Our resilience

In accordance with the UK Corporate Governance Code 2018 (the Code), the Directors and senior management team assessed the prospects of the Company and potential threats to its resilience:

- **in the short-term (over the next 12 months as required by the 'Going concern' provision); and**
- **in the medium-term (a five-year period to 31 December 2029) as required by the 'Viability statement' provision.**

This statement also contains references to the longer term threats to the Company's resilience (beyond the five-year period).

Short-term

Under provision 30 of the Code, the Board is required to report whether it considers it appropriate to adopt the going concern basis of accounting in the preparation of our financial statements. The assessment focused primarily on the short-term and at least the next 12 months to March 2026.

The Directors' assessment included consideration of:

- the Group's current financial position;
- the latest rolling forecast for the next two years, in particular the cash flows, borrowings and undrawn facilities;
- the timing of repayment of existing financing facilities;
- current and potential sources of replacement financing;
- lease expiry profile; and
- any material uncertainties or assumptions.

The Group is in a strong financial position. As at 31 December 2024, the Group has:

- £487m of undrawn facilities and cash (2023: £466m);
- an EPRA loan-to-value ratio of 29.9%;
- an overall cost of debt with a weighted average interest rate of 3.53%;
- 85% of our borrowings either fixed or hedged;
- significant headroom on our financial covenants; and
- strong interest cover of 3.86x.

The Group has sufficient access to finance in the short-term and medium-term. At 31 December 2024, our average maturity of borrowings is 4.0 years and average maturity of facilities is 3.4 years. The £175m unsecured convertible bond, which matures in June 2025, is a current liability and therefore the Group is in a net current liabilities position. However, the Group has significant liquidity to fund its ongoing operations and, as noted above, has access to £487m of available undrawn facilities and cash as at year end. In addition, a new £115m unsecured term/revolving bank facility was signed in February 2025. Further information is on pages 81 and 82.

Material uncertainties or assumptions

The Directors did not identify any material uncertainties to the Company's ability to continue to operate as a going concern over the period of its assessment. The key sources of estimated uncertainty in the next 12 months are considered to be:

Income decline

Although not likely to impact the Group in the short-term, the current economic situation could lead to some of our occupiers facing a more challenging financial environment. It should be noted that rent for offices typically represents a relatively small percentage of business overheads. Leasing transactions can take longer to finalise as occupiers tend to adopt a 'wait-and-see' approach leading to a greater risk of aborted transactions.

The impairment review of outstanding trade receivable balances and amounts due under the spreading of lease incentives has been carried out for our largest tenants and others where we believe the risk is greatest. It has resulted in a net charge to the income statement of £0.4m in the year and no change to our overall impairment provision.

Fall in property values

During 2024, property values fell slightly in H1 before recovering in H2. There remains a risk that property values could fall again in 2025. The Board is monitoring the risk that the latest rise in gilt yields could have a secondary impact on asset pricing.

The impact of yield changes on the Group's financial covenants and performance are monitored and are subject to sensitivity analysis and testing against severe yet plausible 'downside' scenarios to ensure that adequate headroom is preserved. The Group's loan-to-value ratio reduces the likelihood that falls in property values have a significant operational impact on our business. Property values would need to fall by a further 50% before our funding covenants would be breached.

Related information is on the following pages:

Significant financial judgements/**See page 146**

Property review/**See pages 60 to 73**

Group's risk register

The Schedule of Principal Risks contains the risks which are currently impacting the Group or could impact it over the next 12 months. These risks are routinely subject to a comprehensive review by the Executive Committee, Risk Committee and the Board. Consideration is given to the risk likelihood, impact and velocity (speed at which the risk could impact on the Group). The Board agreed that, given the level of headroom, none of the changes in risk likelihood or probability during the year had a significant impact on the Group's short-term viability.

Going concern statement

After making appropriate enquiries, the Directors have a reasonable expectation that the Group and Company have adequate resources to continue in operational existence until at least March 2026. Therefore, the Board continues to adopt the going concern basis in preparing the financial statements.

Medium-term

The Directors challenge the time period over which to assess the Company's medium-term viability on an annual basis. The Directors determined that the five-year period to 31 December 2029 remains an appropriate period based on the following:

- For a major scheme, five years is a reasonable approximation of the time taken from obtaining planning permission for a typical development to letting the property.
- Most leases contain a five-year rent review pattern or break options. Therefore, five years allows for the forecasts to include the reversion arising from those reviews while also assessing the potential impact of income lost from breaks exercised. Our weighted average unexpired lease term is 6.8 years ('topped-up' including rent-frees and pre-lets).
- The average maturity of borrowings is 4.0 years as at 31 December 2024.

