ANNUAL RESULTS 2017 ANNOUNCEMENT

DERWENT LONDON PLC

DERWENT
LONDON

27 February 2018

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

RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017
EXCELLENT OPERATIONAL PROGRESS AND 75P PER SHARE SPECIAL DIVIDEND

Financial highlights

- EPRA[1] net asset value per share increased 4.6% to 3,716p from 3,551p at 31 December 2016 and a 3.7% increase from 3,582p at 30 June 2017
- The total return was 7.7% including dividends paid of 107.8p per share
- Net rental income increased 10.4% to £161.1m from £145.9m
- EPRA earnings rose 22.5% to £105.0m from £85.7m
- EPRA earnings per share increased 22.4% to 94.2p per share from 77.0p
- Final dividend raised 10.1% to 42.4p to give full year dividend of 59.73p, an increase of 14.1%
- Proposed special dividend of 75p per share to be paid in June 2018

Operational performance

- Record new lettings achieving £41.5m, on average 1.3% above December 2016 ERV
- Investment property disposals totalled £482.8m, 11.8% above December 2016 values
- Capital expenditure of £165.0m in 2017 including capitalised interest of £9.4m
- 623,000 sq ft under construction for delivery in 2019 now 45% pre-let
- Required capital expenditure of £265.0m to complete major year end projects
- Potential surplus of c.£140m still to come on the two developments for delivery in 2019
- Work started at Soho Place W1, above the new Crossrail station

Portfolio update

- Portfolio valued at £4.9bn, an underlying valuation increase of 3.9% (4.9% including disposals)
- Underlying valuation uplift on developments was 16.0%
- Total property return 8.0% versus the MSCI IPD Central London Offices Quarterly Index of 7.1%
- True equivalent yield was 4.7%, tightening by 10bp since December 2016
- The portfolio's EPRA vacancy rate fell from 2.6% to 1.3%
- Consented future pipeline increased 108% to 853,000 sq ft with two new West End developments
- Estimated rental values (ERV) on an EPRA basis increased by 1.7%
- Year end portfolio cash rental reversion estimated at £110m
- 2018 ERV guidance of +2% to -3%

Robust financial position

- Interest cover 454%, and loan-to-value ratio 13.2%
- Net debt down to £657.9m from £904.8m at 31 December 2016
- Cash and undrawn facilities up to £523m

[1] Explanations of how EPRA figures are derived from IFRS are shown in note 22

Robbie Rayne, Chairman, commented:

"We have had an exceptional year for lettings, increased EPRA earnings by 22.5%, achieved a total return of 7.7% and further improved our strong financial position. We continue to see attractive returns from investing in our pipeline and are proposing a 10.1% increase in the final dividend plus a special dividend of 75p per share."

John Burns, Chief Executive, commented:

"*The London office market continues to be resilient with good occupier and investment demand. Our highly successful White Collar Factory development demonstrates Derwent London's innovative approach. We have largely pre-let the office element at 80 Charlotte Street and are seeing good interest in our Brunel Building. We have now started work at Soho Place, one of London's most important Crossrail sites."*

Webcast and conference call

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

To participate in the call, please dial the following number: +44 (0)20 3936 2999 using Participation Access Code: 653857.

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

For further information, please contact:

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CHAIRMAN'S STATEMENT

Operationally we have had another excellent year setting a record for new lettings, with £41.5m achieved. During the year we completed White Collar Factory EC1, a demonstration of how we regenerate important locations through the creation of innovative office space. In addition we extended a number of leases, notably on our major assets at Angel Building EC1 and Tea Building E1. These management activities have had the impact of increasing income while £482.8m of property disposals reduced debt levels. Together these provided further evidence of the attractions of the Derwent London brand to both occupiers and property investors.

London office values have firmed during the last year and our NAV rose 4.6% to 3,716p per share in 2017. Our underlying earnings grew more strongly, up 22.4% to 94.2p per share principally due to recent development completions. After a 25% rise in the 2016 final dividend, this earnings growth enabled us to raise the 2017 interim dividend by 25% too. We have now reverted to a growth rate closer to our long term trend and propose raising the 2017 final dividend by 10.1% to 42.4p per share. The final dividend will be paid on 8 June 2018 to investors on the share register on 4 May 2018. In the nine years since our first full year as a UK REIT, our annual compound growth in net assets, earnings and dividends per share has been 13.2%, 17.7% and 10.4%, respectively. This performance does not include last year's 52.0p per share special dividend, which was paid out in response to a number of value enhancing transactions announced with our last full year's results.

We have continued to make highly profitable disposals which, together with rising underlying property values, have seen our loan-to-value ratio (LTV) move to exceptionally low levels. As a result the Board has decided to propose another special dividend totalling 75.0p per share or £84m which will be paid with the final dividend in June 2018.

Our developments continue to win awards and our Annual Sustainability Report to be published simultaneously with our Annual Report demonstrates our commitment to the environment and wider stakeholders. Highlights from 2017 include White Collar Factory achieving a BREEAM "Outstanding" and LEED "Platinum" on completion, the highest levels possible. Our managed portfolio achieved a significant reduction in energy consumption, and the Derwent London Community Fund has been established for over five years during which time it has invested in 56 different local projects and grass roots initiatives.

Helen Gordon, CEO of Grainger plc, was appointed as an independent non-executive Director with effect from 1 January 2018. We welcome her and her extensive knowledge of the real estate market. Tim Kite, who was appointed Company Secretary in 1995, retired in October 2017 and we wish to thank him for his valued assistance over the years. His successor, David Lawler, brings with him considerable experience in a similar role.

We have a strategically placed property portfolio and considerable financial resources which are greatly enhanced through the skills of our people and their relationships with occupiers, investors, local communities, suppliers and advisors. I would like to thank the Derwent London team for ensuring that we continue to make the most of our available opportunities in a way that also allows other businesses to thrive and creates long term value for the communities in which we operate, as well as achieving above average long-term returns for our investors.

CHIEF EXECUTIVE'S STATEMENT

The London office market remained resilient in 2017 as both occupier and investor demand has been strong. Although leasing incentives have increased in some instances and deals take longer to complete, prices remain firm. Longer term demand will depend on the continuing strength of the London economy, the impact of the UK's final Brexit settlement and what actions the UK subsequently takes.

While our developments continue to take the limelight with their design flair and pre-letting successes, it is equally important we actively manage our income-producing assets which represent 86% of the portfolio. These divide into core income and properties earmarked for future development. In 2017 we had significant success extending leases and raising income, and this year we have opportunities to do more of the same.

Our focus on designing office space with the flexibility that today's occupiers require in improving areas and at middle-market rents continues to serve us well. The average 'topped-up' rent on our London office portfolio is an undemanding £50 per sq ft. During 2017 we let the remaining available space at The White Chapel Building E1 and all of the White Collar Factory tower, as well as pre-letting or placing under option virtually all of our largest project ever at 80 Charlotte Street W1. The latter has been committed to by major international companies, Arup and The Boston Consulting Group, nearly two years ahead of expected completion. Our product and locations are also attractive to investors as we made £482.8m of investment sales last year, 11.8% above December 2016 values. These deals, together with important lease extensions, show the ongoing appeal of our buildings which continue to anticipate the trends in tenants' occupational requirements.

In addition to 80 Charlotte Street, the Brunel Building, Paddington W2 is our other major scheme due for completion in 2019 and together these total 623,000 sq ft. We have largely pre-let the former and are seeing good occupier interest in the latter. During 2017 we received resolutions to grant planning consent for an additional 443,000 sq ft of development at 19-35 Baker Street W1 and Holden House W1 which means that at the year end we had 853,000 sq ft[1] of consented potential schemes. Included in this is Soho Place W1, where we took possession in January 2018 and have now started preliminary works on one of central London's most prominent sites located over the new Tottenham Court Road Elizabeth line station.

Our developments represent the major contributor to our income growth. At the year end we had £110m of portfolio reversion of which 40% related to rent free periods and minimum uplifts. This means that £44.2m is already taken into account in our reported earnings. Therefore earnings growth will be driven principally by the remaining £65.8m of potential upside. The letting of developments and refurbishments represents 74% of this growth.

With an EPRA vacancy rate of only 1.3%, we start 2018 with less immediate space available than last year. Our current development pipeline, including Soho Place, totals 908,000 sq ft and is 30% pre-let, and we have a further 165,000 sq ft under refurbishment which is 54% pre-let. Our success in letting the available space will be an important indicator of market conditions and determine the timing of the other projects in our substantial long-term pipeline.

Following last year's major disposals, the Group had cash and undrawn facilities of £523m at the year end. This year's special dividend will cost £84m and our expected development expenditure over the next four years, including Soho Place, is £574m. Our LTV would rise from 13.2% to a proforma 24% after allowing for this expenditure.

[1] This figure includes 132,000 sq ft attributable to minority interests

Outlook

We have an exceptional pipeline of existing opportunities, good interest in our product and the business is particularly well placed, despite the ongoing political and economic uncertainty. With a robust financial position, we are under no pressure to make disposals but rather, we are looking to further grow our portfolio. Against this background, we estimate that in 2018 our average ERV growth will be +2% to -3% and property yields will be broadly stable. Given the projects due for delivery in 2019 are already 45% pre-let, we remain confident in our longer term earnings growth. Based on these prospects, we expect to raise our 2018 dividend by 10%. For the longer term, we have started preliminary works at Soho Place and have planning consent for a number of other exciting future projects.

CENTRAL LONDON OFFICE MARKET

See Appendix 1 for supporting graphs

London and UK economic growth has slowed since the EU referendum result but overall the outcome has been better than initially expected. Looking forward, most estimates predict ongoing low levels of UK GDP growth in the next couple of years in the order of 1.0% to 1.7% pa, as Brexit and political uncertainty continue to weigh on business decisions. We have seen the first increase in base rates in over 10 years when the Bank of England raised them 0.25% to 0.5% and stated that it expected to continue to move these up gradually over a number of years as the economy recovers.

Continuing economic expansion has seen central London office take-up remain good with CBRE estimating that 13.2m sq ft of space was let in 2017, which was an increase of 7% on 2016. This was in excess of the long-term average but below the recent trend. The West End remained strong with 4.8m sq ft of lettings, the highest level since 2007.

A notable feature last year was the amount of space taken by the serviced office providers in total 16.5% of total market activity. We have a number of leases with The Office Group, whose space aligns with ours and who we have had a relationship with since 2015. Technology and working practices will mean that going forward the serviced office sector will continue to have an important position in the London office market.

The overall vacancy rate rose from 4.1% to 4.7%, and the West End by a lesser amount from 3.3% to 3.7%. Vacancy rates have risen now for two years but still remain below long-term average levels. JLL is estimating current office demand at 12.5m sq ft, which is lower than last year and the long term trend, but active demand of 9.6m sq ft is at its highest level since June 2016.

New office supply of 5.7m sq ft was delivered in 2017, which was 20% lower than predicted one year ago. There is currently c.12m sq ft under construction for completion in the next three years. Given that 47% of the space under construction is pre-let, available new space for delivery in the next three years remains at c.6m sq ft or under 3% of the total market. The West End, where our current developments are concentrated, has only 1.1m sq ft or c.1% of the local market stock under construction that is available.

CBRE estimates prime central London office rents fell 2.9% in 2017, the first fall in almost seven years. However the performance varied by location. The West End was weakest, down 4.5% led by Mayfair & St James's and Victoria, but rental levels stabilised here in the second half of the year. At the same time, Fitzrovia and Paddington, where we have substantial interests, saw rents rise by over 3%. GVA estimates that rental incentives have increased to about 20% of headline rent from 15% in most central London locations during 2017. Given the short term outlook for supply and demand, we would expect a similar mixed pattern for 2018 with headline rents continuing to drift but certain markets, particularly those impacted by Crossrail, performing better.

Investment activity rose 26% last year to £16.4bn reversing three years of decreases, but all of the last six years have witnessed very liquid markets with significant foreign investment. Two high profile City deals, each over £1bn and at substantial premiums, took the 2017 headlines and stimulated increased second half supply, as other investors tested the market appetite. Despite widespread demand not all these properties have found buyers but, as there appears limited financial pressure on vendors to sell and there is a lack of income-producing alternatives, we expect to see values remain broadly stable in 2018. Recent reports continue to highlight significant investor appetite from the same regions that were active last year.

VALUATION

See Appendix 2 for supporting graphs and tables

The Group's investment portfolio was valued at £4.9bn at 31 December 2017. The primary valuation drivers, projects, yields and rental values, all contributed positively to produce a £177.1m valuation surplus. After accounting adjustments, see note 11, the total reported surplus was £150.7m. The underlying valuation increase was 3.9% compared to a 0.2% decline in 2016. Including the £482.8m of profitable disposals the valuation surplus increases to 4.9%. Accordingly the portfolio outperformed the MSCI IPD Index for Central London Offices, which increased by 3.6%.

Our central London properties, 98% of the portfolio, saw an underlying valuation uplift of 4.0%, with the West End at 1.9% and the City Borders, principally the Tech Belt, up 7.5%. The latter benefitted from our successful projects, including White Collar Factory and The White Chapel Building. The balance of the portfolio at 2% is our non-core Scottish holdings and this was flat at +0.5%.

The portfolio's total property return, which is one of our KPIs, was 8.0% for 2017 compared to 2.9% in 2016. The MSCI IPD Total Return Index was 7.1% for Central London Offices and 10.2% for All UK Property.

We were particularly active with our four on-site developments at the beginning of 2017. White Collar Factory was completed and is now a core income property. Brunel Building and 80 Charlotte Street, which were valued at £404.7m at the December 2017, are not scheduled to complete until 2019. Charlotte Street saw strong pre-letting activity during the year. These three developments delivered a 16.0% valuation uplift in 2017. The other development, The Copyright Building W1, was sold in the second half of the year generating a valuation surplus of 21.0% above book value.

