INTERIM RESULTS 2018 ANNOUNCEMENT

DERWENT LONDON PLC

DERWENT
LONDON

9 August 2018

Derwent London plc (“Derwent London” / “the Group”)

INTERIM RESULTS FOR THE HALF YEAR ENDED 30 JUNE 2018
OCCUPIER DEMAND UNDERPINS GROWTH POTENTIAL

Financial highlights

- Net rental income £80.6m from £79.3m in H1 2017, up 1.6%
- EPRA[1] earnings 66.9p per share from 45.4p in H1 2017, up 47.4%, including surrender premiums and significant non-recurring property income
- Underlying[1] earnings 51.8p per share, up 14.0%
- Total return 3.1% in first six months:
    - Dividends paid 117.4p per share, which includes 75.0p special
    - EPRA NAV 3,713p per share from 3,716p in December 2017, down 0.1% after dividends
- Interim dividend raised 10.2% to 19.10p per share from 17.33p in 2017
- Equity shareholders’ funds £4,133.8m from £4,128.3m in December 2017, up 0.1%

First half activity

- New lettings totalling £8.4m, 8.2% above December 2017 estimated rental value (ERV)
- Capital expenditure of £80.9m including capitalised interest of £5.1m
- Progressing two new developments totalling 410,000 sq ft

Second half activity to date

- Further lettings of £3.4m, including the top two floors of Brunel Building W2
- Another £2.2m of rent under offer with good ongoing interest
- On-site developments 60% pre-let, up from 45% at December 2017
- Exchanged contracts on leasehold acquisition at 88-94 Tottenham Court Road W1 for £42m

Portfolio update

- Portfolio valued at £5.0bn; an underlying increase of 1.3% in H1 2018
- Uplift on developments was 9.4% in the first six months
- True equivalent yield of 4.70%; tightening 3bp since December 2017
- Total property return was 3.3% in H1 which was ahead of our benchmark index[2] of 2.7%
- EPRA vacancy rate rose to 4.2% from 1.3% in December 2017 principally due to the completion of two refurbishments
- ERV on an EPRA basis increased by 0.5% in H1
- ERV guidance for 2018 improved to +2% to -1% from +2% to -3% in February 2018

Financial position

- Interest cover 514% and loan-to-value ratio 15.2%
- Borrowings up to £786.9m from £730.8m in December 2017
- Cash and undrawn facilities £403m

John Burns, Chief Executive, commented:

“*London’s robust occupier demand has endorsed our actions to push ahead with recent developments, and we are now in a strong position to proceed with our next two major projects. We remain confident that Derwent London will continue to deliver the buildings for today’s occupiers and grow our earnings over the medium term.”*

[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

Webcast and conference call

There will be a live webcast together with a conference call for investors and analysts at 09:00 BST today. The audio webcast can be accessed via www.derwentlondon.com.

To participate in the call, please dial the following number: +44 (0)20 3059 5868.

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

For further information, please contact:

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OVERVIEW AND OUTLOOK

Since the EU referendum two years ago, the Group has achieved £65m of lettings and substantially de-risked almost one million sq ft of development. We have sold £713m of properties, invested £365m in capital expenditure, lowered debt by £187m and paid out £266m in dividends. All this has happened in a period of political uncertainty and slower economic growth during which central London office rents and values rose 0.6% and 0.7%, respectively, according to MSCI IPD.

In the first half of 2018 we achieved £8.4m of new lettings, progressed our on-site developments for delivery in 2019/2020 and advanced 410,000 sq ft of new developments. This momentum has continued into the second half and we have let or pre-let a further £3.4m including the top two floors of Brunel Building W2, which is now 40% pre-let. This takes the 623,000 sq ft of on-site developments to 60% pre-let.

First half net property income was up by 27% to £103.4m from £81.5m in H1 2017, driven by significant non-recurring property income. Net rental income was up 1.6% to £80.6m impacted by substantial disposals in 2017 and £2.5m of surrender premiums recognised in the period. EPRA earnings per share include non-recurring property income and therefore rose to 66.9p, an increase of 47.4% over H1 2017. Underlying earnings, which are set out in more detail in the financial review, increased by 14.0% to 51.8p per share from 45.4p in H1 2017. These figures support our decision to raise the interim dividend by 10.2% to 19.1p per share and we anticipate a similar rate of increase in the final dividend.

Portfolio growth was enhanced by the development programme so that, overall, it recorded an underlying gain of 1.3% and a revaluation surplus of £54.3m. This, together with our earnings, almost exactly matched our significant first half dividend distributions totalling 117.4p per share[1], and therefore our NAV per share was only 3p lower at 3,713p.

The portfolio continues to offer considerable opportunity to capture reversion either through developments or lease events. At 30 June 2018, we had another £70.5m of additional rent inherent in our existing portfolio. We expect to incur a further £206m of capital expenditure to achieve this. The new developments at Soho Place W1 and The Featherstone Building EC1 could add a further £28.5m to our ERV potential with additional capital expenditure and site costs of £369m.

A focus on design has been an important foundation of the business and our activities continue to be endorsed by prestigious third party recognition. In the last six months both White Collar Factory EC1 and 25 Savile Row W1 received RIBA London and National awards. White Collar Factory also won the New London Architecture Wellbeing Award, and 25 Savile Row achieved a Gold SKA rating. This year also represents the fifth anniversary of our Community Fund and we have made further distributions supporting local initiatives in Fitzrovia and the Tech Belt. We also recently became supporters of the Financial Stability Board's Task Force on Climate-related Financial Disclosures having previously adopted its recommendations in our Annual Sustainability Report.

Our concentration on emerging locations while offering high quality product at middle-market rents is proving well suited to current market conditions. Recently we have seen some retailers and restaurants under strain which has led to a number of CVAs, but this remains a small part of our business. Looking to the future, providing current levels of business confidence persist, we are expecting ERV growth of between +2% and -1% in 2018 and for average yields to remain firm in our portfolio.

Against a background of modest rental growth and flat property yields, it is essential that we can create internal growth. Derwent London's portfolio has meaningful asset management and development opportunities. We also have the finances and the people to enable us to deliver them so we expect to continue to grow medium-term earnings and enhance our longer term prospects.

[1] Final dividend of 42.4p together with special dividend of 75p per share relating to year ended 2017

THE BOARD

We have announced today that Lucinda Bell will be joining the Board as an independent Non-Executive Director with effect from 1 January 2019. Lucinda is a Chartered Accountant with significant knowledge in the listed real estate sector, including 26 years at British Land latterly as Chief Financial Officer. She will join the Risk and Audit Committees.

CENTRAL LONDON OFFICE MARKET

Occupier demand remains good with CBRE reporting 6.4m sq ft of office take-up in central London in the first half of the year, 7.2% ahead of the same period last year. Flexible workspace accounted for 14.5% of take-up. The vacancy rate has risen to 4.6% which compares to 4.3% in December but remains below the long term average of 5.1%. The strength of demand is demonstrated by the amount of space under offer at the end of Q2 which CBRE estimates at 4.3m sq ft, the highest level recorded for 18 years.

As the year has progressed an additional 2.5m sq ft of London office space has begun construction for delivery in 2020 and 2021. This takes the total to 13.5m sq ft under construction of which 49% is pre-let. This means that expected new supply of unlet space over the next three and a half years is about 3% of the total market. West End supply remains tighter with only 1.6m sq ft of space under construction available which represents less than 2% of the local market.

CBRE is reporting unchanged prime rents across the central London office market in the first six months, except at Paddington where prime rents have risen 3.6%. This, in part, reflects our own activity at Brunel Building. Prime yields are also reported as unchanged as investment activity, at £7.9bn, remains strong, with a number of sizeable City deals. Asian investors continue to provide substantial liquidity and represented 56% of total purchases. Other overseas investors accounted for a further 24%. The West End market has had less stock available and consequently has been less active, although domestic investors are more involved with a 45% market share.

We expect the market overall to benefit from the opening of the Elizabeth line from the end of 2018 with the whole line expected to be operational by the end of 2019. We expect to benefit from this as 74% of our portfolio is located close to a station.

VALUATION

The general property market stability was reflected in the £5.0bn portfolio valuation at 30 June 2018 giving a surplus of £54.3m after accounting adjustments (see note 11). The underlying valuation growth was 1.3% and this follows a 2.5% uplift in H2 2017. Compared with our capital value benchmarks, this was an outperformance against the MSCI IPD Quarterly Index for Central London Offices, up 1.0%, but just below the wider UK All Property Index which was up 1.4%. By location, our central London properties, which represent 98% of the portfolio, increased in value by 1.4% with the City Borders up 2.3% and the West End up 0.8%. The balance of the portfolio, comprising our Scottish holdings, declined 1.9%.

Our rental values, on an EPRA basis, rose by 0.5% over the first half, a similar level to the 0.6% seen in H2 2017. The City Borders were up 0.6% and slightly outperformed the West End, up 0.4%.

