



Report and Accounts 2023

Derwent London plc

DERWENT
LONDON

A photograph of the Brunel Building W2, a modern office building with a distinctive, angular, and somewhat chaotic facade. The building is constructed with a complex network of dark, metallic structural beams and large glass panels. The facade is highly textured and geometric. In the foreground, there is a body of water, likely the River Thames, and a paved walkway. Several young trees are planted along the walkway, and a person is sitting on a bench near the water. The sky is blue with some light clouds.

The largest London office- focused REIT with a distinctive 5.4 million sq ft portfolio

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Strategic report



The inspiration for 25 Baker Street came from the rare opportunity to regenerate an entire urban block with a major new public space at its centre.

Mike Taylor
Hopkins Architects

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OUR STRATEGIC FRAMEWORK

We are driven by our...

Vision

We craft inspiring and distinctive space where people thrive

Purpose

We design and curate long-life, low carbon, intelligent offices that contribute to London's position as a leading global city, while aiming to deliver above average long-term returns for all our stakeholders

Values

We build long-term relationships

We lead by design

We act with integrity



Achieved by our...

Core activities



See pages 28 and 29

Asset management

Refurbishment & development

Investment activity

Strategic objectives



See pages 32 to 36

1

To optimise returns and create value from a balanced portfolio

2

To grow recurring earnings and cash flow

3

To attract, retain and develop talented employees

4

To design, deliver and operate our buildings responsibly

5

To maintain strong and flexible financing

Strong governance, risk management & culture



See page 126



To create value for...

Our stakeholders



See pages 42 and 43

Occupiers

Employees

Local communities & others

Suppliers

Central & local government

Shareholders & debt providers

OUR YEAR IN REVIEW

Occupier demand for the right product was strong through 2023. We had another successful year of letting and asset management activity across our portfolio and good progress was made on site at our major developments. However, the macro environment remained challenging, impacting both property yields and the cost and availability of new debt.

Operational highlights

£28.4m

Lettings, 8.0% above December 2022 ERV

4.0%

EPRA vacancy rate (December 2022: 6.4%)^R

46%

Major on-site projects pre-let

100%

Construction costs fixed for on-site projects

DL/28

Launch of second Member lounge

ESG highlights

149 kWh/sqm

Energy intensity (2022: 142 kWh/sqm)^R

14,370 tCO₂e

Operational carbon footprint (2022: 11,314 tCO₂e)

68.4%

EPC rating A or B (by ERV) including projects (2022: 65.3%)

18.4 MW

Planning consent for Scottish solar park

£464k

Community fund & sponsorship donations committed

Portfolio performance

-10.6%

Capital return

-7.3%

Total property return^R

5.55%

Equivalent yield

2.1%

ERV growth



Financial highlights

3,129_p

EPRA NTA per share^{1,2}
(2022: 3,632p)

£212.8m

Gross rental income
(2022: £207.0m)

-11.7%

Total return^R
(2022: -6.3%)

102.0_p

EPRA earnings per share^{1,2}
(2022: 106.6p)

£186.2m

Net rental income
(2022: £188.5m)

79.5_p

Dividend per share
(2022: 78.5p)

£480m

Cash and undrawn facilities
(2022: £577m)

4.1x

Interest cover ratio³
(2022: 4.2x)

27.9%

EPRA loan-to-value ratio^{1,3}
(2022: 23.9%)

1 EPRA performance measure – see page 283 for definitions.

2 See note 40 on page 264 in the financial statements for reconciliation to IFRS figures.

3 See note 42 on page 270 in the financial statements for calculation.

R Links to remuneration – see page 37.



DL/Service at White Collar Factory EC1

CHAIRMAN'S STATEMENT



Mark Breuer – Chairman

Our long-term strategic approach has ensured that the Group remains well-positioned against an uncertain and challenging backdrop.

Highlights

- A year of operational progress against a challenging market backdrop
- Strong balance sheet and long-term strategy means we are well positioned as opportunities emerge
- Annual dividend 79.5p, up 1.3%; uninterrupted annual growth since 2007

While our total property return was negative in 2023, we outperformed the MSCI IPD Central London Office benchmark. Our total return was -11.7%, taking the NTA to 3,129p. The Group's balance sheet remains robust with EPRA LTV of 27.9% and interest cover of 4.1 times, giving us capacity to continue investing in our pipeline.

The occupational market continues to polarise with good rental growth prospects for high quality, sustainable buildings where there is deep demand and constrained supply, particularly in the West End where 72% of our portfolio is located. In 2023, we agreed £28.4m of new leases, on average 8% ahead of December 2022 ERV, which includes pre-letting 75% of the offices at 25 Baker Street W1 ahead of completion in H1 2025. This gives us confidence in the letting prospects for our Network W1 project as well as the next phase of our development pipeline.

The London office investment market has been adversely impacted by higher inflation and the subsequent upward movement in interest rates. We expect to see a rise in the number of motivated sellers, and we have the balance sheet capacity to explore these opportunities as they emerge.

Our experienced management team has a strong track record of value creation across the economic cycle. We recognise the importance of investing in our people and planning ahead. Over the last three years, there have been eight promotions to the Executive Committee with representation from across the business. This diversity of skills and expertise helps position us well as the macroeconomic environment starts to recover.

The Group has been impacted by global inflationary pressures and we have also invested more in the amenity we offer our occupiers. As a result, EPRA EPS is down slightly year-on-year to 102.0p. However, we have substantial reversionary potential from a combination of on-site projects (requiring £223m of capex to complete), underlying rental uplifts and vacant space. In addition, we expect only a modest impact on our cost of debt from near-term refinancing.

I am therefore pleased to confirm a 1.3% increase in the full year dividend to 79.5p in line with our progressive and well covered dividend policy, with the final dividend raised by 0.5p to 55.0p.



25 Baker Street W1

It will be paid on 31 May 2024 to shareholders on the register of members at 26 April 2024. EPRA earnings covered the 2023 interim and final dividends 1.28 times.

We greatly value and nurture relationships with stakeholders, including the local communities in which we operate. Working alongside external consultants, we have strengthened our commitment to social value, our primary goals and how they will be measured and achieved. At the end of 2023, we published our new Social Value Strategic Framework.

After nine years on the Board, Claudia Arney will step down at the 2024 AGM from her position as a Non-Executive Director of the Company and Chair of the Remuneration Committee. The Board thanks Claudia for her significant contribution to the business and wishes her every success in the future.

Sanjeev Sharma, currently a Non-Executive Director and member of the Remuneration Committee, will become Remuneration Committee Chair.

PwC was appointed as the Group's external auditor in 2014 and, in accordance with the Competition and Markets Authority's (CMA) requirements, we conducted a competitive tender in 2023. Following a comprehensive process, the Board has approved PwC's ongoing appointment, subject to annual shareholder approval.

Despite the challenging global environment over the last few years, the Group is well positioned with an outstanding central London portfolio and a strong team.

Mark Breuer
Chairman

£28.4m

new leases agreed

CHIEF EXECUTIVE'S STATEMENT



Paul Williams – Chief Executive

London is maintaining its long-term reputation as a world-leading city with broad appeal to a diverse range of businesses and investors despite the ongoing macroeconomic challenges.

Highlights

- Strong leasing activity of £28.4m, on average 8% above December 2022 ERV
- LTV remains amongst lowest in UK REIT sector, despite 10.6% decline in capital values in 2023
- 2023 ERV growth of 2.1%, towards top end of guidance range
- 2024 guidance:
 - ERVs to increase 2% to 5%
 - Inflation significantly reduced and expected to fall further; yields to respond

Overview

Following its peak at 11.1% in October 2022, CPI inflation declined significantly through the course of 2023, ending the year at 4.0%. The hike in UK interest rates appears to have concluded, with base rate on hold at 5.25% since August. On the assumption that inflation slows further towards the 2% target, the consensus expectation is for a series of base rate cuts in 2024 and beyond.

Market interest rates have responded positively to slowing inflation but remain volatile. The yield on the 10-year UK gilt, which started 2023 at 3.7%, ended the year at 3.6%, having peaked at 4.7% in August. However, since the start of 2024, it has increased again to 4.1%. This reflects both a small rise in inflation in December and more cautious 'higher for longer' commentary from central banks.

Combined with the higher cost and restricted availability of debt, sentiment in the investment market was subdued in 2023. Meanwhile, the occupational market has remained strong for the right product in the right location. Businesses are focused on their longer-term real estate strategies and the flight to quality is continuing. With constrained availability and a thin forward development pipeline, rents for the best space are rising.

