DERWENT LONDON

Interim Results 2021 Announcement

DERWENT LONDON

10 August 2021

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

INTERIM RESULTS FOR THE HALF YEAR ENDED 30 JUNE 2021
INCREASED ACTIVITY AND CONFIDENCE

Financial highlights

- Total return of 2.7%, -0.1% in H1 2020, -1.8% in FY 2020
- EPRA[1] NTA 3,864p per share, up 1.4% from 3,812p at 31 December 2020
- Net rental income of £90.1m, up from £84.4m in H1 2020
- EPRA[1] earnings of £60.6m or 54.0p per share, up 10.5% from 48.9p in H1 2020
- Interim dividend raised 4.5% to 23.0p from 22.0p in 2020
- Net debt of £999.7m (£1,049.1m at 31 December 2020)
- Loan-to-value ratio 17.3% (18.4% at 31 December 2020)
- Undrawn facilities and cash of £527m (£476m at 31 December 2020)

Portfolio highlights

- Portfolio valued at £5.4bn, an underlying value increase of 1.4%
- True equivalent yield of 4.65%, tightening 9bp since December 2020
- Total property return of 3.2%, outperforming our benchmark index[2] of 2.3%
- EPRA vacancy rate rose from 1.8% to 3.3% in H1 (subsequently reduced to 2.4%)
- ERV movement of -0.3% in first half of 2021
- First half lettings £3.9m, 1.6% below December 2020 ERV with offices 0.4% above
- Raised 2021 ERV guidance to +2% to -2% from 0% to -5%

Second half activity to date

- Exchanged contracts to acquire two freeholds for £214.6m
- Signed memorandum of understanding to form a JV with Lazari Investments for a major development in Baker Street W1
- Secured vacant possession of Bush House WC2, accelerating refurbishment opportunity
- Exchanged contracts to sell Angel Square EC1 for £86.5m before costs
- Resolution to grant consent for the redevelopment of Network Building W1
- Second half lettings to date £3.8m, 2.2% above ERV
- Potential pipeline now c.2.5m sq ft

Paul Williams, Chief Executive, commented:

“Sentiment is improving as the year progresses which has been reflected in our results and encouraged us to raise our ERV guidance. We are well positioned to invest and are moving forward with our next phase of net zero carbon developments and today’s acquisitions have added to our extensive pipeline.”

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

Webcast and conference call

There will be a live webcast together with a conference call for investors and analysts at 09.30 GMT today. The audio webcast can be accessed via www.derwentlondon.com

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

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

For further information, please contact:

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

CHIEF EXECUTIVE'S STATEMENT

Improved business confidence

London's business confidence and economy were stronger than expected in the first six months helped by the successful roll out of the UK's vaccination programme. In our sector this has been reflected in increased property activity levels and the tightening of property yields. We expect these trends to strengthen further in the second half now that most lockdown restrictions have been lifted.

Operationally, we have seen higher rent collection with offices, the bulk of our income, now close to pre-Covid levels. Our letting activity has picked up as the year has progressed and we have now let 139,000 sq ft for £7.7m of which 50% was in Q3. We continue to embed our net zero carbon strategies across the business and support our local communities.

Our average ERV fell only 0.3% in the first six months which was at the top end of our previous guidance but, as expected, higher quality buildings are performing better. Our vacancy rate rose marginally to 3.3% at 30 June 2021 but, following H2 lettings to date, is now 2.4%.

Our current developments at Soho Place W1 and The Featherstone Building EC1 are on track to complete in H1 2022. We are commencing our next major project at 19-35 Baker Street W1 in Q4 this year which will take our space on site to over 700,000 sq ft.

We have also taken advantage of robust investor demand for central London office properties by disposing of two older buildings in the year to date for £256.5m and will be investing the proceeds in new acquisitions and our extended development pipeline.

Major West End investment

Today we are announcing three transactions with Lazari Investments.

We have exchanged contracts to acquire two freehold interests in the West End's Knowledge Quarter[1]:

- 250 Euston Road NW1 is a 165,900 sq ft office building on a 1.6 acre site. It is let to UCLH until 2039 at a rent of just £28 per sq ft, subject to 2.5% fixed annual increases compounded every five years, coinciding with tenant break options. The consideration is £189.9m including estimated costs.
- 171-174 Tottenham Court Road W1 is a 16,200 sq ft mixed-use property acquired for £24.7m after estimated costs. This is an interesting strategic holding, part of a much larger block including significant UCLH and UCL interests.

In addition, we have signed a memorandum of understanding with Lazari Investments to form a 50:50 joint venture which is expected to acquire their leasehold interests in a group of Baker Street buildings totalling 122,200 sq ft. The consideration for our 50% interest including costs is £64.4m.

It is our intention to apply for planning permission to create a major c.240,000 sq ft development. This will be almost opposite our 19-35 Baker Street scheme due to commence later this year. Subject to the necessary approvals this project could begin in 2024. A further payment of £7.25m would be payable to the vendor when planning and headlease regears are achieved.

The estimated initial financial impacts of these transactions are disclosed in a separate RNS published today.

[1] London's Knowledge Quarter is defined as the small area around Euston Road, Kings Cross and Bloomsbury which has a very high concentration of academic, cultural, research, scientific and medical organisations

Adding to our next phase of developments

In the second half we have received a resolution to grant planning consent for either 137,000 sq ft of offices or 112,000 sq ft of lab-enabled space at Network Building, Fitzrovia W1. We expect to commence work on site in 2022. Also in the second half, we have bought in the headlease interest in the South West Wing of Bush House WC2 for £13.5m before costs. The Group already owns the freehold to this 103,700 sq ft property facing the Strand. As well as releasing marriage value we are working on plans to refurbish and extend the building to c.130,000 sq ft, with a potential start date in 2022, subject to planning. Including the 19-35 Baker Street project these two projects would take our next phase of developments up to 565,000 sq ft in addition to our existing 410,000 sq ft on site.

Improved first half results and dividend

The recovery in confidence and activity is reflected in a significant improvement in our financial results compared to H1 2020 when the first impacts of Covid-19 were being felt.

Gross rental income for the six months to 30 June 2021 increased modestly to £98.1m from £97.8m a year earlier, with the £9.5m increase from 80 Charlotte Street W1 being offset by a combined £9.4m of disposals and increased voids. However, the impact of Covid-related rental waivers and other concessions has been significantly lower in 2021 so that net property income on an EPRA basis rose by 10.9% to £93.8m from £84.6m in H1 2020. EPRA earnings have benefitted accordingly, rising 10.8% to £60.6m from £54.7m in H1 2020. EPRA earnings per share were 10.5% higher at 54.0p from 48.9p in H1 2020 and were also 5.3% above the 51.3p in H1 2019.

The investment property revaluation surplus for the half year was £57.8m after accounting adjustments, which followed declines of £68.3m in H1 2020 and £196.1m for the full year. This has helped drive EPRA Net Tangible Assets to 3,864p per share, up 1.4% from 3,812p as at December 2020, and IFRS profit before tax was £121.1m for the first half compared to a loss of £14.0m in H1 2020. Adding back dividends paid gave a total return for the first half of 2021 of 2.7% against -0.1% in H1 2020 and -1.8% for the whole of 2020.

Our other financial ratios remain very secure with interest covered 4.8 times and the Group's LTV ratio at 17.3%, the same as a year earlier and a little lower than the 18.4% at 2020 year end. All of these aspects have encouraged us to increase the interim dividend by 4.5% to 23.0p per share, where it remains well covered.

The London office market

Business activity has been improving as London follows the roadmap out of lockdown and with the increased level of vaccinations. We believe it is the strength of the London economy and its adaptability in attracting new sectors that will ultimately determine demand and Derwent London's long-term growth. London's large, relatively young and well-educated labour pool continues to attract growing businesses. All of this further endorses our confidence in London.

Office demand has focused on much more than just location and price for some time. A building's adaptability, amenities, ability to promote wellbeing, sustainability and 'digital intelligence' are increasingly important to occupiers. The pandemic has further highlighted these broader issues. High quality office space is an important weapon in promoting a business's culture and the 'war for talent'.

One example of how we are responding is 'DL/78' which is due to launch next month at our latest completed development 80 Charlotte Street W1. Located at the heart of our Fitzrovia village it is a purpose built occupier facility providing drop in space and refreshments, as well as the opportunity to hire meeting rooms and event space ranging in capacity from 8 to 100+ persons. We are encouraged by the positive response to this initiative from our occupiers.

Many businesses are still considering how changing working practices will affect them in the future. However, we expect space requirements to continue to focus on peak occupational demand, which often requires a significant proportion of the workforce to be present at one time. Less individual desk space may be replaced by additional video conferencing facilities. In addition, as more businesses return to their offices the need to be 'at the centre of things' will be reinforced.

These views are supported by the results of our third occupier questionnaire since the start of the Covid pandemic. This survey, which covers 50% of our income, has consistently shown that collaboration and social activity have been most missed during the pandemic. As time has progressed, wellbeing, training and innovation have become significant additional concerns. In February we were encouraged to find that 51% of respondents intended to increase their headcount. That has not changed, but the percentage seeing no change has increased from 18% to 29%. As a result, 80% have said they intend in increase or see no change in their headcount in the next six to 12 months up from 69% in February.

An evolving business

The increasing flight to quality within the central London office market has led us to take a more nuanced look at our portfolio and strategy.

We expect to retain more of our larger modern developments where we see good long-term demand. These will provide asset management opportunities and a core of high quality income. These properties will enable the Group to build on its network of established occupier relationships as well as making meaningful long-term investments promoting climate resilience, higher levels of customer services, intelligent buildings and supporting local communities.

An income producing pipeline of potential projects will remain at the heart of our business. We will continue to ensure that it is extensive and offers multiple opportunities where we can continue to utilise our design skills, proactive management and our brand. We will advance our active development programme which we expect to remain a significant contributor to our performance. Our proven ability to produce high quality product should serve us well in a market where potential legislation is putting much of central London's older office stock in need of improvement.

The Lazari transaction announced today involves a classic mix of income-producing medium and longer-term opportunities in an area we know well, adding to a major cluster of Derwent London properties. It adds 243,200 sq ft to our potential development pipeline which now totals c.2.5m sq ft based on pre-development floor areas.

The strong investment market has given us the opportunity to dispose of some of those buildings where, on our estimates, we believe we can find greater returns elsewhere. The proceeds will be reinvested either into new acquisitions or the development programme.

All this activity will continue to be based on a financial structure with modest gearing and sufficient headroom to ensure we retain the flexibility to deliver all our objectives.

A responsible business

Last year we published our pathway to becoming a net zero carbon business by 2030. Our focus on sustainability is highlighted by the delivery of net zero carbon developments and a continuing investment in our buildings and teams.

The pandemic has increased levels of collaboration with our stakeholders. We will continue to support our occupiers as they return to work, as well as offer financial support on a case by case basis to those whose businesses remain particularly impacted by the pandemic. In particular we have been supporting many of our retail and hospitality occupiers.

Our own employees have increasingly been back in the office and we have benefitted from the increased levels of human interaction. Feedback on our workplace initiatives has been positive and in the second half we will be continuing to focus on wellness and mental health initiatives as well as talent development and cultural awareness.

The Group continues to enjoy excellent relationships with its suppliers who have responded well to the challenges presented by the pandemic. Recognising the importance of cashflow in these times, our average payment terms to our suppliers remains at 20 days. Looking forward in the next 12 months, we will be awarding a number of significant new construction contracts covering projects commencing in 2021 and 2022. We are assuming a higher rate of construction cost inflation than in recent years with both materials and labour costs impacted. We have mitigated this in the past with fixed price contracts and by working closely with our contractors.

We support local communities around our buildings through our Community Funds and direct sponsorships and donations. In H1, with support from our partners AHMM and TTP, we delivered a new counselling room for the Soup Kitchen in Fitzrovia. In H2 we will be helping St Monica's Primary School, Hoxton in the Green Schools Project and Chickenshed in providing two initiatives designed to help young people get into employment. We are very active and we continue to engage constructively to ensure outcomes that benefit the wider community such as our commitment to provide 23 affordable homes with the development of Network Building in Camden.

Outlook and upgrade in guidance

In the first six months the London office market and our own portfolio have performed near the upper end of expectations. We are continuing to see good letting activity and demand. The growth rate in the London vacancy rate appears to be levelling, new supply remains constrained and some previously available tenant-controlled space has been withdrawn from the market. In the light of this evidence and on the assumption that there is no further lockdown, we are raising our average portfolio ERV guidance to +2.0% to -2.0% for the year ending December 2021. This compares to our March 2021 estimate of 0% to -5%.

Our average portfolio investment yields tightened in the first half as expected. They are still higher than those of comparable European cities and there is strong demand from a wide range of sources (estimated at £41bn by CBRE). Inflation has begun to rise from very low levels, but it is not yet clear this will become a long-term trend and the yield gap between property and many other assets remains wide. We expect investment demand and property yields to remain firm in the second half.

We will continue to focus on the pre-letting campaigns for the offices at The Featherstone Building EC1 and the retail at 1 Oxford Street (Soho Place) W1 (together 161,000 sq ft); commencing our next major net zero carbon development at 19-35 Baker Street W1 which totals 298,000 sq ft and continuing the progress to becoming a net zero carbon business by 2030.

On the back of our strong financial position we have made a positive start to the second half, and we can now finalise our plans for Network Building for a 2022 development start, preparing to submit plans for Bush House and embedding the Lazari transactions into our portfolio.

As a result, we expect the Group to benefit from London's continuing economic recovery. Our business model should also gain from the increasing focus on making cities climate resilient. Risks remain and international travel is still limited but our strong activity levels are supported by our skill sets, financial strength and well established relationships. These should provide additional impetus ensuring that we can still produce above average long-term returns and benefits for all our stakeholders.

Board appointments

We recently announced the appointment of Sanjeev Sharma who will join the board as an independent Non-Executive Director from 1 October 2021. He will become a member of the Risk, Audit and Nominations Committees. On 31 October Simon Fraser will retire from the board and his position as Senior Independent Director, a position that will then be taken by Helen Gordon. We are looking forward to working with Sanjeev and would like to thank Simon for his considerable contribution to Derwent London over the last nine years.

CENTRAL LONDON OFFICE MARKET

The pandemic continues to impact the London office market, but there are signs that its grip is starting to loosen as the economy recovers and London's business confidence improves.

Occupier demand

Activity is improving with first half take-up at 3.0m sq ft, 55% higher than H2 2020 although, in absolute terms, this remains significantly below pre-Covid levels. Professional and business services represented 31% of demand, slightly below recent years, banking and finance increased their share to 23% and creative industries remained at c.20%.

The overall vacancy rate has risen to 9.3% from 8.0% in the first six months, with the City vacancy rate at 12.7% rising faster than the West End's at 6.0%. These levels are above long-term trends but new space is estimated at under 15% of the total. CBRE classify the majority as secondhand of which 41% is tenant controlled. Much of this space is of lower quality which has been a contributing factor to the two tier market, and the flight to quality.

The impact on rent has been relatively modest with CBRE estimating that prime rents have fallen 1.1% overall in the last year, declining 2.2% in the City and actually rising 1.3% in the West End. The MSCI IPD central London office index recorded average rents rising 0.1%. This improving trend is reflected in the amount of space under offer. This fell steadily from 3.7m sq ft at Q1 2020 to reach its low point at 1.9m sq ft in Q1 this year and has now recovered to 2.7m sq ft at the end of Q2, its highest level for five quarters.

The supply of available new space remains constrained despite lower levels of pre-letting activity. The first half saw 2.9m sq ft of space delivered leaving 11.2m sq ft under development compared to 12.1m sq ft in December 2020. This space is 32% pre-let leaving available new space due for delivery between now and the end of 2023 of 7.6m sq ft. This is in line with recent trends at c.3% of the total market.

