcement

DERWENT
LONDON

26 February 2019

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

RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018
DEVELOPMENT LETTINGS DRIVE PERFORMANCE

Financial highlights

- Net property and other income £185.9m, up 12.8% from £164.8m in 2017
- EPRA[1] earnings of 113.1p per share, up 20.0% from 94.2p in 2017, including surrender premiums and non-recurring property income
- Underlying[1] earnings of 99.1p per share, up 5.1% from 94.2p
- Derwent London delivered a total return of 5.3%:
    - EPRA NAV 3,776p per share, up 1.6% after dividends from 3,716p in December 2017
    - Dividends paid 136.5p per share, which includes 75.0p special paid in June 2018
- Proposed final dividend raised 10.3% to 46.75p per share from 42.40p in 2017
- Full year dividend 65.85p per share from 59.73p, up 10.2%
- We expect the 2019 dividend to grow at a similar rate
- Net debt increased to £956.9m from £657.9m in December 2017
- Interest cover 491%, loan-to-value ratio 17.2%
- Cash and undrawn facilities £274m before £250m USPP drawn in January 2019
- Assigned Fitch corporate credit rating of A- in August 2018 with senior unsecured debt rating of A

Activity and opportunities

- New lettings totalling £26.8m, achieving 4.1% above December 2017 estimated rental value (ERV)
- Two on-site developments totalling 623,000 sq ft – now 75% pre-let, up from 45% one year ago
    - Brunel Building W2 – 64% pre-let at December 2018 (now 77% with balance under offer)
    - 80 Charlotte Street W1 – 74% pre-let
- Potential £59.6m to contribute to income after additional capex of £133m
- Two new developments could add £30m to ERV on completion 2022, with expected capex of £359m
    - Soho Place W1 construction contract signed February 2019
    - Demolition started at the site of The Featherstone Building EC1
- Another 1.6m sq ft of space in the portfolio has regeneration potential, 14% with planning consent

Portfolio update

- Portfolio valued at £5.2bn – an underlying valuation increase of 2.2%
- Underlying valuation uplift on developments was 18.0%
- True equivalent yield of 4.73% – unchanged from December 2017
- Total property return of 6.0%, ahead of our benchmark index[2] of 5.3%
- EPRA vacancy rate rose to 1.8% from 1.3% in December 2017, down from 4.2% in June 2018
- ERV growth of 1.1% in 2018
- ERV guidance for 2019 +1% to -2%

Board changes at next AGM 17 May 2019 (previously announced)

- The Hon. Robert Rayne (current Chairman) to retire
- John Burns (current Chief Executive) to become Non-Executive Chairman
- Paul Williams to become new Chief Executive

[1] Explanations of how EPRA and underlying figures are derived from IFRS are shown in note 23
[2] MSCI IPD Central London Offices Quarterly Index

Robbie Rayne, Chairman, commented:

"Derwent London made good progress last year achieving £26.8m of new lettings, a 5.1% increase in underlying earnings and a 20.0% increase in EPRA EPS, despite continuing political and economic uncertainty. We propose raising the final dividend 10.3% to 46.75p per share."

John Burns, Chief Executive, commented:

"Demand for Central London offices remains very active and we have been able to outperform the market through our development activities. Our brand of well-designed office space remains attractive to tenants. With its strong financial position, high quality portfolio and pipeline of exciting opportunities, this positions the Group for continued success."

Webcast and conference call

There will be a live webcast together with a conference call for investors and analysts at 09:30 GMT today. The audio webcast can be accessed via www.derwentlondon.com

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

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

For further information, please contact:

Derwent London Tel: +44 (0)20 7659 3000	John Burns, Chief Executive Damian Wisniewski, Finance Director Quentin Freeman, Head of Investor Relations
Brunswick Group Tel: +44 (0)20 7404 5959	Simon Sporborg Nina Coad Emily Trapnell

CHAIRMAN'S STATEMENT

Derwent London continued to make good progress in 2018 despite prolonged political and economic uncertainty. Against the background of protracted Brexit negotiations, we have achieved £26.8m of new lettings, a 5.1% increase in underlying earnings to 99.1p per share and a 20.0% increase in EPRA EPS to 113.1p per share. The EPRA NAV rose 1.6% to 3,776p per share after paying out dividends of 136.5p. Our financial strength was recognised when we were assigned a corporate credit rating of A- by Fitch, and we have subsequently arranged a £250m US private placement, which was drawn down in January 2019. We adopted the UN Sustainable Development Goals as part of our reporting process, launched an internal management and leadership programme and completed our succession plans.

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

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

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

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

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

Increasingly, we are focusing on the broader impact of our business on a wider range of stakeholders and we have established a Responsible Business Committee chaired by Non-Executive Director, Cilla Snowball. While we believe that we already have some of the best ESG[1] standards in our industry, we remain committed to improving them and 2018 saw us raise the bar again. White Collar Factory EC1 won numerous awards, including RIBA[2] National and BCO[3] National Innovation awards and 25 Savile Row W1 won a SKA[4] Gold rating. We have now committed to extending our Community Fund out to 2021, having completed its first five years in 2018, and we saw good progress towards achieving our 2027 science-based carbon targets.

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

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

[1] Environmental, social and governance
[2] Royal Institute of British Architects
[3] British Council for Offices
[4] RICS rating

CHIEF EXECUTIVE'S STATEMENT

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

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

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

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

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

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

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

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

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

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

Outlook

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

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

CENTRAL LONDON OFFICE MARKET

See Appendix 1 for supporting graphs

The London office market is not following the typical cyclical pattern that it has experienced over the last 30 years. Investment yields have remained firm even though rental growth has slowed. Occupational demand and investment turnover is good, and vacancy levels below average. Interest rates remain close to historical lows. Normally these market fundamentals might be expected to lead to rental growth but the continuing political uncertainty is providing a brake. Property yields, although low, remain attractive against comparable European cities and other asset classes. However, the current political and economic backdrop has meant that occupiers remain discerning over product and disciplined when committing to new occupational costs. These trends are playing to our strengths.

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

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

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

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

VALUATION

See Appendix 2 for supporting graphs and tables

The Group's investment portfolio was valued at £5.2bn at 31 December 2018. The valuation surplus was £100.2m, which after accounting adjustments of £16.3m (see note 11) is a reported surplus of £83.9m. This reflects an underlying valuation increase of 2.2% (3.9% in 2017) and an outperformance against our benchmarks: the MSCI IPD Index for Central London Offices of 1.8% and 1.4% for the wider MSCI IPD UK All Property Index. By location, our central London properties, 98% of the portfolio, were up 2.4%, with the West End at 2.3% and the City borders, principally the Tech Belt, at 2.6%. The balancing 2% of the portfolio is our non-core Scottish holdings, and these declined 8.0%, due to the weak retail market.

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

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

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

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

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

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

ASSET MANAGEMENT AND INVESTMENT ACTIVITY

See Appendix 3 for supporting graphs

In 2018, we achieved £26.8m of new lettings across 427,100 sq ft, on average 4.1% above December 2017 ERV. By value, open market lettings represented 90% of the total and these achieved 9.0% above ERV, with the overall average brought down by a number of short-term lettings principally to preserve income on 19-35 Baker Street W1, which we intend to redevelop. Second half activity proved busier than the first, with 47% of our lettings by value achieved in the final quarter.

Letting activity 2018

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

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

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

Principal lettings 2018

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

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

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

Asset management 2018

	Area 000 sq ft	Previous rent £m pa	New rent £m pa	Uplift %	Income vs Dec 17 ERV %
Rent reviews	188	6.5	8.0	24.0	2.6
Lease renewals	265	12.7	15.3	20.3	-3.6
Lease regears	380	12.6	15.0	18.8	-1.2
Total	**833**	**31.8**	**38.3**	**20.4**	**-1.4**

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

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

Investment activity

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

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

DEVELOPMENT

See Appendix 4 for supporting graphs and tables

We have made good progress on our two major schemes. At the year end, we had 623,000 sq ft under construction which is now 75% pre-let, up from 45% a year earlier. Brunel Building W2 is now 77% pre-let with the remaining three office floors under offer. This project is due for completion in the first half of 2019, while 80 Charlotte Street W1 is on course for completion one year later. The commercial element is 80% pre-let, principally to Arup and The Boston Consulting Group, which was announced in 2017. During 2018, we pre-let the 11,000 sq ft office space in the adjoining Asta House to Elliott Wood. Together, our two on-site projects have an ERV of £42.7m, and require £133m of capex to complete. 80 Charlotte Street also has 55 residential units of which we expect to let 19 and sell 36. The latter includes 14 affordable units, which we have agreed to sell.

Major developments pipeline

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

[1] As at 31 Dec 2018 [2] 'Resolution to grant' planning permission [3] Total area - Derwent London has a 55% share of the joint venture
[4] Includes remaining site acquisition cost and profit share to Crossrail

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

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

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

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

FINANCE REVIEW

See Appendix 5 for supporting graphs and tables

Financial overview

Against a background of significant asset management and letting activity, it was development uplifts that drove our valuation and net asset performance again in 2018. While the underlying central London office rental market was relatively flat, high-quality space in newly constructed buildings was in short supply in our villages; as a result, the Brunel Building at Paddington attracted rents well above our estimates and helped the total return for the year to 5.3%.

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

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

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). In common with usual and best practice in our sector, alternative performance measures have also been provided to supplement IFRS based on the recommendations of the European Public Real Estate Association ("EPRA"). EPRA Best Practice and Policy Recommendations (BPR) have been adopted widely throughout this report and are used within the business when considering our operational performance as well as matters such as dividend policy and elements of our Directors' remuneration. Full reconciliations between IFRS and EPRA figures are provided in note 23 and all the EPRA definitions are included in note 26.

See Appendix 5 for financial highlights table

Delivering above average long-term returns

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

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

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

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

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

Property portfolio

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

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

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

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

The net carrying value of joint venture investments at 31 December 2018 fell to £29.1m (2017: £39.7m) following the sale of Porters North N1 in March. After repaying the related bank loan within the joint venture company, we received a dividend of £13.5m in H2 2018. 9 and16 Prescot Street E1 are now our only joint venture property holdings but contracts have now been exchanged to sell 9 Prescot Street later in 2019.

Property income and earnings

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

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

In line with these cost increases and our policy of not capitalising overheads, our EPRA cost ratio (see note 23) has increased to 23.3% in 2018 (2017: 20.8%) or 20.8% excluding direct vacancy costs (2017: 19.3%).