The portfolio's EPRA initial yield was 3.4%, which, after allowing for the expiry of rent frees, half rents and contractual uplifts, rises to 4.3% on a 'topped-up' basis. The true equivalent yield came in 3bp to 4.70% and has tightened 13bp over the last 18 months as capital markets have settled post the referendum.

Our first half total property return was 3.3%, which compares to the MSCI IPD Indices of 2.7% for Central London Offices and 3.7% for UK All Property.

At year end we were on site with two major developments: 80 Charlotte Street and Brunel Building. These were valued at £499.0m in June 2018 and they delivered a strong 9.4% uplift. Excluding these, the underlying portfolio increase was 0.5%. We are now progressing the next programme of developments: Soho Place W1 and The Featherstone Building EC1 (formerly Monmouth House), which together were valued at £71.5m[1]. When combined with the on-site schemes our development programme represented about 11% of the portfolio. There is more detail on our consented development pipeline below.

Our contracted annualised net cash rent at June 2018 was £156.9m. This was 2% lower than December 2017, following the disposal of the Porters North joint venture and several lease expiries and surrenders for premiums where we are looking to refurbish the space. The portfolio's estimated reversion is correspondingly higher at £114.5m to give a total ERV of £271.4m.

The make-up of the reversion is shown in the table below. Of the total, £44.0m was contracted through rent-free periods, half rents and fixed uplifts, and most of this upside is already incorporated in the income statement. The remaining £70.5m (£29.5m scheme pre-lets plus £41.0m potential income) will contribute to future rent. As at 30 June 2018, 42% of this was pre-let, with the remaining growth to come from new lettings (37%) or lease events (21%).

<u>Portfolio income potential 30 June 2018</u>

	Contracted £m	Potential £m	Rent £m
Contracted rental income at 30 June 2018			156.9
Contractual rental uplifts	44.0		
Pre-let element of on-site schemes	29.5[2]		
			73.5
Vacant space including refurbishments		10.9	
On-site developments available		14.9[2]	
Rent reviews and lease renewals		15.2	
			41.0
Estimated rental value			271.4

[1] Total balance sheet carrying value at 30 June 2018 includes an additional £41.9m relating to discounted future headlease payments at Soho Place which are offset by an equal and opposite liability (see notes 11 and 18) [2] A further 20,500 sq ft pre-let at Brunel Building since 30 June 2018

PORTFOLIO MANAGEMENT

In the first six months, we achieved £8.4m of new lettings across 139,200 sq ft, on average 8.2% above December 2017 ERV. These transactions were dominated by the pre-letting at Brunel Building to Sony Pictures, which represented over 60% of the rents recorded in the first half. The other main letting in the period was 12,800 sq ft at 45-51 Whitfield Street W1 for a rent of £0.6m. There were a further 22 separate letting transactions which made up the remainder of the income. Since 30 June 2018, we have signed another £3.4m of lettings across 50,500 sq ft.

We show our main first half asset management activity in the table below. In total it covered 178,000 sq ft of space and we increased rents from £8.1m to £9.7m, which was 1.7% above ERV. The majority of these lease events were concentrated in 90 Whitfield Street W1, Morelands EC1 and 151 Rosebery Avenue EC1.

Asset management H1 2018

	Area sq ft	Previous rent £m pa	New rent £m pa	Uplift %	Income v Dec 17 ERV %
Rent reviews	89,200	3.8	4.8	26.9	3.0
Lease renewals	34,800	1.7	2.0	16.3	0.4
Lease regears	54,000	2.6	2.9	8.7	0.7
Total	**178,000**	**8.1**	**9.7**	**18.8**	**1.7**

PROJECTS

As reported in 2017, we substantially pre-let the office element of 80 Charlotte Street W1, our largest development. We now expect this project to complete early in the first half of 2020 due to a combination of variations and some minor delays. So far this year we have also pre-let 40% of Brunel Building W2, including the pre-letting of the top two floors totalling 20,500 sq ft announced today, and we are seeing good interest in the remaining space. This project is due for completion in the first half of 2019. Together these two developments will add £42.0m to rental income and require future capital expenditure of £200m.

Our next major schemes are Soho Place W1, where we are already on site carrying out preliminary works, and The Featherstone Building EC1 where we will take possession in December 2018. The former is located in one of the best positions in London's West End over the Tottenham Court Road Elizabeth line station. The latter is beside our highly successful White Collar Factory development. Together the ERV on the two schemes is £30m and the additional capital expenditure and site costs total £369m.

Major developments pipeline

Property	Area sq ft	Capex to complete £m[1]	Comment
On-site projects			
Brunel Building, 2 Canalside Walk W2	243,000	44	Offices – 40% pre-let
80 Charlotte Street W1	380,000	156	321,000 sq ft offices, 45,000 sq ft residential and 14,000 sq ft retail – 73% pre-let overall
	623,000	**200**	
Next projects			
Soho Place W1	285,000	291[4]	209,000 sq ft offices, 36,000 sq ft retail and 40,000 sq ft theatre
The Featherstone Building EC1	125,000	78	Offices, workspaces and retail
	410,000	**369**	
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 30 Jun 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 of £48m

At 31 December 2017 we were also on site with three major refurbishments. The first of these was Phase 2 of The White Chapel Building E1, which was pre-let and we will shortly be handing over to Fotografiska. The Johnson Building EC1 and the upper floors of 25 Savile Row W1 completed in the first half of this year and are the principal reason why our vacancy rate has increased to 4.2%. Together the three projects total 165,000 sq ft, with an ERV of c.£7.5m of which 32% is currently pre-let.

INVESTMENT ACTIVITY

We continue to actively seek opportunistic purchases but recently we have seen few properties that meet our investment criteria. In the current year we have added to our Fitzrovia holdings in 2018 with two strategic purchases: a small £7.8m purchase in Tottenham Mews W1 in the first half and since then we have exchanged contracts on the 36-year leasehold interest in 88-94 Tottenham Court Road W1 for £42m before costs, which comprises 37,400 sq ft of offices and 8,500 sq ft of retail. We already owned the freehold of the latter, which adjoins a number of existing ownerships and is located between 80 Charlotte Street and Tottenham Court Road. The passing rent is £2.5m, which equates to an average office rent of £48 per sq ft and a 6.0% initial yield. In the short term there are opportunities to capture reversion as leases expire and in the longer term it could facilitate the potential for a larger project incorporating our other adjoining properties.

Following 2017's exceptional sales activity, we expect to dispose of less property in the current year. In March 2018 as previously announced, Porters North N1 was sold at a 5% premium to book value following a lease extension and refurbishment programme. The building was held in a 50:50 joint venture, and our share of the net proceeds was £22.3m.

FINANCIAL REVIEW

Gross property and other income increased to £122.3m from £99.4m in H1 2017 due mainly to an unusually high value of non-recurring property items; surrender premiums of £2.5m and rights of light/access payments from neighbouring property owners of £17.7m were recognised in the income statement in the first half of 2018. Despite the substantial disposals in 2017, gross rental income was up by 1.8% to £86.9m with net rental income growing from £79.3m in H1 2017 to £80.6m in H1 2018. Net property and other income increased by 26.9% to £103.4m from £81.5m a year earlier.

IFRS profit from operations was £142.3m for the six months to 30 June 2018 against £154.5m for the half year to June 2017, the prior period benefitting from £19.1m of profits from disposals of investment properties. The overall revaluation surplus for our investment properties in the first half of 2018 was £54.0m (H1 2017: £66.7m) after accounting adjustments for incentives. Administrative expenses increased to £15.2m (H1 2017: £12.8m), returning to a figure almost identical to that in H1 2016. In 2017, the bonus and incentive payments were substantially lower than in either 2016 or 2018.

With lower average borrowings, total finance costs fell to £11.5m in H1 2018 from £14.3m in H1 2017 after interest capitalised on projects of £5.1m (H1 2017: £4.7m). Derivative financial instruments showed an overall small gain of £1.3m in H1 2018 (H1 2017: £1.9m) as medium-term interest rates moved up slightly over the period. Our share of the results at our two joint ventures was £1.9m (H1 2017: £3.7m), coming mainly from the gain on the sale of Porters North which completed in March 2018.

IFRS profit before tax was £134.0m for the half year to 30 June 2018 against £145.8m in H1 2017 but EPRA earnings, which exclude fair value movements and profits on disposals of investment properties, increased by 47.4% to £74.6m from £50.6m in H1 2017. EPRA earnings per share (EPS) were up by a similar amount to 66.93p from 45.42p. Both EPRA earnings and EPS include non-recurring property income so we have also provided 'underlying' figures. These exclude the £15.8m access rights receipt and £1.1m of the premiums received that compensate for rents that relate to subsequent periods (see note 23). Adjusting the EPRA EPS for these two amounts gives an underlying EPS of 51.77p per share, up 14.0% over H1 2017. Note that the underlying figures include rights of light and dilapidations receipts of £3.5m as these items occur frequently within our ongoing property operations.