Investment demand

There were £3.9bn of investment transactions in the first half of 2021 as estimated by CBRE, despite the UK being in lockdown for a major part of the period. Nearly 70% of activity occurred in Q2, which also represented the highest single quarter's activity since 2018 outside the two very active last quarters in 2019 and 2020. This demand has seen the MSCI IPD central London office equivalent yield move in 5bp to 4.85%.

Overall investment activity remains 35% below the pre-Covid trend but is beginning to recover. There was greater interest from North American buyers which represented 29% of the total and UK investors at 28%. Asian and European buyers also remain active and together amount to 34%. Overall, there seems increased interest in UK assets not just in the property sector, as UK value growth has lagged many international peers. These higher levels of interest may reflect the impact of the UK leaving the EU in January 2021 as well as the UK's population's relative levels of vaccination. The largest single transactions were in the City and Whitechapel. CBRE reports that potential investment demand remains high at £41bn.

VALUATION

The Group's investment portfolio was valued at £5.4bn on 30 June 2021. There was a valuation surplus of £70.1m for the first half which, after accounting adjustments of £12.0m (see note 10), produced an uplift of £58.1m. This movement represents an underlying valuation increase of 1.4%, and a reversal of the 2.1% valuation fall seen over the second half of 2020. By location, our central London properties, which represent 99% of the portfolio, increased in value by 1.3% with the West End 1.6% and City Borders 0.7%. The balance of the portfolio, our Scottish holdings, were up 7.4% following a favourable residential planning consent.

Our portfolio's capital growth outperformed the MSCI IPD Quarterly Index for Central London Offices, at 0.5%, but underperformed the wider All UK Property Index which increased 2.9%.

Looking at EPRA metrics, with lower leasing activity than pre-pandemic, our rental values fell marginally by 0.3%. Whilst our portfolio has limited retail exposure it accounted for the fall, as rental values in this sector fell by 5.8% compared to the marginal 0.1% increase for offices. The strong investment market, which continues to see a hunt for yield from well let, quality buildings, helped drive the portfolio's valuation yields lower. Accordingly, the true equivalent yield tightened 9bp from 4.74% to 4.65% over the first half of the year. The initial yield is 3.4%, which after allowing for the expiry of rent frees and contractual uplifts, rises to 4.6% on a 'topped-up' basis.

The total property return for the first six months was 3.2%, which compares to the MSCI IPD Index of 2.3% for Central London Offices and 5.3% for UK All Property.

We are on site with two major developments: Soho Place W1 and The Featherstone Building EC1. Further details on their progress are set out under 'Developments' below. They were valued at £392.3m in June 2021 and delivered a 5.8% uplift. Both are scheduled for completion in early 2022 and require £127m of additional capex to complete. Their ERV is £28.6m, of which 59% is pre-let by ERV. Excluding these developments, the portfolio increased by 1.1%.

Portfolio reversion

Turning to our income profile, our contracted annualised cash rent in June was £175.8m, which was a 7% decrease over the 6 months, mainly reflecting the disposal of the Johnson Building EC1 and falling income at our Portman joint venture, ahead of its restructure and the redevelopment of 19-35 Baker Street W1. With a portfolio ERV of £282.4m there is £106.6m of potential reversion. Within this, £60.0m is contracted through rent-frees and fixed uplifts, which under IFRS accounting treatment is already mostly incorporated in the income statement. Our on-site developments and major refurbishments could add £31.1m of which £17.0m is pre-let at Soho Place. There is then £5.0m of potential income from several ongoing smaller projects across the portfolio. Our vacancy rate, whilst low, moved to 3.3% from 1.8% over the first half. This represents £8.4m of reversion. Since then our letting activity, including at the recently completed 6-8 Greencoat Place refurbishment, would take the level down to 2.4%. The balance of the potential reversion £2.1m comes from future reviews and expiries.

ASSET MANAGEMENT & INVESTMENT ACTIVITY

Our rent collection has steadily improved since the June 2020 Quarter Day. We have now received 93% of our June 2021 quarter rents up from 89% when we last reported on 9 July 2021, and we still have another 3% due to be paid this quarter. Our office rent collection was 95% with another 2% due later in this quarter, and we have now received 59% of our retail and hospitality rents compared to 27% in July. In relation to the previous two quarters, we have received or have payment plans in place for 96% of March 2021 quarter day rents and 97% of December 2020 rents.

	June 2021 quarter[1]					
	Current position			Announced 9 July		
	Office	Retail/ Hospitality	Total	Office	Retail/ Hospitality	Total
Rent received to date	95%	59%	**93%**	93%	27%	**89%**
Due later in the quarter[2]	2%	12%	**3%**	3%	31%	**5%**
Outstanding	2%	23%	**3%**	3%	36%	**5%**
Rent free	1%	6%	**1%**	1%	6%	**1%**
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
	£38.4m	**£2.7m**	**£41.1m**	**£38.4m**	**£2.7m**	**£41.1m**

[1] Rent received to date for English quarter days [2] Principally monthly receipts

With a low vacancy rate we continue to have limited amounts of space to let. The table below shows that Q1 was very quiet in the market, but our activity and performance has since improved. The sample size remains relatively low so single deals can have a major impact. In the first half, our office transactions were 0.4% above December 2020 ERV, brought down by short-term residential lettings. However, our overall lettings were 1.6% below ERV on average.

Table 1: Letting activity 2021 to date

	Let		Performance against Dec 20 ERV (%)	
	Area sq ft	Income £m pa	Open market	Overall[1]
Q1	14,400	0.3	(14.4)	(16.8)
Q2	64,800	3.6	(0.1)	(0.1)
H1	**79,200**	**3.9**	**(1.0)**	**(1.6)**
Q3	59,800	3.8	2.2	2.2
YTD	**139,000**	**7.7**	**0.6**	**0.2**

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

The largest deal in the first half was the letting to Depop who took the first floor at 20 Farringdon Road EC1. Activity has continued in the second half. We have let the recently completed 6-8 Greencoat Place SW1 to Fora, and The & Partnership has chosen the Charlotte Building W1 as its main HQ which has seen them take additional space as well as extend their existing lease. Our ‘furnished & flexible’ offer has made an important contribution letting 20,900 sq ft in total. One of the larger of these deals was at 3-5 Rathbone Place W1. More details on these transactions can be seen in the table below.

Table 2: Principal lettings 2021 to date

Property	Tenant	Area sq ft	Office rent £ psf	Total annual rent £m	Lease term Years	Lease break Year	Rent-free equivalent Months
H1							
20 Farringdon Road EC1	Depop	33,500	52.50	1.8	5	3	9, plus 4 if no break
Tea Building E1	Soho House	7,600	50.00	0.4	10	-	24
19-23 Fitzroy Street W1	Mission Media	4,500	73.80	0.3	5	3	5, plus 3 if no break
Holden House W1	Envy	5,900	53.00	0.3	5	4	12
3-5 Rathbone Place W1	Atelier Capital Partners	3,000	88.00	0.3	5	3	4, plus 2 if no break
H2							
6-8 Greencoat Place SW1	Fora	32,400	68.50	2.2	15	-	34
Charlotte Building W1	The & Partnership	14,900	67.50	1.0	5	-	10
Total		**101,800**	**61.90**	**6.3**			

A year ago, our asset management focus was on our 2021 lease expiries which represented 24% of our rental income. By December 2020 this had reduced to 17% of this year's income. During the first half we have retained or re-let 78% of all expiries and completed the disposal of Johnson Building EC1. As a result at 30 June 2021 only 9% of our second half income was subject to expiry. After adjusting for the disposal of Angel Square, and two buildings being cleared for development this falls further to 5%. Thereafter our lease expiry profile follows a more normal pattern.

In the first six months lease events have seen our rental income increase by £1.9m. This activity covered rents on £16.5m of rental income or 9% of our December 2020 annual rent. Overall, these transactions were 3.5% below ERV. Most of the underperformance was driven by just two transactions. Our lease renewal performance was impacted by one letting to a retail business and the rent review performance was impacted by a transaction at Angel Square EC1. The performance of lease regears was more in line with expectations. The aggregate performance of our activities is shown in the table below.

Table 3: Asset management H1 2021

	Area '000 sq ft	Previous rent £m pa	New rent £m pa	Uplift %	New rent vs Dec 20 ERV %
Rent reviews	166.2	7.3	9.1	24.6	(4.3)
Lease renewals	31.4	1.9	1.8	(5.0)	(6.2)
Lease regears	164.8	7.3	7.5	2.7	(1.8)
Total	**362.4**	**16.5**	**18.4**	**11.5**	**(3.5)**

Improving the energy efficiency of the existing portfolio

Our existing portfolio represents a very significant part of our journey to net zero. In the first half we completed 6-8 Greencoat Place SW1 improving its EPC rating from an 'E' to 'B'. In addition, we fitted out 19 Fitzroy Street W1 as 'furnished & flexible' space which involved upgrading its all-electric heat and power services. This has seen that building's EPC rating rise from 'C' to 'A'. As a result of our first half actions, we are now fully compliant with the 2023 EPC legislation, excluding known projects. Our sights are now set on the potential 2030 legislation which will require all our portfolio to be EPC 'B' or better.

Investment activity

Our investment team has had an active year to date notwithstanding the continuing competitiveness of the market. The majority of this activity relates to the second half and is included in the table below. This excludes the three Baker Street properties in joint venture with Lazari Investments, for which we have signed a detailed memorandum of understanding.

Table 4: Major acquisitions 2021 to date

Property	Date	Area sq ft	Total after costs £m	Net yield %	Net rental income £m pa	Net rental income £ psf
250 Euston Road NW1	Q3	165,900	189.9	2.5	4.7	28.30
171-174 Tottenham Court Road W1	Q3	16,200	24.7	2.6	0.6	57.50
Holford Works WC1 (long leasehold)	Q2	41,600	23.8	6.8	1.6	40.00
Bush House WC2 (leasehold)	Q3	103,700	14.5	-	-	-
Total		**327,400**	**252.9**			

We continue to dispose of those assets where we think the potential returns are less exciting. Recent events have made us reconsider some of our potential schemes and the current strong levels of investment demand have allowed us to crystalise these buildings at good levels.

Table 5: Major disposals 2021

Property	Date	Area sq ft	Gross proceeds £m	Net yield to purchaser %	Rent £m
Completed					
Johnson Building EC1	Q1	192,700	170.0	4.1	7.3
Exchanged					
Angel Square EC1	Q3	126,200	86.5	-	0.0[1]
Total		**318,900**	**256.5**	**-**	**7.3**

[1] To be sold with vacant possession

DEVELOPMENTS

We have two major developments under construction, both due for delivery in H1 2022. In the next 18 months we expect to have commenced our next phase of major schemes incorporating 19-35 Baker Street W1, Network Building W1 and Bush House WC2. Together these additional projects could add 565,000 sq ft to our on-site programme. Beyond that our longer-term pipeline has been increased by our second half investment transactions so that we have a potential further 1.7 million sq ft, or 31% of our portfolio by area, that could form the basis of future regeneration activity.

On-site projects

At Soho Place W1, the offices and theatre element, in total 249,200 sq ft, is either pre-let or forward-sold. The pre-let income has an ERV of £17.0m. This leaves 36,000 sq ft of retail, with an ERV of £3.1m, still to let.

The Featherstone Building EC1, with an ERV of £8.5m, remains available to pre-let. Following initial interest in a substantial proportion of the space which has since been satisfied elsewhere, we continue with the original multi-let strategy similar to our successful campaign at Brunel Building W2.

Table 6: Major developments pipeline

Property	Area sq ft	Capex to complete £m[1]	Comment
On-site projects completing H1 2022			
Soho Place W1	285,000	104[2]	209,000 sq ft offices, 36,000 sq ft retail and 40,000 sq ft theatre – 87% pre-let / forward sold.
The Featherstone Building EC1	125,000	23	110,000 sq ft offices, 13,000 sq ft workspaces and 2,000 sq ft retail.
	410,000	**127**	
Forthcoming projects completing 2025			
19-35 Baker Street W1	298,000[3]	271	Consented. 218,000 sq ft offices, 52,000 sq ft residential and 28,000 sq ft retail.
Planning			
Holden House W1	150,000	-	Consented. Office and retail scheme.
Network Building W1	137,000	-	Dual consent for Office scheme and Life Science scheme. Existing floorspace 70,000 sq ft.
	287,000	-	
Under active appraisal			
Bush House, South West Wing WC2	**130,000**	-	Existing floorspace 103,700 sq ft.
Total	**1,125,000**	**398**	

[1] As at 30 June 2021 [2] Includes remaining site acquisition cost and profit share to Crossrail
[3] Total area - Derwent London currently has a 55% share of the joint venture

19-35 Baker Street W1

Our next major scheme 19-35 Baker Street, which totals 298,000 sq ft, is expected to commence at the beginning of Q4 2021 when we exercise our development option with The Portman Estate. Subject to payment, our 55% interest in a 69-year lease will become a wholly owned 129-year headlease on the 206,000 sq ft office element. The ground rent is initially 2.5% rising to 6% in 29 years' time.

The development also includes 45,000 sq ft of residential for sale at 100 George Street W1, where we are working with Native Land, and affordable housing. The bulk of the remaining space will be pre-sold to The Portman Estate as part consideration for the unwinding of our previous 55:45 joint venture.

We have recently awarded the demolition contract, which was within budget, and plan to finalise the main building contract in H1 2022. The total capital expenditure is estimated at £271m and we will draw down monies from the ‘green’ tranche of our revolving credit facility. As well as joining our long-life, loose-fit high quality portfolio the building will be our first NABERS UK certified scheme and we are targeting BREEAM ‘Excellent’. We gave more details on the building’s sustainability aspects in our Report & Accounts 2020.

Refurbishments

Our two smaller retrofitting projects have progressed well. 6-8 Greencoat Place SW1 was completed in June and totals 32,400 sq ft (see Table 2 for more details). Work started on the adjacent Francis House SW1 in March and the completion of this 38,000 sq ft project is due in H1 2022.

Network Building W1

The Group recently received two resolutions to grant consent at the Network Building W1. We received consent for either an office scheme or a lab-enabled project. The former totals 137,000 sq ft and the latter will comprise 112,000 sq ft of lab-enabled space. Both projects include 5,000 sq ft of retail. In addition, we are providing 23 affordable homes in Tottenham Mews W1. Work will start in H2 2022 for completion in 2025.

Bush House, South West Wing WC2

The recent acquisition of the outstanding 7-year leasehold interest in Bush House accelerates our refurbishment ambitions for this 103,700 sq ft building. We are working up plans for a refurbishment and extension that could, subject to planning, increase the lettable area to c.130,000 sq ft. If successful, we could start this scheme in 2022.

Longer term pipeline

In the future we have other projects such as Holden House W1, Blue Star House SW9 and The White Chapel Building E1 so that at 30 June we had a further 1.7 million sq ft (or 31% of the portfolio) designated for future development. Our second half activity could increase this by a further 243,200 sq ft (or 4%).

FINANCIAL REVIEW

Results for the period

Improved confidence among our occupiers and those who invest in UK real estate has driven stronger results across most aspects of our business compared to both H1 2020 and the last full year. In addition, the Group's balance sheet remains lowly geared with substantial headroom under our financial covenants and with significant cash and available facilities. These outcomes benefit all our stakeholders and have encouraged us to recommend a further 4.5% increase in the interim dividend payable to our shareholders.

Derwent London's total return for the first half of 2021 was +2.7% following a Covid-19 impacted 0.1% fall in H1 2020 and a 1.8% decrease over the whole of 2020. EPRA net tangible assets (NTA) per share increased by 1.4% to 3,864p from 3,812p as at 31 December 2020 and EPRA earnings per share were 54.0p for the first half of 2021, 10.5% higher than in H1 2020.