Strong operational performance

We enjoyed an excellent year for leasing in 2023 with £28.4m of new rent agreed, on average 8.0% above December 2022 ERV. This included 155,500 sq ft of pre-lets at 25 Baker Street W1, 13.4% ahead of ERV as well as 19 'Furnished + Flexible' units leased at an average 9.2% premium to the adjusted ERV.

Key transactions in the year include:

- **25 Baker Street W1:** Two pre-lets – to PIMCO and Moelis – at our on-site major development which completes in H1 2025, with total rent of £16.0m; the offices are now 75% pre-let; and
- **The Featherstone Building EC1:** Four further lettings with combined rent of £4.3m in line with ERV; the building is now 80% leased, with further occupier interest.

Since the start of 2024, new leases totalling £1.8m have been signed, 5.6% ahead of December 2023 ERV, with a further £2.7m of space under offer.



The Featherstone Building EC1

Lease length is an important indicator for the Group. At year end, our 'topped-up' WAULT (to break) was 7.4 years (2022: 7.2 years). Overall, our EPRA vacancy rate reduced 2.4% to 4.0% as we leased space across the portfolio in both the West End and the City Borders.

Property valuations

Underlying capital values reduced by a further 10.6% in 2023 and we believe valuations are now approaching this cycle's lows. The decline in capital values has been predominantly yield driven with our equivalent yield up 67bp to 5.55% in the year. By comparison, our valuation ERV was up 2.1% in the year, towards the top end of our guidance range for 2023 of 0% to +3%. Capital values across the UK real estate sector have declined, with the MSCI Central London Office index down 11.1% and the MSCI UK All Property index down 5.6% in the year.

This headline movement masks a broad range of outcomes, with our higher quality buildings and developments delivering a more resilient performance, supporting the nuanced change we made to our strategy in 2021 to retain our better buildings for longer.

The value of our on-site developments increased 8.1% in 2023 and properties valued at \geq £1,500 psf, generally the higher quality buildings, reduced by 7.1%, which is a 350bp outperformance of the portfolio average. By comparison, buildings valued at $<$ £1,000 psf (our 'raw material' for future regeneration) fell 14.3%. Impacted by these valuation movements, EPRA NTA per share declined 13.8% to 3,129p.

Our portfolio delivered a total property return of -7.3% compared to the MSCI Central London Office index of -7.9%.

Derwent's differentiators

At Derwent London, we have long recognised the importance of providing best-in-class space to maximise the appeal of our buildings to occupiers. Modern offices need to be high quality and well-designed to inspire innovation, collaboration and collective productivity. Good design has always been in our DNA, but in today's market this increasingly extends beyond the individual building to our broader portfolio approach, which includes a commitment to service and amenity as well as net zero carbon ambitions.

With over 50,000 people estimated to work in our buildings, we focus on the end user. Each individual is able to benefit from the full DL/Member offering which provides amenity and service to the whole London portfolio. This includes access to our two strategically located Member Lounges in Fitzrovia (DL/78) and Old Street (the recently opened DL/28), the App and the Experience team.

Given every business has its own unique space requirements, we design our buildings to be as adaptable as possible – 'long-life, low carbon, intelligent' – which increases tenant demand while also reducing obsolescence. Our buildings are designed to be desirable over the long-term. We offer a range of leasing options, from large-scale HQ space on long leases to smaller 'Furnished + Flexible' units on shorter leases.

Taken together, and as the bifurcation between prime and secondary properties continues to evolve, we expect this relationship-driven approach to result in reduced vacancy, shorter void periods, increased occupier retention and strong rental growth.

CHIEF EXECUTIVE'S STATEMENT continued

London office market

The vacancy rate across central London rose 1.7% in 2023 to 9.1%. However, averages do not show the full picture. West End vacancy is 4.4%, compared to the City at 11.9% and Docklands at 16.7%, while availability of new space rose more slowly than secondary space. We believe that the supply of new buildings has rarely been more constrained, particularly in the West End, which helps to explain why rents here are rising.

According to CBRE, the amount of space currently under construction across London is relatively low with 12.9m sq ft due to complete by 2027, of which 7.9m sq ft (62%) is currently available. Compared to long-term take-up, this equates to eight months' supply (and 11 months' supply in the West End) of new space being delivered over the coming four years.

London has broad appeal to a diverse range of businesses, both by sector and by size. We are encouraged by the substantial 74% increase in overall active demand to 9.9m sq ft at the end of 2023, which indicates a rapid rise in interest from a range of sectors.

Take-up in the year was 16% lower when compared to the prior year at 10.5m sq ft, with the West End down 27% at 3.6m sq ft. The City, however, benefitted from a number of high profile pre-lets, including HSBC and Clifford Chance returning from Docklands to more central locations, and year-on-year take-up was in line at 5.3m sq ft. Activity in 2023 was dominated by the banking & finance (31%) and business services (19%) sectors.

Economic prospects are an important demand driver for offices. Growth in jobs, population and the economy, alongside inflation prospects all have an impact. According to CBRE, following a boom in office job creation over the last three years (+415k new jobs), a further c.165k (net) positions are expected to be created over the next five years and there is a continuing increase in the number of companies requiring staff to come back to the office. The demand outlook for London offices remains positive. London real GDP growth of 1-2% pa is forecast to continue outperforming the UK and there is an ongoing increase in the population of c.0.9m to 10.6m by 2035.

Strong balance sheet and capital allocation

The Group aims, over the long-term, to operate with modest leverage and a simple financial structure to ensure resilience through the economic cycle. We believe that having a strong balance sheet has rarely been more important than at present.

We are well positioned. Our EPRA LTV ratio is 27.9% (December 2022: 23.9%) and interest cover is both strong and stable at 4.1 times (2022: 4.2 times). At the end of 2023, 98% of our debt was either fixed or hedged, with an average interest rate on a cash basis of 3.17%. In addition, we have limited refinancing in 2024 and 2025, with an £83m 3.99% secured facility maturing in October 2024 and a £175m 1.5% convertible bond maturing in June 2025.

Over the medium-term, we seek to balance disposals against capital expenditure and acquisitions. This has helped to contain the increase in our net debt and ensure we can continue to invest into our regeneration pipeline, which includes the acquisition of the exciting Old Street Quarter EC1 project which is likely to complete from 2027.

With the investment market slowdown seen in 2023, we completed a lower than normal £66m of disposals. This compared to £173m of acquisitions and capital expenditure on major projects, smaller refurbishments and our second Member Lounge, DL/28.

Sustainability

Our plans for an 18.4 MW solar park in Scotland came a step closer with planning consent now received. We expect green electricity generation to commence on completion in 2025, providing c.40% of the electricity needs of our London managed portfolio. We are also exploring other sustainability-related opportunities across our Scottish portfolio.

In accordance with our stated ambition, we rebased our SBTi-verified targets to align with a 1.5°C climate scenario. Our revised target commits us to a 42% reduction in Scope 1 & 2 carbon emissions by 2030 from our 2022 baseline. We are committed to managing our carbon footprint and building in climate resilience while collaborating across the industry and with our supply chain.

Our strong team

We were pleased to recognise the achievements of our employees, with 18 internal promotions in 2023 which included two promotions to the Executive Committee: Richard Dean, Director of Investment, joined the Committee from 1 July 2023 and Matt Cook, Head of Digital Innovation & Technology, with effect from 1 January 2024. We were also delighted to be recognised externally, being included on The Sunday Times 'Best Places to Work 2023' list where we scored highly in many categories against industry and global comparisons, and also winning 'Employer of the Year' at both the Westminster Business Council and EG (Estates Gazette) Awards.

Outlook and guidance

We have previously anticipated an acceleration in rental growth for the best buildings. Occupier demand continues to focus on well-located space with best-in-class amenity and service, while existing supply and the development pipeline are restricted. We expect these conditions to become increasingly favourable through 2024 and as such increase our portfolio rental guidance for the year to a range of 2% to 5%, with our better buildings to outperform.

Over the last few years, we have reduced our exposure to buildings which can no longer meet evolving occupier requirements and have invested significant capital upgrading our remaining portfolio. With inflation continuing to reduce and the cost and availability of finance improving, property yields are expected to respond, following a period of substantial increases. We believe we are now approaching the end of this yield cycle, with transaction volumes expected to increase and for opportunities to emerge.