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

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

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

Due mainly to the lower uplifts on revaluation and disposals, IFRS profit before tax fell to £221.6m for the year ended 31 December 2018 against £314.8m in the prior year. However, on an EPRA basis, which excludes fair value movements and profits on disposals of investment properties, earnings increased by 20.1% to £126.1m from £105.0m in 2017. EPRA earnings per share (EPS) were up by a similar amount to 113.1p from 94.2p a year earlier. As EPRA earnings and EPS include the non-recurring £15.6m access rights receipt at Holden House net of fees, we have also provided 'underlying' figures, giving an adjusted EPS of 99.1p, a rise of 5.1% over 2017. Note that the underlying figures do include rights of light and dilapidations receipts of £3.6m as these items occur frequently within our ongoing property operations. A table providing a reconciliation of the IFRS results to EPRA earnings per share is included in note 23.

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

EPRA like-for-like rental income

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

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

Taxation

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

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

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

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

Net debt and cash flow

Group borrowings increased to £914.5m at 31 December 2018 from £730.8m a year earlier after capital expenditure invested in our projects, dividend payments totalling £152.0m and net property acquisitions of £57.3m. Grossing up for leasehold liabilities and netting off cash balances, net debt increased from £657.9m to £956.9m at December 2018. This has raised the Group loan-to-value ratio from its low point in December 2017 of 13.2% to 17.2% in December 2018, but it remains at the second lowest year-end level over the past decade. Interest cover rose again to 491% for the year compared with 454% in 2017. Note that interest cover is calculated on net rental income and does not include surrender premiums for rights of light/access premiums. Full details of the calculation are in note 24.

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

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

See Appendix 5 for tables of net debt and gearing and interest cover ratio

Debt and financing arrangements

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

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

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

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

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

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

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

See Appendix 5 for tables of debt facilities, debt summary and graphs showing maturity profile of debt facilities and fixed rates and swaps

Dividend

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

PRINCIPAL RISKS AND UNCERTAINTIES

We have identified certain principal risks and uncertainties that could prevent the Group from achieving its strategic objectives and 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 2019.

The principal risks and uncertainties facing the Group in 2019 are set out on the following pages with the potential impact and the mitigating actions and controls in place. The Group's approach to the management and mitigation of these risks is included in the 2018 Annual Report.

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: • A 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. Throughout the year, 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's 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 re-gearing. • The Group aims to de-risk the development programme through pre-lets. • The Group maintains sufficient headroom in all the Group's key ratios and financial covenants with a focus on interest cover.

2. Adverse Brexit settlement

Risk that negotiations to leave the European Union result in arrangements which are damaging to the London economy.

As a predominantly London-based group, we are particularly sensitive to any factors which impact upon London's growth and demand for office space.

- The Group's strong financing and covenant headroom enables it to weather a downturn.
- The Group's diverse and high-quality tenant base provides resilience against tenant default.
- The Group focuses on good value, middle market rent properties which are less susceptible to reductions in tenant demand. The Group's average 'topped' up office rent is only £53.25 per sq ft (2017: £49.74 per sq ft).
- The Group develops properties in locations where there is good potential for future demand, such as near Crossrail stations.
- Income is maintained at future developments for as long as possible.
- Ongoing strategy is to extend income through lease renewals and re-gearing and to de-risk the development programme though pre-lets.
- Brexit negotiations are being monitored and potential outcomes discussed with external advisers.
- Brexit risk assessments have been performed to understand how the different scenarios of Brexit could impact on our business model and strategy.

3. Management of succession

Risk that the Board's succession plans, due to become effective during 2019, fail to retain our senior management team and lead to a loss of our culture and/or talent.

- John Burns will be the Non-Executive Chairman until May 2021 and will aim to retain the culture of the Group and ensure an orderly succession.
- Simon Fraser, Senior Independent Director, acts as a 'sounding board' for the Chairman and an independent point of contact for Directors and Shareholders.
- Remuneration packages are benchmarked regularly.
- Six-monthly performance appraisals identify training requirements and career aspirations.
- The Board monitors the culture of the Group

Financial risks

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

Risk, effect and progression	Controls and mitigation
4. Fall in property values	
Increasing property yields, which may be a consequence of rising interest rates, would cause property values to fall. Interest rates have remained low for an extended period and are expected to rise gradually over the next few years. Though there is no direct relationship, this may cause property yields to increase. The underlying value of our investment portfolio has remained resilient, increasing by 2.2% in 2018, despite the continuing economic uncertainties. The probability that property values will fall has increased over the last year as we approach the end of the current property cycle (normal property cycles last for approximately seven years and we are currently at just over eight years). The Bank of England's Monetary Policy Committee increased interest rates during the year from 0.5 to 0.75%. Despite this rise, future interest rate increases are anticipated to be slow and incremental.	• 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
5. Risks arising from our development activities	
A. Reduced development returns	
The Group's development projects do not produce the targeted financial returns due to one or more of the following factors: • Delay on site • Increased construction costs • Adverse letting conditions For example: delays could lead to penalties payable to pre-let tenants at 80 Charlotte Street. Due to our significant development pipeline, with a number of key projects currently under construction including 80 Charlotte Street and the Brunel Building, the risk of delays to our projects and/or cost overruns remain a principal risk. By the end of 2018 we had largely de-risked these projects.	• Investment appraisals, which include contingencies and inflationary cost increases, are prepared and sensitivity analysis is undertaken to measure that an adequate return is made in all likely circumstances. • The procurement process used by the Group includes the use of highly regarded firms of quantity surveyors and is designed to minimise uncertainty regarding costs. • Development costs are benchmarked to ensure that the Group obtains competitive pricing and, where appropriate, fixed-price contracts are negotiated. • Procedures carried out before starting work on site, such as site investigations, historical research of the property and surveys conducted as part of the planning application, reduce the risk of unidentified issues causing delays once on site. • The Group's pre-letting strategy reduces or removes the letting risk of the development as soon as possible. • Detailed reviews are performed on construction projects to ensure that forecasts are aligned with our contractors. • Post-completion reviews are carried out for all major developments to ensure that improvements to the Group's procedures are identified, implemented and lessons learned.
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, delays could lead to penalties payable to pre-let tenants at 80 Charlotte Street. Our pre-let strategy has increased this risk. Due to our successful pre-letting programme, there is increased risk on completing 80 Charlotte Street on time. If late we could face a loss of rental income and penalties.	• 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 the 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 on our contractors (or subcontractors) it did highlight the ongoing issues within the construction industry and the level of risk (and thin profit margins) being accepted by contractors. We regularly monitor our contractors who are currently not showing any trading concerns.

- The financial standing of our main contractors is reviewed prior to awarding the project contract.
- Regular monitoring of our contractors, including their project cash flows, is carried out.
- Key construction packages are acquired early in the project's life to reduce the risks associated with later default.
- Whenever possible the Group uses contractors/subcontractors that it has previously worked with successfully.
- Regular on-site supervision by a dedicated Project Manager. Monitor contractor performance and 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 who we have established long-term working relationships.
- Contractors are paid promptly and are encouraged to pay subcontractors promptly.

6. Risk of business interruption

A. Cyber attack

The Group is subject to a cyber attack that results in it being unable to use its IT systems and/or losing data. This could lead to an increase in costs 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 Steering Committee.

B. Terrorism or other business interruption

Considered a principal risk due to continuing attacks in European cities.

The risk that an act of terrorism interrupts the Group's operations is considered a principal risk due to terrorist activity 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 is performed for each property in our managed portfolio.

7. Reputational damage

The Group's reputation is damaged, for example through unauthorised and/or inaccurate media coverage or failure to comply with the 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, both of whom maintain regular contact with external media sources.
- A Group whistleblowing system for staff is maintained to report wrongdoing anonymously.
- Social media channels are monitored.
- Ongoing engagement with local communities in areas where the Group operates.

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.

- The Group has a qualified health and safety team whose performance is monitored and managed by the Health and Safety Committee.
- External advisors (ORSA) appointed to advise on construction health and safety.
- The Board and Executive Committee receive regular updates and presentations on key health and safety matters.
- All our properties have health, safety and fire management procedures in place which are reviewed annually.
- External project managers review health and safety on each construction site on a monthly basis.

B. Climate change and non-compliance with environmental and sustainability legislation

The Group's cost base is increased and management time is diverted due to the impacts of climate change on our portfolio and/or a breach of any of legislation. This could lead to damage to our reputation, loss of income and/or property value, and loss of our licence to operate.	• 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 Sustainability Report, the key data points and performance of which are externally assured.

C. 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. Considerable time has been spent during the year on areas such as GDPR and the project to prevent and detect any facilitation of tax evasion.	• 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.

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 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 the profit or loss and net assets of a 50 basis point shift in interest rates would result in an increase of £1.3m (2017: £0.3m) or a decrease of £1.3m (2017: £0.3m).

It is currently Group policy that generally between 60% and 85% of external Group borrowings (excluding finance lease payables) are at fixed rates. Where the Group wishes to vary the amount of external fixed rate debt it holds (subject to it being generally between 60% and 85% of expected Group borrowings, as noted above), the Group makes use of interest rate derivatives to achieve the desired interest rate profile. Although the Board accepts that this policy neither protects the Group entirely from the risk of paying rates in excess of current market rates nor eliminates fully cash flow risk associated with variability in interest payments, it considers that it achieves an appropriate balance of exposure to these risks. At 31 December 2018, the proportion of fixed debt held by the Group was 70% (2017: 88%). During both 2018 and 2017, the Group's borrowings at variable rate were denominated in sterling.

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

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

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

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

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

Capital disclosures

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

The Group's objectives when maintaining capital are:

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

The Group sets the amount of capital it requires in proportion to risk. The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may vary the amount of dividends paid to shareholders subject to the rules imposed by its REIT status. It may also seek to redeem bonds, return capital to shareholders, issue new shares or sell assets to reduce debt. Consistent with others in its industry, the Group monitors capital on the basis of NAV gearing and loan-to-value ratio. During 2018, the Group's strategy, which was unchanged from 2017, was to maintain the NAV gearing below 80% in normal circumstances. These two gearing ratios, as well as the interest cover ratio, are defined in the list of definitions at the end of this announcement and are derived in note 24.

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 financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and parent 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 parent company and of the profit or loss of the group and parent 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 financial statements and IFRSs as adopted by the European Union have been followed for the 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 parent Company will continue in business.