Gross rental income increased to £98.1m from £97.8m in H1 2020 after £9.7m of additional rent recognised on major lettings, including £9.5m from 80 Charlotte Street W1 alone. This was largely offset by additional voids which reduced rental income by £4.9m, and disposals, principally the Johnson Building EC1 sold in January 2021, where £4.5m less rent was recognised than in H1 2020. The acquisition of Holford Works WC1 added £0.2m and Covid-related rent waivers took gross rents down by £0.6m compared to H1 2020.

The first half of 2021 has also benefitted from £3.6m of net surrender premiums, largely at 90 Whitfield Street W1.

Net rental income has recovered more significantly as our occupiers have not needed the same level of support as last year, reflected in gradually strengthening rent collection figures from our office occupiers over the last few quarters. The overall progress in sentiment has been reflected in the unwinding of £1.6m of impairment provisions previously recognised in 2020 but there remain a few sectors where the recovery has been slower. Principally in relation to our retail, restaurant and leisure occupiers, the overall net impairment charges booked in H1 2021 under IFRS 9 against trade and lease incentive receivables were £1.2m. We also added £0.2m of service charge provisions to give an overall first half impact estimated at £1.4m. This is substantially lower than the £6.5m recognised in H1 2020 when impairment charges totalled £3.6m, £0.8m of receivables were written off and service charge waivers of £2.1m were provided. Other property costs in H1 2021 totalled £6.6m, very similar to the £6.9m in H1 2020.

As a result, net rental income was £90.1m in H1 2021, 6.8% higher than the £84.4m in H1 2020, and net property and other income, which includes the £3.6m of net surrender premiums, was £95.1m, up £8.6m or 9.9% from H1 2020.

With more difficult letting conditions over the last year or so and a higher vacancy rate, EPRA like-for-like gross rents fell compared to H1 2020 by 4.5% and against H2 2020 by 3.4% but like-for-like net rental income was 0.8% and 4.6% higher, respectively due to the lower waivers and impairments.

Administrative expenses have increased to £19.4m for the half year with a higher headcount and pay increases driving salaries up by 9.6%. There was also a substantial rise in the amount accrued for staff incentives, mainly a result of our higher share price. Our EPRA cost ratio (including direct vacancy costs) has fallen back to 25.7% from 28.9% in H1 2020 and 30.5% for the whole of 2020 but remains higher than in previous years. The overhead is impacted by our investment in digital solutions, ESG, climate change solutions, additional customer amenity and a growing governance and assurance programme.

The investment property portfolio carrying value at 30 June 2021 rose slightly to £5.1bn after the usual adjustments for leasehold incentives and headlease liabilities. Including owner-occupied property (25 Savile Row W1), the assets held for sale (Angel Square EC1, certain Baker Street properties and part of Soho Place W1) and the trading properties, the total property portfolio was carried at £5.3bn after a revaluation surplus for the half year of £58.8m. Of this, £57.8m passes through the income statement compared to the deficit in H1 2020 of £68.3m, with £1.0m of surplus on our head office included in the statement of comprehensive income. Profit from operations has accordingly recovered significantly to £134.1m for the half year, against £2.8m in H1 2020 and a loss of £49.2m for the full year 2020.

Net finance costs have increased a little to £14.2m from £13.6m in H1 2020 mainly due to a lower level of capitalised interest at £5.4m against £6.3m in H1 2020 and, as before, we do not capitalise any overhead costs.

Overall, the IFRS profit before tax for the first half of 2021 was £121.1m with the profit for the period, after a small tax charge, of £120.5m. The corresponding figures in H1 2020 were losses of £14.0m and £13.2m, respectively.

Cash flow, net debt and financing

In order to provide support for some of our tenants in 2020, we agreed to defer £11.8m of rental income under agreed payment plans to the following year. Though this reduced our operating cash flow in H1 2020 to £30.1m, it has helped boost cash from operating activities in H1 2021 to £51.3m. Further cash receipts of £166.5m have come from investment property disposals, chiefly the sale of Johnson Building EC1. After capital expenditure and the acquisition of Holford Works WC1, net cash received from investing activities was £58.4m.

The cash generation seen has reduced our debt levels from an already low base to provide a net debt figure of £999.7m at 30 June 2021, down from £1,049.1m at 31 December 2020. The Group's loan-to-value ratio was 17.3% at 30 June 2021, the same as a year earlier and below the 18.4% at December 2020, illustrating our firepower for new acquisitions. It is also good to see that interest cover has improved again to 477% or 4.8 times from 435% in H1 2020 and 446% for the whole of 2020. For many years, this has been one of our principal financial KPIs. Cash and undrawn facilities have also risen to £527m, against £502m at June 2020 and £476m at the 2020 year end.

The next loan expiry relates to the £28m loan provided by HSBC against some of our Baker Street properties and, with these interests due to be reorganised with The Portman Estate in the next few months, we expect to repay this loan in the second half of the year. There has been no fresh refinancing in H1 2021 but we do anticipate raising some new debt over the next twelve months.

As at 30 June 2021, the weighted average maturity of our borrowings was 6.4 years (December 2020: 6.8 years) and the interest rate payable on drawn debt was 3.44% (December 2020: 3.34%) on a cash basis and 3.58% (December 2020: 3.48%) on an IFRS basis after adjusting for the convertible bond.

Qualifying expenditure under the Green Finance Framework

The qualifying 'green' expenditure as at 30 June 2021 for each project is set out in the table below. The 80 Charlotte Street scheme commenced in 2015 with Soho Place and The Featherstone Building both starting on site in 2019.

The cumulative qualifying expenditure on Eligible Green Projects ('EGP's) at the half year was £489.7m, with £70.0m of this being incurred in H1 2021.

Table 7: Cumulative spend on each EGP as at 30 June 2021

Project	Look back spend	Subsequent spend			Cumulative spend
		Q4 2019	2020	2021	
	£m	£m	£m	£m	£m
80 Charlotte Street W1	185.6	16.9	16.9	13.8	233.2
Soho Place W1	66.3	13.4	61.5	40.5	181.7
The Featherstone Building EC1	29.1	5.2	24.8	15.7	74.8
	281.0	**35.5**	**103.2**	**70.0**	**489.7**

As at 30 June 2021, drawn borrowings on the £300m green tranche of the Group's £450m revolving credit facility totalled £83.0m.

The 19-35 Baker Street development, which is targeting BREEAM excellent, will be elected as the next EGP.

Dividend

The dividend remains well covered by EPRA earnings and our policy of a sustainable and progressive dividend is unchanged. With these improved results, we are raising the interim dividend payable for 2021 by 4.5% to 23.0p per share, all of which will be paid as a Property Income Distribution on 15 October 2021 to shareholders on the register as at 10 September 2021.

RISK MANAGEMENT AND INTERNAL CONTROLS

We have identified certain principal risks and uncertainties that could prevent the Group from achieving its strategic objectives and have assessed how these risks could best be mitigated through a combination of internal controls, risk management and the purchase of insurance cover. These risks are reviewed and updated on a regular basis and were last formally assessed by the Board in August 2021. The Board has confirmed that its risk appetite and key risk indicators remain appropriate. The Group's approach to the management and mitigation of these risks is included in the 2020 Annual Report.

Covid-19 has had a considerable impact on the materiality of our principal risks. As lockdown restrictions have eased, and the economy re-opened, we expect to see a slow reversal.

As a business we have taken steps to mitigate the threat and disruption being caused by the virus and have worked proactively with our occupiers to assist them during this time of difficulty. The safety and wellbeing of our employees and other key stakeholders has been consistently at the forefront of our efforts. Measures introduced at our buildings to reduce transmission remain in place, including in respect to cleaning regimes, air ventilation and social distancing in common areas.

Due to the Group’s strong financial position and its proactive response to the pandemic, the risks arising from Covid-19, and the lockdown restrictions, have been carefully managed. The success of the UK’s vaccination programme has had a positive impact on the number of Covid-19 cases resulting in serious illness, hospitalisation and death. There remains a risk that variants emerge with increased transmissibility, severity or are vaccine-resistant.

Self-isolation requirements arising from NHS track and trace ‘app’ notifications, has had an impact on attendance at our construction sites and for our occupiers. From 16 August 2021, all adults in England who have received a second dose of a Covid-19 vaccine will be exempt from isolation if they come into contact with a positive case, which should ease the impact of this risk.

Beyond Covid-19, the Group has continued to make positive progress on its Net Zero Carbon Pathway. In response to the Department for Business, Energy & Industrial Strategy (BEIS) the ‘Future Trajectory to 2030’ consultation, we have commissioned a review of our portfolio to assess the steps we are required to take to ensure our compliance by 2030.

The principal risks and uncertainties facing the Group for the remaining six months of the financial year are set out on the following pages with the potential impact and the mitigating actions and controls in place.

Strategic risks
That the Group's business model and/or strategy does not create the anticipated shareholder value or fails to meet investors' and other stakeholders' expectations.

Risk, effect and progression	Controls and mitigation

1. Failure to implement the Group's strategy

Risk, effect and progression

The Group's strategy is not met due to poor strategy implementation or a failure to respond appropriately to internal or external factors such as:

- an economic downturn;
- the Group's development programme being inconsistent with the current economic cycle;
- responding to changing work practices and occupational demand; and/or
- London losing its global appeal with a consequential impact on the property investment or occupational markets.

Although the Covid-19 pandemic did not stop the Group implementing its strategy, the lockdown restrictions have marginally extended the project length for Soho Place and The Featherstone Building, and has caused significant economic disruption. Our strategy currently includes incorporating a retail element into our buildings to provide amenity to our tenants and the local community. As Covid-19 has only amplified the weaknesses within the retail market, this aspect of our strategy is being reviewed. The impact of a potential recession on our strategy, and other longer-term consequences of the Covid-19 pandemic, is being monitored by the Executive Committee and the Board.

Controls and mitigation

- The Group's development pipeline has a degree of flexibility that enables plans for individual properties to be changed to reflect prevailing economic circumstances.
- The Group seeks to maintain income from properties until development commences and has an ongoing strategy to extend income through lease renewals and regears.
- The Group aims to de-risk the development programme through pre-lets, typically during the construction period.
- The Group conducts an annual strategic review, prepares a budget and provides three two-year rolling forecasts.
- The Board considers the sensitivity of the Group KPIs to changes in the assumptions underlying our forecasts in light of anticipated economic conditions. If considered necessary, modifications are made.
- The Group maintains sufficient headroom in all the Group's key ratios and financial covenants with a particular focus on interest cover.

2. Implications of Brexit

Risk, effect and progression

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

On 2 June 2021, the UK's application to join the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP) was formally approved. The UK Government stated in its June 2020 Policy Paper that it hopes that CPTPP membership will increase trade and investment opportunities for UK businesses and help the UK economy overcome the economic effects of the Covid-19 pandemic.

For London, uncertainty remains until terms are agreed with the EU in respect of financial services. The Group will continue to monitor international trade negotiations.

Controls and mitigation

- Trade negotiations are being monitored and potential outcomes discussed with external advisers.
- The Group's strong financing and covenant headroom enables it to weather a downturn. In addition, the Group's diverse and high-quality tenant base provides resilience against tenant default.
- Construction cost risk, with the exception of Government tariffs, sits with our main contractors. Early ordering and off-site holding facilities are in place for our development projects.
- The Group focuses on good value properties that are less susceptible to reductions in tenant demand. The Group's average 'topped-up' office rent is only £58.35 per sq ft.
- Income is maintained at future development sites for as long as possible. The Group develops properties in locations where there is good potential for future demand, such as near Crossrail stations. We do not have any properties in the City.

Financial risks

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

Risk, effect and progression	Controls and mitigation
3. Risk of tenants defaulting or tenant failure	
The risk that tenants become unable to pay their rents and/or their businesses fail. In the current environment, this risk has increased to be classified as a principal risk for the Group. Due to the economic impact of Covid-19, and its potential long-term implications, occupiers could be facing increased financial difficulty. Restaurants and hospitality occupiers (who account for approximately 9% of our portfolio income) are of particular concern. Covid-19 has only amplified the weaknesses within the retail market and there is a strong likelihood that retail rents and values could fall even further. Our occupiers perceive the restaurant, retail and leisure aspects within our portfolio as amenities; hence we feel it is important that they are retained within our building offerings.	• Detailed reviews of all prospective tenants are performed. • A "tenants at risk" register is maintained and regularly reviewed by the Executive Committee and the Board. • Rent deposits are held where considered appropriate; the balance at 30 June 2021 was £18.2m. • Active rent collection with regular reports to the Executive Committee. • We maintain close and frequent contact with our tenants.
4. Risks arising from changing macroeconomic factors	
A. Income decline	
Due to the various risk factors, including: • future demand for office space; • 'grey' market vacancy in office space (i.e. tenant controlled vacant space); • weaknesses in retail and hospitality businesses; • depth of recession; • increase in homeworking; and • rising unemployment. There is a risk that our income could decline which could lead to lower interest cover under our debt facility financial covenants. This could also have an adverse impact upon the property valuation and future dividend payments. In addition, depending on how prolonged the adverse impacts of Covid-19 are on businesses, and how our occupiers fare during this period, we could face additional risk of impairment of receivable balances. In light of Covid-19, we have been monitoring the economic outlook, vacancy rates, financial health of our tenants and the condition of the wider property market.	• The Credit Committee performs detailed reviews of all prospective tenants. • A "tenants at risk" register is maintained and regularly reviewed by the Executive Committee and the Board. • Ongoing dialogue is held with tenants to understand their concerns and requirements. • The Group's strong interest cover ratio reduces the likelihood that income decline has a significant impact on our business continuity.

B. The potential impact on our business from the introduction of a new tax to replace or complement business rates

Due to the ongoing weakness of physical retail trading, the cost of supporting the economy during Covid-19 and the loss of tax revenues, the government has been reported as considering measures to increase tax revenues. The government has been seeking views on how the business rates system currently works, issues to be addressed, ideas for change and a number of alternative means of taxing non-residential property to either replace or complement the business rates system. Derwent London is particularly mindful of alternatives being discussed which could impose a tax on the landowner rather than the tenant. In this respect, Derwent London will keep abreast of any new developments in this area and consider the impact of the various proposals once more detail is published.

Since the publication of our 2020 Annual Report, the economy has strengthened and has proven robust. The likelihood of a new tax being introduced to replace or complement business rates, which would negatively impact on landlord, is now deemed less likely.

- The Executive Committee and Board monitor macroeconomic factors, including interest rates and tax policy.
- The Group has an experienced Head of Tax who advises the Board on the implications of tax policy.

Operational risks

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

Risk, effect and progression	Controls and mitigation

5. Risks arising from our development activities

A. Reduced development returns

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

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

Due to restrictions introduced to prevent the spread of Covid-19, our on-site developments have been subject to delays of between one to three months. During 2020, our Development team liaised and agreed with our principal contractors in respect to Covid-19-related liabilities and cost sharing.

- Detailed reviews are performed on construction projects to ensure that programme forecasts predicted by our contractors are aligned with our views.
- The procurement process used by the Group includes the use of highly regarded firms of quantity surveyors and is designed to minimise uncertainty regarding costs.
- Development costs are benchmarked to ensure that the Group obtains competitive pricing and, where appropriate, fixed price contracts are negotiated.
- 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.
- The Group's pre-letting strategy reduces or removes the letting risk of the development as soon as possible.
- 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.

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

B. 'On-site' risk

Risk of project delays and/or cost overruns caused by unidentified issues e.g. asbestos in refurbishments or ground conditions in developments. For example, our successful pre-letting programme means we could face a loss of rental income and penalties if projects are delayed.