Paul Williams
Chief Executive

CENTRAL LONDON OFFICE MARKET



Highlights

- Take-up 10.5m sq ft; acceleration in Q4 to 3.4m sq ft (Q1 to Q3 average: 2.4m sq ft)
- Space under offer up 19% to 3.0m sq ft; active demand up 74% to 9.9m sq ft
- Vacancy elevated at 9.1%: West End remains tight at 4.4%
- Development pipeline 38% pre-let; eight months' speculative supply
- Prime yields in West End at 4.0% (up 25bp in 2023) compared to the City at 5.75% (up 125bp)
- Investment transactions £5.2bn, 59% below 10-year average

Overview and macro backdrop

The global economy has experienced significant uncertainty and volatility since 2020. The resulting supply chain disruption and global conflicts led to a rise in inflation which started three years ago and peaked in late 2022. In response, there has been a substantial increase in benchmark interest rates around the world, leading to a significant hike in the cost of debt and reduced availability. For the commercial property sector, this has resulted in a material adjustment in property yields.

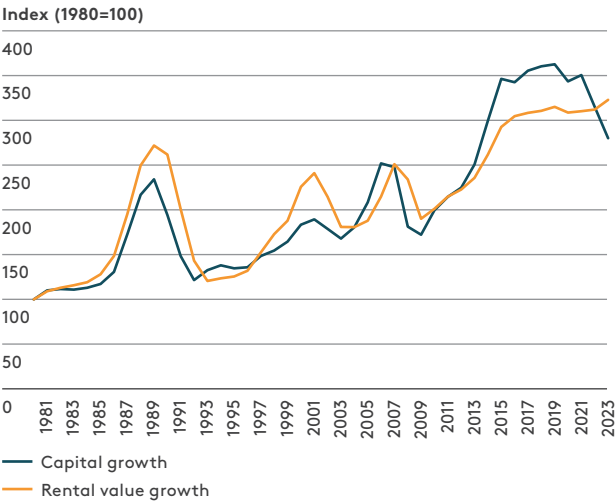
Softening inflation data through 2023, however, has raised market expectations that the interest rate cycle has peaked, with cuts now forecast in 2024. This is feeding through into lower market interest rates and narrower credit spreads and there are signs of improving credit availability.

Whilst GDP growth in the UK has plateaued for the time being, London is outperforming, with economic growth to 2028 forecast to average c.2% pa. Combined with a positive outlook for both jobs (c.165k net new jobs to be created by 2028 according to CBRE) and population growth (c.0.9m increase by 2035 to 10.6m according to Macrotrends), the macro demand drivers for London offices are encouragingly robust.

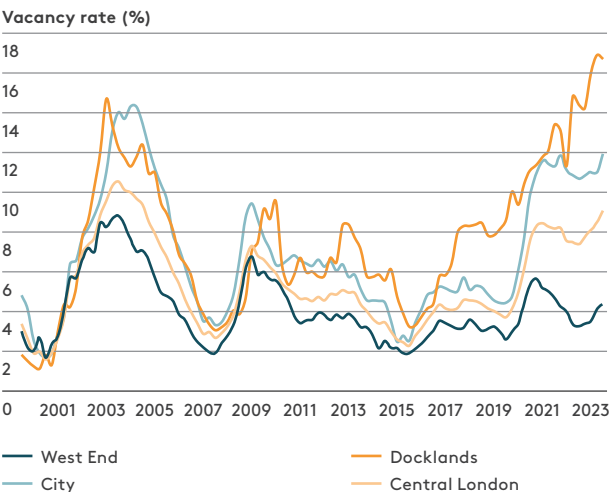
In line with long-term trends, foreign direct investment (FDI) into London remains higher than other core global cities including Paris, New York and Hong Kong. Throughout 2023 there was an increase in the number of FDI projects to 103 in London which compares to a reduction in other global cities.

CENTRAL LONDON OFFICE MARKET continued

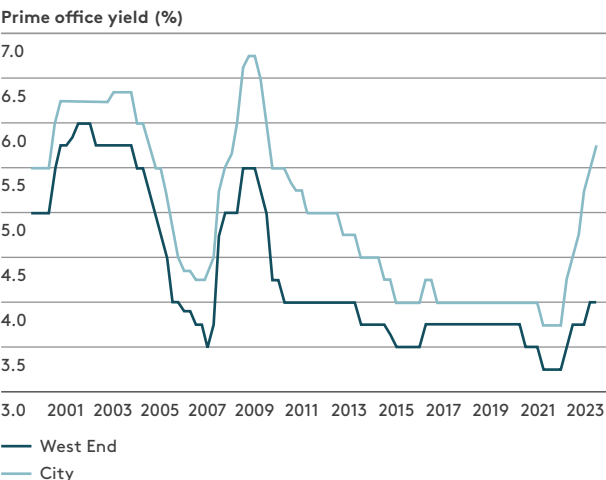
London's office cycle



Available space by sub-market



Central London office yields



In a continuation of the trend seen over the last few years, businesses are becoming increasingly strategic around their real estate planning and more selective in both the building and the landlord they choose. Against a backdrop of restricted supply of high quality space, landlords that provide great space in the right location, with best-in-class amenity and service are seeing attractive rental growth as the flight to quality continues. According to Knight Frank, the office now fulfils five key purposes in the post-Covid era, underlining its importance: talent attraction and retention; increased collaboration; cost management and mitigation; corporate brand and image; and employee wellbeing.

London's broad appeal to a diverse range of businesses continues to serve it well. It is not overly dependent on any one sector and the diversity of scale and occupational requirements supports demand across a wide spectrum, from large global HQs let on long leases to space for SMEs on more flexible terms. In recent years, there has been a convergence in the space needs across business sectors, as the importance of quality has risen and there is a more unified approach to what an office needs to provide.

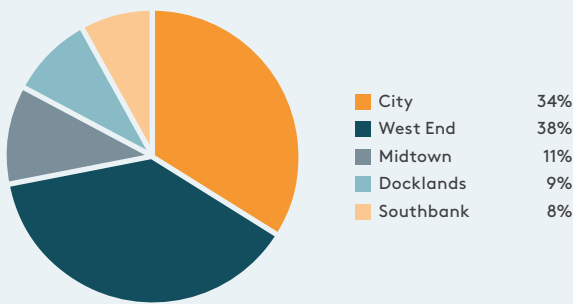
Location and connectivity have also been important factors in the market and data from a number of agents shows a clear preference among occupiers for centrally located offices. Over the last few years, a significant number of businesses have returned to London's core markets. The trend is widely expected to continue.

Over the course of 2023, there has been a shift in the number of companies issuing clearer guidance to employees around working policies. A recent study of 400 global companies by VTS found that over the last six months, 60% of European respondents have either 'mandated' or 'encouraged' more time in the office. Looking forward to 2024, a similar pattern is seen, with 52% planning to further 'mandate' or 'encourage' more time in the office. On a global basis, only 10% of respondents have adopted a remote-first approach and 1% of companies have gone fully remote.

Occupational market

London is not a homogenous market. Rather, it comprises a series of sub-markets, each with its own characteristics and nuances – it is a tale of three cities. This is particularly apparent when looking at vacancy levels. Overall, central London vacancy is elevated at 9.1% against the 10-year average (10YA) of 5.2%. This compares to the West End at 4.4% (10YA: 3.4%), City at 11.9% (10YA: 6.7%) and Docklands at 16.7% (10YA: 8.9%).

Central London office stock



While market dynamics vary by location, there is also a difference in occupier demand between prime and secondary space. As a result, the composition of vacancy is more relevant than the headline. Across London, there is 26.1m sq ft of available space, of which 18.1m sq ft (69%) is secondhand, 4.0m sq ft is newly completed space and 4.0m sq ft is under construction. Applying this to the market, 'competing supply' for our high quality portfolio is meaningfully lower than the headlines suggest, supporting our positive outlook for rental growth.

According to CBRE, the pull back by Big Tech impacted take-up in 2023, which was down 16% relative to 2022 at 10.5m sq ft. West End take-up was down 27% to 3.6m sq ft, against a supply-constrained backdrop, but City take-up was up 1% to 5.3m sq ft, buoyed by several large pre-lets, including HSBC and Clifford Chance, both of whom will vacate their existing space in Canary Wharf. However, active demand is high, rising from 5.7m sq ft at December 2022 to 9.9m sq ft at December 2023 suggesting substantial pent-up requirements.

Another important market indicator is the development pipeline, which remains restricted as a result of increases in construction and finance costs, coupled with a more difficult planning backdrop. Across central London, CBRE estimates 12.9m sq ft of space will complete between 2024 and 2027, 31% lower than the total over the preceding four years. 5.0m sq ft (38%) is pre-let and 7.9m sq ft is speculative. Relative to average take-up over the last 10 years (12.1m sq ft), speculative completions equate to just eight months' supply.