EPRA like-for-like income has also been somewhat distorted this time by the unusually high non-rental income and surrender premiums and the corresponding sacrifice of short term rental income while new tenants are put in place. In addition, most of this year's rent reviews and lease expiries, which tend to lead to increases in contracted rent, occur in the second half of the year. Adjusting the EPRA like-for-like net rental income in the same way as the underlying EPS gives an increase of 5.1% when compared with H1 2017 and 0.8% with H2 2017. Adjusted like-for-like net property income, which excludes £16.9m of non-recurring property income in H1 2018, increased by 9.8% compared to H1 2017 and 4.9% compared to H2 2017.

The EPRA cost ratio was 20.9% in H1 2018, the same as H1 2017 and against 20.8% for the whole of 2017.

As in the first half of 2017, H1 2018 saw substantial dividends paid to shareholders. The final dividend for 2017 was 42.4p per share and the special dividend a further 75.0p per share, together reducing the Group net asset value by £130.9m. However, the profit for the period meant that total equity shareholders' funds and total net assets both increased slightly over the six months, to £4,133.8m and £4,197.1m, respectively. After allowing for a small increase in the number of ordinary shares, EPRA net asset value per share was down marginally to 3,713p per share from 3,716p in December 2017. This represents a total return, including the dividends, of 3.1% compared to 3.4% for H1 2017.

Capital expenditure, principally on our projects at 80 Charlotte Street W1, Brunel Building W2 and Phase 2 of The White Chapel Building E1, totalled £80.9m in H1 2018, marginally higher than the £79.5m incurred in H1 2017. We anticipate incurring a further £118m in the second half of 2018. There were £12.9m of investment property additions, the main ones being £7.8m at Tottenham Mews W1 and £5.1m site assembly costs at Soho Place W1. As we are now actively on site in anticipation of signing a building contract later this year, the £41.9m discounted headlease payments in relation to Soho Place are also included in the June 2018 balance sheet. There is a corresponding credit balance in non-current liabilities.

Note also that the carrying value of our share of the two joint venture investments of £41.6m includes cash of £14.3m following the sale in March 2018 of Porters North. We expect this cash to be distributed to the parent company later in the year.

Financing and net debt

Following the dividend payments in June, Group borrowings increased to £786.9m at H1 2018 from £730.8m in December 2017. However, borrowings were a little lower than the £794.4m in June 2017. Grossing-up for leasehold liabilities, which have grown to £56.0m at June 2018 following the recognition of £41.9m at Soho Place, £4.7m of derivative financial instruments (interest rate swaps) and netting off Group cash balances, net debt increased from £657.9m at December 2017 to £821.5m at 30 June 2018. However, the Group loan-to-value (LTV) ratio remains low, being 15.2% at 30 June 2018. This is close to the 14.9% a year earlier but higher than at December 2017 when it fell to 13.2%. Including the cash in joint ventures brings the June 2018 figure down to 14.8%. Interest cover has risen again to 514% for the six months to June 2018 compared to 454% for the 2017 full year and available undrawn facilities and cash totalled £403m. Note that interest cover calculations are based on net rental income and do not include the surrender premiums or rights of light/access rights receipts. Full details are in note 24.

Net cash from operating activities increased significantly to £72.1m for the half year to June 2018 from £37.2m in H1 2017, boosted considerably by £22.1m of cash receipts for the lease surrenders and rights of light/access rights.

Other than the repayment of our small bank facility within the Primister joint venture which held Porters North, there were no changes to our bank or other debt facilities in H1 2018. We paid £1.8m to defer or re-coupon certain interest rate swaps with the £28m swap for our Baker Street joint venture being extended by a year to March 2020 and with the fixed rate under the swap falling from 3.525% to 0.875%. Together with the higher levels of floating rate bank debt, this has helped bring down our weighted average interest cost from 3.80% on a cash basis at year end to 3.56% at June 2018. Including the IFRS adjustment on the convertible bonds, the rate fell from 4.11% to 3.86%. The £150m convertible bonds mature in July 2019 and have a current conversion price of £31.78 so they were not dilutive based on the share price as at 30 June 2018.

A summary of the overall debt position at 30 June 2018 is shown in the following table:

	Jun 2018	Jun 2017	Dec 2017
Percentage of debt that is unsecured (%)	64	65	61
Percentage of non-bank debt (%)	78	75	84
Percentage of debt fixed or swapped (%)	82	99	88
Weighted average interest rate - cash basis (%)	3.56	3.71	3.80
Weighted average interest rate - IFRS basis (%)	3.86	3.99	4.11
Weighted average maturity of facilities (years)	5.8	6.7	6.3
Weighted average maturity of borrowings (years)	6.8	7.5	7.6
Undrawn facilities and cash (£m)	403	446	523
Uncharged properties (£m)	3,985	3,828	3,864

Dividend

We have raised the interim dividend by 10.2%, taking it to 19.10p per share from 17.33p last year. It will be paid as a PID on 19 October 2018 to shareholders on the register as at 14 September 2018. This follows the increase in last year's interim dividend by 25%, and special dividends totalling 127p per share paid since the beginning of June 2017.

RISK MANAGEMENT AND INTERNAL CONTROL

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 and Risk Committee in August 2018.

The principal risks and uncertainties facing the Group in 2018 are set out on the following pages with the potential effects, controls and mitigation factors. The Group's approach to the management and mitigation of these risks is included in the 2017 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.	• The Group conducts an annual five-year strategic review and prepares a budget and three rolling forecasts covering the next two years. • The Board considers the sensitivity of the Group KPIs and key metrics to changes in the assumptions underlying our forecasts in light of anticipated economic conditions. If considered necessary, modifications are made. • The Group's development pipeline has a degree of flexibility that enables plans for individual properties to be changed to reflect prevailing economic circumstances. • The Group seeks to maintain income from properties until development commences and has an ongoing strategy to extend income through lease renewals and 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 and 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. Negotiations are likely to be ongoing during 2018 and the operating framework facing UK businesses and the effect on London post-Brexit cannot be accurately predicted.	• 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 £50.23 per sq ft (2017: £49.74 per sq ft). • The Group develops properties in locations where there is greatest 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 through pre-lets. • Updates received on occupier trends by engaging with our current tenants and advisors.

3. Reputational damage

Risk, effect and progression	Controls and mitigation
The Group's reputation is damaged, for example through unauthorised and/or inaccurate media coverage or failure to comply with relevant legislation. We have an established and trusted brand. Our strong culture, low overall risk tolerance and established procedures and policies mitigate against the risk of internal wrong-doing.	• 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.

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. Increase in property yields	
Increasing property yields, which may be a consequence of rising interest rates, would cause property values to fall. Interest rates have remained low for an extended period and are expected to gradually rise over the next few years. Though there is no direct relationship, this may cause property yields to increase. The underlying values of the properties in our portfolio have remained resilient, and as at 30 June 2018 have increased by 1.3%, despite the continuing economic uncertainties.	• 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 move towards mainly unsecured financing over the past few years has simplified the management of our financial covenants. • 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. 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.	• 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 entered into. • 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. • 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.
6. Cyber attack	
The Group is subject to a cyber-attack that results in it being unable to use its IT systems and/or loses data. This could lead to an increase in costs whilst a significant diversion of management time would have a wider impact.	• The Group's Business Continuity Plan is regularly reviewed and tested. • Independent internal and external 'penetration' tests are regularly conducted to assess the effectiveness of the Group's security. • Multifactor authentication exists for remote access to our systems. • Incident response and remediation policies are in place. • The Group's data is regularly backed up and replicated and our IT systems are protected by anti-virus software and firewalls that are frequently updated. • Annual staff awareness and training programmes are implemented. • Security measures are regularly reviewed by the IT Steering Committee.

7. 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.

- 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.
- When required, external consultants are used on facilities management matters.
- 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.

8. Non-compliance with environmental and sustainability legislation

The Group's cost base is increased and management time is diverted through a breach of any of the legislation e.g. Minimum Energy Efficiency Standards (MEES) for buildings. This could lead to damage to our reputation and/or 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 aligned with the outcome of the Paris Climate Change Agreement & UK Climate Change Act (COP 21).
- Production of an Annual Sustainability Report, the key data points and performance of which are externally assured.

9. Other regulatory non-compliance

The Group's cost base is increased and management time is diverted through a breach of any of the legislation that forms the regulatory framework within which the Group operates. This could lead to damage to our reputation and/or loss of our licence to operate.

- The Board and Risk Committee receive regular reports prepared by the Group's legal advisers identifying upcoming legislative/regulatory changes. External advice is taken on any new legislation.
- Staff training and awareness programmes.
- Group policies and procedures dealing with all key legislation are available on the Group's intranet.
- A Group whistleblowing system for staff is maintained to report wrongdoing anonymously.

10. ‘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.

- 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.
- Payments to contractors to incentivise them to achieve agreed project timescale and damages agreed in the event of delays/cost overruns.
- Frequent meetings with key contractors and subcontractors to review the work programme.

11. 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.