On an EPRA basis the portfolio's initial yield at December 2017 was 3.4% rising to a 'topped-up' 4.4% following the expiry of rent free periods and contractual rental uplifts. For the previous year, these figures were 3.4% and 4.1%, respectively. The true equivalent yield was 4.73%, a 10bp inward movement over the year which compares favourably with the 31bp yield expansion in 2016. This change reflects stronger investor demand for central London assets.

Our mid-market rental villages continued to attract a wide range of occupiers, but the rate of rental growth has slowed. Our EPRA rental value movement was up 1.7%.

As well as our record letting year, our asset management team was busy capturing growth from the core income element of the portfolio through rent reviews, renewals and lease re-gears. There are more details on this activity in the Asset Management section below. These improvements contributed to the 6.5% increase in the annualised contracted rent, from £150.3m to £160.1m. The gain was despite the loss of £8.6m of contracted rent from disposals, which also caused the total ERV to decline 5.1% to £270.1m.

The portfolio reversion at year end was £110.0m. Of this £68.4m is contractual from fixed uplifts, the expiry of rent free periods or pre-lets. The majority of the balance comes from letting vacant space, either available to occupy or under construction. This totalled £27.3m, of which 69% relates to the two on-site developments: Brunel Building and 80 Charlotte Street. The final £14.3m component of the reversion comes from achieving market rents at future rent reviews and lease renewals.

ASSET MANAGEMENT

See Appendix 3 for supporting graphs

We continue to make the most of the opportunities provided by the strength of London's occupational market aligned with our development programme. During 2017 we let 685,700 sq ft achieving rents of £41.5m (£41.3m net), at an average level of 1.3% above December 2016 ERV. This represents an exceptional level of activity surpassing last year's previous record by 32%, and it means that we have achieved £56.2m of new lettings in the 18 months since the EU referendum.

Letting activity 2017

	Let		Performance against Dec 16 ERV (%)	
	Area sq ft	**Income £m pa**	**Open market**	**Overall[1]**
H1	439,200	23.4	1.8	0.5
H2	246,500	18.1	2.4	2.4
2017	**685,700**	**41.5**	**2.1**	**1.3**

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

Our second half 2017 transactions covered 246,500 sq ft and achieved £18.1m of rent at average rents 2.4% above December 2016 ERV, or 1.8% above June 2017 ERV. Of our total lettings for the year, 61% by income came from pre-lets notably at 80 Charlotte Street and The White Chapel Building Phase 2 and a further 15% from lettings at major completions, notably White Collar Factory.

Principal lettings in 2017

Property	Tenant	Area sq ft	Rent £ psf	Total annual rent £m	Min / fixed uplift at first review £ psf	Lease term Years	Lease break Year	Rent free equivalent Months
Q1								
80 Charlotte Street W1	Arup	133,600	72.90	9.7[1]	81.50	20	-	33
White Collar Factory EC1	Adobe	14,900	67.50	1.0	74.50	11.5	-	22
Angel Building EC1	Expedia	12,500	62.50	0.8	-	13.3	-	18
Greencoat & Gordon House SW1	VCCP	12,800	55.00	0.7	-	8.5	-	13
20 Farringdon Road EC1	Accenture	11,500	55.00	0.6	-	10	5	9, plus 9 if no break
Q2								
The White Chapel Building E1 Phase 2 - lower ground floors	Fotografiska	89,000	27.00	2.4	27.70	15	12	30, plus 6 if no break
White Collar Factory EC1	Box.com	28,500	75.00	2.1	-	15	10	18, plus 5 if no break
The White Chapel Building E1	Wilmington	27,000	52.00	1.4	-	10	-	20
The White Chapel Building E1	ComeOn!	12,700	50.00	0.6	-	10	5	11, plus 8 if no break
White Collar Factory EC1[2]	Red Badger	7,700	62.50	0.5	65.60	10	5	9.5, plus 5 if no break
78 Whitfield Street W1	Made Thought	4,800	63.50	0.3	-	10	4.5	8
78 Whitfield Street W1	Yoyo Wallet	4,800	63.00	0.3	-	4.5	-	8
78 Chamber Street E1[3]	NetBooster	6,700	40.00	0.3	-	10	5	10
Q3								
80 Charlotte Street W1	The Boston Consulting Group	123,500	85.50	10.6	-	15	12	Confidential
80 Charlotte Street W1	Arup	19,800	75.00	1.5[1]	83.80	20	-	33
90 Whitfield Street W1	Freightliner	12,100	71.00	0.9	-	10	-	22
Holden House W1	Russell & Bromley	3,800	-	0.7	-	10	5	3
12-16 Fitzroy Street W1	Ergonom	8,800	54.00	0.5	57.00	15	10	15
White Collar Factory EC1	Egress	6,700	67.50	0.5	-	10	5	9, plus 9 if no break
Q4								
The Copyright Building W1[4]	Bone Daddies	5,600	-	0.4	-	20	-	14

[1] Annual increases of 2.25% for the first 15 years [2] Low rise buildings [3] Joint venture – Derwent London share [4] Since sold

Leases totalling 771,900 sq ft or c.15% of our portfolio were subject to breaks or expiries in 2017, which was 30% more than in 2016. Rent review activity was lower, but the average 42% increase in passing rents matched last year and was 11% over ERV. We saw particularly strong growth at 88 Rosebery Avenue EC1 and 4 & 10 Pentonville Road N1, two buildings in the Tech Belt.

Lease renewals were dominated by two large transactions where we extended leases on a short term basis. The first was at 19-35 Baker Street where we received a resolution to grant planning consent for redevelopment and therefore needed to retain flexibility and the latter was 1 Stephen Street W1. The Group also had considerable success re-gearing leases to important tenants at Angel Building (Expedia) and Tea Building (Mother). In total these last four transactions covered 416,000 sq ft, and show our different approaches to lease events depending on our plan for each building. We retained or re-let 92% of the income from properties where leases either expired or were due to expire during the year.

In 2017 our average lease length weighted by contractual passing rent moved from 6.5 years to 6.0 years or 7.0 years allowing for rent-free 'top-ups'. These numbers were impacted by the disposal of 8 Fitzroy Street W1. Including the recently agreed pre-lets, where the lease lengths are considerably longer, the weighted average lease length rises to 7.8 years, the same as last year.

A summary of our asset management activity in the year can be found in the following table:

Asset management 2017

	Area sq ft	**Previous rent £m pa**	**New rent £m pa**	**Uplift %**	**Income v Dec 16 ERV %**
Rent reviews	209,500	6.4	9.1	42	11
Lease renewals	269,600	10.5	13.2	26	(6)
Lease re-gears	292,800	12.1	16.3	35	8
Total	**771,900**	**29.0**	**38.6**	**33**	**4**

The continuing demand for our product means that our EPRA vacancy rate fell to 1.3% at the year end. This was down from 2.6% over the year despite two significant development completions.

DEVELOPMENT AND REFURBISHMENT

See Appendix 4 for supporting graphs and tables

Two developments comprising 401,000 sq ft were completed in 2017. White Collar Factory surpassed our expectations with its progressive design gaining considerable international coverage. The tower is fully let, with the tenants in occupation, and the remaining lower rise space is either let or under offer. This development has achieved a 96% profit on cost as at 31 December 2017. The Copyright Building achieved a 23% profit on cost.

At the year end we had two West End projects under construction totalling 623,000 sq ft, which are 45% pre-let. We have since started preliminary works on Soho Place, also in the West End.

Major developments pipeline

Property	Area sq ft	Delivery	Capex to complete £m[1]	Comment
Completed projects				
White Collar Factory, Old Street Yard EC1	293,000	H1 2017		265,000 sq ft offices, 20,000 sq ft retail, 8,000 sq ft residential – 94% let
The Copyright Building, 30 Berners Street W1	108,000	H2 2017		88,000 sq ft offices and 20,000 sq ft retail – 100% let. Sold H2 2017.
	401,000			
On-site projects				
Brunel Building, 2 Canalside Walk W2	243,000	H1 2019	70	Offices
80 Charlotte Street W1	380,000	H2 2019	182	332,000 sq ft offices, 45,000 sq ft residential and 3,000 sq ft retail – 73% pre-let overall
	623,000		**252**	
Other major planning consents				
Soho Place W1	285,000			209,000 sq ft offices, 36,000 sq ft retail and 40,000 sq ft theatre
Monmouth House EC1	125,000			Offices, workspaces and retail
19-35 Baker Street W1	293,000[2]			206,000 sq ft offices, 52,000 sq ft residential and 35,000 sq ft retail
Holden House W1	150,000			Retail flagship or retail and office scheme
	853,000			
Grand total (excluding completed projects)	**1,476,000**			

[1] As at 31 Dec 2017 [2] Total area - Derwent London has a 55% share of the joint venture

Our largest project is 80 Charlotte Street in Fitzrovia. The development comprises three elements: first the largely pre-let offices totalling 321,000 sq ft; secondly a residential element of 45,000 sq ft in 55 units (25% are affordable) and finally the ancillary retail of 14,000 sq ft. The project is due for completion at the end of 2019 and requires an additional £182m of capital expenditure to complete. The ERV is £25.8m pa.

The other major project at the year end was Brunel Building, Paddington, where we are seeing good interest from potential occupiers. Construction is advancing well on this canalside project, which is due to complete in the first half of 2019. The building is designed to be multi-let and has an external diagrid structural frame thereby allowing the floors to be virtually column free. There are two significant terraces on the upper floors, one of which is likely to be for communal use. Capital expenditure to complete is £70m and the ERV is £14.8m.

In addition there were three smaller projects in hand at the year end. First there is the development of the lower ground floors and a new pavilion at The White Chapel Building. It has been pre-let to Fotografiska who will operate as the London Museum of Photography. The project has been let for £2.4m and requires additional capital expenditure of £13m. Completion is due in the second half of 2018. This will see the final transformation of a tired back office space, which we acquired in December 2015, into a vibrant creative and cultural hub. Secondly we are refurbishing 57,200 sq ft at Johnson Building EC1 following lease expiries. The estimated ERV here is £3.2m. Finally we have recently completed the refurbishment of 18,700 sq ft on the upper floors of 25 Savile Row W1.

We recently gained access to the site of our next exciting major mixed-use development Soho Place, which lies above the Tottenham Court Road Elizabeth line station. This gateway onto the eastern end of Oxford Street and Soho Square will provide 209,000 sq ft of offices, 36,000 sq ft of retail as well as a new theatre. Preliminary work has started with the main construction contract expected to be signed later in 2018. The further capital expenditure and site payment is estimated at £309m and the ERV at £22.0m net. The earliest the project could complete is in 2021.

Looking further ahead, Monmouth House EC1, next to White Collar Factory, has planning consent and we recently received resolutions to grant consent for 19-35 Baker Street (where we hold 55% of a joint venture with The Portman Estate) and Holden House. Baker Street is an office-led scheme, whereas Holden House would be suitable for a major retail store. Given the latter's position in the fast improving eastern end of Oxford Street and the exceptional floorplate size for this location it has considerable retail potential. We also have planning for an alternative scheme on this with a higher proportion of offices giving us significant flexibility. Beyond these three projects we are working up active plans on another three buildings representing 4% of the existing portfolio.

INVESTMENT ACTIVITY

We sold three major properties in 2017 for £475m net of costs and rental top-ups, demonstrating the ongoing depth of demand during 2017. We have previously reported on all three transactions, and the details are shown in the table below. None of the disposals offered significant opportunities for us to add short-term value. The sale of 132-142 Hampstead Road NW1 was part of the HS2 site assembly, 8 Fitzroy Street was sold to the occupier, Arup, as part of the 80 Charlotte Street pre-let and The Copyright Building was sold to a German fund. The level of disposals was above our medium term business targets and has left us in a strong position to recycle the proceeds principally into our development activity, where we currently expect development yields of 6.0% on cost.

Major disposals in 2017

Property	Date	Area sq ft	Net proceeds £m	Net proceeds £ psf	Net yield to purchaser %	Rent £m pa
132-142 Hampstead Road NW1	Q1	219,700	129.4	590	1.2	1.7
8 Fitzroy Street W1	Q2	147,900	196.9	1,330	3.4	7.2
The Copyright Building W1	Q4	108,000	148.2	1,370	4.2	7.4

We are continually on the hunt for acquisitions but the scarcity of opportunities that match our criteria has meant that our activity has been limited in 2017 to a small acquisition in Victoria SW1 adding to our cluster in that location. Since the year end we have exchanged contracts to sell Porters North N1 (held in a 50% joint venture) for £45.4m net of 'top-ups', which is 5% above December 2017 book value.

FINANCE REVIEW

See Appendix 5 for supporting graphs

Financial overview

Our financial results for the year ended 31 December 2017 showed a return to meaningful net asset value growth and another strong rise in underlying earnings. The continued de-risking of our pipeline of value adding projects, high levels of portfolio occupancy and gearing levels which have fallen again after the receipt of £472.9m from property disposals, have combined to put us in a very strong financial position. However, with continuing political and economic uncertainty making the outlook for the UK and London harder than usual to anticipate, we believed that 2017 was the right time to de-risk the business particularly as there were attractive opportunities to do so. At the same time, demand from occupiers and investors alike has buoyed London's commercial property values and we found no significant new properties to acquire during the year. At present, we see more attractive returns from investing in our pipeline. We are also recommending a 10.1% increase in the final dividend and, following last June's 52p special dividend, are proposing to pay out a further 'special' in June 2018 of 75p per share.