Investment market

Investment activity was subdued in 2023 with investor sentiment impacted by the limited availability and high cost of debt. Transactions in the year totalled £5.2bn, which compares to the 10-year average of £12.7bn.

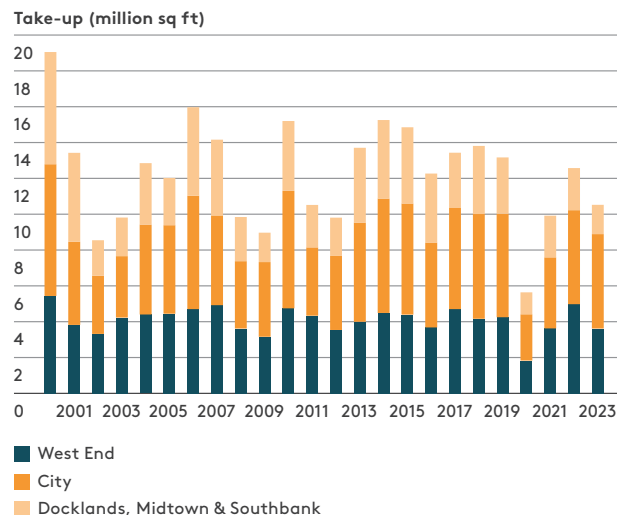
In the West End, smaller assets (typically sub-£100m) were the most liquid and robust in terms of pricing, with purchasers less reliant on debt financing. In the City, where the average lot size is larger and investors are generally more leverage-dependent, pricing showed greater weakness, in particular for buildings in more secondary locations.

Well-located, value-add assets have continued to find a market, albeit at repriced levels. By contrast, demand for secondary assets and leaseholds remains constrained.

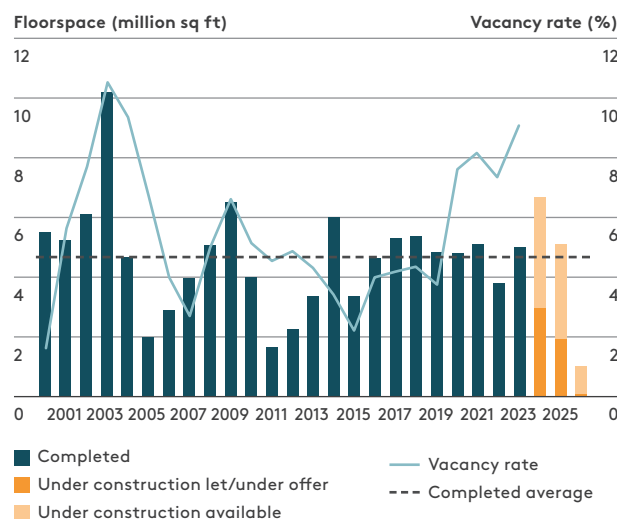
With the pace of inflation continuing to slow in the UK and the hike in interest rates appearing to have concluded, the cost of debt is starting to moderate as lender risk appetite shows signs of recovery. Consequently, there are early signals that investor sentiment is starting to turn a corner. London, and in particular the West End, remains an attractive location for domestic and international investors and is likely to benefit from any positive shift in momentum.

The number of potential investors has started to increase, and we expect 2024 and 2025 will present interesting acquisition opportunities for well-capitalised investors that can move quickly, for several reasons. The number of refinancings is gathering pace, with many borrowers facing both increased debt costs and an equity gap. At the same time, a number of funds are having to deal with ongoing redemption requests which is leading to them selling their more liquid assets.

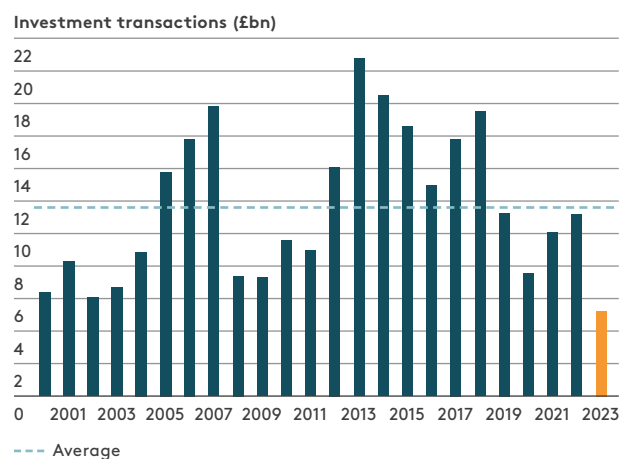
Central London office take-up



Central London development pipeline



Central London office investment transactions



A well-placed business



- 1 • A brand renowned for design and innovation
- Established team with a strong track record of success

➔ See page 30

- 2 • London is a global city, attracting a range of occupiers
- Quality offices play a key role in the 'war for talent'

➔ See page 13

- 3 • Opportunity-rich portfolio – 44% with regeneration potential
- 72% located in the West End where demand is strong

➔ See pages 24 to 29

- 4 • Matching product to location through bespoke design
- Portfolio-wide approach to amenity made possible by village clusters

➔ See pages 20 to 23

- 5 • Ensuring value creation for all stakeholders
- Investing in self-generated electricity as part of our commitment to NZC by 2030

➔ See pages 42 to 55

- 6 • Strong balance sheet with modest leverage
- Focus on long-term dividend growth, well covered by earnings

➔ See page 36

Delivering the right product...





...in the
right location

Unique design

6-8 Greencoat Place SW1 – heritage regeneration

- 6-8 Greencoat Place (32,400 sq ft) is part of our 287,000 sq ft Victoria portfolio.
- A former Victorian warehouse, it was originally part of the Army & Navy stores.
- We have been regenerating the entire block, which includes Greencoat & Gordon House and Francis House, in partnership with architect Squire & Partners.
- Following this regeneration which completed in 2021, it was fully leased to Fora on a 15-year lease at £68 psf, an uplift from £30 psf before the refurbishment.

- Comprehensive refurbishment (£9m)
- Improved EPC rating to B (from E)
- Removed gas boilers and enhanced sub-metering
- Installed double glazing
- Improved bike spaces and shower facilities
- LED lighting with PIR sensors

Before



£68 psf

Headline rent; uplift from
£30 psf pre-refurbishment

15yr

Term certain lease to Fora

After



We understand that each organisation has different space preferences and requirements. Our approach recognises the importance of creating the right product in the right location. Whether it is retrofitting heritage space or delivering highly efficient new-build space, we create 'long-life, low carbon, intelligent' buildings that meet the evolving requirements of increasingly selective occupiers.

25 Baker Street W1 – high quality new build, green space

- Originally a collection of 1960s leasehold blocks (143,000 sq ft) held in a joint venture with The Portman Estate, we acquired full ownership in 2021.
- The large surface car park provided an opportunity to double the floor area.
- The scheme, designed by Hopkins Architects and due for completion in 2025, includes 206,000 sq ft of Grade A offices at 25 Baker Street, 75% of which are already pre-let to PIMCO and Moelis.
- In addition, there is 52,000 sq ft of residential – private and affordable. Five private units pre-sold as at December 2023, with a further two in 2024.
- We are also delivering 28,000 sq ft of new high quality retail space set around a landscaped central courtyard open to the public.

25 Baker Street offices:

- 75% pre-let; average £103 psf
- Target BREEAM Outstanding and EPC A
- Targeting NABERS UK rating of 4.5 stars
- Fixed price construction contract
- Funded under Green Finance Framework

Before



After



298,000 sq ft

On completion in 2025 (108% uplift)

75%

Pre-let to PIMCO and Moelis

Unique product & service

DL/28 in Old Street EC1

We strive for excellence by doing things differently. This applies not just to the physical spaces that we create, but also to the amenity and services we offer our occupiers, delivering many tangible benefits. As well as attracting occupiers to our portfolio, this encourages them to remain with us as their businesses evolve.

Our distinctive design-led approach

- Design excellence is at the heart of our business.
- We believe well-designed space has the power to inspire innovation, promote collaboration and drive collective productivity.
- Every building is unique, requiring a design that complements its character and location and uses the right materials to create the right aesthetic.
- We look to provide generous space with a focus on volume and light, as well as flexibility to ensure space can be adapted to a diverse range of occupiers and consequently stand the test of time.
- Amenity is also important, including generous reception areas, cycle facilities, the provision of outdoor space and our unique member benefits.
- We look to the future, considering new construction techniques, alternative low carbon materials and the adoption of intelligent systems within our buildings.