- The financial standing of our main contractors is reviewed prior to awarding the project contract.
- Regular monitoring of our contractors’ 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 which monitors contractor performance and identifies any problems at an early stage thereby enabling remedial action to be taken.
- Performance bonds are sought if considered necessary.
- Our main contractors are responsible, and assume the risk, for any subcontractor default.

12. Shortage of key staff

The Group is unable to successfully implement its strategy due to a failure to recruit and retain key staff with appropriate skills and/or inadequate succession planning.

- The Nominations Committee considers succession matters at Board level as a standing agenda item.
- Senior management succession is considered during the five-year strategic reviews.
- Remuneration packages for all employees are benchmarked regularly.
- Six-monthly performance appraisals identify training requirements and career aspirations.

13. Terrorism or other business interruption

Elevated to a principal risk due to recent attacks in European capital 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.

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).

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 30 June 2018, the proportion of fixed debt held by the Group was within this range at 82% (31 December 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 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.

Statement of Directors' responsibilities

The Directors' confirm that, to the best of their knowledge, these condensed consolidated interim financial statements have been prepared in accordance with IAS 34 'Interim Financial Reporting', as adopted by the European Union and that the interim management report includes a fair review of the information required by Disclosure and Transparency Rules (DTR) 4.2.7 and 4.2.8, namely:

- An indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- Material related-party transactions in the first six months of the financial year and any material changes in the related-party transactions described in the last Annual Report.

The Directors are listed in the Derwent London plc Annual Report of 31 December 2017 and a list of the current Directors is maintained on the Derwent London plc website: www.derwentlondon.com. The maintenance and integrity of the Derwent London website is the responsibility of the Directors.

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	Damian M.A. Wisniewski
Chief Executive Officer	Finance Director

9 August 2018

GROUP CONDENSED INCOME STATEMENT

	Note	**Half year to 30.06.2018 Unaudited £m**	Half year to 30.06.2017 Unaudited £m	Year to 31.12.2017 Audited £m
Gross property and other income	5	**122.3**	99.4	202.6
Net property and other income	5	**103.4**	81.5	164.8
Administrative expenses		**(15.2)**	(12.8)	(28.2)
Revaluation surplus	11	**54.0**	66.7	147.9
Profit on disposal of investment property	6	**0.1**	19.1	50.3
Profit from operations		**142.3**	154.5	334.8
Finance costs	7	**(11.5)**	(14.3)	(27.1)
Movement in fair value of derivative financial instruments		**3.1**	6.4	9.4
Financial derivative termination costs	8	**(1.8)**	(4.5)	(7.3)
Share of results of joint ventures	9	**1.9**	3.7	5.0
Profit before tax		**134.0**	145.8	314.8
Tax charge	10	**(1.6)**	(0.6)	(1.8)
Profit for the period		**132.4**	145.2	313.0
Attributable to:				
- Equity shareholders		**134.0**	146.4	314.0
- Non-controlling interest		**(1.6)**	(1.2)	(1.0)
		132.4	145.2	313.0
Earnings per share	23	**120.22p**	131.42p	281.79p
Diluted earnings per share	23	**119.81p**	131.04p	281.12p

GROUP CONDENSED STATEMENT OF COMPREHENSIVE INCOME

	Note	**Half year to 30.06.2018 Unaudited £m**	Half year to 30.06.2017 Unaudited £m	Year to 31.12.2017 Audited £m
Profit for the period		**132.4**	145.2	313.0
Actuarial gains/(losses) on defined benefit pension scheme		**0.8**	(1.1)	(0.9)
Revaluation surplus of owner-occupied property	11	**0.5**	-	1.8
Deferred tax charge on revaluation	19	**(0.2)**	(0.4)	(0.7)
Other comprehensive income/(expense) that will not be reclassified to profit or loss		**1.1**	(1.5)	0.2
Total comprehensive income relating to the period		**133.5**	143.7	313.2
Attributable to:				
- Equity shareholders		**135.1**	144.9	314.2
- Non-controlling interest		**(1.6)**	(1.2)	(1.0)
		133.5	143.7	313.2

GROUP CONDENSED BALANCE SHEET

	Note	**30.06.2018 Unaudited £m**	30.06.2017 Unaudited £m	31.12.2017 Audited £m
Non-current assets				
Investment property	11	**4,857.0**	4,509.6	4,670.7
Property, plant and equipment	12	**52.7**	50.5	52.2
Investments	13	**41.6**	38.5	39.7
Pension scheme surplus		**0.4**	-	-
Other receivables	14	**109.1**	100.6	105.2
		5,060.8	4,699.2	4,867.8
Current assets				
Trading property	11	**28.5**	14.1	25.3
Trade and other receivables	15	**58.3**	43.9	58.0
Cash and cash equivalents		**21.4**	102.8	87.0
		108.2	160.8	170.3
Non-current assets held for sale	16	**-**	132.0	-
Total assets		**5,169.0**	4,992.0	5,038.1
Current liabilities				
Borrowings	18	**-**	28.0	-
Trade and other payables	17	**118.0**	95.2	86.7
Corporation tax liability		**3.5**	1.8	2.1
Provisions		**0.3**	0.3	0.2
		121.8	125.3	89.0
Non-current liabilities				
Borrowings	18	**786.9**	794.4	730.8
Derivative financial instruments	18	**4.7**	11.0	7.9
Leasehold liabilities	18	**56.0**	14.1	14.1
Provisions		**0.2**	0.2	0.4
Pension scheme deficit		**-**	1.4	0.4
Deferred tax	19	**2.3**	2.6	2.3
		850.1	823.7	755.9
Total liabilities		**971.9**	949.0	844.9
Total net assets		**4,197.1**	4,043.0	4,193.2
Equity				
Share capital		**5.6**	5.6	5.6
Share premium		**189.5**	188.7	189.2
Other reserves		**941.6**	940.9	942.9
Retained earnings		**2,997.1**	2,841.9	2,990.6
Equity shareholders' funds		**4,133.8**	3,977.1	4,128.3
Non-controlling interest		**63.3**	65.9	64.9
Total equity		**4,197.1**	4,043.0	4,193.2

GROUP CONDENSED 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 period	-	-	-	134.0	134.0	(1.6)	132.4
Other comprehensive income	-	-	0.3	0.8	1.1	-	1.1
Transfer of owner-occupied property	-	-	-	-	-	-	-
Share-based payments	-	0.3	(1.6)	2.6	1.3	-	1.3
Dividends paid	-	-	-	(130.9)	(130.9)	-	(130.9)
At 30 June 2018 (unaudited)	**5.6**	**189.5**	**941.6**	**2,997.1**	**4,133.8**	**63.3**	**4,197.1**
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 period	-	-	-	146.4	146.4	(1.2)	145.2
Other comprehensive expense	-	-	(0.4)	(1.1)	(1.5)	-	(1.5)
Transfer of owner-occupied property	-	-	(6.9)	6.9	-	-	-
Share-based payments	-	0.3	(2.2)	2.6	0.7	-	0.7
Dividends paid	-	-	-	(100.8)	(100.8)	-	(100.8)
At 30 June 2017 (unaudited)	5.6	188.7	940.9	2,841.9	3,977.1	65.9	4,043.0
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 (audited)	5.6	189.2	942.9	2,990.6	4,128.3	64.9	4,193.2

GROUP CONDENSED CASH FLOW STATEMENT

	Note	**Half year to 30.06.2018 Unaudited £m**	Half year to 30.06.2017 Unaudited £m	Year to 31.12.2017 Audited £m
Operating activities				
Rental income		**79.0**	74.1	154.2
Surrender premiums and other property income		**22.1**	-	0.1
Property expenses		**(4.9)**	(11.2)	(19.2)
Cash paid to and on behalf of employees		**(12.6)**	(9.2)	(19.5)
Other administrative expenses		**(2.0)**	(3.2)	(7.3)
Interest paid	7	**(8.3)**	(11.6)	(21.7)
Other finance costs	7	**(1.5)**	(1.7)	(3.2)
Other income		**0.7**	1.2	2.9
Tax paid in respect of operating activities		**(0.4)**	(1.2)	(2.8)
Net cash from operating activities		**72.1**	37.2	83.5
Investing activities				
Acquisition of properties		**(12.9)**	(0.9)	(8.5)
Capital expenditure on the property portfolio	7	**(78.8)**	(87.2)	(171.0)
Reimbursement of capital expenditure		**15.2**	-	6.0
Disposal of investment and trading properties		**-**	324.8	472.9
Repayment of shareholder loan		**-**	1.2	1.3
Purchase of property, plant and equipment		**(0.3)**	(4.7)	(5.0)
VAT received/(paid)		**15.0**	(4.8)	(11.7)
Net cash (used in)/from investing activities		**(61.8)**	228.4	284.0
Financing activities				
Net movement in revolving bank loans		**54.5**	(77.8)	(170.8)
Financial derivative termination costs		**(1.8)**	(4.5)	(7.3)
Net proceeds of share issues		**0.3**	0.3	0.8
Dividends paid to non-controlling interest holder		**-**	-	(1.2)
Dividends paid	20	**(128.9)**	(98.5)	(119.7)
Net cash used in financing activities		**(75.9)**	(180.5)	(298.2)
(Decrease)/increase in cash and cash equivalents in the period		**(65.6)**	85.1	69.3
Cash and cash equivalents at the beginning of the period		**87.0**	17.7	17.7
Cash and cash equivalents at the end of the period		**21.4**	102.8	87.0

NOTES TO THE FINANCIAL STATEMENTS

1. Basis of preparation

Neither the financial information for the half year to 30 June 2018 nor the half year to 30 June 2017 was subject to an audit but has been subject to a review in accordance with the International Standard on Review Engagements (UK and Ireland) 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity, issued by the Auditing Practices Board.