See Appendix 5 for financial highlights table and portfolio value, net assets and gearing graph

Presentation of financial results

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). In common with usual and best practice in our sector, alternative performance measures have also been provided to supplement IFRS based on the recommendations of the European Public Real Estate Association ("EPRA"). EPRA Best Practice Recommendations (BPR) have been adopted widely throughout this report and are used within the business when considering our operational performance as well as matters such as dividend policy and elements of our Directors' remuneration. Full reconciliations between IFRS and EPRA figures are provided in note 22 and all the EPRA definitions are included in note 25.

Net asset value

Though underlying values for the main part of our portfolio were fairly flat in 2017, recent development projects such as White Collar Factory provided strong valuation uplifts and, as a result, the Group's net asset value grew by almost 5% during the year. Adding back the 108p per share of dividends paid in 2017, including last year's 52p special dividend, the total return for the year calculated on an EPRA basis was 7.7%. This compares with the 1.7% total return in 2016 when the result of the EU referendum was still reverberating.

The Group's IFRS net asset value was £4.2bn at 31 December 2017 against just under £4.0bn in 2016 and EPRA NAV per share on a diluted basis increased to 3,716p per share, up 4.6% from 3,551p a year earlier. The main movements in EPRA NAV per share during the year are summarised below compared with 2016:

	2017 **p**	**2016** **p**
Revaluation movement	138	(38)
Profit on disposals	45	7
EPRA earnings	94	77
Interim/final dividends	(56)	(44)
Special dividend	(52)	-
Interest rate swap termination costs	(7)	(8)
Dilutive effect of convertible bonds	-	17
Non-controlling interest	-	7
Other	3	(2)
	165	**16**

The uplift in our property valuation through 2017 together with the strong profit booked on property disposals added a combined 183p per share to our net asset value; this compares with a deficit of 31p per share for the same items in 2016. Of the 138p per share revaluation uplift, 77p per share came from The White Chapel Building, White Collar Factory and 80 Charlotte Street alone while another 22p was gained at Angel Building partly due to the Expedia re-gear. In total, the revaluation gain for the year was £150.7m of which £1.0m was a partial reversal of the 2016 write-down in respect of properties held as trading stock and £1.8m came from our new offices at 25 Savile Row; the balance of £147.9m related to the investment property portfolio.

Including £14.8m of letting and legal fees being amortised over their respective lease terms, accrued income from the 'straight-lining' of rental income under IAS17 and SIC15 was £120.6m at 31 December 2017 (2016: £116.9m). Though the balance increased during the year as we recognised income in advance of cash receipts and incurred letting and legal fees, it also fell by £19.2m due to the property disposals.

The overall year end make-up of our portfolio valuation was as follows:

	Dec 2017 £m	Dec 2016 £m
Investment property	4,670.7	4,803.8
Owner occupied property	46.5	34.2
Trading property	25.3	11.7
Carrying value	4,742.5	4,849.7
Accrued income	120.6	116.9
Grossing up of headlease liabilities	(14.1)	(23.9)
Revaluation of trading property	1.3[1]	-
Fair value of property portfolio	**4,850.3**	**4,942.7**

[1] Not included in the IFRS accounts

The net carrying value of joint venture investments at 31 December was £39.7m (2016: £36.0m) and the fair value of our 50% share of the two properties held was £47.3m (2016: £37.8m). One of these, Porters North, is due to be sold for £45.4m net of rental 'top-ups' in March 2018, at which point our only external joint venture debt will be repaid.

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

Income statement

We have maintained our focus on raising underlying earnings from our portfolio in 2017. Some of this came from new lettings at the recently completed properties such as White Collar Factory and White Chapel Building but we have also grown income from the like-for-like portfolio and our costs have reduced too.

Gross rental income increased to £172.1m from £155.4m in 2016 and net rental income was up to £161.1m from £145.9m a year before. These reflect annual increases of 10.7% and 10.4%, respectively, in spite of over £482.8m of net property disposals during the year. After taking account of fee income from joint venture projects and the £1.0m partial reversal of a trading property provision booked in 2016, net property and other income increased to £164.8m from £149.2m in 2016. Lettings in 2016 and 2017 added £33.1m of rental income over the year. Breaks, expiries and scheme voids reduced rental income by £5.3m and the disposals removed £11.1m. Irrecoverable property costs increased slightly to £10.3m but remain low at under 6% of rental income due partly to our low vacancy rates.

We saw an 8.7% fall in administration expenses during the year to £28.2m against the background of an increased headcount and our move into newly fitted offices. The reduction was mainly due to substantial falls in amounts booked for variable remuneration. As in previous years, no overheads or property costs were capitalised.

With these lower administration costs, our EPRA cost ratios fell to 20.8% (2016: 24.0%) of gross rental income including direct vacancy costs and to 19.3% (2016: 22.4%) excluding those costs.

Investment property disposals during the year amounted to £482.8m after netting off cash top-ups for rent-free periods. This is our largest ever level of annual disposals and gave rise to an IFRS profit in 2017 of £50.3m or 45p per share. £24.9m of this came from the sale of The Copyright Building which was completed in 2017 and where the December 2016 valuation had therefore still factored in significant completion risks and profit to come. It also took account of the sale of Hampstead Road as part of the HS2 site assembly around Euston station and 8 Fitzroy Street to Arup, both of which were announced with our 2016 results.

Total finance costs fell to £27.1m from £27.8m in 2016 despite a £3.6m lower level of interest capitalised; £9.4m was capitalised in 2017 against £13.0m in the previous year. Accordingly, the underlying interest charge has fallen by around 11% compared to 2016.

The mark-to-market cost of our remaining interest rate swaps fell by £9.4m in 2017 partially offset by £7.3m of breakage costs. With lower levels of debt, we decided to break or defer £245m of interest rate swaps in late 2017. Full details are provided under 'net debt' below.

Our share of the revaluation surplus in our two small joint ventures was £3.9m in 2017 and they also contributed £1.1m of profits after tax. However, as noted above, the main portfolio revaluation showed a much stronger result than in 2016 with a net uplift after accounting adjustments of £147.9m against a deficit of £37.1m in 2016. The overall IFRS profit for the year was therefore £313.0m compared with £53.6m in 2016. EPRA earnings for 2017, which remove fair value movements and the profits arising on property disposals to arrive at an underlying measure of performance, increased by 23% during the year to £105.0m from £85.7m in 2016; this reflects a 79% rise over the last three years.

A table providing a reconciliation of the IFRS results to EPRA earnings per share is included in note 22.

After adjustments to remove developments, acquisitions and disposals, EPRA like-for-like gross rental income increased by 5.1% during the year with net property income on a similar basis up by 5.2%. A full analysis is shown in the table below.

See Appendix 5 for charts showing gross property income and EPRA earnings, plus the EPRA like-for-like rental income table

Taxation

The corporation tax charge for the year ended 31 December 2017 increased to £3.3m in 2017 from £2.0m in the previous year. Part of this increase was due to the reversal of the 2016 write-down on residential apartments held as trading stock and therefore outside the REIT tax environment.

The movement in deferred tax liabilities for the year was a credit of £0.8m. This was made up of £1.5m (2016: £1.1m credit) passing through the income statement due mainly to the revaluation of non-REIT Group properties plus a charge of £0.7m in relation to the property we occupy at 25 Savile Row.

In addition, £5.7m of further tax was paid to HMRC during the year as, in line with other REITs, we are required to withhold tax from certain shareholders on property income distributions.

Net debt and cash flow

The property disposals during the year raised cash proceeds of £472.9m which helped to reduce net debt to £657.9m at 31 December 2017 from £904.8m a year earlier. The Group's LTV ratio fell correspondingly from 17.7% to 13.2% and NAV gearing declined from 22.6% to 15.7%.

The other main cash flow items were the cash generated from operating activities, which increased by 7% to £83.5m, and cash used as we invest in our portfolio. Capital expenditure on projects paid was £165.0m including £9.4m of capitalised interest, both of which were a little lower than the prior year.

Interest cover has shown another strong increase to 454% for the year ended 31 December 2017 from 370% in 2016, calculated on the net basis set out in note 23.

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

Debt and financing arrangements

In the first half of the year, we extended the maturity of our £75m unsecured revolving facility from Wells Fargo by a further year to July 2022. We also cancelled £100m of the £550m revolving bank facility for which we received a fee rebate of £0.75m. The size of this facility, which expires in January 2022, is now £450m. A £40m interest rate swap was terminated as part of these arrangements at a slightly discounted cost of £3.2m. A new short-term £15m development loan facility was also agreed with Barclays for our Primister joint venture but will be repaid upon the sale of the JV's sole property, Porters North, in March 2018. A £28m loan facility with HSBC secured on assets that we hold with the Portman Estate was also signed in July 2017. This five year facility has a term to July 2022 replacing the previous facility which had been due to expire in June 2018.

At the end of 2017, we had £523m of cash and undrawn facilities and our two main revolving bank facilities totalling £525m were substantially undrawn. This required us to break or defer most of our interest rate swaps. Following the sale of The Copyright Building, we broke a £60m interest rate swap giving rise to a £0.2m receipt and deferred £115m of swaps for a payment of £1.7m. The £40m 2.446% swap will now commence in October 2018 and expire in July 2022 and the £75m 1.359% swap will start in April 2019 and run to April 2025. The phasing of these forward-starting swaps has been planned in line with expected spending on our projects and the consequent likely increase in future borrowings. They will also give us a degree of protection should interest rates rise more quickly than expected. The remaining £70m forward start swap has also been deferred to March 2018 at a cost of £2.5m. The proportion of our debt that is fixed or swapped into fixed rates was 88% (2016: 95%) as at 31 December 2017 excluding the forward start swaps.

At the balance sheet date, the weighted average maturity of our debt was 7.6 years (2016: 7.7 years) and the overall interest rate paid was 3.80% (2016: 3.65%). Allowing for the additional IFRS charge for our 2019 convertible bonds, the interest rate was 4.11% (2016: 3.90%). These average rates have both been affected by the small amount of floating rate bank debt outstanding at the end of the year. After allowing for non-utilisation fees, our marginal borrowing rate is 1.25%.

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

Dividend

The strong rise in recurring earnings per share during the year has enabled us to propose a final dividend of 42.4p per share. This will be paid in June 2018 and is an increase of 10.1% over last year's final dividend with 35.0p to be paid as a PID with the balance of 7.4p as a conventional dividend. There will not be a scrip dividend alternative. In addition and partly in recognition of the excellent property disposals through the year which yielded a profit on historic cost of £169m, a special dividend of 75p per share will also be paid to ordinary shareholders in June 2018.

Our financial outlook

From a strong starting point, the Group further improved its financial position through the year with lower debt, increased interest cover and earnings and a total return of 7.7%. The low leverage, together with the absence of current opportunities to buy new assets that match our testing criteria, has enabled us to propose substantial payments to shareholders in H1 2018.

Our business model continues to work well with recently completed development projects providing both earnings and valuation uplifts and our asset management activities helping like-for-like rental income to grow too. Further pre-lets have substantially de-risked the on-site development projects and continuing strong occupier interest has encouraged us to progress our next large project at Soho Place. We also have a significant pipeline of projects for the future.

Completion of the schemes at 80 Charlotte Street, Brunel Building, White Chapel Building and Soho Place will incur about £574m of capital expenditure from January 2018 and take our proforma LTV gearing to 24%, assuming no further development profits, acquisitions or disposals. We believe this is appropriate positioning for us given the current political and economic outlook and will give us many continuing options as we move the business forwards.

PRINCIPAL RISKS AND UNCERTAINTIES

We have identified certain principal risks and uncertainties that could prevent the Group from achieving its strategic objectives and assessed how these risks could best be mitigated through a combination of internal controls, risk management and the purchase of insurance cover. These risks are reviewed and updated on a regular basis and were last formally assessed by the Board in February 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. Inconsistent 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 Board considers this risk to have remained broadly the same. Throughout the year, the Group continued to benefit from a resilient central London office market.	• 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 on-going strategy to extend our income through lease renewals and re-gearing. • The Group aims to de-risk the development programme through pre-lets. • The Group maintains sufficient headroom in all the Group's key ratios and financial covenants 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. Although some progress on negotiations has been made, the Board considers this risk to have remained broadly the same during the year.	• 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 £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. • On-going strategy is to extend income through lease renewals and re-gearing and to de-risk the development programme though pre-lets. • Updates received on occupier trends by engaging with our current tenants and advisors.

3. Reputational damage

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

We have 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.

The Board considers this risk to have remained broadly the same during the year.

- 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 who both maintain regular contact with external media sources.
- A Group whistleblowing system for staff is maintained to report wrong-doing 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 value of the properties in our portfolio have remained resilient, and in 2017 have increased by 3.9%, despite the continuing economic uncertainties.

The Board considers this risk to have remained broadly the same during the year.

- 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. The ongoing economic uncertainty arising from the decision to leave the EU has caused this risk to increase slightly. Although pre-lets have substantially de-risked our schemes, they have also led to greater financial exposure should projects be delivered late.	• 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. Risk has slightly decreased due to the controls and procedures implemented during 2017.	• The Group’s Business Continuity Plan is regularly reviewed and tested. • Independent internal and external ‘penetration’ tests are regularly conducted to assess the effectiveness of the Group’s security. • Multifactor authentication exists for remote access to our systems. • Incident response and remediation policies are in place. • The Group’s data is regularly backed up and replicated and our IT systems are protected by anti-virus software and firewalls that are frequently updated. • Annual staff awareness and training programmes. • Security measures are regularly reviewed by the IT Steering Committee.

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.

New principal risk – previously included within regulatory non-compliance.

- 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.

New principal risk - previously included within regulatory non-compliance.

- 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 considers this risk to have remained broadly the same during the year.

- 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 wrong-doing 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.

New principal 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 risk has slightly increased during the year, partly due to the economic and political uncertainty and the importance of delivering the Group's key development projects.