DL/ MEMBERS

Our unique 'Furnished + Flexible' product

- We continue to deliver our 'Furnished + Flexible' product across smaller units, typically less than 10,000 sq ft.
- 144,400 sq ft of the portfolio has already been delivered with a further 21,500 sq ft planned.
- These are ready-to-occupy, fully furnished units which provide occupiers with their own front door and are generally let on shorter lease terms.
- We apply our design principles to these units to ensure they have a distinctive look, but also that they meet the needs of their particular locations.



Exclusive DL/Member benefits

We have designed our member offering to be available to all of our office occupiers, no matter the size of building they occupy. Access is complementary and covers a range of different benefits:

DL/ Lounges

Beautifully designed multi-purpose spaces for our occupiers to work, meet, socialise and attend events. High-spec meeting rooms and private event space are also available to hire on a pay-as-you-go basis. We have two strategically located lounges in operation – DL/78 in the west (Fitzrovia) and DL/28 in the east (Old Street).

DL/ App

A digital platform for us to communicate with our members and to offer exclusively negotiated discounts from a range of businesses, including local coffee shops, restaurants and wellness brands. It also provides a quick and easy way to book meeting rooms at our DL/Lounges.

DL/ Experience

An in-house team dedicated to ensuring our occupiers receive an excellent 'front-of-house' experience and bringing value-added services across our buildings. They run a programme of curated events throughout the year, including networking events, rooftop yoga, film screenings, charity activities and competitions.

DL/ Service

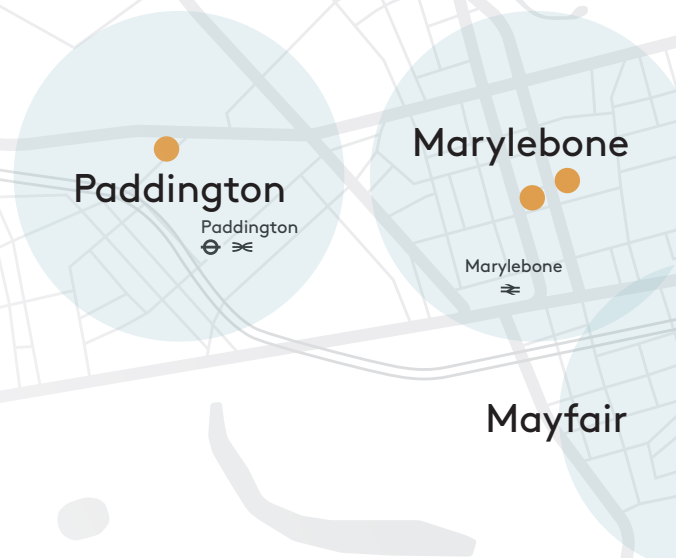
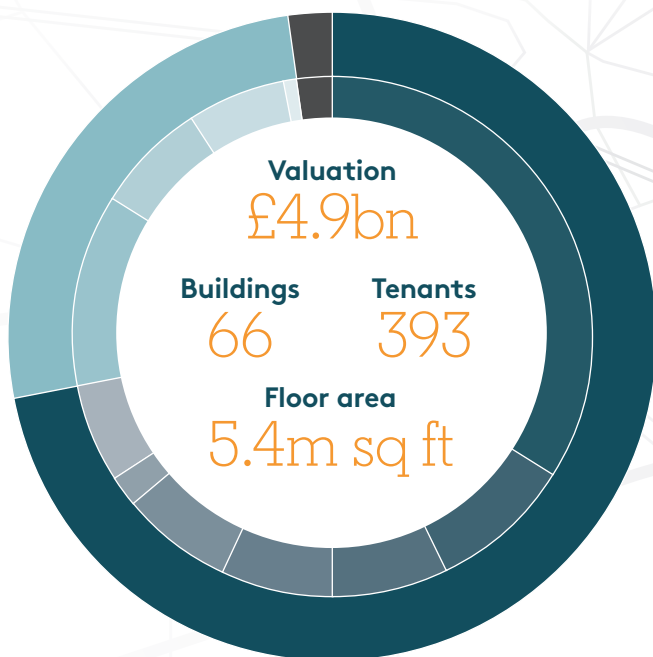
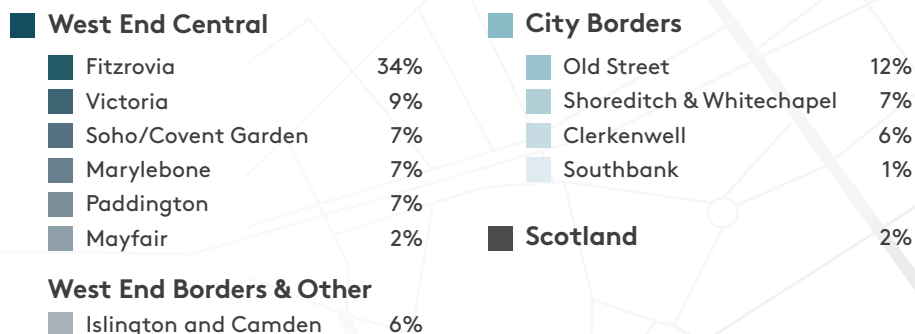
This year we introduced DL/Service, a food and beverage offering operated out of a number of our buildings. With a diverse all-day menu, it provides preferential pricing to our members. Catering is also available to order with meeting room and event bookings. See page 133 for details.

Our portfolio-wide approach allows us to connect and build communities within our portfolio and ensures this enhanced amenity is delivered in a cost-effective way.

OUR PORTFOLIO

72% of our portfolio is located in the West End

Our portfolio weighting by villages – 13 in London (98%)



Contracted net rental income

£206.5m

2022: £204.2m

Estimated rental value¹

£309.6m

2022: £304.6m

EPRA net initial yield

4.3%

2022: 3.7%

True equivalent
yield

5.55%

2022: 4.88%

Weighted average unexpired
lease term (WAULT) – to break

6.5yrs

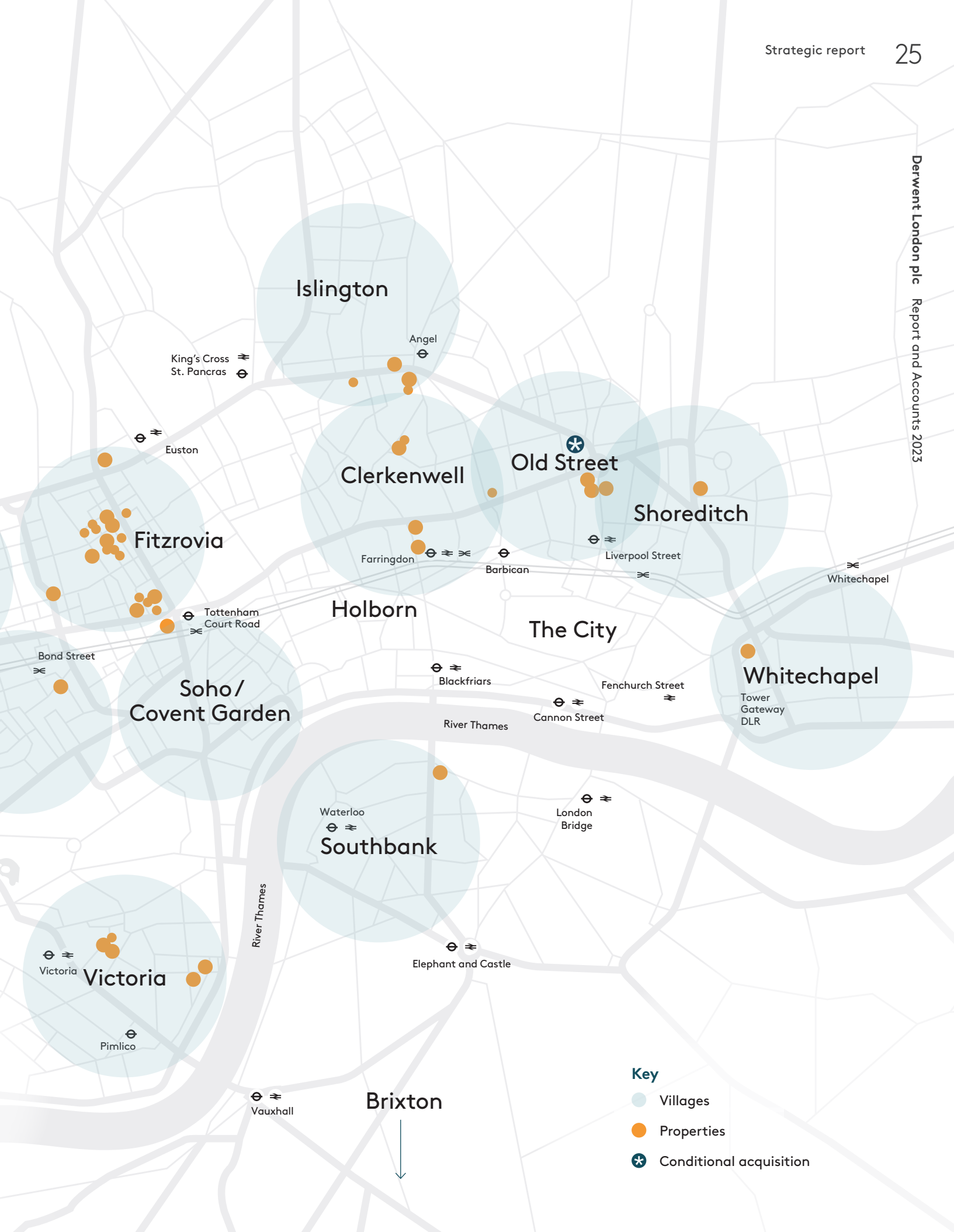
2022: 6.4 years

'Topped-up' WAULT –
to break



7.4yrs

2022: 7.2 years

¹ After additional capex of £228m.