The comparative financial information presented herein for the year to 31 December 2017 does not constitute the Group's statutory accounts, but is derived from those accounts. The Group's statutory accounts for the year to 31 December 2017 have been delivered to the Registrar of Companies. The Auditor's report on those accounts was 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 information in these condensed consolidated financial statements is that of the holding company and all of its subsidiaries (the "Group") together with the Group's share of its joint ventures. It has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and with IAS 34 Interim Financial Reporting and should be read in conjunction with the annual report and accounts for the year to 31 December 2017 which 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.

As with most other UK property companies and REITs, the Group presents many of its financial measures in accordance with the guidance criteria issued by the European Public Real Estate Association ('EPRA'). These measures, which provide consistency across the sector, are all derived from the IFRS figures in note 23.

Going concern

Under Provision C.1.3 of the UK Corporate Governance Code 2014, the Board needs to report whether the business is a going concern. In considering this requirement, the Directors have taken into account the following:

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

In particular the Directors have considered the relatively long-term and stable nature of the cash flows receivable under the tenant leases, the Group's loan-to-value ratio of 15.2%, the interest cover ratio of 514% and the £403m total of undrawn facilities and cash at 30 June 2018. They have also considered the fact that the average maturity of borrowings was 6.8 years at 30 June 2018.

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

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

2. Changes in accounting policies

The accounting policies used by the Group in these condensed financial statements are consistent with those applied in the Group's financial statements for the year to 31 December 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 period
The following standards, amendments and interpretations endorsed by the EU were effective for the first time for the Group's current accounting period and had no material impact on the financial statements.

IFRS 2 (amended) – Share Based Payments;
IFRS 4 (amended) – Insurance Contracts;
IAS 40 (amended) – Investment Property;
IFRS 17 – Insurance Contracts;
IFRIC 22 – Foreign Currency Transactions and Advance Consideration;
IFRIC 23 – Uncertainty over Income Tax Treatments;
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 period and have not been adopted early. Based on the Group's current circumstances the Directors do not anticipate that their adoption in future periods will have a material impact on the financial statements of the Group.

IFRS 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

Some of the significant accounting policies require management to make difficult, subjective or complex judgments or estimates. The following is a summary of those policies which management consider critical because of the level of complexity, judgment or estimation involved in their application and their impact on the financial statements.

Key sources of estimation uncertainty

- Property portfolio valuation.
- Borrowings and derivatives.

Significant judgments

- Compliance with the real estate investment trust (REIT) taxation regime.

A full explanation of these policies is included in the 2017 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 and underlying 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, assets held for sale and trading property and comprised 97% office buildings* in central London by value (30 June 2017: 97%; 31 December 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% (30 June 2017: 3%; 31 December 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. 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).

* Some office buildings have an ancillary element such as retail or residential.

Gross property income

	Office buildings £m	Other £m	**Total £m**
Half year to 30 June 2018			
West End central	56.3	0.1	**56.4**
West End borders	10.0	-	**10.0**
City borders	38.2	0.2	**38.4**
Provincial	-	2.3	**2.3**
	104.5	**2.6**	**107.1**
Half year to 30 June 2017			
West End central	41.2	0.3	41.5
West End borders	9.2	-	9.2
City borders	32.2	0.2	32.4
Provincial	-	2.3	2.3
	82.6	2.8	85.4
Year to 31 December 2017			
West End central	79.4	0.4	79.8
West End borders	18.4	-	18.4
City borders	69.0	0.2	69.2
Provincial	-	4.8	4.8
	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

	Carrying value			Fair value		
	Office buildings £m	Other £m	**Total £m**	Office buildings £m	Other £m	**Total £m**
30 June 2018						
West End central	2,487.4	45.7	**2,533.1**	2,481.5	47.0	**2,528.5**
West End borders	443.8	-	**443.8**	465.8	-	**465.8**
City borders	1,850.7	7.5	**1,858.2**	1,900.9	7.4	**1,908.3**
Provincial	-	97.4	**97.4**	-	99.7	**99.7**
	4,781.9	**150.6**	**4,932.5**	**4,848.2**	**154.1**	**5,002.3**
30 June 2017						
West End central	2,432.9	28.5	2,461.4	2,470.7	28.7	2,499.4
West End borders	428.3	-	428.3	446.9	-	446.9
City borders	1,706.2	6.5	1,712.7	1,744.0	6.5	1,750.5
Provincial	-	98.0	98.0	-	101.0	101.0
	4,567.4	133.0	4,700.4	4,661.6	136.2	4,797.8
31 December 2017						
West End central	2,356.8	42.2	2,399.0	2,394.9	43.7	2,438.6
West End borders	439.3	-	439.3	459.7	-	459.7
City borders	1,799.1	6.5	1,805.6	1,844.4	6.4	1,850.8
Provincial	-	98.6	98.6	-	101.2	101.2
	4,595.2	147.3	4,742.5	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

	Half year to 30.06.2018 £m	Half year to 30.06.2017 £m	Year to 31.12.2017 £m
Gross rental income	**86.9**	85.4	172.1
Surrender premiums	**2.5**	-	0.1
Other property income	**17.7**	-	-
Gross property income	**107.1**	85.4	172.2
Service charge income	**14.0**	12.8	27.7
Other income	**1.2**	1.2	2.7
Gross property and other income	**122.3**	99.4	202.6

Gross rental income	**86.9**	85.4	172.1
Ground rent (expense)/credit	**(0.6)**	0.1	(0.7)
Service charge income	**14.0**	12.8	27.7
Service charge expenses	**(15.1)**	(14.0)	(29.6)
	(1.1)	(1.2)	(1.9)
Other property costs	**(4.6)**	(5.0)	(8.4)
Net rental income	**80.6**	79.3	161.1
(Write-down)/reversal of write-down of trading property	**(0.2)**	1.0	1.0
Other property income	**17.7**	-	-
Other income	**1.2**	1.2	2.7
Surrender premiums	**2.5**	-	0.1
Reverse surrender premiums	**-**	-	(0.2)
Dilapidation receipts	**1.6**	-	0.1
Net property and other income	**103.4**	81.5	164.8

Gross rental income included £5.8m (half year to 30 June 2017: £8.8m; year to 31 December 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 period.

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

	Half year to 30.06.2018 £m	Half year to 30.06.2017 £m	Year to 31.12.2017 £m
Gross disposal proceeds	**0.1**	327.1	486.3
Costs of disposal	**-**	(1.3)	(3.5)
Net disposal proceeds	**0.1**	325.8	482.8
Carrying value	**-**	(295.6)	(418.9)
Adjustment for lease costs and rents recognised in advance	**-**	(11.1)	(19.2)
Adjustment for capital contributions	**-**	-	(4.2)
Adjustment for headlease liability	**-**	-	9.8
Profit on disposal of investment property	**0.1**	19.1	50.3

7. Finance costs

	Half year to 30.06.2018 £m	Half year to 30.06.2017 £m	Year to 31.12.2017 £m
Finance costs			
Bank loans and overdraft	**1.1**	3.7	5.9
Non-utilisation fees	**1.1**	0.8	1.8
Unsecured convertible bonds	**1.9**	1.9	3.8
Secured bonds	**5.7**	5.7	11.4
Unsecured private placement notes	**4.2**	4.1	8.3
Secured loan	**1.7**	1.7	3.3
Amortisation of issue and arrangement costs	**1.0**	1.0	2.0
Amortisation of the fair value of the secured bonds	**(0.5)**	(0.5)	(1.1)
Finance lease costs	**0.3**	0.5	1.0
Other	**0.1**	0.1	0.1
Gross finance costs	**16.6**	19.0	36.5
Less: interest capitalised	**(5.1)**	(4.7)	(9.4)
Finance costs	**11.5**	14.3	27.1

Finance costs of £5.1m (half year to 30 June 2017: £4.7m; year to 31 December 2017: £9.4m) have been capitalised on development projects, in accordance with IAS 23 Borrowing Costs, using the Group's average cost of borrowing during each quarter. Total finance costs paid to 30 June 2018 were £14.9m (half year to 30 June 2017: £18.0m; year to 31 December 2017: £34.3m) of which £5.1m (half year to 30 June 2017: £4.7m; year to 31 December 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 £1.8m in the half year to 30 June 2018 (half year to 30 June 2017: £4.5m; year to 31 December 2017: £7.3m) deferring, re-couponing or terminating interest rate swaps.