As part of its assessment, the Board considered the Group's emerging risks (page 100), including how these are being addressed. Emerging risks could involve a high degree of uncertainty and are therefore factored into the Board's medium-term viability assessment and the long-term sustainability of the Group. The methodology used to identify, assess and monitor emerging risks is described in the risk management framework on page 164. The Directors concluded that none of the individual emerging risks would in isolation or collectively compromise the Group's viability over the five-year period to 31 December 2029.

The Board's medium-term assessment focused on our strategy, finance and operations.

Viability of our strategy

The Board formally reviews its strategy on an ongoing basis to ensure it remains capable of sustainable value creation and is responding appropriately to changing macroeconomic conditions, work practices and stakeholder expectations.

When assessing the viability of the Group's strategy, the Board's key qualifications and assumptions were:

- a continued focus on the central London office market;
- a strategy of recycling capital by selling buildings when we have maximised their potential, or they no longer meet our investment criteria, and purchasing buildings where there is an opportunity to replenish our development pipeline or add value via asset management or refurbishment;
- maturing debt facilities could be refinanced, albeit generally at a higher cost than the prevailing rate;
- a property portfolio which remains approximately the same size, at 5.36m sq ft (2023: 5.39m sq ft); and
- a progressive dividend policy, whilst targeting dividend cover in or above the range of 125% to 150%.

The London office market has generally been cyclical in recent decades, with strong growth followed by economic downturns, sometimes precipitated by rising interest rates. The impact of these cycles is dependent on the quality and location of the Group's portfolio. Occupier demand in London is good for the right product in the right location.

The Board agreed that we have a proven business model which has allowed us to remain flexible and resilient during previous property cycles and periods of significant uncertainty. Additionally, we have the ability to flex our business plan to react to unforeseen circumstances by either selling a property to generate additional cash flow or commencing, stopping or scaling back projects to manage our capital expenditure.

The Board agreed that no material change was required to its strategy, which continued to generate sustainable returns.

Sensitivity and scenario testing

A detailed five-year strategic review was conducted which considered the Group's cash flows, dividend cover, REIT compliance and other key financial ratios over the period. These metrics were subjected to sensitivity analysis to assess the Group's ability to deliver its strategic objectives.

The Directors stress tested our strategy against various scenarios to determine whether they were likely to have a significant impact on the Group's solvency and liquidity in the short and medium-term. In addition, a reverse stress test scenario was modelled to determine the circumstances under which we would breach our covenants.

GOING CONCERN & VIABILITY continued

Viability of our strategy continued

The scenarios are amended each year, as required, to reflect the key areas of concern identified by the Board. The six scenarios assessed were:

- a 'base case' scenario which was management's best estimate of market and business changes;
- a downside scenario which considers the impact of a fall in property values of c.10% due to outwards yield shift;
- an upside scenario which includes a combination of stronger ERV growth, yield compression and improved letting assumptions; and
- four scenarios of varying levels of acquisitions and disposals.

In all scenarios, our net interest cover remained above 3.0 times and our EPRA loan-to-value ratio below 30%, both of which are comfortably within our financial covenants. The modelling indicated that under all scenarios the Group would still be able to execute its strategic plan over the next five years without breaching any covenants or experiencing any liquidity concerns.

Development returns

The Directors considered the viability and risks associated with the construction industry. It was noted that 'Tier 1' contractors in central London are becoming increasingly risk adverse to engaging on complex projects on fixed price contracts. There is also an increased risk of insolvencies in the construction industry as a result of rising inflation and construction costs, which under fixed price contracts are a particular risk for the contractor and subcontractors. Rising construction costs are also a factor affecting development appraisals and the viability of refurbishments. In addition, other consultants and advisers are at some risk of insolvency.

Mixed-use projects with residential over 18 metres now fall into a category of High-Risk Buildings as defined under the Building Safety Act 2022 which may impact construction programmes by four to six months.

The Board was satisfied that the business was:

- Adequately appraising investments, including through: (a) the benchmarking of development costs; and (b) following a procurement process that is properly designed (to minimise uncertainty around costs) and that includes the use of highly regarded quantity surveyors.
- Engaging with the Building Safety Regulator to mitigate time required for Building Control approval.
- Using known 'Tier 1' contractors with whom we have established working relationships and regularly work with tried and tested subcontractors.
- Contractors are paid promptly and are encouraged to pay subcontractors promptly. Payments to contractors are in place to incentivise the achievement of project timescales, with damages agreed in the event of delay/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 as soon as possible.

Viability of our finances

Derwent London would become unviable if we were unable to meet our financial covenants. If this occurred, we would need to repay our debt borrowings, and this would likely require the sale of assets to meet these liabilities. As at 31 December 2024, we have significant headroom over our covenants, as shown below:

	Covenant	31 Dec 2024
Loan to value (specific assets)	≤ 60%[1]	**47%**
Ratio of unencumbered assets to unsecured net debt	≥ 1.6 times	**3.6 times**
Group NAV gearing	≤ 145%	**41.9%**
Consolidated interest cover	> 145%	**386%**

1 6.5% secured bonds.