Due to restrictions introduced to prevent the spread of Covid-19, our on-site developments have been subject to minor delays. The Featherstone Building and Soho Place are still expected to be completed within their original budgets under the revised programme.

Despite strict Covid-19 protocols on-site, there is a risk of labour and resource shortages, which could lead to productivity disruption and project delay.

- Strict Covid-19 protocols at all of our on-site developments, in accordance with Site Operating Procedures (published by the Construction Leadership Council).
- Regular monitoring of our contractors' cash flows.
- Frequent meetings with key contractors and subcontractors to review their work programme.
- Off-site inspection of key components to ensure they have been completed to the requisite quality.
- Prior to construction beginning on site, we conduct site investigations including the building's history and various surveys to identify any potential issues.
- Monthly reviews of supply chain issues for each of our major projects, including in respect to potential labour shortages.

C. Contractor/subcontractor default

Returns from the Group's developments are reduced due to delays and cost increases caused by either a main contractor or major subcontractor defaulting during the project. There have been ongoing issues within the construction industry in respect of the level of risk and narrow profit margins being accepted by contractors. We regularly monitor our contractors for any trading concerns.

There is an increased risk of insolvencies in the construction industry when the government's Covid-19 furlough scheme ceases. Due to this risk, we have been actively monitoring the financial health of our main contractors and subcontractors.

- Regular monitoring of our contractors, including their project cash flows, is carried out.
- Key construction packages are acquired early in the project's life to reduce the risks associated with later default.
- The financial standing of our main contractors is reviewed prior to awarding the project contract.
- Our main contractors are responsible, and assume the immediate risk, for subcontractor default.
- Payments to contractors to incentivise them to achieve agreed project timescale and damages agreed in the event of delays/cost overruns.
- Regular on-site supervision by a dedicated Project Manager who monitors contractor performance and identifies problems at an early stage, thereby enabling remedial action to be taken.
- We use known contractors with whom we have established long-term working relationships.
- Contractors are paid promptly and are encouraged to pay subcontractors promptly.

6. Risk of business interruption

A. Cyber-attack on our IT systems

The Group is subject to a cyber-attack that results in it being unable to use its IT systems and/or losing data. This could lead to an increase in costs whilst a significant diversion of management time would have a wider impact. Considerable time has been spent assessing cyber risk and strengthening our controls and procedures.

Over the past 12 months, there has been an increase in cyber-attacks being perpetrated online as cyber criminals seek to exploit Covid-19. In response, we identified the key IT risks arising from home working and implemented additional controls.

- 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.
- Multi-Factor Authentication exists for remote access to our systems.
- Incident response and remediation processes are in place, which are regularly reviewed and tested.
- The Group's data is regularly backed up and replicated off-site.
- Our IT systems are protected by anti-virus software, security anomaly detection and firewalls that are frequently updated.
- Frequent staff awareness and training programmes.
- Security measures are regularly reviewed by the IT department.
- The Group has been awarded the 'Cyber Essentials' badge to demonstrate our commitment to cyber security.

B. Cyber-attack on our buildings

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

The potential impact of a cyber-attack on our buildings has reduced due to the winding down of services and overall low occupancy caused by Covid-19. However, the potential risk of this occurring has subsequently increased due to low occupancy levels which could provide an opportunity for attack. During the lockdown, 24/7 security was provided by outsourced providers.

- Each building has incident management procedures which are regularly reviewed and tested.
- Physical segregation between the building's core IT infrastructure and tenants' corporate IT networks.
- Physical segregation of IT infrastructure between buildings across the portfolio.
- Inclusion of Building Managers in any cyber security awareness training and phishing simulations.

C. Significant business interruption (for example, pandemic, terrorism-related event or other business interruption)

The risk that a pandemic, terrorism-related event or other business interruption causes significant business interruption to the Group and/or its occupiers or supply chain. This could result in issues such as inability to access or operate our properties, tenant failures or reduced rental income, share price volatility, loss of key suppliers, etc.

Covid-19 has caused significant business interruption for some of our occupiers, particularly retail, travel, restaurants or other leisure services. During 2021, there has been limited business interruption for Derwent London; however, the lockdowns has caused a delay to our development activities.

- 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.
- Government health guidelines are maintained at all of our construction sites.
- Most of our employees are capable of working remotely and have the necessary IT resources.
- Fire protection and access/security procedures are in place at all of our managed properties.
- Comprehensive property damage and business interruption insurance which includes terrorism.
- At least annually, a fire risk assessment and health and safety inspection are performed for each property in our managed portfolio.
- Robust security at our buildings, including CCTV and access controls.

7. Reputational damage

The Group's reputation is damaged, for example through unauthorised and/or inaccurate media coverage or failure to comply with relevant legislation. We have invested significantly in developing a well-regarded and respected brand. Our strong culture, low overall risk tolerance and established procedures and policies mitigate against the risk of internal wrongdoing.

How the Group responds to, and manages, the Covid-19 pandemic could either enhance or damage our reputation. Feedback on how we have responded, particularly in respect to our occupiers, suppliers, employees and Community Fund, has generally been positive.

- Close involvement of senior management in day-to-day operations and established procedures for approving all external announcements.
- All new members of staff benefit from an induction programme and are issued with our Group staff handbook.
- The Group employs a Head of Investor and Corporate Communications and retains services of an external PR agency, both of whom maintain regular contact with external media sources.
- A Group whistleblowing system for staff is maintained to report wrongdoing anonymously.
- Social media channels are monitored.
- Ongoing engagement with local communities in areas where the Group operates.
- Staff training and awareness programmes.

8. Our resilience to climate change

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

Overall, the climate change agenda continues to increase in prominence and importance. The Government continues to introduce more legislative aspects linked to climate risk e.g. from 2022 certain listed entities will have to disclose in line with the TCFD. The latest energy white paper is setting out higher standards for energy efficiency in commercial and residential properties. This will mean a shift in our core market/area of business.

- The Board and Executive Committee receive regular updates and presentations on environmental and sustainability performance and management matters as well as progress against our pathway to becoming net zero carbon by 2030.
- The Sustainability Committee monitors our performance and management controls.
- Strong team led by an experienced Head of Sustainability.
- The Group monitors its ESG (environmental, social and governance) reporting against various industry benchmarks.
- Production of an annual Responsibility Report with key data and performance points which are externally assured.
- In 2017 we adopted independently verified science-based carbon targets which have been approved by the Science-Based Targets Initiative (SBTi).

9. Non-compliance with regulation

A. Non-compliance with health and safety legislation

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

During 2021, the health and wellbeing of our employees, occupiers and other stakeholders has been a top priority. We have invested additional resources into health and safety.

- All our properties have the relevant health, safety and fire management procedures in place which are reviewed annually.
- The Group has a qualified Health and Safety team whose performance is monitored and managed by the Health and Safety Committee.
- Health and safety statutory compliance within our managed portfolio is managed and monitored using RiskWise, a software compliance platform. This is supported by annual property health checks.
- The Managed Portfolio Health and Safety Manager with the support of internal and external stakeholders supports our Portfolio and Building Managers to ensure statutory compliance.
- The Construction Health and Safety Manager, with the support of internal and external stakeholders, ensures our CDM Client duties are executed and monitored and reviews health, safety and welfare on each construction site on a monthly basis.
- The Board and Executive Committee receive frequent updates and presentations on key health and safety matters.

B. Other regulatory non-compliance

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

During 2021, we followed the UK government's regulations in respect of social distancing and safe working practices. In accordance with disclosure requirements, we ensured our stakeholders and the wider investment market were kept appraised of Derwent London's response to Covid-19 and its impact on our business.

CMA investigations during 2021 have been focusing on uncompetitive behaviour in the construction industry, including price fixing, marketing sharing and bid rigging. Derwent London seeks assurances from prospective contractors on the status of any CMA investigations in which they are involved.

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

10. 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, accrued income arising from the spreading of lease incentives, 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 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 or trade references. The covenant strength of each tenant is determined based on this review and, if appropriate, a deposit or a guarantee is obtained. The Committee also reviews existing tenant covenants from time to time.

The impact of Covid-19 has given rise to higher estimated probabilities of default for some of the Group's occupiers. As a result, impairment calculations have been carried out on trade receivables and accrued income arising as a result of the spreading of lease incentives using the forward-looking, simplified approach to the expected credit loss model within IFRS 9. In addition, the Credit Committee has reviewed its register of tenants at higher risk, particularly in the retail or hospitality sectors, those in administration or CVA and the top 50 tenants by size with the remaining occupiers considered on a sector by sector basis.

As the Group operates predominantly in central London, it is subject to some geographical concentration risk. However, this is mitigated by the wide range of tenants from a broad spectrum of business sectors.

Credit risk also arises from cash and cash equivalents and deposits with banks and financial institutions. For banks and financial institutions, only independently rated parties with a minimum rating of investment grade are accepted. This risk is also reduced by the short periods that money is on deposit at any one time.

The carrying amount of financial assets recorded in the financial statements represents the Group's maximum exposure to credit risk without taking account of the value of any collateral obtained.

Market risk
Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk arises for the Group from its use of variable interest bearing instruments (interest rate risk).

It is currently Group policy that generally between 60% and 85% of external Group borrowings (excluding finance lease payables) are at fixed rates. Where the Group wishes to vary the amount of external fixed rate debt it holds (subject to it being generally between 60% and 85% of expected Group borrowings, as noted above), the Group makes use of interest rate derivatives to achieve the desired interest rate profile. Although the Board accepts that this policy neither protects the Group entirely from the risk of paying rates in excess of current market rates nor eliminates fully cash flow risk associated with variability in interest payments, it considers that it achieves an appropriate balance of exposure to these risks. At 30 June 2021, the proportion of fixed debt held by the Group was slightly above this range at 89% (31 December 2020: 85%). During both 2021 and 2020, the Group's borrowings at variable rate were denominated in sterling.

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

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

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

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

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

Capital disclosures

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

The Group’s objectives when maintaining capital are:

- to safeguard the entity’s ability to continue as a going concern so that it can continue to provide above average long-term returns for shareholders and support for its other stakeholders; 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 2021, the Group’s strategy, which was unchanged from 2020, was to maintain the NAV gearing below 80% in normal circumstances. These two gearing ratios, as well as the interest cover ratio, are defined in the list of definitions at the end of this announcement and are derived in note 24.

The Group is also required to ensure that it has sufficient property assets which are not subject to fixed or floating charges or other encumbrances. Most of the Group’s debt is unsecured and, accordingly, there was £4.4bn of uncharged property as at 30 June 2021.

Statement of Directors' responsibilities

The Directors' confirm that, to the best of their knowledge, these condensed interim financial statements have been prepared in accordance with UK adopted International Accounting Standard 34, 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and that the interim management report includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely:

- An indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and

- Material related-party transactions in the first six months of the financial year and any material changes in the related-party transactions described in the last Annual Report.

The Directors are listed in the Derwent London plc Annual Report of 31 December 2020 and a list of the current Directors is maintained on the Derwent London plc website: www.derwentlondon.com. The maintenance and integrity of the Derwent London website is the responsibility of the Directors.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

On behalf of the Board

Paul M. Williams
Chief Executive

Damian M.A. Wisniewski
Chief Financial Officer

9 August 2021

GROUP CONDENSED INCOME STATEMENT

	Note	**Half year to 30.06.2021 Unaudited £m**	Half year to 30.06.2020 Unaudited £m	Year to 31.12.2020 Audited £m
Gross property and other income	5	**120.4**	119.3	268.6
Net property and other income[1]	5	**95.1**	86.5	183.0
Administrative expenses		**(19.4)**	(17.1)	(37.8)
Revaluation surplus/(deficit)	10	**57.8**	(68.3)	(196.1)
Profit on disposal	6	**0.6**	1.7	1.7
Profit/(loss) from operations		**134.1**	2.8	(49.2)
Net finance costs	7	**(14.2)**	(13.6)	(30.2)
Movement in fair value of derivative financial instruments		**2.2**	(2.6)	(1.9)
Financial derivative termination costs	8	**(1.0)**	(0.6)	(1.7)
Profit/(loss) before tax		**121.1**	(14.0)	(83.0)
Tax (charge)/credit	9	**(0.6)**	0.8	1.6
Profit/(loss) for the period		**120.5**	(13.2)	(81.4)
Attributable to:				
- Equity shareholders		**120.2**	(9.5)	(77.6)
- Non-controlling interest		**0.3**	(3.7)	(3.8)
		120.5	(13.2)	(81.4)
Basic earnings/(loss) per share	23	**107.20p**	(8.49p)	(69.34p)
Diluted earnings/(loss) per share	23	**106.94p**	(8.49p)	(69.34p)

[1] Net property and other income includes write-off/impairment of receivables of £1.4m (half year to 30 June 2020: £4.4m; year to 31 December 2020: £10.1m). In addition, net property and other income included a service charge waiver of £2.1m in the half year to 30 June 2020 and £4.1m in the year to 31 December 2020. See note 3 for additional information.

GROUP CONDENSED STATEMENT OF COMPREHENSIVE INCOME

	Note	**Half year to 30.06.2021 Unaudited £m**	Half year to 30.06.2020 Unaudited £m	Year to 31.12.2020 Audited £m
Profit/(loss) for the period		**120.5**	(13.2)	(81.4)
Actuarial gains/(loss) on defined benefit pension scheme		**1.8**	(3.1)	(4.1)
Deferred tax (charge)/credit on pension	18	**(0.3)**	0.5	0.4
Revaluation surplus of owner-occupied property	10	**1.0**	0.1	0.4
Deferred tax charge on revaluation	18	**(0.2)**	(0.1)	(0.2)
Other comprehensive income/(expense) that will not be reclassified to profit or loss		**2.3**	(2.6)	(3.5)
Total comprehensive income/(expense) relating to the period		**122.8**	(15.8)	(84.9)
Attributable to:				
- Equity shareholders		**122.5**	(12.1)	(81.1)
- Non-controlling interest		**0.3**	(3.7)	(3.8)
		122.8	(15.8)	(84.9)

GROUP CONDENSED BALANCE SHEET

	Note	**30.06.2021 Unaudited £m**	30.06.2020 Unaudited £m	31.12.2020 Audited £m
Non-current assets				
Investment property	10	**5,068.6**	5,219.1	5,029.1
Property, plant and equipment	11	**51.6**	50.0	50.2
Investments	12	**0.9**	1.3	0.9
Trade and other receivables	13	**155.3**	140.1	146.4
		5,276.4	5,410.5	5,226.6
Current assets				
Trading property	10	**9.2**	36.5	12.9
Trade and other receivables	14	**75.5**	76.5	76.2
Cash and cash equivalents	20	**60.0**	201.8	50.7
		144.7	314.8	139.8
Non-current assets held for sale	15	**163.1**	-	165.0
Total assets		**5,584.2**	5,725.3	5,531.4
Current liabilities				
Trade and other payables	16	**135.3**	115.1	106.7
Corporation tax liability		**0.6**	0.8	0.5
Provisions		**0.5**	0.2	0.6
		136.4	116.1	107.8
Non-current liabilities				
Borrowings	17	**992.3**	1,134.2	1,033.2
Derivative financial instruments	17	**3.4**	6.3	5.6
Leasehold liabilities	17	**67.4**	60.4	66.6
Provisions		**0.3**	0.2	0.4
Pension scheme deficit		**0.4**	2.6	2.2
Deferred tax	18	**1.1**	0.8	0.5
		1,064.9	1,204.5	1,108.5
Total liabilities		**1,201.3**	1,320.6	1,216.3
Total net assets		**4,382.9**	4,404.7	4,315.1
Equity				
Share capital		**5.6**	5.6	5.6
Share premium		**194.4**	193.3	193.7
Other reserves		**938.5**	935.6	939.4
Retained earnings		**3,192.2**	3,218.2	3,124.5
Equity shareholders’ funds		**4,330.7**	4,352.7	4,263.2
Non-controlling interest		**52.2**	52.0	51.9
Total equity		**4,382.9**	4,404.7	4,315.1