9. Share of results of joint ventures

	Half year to 30.06.2018 £m	Half year to 30.06.2017 £m	Year to 31.12.2017 £m
Revaluation surplus	**0.1**	3.4	3.9
Profit on disposal of investment property	**1.3**	-	-
Other profit from operations after tax	**0.5**	0.3	1.1
	1.9	3.7	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

	Half year to 30.06.2018 £m	Half year to 30.06.2017 £m	Year to 31.12.2017 £m
Corporation tax			
UK corporation tax and income tax in respect of profit for the period	**1.8**	1.5	4.0
Other adjustments in respect of prior years' tax	**-**	-	(0.7)
Corporation tax charge	**1.8**	1.5	3.3
Deferred tax			
Origination and reversal of temporary differences	**(0.2)**	(0.6)	(1.2)
Adjustment for changes in estimates	**-**	(0.3)	(0.3)
Deferred tax credit	**(0.2)**	(0.9)	(1.5)
Tax charge	**1.6**	0.6	1.8

In addition to the tax charge of £1.6m (half year to 30 June 2017: £0.6m; year to 31 December 2017: £1.8m) that passed through the Group income statement, a deferred tax charge of £0.2m (half year to 30 June 2017: £0.4m; year to 31 December of 2017: £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 the half year to 30 June 2018 is lower (half year to 30 June 2017: lower; year to 31 December 2017: lower) than the standard rate of corporation tax in the UK. The differences are explained below:

	Half year to 30.06.2018 £m	Half year to 30.06.2017 £m	Year to 31.12.2017 £m
Profit before tax	**134.0**	145.8	314.8
Expected tax charge based on the standard rate of corporation tax in the UK of 19.00% (2017: 19.25%)*	**25.5**	28.1	60.6
Difference between tax and accounting profit on disposals	**(4.1)**	(4.0)	(9.8)
REIT exempt income	**(5.5)**	(5.3)	(10.8)
Revaluation surplus attributable to REIT properties	**(10.3)**	(13.1)	(27.4)
Expenses and fair value adjustments not allowable for tax purposes	**(2.0)**	(2.2)	(4.4)
Capital allowances	**(1.9)**	(2.1)	(4.2)
Other differences	**(0.1)**	(0.8)	(1.5)
Tax charge on current period's profit	**1.6**	0.6	2.5
Adjustments in respect of prior years' tax	**-**	-	(0.7)
	1.6	0.6	1.8

*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 reducing the main rate to 19% from 1 April 2017 and then to 17% from 1 April 2020. Deferred taxes at the balance sheet date have been measured using the expected enacted tax rate and this is reflected in these financial statements.

11. Property portfolio

Carrying value

	Freehold £m	Leasehold £m	Total investment property £m	Owner-occupied property £m	Assets held for sale £m	Trading property £m	Total property portfolio £m
At 1 January 2018	3,867.0	803.7	4,670.7	46.5	-	25.3	4,742.5
Acquisitions	7.8	5.1	12.9	-	-	-	12.9
Capital expenditure	37.3	35.2	72.5	-	-	3.3	75.8
Interest capitalisation	2.6	2.4	5.0	-	-	0.1	5.1
Additions	47.7	42.7	90.4	-	-	3.4	93.8
Revaluation	22.8	31.2	54.0	0.5	-	-	54.5
Write-down of trading property	-	-	-	-	-	(0.2)	(0.2)
Movement in grossing up of headlease liabilities	-	41.9	41.9	-	-	-	41.9
At 30 June 2018	**3,937.5**	**919.5**	**4,857.0**	**47.0**	**-**	**28.5**	**4,932.5**
At 1 January 2017	3,959.9	843.9	4,803.8	34.2	-	11.7	4,849.7
Acquisitions	0.8	0.2	1.0	-	-	-	1.0
Capital expenditure	34.6	36.5	71.1	2.3	-	1.4	74.8
Interest capitalisation	2.6	2.1	4.7	-	-	-	4.7
Additions	38.0	38.8	76.8	2.3	-	1.4	80.5
Disposals	(295.6)	-	(295.6)	-	-	-	(295.6)
Transfers	(8.2)	(133.9)	(142.1)	8.2	133.9	-	-
Revaluation	43.4	23.3	66.7	-	-	-	66.7
Reversal of write-down of trading property	-	-	-	-	-	1.0	1.0
Adjustment to assets held for sale	-	-	-	-	(1.9)	-	(1.9)
At 30 June 2017	3,737.5	772.1	4,509.6	44.7	132.0	14.1	4,700.4
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	Assets held for sale £m	Trading property £m	Total property portfolio £m
At 30 June 2018							
Fair value	**4,042.6**	**883.1**	**4,925.7**	**47.0**	**-**	**29.6**	**5,002.3**
Revaluation of trading property	-	-	-	-	-	(1.1)	(1.1)
Lease incentives and costs included in receivables	(105.1)	(19.6)	(124.7)	-	-	-	(124.7)
Grossing up of headlease liabilities	-	56.0	56.0	-	-	-	56.0
Carrying value	**3,937.5**	**919.5**	**4,857.0**	**47.0**	**-**	**28.5**	**4,932.5**
At 30 June 2017							
Fair value	3,829.8	775.5	4,605.3	44.7	133.7	14.1	4,797.8
Selling costs relating to assets held for sale	-	-	-	-	(1.7)	-	(1.7)
Lease incentives and costs included in receivables	(92.3)	(17.5)	(109.8)	-	-	-	(109.8)
Grossing up of headlease liabilities	-	14.1	14.1	-	-	-	14.1
Carrying value	3,737.5	772.1	4,509.6	44.7	132.0	14.1	4,700.4
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

	30.06.2018 £m	30.06.2017 £m	31.12.2017 £m
Portfolio including the Group's share of joint ventures	**5,029.2**	4,842.2	4,897.6
Less: joint ventures	**(26.9)**	(44.4)	(47.3)
IFRS property portfolio	**5,002.3**	4,797.8	4,850.3

The property portfolio is subject to semi-annual external valuations and was revalued at 30 June 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 £4,969.2m (30 June 2017: £4,765.2m; 31 December 2017: £4,817.5m) and other valuers at £33.1m (30 June 2017: £32.6m; 31 December 2017: £32.8m). Of the properties revalued by CBRE, £47.0m (30 June 2017: £44.7m; 31 December 2017: £46.5m) relating to owner-occupied property was included within property, plant and equipment and £29.6m (30 June 2017: £14.1m; 31 December 2017: £26.6m) was included within 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 30 June 2018, the grossing up of headlease liabilities of £56.0m includes £41.9m for the discounted headlease liabilities in relation to Soho Place W1 where the Group is now actively on site.

Reconciliation of revaluation surplus

	Half year to 30.06.2018 £m	Half year to 30.06.2017 £m	Year to 31.12.2017 £m
Total revaluation surplus	**58.2**	85.1	177.1
Share of joint ventures	**(0.1)**	(3.6)	(4.9)
Lease incentives and costs	**(4.0)**	(12.1)	(20.2)
Trading property revaluation adjustment	**0.2**	-	(1.3)
Assets held for sale selling costs	**-**	(1.7)	-
IFRS revaluation surplus	**54.3**	67.7	150.7
Reported in the:			
Revaluation surplus	**54.0**	66.7	147.9
(Write-down)/reversal of write-down of trading property	**(0.2)**	1.0	1.0
Group income statement	**53.8**	67.7	148.9
Group statement of comprehensive income	**0.5**	-	1.8
	54.3	67.7	150.7

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	-	-	0.3	0.3
Depreciation	-	-	(0.3)	(0.3)
Revaluation	0.5	-	-	0.5
At 30 June 2018	**47.0**	**1.6**	**4.1**	**52.7**
At 1 January 2017	34.2	1.5	2.4	38.1
Additions	2.3	-	2.4	4.7
Disposals	-	-	(0.2)	(0.2)
Transfers	8.2	-	-	8.2
Depreciation	-	-	(0.3)	(0.3)
At 30 June 2017	44.7	1.5	4.3	50.5
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)
Transfers	8.2	-	-	8.2
Depreciation	-	-	(0.7)	(0.7)
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	6.2	54.8
Accumulated depreciation	-	-	(2.1)	(2.1)
At 30 June 2018	**47.0**	**1.6**	**4.1**	**52.7**
Net book value				
Cost or valuation	44.7	1.5	5.8	52.0
Accumulated depreciation	-	-	(1.5)	(1.5)
At 30 June 2017	44.7	1.5	4.3	50.5
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 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.

13. Investments

The Group has a 50% interest in two joint ventures, Primister Limited and Prescot Street Limited Partnership.

	30.06.2018 £m	30.06.2017 £m	31.12.2017 £m
At 1 January	**39.7**	36.0	36.0
Share of results of joint ventures (see note 9)	**1.9**	3.7	5.0
Repayment of shareholder loan	**-**	(1.2)	(1.3)
	41.6	38.5	39.7

The £41.6m investments at 30 June 2018 included £14.3m of cash held in Primister Limited as a result of the disposal of Porters North N1 (see note 9).