The Directors are also responsible for safeguarding the assets of the Group and parent 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 parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and parent 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 parent 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

John D. Burns
Chief Executive Officer
26 February 2019

Damian M.A. Wisniewski
Finance Director

GROUP INCOME STATEMENT

	Note	**2018 £m**	2017 £m
Gross property and other income	5	**228.0**	202.6
Net property and other income	5	**185.9**	164.8
Administrative expenses		**(32.3)**	(28.2)
Revaluation surplus	11	**83.4**	147.9
Profit on disposal of investment property	6	**5.2**	50.3
Profit from operations		**242.2**	334.8
Finance costs	7	**(23.5)**	(27.1)
Movement in fair value of derivative financial instruments		**4.3**	9.4
Financial derivative termination costs	8	**(3.5)**	(7.3)
Share of results of joint ventures	9	**2.1**	5.0
Profit before tax		**221.6**	314.8
Tax charge	10	**(2.7)**	(1.8)
Profit for the year		**218.9**	313.0
Attributable to:			
- Equity shareholders		**222.3**	314.0
- Non-controlling interest		**(3.4)**	(1.0)
		218.9	313.0
Earnings per share	23	**199.33p**	281.79p
Diluted earnings per share	23	**198.91p**	281.12p

GROUP STATEMENT OF COMPREHENSIVE INCOME

	Note	**2018 £m**	2017 £m
Profit for the year		**218.9**	313.0
Actuarial losses on defined benefit pension scheme		**-**	(0.9)
Revaluation surplus of owner-occupied property	11	**0.7**	1.8
Deferred tax credit/(charge) on revaluation	18	**0.1**	(0.7)
Other comprehensive income that will not be reclassified to profit or loss		**0.8**	0.2
Total comprehensive income relating to the year		**219.7**	313.2
Attributable to:			
- Equity shareholders		**223.1**	314.2
- Non-controlling interest		**(3.4)**	(1.0)
		219.7	313.2

GROUP BALANCE SHEET

	Note	**2018 £m**	2017 £m
Non-current assets			
Investment property	11	**5,028.2**	4,670.7
Property, plant and equipment	12	**53.1**	52.2
Investments	13	**29.1**	39.7
Pension scheme surplus		**0.3**	-
Other receivables	14	**123.1**	105.2
		5,233.8	4,867.8
Current assets			
Trading property	11	**36.3**	25.3
Trade and other receivables	15	**61.4**	58.0
Cash and cash equivalents	20	**18.3**	87.0
		116.0	170.3
Total assets		**5,349.8**	5,038.1
Current liabilities			
Borrowings	17	**148.4**	-
Trade and other payables	16	**103.1**	86.7
Corporation tax liability		**2.1**	2.1
Provisions		**0.3**	0.2
		253.9	89.0
Non-current liabilities			
Borrowings	17	**766.1**	730.8
Derivative financial instruments	17	**3.6**	7.9
Leasehold liabilities	17	**60.7**	14.1
Provisions		**0.3**	0.4
Pension scheme deficit		**-**	0.4
Deferred tax	18	**1.8**	2.3
		832.5	755.9
Total liabilities		**1,086.4**	844.9
Total net assets		**4,263.4**	4,193.2
Equity			
Share capital		**5.6**	5.6
Share premium		**189.6**	189.2
Other reserves		**943.5**	942.9
Retained earnings		**3,063.2**	2,990.6
Equity shareholders' funds		**4,201.9**	4,128.3
Non-controlling interest		**61.5**	64.9
Total equity		**4,263.4**	4,193.2

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 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**

	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 2017	5.6	188.4	950.4	2,787.9	3,932.3	67.1	3,999.4
Profit/(loss) for the year	-	-	-	314.0	314.0	(1.0)	313.0
Other comprehensive income/(expense)	-	-	1.1	(0.9)	0.2	-	0.2
Transfer of owner-occupied property	-	-	(6.9)	6.9	-	-	-
Share-based payments	-	0.8	(1.7)	2.8	1.9	-	1.9
Dividends paid	-	-	-	(120.1)	(120.1)	(1.2)	(121.3)
At 31 December 2017	5.6	189.2	942.9	2,990.6	4,128.3	64.9	4,193.2

GROUP CASH FLOW STATEMENT

	Note	**2018 £m**	2017 £m
Operating activities			
Property income		**159.5**	154.2
Surrender premiums and other property income		**22.2**	0.1
Property expenses		**(19.1)**	(19.2)
Cash paid to and on behalf of employees		**(22.0)**	(19.5)
Other administrative expenses		**(5.2)**	(7.3)
Interest paid	7	**(17.4)**	(21.7)
Other finance costs	7	**(2.6)**	(3.2)
Other income		**2.9**	2.9
Tax paid in respect of operating activities		**(3.1)**	(2.8)
Net cash from operating activities		**115.2**	83.5
Investing activities			
Acquisition of properties		**(57.3)**	(8.5)
Capital expenditure on the property portfolio	7	**(187.5)**	(171.0)
Reimbursement of capital expenditure		**15.9**	6.0
Disposal of investment and trading properties		**0.3**	472.9
Investment in joint ventures		**(0.8)**	-
Repayment of shareholder loan		**-**	1.3
Dividend from joint venture		**13.5**	-
Purchase of property, plant and equipment		**(0.8)**	(5.0)
VAT received/(paid)		**7.6**	(11.7)
Net cash (used in)/from investing activities		**(209.1)**	284.0
Financing activities			
Net movement in revolving bank loans		**180.5**	(170.8)
Payment of loan arrangement costs		**(0.2)**	-
Financial derivative termination costs		**(3.5)**	(7.3)
Net proceeds of share issues		**0.4**	0.8
Dividends paid to non-controlling interest holder		**-**	(1.2)
Dividends paid	19	**(152.0)**	(119.7)
Net cash from/(used in) financing activities		**25.2**	(298.2)
(Decrease)/increase in cash and cash equivalents in the year		**(68.7)**	69.3
Cash and cash equivalents at the beginning of the year		**87.0**	17.7
Cash and cash equivalents at the end of the year	20	**18.3**	87.0

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 2018 or the year ended 31 December 2017, but is derived from those accounts. The Group's statutory accounts for 2017 have been delivered to the Registrar of Companies and those for 2018 will be delivered following the Company's Annual General Meeting. The Auditor's reports on both the 2017 and 2018 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
The Board continues to adopt the going concern basis in preparing these consolidated financial statements. In considering this requirement, the Directors have taken into account the following:

- The Group's latest rolling forecast for the next two years, in particular the cash flows, borrowings and undrawn facilities. Sensitivity analysis is included within these forecasts.
- The headroom under the Group's financial covenants.
- The current and forecast risks included on the Group's risk register that could impact on the Group's liquidity and solvency over the next 12 months from the date of signing.

2. **Changes in accounting policies**

The 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 2017, as amended to reflect the adoption of new standards, amendments and interpretations which became effective in the year as shown below.

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

IFRS 2 (amended) – Share Based Payments;
IFRS 4 (amended) – Insurance Contracts;
IAS 40 (amended) – Investment Property;
IFRIC 22 – Foreign Currency Transactions and Advance Consideration;
Annual Improvements to IFRSs (2014 – 2016 cycle).

IFRS 9 Financial Instruments (effective from 1 January 2018)

This standard applies to classification and measurement of financial assets and financial liabilities, impairment provisioning and hedge accounting. The Group's assessment of IFRS 9 determined that the main area of potential impact was impairment provisioning on trade receivables, given the requirement to use a forward-looking expected credit loss model. However, the Group concludes that this has no material impact on its financial statements.

IFRS 15 Revenue from Contracts with Customers (effective from 1 January 2018)

IFRS 15 combines a number of previous standards, setting out a five step model for the recognition of revenue and establishing principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue. The standard is applicable to service charge income, facilities management income, investment property disposals and trading property disposals, but excludes rent receivable, which is within the scope of IFRS 16. The Group has completed its assessment of IFRS 15 and concludes that its adoption has no material impact on the financial statements.

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

IFRS 9 (amended) – Prepayment Features with Negative Compensation;
IFRS 17 – Insurance Contracts;
IFRIC 23 – Uncertainty over Income Tax Treatments;
IAS 28 (amended) – Long-term interest in Associates and Joint Ventures;
IAS 19 (amended) – Plan Amendment, Curtailment of Settlement;
Annual Improvements to IFRSs (2015 – 2017 cycle).

IFRS 16 Leases (effective 1 January 2019)

This standard does not substantially affect the accounting for rental income earned by the Group as lessor. The main impact of the standard is the removal of the distinction between operating and finance leases for lessees, which will result in almost all leases being recognised on the balance sheet. As the Group does not hold any material operating leases as lessee, the impact of the standard is not expected to be material to the financial statements.

3. Significant 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 the consolidated financial statements.

Key sources of estimation uncertainty

Property portfolio valuation
The Group uses the valuation carried out by external valuers as the fair value of its property portfolio. The valuation is based upon assumptions including future rental income, anticipated maintenance costs, future development costs and the appropriate discount rate. The valuers also make reference to market evidence of transaction prices for similar properties. More information is provided in note 16.

Borrowings and derivatives
The fair values of the Group's borrowings and interest rate swaps are based on estimates provided by independent third parties. The estimates are based on the terms of each of the financial instruments using data available in the financial markets. More information is provided in note 23.

Significant judgements

Compliance with the real estate investment trust (REIT) taxation regime
As a consequence of the Group's REIT status, income and chargeable gains on the qualifying property rental business are exempt from corporation tax.

In order for the Group to remain in the REIT regime, it is subject to a number of criteria that it must meet in each accounting period. The Group comfortably met all the criteria in 2018 ensuring its REIT status is maintained. The Directors intend that the Group should continue as a REIT for the foreseeable future.

Income that does not qualify as property income within the REIT rules is subject to corporation tax in the normal way. Such income includes development fees, interest income, sale of trading properties and our interest in unelected joint ventures.

The Group has maintained its low risk rating with HMRC due to the continued regular dialogue we maintain with them and our transparent approach.

A full explanation of these policies is included in the 2018 financial statements.

4. Segmental information

IFRS 8 Operating Segments requires operating segments to be identified on the basis of internal financial reports about components of the Group that are regularly reviewed by the chief operating decision maker (which in the Group's case is the Executive Committee comprising the six executive Directors and six senior managers) in order to allocate resources to the segments and to assess their performance.

The internal financial reports received by the Group's Executive Committee contain financial information at a Group level as a whole and there are no reconciling items between the results contained in these reports and the amounts reported in the financial statements. These internal financial reports include the IFRS figures but also report the non-IFRS figures for the EPRA earnings and net asset value. Reconciliations of each of these figures to their statutory equivalents are detailed in note 23. 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 2018 (2017: 97%). The Directors consider that these individual properties have similar economic characteristics and therefore have been aggregated into a single operating segment. The remaining 3% (2017: 3%) represented a mixture of retail, hotel, residential and light industrial properties, as well as land, each of which is de minimis in its own right and below the quantitative threshold in aggregate. Therefore, in the view of the Directors, there is one reportable segment under the provisions of IFRS 8.