GROUP CONDENSED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity shareholders						
	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Equity shareholders' funds £m	Non-controlling interest £m	Total equity £m
At 1 January 2021	5.6	193.7	939.4	3,124.5	4,263.2	51.9	4,315.1
Profit for the period	-	-	-	120.2	120.2	0.3	120.5
Other comprehensive income	-	-	0.8	1.5	2.3	-	2.3
Share-based payments	-	0.7	(1.7)	4.8	3.8	-	3.8
Dividends paid	-	-	-	(58.8)	(58.8)	-	(58.8)
At 30 June 2021 (unaudited)	**5.6**	**194.4**	**938.5**	**3,192.2**	**4,330.7**	**52.2**	**4,382.9**
At 1 January 2020	5.6	193.0	936.2	3,286.4	4,421.2	55.7	4,476.9
Loss for the period	-	-	-	(9.5)	(9.5)	(3.7)	(13.2)
Other comprehensive expense	-	-	-	(2.6)	(2.6)	-	(2.6)
Share-based payments	-	0.3	(0.6)	1.5	1.2	-	1.2
Dividends paid	-	-	-	(57.6)	(57.6)	-	(57.6)
At 30 June 2020 (unaudited)	5.6	193.3	935.6	3,218.2	4,352.7	52.0	4,404.7
At 1 January 2020	5.6	193.0	936.2	3,286.4	4,421.2	55.7	4,476.9
Loss for the year	-	-	-	(77.6)	(77.6)	(3.8)	(81.4)
Other comprehensive income/(expense)	-	-	0.2	(3.7)	(3.5)	-	(3.5)
Share-based payments	-	0.7	3.0	1.6	5.3	-	5.3
Dividends paid	-	-	-	(82.2)	(82.2)	-	(82.2)
At 31 December 2020 (audited)	5.6	193.7	939.4	3,124.5	4,263.2	51.9	4,315.1

GROUP CONDENSED CASH FLOW STATEMENT

	Note	**Half year to 30.06.2021 Unaudited £m**	Half year to 30.06.2020 Unaudited £m	Year to 31.12.2020 Audited £m
Operating activities				
Rents received		**84.6**	71.9	161.9
Surrender premiums and other property income		**3.6**	-	2.7
Property expenses		**(7.7)**	(9.6)	(19.1)
Cash paid to and on behalf of employees		**(14.9)**	(16.4)	(27.5)
Other administrative expenses		**(3.6)**	(3.8)	(8.0)
Interest received	7	**-**	-	0.2
Interest paid	7	**(11.4)**	(11.3)	(25.4)
Other finance costs	7	**(1.5)**	(1.3)	(2.9)
Other income		**2.1**	0.6	3.5
Tax receipt in respect of operating activities		**0.1**	-	-
Net cash from operating activities		**51.3**	30.1	85.4
Investing activities				
Acquisition of properties		**(23.6)**	(43.7)	(43.8)
Capital expenditure on the property portfolio	7	**(87.4)**	(72.7)	(174.6)
Disposal of investment properties		**166.5**	126.0	125.6
Disposal of trading properties		**3.6**	3.4	31.7
Receipts from joint ventures		**-**	-	0.4
Net purchase of property, plant and equipment		**(0.8)**	(0.1)	(0.4)
VAT received/(paid)		**0.1**	3.7	(0.9)
Net cash from/(used in) investing activities		**58.4**	16.6	(62.0)
Financing activities				
Repayment of revolving bank loan		**-**	-	(6.5)
Drawdown of new revolving bank loan		**-**	-	24.2
Net movement in revolving bank loans		**(43.4)**	156.5	38.0
Financial derivative termination costs	8	**(1.0)**	(0.6)	(1.7)
Net proceeds of share issues		**0.7**	0.2	0.6
Dividends paid	19	**(56.7)**	(55.5)	(81.8)
Net cash (used in)/from financing activities		**(100.4)**	100.6	(27.2)
Increase/(decrease) in cash and cash equivalents in the period		**9.3**	147.3	(3.8)
Cash and cash equivalents at the beginning of the period		**50.7**	54.5	54.5
Cash and cash equivalents at the end of the period	20	**60.0**	201.8	50.7

NOTES TO THE FINANCIAL STATEMENTS

1. Basis of preparation

The financial information for the half year to 30 June 2021 and the half year to 30 June 2020 was not subject to an audit but has been subject to a review in accordance with the International Standard on Review Engagements (UK and Ireland) 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity, issued by the Auditing Practices Board.

The comparative financial information presented herein for the year to 31 December 2020 does not constitute the Group's statutory accounts, but is derived from those accounts. The Group's statutory accounts for the year to 31 December 2020 have been delivered to the Registrar of Companies. The Auditor's report on those accounts was unmodified, did not draw attention to any matters by way of an emphasis of matter and did not contain any statement under Section 498 of the Companies Act 2006.

The financial information in these condensed consolidated financial statements is that of the holding company and all of its subsidiaries (the "Group") together with the Group's share of its joint ventures. On 31 December 2020, IFRS as adopted by the European Union at that date was brought into UK law and became UK-adopted International Accounting Standards, with future changes being subject to endorsement by the UK Endorsement Board. The Group transitioned to UK-adopted International Accounting Standards in its consolidated financial statements on 1 January 2021. This change constitutes a change in accounting framework however, there is no impact on recognition, measurement or disclosure.

The Group's condensed consolidated financial statements have been prepared in accordance with UK adopted IAS 34 and the Disclosure Guidance and Transparency Rules sourcebook of the UK's Financial Conduct Authority and should be read in conjunction with the Annual Report and Accounts for the year to 31 December 2020, which have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and IFRS adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. 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.

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

Going concern

Under Provision 30 of the UK Corporate Governance Code 2018, the Board needs to report whether the business is a going concern. In considering this requirement, the Directors have taken into account the following:

- The Group's latest rolling forecast for the period to 31 December 2022, in particular the cash flows, borrowings and undrawn facilities.
- The headroom under the Group's financial covenants.
- The risks included on the Group's risk register that could impact on the Group's liquidity and solvency over the next 12 months.
- The risks on the Group's risk register that could be a threat to the Group's business model and capital adequacy.

The Directors have considered the relatively long-term and stable nature of the cash flows receivable under the tenant leases, the Group's loan-to-value ratio of 17.3%, the net interest cover ratio of 477%, the £527m total of undrawn facilities and cash and the fact that the average maturity of borrowings was 6.4 years at 30 June 2021. They have also considered the impact of the Covid-19 pandemic and lockdown on the Group's business and occupiers. There is a risk that income could decline further with an increased risk of tenant defaults and drop in demand for office and retail space due to the economic outlook. Based on the Group's forecasts, rental income would need to decline by 70% and property values would need to fall by 69% before breaching financial covenants. In the 'downside' scenarios tested over the period to 31 December 2022, which assume a more negative outlook on property values, longer voids and poorer rent collection rates, net interest cover remained above 350% and loan-to-value ratio below 40%, both of which are comfortably within the Group's financial covenants.

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

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

2. Changes in accounting policies

The accounting policies used by the Group in these condensed financial statements are consistent with those applied in the Group's financial statements for the year to 31 December 2020, as amended to reflect the adoption of new standards, amendments and interpretations which became effective in the year as shown below.

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

References to Conceptual Framework in IFRSs (amended);
IFRS 16 (amended) – Covid-19-related Rent Concessions;
IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (amended) – Interest Rate Benchmark Reform – Phase 2.

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

IFRS 17 – Insurance Contracts;
IAS 1 (amended) – Classification of liabilities as current or non-current;
IAS 1 and IFRS Practice Statement 2 (amended) – Disclosure of Accounting Policy;
IAS 8 (amended) – Definition of Accounting Estimate;
IFRS 10 and IAS 28 (amended) – Sale or Contribution of Assets between an investor and its Associate or Joint Venture.

3. Significant judgments, key assumptions and estimates

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
The Group uses the valuation carried out by external valuers as the fair value of its property portfolio. The valuation considers a range of assumptions including future rental income streams, investment yields, anticipated outgoings and maintenance costs, future development expenditure and appropriate discount rates. The external valuers also make reference to market evidence of transaction prices for similar properties. Against the backdrop of the Covid-19 pandemic, the valuers have also considered the impact of additional rent free periods granted on the valuation, as well as the impact of occupiers from sectors deemed highest risk. For example, deductions equal to the rent free granted have been made to the valuations, being predominantly for retail units, restaurants and fitness clubs.

Impairment testing of trade receivables and other financial assets
Trade receivables and accrued rental income recognised in advance of receipt are subject to impairment testing. This accrued rental income arises due to the spreading of rent free and reduced rent periods, capital contributions and contracted rent uplifts in accordance with IFRS 16 Leases.

Impairment calculations have been carried out using the forward-looking, simplified approach to the expected credit loss model within IFRS 9. Covid-19 and the resulting economic and social disruption have brought significant challenges to London, the UK and the wider global economy; it has impacted on the Group's business and in general the overall risk profile is elevated, though the severity of the impact is less than in 2020. Although restrictions are gradually being lifted, there remains an elevated risk of certain tenants defaulting or failing, particularly in respect to the leisure/retail/hospitality sectors. The impact of Covid-19 has given rise to higher estimated probabilities of default for some of the Group's occupiers, so the impairment provisions calculated as at 30 June 2021 are higher than in previous periods (see note 14). In arriving at the estimates, the Group considered the tenants at higher risk, particularly in the retail or hospitality sectors, those in administration or CVA, the top 50 tenants by size and has also considered the remaining balances classified by sector.

The impairment provisions are included within 'Other receivables (non-current)' (see note 13) and 'Trade and other receivables' (see note 14) as shown below:

	Other receivables (non-current) £m	Trade and other receivables £m	**Total £m**
Lease incentive receivables before impairment	146.9	17.5	**164.4**
Impairment of lease incentive receivables	(4.6)	(1.0)	**(5.6)**
Net lease incentive included within accrued income	142.3	16.5	**158.8**
Trade receivables before impairment	-	31.2	**31.2**
Impairment of trade receivables	-	(4.6)	**(4.6)**
Service charge provision	-	(0.5)	**(0.5)**
Net trade receivables	-	26.1	**26.1**
Impairment	(4.6)	(5.6)	**(10.2)**
Service charge provision	-	(0.5)	**(0.5)**
Write-off/impairment of receivables	(4.6)	(6.1)	**(10.7)**

The assessment considered the risk of tenant failures or defaults using information on tenants' payment history, deposits held, the latest known financial position together with forecast information where available, ongoing dialogue with tenants as well as other information such as the sector in which they operate. Following this, tenants were classified as either low, medium or high risk and the table below provides further information. The impairment against the lease incentive receivable balance was £5.6m and against the trade receivables balance was £5.1m.

	Lease incentive receivables (non-current) £m	Lease incentive receivables (current) £m	Trade receivables £m
Balance before impairment			
Low risk	127.8	11.1	10.0
Medium risk	11.4	4.5	7.7
High risk	7.7	1.9	13.5
	146.9	17.5	31.2
Impairment			
Low risk	(0.3)	-	-
Medium risk	(0.6)	(0.3)	(0.3)
High risk	(3.7)	(0.7)	(4.8)
	(4.6)	(1.0)	(5.1)
	142.3	16.5	26.1

All amounts included within trade receivables are current.

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

Significant judgments

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

4. Segmental information

IFRS 8 Operating Segments requires operating segments to be identified on the basis of internal financial reports about components of the Group that are regularly reviewed by the chief operating decision maker (which in the Group's case is the Executive Committee comprising the five Executive Directors and four 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 metrics. Reconciliations of each of these figures to their statutory equivalents are detailed in note 23. Additionally, information is provided to the Executive Committee showing gross property income and property valuation by individual property. Therefore, for the purposes of IFRS 8, each individual property is considered to be a separate operating segment in that its performance is monitored individually.

The Group's property portfolio includes investment property, owner-occupied property and trading property and comprised 98% office buildings* in central London by value (30 June 2020: 97%; 31 December 2020: 98%). The Directors consider that these individual properties have similar economic characteristics and therefore have been aggregated into a single operating segment. The remaining 2% (30 June 2020: 3%; 31 December 2020: 2%) represented a mixture of retail, hotel, residential and light industrial properties, as well as land, each of which is de minimis in its own right and below the quantitative threshold in aggregate. Therefore, in the view of the Directors, there is one reportable segment under the provisions of IFRS 8.

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

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

Gross property income

	Office buildings £m	Other £m	**Total £m**
Half year to 30 June 2021			
West End central	56.3	-	**56.3**
West End borders/other	10.2	-	**10.2**
City borders	32.8	0.2	**33.0**
Provincial	-	2.2	**2.2**
	99.3	**2.4**	**101.7**
Half year to 30 June 2020			
West End central	47.7	-	47.7
West End borders/other	10.1	-	10.1
City borders	37.6	0.3	37.9
Provincial	-	2.3	2.3
	95.4	2.6	98.0
Year to 31 December 2020			
West End central	104.3	0.1	104.4
West End borders/other	20.4	-	20.4
City borders	74.9	0.5	75.4
Provincial	-	4.5	4.5
	199.6	5.1	204.7

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

Property portfolio

	Carrying value			Fair value		
	Office buildings £m	Other £m	**Total £m**	Office buildings £m	Other £m	**Total £m**
30 June 2021						
West End central	3,064.6	40.8	**3,105.4**	3,091.0	41.9	**3,132.9**
West End borders/other	490.0	-	**490.0**	517.0	-	**517.0**
City borders	1,602.9	8.2	**1,611.1**	1,644.0	8.2	**1,652.2**
Provincial	-	81.0	**81.0**	-	81.5	**81.5**
	5,157.5	**130.0**	**5,287.5**	**5,252.0**	**131.6**	**5,383.6**
30 June 2020						
West End central	2,923.3	77.4	3,000.7	2,940.9	82.0	3,022.9
West End borders/other	472.0	-	472.0	501.5	-	501.5
City borders	1,739.7	8.0	1,747.7	1,791.3	8.0	1,799.3
Provincial	-	80.5	80.5	-	81.5	81.5
	5,135.0	165.9	5,300.9	5,233.7	171.5	5,405.2
31 December 2020						
West End central	2,936.7	45.9	2,982.6	2,966.2	47.4	3,013.6
West End borders/other	447.9	-	447.9	475.4	-	475.4
City borders	1,738.2	8.0	1,746.2	1,781.7	8.1	1,789.8
Provincial	-	75.9	75.9	-	76.7	76.7
	5,122.8	129.8	5,252.6	5,223.3	132.2	5,355.5

A reconciliation between the fair value and carrying value of the portfolio is set out in note 10.