- 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 Board considers this risk to have remained broadly the same during the year.

- The Nomination 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 new principal risk due to recent attacks in European capital cities.

New principal risk

- 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).

The Group monitors its interest rate exposure on a regular basis. Sensitivity analysis performed to ascertain the impact on the profit or loss and net assets of a 50 basis point shift in interest rates would result in an increase of £0.3m (2016: £0.2m) or a decrease of £0.3m (2016: £0.2m).

It is currently Group policy that generally between 60% and 85% of external Group borrowings (excluding finance lease payables) are at fixed rates. Where the Group wishes to vary the amount of external fixed rate debt it holds (subject to it being generally between 60% and 85% of expected Group borrowings, as noted above), the Group makes use of interest rate derivatives to achieve the desired interest rate profile. Although the Board accepts that this policy neither protects the Group entirely from the risk of paying rates in excess of current market rates nor eliminates fully cash flow risk associated with variability in interest payments, it considers that it achieves an appropriate balance of exposure to these risks. At 31 December 2017, the proportion of fixed debt held by the Group was slightly above this range at 88% (2016: 95%). During both 2017 and 2016, 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 2017, the Group's strategy, which was unchanged from 2016, 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 23.

Directors' responsibilities

The Directors are responsible for preparing the Annual Report, the report of the Remuneration Committee and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the report of the Remuneration Committee comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

The Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position, performance, business model and strategy.

Each of the Directors confirms that to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit and loss of the Group; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

On behalf of the board

John D. Burns
Chief Executive Officer
27 February 2018

Damian M.A. Wisniewski
Finance Director

GROUP INCOME STATEMENT

	Note	**2017 £m**	2016 £m
Gross property and other income	5	**202.6**	193.7
Net property and other income	5	**164.8**	149.2
Administrative expenses		**(28.2)**	(30.9)
Revaluation surplus/(deficit)	11	**147.9**	(37.1)
Profit on disposal of investment property	6	**50.3**	7.5
Profit from operations		**334.8**	88.7
Finance costs	7	**(27.1)**	(27.8)
Movement in fair value of derivative financial instruments		**9.4**	0.3
Financial derivative termination costs	8	**(7.3)**	(9.0)
Share of results of joint ventures	9	**5.0**	2.3
Profit before tax		**314.8**	54.5
Tax charge	10	**(1.8)**	(0.9)
Profit for the year		**313.0**	53.6
Attributable to:			
- Equity shareholders		**314.0**	58.7
- Non-controlling interest		**(1.0)**	(5.1)
		313.0	53.6
Earnings per share	22	**281.79p**	52.73p
Diluted earnings per share	22	**281.12p**	52.59p

GROUP STATEMENT OF COMPREHENSIVE INCOME

	Note	**2017 £m**	2016 £m
Profit for the year		**313.0**	53.6
Actuarial losses on defined benefit pension scheme		**(0.9)**	(2.1)
Revaluation surplus/(deficit) of owner-occupied property	11	**1.8**	(5.5)
Deferred tax (charge)/credit on revaluation	18	**(0.7)**	1.3
Other comprehensive income/(expense) that will not be reclassified to profit or loss		**0.2**	(6.3)
Total comprehensive income relating to the year		**313.2**	47.3
Attributable to:			
- Equity shareholders		**314.2**	52.4
- Non-controlling interest		**(1.0)**	(5.1)
		313.2	47.3

GROUP BALANCE SHEET

	Note	**2017 £m**	2016 £m
Non-current assets			
Investment property	11	**4,670.7**	4,803.8
Property, plant and equipment	12	**52.2**	38.1
Investments	13	**39.7**	36.0
Other receivables	14	**105.2**	109.1
		4,867.8	4,987.0
Current assets			
Trading property	11	**25.3**	11.7
Trade and other receivables	15	**58.0**	38.5
Cash and cash equivalents	20	**87.0**	17.7
		170.3	67.9
Total assets		**5,038.1**	5,054.9
Current liabilities			
Trade and other payables	16	**86.7**	110.0
Corporation tax liability		**2.1**	1.6
Provisions		**0.2**	0.4
		89.0	112.0
Non-current liabilities			
Borrowings	17	**744.9**	922.5
Derivative financial instruments	17	**7.9**	17.3
Provisions		**0.4**	0.3
Pension scheme deficit		**0.4**	0.3
Deferred tax	18	**2.3**	3.1
		755.9	943.5
Total liabilities		**844.9**	1,055.5
Total net assets		**4,193.2**	3,999.4
Equity			
Share capital		**5.6**	5.6
Share premium		**189.2**	188.4
Other reserves		**942.9**	950.4
Retained earnings		**2,990.6**	2,787.9
Equity shareholders' funds		**4,128.3**	3,932.3
Non-controlling interest		**64.9**	67.1
Total equity		**4,193.2**	3,999.4

GROUP STATEMENT OF CHANGES IN EQUITY

	Attributable to equity shareholders						
	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Equity shareholders' funds £m	Non-controlling interest £m	Total equity £m
At 1 January 2017	5.6	188.4	950.4	2,787.9	3,932.3	67.1	3,999.4
Profit/(loss) for the year	-	-	-	314.0	314.0	(1.0)	313.0
Other comprehensive income/(expense)	-	-	1.1	(0.9)	0.2	-	0.2
Transfer of owner-occupied property	-	-	(6.9)	6.9	-	-	-
Share-based payments	-	0.8	(1.7)	2.8	1.9	-	1.9
Dividends paid	-	-	-	(120.1)	(120.1)	(1.2)	(121.3)
At 31 December 2017	**5.6**	**189.2**	**942.9**	**2,990.6**	**4,128.3**	**64.9**	**4,193.2**

	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 2016	5.6	186.3	952.9	2,777.7	3,922.5	72.9	3,995.4
Profit/(loss) for the year	-	-	-	58.7	58.7	(5.1)	53.6
Other comprehensive expense	-	-	(4.2)	(2.1)	(6.3)	-	(6.3)
Share-based payments	-	1.0	1.7	3.3	6.0	-	6.0
Dividends paid	-	-	-	(48.6)	(48.6)	(0.7)	(49.3)
Scrip dividends	-	1.1	-	(1.1)	-	-	-
At 31 December 2016	5.6	188.4	950.4	2,787.9	3,932.3	67.1	3,999.4

GROUP CASH FLOW STATEMENT

	Note	**2017 £m**	2016 £m
Operating activities			
Property income		**154.3**	147.1
Property expenses		**(19.2)**	(18.0)
Cash paid to and on behalf of employees		**(19.5)**	(21.8)
Other administrative expenses		**(7.3)**	(5.6)
Interest paid	7	**(21.7)**	(22.0)
Other finance costs	7	**(3.2)**	(2.3)
Other income		**2.9**	2.4
Tax paid in respect of operating activities		**(2.8)**	(2.1)
Net cash from operating activities		**83.5**	77.7
Investing activities			
Acquisition of investment properties		**(8.5)**	(18.0)
Capital expenditure on the property portfolio	7	**(165.0)**	(213.5)
Disposal of investment and trading properties		**472.9**	224.7
Investment in joint ventures		**-**	(3.0)
Repayment of shareholder loan		**1.3**	-
Purchase of property, plant and equipment		**(5.0)**	(4.5)
VAT (paid)/received		**(11.7)**	4.8
Net cash from/(used in) investing activities		**284.0**	(9.5)
Financing activities			
Net movement in revolving bank loans		**(170.8)**	(103.9)
Drawdown of private placement notes		**-**	104.3
Financial derivative termination costs		**(7.3)**	(9.0)
Net proceeds of share issues		**0.8**	1.0
Dividends paid to non-controlling interest holder		**(1.2)**	(0.8)
Dividends paid	19	**(119.7)**	(48.6)
Net cash used in financing activities		**(298.2)**	(57.0)
Increase in cash and cash equivalents in the year		**69.3**	11.2
Cash and cash equivalents at the beginning of the year		**17.7**	6.5
Cash and cash equivalents at the end of the year	20	**87.0**	17.7

NOTES TO THE FINANCIAL STATEMENTS

1. **Basis of preparation**

The financial information does not constitute the Group's statutory accounts for either the year ended 31 December 2017 or the year ended 31 December 2016, but is derived from those accounts. The Group's statutory accounts for 2016 have been delivered to the Registrar of Companies and those for 2017 will be delivered following the Company's Annual General Meeting. The Auditor's reports on both the 2016 and 2017 accounts were unmodified, did not draw attention to any matters by way of an emphasis of matter and did not contain any statement under Section 498 of the Companies Act 2006.

The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS), IFRS IC interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention as modified by the revaluation of investment properties, property, plant and equipment, and financial assets and liabilities held for trading.

Going concern

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

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

2. **Changes in accounting policies**

The accounting policies used by the Group in these condensed financial statements are consistent with those applied in the Group's financial statements for the year to 31 December 2016, as amended to reflect the adoption of new standards, amendments and interpretations which became effective in the year as shown below.

New standards adopted during the year

The following standards, amendments and interpretations endorsed by the EU were effective for the first time for the Group's 31 December 2017 year end and had no material impact on the financial statements.

IAS 7 (amended) – Statement of Cash Flows;
IAS 12 (amended) – Income Taxes;
IFRS 12 – Disclosures of Interests in Other Entities.

Standards in issue but not yet effective

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

IFRS 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).

In addition to the above, IFRS 9 Financial Instruments, IFRS 15 Revenue from Contracts with Customers and IFRS 16 Leases were in issue at the date of approval of these condensed consolidated financial statements but were not yet effective for the current accounting period and have not been adopted early.

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 considers that this will not have a 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 considers that its adoption will not have a material impact on the financial statements.

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 five senior managers) in order to allocate resources to the segments and to assess their performance.

The internal financial reports received by the Group's Executive Committee contain financial information at a Group level as a whole and there are no reconciling items between the results contained in these reports and the amounts reported in the financial statements. These internal financial reports include the IFRS figures but also report the non-IFRS figures for the EPRA earnings and net asset value. Reconciliations of each of these figures to their statutory equivalents are detailed in note 22. Additionally, information is provided to the Executive Committee showing gross property income and property valuation by individual property. Therefore, for the purposes of IFRS 8, each individual property is considered to be a separate operating segment in that its performance is monitored individually.

The Group's property portfolio includes investment property, owner-occupied property and trading property and comprised 97% office buildings[1] by value at 31 December 2017 (2016: 95%). The Directors consider that these individual properties have similar economic characteristics and therefore have been aggregated into a single operating segment. The remaining 3% (2016: 5%) 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.

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

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

Gross property income

	2017			2016		
	Office buildings £m	Other £m	**Total £m**	Office buildings £m	Other £m	Total £m
West End central	79.4	0.4	**79.8**	81.4	4.2	85.6
West End borders	18.4	-	**18.4**	17.2	-	17.2
City borders	69.0	0.2	**69.2**	48.0	0.2	48.2
Provincial	-	4.8	**4.8**	-	5.0	5.0
	166.8	5.4	**172.2**	146.6	9.4	156.0

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

Property portfolio

	2017			2016		
	Office buildings £m	Other £m	**Total £m**	Office buildings £m	Other £m	Total £m
Carrying value						
West End central	2,356.8	42.2	**2,399.0**	2,531.5	141.1	2,672.6
West End borders	439.3	-	**439.3**	408.3	-	408.3
City borders	1,799.1	6.5	**1,805.6**	1,665.4	6.4	1,671.8
Provincial	-	98.6	**98.6**	-	97.0	97.0
	4,595.2	147.3	**4,742.5**	4,605.2	244.5	4,849.7
Fair value						
West End central	2,394.9	43.7	**2,438.6**	2,573.9	142.1	2,716.0
West End borders	459.7	-	**459.7**	426.5	-	426.5
City borders	1,844.4	6.4	**1,850.8**	1,693.6	6.3	1,699.9
Provincial	-	101.2	**101.2**	-	100.3	100.3
	4,699.0	151.3	**4,850.3**	4,694.0	248.7	4,942.7

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

5. Property and other income

	2017 **£m**	2016 £m
Gross rental income	**172.1**	155.4
Surrender premiums received	**0.1**	0.1
Other property income	**-**	0.5
Gross property income	**172.2**	156.0
Trading property sales proceeds	**-**	12.5
Service charge income	**27.7**	22.8
Other income	**2.7**	2.4
Gross property and other income	**202.6**	193.7

	2017 **£m**	2016 £m
Gross rental income	**172.1**	155.4
Ground rent	**(0.7)**	(0.7)
Service charge income	**27.7**	22.8
Service charge expenses	**(29.6)**	(24.1)
	(1.9)	(1.3)
Other property costs	**(8.4)**	(7.5)
Net rental income	**161.1**	145.9
Trading property sales proceeds	**-**	12.5
Trading property cost of sales	**-**	(10.6)
Profit on trading property disposals	**-**	1.9
Reversal of write-down/(write-down) of trading property	**1.0**	(1.6)
Other property income	**-**	0.5
Other income	**2.7**	2.4
Surrender premiums received	**0.1**	0.1
Reverse surrender premiums	**(0.2)**	(0.1)
Dilapidation receipts	**0.1**	0.1
Net property and other income	**164.8**	149.2

Rental income included £17.1m (2016: £10.3m) relating to rents recognised in advance of cash receipts.

In 2017 and 2016, other income related 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

	2017 **£m**	2016 £m
Gross disposal proceeds	**486.3**	210.6
Costs of disposal	**(3.5)**	(2.6)
Net disposal proceeds	**482.8**	208.0
Carrying value	**(418.9)**	(198.8)
Adjustment for lease costs and rents recognised in advance	**(19.2)**	(1.7)
Adjustment for capital contributions	**(4.2)**	-
Adjustment for headlease liability	**9.8**	-
Profit on disposal of investment property	**50.3**	7.5

Included within profit on disposal is £14.6m relating to the sale of 132-142 Hampstead Road NW1 in March 2017 and £24.9m relating to the sale of The Copyright Building W1 in November 2017. In addition, gross disposal proceeds reflect £5.0m of accrued overage in relation to Riverwalk House SW1, which was originally sold in 2012.