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

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

Gross property income

	2018			2017		
	Office buildings £m	Other £m	**Total £m**	Office buildings £m	Other £m	Total £m
West End central	95.5	0.1	**95.6**	79.4	0.4	79.8
West End borders	19.3	-	**19.3**	18.4	-	18.4
City borders	76.1	0.5	**76.6**	69.0	0.2	69.2
Provincial	-	4.5	**4.5**	-	4.8	4.8
	190.9	5.1	**196.0**	166.8	5.4	172.2

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

Property portfolio

	2018			2017		
	Office buildings £m	Other £m	**Total £m**	Office buildings £m	Other £m	Total £m
Carrying value						
West End central	2,659.4	53.8	**2,713.2**	2,356.8	42.2	2,399.0
West End borders	439.2	-	**439.2**	439.3	-	439.3
City borders	1,859.5	7.7	**1,867.2**	1,799.1	6.5	1,805.6
Provincial	-	91.9	**91.9**	-	98.6	98.6
	4,958.1	153.4	**5,111.5**	4,595.2	147.3	4,742.5
Fair value						
West End central	2,658.1	54.9	**2,713.0**	2,394.9	43.7	2,438.6
West End borders	462.5	-	**462.5**	459.7	-	459.7
City borders	1,913.7	7.7	**1,921.4**	1,844.4	6.4	1,850.8
Provincial	-	93.8	**93.8**	-	101.2	101.2
	5,034.3	156.4	**5,190.7**	4,699.0	151.3	4,850.3

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

5. Property and other income

	2018 **£m**	2017 £m
Gross rental income	**175.1**	172.1
Surrender premiums received	**3.2**	0.1
Other property income	**17.7**	-
Gross property income	**196.0**	172.2
Service charge income	**29.1**	27.7
Other income	**2.9**	2.7
Gross property and other income	**228.0**	202.6
Gross rental income	**175.1**	172.1
Ground rent	**(1.4)**	(0.7)
Service charge income	**29.1**	27.7
Service charge expenses	**(32.0)**	(29.6)
	(2.9)	(1.9)
Other property costs	**(9.7)**	(8.4)
Net rental income	**161.1**	161.1
Other property income	**17.7**	-
Other income	**2.9**	2.7
Other costs	**(0.4)**	-
Surrender premiums received	**3.2**	0.1
Reverse surrender premiums	**(0.1)**	(0.2)
Dilapidation receipts	**1.7**	0.1
(Write-down)/reversal of write-down of trading property	**(0.2)**	1.0
Net property and other income	**185.9**	164.8

Gross rental income included £13.4m (2017: £17.1m) relating to rents recognised in advance of cash receipts.

Other property income included £15.8m for granting a new access rights deed to a neighbouring property owner. The remaining £1.9m relates to rights of light income in the year.

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

6. Profit on disposal of investment property

	2018 **£m**	2017 £m
Gross disposal proceeds	**5.4**	486.3
Costs of disposal	**-**	(3.5)
Net disposal proceeds	**5.4**	482.8
Carrying value	**(0.2)**	(418.9)
Adjustment for lease costs and rents recognised in advance	**-**	(19.2)
Adjustment for capital contributions	**-**	(4.2)
Adjustment for headlease liability	**-**	9.8
Profit on disposal of investment property	**5.2**	50.3

Gross disposal proceeds reflect £3.0m (2017: £5.0m) of accrued overage in relation to Riverwalk House SW1 and Vauxhall Bridge Road SW1, which were originally sold in 2012 and £2.0m (2017: £nil) of accrued overage in relation to Balmoral Grove N7, which was originally sold in December 2016.

7. Finance costs

	2018 **£m**	2017 £m
Finance costs		
Bank loans and overdraft	**3.6**	5.9
Non-utilisation fees	**1.9**	1.8
Unsecured convertible bonds	**3.9**	3.8
Secured bonds	**11.4**	11.4
Unsecured private placement notes	**8.3**	8.3
Secured loan	**3.3**	3.3
Amortisation of issue and arrangement costs	**2.1**	2.0
Amortisation of the fair value of the secured bonds	**(1.2)**	(1.1)
Finance lease costs	**0.7**	1.0
Other	**0.2**	0.1
Gross interest costs	**34.2**	36.5
Less: interest capitalised	**(10.7)**	(9.4)
Finance costs	**23.5**	27.1

Finance costs of £10.7m (2017: £9.4m) have been capitalised on development projects, in accordance with IAS 23 Borrowing Costs, using the Group's average cost of borrowings during each quarter. Total finance costs paid to 31 December 2018 were £30.7m (2017: £34.3m) of which £10.7m (2017: £9.4m) was included in capital expenditure on the property portfolio in the Group cash flow statement under investing activities.

8. Financial derivative termination costs

The Group incurred costs of £3.5m in the year to 31 December 2018 (2017: £7.3m) deferring, re-couponing or terminating interest rate swaps.

9. Share of results of joint ventures

	2018 **£m**	2017 £m
Revaluation (deficit)/surplus	**(0.1)**	3.9
Profit on disposal of investment property	**1.3**	-
Other profit from operations after tax	**0.9**	1.1
	2.1	5.0

In March 2018, Primister Limited, in which the Group has a 50% shareholding, disposed of its freehold interest in Porters North N1 for £45.4m before costs, generating a profit of £2.6m net of tax.

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

10. Tax charge

	2018 £m	2017 £m
Corporation tax		
UK corporation tax and income tax in respect of profit for the year	**2.9**	4.0
Other adjustments in respect of prior years' tax	**0.2**	(0.7)
Corporation tax charge	**3.1**	3.3
Deferred tax		
Origination and reversal of temporary differences	**(0.4)**	(1.2)
Adjustment for changes in estimates	**-**	(0.3)
Deferred tax credit	**(0.4)**	(1.5)
Tax charge	**2.7**	1.8

In addition to the tax charge of £2.7m (2017: £1.8m) that passed through the Group income statement, a deferred tax credit of £0.1m (2017: charge of £0.7m) was recognised in the Group statement of comprehensive income relating to the revaluation of the owner-occupied property at 25 Savile Row W1.

The effective rate of tax for 2018 is lower (2017: lower) than the standard rate of corporation tax in the UK. The differences are explained below:

	2018 £m	2017 £m
Profit before tax	**221.6**	314.8
Expected tax charge based on the standard rate of corporation tax in the UK of 19.00% (2017: 19.25%)[1]	**42.1**	60.6
Difference between tax and accounting profit on disposals	**(1.0)**	(9.8)
REIT exempt income	**(10.7)**	(10.8)
Revaluation surplus attributable to REIT properties	**(15.2)**	(27.4)
Expenses and fair value adjustments not allowable for tax purposes	**(8.1)**	(4.4)
Capital allowances	**(4.6)**	(4.2)
Other differences	**-**	(1.5)
Tax charge on current year's profit	**2.5**	2.5
Adjustments in respect of prior years' tax	**0.2**	(0.7)
Tax charge	**2.7**	1.8

[1] Changes to the UK corporation tax rates were substantively enacted as part of the Finance Bill 2015 (on 26 October 2015) and the Finance Bill 2016 (on 7 September 2016). These include reductions to the main rate to reduce the rate to 19% from 1 April 2017 and then to 17% from 1 April 2020. Deferred taxes at the balance sheet date have been measured using the expected enacted tax rate and this is reflected in these financial statements.

11. Property portfolio

	Freehold £m	Leasehold £m	Total investment property £m	Owner-occupied property £m	Trading property £m	Total property portfolio £m
Carrying value						
At 1 January 2018	3,867.0	803.7	4,670.7	46.5	25.3	4,742.5
Acquisitions	52.1	5.1	57.2	-	-	57.2
Capital expenditure	84.5	75.7	160.2	(0.2)	10.8	170.8
Interest capitalisation	5.2	5.1	10.3	-	0.4	10.7
Additions	141.8	85.9	227.7	(0.2)	11.2	238.7
Disposals	(0.2)	-	(0.2)	-	-	(0.2)
Revaluation	25.5	57.9	83.4	0.7	-	84.1
Write-down of trading property	-	-	-	-	(0.2)	(0.2)
Movement in grossing up of headlease liabilities	-	46.6	46.6	-	-	46.6
At 31 December 2018	**4,034.1**	**994.1**	**5,028.2**	**47.0**	**36.3**	**5,111.5**
At 1 January 2017	3,959.9	843.9	4,803.8	34.2	11.7	4,849.7
Acquisitions	0.8	-	0.8	-	7.8	8.6
Capital expenditure	73.3	62.7	136.0	2.3	4.7	143.0
Interest capitalisation	4.7	4.6	9.3	-	0.1	9.4
Additions	78.8	67.3	146.1	2.3	12.6	161.0
Disposals	(298.2)	(120.7)	(418.9)	-	-	(418.9)
Transfers	(8.2)	-	(8.2)	8.2	-	-
Revaluation	134.7	13.2	147.9	1.8	-	149.7
Reversal of write-down of trading property	-	-	-	-	1.0	1.0
At 31 December 2017	3,867.0	803.7	4,670.7	46.5	25.3	4,742.5

Adjustments from fair value to carrying value

	Freehold £m	Leasehold £m	Total investment property £m	Owner-occupied property £m	Trading property £m	Total property portfolio £m
At 31 December 2018						
Fair value	**4,151.4**	**955.0**	**5,106.4**	**47.0**	**37.3**	**5,190.7**
Revaluation of trading property	-	-	-	-	(1.0)	(1.0)
Lease incentives and costs included in receivables	(117.3)	(21.6)	(138.9)	-	-	(138.9)
Grossing up of headlease liabilities	-	60.7	60.7	-	-	60.7
Carrying value	**4,034.1**	**994.1**	**5,028.2**	**47.0**	**36.3**	**5,111.5**
At 31 December 2017						
Fair value	3,968.6	808.6	4,777.2	46.5	26.6	4,850.3
Revaluation of trading property	-	-	-	-	(1.3)	(1.3)
Lease incentives and costs included in receivables	(101.6)	(19.0)	(120.6)	-	-	(120.6)
Grossing up of headlease liabilities	-	14.1	14.1	-	-	14.1
Carrying value	3,867.0	803.7	4,670.7	46.5	25.3	4,742.5

Reconciliation of fair value

	2018 £m	2017 £m
Portfolio including the Group's share of joint ventures	**5,217.6**	4,897.6
Less: joint ventures	**(26.9)**	(47.3)
IFRS property portfolio	**5,190.7**	4,850.3

The property portfolio is subject to semi-annual external valuations and was revalued at 31 December 2018 by external valuers on the basis of fair value in accordance with The RICS Valuation – Professional Standards, which takes account of the properties' highest and best use. When considering the highest and best use of a property, the external valuers will consider its existing and potential uses which are physically, legally and financially viable. Where the highest and best use differs from the existing use, the external valuers will consider the costs and the likelihood of achieving and implementing this change in arriving at the property valuation.

CBRE Limited valued properties at £5,157.8m (2017: £4,817.5m) and other valuers at £32.9m (2017: £32.8m), giving a combined value of £5,190.7m (2017: £4,850.3m). Of the properties revalued by CBRE, £47.0m (2017: £46.5m) relating to owner-occupied property was included within property, plant and equipment and £37.3m (2017: £26.6m) was in relation to trading property.

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

At 31 December 2018, the grossing up of headlease liabilities of £60.7m includes £45.9m for the discounted headlease liabilities in relation to Soho Place W1 where the Group is now actively on site.