5. Property and other income

	Half year to 30.06.2021 £m	Half year to 30.06.2020 £m	Year to 31.12.2020 £m
Gross rental income	**98.1**	97.8	202.9
Surrender premiums received	**3.9**	0.2	0.9
Write-off of associated rents previously recognised in advance	**(0.3)**	-	-
Other property income	**-**	-	0.9
Gross property income	**101.7**	98.0	204.7
Trading property sales proceeds[1]	**3.6**	5.1	32.3
Service charge income[1]	**13.6**	14.7	28.1
Other income[1]	**1.5**	1.5	3.5
Gross property and other income	**120.4**	119.3	268.6

Gross rental income	**98.1**	97.8	202.9
Write-off of receivables	**-**	(0.8)	(1.2)
Impairment of receivables	**(1.4)**	(3.6)	(8.9)
Write-off/impairment of receivables	**(1.4)**	(4.4)	(10.1)
Service charge waiver	**-**	(2.1)	(4.1)
Service charge income[1]	**13.6**	14.7	28.1
Service charge expenses	**(15.1)**	(16.3)	(30.9)
	(1.5)	(1.6)	(2.8)
Property costs	**(5.1)**	(5.3)	(11.6)
Net rental income	**90.1**	84.4	174.3
Trading property sales proceeds[1]	**3.6**	5.1	32.3
Trading property cost of sales	**(3.1)**	(4.3)	(27.1)
Profit on disposal of trading properties	**0.5**	0.8	5.2
Other property income	**-**	-	0.9
Other income	**1.5**	1.5	3.5
Net surrender premiums received	**3.6**	0.2	0.9
Dilapidation receipts	**0.1**	-	-
Write-down of trading property	**(0.7)**	(0.4)	(1.8)
Net property and other income	**95.1**	86.5	183.0

[1] In line with IFRS 15 Revenue from Contracts with Customers, the Group recognised a total £18.7m (half year to 30 June 2020: £21.3m; year to 31 December 2020: £63.9m) of other income, trading property sales proceeds and service charge income, which relates to expenditure that is directly recoverable from tenants, within gross property and other income.

Gross rental income includes £9.6m (half year to 30 June 2020: £9.7m; year to 31 December 2020: £24.0m) relating to rents recognised in advance of cash receipts.

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

The impairment has been carried out using the expected credit loss model within IFRS 9 Financial Instruments (see notes 3 and 14 for additional information). Included in this provision is a charge of £0.9m against trade receivables relating to rental income for the 24 June 2021 quarter day. Most of this income is deferred and has not yet been recognised in the income statement. A 10% increase/decrease to the absolute probability rates of tenant default in the year would result in a £2.5m increase and £2.3m decrease respectively, in the Group's profit for the period. This sensitivity has been performed on the medium to high risk tenants as the significant estimation uncertainty is wholly related to these.

In response to Covid-19, a 25% waiver of the service charge due in the second and third quarter of 2020 was given to occupiers at a cost of £2.1m in the half year to 30 June 2020 and a further £2.0m in the second half of 2020.

6. Profit on disposal

	Half year to 30.06.2021 £m	Half year to 30.06.2020 £m	Year to 31.12.2020 £m
Investment property			
Gross disposal proceeds	**168.6**	120.8	120.9
Costs of disposal	**(2.1)**	(0.5)	(0.6)
Net disposal proceeds	**166.5**	120.3	120.3
Carrying value	**(165.9)**	(118.6)	(118.6)
Profit on disposal of investment property	**0.6**	1.7	1.7

Included within gross disposal proceeds is £167.6m relating to the disposal of the Group's freehold interest in Johnson Building EC1 in January 2021, which was classified as a non-current asset held for sale at 31 December 2020.

7. Finance income and total finance costs

	Half year to 30.06.2021 £m	Half year to 30.06.2020 £m	Year to 31.12.2020 £m
Finance income			
Bank interest receivable	**-**	0.1	0.2
Finance income	**-**	0.1	0.2
Finance costs			
Bank loans	**0.3**	1.2	2.3
Non-utilisation fees	**1.1**	0.8	1.7
Unsecured convertible bonds	**1.9**	1.9	3.9
Secured bonds	**5.7**	5.7	11.4
Unsecured private placement notes	**7.8**	7.8	15.6
Secured loan	**1.7**	1.7	3.3
Amortisation of issue and arrangement costs	**1.2**	1.1	2.2
Amortisation of the fair value of the secured bonds	**(0.7)**	(0.6)	(1.3)
Obligations under headleases	**0.4**	0.3	0.9
Other	**0.2**	0.1	0.2
Gross interest costs	**19.6**	20.0	40.2
Less: interest capitalised	**(5.4)**	(6.3)	(9.9)
Finance costs	**14.2**	13.7	30.3
Loan arrangement costs written off	**-**	-	0.1
Total finance costs	**14.2**	13.7	30.4

Finance costs of £5.4m (half year to 30 June 2020: £6.3m; year to 31 December 2020: £9.9m) have been capitalised on development projects, in accordance with IAS 23 Borrowing Costs, using the Group's average cost of borrowing during each quarter. Total finance costs paid to 30 June 2021 were £18.3m (half year to 30 June 2020: £18.9m; year to 31 December 2020: £38.2m) of which £5.4m (half year to 30 June 2020: £6.3m; year to 31 December 2020: £9.9m) was included in the £87.4m (half year to 30 June 2020: £72.7m; year to 31 December 2020: £174.6m) capital expenditure on the property portfolio in the Group cash flow statement under investing activities.

8. Financial derivative termination costs

The Group incurred costs of £1.0m in the half year to 30 June 2021 (half year to 30 June 2020: £0.6m; year to 31 December 2020: £1.7m) deferring interest rate swaps.

9. Tax charge/(credit)

	Half year to 30.06.2021 £m	Half year to 30.06.2020 £m	Year to 31.12.2020 £m
Corporation tax			
UK corporation tax and income tax in respect of result for the period	**-**	0.4	0.8
Other adjustments in respect of prior years' tax	**-**	-	(0.6)
Corporation tax charge	**-**	0.4	0.2
Deferred tax			
Origination and reversal of temporary differences	**0.6**	(1.2)	(2.0)
Adjustment for changes in estimates	**-**	-	0.2
Deferred tax charge/(credit)	**0.6**	(1.2)	(1.8)
Tax charge/(credit)	**0.6**	(0.8)	(1.6)

In addition to the tax charge of £0.6m (half year to 30 June 2020: credit of £0.8m; year to 31 December 2020: credit of £1.6m) that passed through the Group income statement, a deferred tax charge of £0.5m (half year to 30 June 2020: credit of £0.4m; year to 31 December of 2020: credit of £0.2m) was recognised in the Group statement of comprehensive income and a deferred tax credit of £0.5m (half year to 30 June 2020: charge of £1.2m; year to 31 December 2020: charge of £1.3m) was recognised in the Group statement of changes in equity. See note 18 for further details.

The effective rate of tax for the half year to 30 June 2021 is lower (half year to 30 June 2020: lower; year to 31 December 2020: lower) than the standard rate of corporation tax in the UK. The differences are explained below:

	Half year to 30.06.2021 £m	Half year to 30.06.2020 £m	Year to 31.12.2020 £m
Profit/(loss) before tax	**121.1**	(14.0)	(83.0)
Expected tax charge/(credit) based on the standard rate of corporation tax in the UK of 19.00% (2020: 19.00%)[1]	**23.0**	(2.7)	(15.8)
Difference between tax and accounting profit on disposals	**(0.1)**	0.9	1.2
REIT exempt income	**(6.9)**	(7.5)	(14.7)
Revaluation (surplus)/deficit attributable to REIT properties	**(12.2)**	12.7	36.6
Expenses and fair value adjustments not allowable for tax purposes	**(1.0)**	(0.4)	(1.3)
Capital allowances	**(2.7)**	(2.4)	(5.3)
Other differences	**0.5**	(1.4)	(1.7)
Tax on current period's profit/(loss)	**0.6**	(0.8)	(1.0)
Adjustments in respect of prior years' tax	**-**	-	(0.6)
Tax charge/(credit)	**0.6**	(0.8)	(1.6)

[1] Changes to the UK corporation tax rates were substantively enacted as part of the Finance Bill 2021 (on 24 May 2021) and include increasing the main rate to 25% effective on or after 1 April 2023. Deferred taxes at the balance sheet date have been measured using the expected enacted tax rate and this is reflected in these financial statements.

10. Property portfolio

Carrying value

	Freehold £m	Leasehold £m	Total investment property £m	Owner-occupied property £m	Assets held for sale £m	Trading property £m	Total property portfolio £m
At 1 January 2021	3,893.5	1,135.6	5,029.1	45.6	165.0	12.9	5,252.6
Acquisitions	-	23.7	23.7	-	-	-	23.7
Capital expenditure	45.0	55.7	100.7	-	-	-	100.7
Interest capitalisation	1.1	4.3	5.4	-	-	-	5.4
Additions	46.1	83.7	129.8	-	-	-	129.8
Disposals	(0.9)	-	(0.9)	-	(165.0)	(3.0)	(168.9)
Transfers	(83.9)	(78.9)	(162.8)	-	162.8	-	-
Revaluation	39.4	18.4	57.8	1.0	-	-	58.8
Write-down of trading property	-	-	-	-	-	(0.7)	(0.7)
Transfer from prepayments and accrued income	-	-	-	-	0.3	-	0.3
Movement in grossing up of headlease liabilities	-	0.7	0.7	-	-	-	0.7
Movement in grossing up of other liabilities	-	14.9	14.9	-	-	-	14.9
At 30 June 2021	**3,894.2**	**1,174.4**	**5,068.6**	**46.6**	**163.1**	**9.2**	**5,287.5**
At 1 January 2020	4,121.2	1,053.1	5,174.3	45.3	118.6	40.7	5,378.9
Acquisitions	43.5	-	43.5	-	-	-	43.5
Capital expenditure	31.0	31.6	62.6	(0.1)	-	0.1	62.6
Interest capitalisation	3.8	2.3	6.1	-	-	0.2	6.3
Additions	78.3	33.9	112.2	(0.1)	-	0.3	112.4
Disposals	-	-	-	-	(118.6)	(4.1)	(122.7)
Revaluation	(56.4)	(11.9)	(68.3)	0.1	-	-	(68.2)
Write-down of trading property	-	-	-	-	-	(0.4)	(0.4)
Movement in grossing up of headlease liabilities	-	0.9	0.9	-	-	-	0.9
At 30 June 2020	4,143.1	1,076.0	5,219.1	45.3	-	36.5	5,300.9
At 1 January 2020	4,121.2	1,053.1	5,174.3	45.3	118.6	40.7	5,378.9
Acquisitions	43.5	-	43.5	-	-	-	43.5
Capital expenditure	64.1	87.8	151.9	(0.1)	-	0.1	151.9
Interest capitalisation	4.6	5.1	9.7	-	-	0.2	9.9
Additions	112.2	92.9	205.1	(0.1)	-	0.3	205.3
Disposals	-	-	-	-	(118.6)	(26.3)	(144.9)
Transfers	(161.2)	-	(161.2)	-	161.2	-	-
Revaluation	(178.7)	(17.4)	(196.1)	0.4	-	-	(195.7)
Write-down of trading property	-	-	-	-	-	(1.8)	(1.8)
Transfer from prepayments and accrued income	-	-	-	-	3.8	-	3.8
Movement in grossing up of headlease liabilities	-	7.0	7.0	-	-	-	7.0
At 31 December 2020	3,893.5	1,135.6	5,029.1	45.6	165.0	12.9	5,252.6

Adjustments from fair value to carrying value

	Freehold £m	Leasehold £m	Total investment property £m	Owner-occupied property £m	Assets held for sale £m	Trading property £m	Total property portfolio £m
At 30 June 2021							
Fair value	**4,044.1**	**1,116.6**	**5,160.7**	**46.6**	**166.2**	**10.1**	**5,383.6**
Selling costs relating to assets held for sale	-	-	-	-	(3.1)	-	(3.1)
Revaluation of trading property	-	-	-	-	-	(0.9)	(0.9)
Lease incentives and costs included in receivables	(149.9)	(24.2)	(174.1)	-	-	-	(174.1)
Grossing up of headlease liabilities	-	67.1	67.1	-	-	-	67.1
Grossing up of other liabilities	-	14.9	14.9	-	-	-	14.9
Carrying value	**3,894.2**	**1,174.4**	**5,068.6**	**46.6**	**163.1**	**9.2**	**5,287.5**
At 30 June 2020							
Fair value	4,283.9	1,035.0	5,318.9	45.3	-	41.0	5,405.2
Revaluation of trading property	-	-	-	-	-	(4.5)	(4.5)
Lease incentives and costs included in receivables	(140.8)	(19.4)	(160.2)	-	-	-	(160.2)
Grossing up of headlease liabilities	-	60.4	60.4	-	-	-	60.4
Carrying value	4,143.1	1,076.0	5,219.1	45.3	-	36.5	5,300.9
At 31 December 2020							
Fair value	4,037.0	1,091.6	5,128.6	45.6	167.0	14.3	5,355.5
Selling costs relating to assets held for sale	-	-	-	-	(2.0)	-	(2.0)
Revaluation of trading property	-	-	-	-	-	(1.4)	(1.4)
Lease incentives and costs included in receivables	(143.5)	(22.5)	(166.0)	-	-	-	(166.0)
Grossing up of headlease liabilities	-	66.5	66.5	-	-	-	66.5
Carrying value	3,893.5	1,135.6	5,029.1	45.6	165.0	12.9	5,252.6

The property portfolio is subject to semi-annual external valuations and was revalued at 30 June 2021 by external valuers on the basis of fair value in accordance with The RICS Valuation – Professional Standards, which takes account of the properties' highest and best use. When considering the highest and best use of a property, the external valuers will consider its existing and potential uses which are physically, legally and financially viable. Where the highest and best use differs from the existing use, the external valuers will consider the costs and the likelihood of achieving and implementing this change in arriving at the property valuation.

CBRE Limited valued properties at £5,348.6m (30 June 2020: £5,373.5m; 31 December 2020: £5,324.5m) and other valuers at £35.0m (30 June 2020: £31.7m; 31 December 2020: £31.0m). Of the properties revalued by CBRE, £46.6m (30 June 2020: £45.3m; 31 December 2020: £45.6m) relating to owner-occupied property was included within property, plant and equipment, £166.2m (30 June 2020: £nil; 31 December 2020: £167.0m) was included within non-current assets held for sale and £10.1m (30 June 2020: £41.0m; 31 December 2020: £14.3m) was included within trading property.

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

At 30 June 2021, the grossing up of other liabilities of £14.9m related to the discounted profit share for the development at Soho Place W1.

The Group published its pathway to net zero carbon in July 2020 and has set 2030 as its target date to achieve this. £70.0m (half year to 30 June 2020: £43.8m; year to 31 December 2020: £103.2m) of eligible 'green' capital expenditure was incurred in the half year to 30 June 2021 on our major developments at 80 Charlotte Street W1, Soho Place W1 and The Featherstone Building EC1. As these have met the criteria to be eligible qualifying projects under our Green Finance Framework, we have utilised the green tranche of our £450m revolving credit facility. In addition, the Group has invested in carbon credits to support externally validated green projects to offset the embedded carbon in our developments.

Reconciliation of revaluation surplus/(deficit)

	Half year to 30.06.2021 £m	Half year to 30.06.2020 £m	Year to 31.12.2020 £m
Total revaluation surplus/(deficit)	**70.1**	(58.4)	(178.5)
Lease incentives and costs	**(8.4)**	(7.4)	(16.7)
Trading property revaluation adjustment	**(0.5)**	(2.8)	(0.3)
Assets held for sale selling costs	**(3.1)**	-	(2.0)
IFRS revaluation surplus/(deficit)	**58.1**	(68.6)	(197.5)
Reported in the:			
Revaluation surplus/(deficit)	**57.8**	(68.3)	(196.1)
Write-down of trading property	**(0.7)**	(0.4)	(1.8)
Group income statement	**57.1**	(68.7)	(197.9)
Group statement of comprehensive income	**1.0**	0.1	0.4
	58.1	(68.6)	(197.5)

Sensitivity of measurement to variations in the significant unobservable inputs

The significant unobservable inputs used in the fair value measurement categorised within Level 3 of the fair value hierarchy of the Group's property portfolio, together with the impact of significant movements in these inputs on the fair value measurement, are shown below:

Unobservable input	Impact on fair value measurement of significant increase in input	Impact on fair value measurement of significant decrease in input
Gross ERV	Increase	Decrease
Net initial yield	Decrease	Increase
Reversionary yield	Decrease	Increase
True equivalent yield	Decrease	Increase

There are inter-relationships between these inputs as they are partially determined by market conditions. An increase in the reversionary yield may accompany an increase in gross ERV and would mitigate its impact on the fair value measurement.