Key

-  Villages
-  Properties
-  Conditional acquisition

REGENERATION PROJECTS

We invest in a combination of development and refurbishment projects across the portfolio.

We typically invest £150m to £250m in the portfolio each year.

Refurbishment projects usually fall into one of two categories: rolling or comprehensive. We reposition properties with enhanced amenity and general upgrades which grow income and future-proof asset value. Simultaneously, part of our activity relates to EPC upgrade works to ensure compliance with evolving environmental legislation. 68.4% of our portfolio is rated EPC A or B (including projects), with a further 19.1% rated C.

The timing, pace and extent of rolling refurbishments depends on when we get space back. On completion, we anticipate being able to achieve an attractive uplift in rental value.

Major projects and refurbishments are classified in the 'With Potential' or 'Under Development' sections of our balanced portfolio. On completion, they will typically move into the 'Core Income' category where we continue to create value through asset management.

➔ See page 29

On-site developments (437,000 sq ft)

25 Baker Street W1

Target completion H1 2025



298,000 sq ft

BREEAM: Outstanding (target)¹

NABERS UK: 4 Star+ (target)¹

Embodied carbon:

c.600 kgCO₂e/sqm

Total capex: £290m, plus estimated overage of £26m

Leasing: 75% pre-let (commercial office element)¹

Network W1

Target completion H2 2025



139,000 sq ft

BREEAM: Outstanding (target)

NABERS UK: 4 Star+ (target)

Embodied carbon:

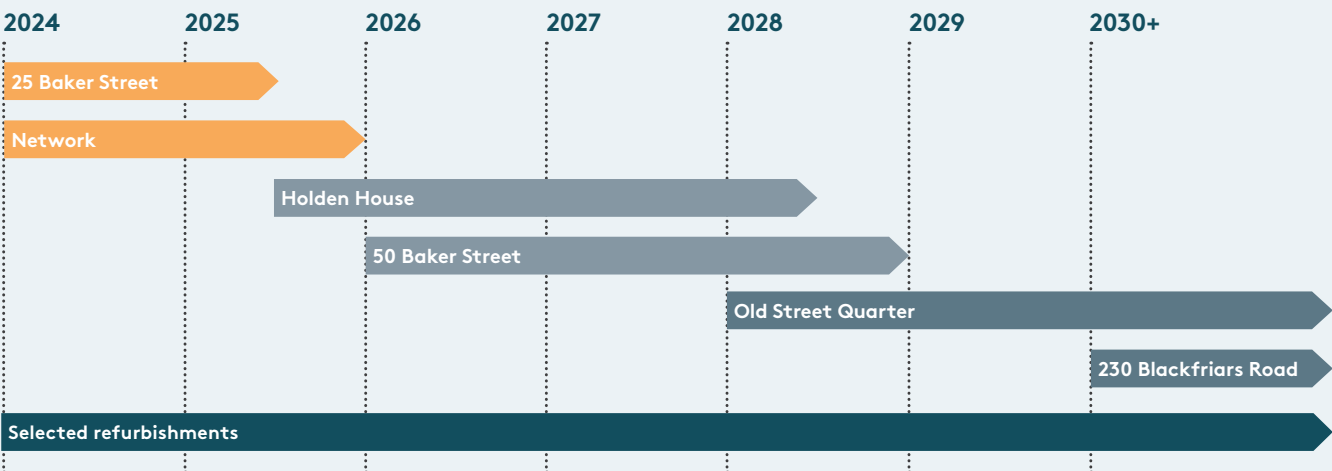
c.530 kgCO₂e/sqm

Total capex: £125m

Leasing: Speculative

¹ Excludes offices at 30 Gloucester Place.

Regeneration project timeline



Medium-term developments (c.390,000 sq ft)

Holden House W1

From 2025



Proposed
c.150,000 sq ft

Existing
90,600 sq ft

50 Baker Street W1 (50:50 JV)

From 2026



Proposed (at 100%)
c.240,000 sq ft

Existing (at 100%)
122,300 sq ft

Long-term developments (950,000+ sq ft)

Old Street Quarter EC1

From 2028+

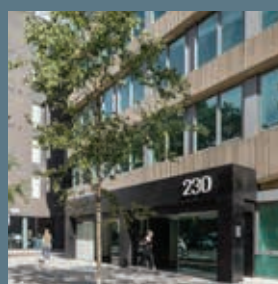


Proposed
750,000+ sq ft

Existing
c.400,000 sq ft

230 Blackfriars Road SE1

From 2030+



Proposed
200,000+ sq ft

Existing
60,100 sq ft

Selected refurbishments



1-2 Stephen Street W1

Rolling from 2023

Passing rent¹
£67 psf

Estimated rental value²
£75+ psf



Greencoat & Gordon House SW1

Comprehensive from 2025

Passing rent¹
£54 psf

Estimated rental value²
£70+ psf



Middlesex House W1

Rolling from 2025

Passing rent¹
£59 psf

Estimated rental value²
£75+ psf



20 Farringdon Road EC1

Rolling from 2027

Passing rent¹
£53 psf

Estimated rental value²
£80+ psf

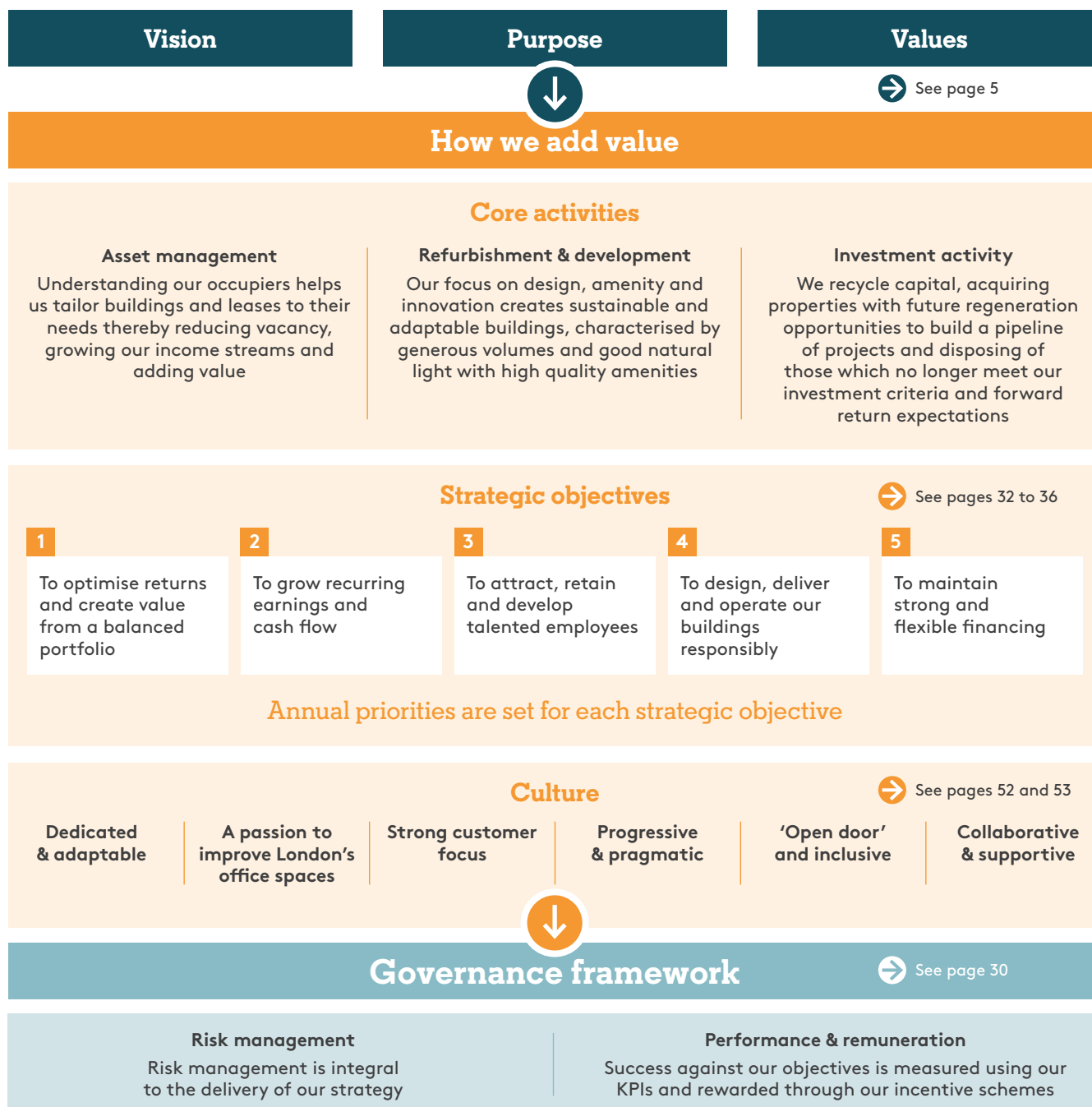
¹ 'Topped-up' office rent.