Reconciliation of revaluation surplus

	2018 £m	2017 £m
Total revaluation surplus	**100.2**	177.1
Less:		
Share of joint ventures	**(0.2)**	(4.9)
Lease incentives and costs	**(16.5)**	(20.2)
Trading property revaluation surplus/(deficit)	**0.4**	(1.3)
IFRS revaluation surplus	**83.9**	150.7
Reported in the:		
Revaluation surplus	**83.4**	147.9
(Write-down)/reversal of write-down of trading property	**(0.2)**	1.0
Group income statement	**83.2**	148.9
Group statement of comprehensive income	**0.7**	1.8
	83.9	150.7

Historical cost

	2018 £m	2017 £m
Investment property	**2,924.5**	2,697.0
Owner-occupied property	**19.6**	19.8
Trading property	**44.2**	33.0
Total property portfolio	**2,988.3**	2,749.8

12. Property, plant and equipment

	Owner-occupied property £m	Artwork £m	Other £m	Total £m
At 1 January 2018	46.5	1.6	4.1	52.2
Additions	(0.2)	-	1.1	0.9
Depreciation	-	-	(0.7)	(0.7)
Revaluation	0.7	-	-	0.7
At 31 December 2018	**47.0**	**1.6**	**4.5**	**53.1**
At 1 January 2017	34.2	1.5	2.4	38.1
Additions	2.3	0.1	2.6	5.0
Disposals	-	-	(0.2)	(0.2)
Depreciation	-	-	(0.7)	(0.7)
Transfers	8.2	-	-	8.2
Revaluation	1.8	-	-	1.8
At 31 December 2017	46.5	1.6	4.1	52.2
Net book value				
Cost or valuation	47.0	1.6	7.0	55.6
Accumulated depreciation	-	-	(2.5)	(2.5)
At 31 December 2018	**47.0**	**1.6**	**4.5**	**53.1**
Net book value				
Cost or valuation	46.5	1.6	5.9	54.0
Accumulated depreciation	-	-	(1.8)	(1.8)
At 31 December 2017	46.5	1.6	4.1	52.2

The artwork is periodically valued by Bonhams on the basis of fair value using their extensive market knowledge. The latest valuation was carried out in May 2018 and the Directors consider that there have been no material valuation movements since that date. In accordance with IFRS 13 Fair Value Measurement, the artwork is deemed to be classified as Level 3.

The historical cost of the artwork in the Group at 31 December 2018 was £1.6m (2017: £1.6m). See note 11 for the historical cost of owner-occupied property.

13. Investments

The Group has a 50% interest in three joint ventures, Dorrington Derwent Holdings Limited, Primister Limited and Prescot Street Limited Partnership.

	2018 £m	2017 £m
At 1 January	**39.7**	36.0
Share of results of joint ventures (see note 9)	**2.1**	5.0
Additions	**0.8**	-
Repayment of shareholder loan	**-**	(1.3)
Distributions received	**(13.5)**	-
At 31 December	**29.1**	39.7

14. Other receivables (non-current)

	2018 **£m**	2017 £m
Prepayments and accrued income	**123.1**	105.2

Prepayments and accrued income relates to rents recognised in advance as a result of spreading the effect of rent free and reduced rent periods, capital contributions in lieu of rent free periods and contracted rent uplifts, as well as the initial direct costs of the letting, over the expected terms of their respective leases. Together with £15.8m (2017: £15.4m), which was included as accrued income within trade and other receivables (see note 15), these amounts totalled £138.9m at 31 December 2018 (2017: £120.6m).

15. Trade and other receivables

	2018 **£m**	2017 £m
Trade receivables	**10.7**	7.1
Other receivables	**4.1**	6.8
Prepayments	**20.6**	17.3
Other taxes	**-**	4.6
Accrued income	**26.0**	22.2
	61.4	58.0

16. Trade and other payables

	2018 **£m**	2017 £m
Trade payables	**1.4**	2.0
Other payables	**17.8**	17.8
Other taxes	**2.5**	-
Accruals	**38.7**	27.1
Deferred income	**42.7**	39.8
	103.1	86.7

17. Net debt and derivative financial instruments

	2018		2017	
	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				
1.125% unsecured convertible bonds 2019	**-**	**-**	145.6	158.3
6.5% secured bonds 2026	**185.9**	**222.1**	186.9	225.6
3.46% unsecured private placement notes 2028	**29.8**	**30.9**	29.8	31.0
4.41% unsecured private placement notes 2029	**24.8**	**29.0**	24.8	29.3
3.57% unsecured private placement notes 2031	**74.6**	**76.4**	74.5	76.4
4.68% unsecured private placement notes 2034	**74.4**	**90.9**	74.3	91.8
3.99% secured loan 2024	**81.9**	**87.0**	81.7	87.9
Unsecured bank loans	**267.0**	**269.5**	85.6	89.0
Secured bank loans	**27.7**	**28.0**	27.6	28.0
	766.1	**833.8**	730.8	817.3
Borrowings	**914.5**	**986.1**	730.8	817.3
Derivative financial instruments expiring in greater than one year	**3.6**	**3.6**	7.9	7.9
Total borrowings and derivative financial instruments	**918.1**	**989.7**	738.7	825.2

Reconciliation to net debt:		
Borrowings and derivative financial instruments	**918.1**	738.7
Adjustments for:		
Leasehold liabilities	**60.7**	14.1
Derivative financial instruments	**(3.6)**	(7.9)
Cash and cash equivalents	**(18.3)**	(87.0)
Net debt	**956.9**	657.9

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; and
- Leasehold liabilities.

There have been no transfers between Level 1 and Level 2 or Level 2 and Level 3 in either 2018 or 2017.

18. Deferred tax

	Revaluation surplus £m	Other £m	Total £m
At 1 January 2018	4.5	(2.2)	2.3
(Credited)/charged to the income statement	(0.8)	0.4	(0.4)
Credited to other comprehensive income	(0.1)	-	(0.1)
At 31 December 2018	**3.6**	**(1.8)**	**1.8**
At 1 January 2017	5.3	(2.2)	3.1
Credited to the income statement	(1.0)	(0.2)	(1.2)
Change in tax rates in the income statement	(0.5)	0.2	(0.3)
Charged to other comprehensive income	0.8	-	0.8
Change in tax rates in other comprehensive income	(0.1)	-	(0.1)
At 31 December 2017	4.5	(2.2)	2.3

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.

19. Dividend

	Payment date	Dividend per share PID p	Dividend per share Non-PID p	Dividend per share Total p	**2018 £m**	2017 £m
Current year						
2018 final dividend[1]	7 June 2019	30.00	16.75	46.75	**-**	-
2018 interim dividend	19 October 2018	19.10	-	19.10	**21.3**	-
Distribution of current year profit		49.10	16.75	65.85		
Prior year						
2017 final dividend	8 June 2018	35.00	7.40	42.40	**47.3**	-
2017 interim dividend	20 October 2017	17.33	-	17.33	**-**	19.3
Distribution of prior year profit		52.33	7.40	59.73		
Special dividend						
2017 special dividend	8 June 2018	-	75.00	75.00	**83.6**	-
Distribution of accumulated profit		-	75.00	75.00		
2016 final dividend	9 June 2017	32.70	5.80	38.50	**-**	42.9
2016 special dividend	9 June 2017	-	52.00	52.00	**-**	57.9
Dividends as reported in the Group statement of changes in equity					**152.2**	120.1
2018 interim dividend withholding tax	14 January 2019				**(2.3)**	-
2017 interim dividend withholding tax	14 January 2018				**2.1**	(2.1)
2016 interim dividend withholding tax	14 January 2017				**-**	1.7
Dividends paid as reported in the Group cash flow statement					**152.0**	119.7

[1] Subject to shareholder approval at the AGM on 17 May 2019.

20. Cash and cash equivalents

	2018 £m	2017 £m
Cash at bank	**18.3**	87.0

21. Post balance sheet events

In January 2019, £250 million of new unsecured private placement notes were drawn. The issue consists of four tranches with maturities ranging between 7 and 15 years. The weighted average coupon of the fixed rate notes equates to 2.89% with a weighted average maturity of 10.8 years.

In February 2019, Prescot Street GP Limited and Prescot Street Nominees Limited, in which the Group holds a 50% interest, exchanged contracts for the sale of the freehold interest in 9 Prescot Street E1 for £53.9m before costs, with completion expected in May 2019.

The main construction contract for Soho Place W1, one of our next major developments, was signed in February 2019.

22. Related parties

There have been no related party transactions for the year ended 31 December 2018 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.

23. EPRA performance measures

Number of shares

	Earnings per share Weighted average		Net asset value per share At 31 December	
	2018 '000	2017 '000	**2018 '000**	2017 '000
For use in basic measures	**111,521**	111,431	**111,540**	111,475
Dilutive effect of share-based payments	**239**	267	**239**	295
For use in diluted measures	**111,760**	111,698	**111,779**	111,770

The £150m unsecured convertible bonds 2019 ('2019 bonds') have a current conversion price of £31.78. The Group recognises the effect of conversion of the bonds if they are both dilutive and, based on the share price, likely to convert. For the years ended 31 December 2018 and 31 December 2017, the Group did not recognise the dilutive impact of the conversion of the 2019 bonds on its earnings per share (EPS) or net asset value (NAV) per share measures as, based on the share price at each year end, the bonds were not expected to convert.

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

A – Disposal of investment and trading property, and associated tax and non-controlling interest
B – Revaluation movement on investment property and in joint ventures, write-down/(reversal of write-down) of trading property and associated deferred tax and non-controlling interest
C – Fair value movement and termination costs relating to derivative financial instruments, associated non-controlling interest and the dilutive effect of convertible bonds

In addition to the EPRA performance measures, underlying performance measures which exclude certain items considered to be non-recurring are used by the Directors to assess the operating performance of the Group. A reconciliation of the EPRA and underlying earnings for the year to 31 December 2018 is presented below. For the year to 31 December 2017, no adjustments were made to the EPRA earnings to derive the underlying performance.