Our covenant headroom was subject to sensitivity analysis and scenario testing as part of the Group's strategy review. Even in the most extreme 'downside' scenario we modelled, the covenant ratios are covered and there is sufficient cash and unutilised facilities available. For the Group to breach the NAV gearing limit, the value of our portfolio would have to fall in excess of £2,517m (or by a further 50%) in addition to the 16.5% decline already seen in the past three years.

This is significantly higher than we have seen in recent market down cycles, the worst of which was following the global financial crisis where the value of our underlying portfolio fell 34% but still outperformed the MSCI Central London Office Index which fell 43%. Moreover, we have the ability to move properties between the facilities to optimise headroom under covenants.

To assess the Group's liquidity and financial resilience, during the year the Directors also reviewed:

- a detailed five-year strategic review which included assessment of the Group's cash flows, dividend cover, REIT compliance and other key financial ratios. These metrics were subjected to sensitivity analysis to assess the Group's ability to deliver its strategic objectives under varying market conditions;
- the risks which could impact on the Group's liquidity and solvency over the next 12 months, five years and the longer term; and
- the Group's emerging risks.

The Board's assessment highlighted that, despite the macroeconomic environment deteriorating during 2024, the Group benefitted from:

- reasonable income visibility for the life of our leases which on 2024 lettings averaged 8.0 years (topped-up rent and including pre-lets). In addition, the Group has a known level of tenant lease expiries and breaks which is actively managed by our Asset Management team; and
- a high quality customer base, with none of our occupiers being responsible for more than 8% of total rental income and relatively low exposure to the retail and restaurant sector.

Refinancing risk

The availability of financing for good quality covenants has generally improved through 2024 but the cost of long-term debt has continued to be volatile. We have remained close to our existing lenders and put in place £215m of new bank facilities in 2024. We continue to review market conditions for long-term fixed rate debt and engage with new possible debt providers.

Viability of our operations

The Board received an update from the Chairs of the Audit and Risk Committees on the work performed during 2024 in respect to risk monitoring and reviewing the effectiveness of internal controls (see page 93).

There has been a heightened risk of cyber attacks amid escalating geopolitical tensions. To date, Derwent London has not experienced a significant increase in attempted cyber attacks. Ongoing staff vigilance is critical to the prevention of cyber attacks.

The Digital Innovation & Technology (DIT) team are proactive in providing regular guidance and refresher training to all employees on cyber security matters.

We have a robust approach to cyber security which is routinely subject to independent testing (see pages 162 and 163). Our Intelligent Building Programme is a medium to long-term initiative which will assist with meeting our net zero carbon ambitions, strengthen our portfolio's cyber security and help realise cost savings for our occupiers.

Based on the Board's assessments, none of the operational principal or emerging risks currently facing the Group were likely to have a material impact on the Group's operations or cause it to become unviable in the short to medium-term.

Related information is on the following pages:

- Business continuity and disaster recovery / **See page 163**
- Investing in our employees / **See page 186**
- Mandatory compliance training / **See page 165**

Viability statement

Based on the Board's assessments, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the five-year period to 31 December 2029.

Long-term

The Board considered a number of longer term factors (which could impact the Company and its business model in the next five to 10 years) and how these were being addressed. These factors included the impact of climate change and technology advancement.

Related information is on the following pages:

- Business model & strategy / **See pages 24 to 32**
- Regeneration projects / **See pages 20 to 23**
- Our portfolio / **See pages 18 and 19**

Climate change

During the year, Willis Towers Watson performed an updated independent climate risk assessment and scenario analysis. The scope of the assessment included our entire London-based investment portfolio (including our head office) and our Scottish portfolio. Of the risks identified, none were likely to have a substantial impact on the viability of our business, although our cost profile could increase.

- Task Force on Climate-related Financial Disclosures / **See pages 102 to 115**

Technology advancements

Adoption of technology is an emerging risk for the Group. Technology in our sector is advancing at a rapid pace.

The Executive Committee has monitored the phased roll-out of Intelligent Building infrastructure during the year. The Derwent London Intelligent Building Programme seeks to enable our buildings (where appropriate) to be digitally monitored and operated more efficiently, driving down equipment faults (and consequential maintenance) and delivering energy and operational carbon savings. During the year, the Risk Committee received a detailed overview of the Group's current cyber posture and how future technological trends could impact on the Group's future performance (see pages 101 and 157).

- Digital strategy risks / **See page 163**

Geopolitical instability

Geopolitical issues such as the ongoing war in the Ukraine and the widening of the Middle East conflict remain a concern. Despite the uncertainty, our supply chain has been relatively unaffected due to our approach of early pre-ordering and storage. Early supply chain engagement in project designs helps with the identification of potential risks and alternative solutions.