² ERV after capex.

BUSINESS MODEL & STRATEGY

Our portfolio and people together deliver long-term performance

We apply our asset management and regeneration skills to the Group's 5.4m sq ft property portfolio by combining our people, relationships and financial resources to add value and grow income. Stakeholder, climate change and wider ESG impacts form key considerations in the strategy we pursue for each individual property. This benefits the communities in which we operate and the wider environment.



We plan for a portfolio balanced between 'Regeneration' and 'Core Income' assets. At 31 December 2023, our portfolio was split 44% 'With Potential' or 'Under Development' and 56% 'Core Income'. The balance may fluctuate depending on the market cycle.

'Core income'

Buildings where most of the repositioning activity has taken place, but we use our asset management skills to continue to grow income and value.

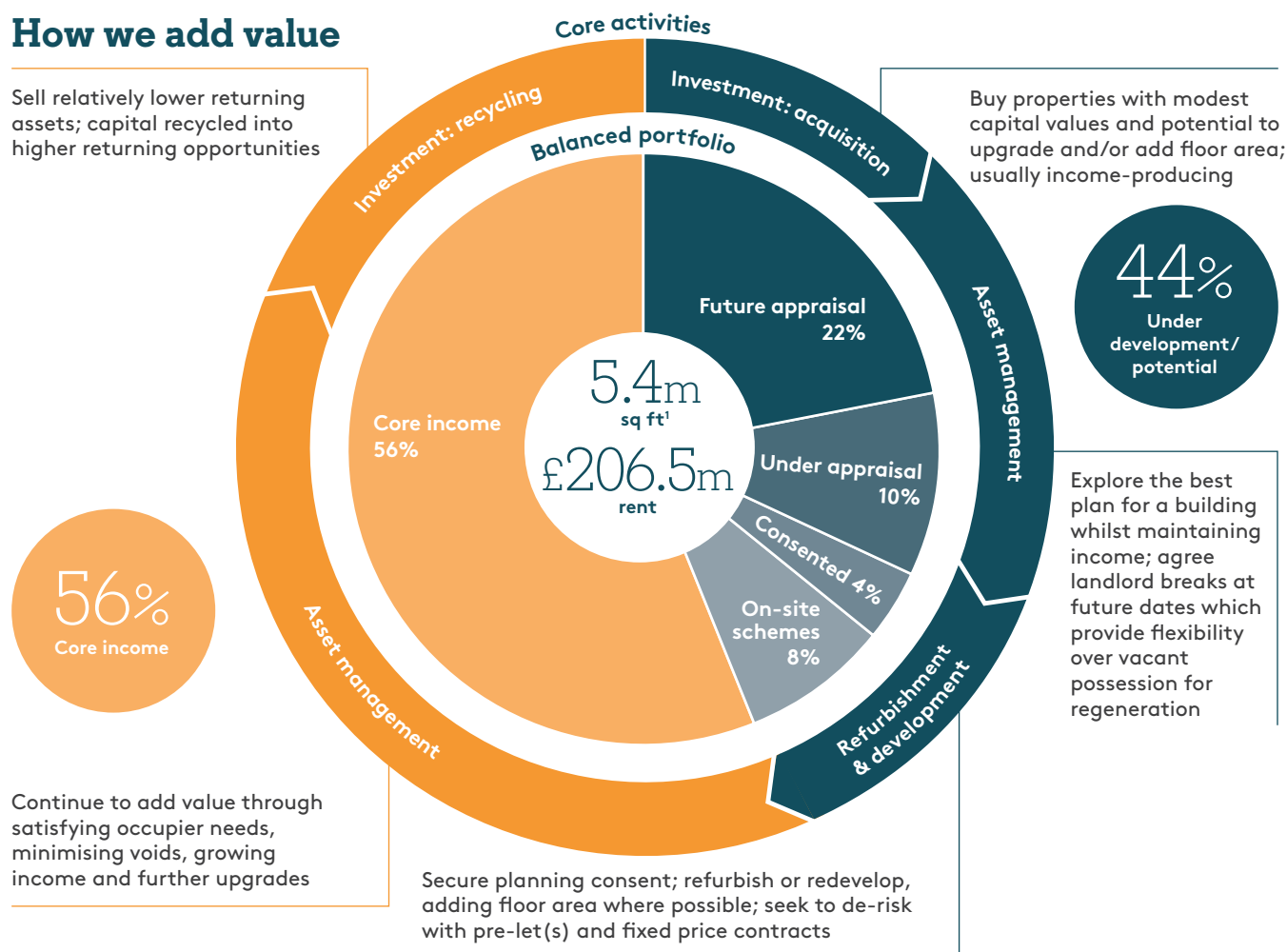
'With potential' or 'Under development'

Buildings either on site or with potential to add further value through regeneration. We have excluded the proposed major development at Old Street Quarter EC1 as completion of the purchase contract signed in May 2022 is conditional.

How we add value

Sell relatively lower returning assets; capital recycled into higher returning opportunities

Buy properties with modest capital values and potential to upgrade and/or add floor area; usually income-producing



Portfolio characteristics

Core income

Floor area: 3.04m sq ft
Rental income: £140.9m
WAULT: 7.6 years
Rent: £66.93 psf
ERV: £68.30 psf

On-site schemes

Floor area: 0.44m sq ft
Pre-let income: £15.6m
WAULT: 13.4 years
Rent: £102.73 psf
ERV: £92.19 psf

Potential schemes²

Floor area: 1.91m sq ft
Rental income: £65.6m
WAULT: 4.1 years
Rent: £49.94 psf
ERV: £51.82 psf

1 Comprises 4.95m sq ft of existing buildings plus 0.44m sq ft of on-site developments.

2 Includes Future appraisal, Under appraisal and Consented categories.

Our strategy is well established and explains how we aim to fulfil our purpose for the benefit of all our stakeholders.

Strategic objectives

Successful implementation of the Group’s strategy requires our teams to work together with a shared vision and common values.

These include focusing on creative design and ensuring sustainability and responsibility are embedded in everything we do.

We have fostered an inclusive culture that is progressive and hard-working, building a team passionate about improving London’s office space.

This strategy is defined through our five strategic objectives:

- 1 To optimise returns and create value from a balanced portfolio
- 2 To grow recurring earnings and cash flow
- 3 To attract, retain and develop talented employees
- 4 To design, deliver and operate our buildings responsibly
- 5 To maintain strong and flexible financing

➔ See pages 32 to 36

Risk management

Risk management is an integral part of our business as we seek to achieve the appropriate balance of risk and return. The level of risk is monitored regularly and is split into categories considering the likely impact on strategy, operations, financial position and stakeholders.

We take a long-term view on planning, risk mitigation and financial discipline as our projects may take many years to complete.

Annual preparation of a five-year plan helps us identify risks and opportunities. It enables us to anticipate and maintain a balance between income/dividend growth and value adding through higher risk projects, both now and into the future. It also helps us monitor our responsibilities to our various stakeholders.