Earnings and earnings per share

	IFRS £m	Adjustments A £m	B £m	C £m	EPRA basis £m
Year ended 31 December 2018					
Net property and other income	185.9	-	0.2	-	186.1
Total administrative expenses	(32.3)	-	-	-	(32.3)
Revaluation surplus	83.4	-	(83.4)	-	-
Profit on disposal of investment property	5.2	(5.2)	-	-	-
Net finance costs	(23.5)	-	-	-	(23.5)
Movement in fair value of derivative financial instruments	4.3	-	-	(4.3)	-
Financial derivative termination costs	(3.5)	-	-	3.5	-
Share of results of joint ventures	2.1	(1.3)	0.1	-	0.9
Profit before tax	221.6	(6.5)	(83.1)	(0.8)	131.2
Tax charge	(2.7)	0.3	(0.7)	-	(3.1)
Profit for the year	218.9	(6.2)	(83.8)	(0.8)	128.1
Non-controlling interest	3.4	-	(5.5)	0.1	(2.0)
Earnings attributable to equity shareholders	**222.3**	**(6.2)**	**(89.3)**	**(0.7)**	**126.1**
Earnings per share	**199.33p**				**113.07p**
Diluted earnings per share	198.91p				112.83p

Underlying earnings and underlying earnings per share

EPRA earnings attributable to equity shareholders	126.1
Net income from grant of access rights	(15.6)
Underlying earnings attributable to equity shareholders	**110.5**
Underlying earnings per share	**99.08p**

	IFRS	Adjustments A	Adjustments B	Adjustments C	EPRA basis
	£m	£m	£m	£m	£m
Year ended 31 December 2017					
Net property and other income	164.8	-	(1.0)	-	163.8
Total administrative expenses	(28.2)	-	-	-	(28.2)
Revaluation surplus	147.9	-	(147.9)	-	-
Profit on disposal of investment property	50.3	(50.3)	-	-	-
Net finance costs	(27.1)	-	-	-	(27.1)
Movement in fair value of derivative financial instruments	9.4	-	-	(9.4)	-
Financial derivative termination costs	(7.3)	-	-	7.3	-
Share of results of joint ventures	5.0	-	(3.9)	-	1.1
Profit before tax	314.8	(50.3)	(152.8)	(2.1)	109.6
Tax charge	(1.8)	1.1	(1.5)	-	(2.2)
Profit for the year	313.0	(49.2)	(154.3)	(2.1)	107.4
Non-controlling interest	1.0	-	(3.8)	0.4	(2.4)
Earnings attributable to equity shareholders	314.0	(49.2)	(158.1)	(1.7)	105.0
Earnings per share	281.79p				94.23p
Diluted earnings per share	281.12p				94.00p

Net asset value and net asset value per share

	£m	Undiluted p	Diluted p
At 31 December 2018			
Net assets attributable to equity shareholders	4,201.9	3,767	3,759
Adjustment for:			
Revaluation of trading properties net of tax	0.8		
Deferred tax on revaluation surplus	3.6		
Fair value of derivative financial instruments	3.6		
Fair value adjustment to secured bonds	11.8		
Non-controlling interest in respect of the above	(0.9)		
EPRA net asset value	**4,220.8**	**3,784**	**3,776**
Adjustment for:			
Mark-to-market of secured bonds 2026	(47.1)		
Mark-to-market of secured loan 2024	(4.0)		
Mark-to-market of unsecured private placement notes 2029 and 2034	(19.9)		
Mark-to-market of unsecured private placement notes 2028 and 2031	(2.3)		
Mark-to-market of 1.125% unsecured convertible bonds 2019	(3.6)		
Deferred tax on revaluation surplus	(3.6)		
Fair value of derivative financial instruments	(3.6)		
Unamortised issue and arrangement costs	(6.5)		
Non-controlling interest in respect of the above	0.9		
EPRA triple net asset value	**4,131.1**	**3,704**	**3,696**
At 31 December 2017			
Net assets attributable to equity shareholders	4,128.3	3,703	3,694
Adjustment for:			
Revaluation of trading properties net of tax	1.0		
Deferred tax on revaluation surplus	4.5		
Fair value of derivative financial instruments	7.9		
Fair value adjustment to secured bonds	12.9		
Non-controlling interest in respect of the above	(1.5)		
EPRA net asset value	4,153.1	3,726	3,716
Adjustment for:			
Mark-to-market of secured bonds 2026	(50.6)		
Mark-to-market of secured loan 2024	(4.9)		
Mark-to-market of unsecured private placement notes 2029 and 2034	(21.1)		
Mark-to-market of unsecured private placement notes 2028 and 2031	(2.4)		
Mark-to-market of 1.125% unsecured convertible bonds 2019	(11.8)		
Deferred tax on revaluation surplus	(4.5)		
Fair value of derivative financial instruments	(7.9)		
Unamortised issue and arrangement costs	(8.6)		
Non-controlling interest in respect of the above	1.5		
EPRA triple net asset value	4,042.8	3,627	3,617

Cost ratios

	2018 £m	2017 £m
Administrative expenses	**32.3**	28.2
Other property costs	**9.7**	8.4
Dilapidation receipts	**(1.7)**	(0.1)
Other costs	**0.4**	-
Net service charge costs	**2.9**	1.9
Service charge costs recovered through rents but not separately invoiced	**(0.3)**	(0.3)
Management fees received less estimated profit element	**(2.9)**	(2.7)
Share of joint ventures' expenses	**0.4**	0.5
EPRA costs (including direct vacancy costs) (A)	**40.8**	35.9
Direct vacancy costs	**(4.4)**	(2.5)
EPRA costs (excluding direct vacancy costs) (B)	**36.4**	33.4
Gross rental income	**175.1**	172.1
Ground rent	**(1.4)**	(0.7)
Service charge components of rental income	**(0.3)**	(0.3)
Share of joint ventures' rental income less ground rent	**1.7**	1.8
Adjusted gross rental income (C)	**175.1**	172.9
EPRA cost ratio (including direct vacancy costs) (A/C)	**23.3%**	20.8%
EPRA cost ratio (excluding direct vacancy costs) (B/C)	**20.8%**	19.3%

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)	**5,190.7**	4,850.3
Portfolio cost ratio (A/D)	**0.8%**	0.7%

The Group has not capitalised any overheads in either 2018 or 2017.

24. Gearing and interest cover

NAV gearing

	2018 £m	2017 £m
Net debt	**956.9**	657.9
Net assets	**4,263.4**	4,193.2
NAV gearing	**22.4%**	15.7%

Loan-to-value ratio

	2018 £m	2017 £m
Net debt	**956.9**	657.9
Fair value adjustment of secured bonds	**(11.8)**	(12.9)
Unamortised issue and arrangement costs	**6.5**	8.6
Leasehold liabilities	**(60.7)**	(14.1)
Drawn debt	**890.9**	639.5
Fair value of property portfolio	**5,190.7**	4,850.3
Loan-to-value ratio	**17.2%**	13.2%

Net interest cover ratio

	2018 £m	2017 £m
Net property and other income	**185.9**	164.8
Adjustments for:		
Other income	**(2.9)**	(2.7)
Other property income	**(17.7)**	-
Net surrender premiums received	**(3.2)**	(0.1)
Write-down/(reversal of write-down) of trading property	**0.2**	(1.0)
Reverse surrender premiums	**0.1**	0.2
Adjusted net property income	**162.4**	161.2
Finance costs	**23.5**	27.1
Adjustments for:		
Other finance costs	**(0.2)**	(0.1)
Amortisation of fair value adjustment to secured bonds	**1.2**	1.1
Amortisation of issue and arrangement costs	**(2.1)**	(2.0)
Finance costs capitalised	**10.7**	9.4
Net interest payable	**33.1**	35.5
Net interest cover ratio	**491%**	454%

25. Total return

	2018 p	2017 p
EPRA net asset value on a diluted basis		
At end of year	**3,776**	3,716
At start of year	**(3,716)**	(3,551)
Increase	**60**	165
Dividend per share	**137**	108
Increase including dividend	**197**	273
Total return	**5.3%**	7.7%

26. 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 published its latest Best Practices Recommendations in November 2016. This includes guidelines for the calculation of the following performance measures which the Group has adopted.

- **EPRA earnings 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 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 All UK Property Index.

NAV gearing
Net debt divided by net assets.

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

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

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

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

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

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

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

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

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

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

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

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.

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, which the net initial yield will rise to 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.

27. 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 86 buildings in a commercial real estate portfolio predominantly in central London valued at £5.2 billion (including joint ventures) as at 31 December 2018, 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.

Landmark schemes in our 5.4 million sq ft portfolio include White Collar Factory EC1, Angel Building EC1, The Buckley Building EC1, 1-2 Stephen Street W1, Horseferry House SW1 and Tea Building E1.

In 2018 the Group won Property Week Property Company of the Year and EG Offices Company of the Year, whilst White Collar Factory scooped RIBA National and London awards, RICS National and London awards, two BCO awards for Commercial Workplace and Innovation, an EG Creative Places award and an NLA Wellbeing award. 25 Savile Row also won RIBA National and London awards and SKA Gold for the fit-out. In 2017 the Group collected the Property Week Developer of the Year award and EG Offices Company of the Year and won further awards from RIBA, Civic Trust and BCO. In 2013 Derwent London launched a voluntary Community Fund and has to date supported 70 community projects in Fitzrovia 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

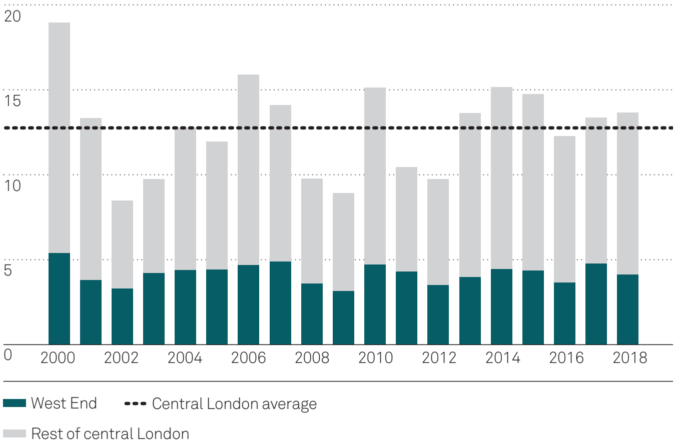
This document contains certain forward-looking statements about the future outlook of Derwent London. By their nature, any statements about future outlook involve risk and uncertainty because they relate to events and depend on circumstances that may or may not occur in the future. Actual results, performance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