7. Finance costs

	2017 **£m**	2016 £m
Finance costs		
Bank loans and overdraft	**5.9**	11.8
Non-utilisation fees	**1.8**	1.2
Unsecured convertible bonds	**3.8**	3.8
Secured bonds	**11.4**	11.4
Unsecured private placement notes	**8.3**	7.0
Secured loan	**3.3**	3.3
Amortisation of issue and arrangement costs	**2.0**	2.2
Amortisation of the fair value of the secured bonds	**(1.1)**	(1.0)
Finance lease costs	**1.0**	1.0
Other	**0.1**	0.1
Gross interest costs	**36.5**	40.8
Less: interest capitalised	**(9.4)**	(13.0)
Finance costs	**27.1**	27.8

Finance costs of £9.4m (2016: £13.0m) have been capitalised on development projects, in accordance with IAS 23 Borrowing Costs, using the Group's average cost of borrowings during each quarter. Total finance costs paid to 31 December 2017 were £34.3m (2016: £37.3m) of which £9.4m (2016: £13.0m) 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 £7.3m in the year to 31 December 2017 (2016: £9.0m) deferring, re-couponing or terminating interest rate swaps.

9. Share of results of joint ventures

	2017 **£m**	2016 £m
Revaluation surplus	**3.9**	1.8
Other profit from operations after tax	**1.1**	0.5
	5.0	2.3

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

10. Tax charge

	2017 £m	2016 £m
Corporation tax		
UK corporation tax and income tax in respect of profit for the year	**4.0**	1.9
Other adjustments in respect of prior years' tax	**(0.7)**	0.1
Corporation tax charge	**3.3**	2.0
Deferred tax		
Origination and reversal of temporary differences	**(1.2)**	(0.9)
Adjustment for changes in estimates	**(0.3)**	(0.2)
Deferred tax credit	**(1.5)**	(1.1)
Tax charge	**1.8**	0.9

In addition to the tax charge of £1.8m (2016: £0.9m) that passed through the Group income statement, a deferred tax charge of £0.7m (2016: credit of £1.3m) 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 2017 is lower (2016: lower) than the standard rate of corporation tax in the UK. The differences are explained below:

	2017 £m	2016 £m
Profit before tax	**314.8**	54.5
Expected tax charge based on the standard rate of corporation tax in the UK of 19.25% (2016: 20.00%)[1]	**60.6**	10.9
Difference between tax and accounting profit on disposals	**(9.8)**	(1.2)
REIT exempt income	**(10.8)**	(7.8)
Revaluation (surplus)/deficit attributable to REIT properties	**(27.4)**	7.2
Expenses and fair value adjustments not allowable for tax purposes	**(4.4)**	(2.8)
Capital allowances	**(4.2)**	(5.3)
Other differences	**(1.5)**	(0.2)
Tax charge on current year's profit	**2.5**	0.8
Adjustments in respect of prior years' tax	**(0.7)**	0.1
Tax charge	**1.8**	0.9

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

11. Property portfolio

	Freehold £m	Leasehold £m	Total investment property £m	Owner-occupied property £m	Trading property £m	Total property portfolio £m
Carrying value						
At 1 January 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**
At 1 January 2016	4,006.8	825.5	4,832.3	36.1	10.5	4,878.9
Acquisitions	12.0	-	12.0	-	-	12.0
Capital expenditure	116.1	75.7	191.8	3.6	2.9	198.3
Interest capitalisation	10.6	2.4	13.0	-	-	13.0
Additions	138.7	78.1	216.8	3.6	2.9	223.3
Disposals	(158.1)	(40.7)	(198.8)	-	(10.2)	(209.0)
Transfers	(10.1)	-	(10.1)	-	10.1	-
Revaluation	(17.4)	(19.7)	(37.1)	(5.5)	-	(42.6)
Write-down of trading property	-	-	-	-	(1.6)	(1.6)
Movement in grossing up of headlease liabilities	-	0.7	0.7	-	-	0.7
At 31 December 2016	3,959.9	843.9	4,803.8	34.2	11.7	4,849.7
Adjustments from fair value to carrying value						
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**
At 31 December 2016						
Fair value	4,054.0	842.8	4,896.8	34.2	11.7	4,942.7
Lease incentives and costs included in receivables	(94.1)	(22.8)	(116.9)	-	-	(116.9)
Grossing up of headlease liabilities	-	23.9	23.9	-	-	23.9
Carrying value	3,959.9	843.9	4,803.8	34.2	11.7	4,849.7

Reconciliation of fair value

	2017 £m	2016 £m
Portfolio including the Group's share of joint ventures	**4,897.6**	4,980.5
Less: joint ventures	**(47.3)**	(37.8)
IFRS property portfolio	**4,850.3**	4,942.7

The property portfolio is subject to semi-annual external valuations and was revalued at 31 December 2017 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 £4,817.5m (2016: £4,910.7m) and other valuers at £32.8m (2016: £32.0m), giving a combined value of £4,850.3m (2016: £4,942.7m). Of the properties revalued by CBRE, £46.5m (2016: £34.2m) relating to owner-occupied property was included within property, plant and equipment and £26.6m (2016: £11.7m) was in relation to trading property.

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

During the year ended 31 December 2016, the Group transferred, at market value, a property previously held for investment to trading property as it was being developed for sale. Any future revaluation surplus relating to the trading property will be recognised as an adjustment to EPRA net asset value, but, in accordance with IAS 2 Inventories, will not be recognised in the carrying value of the property as trading properties are stated at the lower of cost and net realisable value. In 2016 the net realisable value of this property was lower than its cost which resulted in a £1.6m write-down. An increase in the net realisable value in 2017 resulted in a write back of this adjustment. In addition, in 2017, there was a write-down of £0.6m on another trading property that was acquired in the year.

Reconciliation of revaluation surplus/(deficit)

	2017 £m	2016 £m
Total revaluation surplus/(deficit)	**177.1**	(20.9)
Less:		
Share of joint ventures	**(4.9)**	(1.8)
Lease incentives and costs	**(20.2)**	(21.5)
Trading property revaluation surplus	**(1.3)**	-
IFRS revaluation surplus/(deficit)	**150.7**	(44.2)
Reported in the:		
Revaluation surplus/(deficit)	**147.9**	(37.1)
Reversal of write-down/(write-down) of trading property	**1.0**	(1.6)
Group income statement	**148.9**	(38.7)
Group statement of comprehensive income	**1.8**	(5.5)
	150.7	(44.2)

Historic cost

	2017 £m	2016 £m
Investment property	**2,697.0**	2,838.5
Owner-occupied property	**19.8**	14.1
Trading property	**33.0**	18.4
Total property portfolio	**2,749.8**	2,871.0

12. Property, plant and equipment

	Owner-occupied property £m	Artwork £m	Other £m	Total £m
At 1 January 2017	34.2	1.5	2.4	38.1
Additions	2.3	0.1	2.6	5.0
Disposals	-	-	(0.2)	(0.2)
Depreciation	-	-	(0.7)	(0.7)
Transfers	8.2	-	-	8.2
Revaluation	1.8	-	-	1.8
At 31 December 2017	**46.5**	**1.6**	**4.1**	**52.2**
At 1 January 2016	36.1	1.5	1.5	39.1
Additions	3.6	-	1.3	4.9
Depreciation	-	-	(0.4)	(0.4)
Revaluation	(5.5)	-	-	(5.5)
At 31 December 2016	34.2	1.5	2.4	38.1
Net book value				
Cost or valuation	46.5	1.6	5.9	54.0
Accumulated depreciation	-	-	(1.8)	(1.8)
At 31 December 2017	**46.5**	**1.6**	**4.1**	**52.2**
Net book value				
Cost or valuation	34.2	1.5	4.8	40.5
Accumulated depreciation	-	-	(2.4)	(2.4)
At 31 December 2016	34.2	1.5	2.4	38.1

The artwork is periodically valued by Bonhams on the basis of fair value using their extensive market knowledge. The latest valuation was carried out in October 2016 and the Directors consider that there have been no material valuation movements since that date. In accordance with IFRS 13 Fair Value Measurement, the artwork is deemed to be classified as Level 3.

The historic cost of the artwork in the Group at 31 December 2017 was £1.6m (2016: £1.5m). See note 11 for the historic cost of owner-occupied property.

13. Investments

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

	2017 £m	2016 £m
At 1 January	**36.0**	30.7
Additions	**-**	3.0
Repayment of shareholder loan	**(1.3)**	-
Share of results of joint ventures (see note 9)	**5.0**	2.3
At 31 December	**39.7**	36.0

14. Other receivables (non-current)

	2017 £m	2016 £m
Prepayments and accrued income	**105.2**	105.4
Other	**-**	3.7
	105.2	109.1

Prepayments and accrued income relates to rents recognised in advance as a result of spreading the effect of rent free and reduced rent periods, capital contributions in lieu of rent free periods and contracted rent uplifts, as well as the initial direct costs of the letting, over the expected terms of their respective leases. Together with £15.4m (2016: £11.5m), which was included as current assets within trade and other receivables, these amounts totalled £120.6m at 31 December 2017 (2016: £116.9m).

15. Trade and other receivables

	2017 £m	2016 £m
Trade receivables	**7.1**	5.1
Other receivables	**6.8**	2.7
Prepayments	**17.3**	15.5
Other taxes	**4.6**	-
Accrued income	**22.2**	15.2
	58.0	38.5

16. Trade and other payables

	2017 £m	2016 £m
Trade payables	**2.0**	2.0
Other payables	**17.8**	16.7
Other taxes	**-**	6.5
Accruals	**27.1**	45.9
Deferred income	**39.8**	38.9
	86.7	110.0

17. Borrowings and derivative financial instruments

	2017		2016	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Non-current liabilities				
1.125% unsecured convertible bonds 2019	**145.6**	**158.3**	142.9	152.4
6.5% secured bonds 2026	**186.9**	**225.6**	187.9	225.6
3.46% unsecured private placement notes 2028	**29.8**	**31.0**	29.8	30.8
4.41% unsecured private placement notes 2029	**24.8**	**29.3**	24.8	28.8
3.57% unsecured private placement notes 2031	**74.5**	**76.4**	74.5	75.6
4.68% unsecured private placement notes 2034	**74.3**	**91.8**	74.3	88.5
3.99% secured loan 2024	**81.7**	**87.9**	82.1	88.2
Unsecured bank loans	**85.6**	**89.0**	254.3	259.5
Secured bank loans	**27.6**	**28.0**	28.0	28.0
Leasehold liabilities	**14.1**	**14.1**	23.9	23.9
Borrowings	**744.9**	**831.4**	922.5	1,001.3
Derivative financial instruments expiring in greater than one year	**7.9**	**7.9**	17.3	17.3
Total borrowings and derivative financial instruments	**752.8**	**839.3**	939.8	1,018.6

	2017	2016
Reconciliation to net debt:		
Borrowings and derivative financial instruments	**752.8**	939.8
Less:		
Derivative financial instruments	**(7.9)**	(17.3)
Cash and cash equivalents	**(87.0)**	(17.7)
Net debt	**657.9**	904.8

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

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

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

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

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

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

There have been no transfers between Level 1 and Level 2 or Level 2 and Level 3 in either 2017 or 2016.

18. Deferred tax

	Revaluation surplus £m	Other £m	Total £m
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**
At 1 January 2016	8.7	(3.2)	5.5
(Credited)/charged to the income statement	(1.8)	0.9	(0.9)
Change in tax rates in the income statement	(0.3)	0.1	(0.2)
Credited to other comprehensive income	(1.2)	-	(1.2)
Change in tax rates in other comprehensive income	(0.1)	-	(0.1)
At 31 December 2016	5.3	(2.2)	3.1

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

Deferred tax assets have been recognised in respect of all tax losses and other temporary differences where the Directors believe it is probable that these assets will be recovered.

19. Dividend

	Payment date	Dividend per share PID p	Dividend per share Non-PID p	Dividend per share Total p	**2017 £m**	2016 £m
Current year						
2017 final dividend[1]	8 June 2018	35.00	7.40	42.40	**-**	-
2017 interim dividend	20 October 2017	17.33	-	17.33	**19.3**	-
Distribution of current year profit		52.33	7.40	59.73		
Special dividend						
2017 special dividend[1]	8 June 2018	-	75.00	75.00	**-**	-
Distribution of accumulated profit		-	75.00	75.00		
Prior year						
2016 final dividend	9 June 2017	32.70	5.80	38.50	**42.9**	-
2016 interim dividend	21 October 2016	13.86	-	13.86	**-**	15.5
Distribution of prior year profit		46.56	5.80	52.36		
Special dividend						
2016 special dividend	9 June 2017	-	52.00	52.00	**57.9**	-
Distribution of accumulated profit		-	52.00	52.00		
2015 final dividend	10 June 2016	30.80	-	30.80	**-**	34.2
		30.80	-	30.80		
Dividends as reported in the Group statement of changes in equity					**120.1**	49.7
2017 interim dividend withholding tax	14 January 2018				**(2.1)**	-
2016 interim dividend withholding tax	14 January 2017				**1.7**	(1.7)
2015 final scrip dividend	10 June 2016				**-**	(1.1)
2015 interim dividend withholding tax	14 January 2016				**-**	1.7
Dividends paid as reported in the Group cash flow statement					**119.7**	48.6

[1] Subject to shareholder approval at the AGM on 18 May 2018.