14. Other receivables (non-current)

	30.06.2018 £m	30.06.2017 £m	31.12.2017 £m
Prepayments and accrued income	**109.1**	96.9	105.2
Other	**-**	3.7	-
	109.1	100.6	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 £15.6m (30 June 2017: £12.9m; 31 December 2017: £15.4m), which was included as current assets within trade and other receivables, these amounts totalled £124.7m at 30 June 2018 (30 June 2017: £109.8m; 31 December 2017: £120.6m).

15. Trade and other receivables

	30.06.2018 £m	30.06.2017 £m	31.12.2017 £m
Trade receivables	**9.1**	7.3	7.1
Other receivables	**4.0**	2.6	6.8
Prepayments	**21.5**	19.2	17.3
Other taxes	**-**	-	4.6
Accrued income	**23.7**	14.8	22.2
	58.3	43.9	58.0

16. Non-current assets held for sale

	30.06.2018 £m	30.06.2017 £m	31.12.2017 £m
Transfer from investment property (see note 11)	**-**	132.0	-

17. Trade and other payables

	30.06.2018 £m	30.06.2017 £m	31.12.2017 £m
Trade payables	**1.8**	2.5	2.0
Other payables	**19.7**	16.6	17.8
Accruals	**46.1**	35.7	27.1
Other taxes	**8.3**	3.4	-
Deferred income	**42.1**	37.0	39.8
	118.0	95.2	86.7

18. Borrowings and derivative financial instruments

	30.06.2018		30.06.2017		31.12.2017	
	Book value £m	**Fair value £m**	Book Value £m	Fair value £m	Book value £m	Fair value £m
Current liabilities						
Secured bank loan	**-**	**-**	28.0	28.0	-	-
	-	**-**	28.0	28.0	-	-
Non-current liabilities						
1.125% unsecured convertible bonds 2019	**147.0**	**157.0**	144.2	151.1	145.6	158.3
6.5% secured bonds 2026	**186.4**	**222.3**	187.4	225.4	186.9	225.6
3.46% unsecured private placement notes 2028	**29.8**	**30.7**	29.8	30.8	29.8	31.0
4.41% unsecured private placement notes 2029	**24.8**	**28.9**	24.8	28.8	24.8	29.3
3.57% unsecured private placement notes 2031	**74.6**	**75.8**	74.5	75.7	74.5	76.4
4.68% unsecured private placement notes 2034	**74.4**	**90.7**	74.3	88.4	74.3	91.8
3.99% secured loan 2024	**81.8**	**86.7**	81.9	88.1	81.7	87.9
Unsecured bank loans	**140.4**	**143.5**	177.5	181.5	85.6	89.0
Secured bank loan	**27.7**	**28.0**	-	-	27.6	28.0
Borrowings	**786.9**	**863.6**	794.4	869.8	730.8	817.3
Derivative financial instruments expiring in greater than one year	**4.7**	**4.7**	11.0	11.0	7.9	7.9
Total borrowings and derivative financial instruments	**791.6**	**868.3**	833.4	908.8	738.7	825.2

	30.06.2018	30.06.2017	31.12.2017
Reconciliation to net debt:			
Borrowings and derivative financial instruments	**791.6**	833.4	738.7
Adjustments for:			
Leasehold liabilities	**56.0**	14.1	14.1
Derivative financial instruments	**(4.7)**	(11.0)	(7.9)
Cash and cash equivalents	**(21.4)**	(102.8)	(87.0)
Net debt	**821.5**	733.7	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 values of the Group's bank loans are approximately the same as their carrying amount, after adjusting for the unamortised arrangement fees, and also represent Level 2 fair value measurement.

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

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

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

Included within the leasehold liabilities of £56.0m at 30 June 2018 was £41.9m relating to the discounted headlease liabilities at Soho Place W1.

19. Deferred tax

	Revaluation surplus £m	Other £m	Total £m
At 1 January 2018	4.5	(2.2)	2.3
Credited to the income statement	(0.2)	-	(0.2)
Charged to other comprehensive income	0.2	-	0.2
At 30 June 2018	**4.5**	**(2.2)**	**2.3**
At 1 January 2017	5.3	(2.2)	3.1
(Credited)/charged to the income statement	(0.7)	0.1	(0.6)
Change in tax rates in the income statement	(0.5)	0.2	(0.3)
Charged to other comprehensive income	0.5	-	0.5
Change in tax rates in other comprehensive income	(0.1)	-	(0.1)
At 30 June 2017	4.5	(1.9)	2.6
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.

20. Dividend

	Payment date	Dividend per share PID p	Non-PID p	Total p	**Half year to 30.06.2018 £m**	Half year to 30.06.2017 £m	Year to 31.12.2017 £m
Current period							
2018 interim dividend	19 October 2018	19.10	-	19.10	**-**	-	-
Distribution of current period profit		19.10	-	19.10			
Prior period							
2017 interim dividend	20 October 2017	17.33	-	17.33	**-**	-	19.3
Distribution of prior period profit		17.33	-	17.33			
Prior year							
2017 final dividend	8 June 2018	35.00	7.40	42.40	**47.3**	-	-
Distribution of prior year profit		35.00	7.40	42.40			
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	42.9
2016 special dividend	9 June 2017	-	52.00	52.00	**-**	57.9	57.9
Dividends as reported in the Group statement of changes in equity					**130.9**	100.8	120.1
2017 final dividend withholding tax	14 July 2018				**(4.1)**	-	-
2017 interim dividend withholding tax	14 January 2018				**2.1**	-	(2.1)
2016 final dividend withholding tax	14 July 2017				**-**	(4.0)	-
2016 interim dividend withholding tax	14 January 2017				**-**	1.7	1.7
Dividends paid as reported in the Group cash flow statement					**128.9**	98.5	119.7

21. Post balance sheet events

In August 2018, the Group exchanged contracts for the purchase of the leasehold interest in 88-94 Tottenham Court Road W1 for £42.0m, with completion expected in September 2018.

22. Related party disclosure

There have been no related party transactions during the half year to 30 June 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 for the year ended 31 December 2017.

23. EPRA performance measures

Number of shares

	Earnings per share measures			Net asset value per share measures		
	Weighted average for the period ended			At period ended		
	30.06.2018 '000	30.06.2017 '000	31.12.2017 '000	**30.06.2018 '000**	30.06.2017 '000	31.12.2017 '000
For use in basic measures	**111,460**	111,402	111,431	**111,536**	111,454	111,475
Dilutive effect of share-based payments	**380**	321	267	**388**	321	295
For use in other diluted measures	**111,840**	111,723	111,698	**111,924**	111,775	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 both the half years to 30 June 2017 and 2018 and for the year ended 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 recent share price, the bonds were not expected to convert.

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

A – Disposal of investment and trading property, property held in joint ventures and associated tax and non-controlling interest
B – Revaluation movement on investment property and in joint ventures, write-down/reversal of write-down in 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 half year to 30 June 2018 is presented below. For the half year to 30 June 2017 and 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
Half year to 30 June 2018					
Net property and other income	103.4	-	0.2	-	103.6
Total administrative expenses	(15.2)	-	-	-	(15.2)
Revaluation surplus	54.0	-	(54.0)	-	-
Profit on disposal of investment property	0.1	(0.1)	-	-	-
Net finance costs	(11.5)	-	-	-	(11.5)
Movement in fair value of derivative financial instruments	3.1	-	-	(3.1)	-
Financial derivative termination costs	(1.8)	-	-	1.8	-
Share of results of joint ventures	1.9	(1.3)	(0.1)	-	0.5
Profit before tax	134.0	(1.4)	(53.9)	(1.3)	77.4
Tax charge	(1.6)	-	(0.2)	-	(1.8)
Profit for the period	132.4	(1.4)	(54.1)	(1.3)	75.6
Non-controlling interest	1.6	-	(3.1)	0.5	(1.0)
Earnings attributable to equity shareholders	**134.0**	**(1.4)**	**(57.2)**	**(0.8)**	**74.6**
Earnings per share	**120.22p**				**66.93p**
Diluted earnings per share	119.81p				66.70p

Underlying earnings and underlying earnings per share

	Half year to 30.06.2018 £m
EPRA earnings attributable to equity shareholders	74.6
Income from grant of access rights	(15.8)
Surrender premiums relating to subsequent periods	(1.1)
Underlying earnings attributable to equity shareholders	**57.7**
Underlying earnings per share	**51.77p**