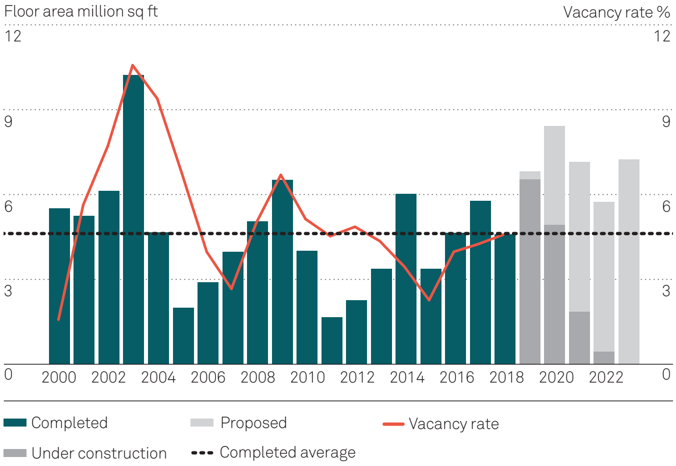
Our market

Central London office take-up



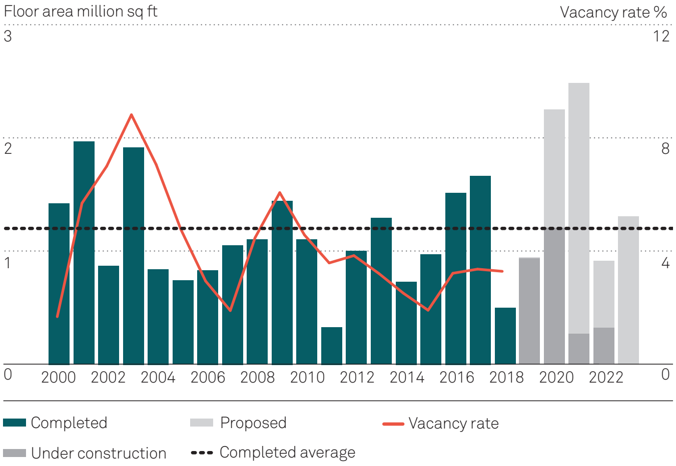
Source: CBRE

Central London office development pipeline



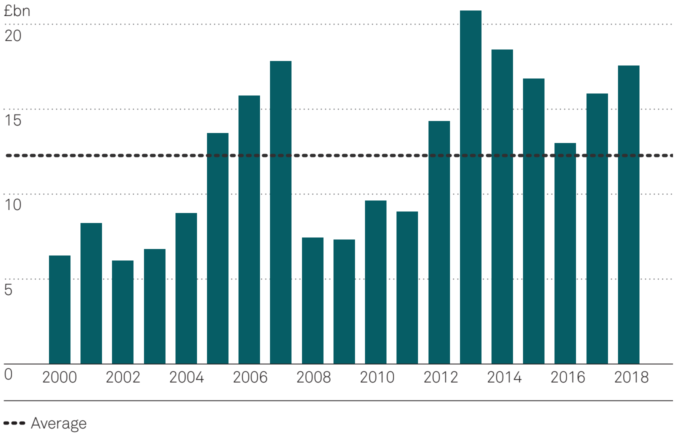
Source: CBRE

West End office development pipeline



Source: CBRE

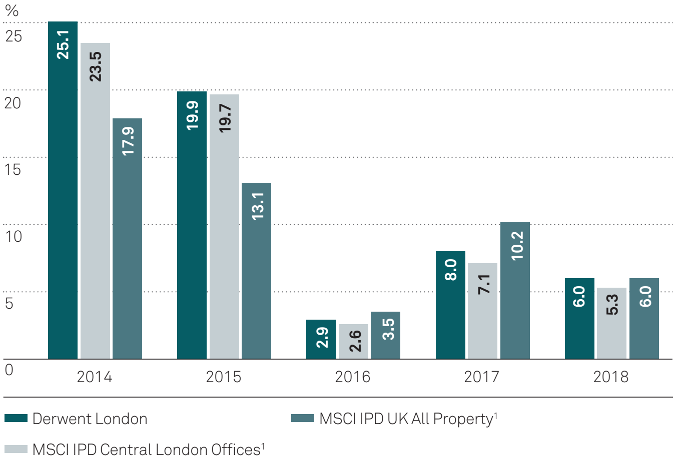
Central London office investment transactions



Source: CBRE

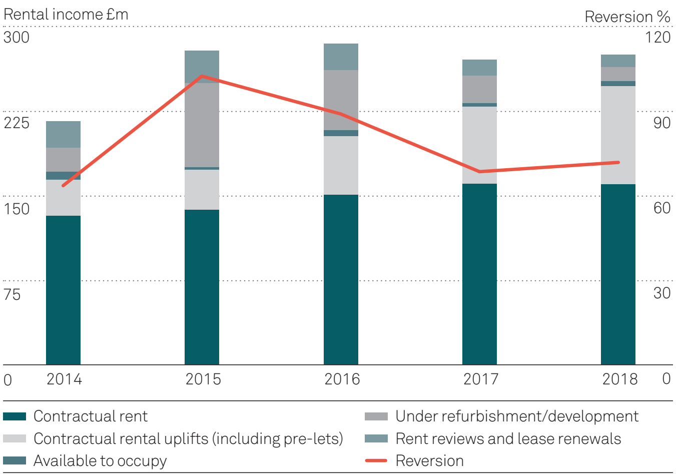
Appendix 2
Valuation

Total property return

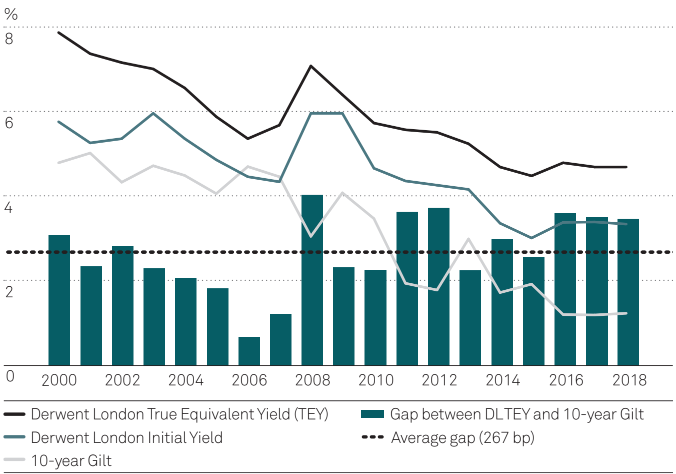


[1] Quarterly Index

Portfolio income potential



Valuation yields



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

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

Rental income profile

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

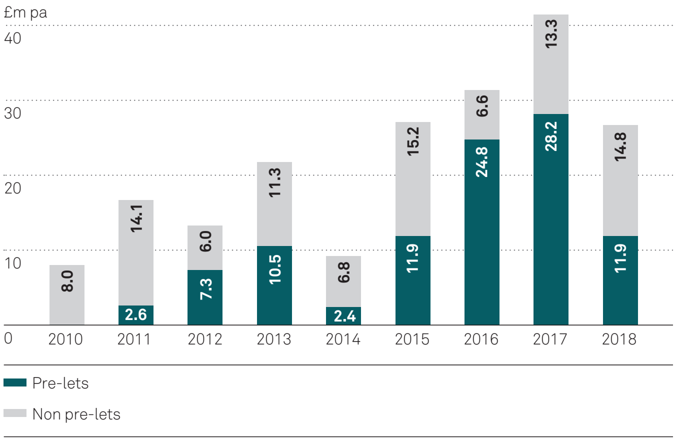
Portfolio statistics – rental income

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

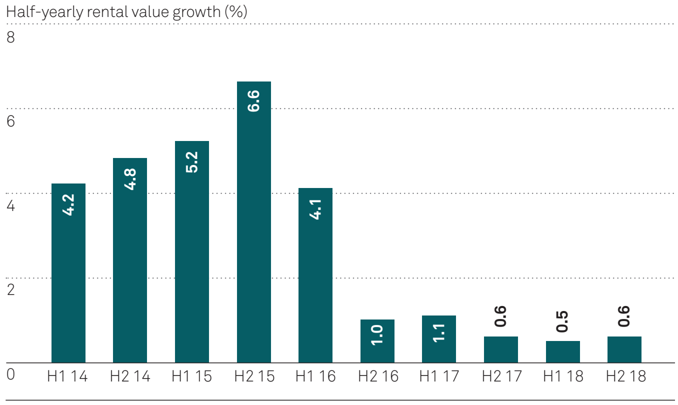
1 Contractual uplifts, rent review/lease renewal reversion and pre-lets
2 Lease length weighted by rental income at year end and assuming tenants break at first opportunity
3 8.2 years after adjusting for 'topped-up' rents and pre-lets