20. Cash and cash equivalents

	2017 £m	2016 £m
Cash at bank	**87.0**	17.7

21. Post balance sheet events

Crossrail completed the base infrastructure works at Soho Place W1 and handed over the site to the Group in January 2018.

In January 2018, Primister Limited, in which the Group is a joint shareholder, exchanged contracts for the sale of its freehold interest in Porters North N1 for £45.4m before costs, with completion expected in March 2018.

On 27 February 2018 a special dividend of 75p per share was proposed, which is subject to shareholder approval at the AGM on 18 May 2018.

22. EPRA performance measures

Number of shares

	Earnings per share Weighted average		Net asset value per share At 31 December	
	2017 '000	2016 '000	**2017 '000**	2016 '000
For use in basic measures	**111,431**	111,315	**111,475**	111,390
Dilutive effect of share-based payments	**267**	296	**295**	291
For use in diluted measures	**111,698**	111,611	**111,770**	111,681

The £150m unsecured convertible bonds 2019 ('2019 bonds') have a current conversion price of £32.73. The Group recognises the effect of conversion of the bonds if they are both dilutive and, based on the share price, likely to convert.

For the years ended 31 December 2017 and 31 December 2016, 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 year and earnings per share. The adjustments made between the figures are as follows:

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

Earnings and earnings per share

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

	IFRS	Adjustments A	Adjustments B	Adjustments C	EPRA basis
	£m	£m	£m	£m	£m
Year ended 31 December 2016					
Net property and other income	149.2	(1.9)	1.6	-	148.9
Total administrative expenses	(30.9)	-	-	-	(30.9)
Revaluation deficit	(37.1)	-	37.1	-	-
Profit on disposal of investment property	7.5	(7.5)	-	-	-
Net finance costs	(27.8)	-	-	-	(27.8)
Movement in fair value of derivative financial instruments	0.3	-	-	(0.3)	-
Financial derivative termination costs	(9.0)	-	-	9.0	-
Share of results of joint ventures	2.3	-	(1.8)	-	0.5
Profit before tax	54.5	(9.4)	36.9	8.7	90.7
Tax charge	(0.9)	0.5	(2.2)	-	(2.6)
Profit for the year	53.6	(8.9)	34.7	8.7	88.1
Non-controlling interest	5.1	-	(7.6)	0.1	(2.4)
Earnings attributable to equity shareholders	58.7	(8.9)	27.1	8.8	85.7
Earnings per share	52.73p				76.99p
Diluted earnings per share	52.59p				76.78p

Net asset value and net asset value per share

	£m	Undiluted p	Diluted p
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**
At 31 December 2016			
Net assets attributable to equity shareholders	3,932.3	3,530	3,521
Adjustment for:			
Deferred tax on revaluation surplus	5.3		
Fair value of derivative financial instruments	17.3		
Fair value adjustment to secured bonds	14.0		
Non-controlling interest in respect of the above	(2.6)		
EPRA net asset value	3,966.3	3,561	3,551
Adjustment for:			
Mark-to-market of secured bonds 2026	(50.6)		
Mark-to-market of secured loan 2024	(5.2)		
Mark-to-market of unsecured private placement notes 2029 and 2034	(17.3)		
Mark-to-market of unsecured private placement notes 2028 and 2031	(1.4)		
Mark-to-market of 1.125% unsecured convertible bonds 2019	(8.0)		
Deferred tax on revaluation surplus	(5.3)		
Fair value of derivative financial instruments	(17.3)		
Unamortised issue and arrangement costs	(10.3)		
Non-controlling interest in respect of the above	2.6		
EPRA triple net asset value	3,853.5	3,459	3,450

Cost ratios

	2017 £m	2016 £m
Administrative expenses	**28.2**	30.9
Other property costs	**8.4**	7.5
Dilapidation receipts	**(0.1)**	(0.1)
Net service charge costs	**1.9**	1.3
Service charge costs recovered through rents but not separately invoiced	**(0.3)**	(0.3)
Management fees received less estimated profit element	**(2.7)**	(2.4)
Share of joint ventures' expenses	**0.5**	0.5
EPRA costs (including direct vacancy costs) (A)	**35.9**	37.4
Direct vacancy costs	**(2.5)**	(2.5)
EPRA costs (excluding direct vacancy costs) (B)	**33.4**	34.9
Gross rental income	**172.1**	155.4
Ground rent	**(0.7)**	(0.7)
Service charge components of rental income	**(0.3)**	(0.3)
Share of joint ventures' rental income less ground rent	**1.8**	1.3
Adjusted gross rental income (C)	**172.9**	155.7
EPRA cost ratio (including direct vacancy costs) (A/C)	**20.8%**	24.0%
EPRA cost ratio (excluding direct vacancy costs) (B/C)	**19.3%**	22.4%

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)	**4,850.3**	4,942.7
Portfolio cost ratio (A/D)	**0.7%**	0.8%

The Group has not capitalised any overhead or operating expenses in either 2017 or 2016.

23. Gearing and interest cover

NAV gearing

	2017 £m	2016 £m
Net debt	**657.9**	904.8
Net assets	**4,193.2**	3,999.4
NAV gearing	**15.7%**	22.6%

Loan-to-value ratio

	2017 £m	2016 £m
Net debt	**657.9**	904.8
Fair value adjustment of secured bonds	**(12.9)**	(14.0)
Unamortised issue and arrangement costs	**8.6**	10.3
Leasehold liabilities	**(14.1)**	(23.9)
Drawn debt	**639.5**	877.2
Fair value of property portfolio	**4,850.3**	4,942.7
Loan-to-value ratio	**13.2%**	17.7%

Net interest cover ratio

	2017 £m	2016 £m
Net property and other income	**164.8**	149.2
Adjustments for:		
Other income	**(2.7)**	(2.4)
Other property income	**-**	(0.5)
Net surrender premiums received	**(0.1)**	(0.1)
(Reversal of write-down)/write-down of trading property	**(1.0)**	1.6
Profit on disposal of trading properties	**-**	(1.9)
Reverse surrender premiums	**0.2**	0.1
Adjusted net property income	**161.2**	146.0
Finance costs	**27.1**	27.8
Adjustments for:		
Other finance costs	**(0.1)**	(0.1)
Amortisation of fair value adjustment to secured bonds	**1.1**	1.0
Amortisation of issue and arrangement costs	**(2.0)**	(2.2)
Finance costs capitalised	**9.4**	13.0
Net interest payable	**35.5**	39.5
Net interest cover ratio	**454%**	370%

24. Total return

	2017	2016
	p	p
EPRA net asset value on a diluted basis		
At end of year	**3,716**	3,551
At start of year	**(3,551)**	(3,535)
Increase	**165**	16
Dividend per share	**108**	45
Increase including dividend	**273**	61
Total return	**7.7%**	1.7%

25. List of definitions

Capital return

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

Diluted figures

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

Earnings/earnings per share (EPS)

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

Estimated rental value (ERV)

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

European Public Real Estate Association (EPRA)

A not-for-profit association with a membership of Europe's leading property companies, investors and consultants which strives to establish best practices in accounting, reporting and corporate governance and to provide high-quality information to investors. EPRA published its latest Best Practices Recommendations in November 2016. This includes guidelines for the calculation of the following performance measures which the Group has adopted.

- **EPRA earnings per share**

Earnings from operational activities.

- **EPRA net asset value per share**

NAV adjusted to include trading properties and other investment interests at fair value and to exclude certain items not expected to crystallise in a long-term investment property business model.

- **EPRA triple net asset value per share**

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

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

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

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

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

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

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

- **EPRA “topped up” net initial yield**

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

- **EPRA vacancy rate**

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

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

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

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

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

Ground rent
The rent payable by the Group for its leasehold properties. Under IFRS, these leases are treated as finance leases and the cost allocated between interest payable and property outgoings.

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

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

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

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

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

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

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

NAV gearing
Net debt divided by net assets.

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

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

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

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

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

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

The REIT legislation was introduced to provide a structure which closely mirrors the tax outcomes of direct ownership in property and removes tax inequalities between different real estate investors. It provides a liquid and 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 year plus the dividend per share paid during the year expressed as a percentage of the EPRA net asset value per share on a diluted basis at the beginning of the year.

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

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

Underlying valuation increase
The valuation increase on the underlying portfolio.

Yields

- **Net initial yield**

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

- **Reversionary yield**

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

- **True equivalent yield**

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

- **Yield shift**

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

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

Notes to editors

Derwent London plc

Derwent London plc owns 87 buildings in a commercial real estate portfolio predominantly in central London valued at £4.9 billion (including joint ventures) as at 31 December 2017, 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 2017 the Group won the Property Week Developer of the Year award and EG Offices Company of the Year and won further awards for RIBA, Civic Trust and BCO and was listed 12th in the Corporate Knights Global 100 of the world's most sustainable companies. In 2013 Derwent London launched a voluntary Community Fund and has to date supported 56 community projects in Fitzrovia and the Tech Belt.

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

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

Forward-looking statements

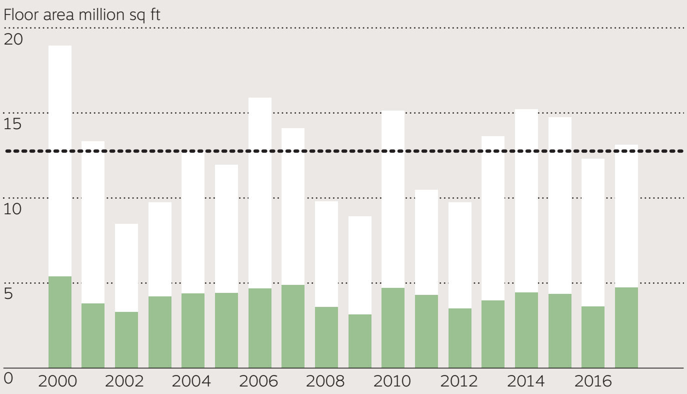
This document contains certain forward-looking statements about the future outlook of Derwent London. By their nature, any statements about future outlook involve risk and uncertainty because they relate to events and depend on circumstances that may or may not occur in the future. Actual results, performance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

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

Appendix 1

Our market

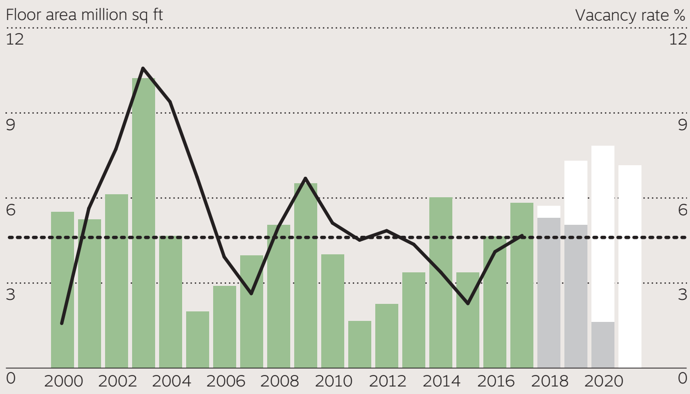
Central London office take-up



West End
Central London average
Rest of central London

Source: CBRE

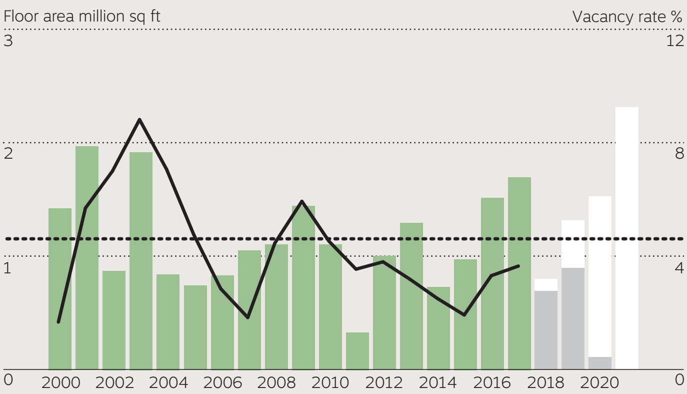
Central London office development pipeline