Earnings and earnings per share

		Adjustments			
	IFRS	A	B	C	EPRA basis
	£m	£m	£m	£m	£m
Half year to 30 June 2017					
Net property and other income	81.5	-	(1.0)	-	80.5
Total administrative expenses	(12.8)	-	-	-	(12.8)
Revaluation surplus	66.7	-	(66.7)	-	-
Profit on disposal of investment property	19.1	(19.1)	-	-	-
Net finance costs	(14.3)	-	-	-	(14.3)
Movement in fair value of derivative financial instruments	6.4	-	-	(6.4)	-
Financial derivative termination costs	(4.5)	-	-	4.5	-
Share of results of joint ventures	3.7	-	(3.4)	-	0.3
Profit before tax	145.8	(19.1)	(71.1)	(1.9)	53.7
Tax charge	(0.6)	-	(1.2)	-	(1.8)
Profit for the period	145.2	(19.1)	(72.3)	(1.9)	51.9
Non-controlling interest	1.2	-	(2.7)	0.2	(1.3)
Earnings attributable to equity shareholders	146.4	(19.1)	(75.0)	(1.7)	50.6
Earnings per share	131.42p				45.42p
Diluted earnings per share	131.04p				45.29p

Year to 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 30 June 2018			
Net assets attributable to equity shareholders	4,133.8	3,706	3,693
Adjustment for:			
Revaluation of trading properties net of tax	0.9		
Deferred tax on revaluation surplus	4.5		
Fair value of derivative financial instruments	4.7		
Fair value adjustment to secured bonds	12.4		
Non-controlling interest in respect of the above	(1.1)		
EPRA net asset value	**4,155.2**	**3,725**	**3,713**
Adjustment for:			
Mark-to-market of secured bonds 2026	(47.3)		
Mark-to-market of secured loan 2024	(3.7)		
Mark-to-market of unsecured private placement notes 2029 and 2034	(19.6)		
Mark-to-market of unsecured private placement notes 2028 and 2031	(1.5)		
Mark-to-market of 1.125% unsecured convertible bonds 2019	(9.4)		
Deferred tax on revaluation surplus	(4.5)		
Fair value of derivative financial instruments	(4.7)		
Unamortised issue and arrangement costs	(7.6)		
Non-controlling interest in respect of the above	1.1		
EPRA triple net asset value	**4,058.0**	**3,638**	**3,626**

At 30 June 2017			
Net assets attributable to equity shareholders	3,977.1	3,568	3,558
Adjustment for:			
Deferred tax on revaluation surplus	4.5		
Fair value of derivative financial instruments	11.0		
Fair value adjustment to secured bonds	13.5		
Non-controlling interest in respect of the above	(1.9)		
EPRA net asset value	4,004.2	3,593	3,582
Adjustment for:			
Mark-to-market of secured bonds 2026	(50.5)		
Mark-to-market of secured loan 2024	(5.1)		
Mark-to-market of unsecured private placement notes 2029 and 2034	(17.2)		
Mark-to-market of unsecured private placement notes 2028 and 2031	(1.5)		
Mark-to-market of 1.125% unsecured convertible bonds 2019	(5.7)		
Deferred tax on revaluation surplus	(4.5)		
Fair value of derivative financial instruments	(11.0)		
Unamortised issue and arrangement costs	(8.9)		
Non-controlling interest in respect of the above	1.9		
EPRA triple net asset value	3,901.7	3,501	3,491

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

	Half year to 30.06.2018 £m	Half year to 30.06.2017 £m	Year to 31.12.2017 £m
Administrative expenses	**15.2**	12.8	28.2
Other property costs	**4.6**	5.0	8.4
Dilapidation receipts	**(1.6)**	-	(0.1)
Net service charge costs	**1.1**	1.2	1.9
Service charge costs recovered through rents but not separately invoiced	**(0.1)**	(0.1)	(0.3)
Management fees received less estimated profit element	**(1.2)**	(1.2)	(2.7)
Share of joint ventures' expenses	**0.2**	0.3	0.5
EPRA costs (including direct vacancy costs) (A)	**18.2**	18.0	35.9
Direct vacancy costs	**(2.0)**	(2.0)	(2.5)
EPRA costs (excluding direct vacancy costs) (B)	**16.2**	16.0	33.4
Gross rental income	**86.9**	85.4	172.1
Ground rent	**(0.6)**	0.1	(0.7)
Service charge components of rental income	**(0.1)**	(0.1)	(0.3)
Share of joint ventures' rental income less ground rent	**1.0**	0.8	1.8
Adjusted gross rental income (C)	**87.2**	86.2	172.9
EPRA cost ratio (including direct vacancy costs) (A/C)	**20.9%**	20.9%	20.8%
EPRA cost ratio (excluding direct vacancy costs) (B/C)	**18.6%**	18.6%	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)	**5,002.3**	4,797.8	4,850.3
Portfolio cost ratio (A/D) - annualised	**0.7%**	0.8%	0.7%

The Group has not capitalised any overhead or operating expenses in either 2018 or 2017.

24. Gearing and interest cover

NAV gearing

	Note	**30.06.2018 £m**	30.06.2017 £m	31.12.2017 £m
Net debt	18	**821.5**	733.7	657.9
Net assets		**4,197.1**	4,043.0	4,193.2
NAV gearing		**19.6%**	18.1%	15.7%

Loan-to-value ratio

	Note	**30.06.2018 £m**	30.06.2017 £m	31.12.2017 £m
Net debt	18	**821.5**	733.7	657.9
Fair value adjustment of secured bonds		**(12.4)**	(13.5)	(12.9)
Unamortised issue and arrangement costs		**7.5**	8.9	8.6
Leasehold liabilities	18	**(56.0)**	(14.1)	(14.1)
Drawn debt		**760.6**	715.0	639.5
Fair value of property portfolio	11	**5,002.3**	4,797.8	4,850.3
Loan-to-value ratio		**15.2%**	14.9%	13.2%

At 30 June 2018, the loan-to-value ratio including the Group's share of joint ventures was 14.8% (30 June 2017: 14.9%; 31 December 2017: 13.2%).

Net interest cover ratio

	Note	**Half year to 30.06.2018 £m**	Half year to 30.06.2017 £m	Year to 31.12.2017 £m
Net property and other income	5	**103.4**	81.5	164.8
Adjustments for:				
Other income	5	**(1.2)**	(1.2)	(2.7)
Other property income	5	**(17.7)**	-	-
Net surrender premiums	5	**(2.5)**	-	(0.1)
Write-down/(reversal of write-down) of trading property	5	**0.2**	(1.0)	(1.0)
Reverse surrender premiums	5	**-**	-	0.2
Adjusted net property income		**82.2**	79.3	161.2
Finance costs	7	**11.5**	14.3	27.1
Adjustments for:				
Other finance costs	7	**(0.1)**	(0.1)	(0.1)
Amortisation of fair value adjustment to secured bonds	7	**0.5**	0.5	1.1
Amortisation of issue and arrangement costs	7	**(1.0)**	(1.0)	(2.0)
Finance costs capitalised	7	**5.1**	4.7	9.4
		16.0	18.4	35.5
Net interest cover ratio		**514%**	431%	454%

For the half year ended 30 June 2018, the net interest cover ratio including the Group's share of joint ventures was 516% (half year ended 30 June 2017: 433%; year ended 31 December 2017: 458%).

25. Total return

	Half year to 30.06.2018 p	Half year to 30.06.2017 p	Year to 31.12.2017 p
EPRA net asset value on a diluted basis			
At end of period	**3,713**	3,582	3,716
At start of period	**(3,716)**	(3,551)	(3,551)
(Decrease)/increase	**(3)**	31	165
Dividend per share	**117**	91	108
Increase including dividend	**114**	122	273
Total return	**3.1%**	3.4%	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 period attributable to equity shareholders and are divided by the weighted average number of ordinary shares in issue during the financial period 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 periods under review. This growth rate includes revenue recognition and lease accounting adjustments but excludes properties held for development in either period and properties acquired or disposed of in either period.

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 publically 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 period plus the dividend per share paid during the period 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 period, 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 period (i.e. excluding any acquisitions or disposals made during the period).

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.

Independent review report to Derwent London plc

Report on the condensed consolidated interim financial statements

Our conclusion
We have reviewed Derwent London plc's condensed consolidated interim financial statements (the 'interim financial statements') in the interim results of Derwent London plc for the 6 month period ended 30 June 2018. Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

What we have reviewed
The interim financial statements comprise:

- The Group condensed balance sheet as at 30 June 2018.
- The Group condensed income statement and Group condensed statement of comprehensive income for the period then ended.
- The Group condensed cash flow statement for the period then ended.
- The Group condensed statement of changes in equity for the period then ended.
- The notes to the interim financial statements.

The interim financial statements included in the interim results have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1 to the interim financial statements, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the Group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the Directors
The interim results, including the interim financial statements, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim results in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express a conclusion on the interim financial statements in the interim results based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What a review of interim financial statements involves
We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the interim results and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants
London
9 August 2018

Notes to editors

Derwent London plc

Derwent London plc owns 87 buildings in a commercial real estate portfolio predominantly in central London valued at £5.0 billion (including joint ventures) as at 30 June 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 5.5 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 to date the Group has won the Property Week Property Company of the Year award whilst White Collar Factory scooped RIBA National and London awards, an RICS award, two BCO awards for Commercial Workplace and Innovation 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