A sensitivity analysis was performed to ascertain the impact on the fair value of a 25 basis point shift in true equivalent yield and a £2.50 psf shift in ERV on the property valuations. The Group believes this captures the range of variations in these key valuation assumptions. The results are shown in the tables below:

	West End central	West End borders/other	City borders	Provincial commercial	Provincial land	Total
True equivalent yield						
+25bp	(5.3%)	(5.0%)	(5.1%)	(2.8%)	(2.3%)	(5.1%)
-25bp	5.9%	5.5%	5.6%	3.0%	2.4%	5.6%
ERV						
+£2.50 psf	4.2%	4.8%	4.8%	17.9%	-	4.7%
-£2.50 psf	(4.2%)	(4.8%)	(4.8%)	(17.9%)	-	(4.7%)

11. Property, plant and equipment

	Owner-occupied property £m	Other £m	Total £m
At 1 January 2021	45.6	4.6	50.2
Additions	-	0.8	0.8
Depreciation	-	(0.4)	(0.4)
Revaluation	1.0	-	1.0
At 30 June 2021	**46.6**	**5.0**	**51.6**
At 1 January 2020	45.3	4.9	50.2
Additions	(0.1)	0.2	0.1
Depreciation	-	(0.4)	(0.4)
Revaluation	0.1	-	0.1
At 30 June 2020	45.3	4.7	50.0
At 1 January 2020	45.3	4.9	50.2
Additions	(0.1)	0.4	0.3
Disposals	-	(0.7)	(0.7)
Revaluation	0.4	-	0.4
At 31 December 2020	45.6	4.6	50.2
Net book value			
Cost or valuation	46.6	9.1	55.7
Accumulated depreciation	-	(4.1)	(4.1)
At 30 June 2021	**46.6**	**5.0**	**51.6**
Net book value			
Cost or valuation	45.3	8.0	53.3
Accumulated depreciation	-	(3.3)	(3.3)
At 30 June 2020	45.3	4.7	50.0
Net book value			
Cost or valuation	45.6	8.3	53.9
Accumulated depreciation	-	(3.7)	(3.7)
At 31 December 2020	45.6	4.6	50.2

Artwork, which is included within ‘Other’, is periodically valued by Bonhams on the basis of fair value using their extensive market knowledge. The latest valuation was carried out in May 2018 and, after allowing for the artwork disposal in 2019, the Directors consider that there have been no material valuation movements since that date. In accordance with IFRS 13 Fair Value Measurement, the artwork is deemed to be classified as Level 3.

12. Investments

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

	30.06.2021 £m	30.06.2020 £m	31.12.2020 £m
At 1 January	**0.9**	1.3	1.3
Distributions received	**-**	-	(0.4)
	0.9	1.3	0.9

13. Trade and other receivables (non-current)

	30.06.2021 £m	30.06.2020 £m	31.12.2020 £m
Prepayments and accrued income	**155.3**	138.9	146.4
Trade receivables	**-**	1.2	-
	155.3	140.1	146.4

Prepayments and accrued income include £142.3m (30 June 2020: £123.4m; 31 December 2020: £132.3m) after impairments (see note 3) relating to rents recognised in advance as a result of spreading tenant lease incentives over the expected terms of their respective leases. This includes rent free and reduced rent periods, capital contributions in lieu of rent free periods and contracted rent uplifts. In addition, £13.0m (30 June 2020: £15.5m; 31 December 2020: £14.1m) relates to the spreading effect of the initial direct costs of letting over the same term. Together with £18.8m (30 June 2020: £21.3m; 31 December 2020: £19.6m), which was included as accrued income within trade and other receivables (see note 14), these amounts totalled £174.1m at 30 June 2021 (30 June 2020: £160.2m; 31 December 2020: £166.0m).

The total movement in tenant lease incentives is shown below:

	30.06.2021 £m	30.06.2020 £m	31.12.2020 £m
At 1 January	**149.7**	135.9	135.9
Amounts taken to income statement	**9.3**	9.7	23.0
Capital incentives granted	**-**	0.2	0.5
Movement in provision for lease incentive impairment	**0.1**	(2.9)	(5.7)
Adjustment for non-current asset held for sale	**(0.3)**	-	(3.2)
Write off to bad debt	**-**	(0.6)	(0.8)
	158.8	142.3	149.7
Amounts included in trade and other receivables (see note 14)	**(16.5)**	(18.9)	(17.4)
At period end	**142.3**	123.4	132.3

14. Trade and other receivables

	30.06.2021 £m	30.06.2020 £m	31.12.2020 £m
Trade receivables	**26.1**	26.0	27.5
Other receivables	**4.3**	6.7	4.1
Prepayments	**24.9**	19.5	22.6
Accrued income	**20.2**	24.3	22.0
	75.5	76.5	76.2
Trade receivables are split as follows:			
less than three months due	**23.1**	17.1	17.4
between three and six months due	**2.9**	2.2	3.5
between six and twelve months due	**0.1**	6.7	6.6
	26.1	26.0	27.5

The Group has £10.7m (30 June 2020: £4.0m; 31 December 2020: £9.3m) of provision for bad debts as shown below. £5.1m are included in trade receivables, £1.0m in accrued income and £4.6m in prepayments and accrued income within other receivables (non-current). See notes 3 and 13.

	30.06.2021 £m	30.06.2020 £m	31.12.2020 £m
Provision for bad debts			
At 1 January	**9.3**	0.4	0.4
Lease incentive provision	**(0.1)**	1.0	5.7
Trade receivables provision	**1.3**	2.9	3.2
Service charge provision	**0.2**	-	0.3
Released	**-**	(0.3)	(0.3)
At period end	**10.7**	4.0	9.3
The provision for bad debts are split as follows:			
less than three months due	**5.2**	0.9	3.2
between three and six months due	**0.4**	0.2	0.5
between six and twelve months due	**0.5**	0.5	1.0
greater than twelve months due (non-current)	**4.6**	2.4	4.6
	10.7	4.0	9.3

15. Non-current assets held for sale

	30.06.2021 £m	30.06.2020 £m	31.12.2020 £m
Transfer from investment property (see note 10)	**162.8**	-	161.2
Transfer from prepayments and accrued income	**0.3**	-	3.8
	163.1	-	165.0

In July 2021, the Group exchanged contracts on the sale of its freehold interest in Angel Square EC1. The property was valued at £85.0m at 30 June 2021. In accordance with IFRS 5 Non-current Assets Held for Sale, this property was recognised as a non-current asset held for sale and, after deducting selling costs of £1.9m, the carrying value at 30 June 2021 was £83.1m.

In July 2020, the Group exchanged contracts on the sale of its leasehold interest in 2 & 4 Soho Place W1. The property was valued at £34.0m at 30 June 2021. In accordance with IFRS 5 Non-current Assets Held for Sale, this property was recognised as a non-current asset held for sale and, after deducting selling costs of £0.8m, the carrying value at 30 June 2021 was £33.2m.

The Group expects to exchange contracts in the second half of 2021 on the sale of its leasehold interests in 16-20 Baker Street W1, 27-33 Robert Adam Street W1, 17-39 George Street W1 and 26-27 Castlereagh Street W1. The properties were valued at £46.3m at 30 June 2021. The sale of these properties is highly probable and in accordance with IFRS 5 Non-current Assets Held for Sale the properties have been recognised as non-current assets held for sale. After deducting selling costs of £0.3m, the carrying value at 30 June 2021 was £46.0m.

In December 2020, the Group exchanged contracts for the sale of its freehold interest in Johnson Building EC1. The property was valued at £167.0m at 31 December 2020. In accordance with IFRS 5 Non-current Assets Held for Sale, this property was recognised as a non-current asset held for sale and, after deducting selling costs of £2.0m, the carrying value was £165.0m.

16. Trade and other payables

	30.06.2021 £m	30.06.2020 £m	31.12.2020 £m
Trade payables	**4.9**	2.8	2.5
Other payables	**35.1**	17.2	21.2
Other taxes	**3.4**	7.2	4.0
Accruals	**49.5**	43.6	32.0
Deferred income	**42.4**	44.3	47.0
	135.3	115.1	106.7

Deferred income primarily related to rents received in advance.

At 30 June 2021, other payables included £14.9m discounted profit share for the development at Soho Place W1 (see note 10).

17. Net debt and derivative financial instruments

	30.06.2021		30.06.2020		31.12.2020	
	Book value £m	**Fair value £m**	Book Value £m	Fair value £m	Book value £m	Fair value £m
Non-current liabilities						
1.5% unsecured convertible bonds 2025	**167.3**	**171.5**	165.4	159.8	166.4	174.2
6.5% secured bonds 2026	**183.0**	**212.8**	184.2	224.5	183.6	220.3
Unsecured private placement notes 2026 - 2034	**453.0**	**502.7**	452.7	511.6	452.9	526.4
3.99% secured loan 2024	**82.4**	**87.4**	82.2	89.6	82.3	89.1
Unsecured bank loans	**78.7**	**83.0**	221.8	225.0	120.1	125.0
Secured bank loan	**27.9**	**28.0**	27.9	28.0	27.9	28.0
Borrowings	**992.3**	**1,085.4**	1,134.2	1,238.5	1,033.2	1,163.0
Derivative financial instruments expiring in greater than one year	**3.4**	**3.4**	6.3	6.3	5.6	5.6
Total borrowings and derivative financial instruments	**995.7**	**1,088.8**	1,140.5	1,244.8	1,038.8	1,168.6

Reconciliation to net debt:			
Borrowings and derivative financial instruments	**995.7**	1,140.5	1,038.8
Adjustments for:			
Leasehold liabilities	**67.4**	60.4	66.6
Derivative financial instruments	**(3.4)**	(6.3)	(5.6)
Cash and cash equivalents	**(60.0)**	(201.8)	(50.7)
Net debt	**999.7**	992.8	1,049.1

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

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

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

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

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

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

There have been no transfers between Level 1 and Level 2 or Level 2 and Level 3 in either 2021 or 2020.

At 30 June 2021, the Group's secured bank loan and the 3.99% secured loan 2024 were secured by a fixed charge over £111.0m (30 June 2020: £100.7m; 31 December 2020: £105.2m) and £310.9m (30 June 2020: £308.5m; 31 December 2020: £304.5m), respectively, of the Group's properties. In addition, the secured bonds 2026 were secured by a floating charge over a number of the Group's subsidiary companies which contained £576.2m (30 June 2020: £633.3m; 31 December 2020: £616.5m) of the Group's properties.

All additional drawings in the period have been made from existing revolving credit facilities, and there are no new debt facilities in the period. The Group continue to maintain significant headroom on all financial covenants.

18. Deferred tax liabilities

	Revaluation surplus £m	Other £m	Total £m
At 1 January 2021	3.5	(3.0)	0.5
Charged to the income statement	0.2	0.4	0.6
Charged to other comprehensive income	0.2	0.3	0.5
Credited to equity	-	(0.5)	(0.5)
At 30 June 2021	**3.9**	**(2.8)**	**1.1**
At 1 January 2020	3.3	(2.1)	1.2
Credited to the income statement	(0.3)	(1.1)	(1.4)
Change in tax rates in the income statement	0.3	(0.1)	0.2
Credited to other comprehensive income	-	(0.5)	(0.5)
Change in tax rates in other comprehensive income	0.1	-	0.1
Charged to equity	-	1.4	1.4
Changes in tax rates in equity	-	(0.2)	(0.2)
At 30 June 2020	3.4	(2.6)	0.8
At 1 January 2020	3.3	(2.1)	1.2
Credited to the income statement	(0.3)	(1.7)	(2.0)
Change in tax rates in the income statement	0.3	(0.1)	0.2
Charged/(credited) to other comprehensive income	0.1	(0.4)	(0.3)
Change in tax rates in other comprehensive income	0.1	-	0.1
Charged to equity	-	1.3	1.3
At 31 December 2020	3.5	(3.0)	0.5

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

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

19. Dividend

	Payment date	Dividend per share PID p	Dividend per share Non-PID p	Dividend per share Total p	**Half year to 30.06.2021 £m**	Half year to 30.06.2020 £m	Year to 31.12.2020 £m
Current period							
2021 interim dividend	15 October 2021	23.00	-	23.00	**-**	-	-
		23.00	-	23.00			
Prior year							
2020 final dividend	4 June 2021	35.00	17.45	52.45	**58.8**	-	-
2020 interim dividend	16 October 2020	22.00	-	22.00	**-**	-	24.6
		57.00	17.45	74.45			
2019 final dividend	5 June 2020	34.45	17.00	51.45	**-**	57.6	57.6
Dividends as reported in the Group statement of changes in equity					**58.8**	57.6	82.2
2020 final dividend withholding tax	14 July 2021				**(5.3)**	-	-
2020 interim dividend withholding tax	14 January 2021				**3.2**	-	(3.2)
2019 final dividend withholding tax	14 July 2020				**-**	(4.9)	-
2019 interim dividend withholding tax	14 January 2020				**-**	2.8	2.8
Dividends paid as reported in the Group cash flow statement					**56.7**	55.5	81.8

20. Cash and cash equivalents

	30.06.2021 £m	30.06.2020 £m	31.12.2020 £m
Cash at bank	**60.0**	76.8	50.7
Cash held in deposits	**-**	125.0	-
	60.0	201.8	50.7

21. Post balance sheet events

In July 2021, the Group exchanged contracts for the disposal of its freehold interest in Angel Square EC1 for £86.5m before costs, with completion expected in August 2021.

In August 2021, the Group exchanged contracts for the acquisition of the leasehold interest in Bush House, South West Wing WC2 for £13.5m before costs.

In August 2021, the Group exchanged contracts for the acquisitions of the freehold interests in 250 Euston Road NW1 and 171-174 Tottenham Court Road W1 for £214.6m inclusive of estimated costs. In addition, the Group signed a memorandum of understanding to form a joint venture to acquire leasehold interests in three buildings in Baker Street W1 for £64.4m inclusive of estimated costs for a 50% interest.

22. Related party disclosure

There have been no related party transactions during the half year to 30 June 2021 that have materially affected the financial position or performance of the Group. All related party transactions are materially consistent with those disclosed by the Group in its financial statements for the year ended 31 December 2020.

23. EPRA performance measures

Number of shares

	Earnings per share measures			Net asset value per share measures		
	Weighted average for the period ended			At period ended		
	30.06.2021 '000	30.06.2020 '000	31.12.2020 '000	**30.06.2021 '000**	30.06.2020 '000	31.12.2020 '000
For use in basic measures	**112,129**	111,872	111,912	**112,174**	111,947	111,961
Dilutive effect of share-based payments	**275**	304	350	**292**	222	341
For use in other diluted measures	**112,404**	112,176	112,262	**112,466**	112,169	112,302

The £175m unsecured convertible bonds 2025 ('2025 bonds') have an initial conversion price set at £44.96.

The Group recognises the effect of conversion of the bonds if they are both dilutive and, based on the share price, likely to convert. For both the half years to 30 June 2020 and 2021 and for the year ended 31 December 2020, the Group did not recognise the dilutive impact of the conversion of the 2025 bonds on its earnings per share (EPS) or net asset value (NAV) per share metrics as, based on the share price at the end of each period, the bonds were not expected to convert.