Completed
Proposed
Vacancy rate
Under construction
Completed average

Source: CBRE

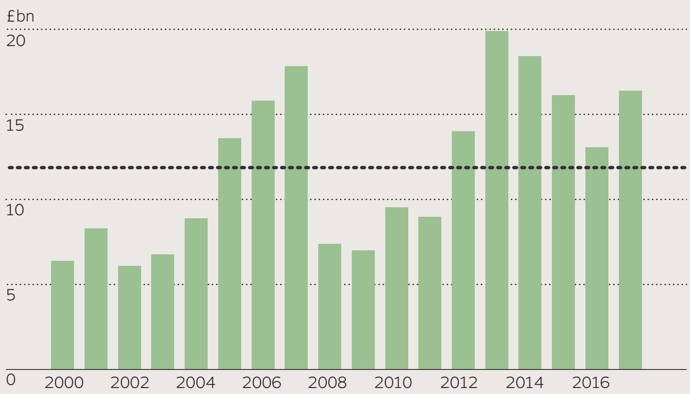
West End office development pipeline



Completed
Proposed
Vacancy rate
Under construction
Completed average

Source: CBRE

Central London office investment transactions



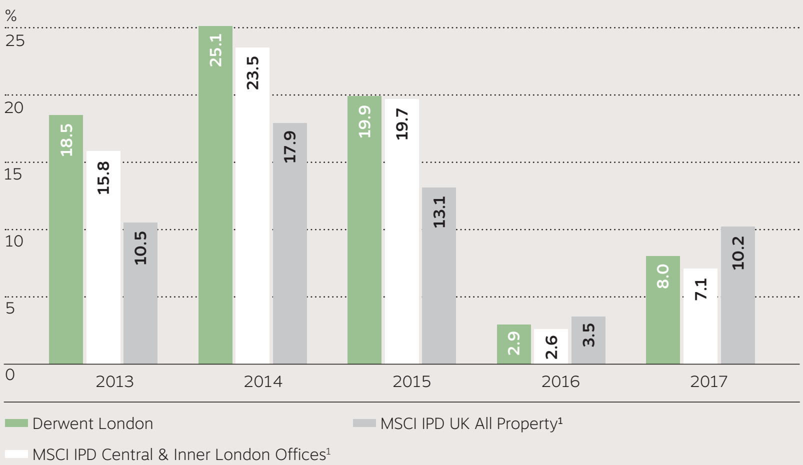
Average

Source: CBRE

Appendix 2

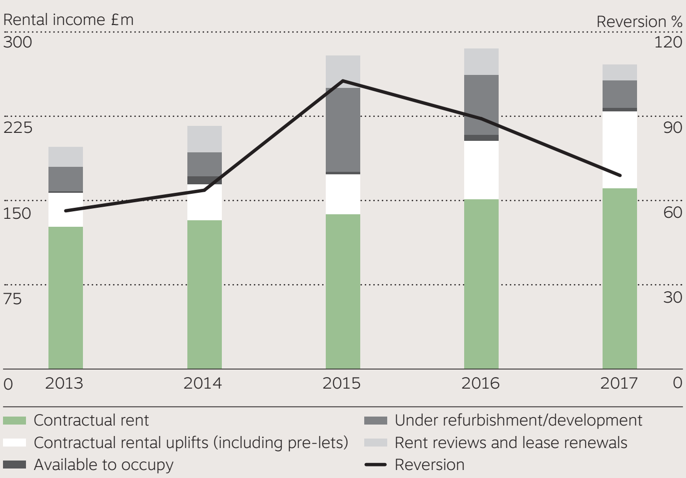
Valuation

Total property return

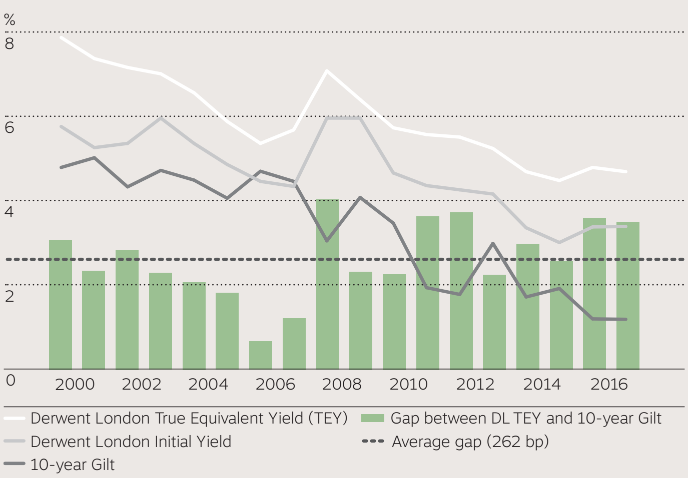


[1] Quarterly Index

Portfolio income potential



Valuation yields



Appendix 2
Valuation

Portfolio statistics – valuation

		Valuation £m	Weighting %	Valuation[1] performance %	Let floor area[2] '000 sq ft	Vacant available floor area '000 sq ft	Vacant refurbishment floor area '000 sq ft	Vacant project floor area '000 sq ft	Total floor area '000 sq ft
West End									
Central		2,438.6	50	0.8	2,174	13	30	348	2,565
Borders		480.2	10	7.9	516	0	0	0	516
		2,918.8	60	1.9	2,690	13	30	348	3,081
City									
Borders		1,877.6	38	7.5	1,969	52	67	0	2,088
Central London		4,796.4	98	4.0	4,659	65	97	348	5,169
Provincial		101.2	2	0.5	341	2	0	0	343
Total portfolio	**2017**	**4,897.6**	**100**	**3.9**	**5,000**	**67**	**97**	**348**	**5,512**
	2016	4,980.5	100	(0.2)	4,963	113	163	742	5,981

1 Underlying – properties held throughout the year

2 Includes pre-lets

Rental income profile

	Rental uplift £m	Rental per annum £m
Annualised contracted rental income, net of ground rents		160.1
Contractual rental increases across the portfolio	44.2	
Contractual rental from 89,000 sq ft pre-let refurbishment	2.4	
Contractual rental from 275,000 sq ft pre-lets on developments	21.8	
Letting 67,000 sq ft available floor area	2.8	
Completion and letting 97,000 sq ft of refurbishments	5.7	
Completion and letting 348,000 sq ft of developments	18.8	
Anticipated rent review and lease renewal reversions	14.3	
Portfolio reversion		110.0
Potential portfolio rental value		270.1

Portfolio statistics – rental income

		Net contracted rental income per annum £m	Average rental income £ per sq ft	Vacant space rental value per annum £m	Lease reversion[1] per annum £m	Portfolio estimated rental value per annum £m	Average unexpired lease length[2] Years
West End							
Central		78.3	36.21	21.9	38.7	138.9	5.6
Borders		15.6	30.27	0.0	11.1	26.7	8.5
		93.9	35.07	21.9	49.8	165.6	6.1
City							
Borders		61.0	31.74	5.4	32.5	98.9	6.2
Central London		154.9	33.67	27.3	82.3	264.5	6.2
Provincial		5.2	15.39	0.0	0.4	5.6	3.4
Total portfolio	**2017**	**160.1**	**32.42**	**27.3**	**82.7**	**270.1**	**6.0**[3]
	2016	150.3	30.73	58.4	75.8	284.5	6.5

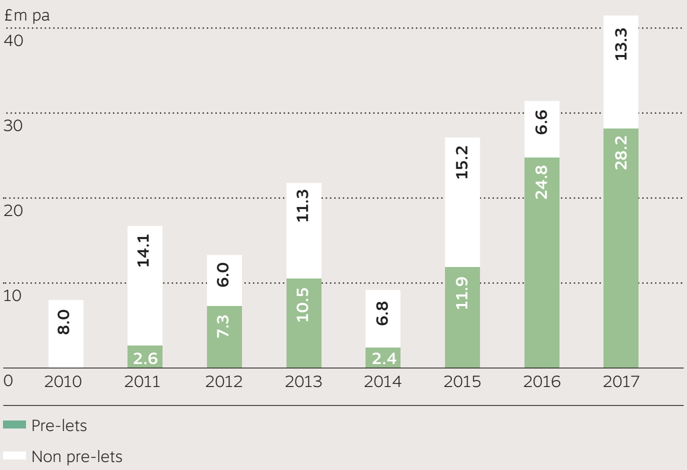
1 Contactual uplifts, rent review/lease renewal reversion and pre-lets

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

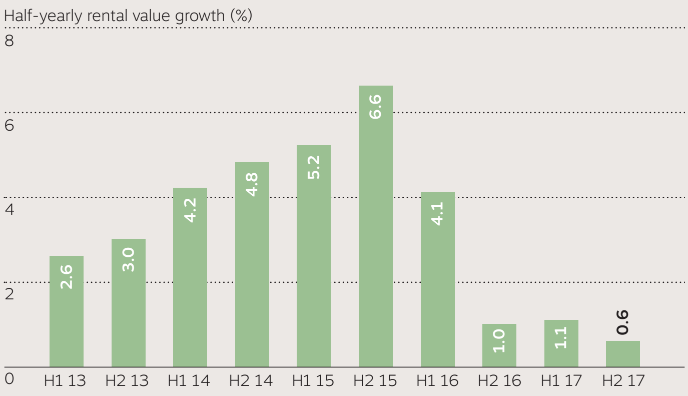
3 7.8 years after adjusting for 'topped-up' rents and pre-lets

Appendix 3
Asset management

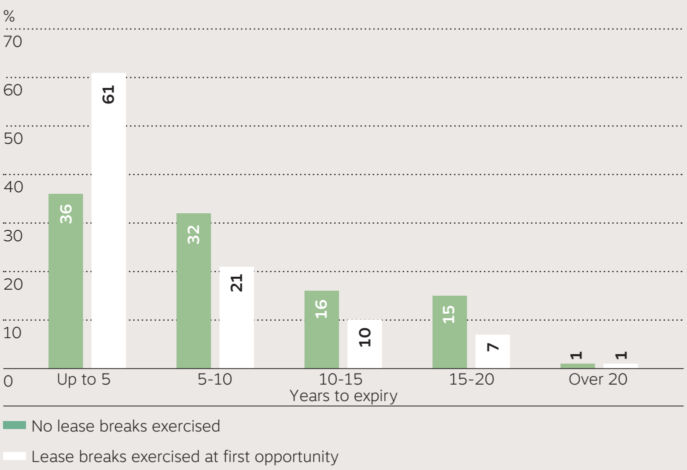
Letting activity by rental income



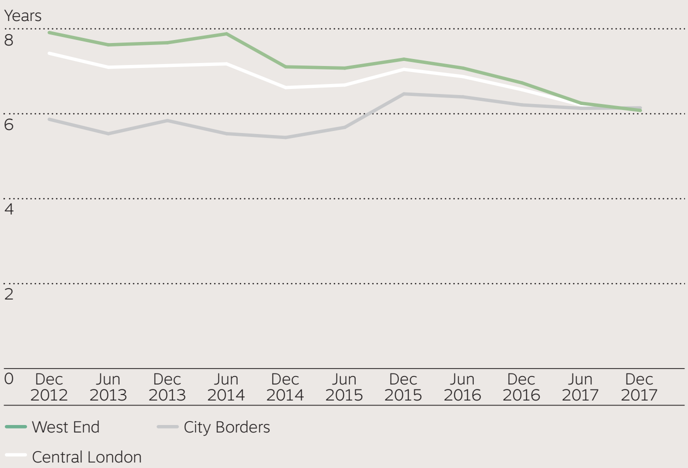
Rental value growth



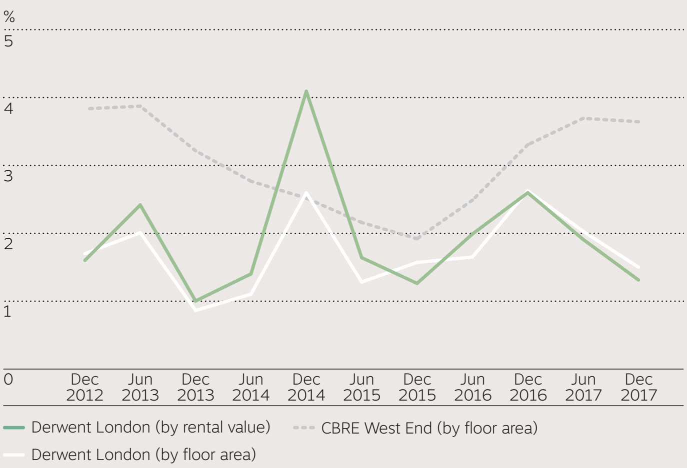
Profile of rental income expiry



Average unexpired lease length



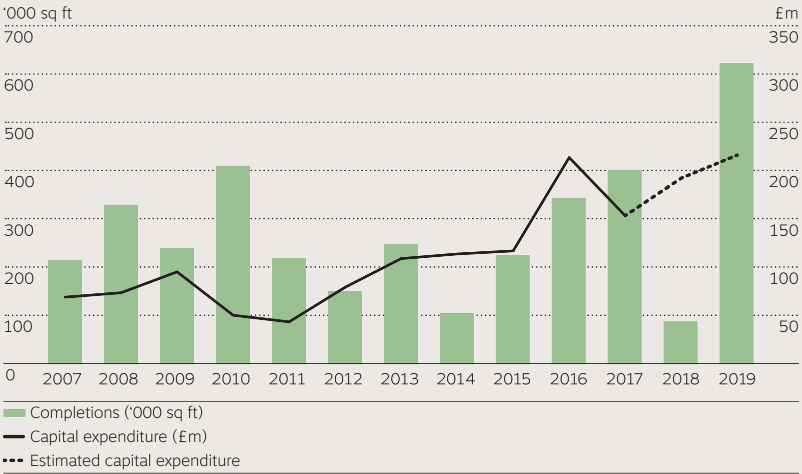
Five-year vacancy trend



Appendix 4

Development and refurbishment

Completions and capital expenditure



Project summary – current

Property	Current net income £m pa	Pre-scheme area '000 sq ft	Proposed area '000 sq ft	2018 capex £m	2019 capex £m	2020+ capex £m	Total capex to complete £m	Delivery date	Current office c.ERV psf
On-site developments									
Brunel Building W2	(0.1)	78	243	56	13	1	70	H1 2019	£62.50
80 Charlotte Street W1	–	234	380	72	101	9	182	H2 2019	£80.00
	(0.1)	**312**	**623**	**128**	**114**	**10**	**252**		
On-site refurbishments									
The White Chapel Building E1[1]	–	81	89	12	1	–	13	H2 2018	
	(0.1)	**393**	**712**	**140**	**115**	**10**	**265**		
Other projects									
Soho Place W1	–	–	285	18	75	216	309[2]		
Planning and design	–	–	–	5	3	1	9		
Other	–	–	–	17	8	11	36		
	–	**–**	**285**	**40**	**86**	**228**	**354**		
Total	**(0.1)**	**393**	**997**	**180**	**201**	**238**	**619**		
Capitalised interest	–	–	–	12	15	12	39		
Total including interest	**(0.1)**	**393**	**997**	**192**	**216**	**250**	**658**		