Appendix 3
Asset management and Investment activity

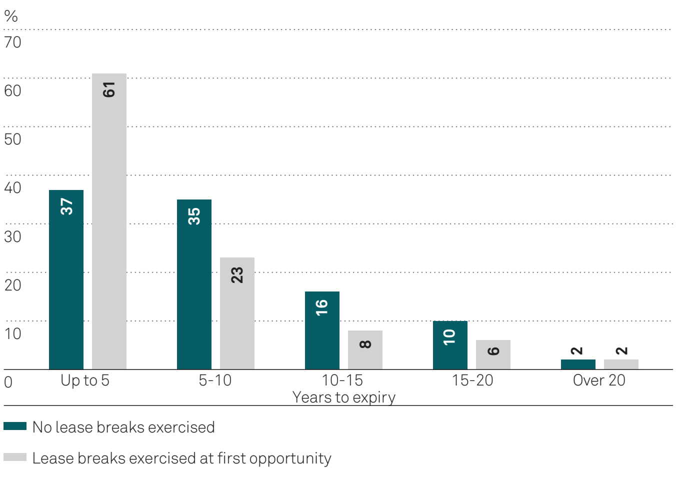
Letting activity by rental income



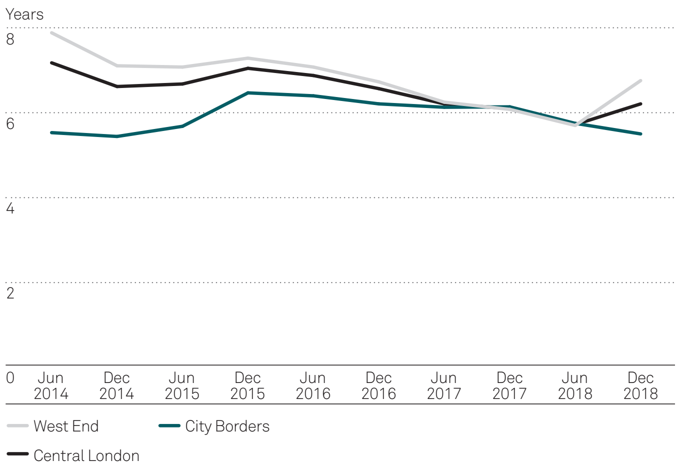
Rental value growth



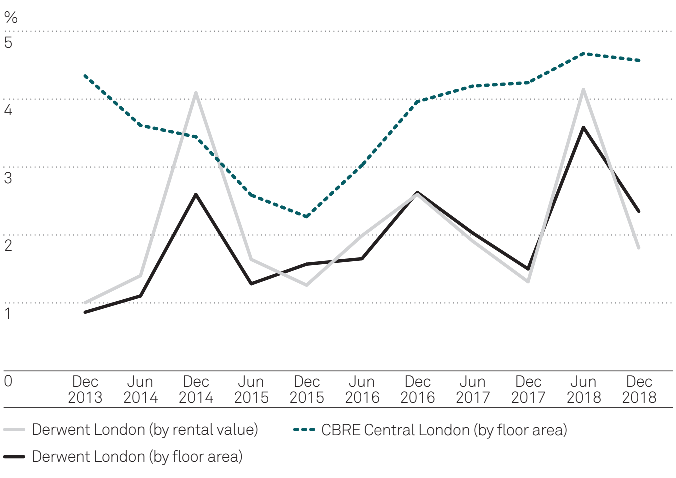
Profile of rental income expiry



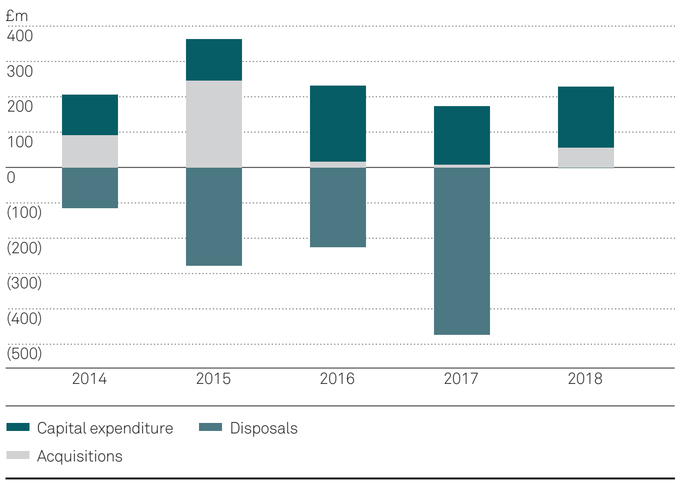
Average unexpired lease length



Five-year vacancy trend



Net investment



Appendix 4

Development and refurbishment

Completions and capital expenditure

Project summary – current

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

1 Includes remaining site acquisition cost and profit share to Crossrail

Project summary – future

Property	Current net income £m pa	Pre-scheme area '000 sq ft	Proposed area '000 sq ft	Earliest possession year	Comment
Consented					
19-35 Baker Street W1[1]	3.2	143	293	2021	Joint venture – The Portman Estate
Holden House W1	5.8	90	150	2021	Eastern end of Oxford Street
	9.0	**233**	**443**		
Adjustment for JV	(1.4)	(64)	(132)		19-35 Baker Street W1 – Derwent 55% interest
	7.6	**169**	**311**		
Under appraisal[2]					
Premier House SW1	2.1	62	80	2018	Potential disposal
Network Building W1	3.6	64	100	2021	
Francis House SW1[3]	2.1	86	130	TBC	
Angel Square EC1	4.8	126	126	TBC	Rolling refurbishment
	12.6	**338**	**436**		
Consented and under appraisal	**20.2**	**507**	**747**		
On site and 2019 starts	(0.1)	312	1,033		Previous table
Pipeline	**20.1**	**819**	**1,780**		

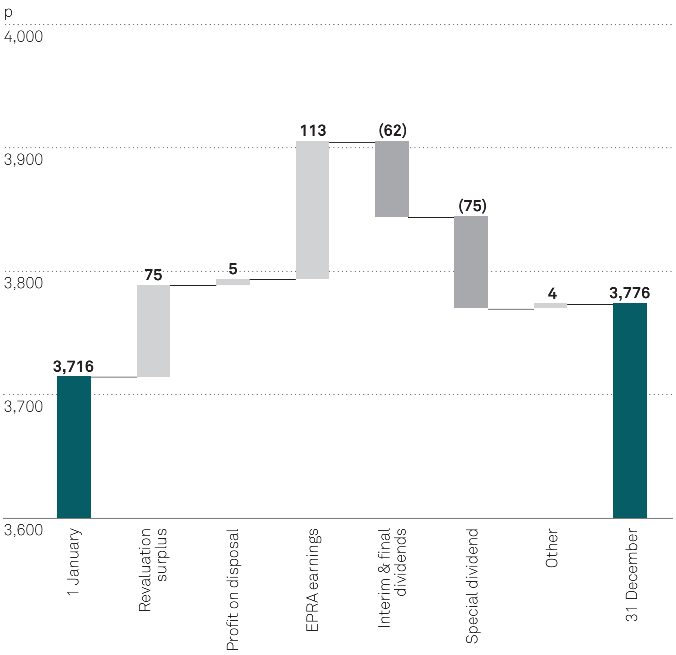
1 Includes 88-100 George Street, 30 Gloucester Place and 69-85 Blandford Street W1
2 Areas proposed are estimated from initial studies
3 Includes 6-8 Greencoat Place SW1

Appendix 5
Finance

Financial highlights

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

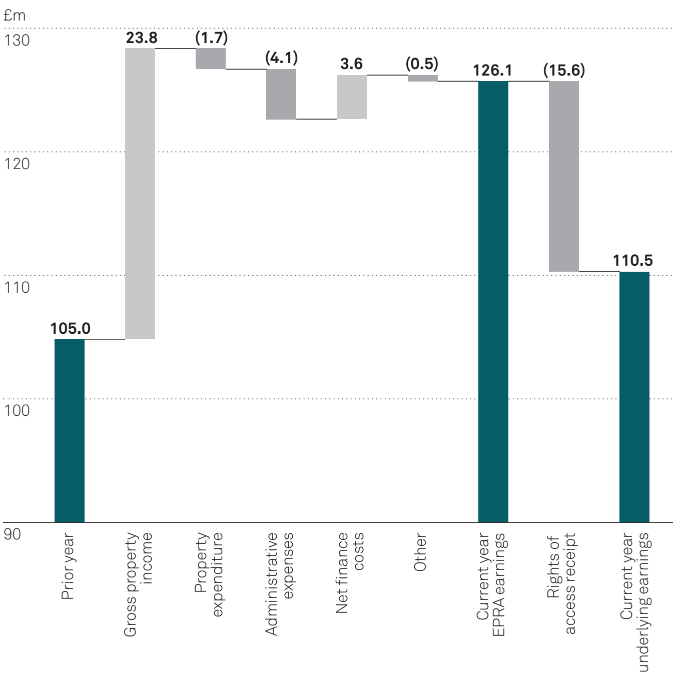
EPRA net asset value per share



2017 3,551	138	45	94	(56)	(52)	(4)	3,716

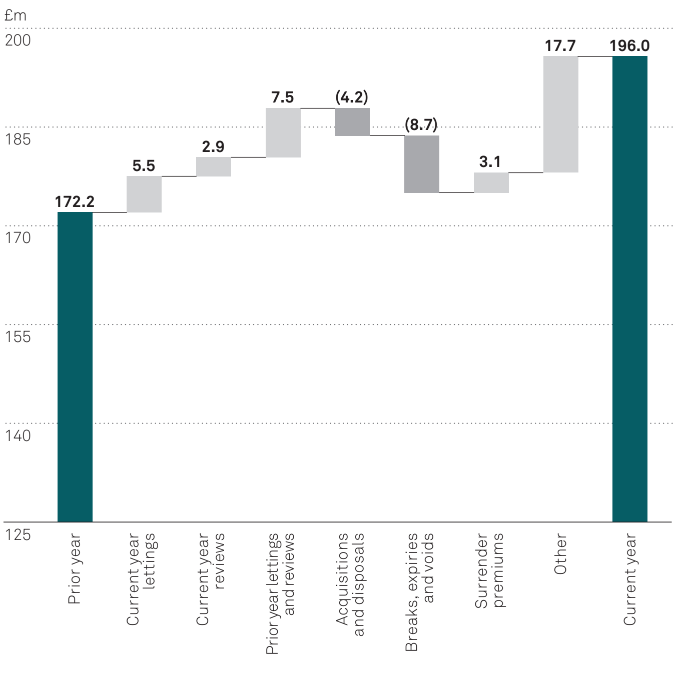
Appendix 5
Finance

EPRA and underlying earnings



2017	85.7	16.2	(1.6)	2.7	0.7	1.3	105.0	–	105.0

Gross property income



2017	156.0	18.5	3.3	11.3	(11.1)	(5.3)	–	(0.5)	172.2

EPRA like-for-like rental income

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

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

Appendix 5
Finance

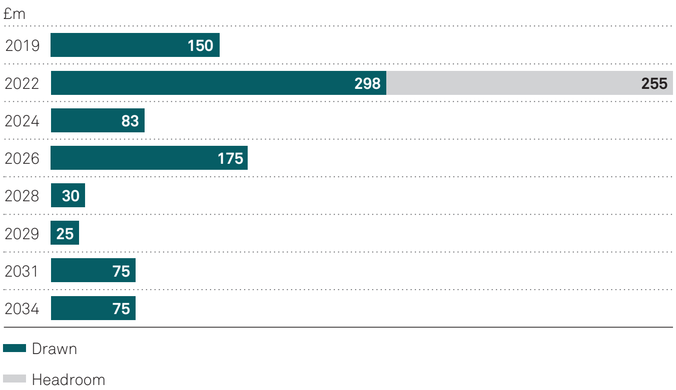
Net debt

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

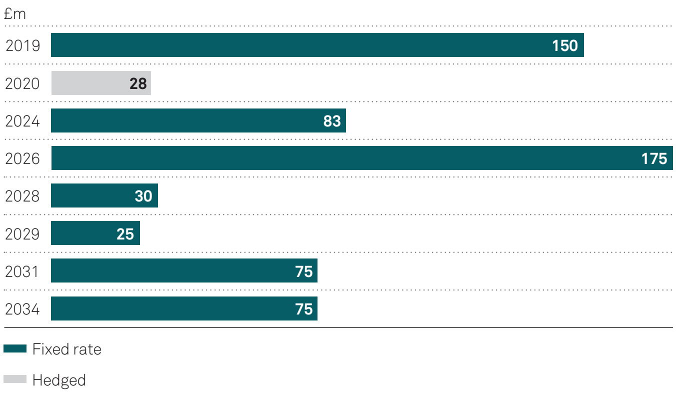
Gearing and interest cover ratio

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

Maturity profile of debt facilities as at 31 December 2018



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



Appendix 5
Finance

Debt facilities

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

Debt summary

	2018 £m	2017 £m
Bank loans		
Floating rate	**269.5**	89.0
Swapped	**28.0**	28.0
	297.5	117.0
Non-bank debt		
3.99% secured loan 2024	**83.0**	83.0
6.5% secured bonds 2026	**175.0**	175.0
1.125% unsecured convertible bonds 2019	**150.0**	150.0
Unsecured private placement notes 2028 – 2034	**205.0**	205.0
	613.0	613.0
Total	**910.5**	730.0
Hedging profile (%)		
Fixed	**67**	84
Swaps	**3**	4
	70	88
Percentage of debt that is unsecured (%)	**69**	61
Percentage of non-bank debt (%)	**67**	84
Weighted average interest rate – cash basis (%)	**3.43**	3.80
Weighted average interest rate – IFRS basis (%)	**3.68**	4.11
Weighted average maturity of facilities (years)	**5.3**	6.3
Weighted average maturity of borrowings (years)	**5.9**	7.6
Undrawn facilities and cash	**274**	523
Uncharged properties	**4,117**	3,864