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

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

Earnings and earnings per share

	IFRS £m	Adjustments A £m	B £m	C £m	EPRA basis £m
Half year to 30 June 2021					
Net property and other income	95.1	(0.5)	0.7	-	95.3
Administrative expenses	(19.4)	-	-	-	(19.4)
Revaluation surplus	57.8	-	(57.8)	-	-
Profit on disposal of investments	0.6	(0.6)	-	-	-
Net finance costs	(14.2)	-	-	-	(14.2)
Movement in fair value of derivative financial instruments	2.2	-	-	(2.2)	-
Financial derivative termination costs	(1.0)	-	-	1.0	-
Profit before tax	121.1	(1.1)	(57.1)	(1.2)	61.7
Tax charge	(0.6)	-	0.2	-	(0.4)
Profit for the period	120.5	(1.1)	(56.9)	(1.2)	61.3
Non-controlling interest	(0.3)	-	(0.4)	-	(0.7)
Earnings attributable to equity shareholders	**120.2**	**(1.1)**	**(57.3)**	**(1.2)**	**60.6**
Earnings per share	**107.20p**				**54.04p**
Diluted earnings per share	106.94p				53.91p
Half year to 30 June 2020					
Net property and other income	86.5	(0.8)	0.4	-	86.1
Administrative expenses	(17.1)	-	-	-	(17.1)
Revaluation deficit	(68.3)	-	68.3	-	-
Profit on disposal of investments	1.7	(1.7)	-	-	-
Net finance costs	(13.6)	-	-	-	(13.6)
Movement in fair value of derivative financial instruments	(2.6)	-	-	2.6	-
Financial derivative termination costs	(0.6)	-	-	0.6	-
Loss before tax	(14.0)	(2.5)	68.7	3.2	55.4
Tax credit	0.8	(0.8)	-	-	-
(Loss)/profit for the period	(13.2)	(3.3)	68.7	3.2	55.4
Non-controlling interest	3.7	-	(4.4)	-	(0.7)
Earnings attributable to equity shareholders	(9.5)	(3.3)	64.3	3.2	54.7
(Loss)/earnings per share	(8.49p)				48.90p
Diluted (loss)/earnings per share	(8.49p)				48.76p

The diluted loss per share for the period to 30 June 2020 was restricted to a loss of 8.49p per share, as the loss per share cannot be reduced by dilution in accordance with IAS 33, Earnings per Share.

		Adjustments			
	IFRS	A	B	C	EPRA basis
	£m	£m	£m	£m	£m
Year to 31 December 2020					
Net property and other income	183.0	(5.2)	1.8	-	179.6
Administrative expenses	(37.8)	-	-	-	(37.8)
Revaluation deficit	(196.1)	-	196.1	-	-
Profit on disposal of investments	1.7	(1.7)	-	-	-
Net finance costs	(30.2)	-	-	0.1	(30.1)
Movement in fair value of derivative financial instruments	(1.9)	-	-	1.9	-
Financial derivative termination costs	(1.7)	-	-	1.7	-
(Loss)/profit before tax	(83.0)	(6.9)	197.9	3.7	111.7
Tax credit	1.6	(1.0)	-	-	0.6
(Loss)/profit for the year	(81.4)	(7.9)	197.9	3.7	112.3
Non-controlling interest	3.8	-	(5.1)	-	(1.3)
Earnings attributable to equity shareholders	(77.6)	(7.9)	192.8	3.7	111.0
(Loss)/earnings per share	(69.34p)				99.19p
Diluted (loss)/earnings per share	(69.34p)				98.88p

The diluted loss per share for the year to 31 December 2020 was restricted to a loss of 69.34p per share, as the loss per share cannot be reduced by dilution in accordance with IAS 33, Earnings per Share.

EPRA net asset value metrics

	30.06.2021 £m	30.06.2020 £m	31.12.2020 £m
Net assets attributable to equity shareholders	4,330.7	4,352.7	4,263.2
Adjustment for:			
Revaluation of trading properties	0.9	4.5	1.4
Deferred tax on revaluation surplus[1]	2.0	1.7	1.8
Fair value of derivative financial instruments	3.4	6.3	5.6
Fair value adjustment to secured bonds	8.7	10.0	9.3
Non-controlling interest in respect of the above[1]	(0.4)	(0.4)	(0.4)
EPRA Net Tangible Assets	**4,345.3**	**4,374.8**	**4,280.9**
Per share measure - diluted	**3,864p**	**3,900p**	**3,812p**
Net assets attributable to equity shareholders	4,330.7	4,352.7	4,263.2
Adjustment for:			
Revaluation of trading properties	0.9	4.5	1.4
Fair value adjustment to secured bonds	8.7	10.0	9.3
Mark-to-market of fixed rate debt	(91.6)	(103.9)	(127.8)
Unamortised issue and arrangement costs	(10.2)	(10.4)	(11.3)
EPRA Net Disposal Value	**4,238.5**	**4,252.9**	**4,134.8**
Per share measure - diluted	**3,769p**	**3,792p**	**3,682p**
Net assets attributable to equity shareholders	4,330.7	4,352.7	4,263.2
Adjustment for:			
Revaluation of trading properties	0.9	4.5	1.4
Deferred tax on revaluation surplus	3.9	3.4	3.5
Fair value of derivative financial instruments	3.4	6.3	5.6
Fair value adjustment to secured bonds	8.7	10.0	9.3
Non-controlling interest in respect of the above	(0.7)	(0.7)	(0.7)
Purchasers' costs[2]	366.1	367.6	364.2
EPRA Net Reinstatement Value	**4,713.0**	**4,743.8**	**4,646.5**
Per share measure - diluted	**4,191p**	**4,229p**	**4,138p**

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

Cost ratios

	Half year to 30.06.2021 £m	Half year to 30.06.2020 £m	Year to 31.12.2020 £m
Administrative expenses	**19.4**	17.1	37.8
Write-off/impairment of receivables	**1.4**	4.4	10.1
Service charge waiver	**-**	2.1	4.1
Other property costs	**4.7**	4.6	10.5
Dilapidation receipts	**(0.1)**	-	-
Net service charge costs	**1.5**	1.6	2.8
Service charge costs recovered through rents but not separately invoiced	**(0.4)**	(0.3)	(0.4)
Management fees received less estimated profit element	**(1.5)**	(1.5)	(3.5)
EPRA Costs (including direct vacancy costs) (A)	**25.0**	28.0	61.4
Direct vacancy costs	**(2.5)**	(4.6)	(9.0)
EPRA Costs (excluding direct vacancy costs) (B)	**22.5**	23.4	52.4
Gross rental income	**98.1**	97.8	202.9
Ground rent	**(0.4)**	(0.7)	(1.1)
Service charge components of rental income	**(0.4)**	(0.3)	(0.4)
Adjusted gross rental income (C)	**97.3**	96.8	201.4
EPRA Cost Ratio (including direct vacancy costs) (A/C)	**25.7%**	28.9%	30.5%
EPRA Cost Ratio (excluding direct vacancy costs) (B/C)	**23.1%**	24.2%	26.0%

In addition to the EPRA Cost Ratios, the Group has calculated an additional cost ratio based on its property portfolio fair value to recognise the 'total return' nature of the Group's activities.

Property portfolio at fair value (D)	**5,383.6**	5,405.2	5,355.5
Portfolio cost ratio (A/D) - annualised	**0.9%**	1.0%	1.1%

The Group has not capitalised any overhead or operating expenses in either 2021 or 2020.

Property-related capital expenditure

	Half year to 30.06.2021 £m	Half year to 30.06.2020 £m	Year to 31.12.2020 £m
Acquisitions	**23.7**	43.5	43.5
Development	**85.3**	57.9	134.1
Investment properties			
No incremental lettable space	**12.7**	3.1	16.3
Tenant incentives	**2.7**	1.6	1.5
Capitalised Interest	**5.4**	6.3	9.9
Total capital expenditure	**129.8**	112.4	205.3
Conversion from accrual to cash basis	**(18.8)**	4.0	13.1
Total capital expenditure on a cash basis	**111.0**	116.4	218.4

24. Gearing and interest cover

NAV gearing

	Note	**30.06.2021 £m**	30.06.2020 £m	31.12.2020 £m
Net debt	17	**999.7**	992.8	1,049.1
Net assets		**4,382.9**	4,404.7	4,315.1
NAV gearing		**22.8%**	22.5%	24.3%

Loan-to-value ratio

	Note	**30.06.2021 £m**	30.06.2020 £m	31.12.2020 £m
Net debt	17	**999.7**	992.8	1,049.1
Fair value adjustment of secured bonds		**(8.7)**	(10.0)	(9.3)
Unamortised issue and arrangement costs		**10.2**	10.4	11.3
Leasehold liabilities	17	**(67.4)**	(60.4)	(66.6)
Drawn debt		**933.8**	932.8	984.5
Fair value of property portfolio	10	**5,383.6**	5,405.2	5,355.5
Loan-to-value ratio		**17.3%**	17.3%	18.4%

Net interest cover ratio

	Note	**Half year to 30.06.2021 £m**	Half year to 30.06.2020 £m	Year to 31.12.2020 £m
Net property and other income	5	**95.1**	86.5	183.0
Adjustments for:				
Other income	5	**(1.5)**	(1.5)	(3.5)
Other property income	5	**-**	-	(0.9)
Net surrender premiums	5	**(3.6)**	(0.2)	(0.9)
Write-down of trading property	5	**0.7**	0.4	1.8
Profit on disposal of trading properties	5	**(0.5)**	(0.8)	(5.2)
Adjusted net property income		**90.2**	84.4	174.3
Finance income	7	**-**	(0.1)	(0.2)
Finance costs	7	**14.2**	13.7	30.3
		14.2	13.6	30.1
Adjustments for:				
Finance income	7	**-**	0.1	0.2
Other finance costs	7	**(0.2)**	(0.1)	(0.2)
Amortisation of fair value adjustment to secured bonds	7	**0.7**	0.6	1.3
Amortisation of issue and arrangement costs	7	**(1.2)**	(1.1)	(2.2)
Finance costs capitalised	7	**5.4**	6.3	9.9
		18.9	19.4	39.1
Net interest cover ratio		**477%**	435%	446%

25. Total return

	Half year to 30.06.2021 p	Half year to 30.06.2020 p	Year to 31.12.2020 p
EPRA Net Tangible Assets on a diluted basis			
At end of period	**3,864**	3,900	3,812
At start of period	**(3,812)**	(3,957)	(3,957)
Increase/(decrease)	**52**	(57)	(145)
Dividend per share	**52**	51	73
Increase/(decrease) including dividend	**104**	(6)	(72)
Total return	**2.7%**	(0.1%)	(1.8%)

26. List of definitions

Building Research Establishment Environmental Assessment Method (BREEAM)
An environmental impact assessment method for non-domestic buildings. Performance is measured across a series of ratings; Good, Very Good, Excellent and Outstanding.

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

Company Voluntary Arrangement (CVA)
An insolvency procedure allowing a company with debt problems or that is insolvent to reach a voluntary agreement with its creditors to repay its debt over a fixed period.

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

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

Energy Performance Certificate (EPC)
An EPC is an asset rating detailing how energy efficient a building is, rated by carbon dioxide emission on a scale of A-G, where an A rating is the most energy efficient. They are legally required for any building that is to be put on the market for sale or rent.

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

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

- **EPRA Earnings Per Share**

Earnings from operational activities.

- **EPRA Net Reinstatement Value (NRV) per share**

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

- **EPRA Net Tangible Assets (NTA) per share**

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

- **EPRA Net Disposal Value (NDV) per share**

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

- **EPRA Cost Ratio (including direct vacancy costs)**

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

- **EPRA Cost Ratio (excluding direct vacancy costs)**

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

- **EPRA Net Initial Yield (NIY)**

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

- **EPRA 'topped-up' Net Initial Yield**

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

- **EPRA Vacancy Rate**

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

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

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

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

Ground rent
The rent payable by the Group for its leasehold properties. Under IFRS, a liability is recognised using the discounted payments due. Fixed lease payments made are allocated between the interest payable and the reduction in the outstanding liability. Any variable payments are recognised in the income statement in the period to which it relates.

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

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

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

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

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

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

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

National Australian Built Environment Rating System (NABERS)
This is a building performance rating system, introduced into the UK, which provides an energy performance benchmark using a simple star rating system on a 1-6 scale. This helps property owners understand and communicate a building's performance versus other similar buildings to occupiers. Ratings are validated on an annual basis.

NAV gearing
Net debt divided by net assets.

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

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

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

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

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

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

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

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

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

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

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

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

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

'Topped-up' rent
Annualised rents generated by the portfolio plus rent contracted from expiry of rent free periods and uplifts agreed at the balance sheet date.

Total property return (TPR)
Total property return is a performance measure calculated by the MSCI IPD and defined in the MSCI Global Methodology Standards for Real Estate Investment as 'the percentage value change plus net income accrual, relative to the capital employed'.

Total return
The movement in EPRA Net Tangible Assets per share on a diluted basis between the beginning and the end of each financial period plus the dividend per share paid during the period expressed as a percentage of the EPRA Net Tangible Assets per share on a diluted basis at the beginning of the year.

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

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

Underlying valuation increase
The valuation increase on the underlying portfolio.

Yields

- **Net initial yield**

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

- **Reversionary yield**

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

- **True equivalent yield**

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

- **Yield shift**

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

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

Independent review report to Derwent London plc
Report on the condensed consolidated interim financial statements

Our conclusion

We have reviewed Derwent London plc's condensed consolidated interim financial statements (the "interim financial statements") in the interim results of Derwent London plc for the 6 month period ended 30 June 2021 (the "period").

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with UK adopted International Accounting Standard 34, 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

What we have reviewed

The interim financial statements comprise:

- the Group condensed Balance Sheet as at 30 June 2021;
- the Group condensed Income Statement and Group condensed Statement of Comprehensive Income for the period then ended;
- the Group condensed Cash Flow statement for the period then ended;
- the Group condensed Statement of Changes in Equity for the period then ended; and
- the explanatory notes to the interim financial statements.

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

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the directors

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

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

What a review of interim financial statements involves

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

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

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

PricewaterhouseCoopers LLP
Chartered Accountants
London
9 August 2021

Notes to editors

Derwent London plc

Derwent London plc owns 81 buildings in a commercial real estate portfolio predominantly in central London valued at £5.4 billion as at 30 June 2021, making it the largest London-focused real estate investment trust (REIT).

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

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

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

As part of our commitment to lead the industry in mitigating climate change, Derwent London has committed to becoming a net zero carbon business by 2030, publishing its pathway to achieving this goal in July 2020. In 2019 the Group became the first UK REIT to sign a Revolving Credit Facility with a 'green' tranche. At the same time, we also launched our Green Finance Framework and signed the Better Buildings Partnership's climate change commitment. The Group is a member of the 'RE100' which recognises Derwent London as an influential company, committed to 100% renewable power by purchasing renewable energy, a key step in becoming a net zero carbon business. Derwent London is one of only a few property companies worldwide to have science-based carbon targets validated by the Science Based Targets initiative (SBTi).

Landmark schemes in our 5.4 million sq ft portfolio include 80 Charlotte Street W1, Brunel Building W2, White Collar Factory EC1, Angel Building EC1, 1-2 Stephen Street W1, Horseferry House SW1 and Tea Building E1.

In January 2021, Derwent London came top of the Property Sector and 10th position overall in Management Today's Britain's Most Admired Companies awards 2020. In the year the Group has won several awards for Brunel Building with the most prominent being the BCO Best Commercial Workplace award. In 2019 the Group won EG Offices Company of the Year, the CoStar West End Deal of the Year for Brunel Building and Westminster Business Council's Best Achievement in Sustainability award. In 2013 the Company launched a voluntary Community Fund and has to date supported well over 100 community projects in the West End and the Tech Belt.

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

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

Forward-looking statements

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

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