1 Phase 2

2 Includes site acquisition cost

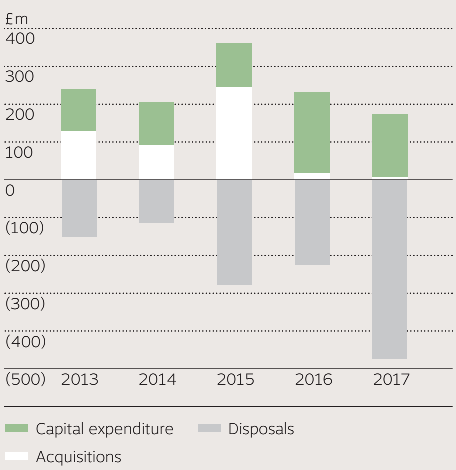
Appendix 4
Development and refurbishment

Project summary – future

Property	Current net income £m pa	Pre-scheme area '000 sq ft	Proposed area '000 sq ft	Earliest possession year	Comment
Consented					
Monmouth House EC1[1]	0.3	69	125	2019	Adjacent White Collar Factory
19-35 Baker Street W1[2]	5.8	146	293	2020	Joint venture
Holden House W1	6.5	90	150	TBC	Eastern end of Oxford Street
	12.6	**305**	**568**		
Adjustment for JV	(2.6)	(66)	(132)		19–35 Baker Street W1- Derwent 55% interest
	10.0	**239**	**436**		
Under appraisal[3]					
Premier House SW1	2.2	62	80	2018	
Network Building W1	3.1	64	100	2021	
Francis House SW1[4]	3.1	90	130	TBC	
	8.4	**216**	**310**		
Consented and appraisals	**18.4**	**455**	**746**		
On-site projects	**(0.1)**	**393**	**997**		Previous table
Pipeline	**18.3**	**848**	**1,743**		

[1] Includes 19–23 Featherstone Street EC1
[2] Includes 88–100 George Street, 30 Gloucester Place and 69–85 Blanford Street W1
[3] Areas proposed are estimated from initial studies
[4] Includes 6–8 Greencoat Place SW1

Net investment

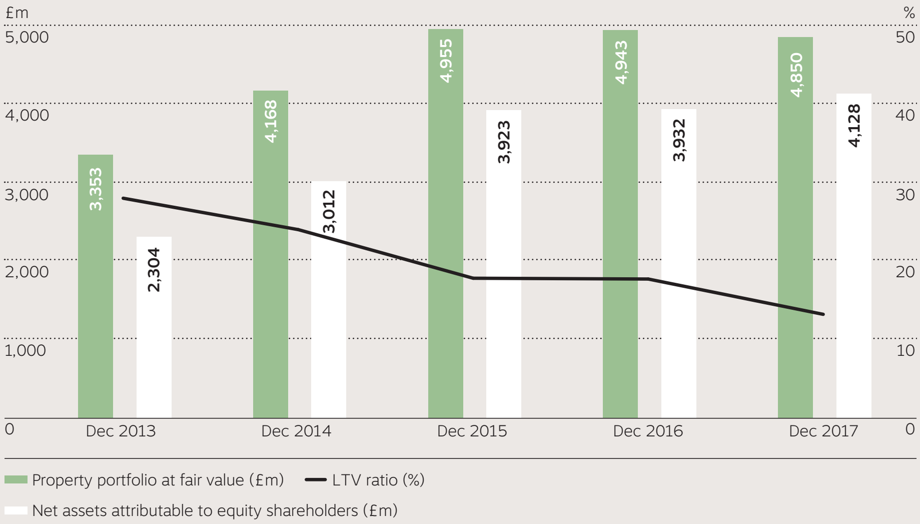


Appendix 5
Finance

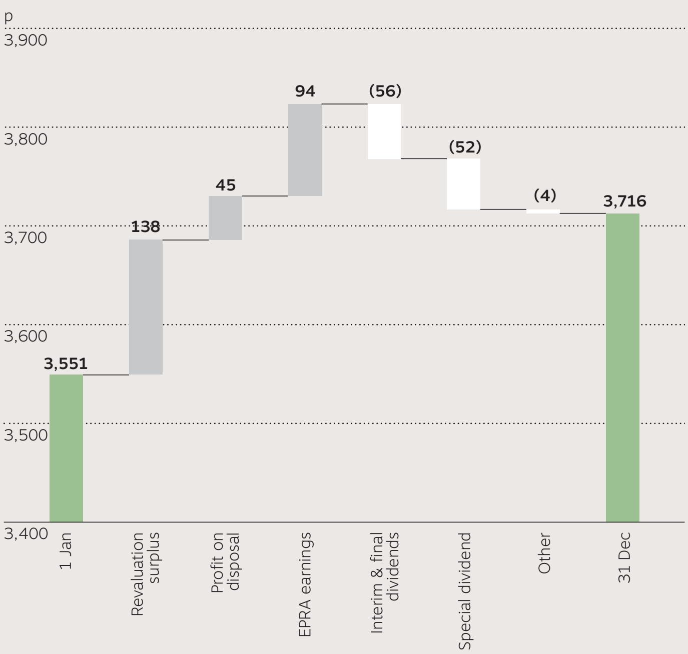
Financial highlights

	2017	2016
IFRS NAV	**£4,193.2m**	£3,999.4m
EPRA NAV per share	**3,716p**	3,551p
Property portfolio at fair value	**£4,850.3m**	£4,942.7m
Net rental income	**£161.1m**	£145.9m
Profit before tax	**£314.8m**	£54.5m
EPRA earnings per share (EPS)	**94.23p**	76.99p
Interim and final dividend per share	**59.73p**	52.36p
LTV ratio	**13.2%**	17.7%
NAV gearing	**15.7%**	22.6%
Net interest cover ratio	**454%**	370%

Property portfolio value, net assets and gearing



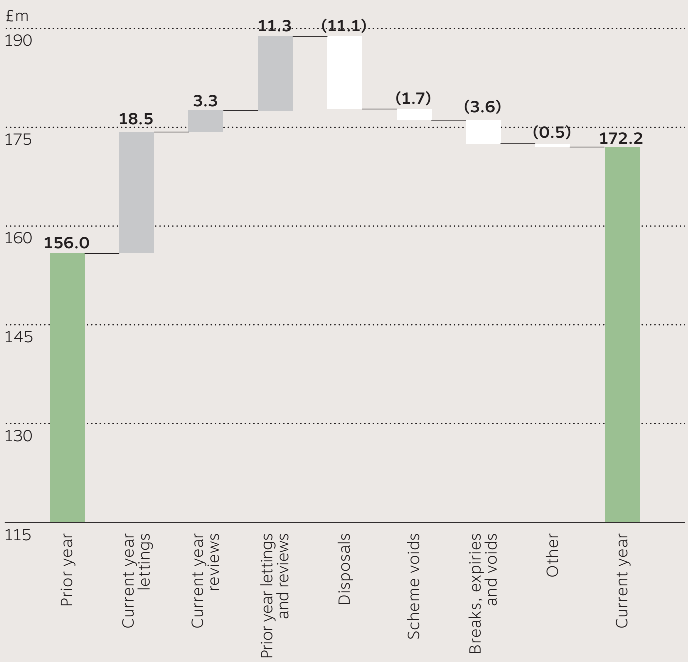
EPRA net asset value per share



2016	3,535	(38)	7	77	(44)	–	14	3,551

Appendix 5
Finance

Gross property income



2016	152.0	6.1	5.7	9.3	(5.1)	(3.9)	(5.3)	(2.8)	156.0

EPRA like-for-like rental income

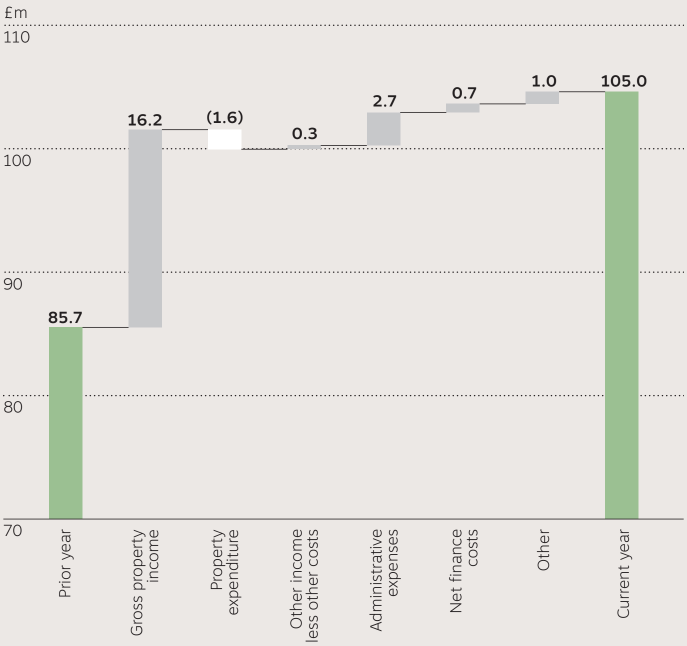
	Properties owned throughout the year £m	Acquisitions £m	Disposals £m	Development property £m	Total £m
2017					
Gross rental income	143.6	–	4.8	23.7	172.1
Property expenditure	(6.0)	–	(0.6)	(4.4)	(11.0)
Net rental income	137.6	–	4.2	19.3	161.1
Reversal of write-down of trading property	–	(0.6)	–	1.6	1.0
Other[1]	2.7	–	–	–	2.7
Net property income	140.3	(0.6)	4.2	20.9	164.8
2016					
Gross rental income	136.6	–	15.6	3.2	155.4
Property expenditure	(6.2)	(0.1)	(0.6)	(2.6)	(9.5)
Net rental income	130.4	(0.1)	15.0	0.6	145.9
Profit on disposal of trading properties	–	–	1.9	–	1.9
Write-down of trading property	–	–	–	(1.6)	(1.6)
Other[1]	3.0	–	–	–	3.0
Net property income	133.4	(0.1)	16.9	(1.0)	149.2
Increase based on gross rental income	**5.1%**				10.7%
Increase based on net rental income	**5.5%**				10.4%
Increase based on net property income	**5.2%**				10.5%

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

Appendix 5

Finance

EPRA earnings



2016	78.7	4.0	(0.6)	0.1	(0.9)	7.0	(2.6)	85.7

Debt facilities

	£m	Maturity
6.5% secured bonds	175	March 2026
3.99% secured loan	83	October 2024
1.125% unsecured convertible bonds	150	July 2019
4.41% unsecured private placement notes	25	January 2029
4.68% unsecured private placement notes	75	January 2034
3.46% unsecured private placement notes	30	May 2028
3.57% unsecured private placement notes	75	May 2031
Non-bank debt	613	
Term – secured	28	July 2022
Bilateral revolving credit – unsecured	75	July 2022
Club revolving credit – unsecured	450	January 2022
Committed bank facilities	553	
At 31 December 2017	**1,166**	

Net debt

	2017 £m	2016 £m
Cash	**(87.0)**	(17.7)
Bank facilities	**117.0**	287.5
3.99% secured loan 2024	**83.0**	83.0
6.5% secured bonds 2026	**175.0**	175.0
Acquired fair value of secured bonds less amortisation	**12.9**	14.0
3.46% unsecured private placement notes 2028	**30.0**	30.0
4.41% unsecured private placement notes 2029	**25.0**	25.0
3.57% unsecured private placement notes 2031	**75.0**	75.0
4.68% unsecured private placement notes 2034	**75.0**	75.0
1.125% unsecured convertible bonds 2019	**150.0**	150.0
Equity components and unwinding of discounts on convertible bonds	**(3.5)**	(5.6)
Leasehold liabilities	**14.1**	23.9
Unamortised issue and arrangement costs	**(8.6)**	(10.3)
Net debt	**657.9**	904.8

Appendix 5
Finance

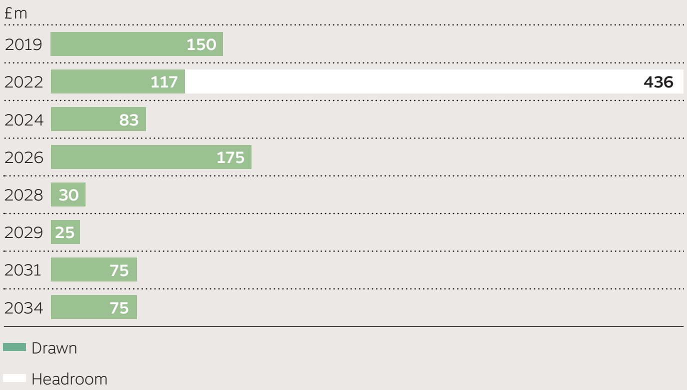
Gearing and interest cover ratio

	2017 %	2016 %
Loan-to-value ratio	**13.2**	17.7
NAV gearing	**15.7**	22.6
Net interest cover ratio	**454**	370

Debt summary

	2017 £m	2016 £m
Bank loans		
Floating rate	**89.0**	44.5
Swapped	**28.0**	243.0
	117.0	287.5
Non-bank debt		
3.99% secured loan 2024	**83.0**	83.0
6.5% secured bonds 2026	**175.0**	175.0
1.125% unsecured convertible bonds 2019	**150.0**	150.0
Unsecured private placement notes 2028 - 2034	**205.0**	205.0
	613.0	613.0
Total	**730.0**	900.5
Hedging profile (%)		
Fixed	**84**	68
Swaps	**4**	27
	88	95
Percentage of debt that is unsecured (%)	**61**	68
Percentage of non-bank debt (%)	**84**	68
Weighted average interest rate – cash basis (%)	**3.80**	3.65
Weighted average interest rate – IFRS basis (%)	**4.11**	3.90
Weighted average maturity of facilities (years)	**6.3**	6.9
Weighted average maturity of borrowings (years)	**7.6**	7.7
Undrawn facilities and cash	**523**	383
Uncharged properties	**3,864**	3,777

Maturity profile of debt facilities as at 31 December 2017



Maturity profile of fixed rates and swaps as at 31 December 2017