Long-standing relationships with our supply chain form an important source of value and help mitigate risk.

➔ Principal risks / See page 94

➔ Emerging risks / See page 102

Performance & remuneration

Key Performance Indicators (KPIs) help us measure performance and assess the effectiveness of our strategy. These are listed for each objective on pages 32 to 36.

The main performance measures we use to ascertain overall business performance and determine the majority of the variable elements of executive remuneration are:

Total return (TR) – Combines our dividends with the movement in net asset value per share (measured using EPRA NTA) to provide an overall return for the year, measured against a peer group.

Total property return (TPR) – Measures the income and movement in value from our properties, compared against an index of other relevant properties.

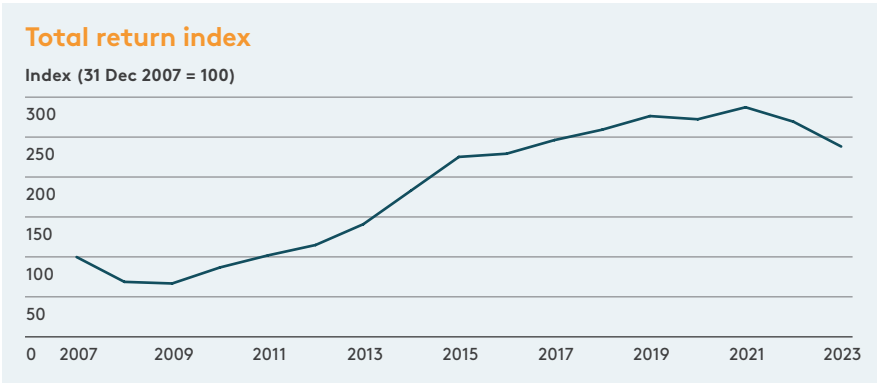
Total shareholder return (TSR) – Compares our dividends and share price movement with the relevant index.

These metrics ensure strong alignment between the interests of shareholders and our decision makers. In addition, non-financial targets represent 25% of the potential annual bonus and 10% of the potential LTIP, which measure our success in meeting ESG and climate change responsibilities and the needs of other stakeholders.

➔ Remuneration Committee report / See pages 172 to 197

Total return

Real estate is cyclical, impacted by many different factors. Our business model of value creation through regeneration requires a long-term approach with conservative leverage.





STRATEGIC OBJECTIVES

1

To optimise returns and create value from a balanced portfolio

We plan to optimise returns from a portfolio which is balanced between properties with potential to add further value through regeneration and those which have already been repositioned but where our asset management skills can continue to grow value and income. This is measured by reference to the balanced portfolio split as set out on page 29 and is constantly changing depending on where we are in the property cycle and where individual properties are in their life cycle.

Having a pipeline of current and future projects is a key part of our strategy as returns generated from value-enhancing projects help us outperform our benchmarks (principally the MSCI Central London Office Index). These projects often take several years with profits derived from a combination of planning uplift, the regearing of leases and physical refurbishment or redevelopment.

We regularly review the portfolio to identify capital recycling opportunities which involves disposing of assets where we believe most of the upside has been captured or which no longer meet our investment criteria.

Maintaining a balanced portfolio enables us to start schemes speculatively. However, we often look to de-risk projects by agreeing pre-letting terms with one or more tenants during the construction period. The momentum that this provides encourages us to consider the next phase of our project pipeline, adding further value where we see opportunities.

Given the inherent risk of development projects, we seek to balance these with 'core income' properties in the portfolio where the focus is on customer relationships and maintaining or growing income through active asset management. This enables us to achieve the appropriate balance of risk and return for the business.

2023 Priorities and progress

2023 Priorities	Progress
Progress 25 Baker Street W1 and Network W1 and secure pre-lets	➊ Good progress made and both projects on track to complete in 2025. 100% of construction costs fixed. Office space at 25 Baker Street is now 75% pre-let and five residential units pre-sold at Dec 2023
Let remaining space at The Featherstone Building EC1 and Soho Place W1	➋ A further 81,700 sq ft of combined space was let, adding £6.4m of income to the portfolio
Progress planning applications for 50 Baker Street W1 JV and Old Street Quarter EC1	➌ Advanced our master planning exercise for Old Street Quarter and engaged with Westminster City Council on 50 Baker Street proposals
Seek further opportunities within the portfolio to upgrade or reposition assets to maximise returns, increase our 'Furnished + Flexible' offering and explore Life Sciences possibilities	➍ Explored various options to reposition a number of assets, including 20 Farringdon Road EC1 and Middlesex House W1. Additional 80,800 sq ft of space converted to 'Furnished + Flexible' during the year, a 127% increase

44%

of assets 'Under development/With potential' (by area) / see page 29

56%

of assets 'Core income' (by area)

Performance measures:

1 2 3 4 7 8 10

➔ KPIs / See page 37

Principal risks:

1 3 4 5 6A 6B 6C 7A 7B
7C 8 9 10

➔ See page 94

Emerging risks:

A B C

➔ See page 102

2024 Priorities

- Make further progress on 25 Baker Street and Network, including additional pre-lets and residential pre-sales
- Let the remaining space at The Featherstone Building, Soho Place and elsewhere
- Secure planning for 50 Baker Street JV and progress plans for Old Street Quarter
- Dispose of properties that no longer meet our investment criteria
- Review emerging acquisition opportunities

● Achieved ● In progress ○ Not achieved

2 To grow recurring earnings and cash flow

Property valuations are essentially determined by contracted and expected future cash flows combined with a market yield which takes account of risk, growth expectations, quality, environmental considerations and other factors.

Establishing the right strategy for a property can both add value and increase cash flow, but these may occur at different times of the property cycle. Value creation tends to occur first as expectations that rent will grow above its current passing level emerge, referred to as 'reversion', with an uplift in cash flow captured later upon lease events such as rent reviews, lease regears and other forms of lease restructuring.

Using established relationships with occupiers, and with a focus on local communities and other stakeholders, our asset managers capture reversion by:

- working closely with our occupiers and consultants to arrive at appropriate rent review outcomes;
- negotiating with our occupiers to extend leases or remove break clauses;
- coordinating 'block dates' to gain possession of buildings when a regeneration scheme is planned;
- reviewing levels of 'grey' space, i.e. floor area that is let but which is not currently occupied or is being marketed by an occupier; and
- trying to anticipate our occupiers' needs, thereby optimising income. Examples are fixed or minimum rental uplifts and a flexible approach to dilapidations and alienation clauses.

We believe that by creating the right space and providing our occupiers with the flexibility, adaptability and amenity they are increasingly looking for we can generate further rental growth in the future.

1.7%

increase in like-for-like gross rental income in 2023

4.0%

EPRA vacancy rate

Performance measures:

1 2 3 4 7 9 10

➔ KPIs / See page 37

Principal risks:

1 2 3 4 5 6A 6B 6C 7A
7B 7C 8 9 10

➔ See page 94

Emerging risks:

A B C D E

➔ See page 102

2023 Priorities and progress

2023 Priorities	Progress
Deliver DL/28 and continue to build on our customer membership offering	● Completed and opened DL/28 in October, launched DL/Service (food and beverage offering) in a number of our buildings and expanded our member discount offers
Proactively manage upcoming expiries/breaks and vacancies to retain or increase income where viable	● Carried out asset management activities over 670,000 sq ft, increasing rent by 3.5% to £41.5m. Our combined retention and re-let rate was 65% and average lease length was stable at 6.5 years (2022: 6.4 years)
Look to upgrade existing stock where opportunities arise to maximise income	● Invested £36m on smaller upgrade projects across the portfolio

2024 Priorities

- Continue to proactively manage upcoming reviews, expiries/breaks and vacancies to retain or increase income
- Work to reduce irrecoverable property costs
- Look to upgrade existing stock where opportunities arise to maximise income
- Further promote DL/Lounges and DL/Service and continue to build on our member offering

3 To attract, retain and develop talented employees

Our employees are vital to the successful delivery of our strategy and long-term business performance.

We are an inclusive and respectful employer that welcomes diversity and promotes equality. We have a high performing, progressive and collaborative culture, coupled with a consultative and professional leadership style, focused on teamwork, integrity and long-term relationships.

Our employees are our brand ambassadors and we invest considerable time and resources in their development and growth. The Group enjoys a high rate of staff retention with 43% having been with the business for at least five years. When we recruit externally, we look for diverse, outstanding individuals who can bring creativity, skills and competencies to the business.

The Group’s reputation stems from behaviours and values promoted by the Board and Executive Committee. These are reinforced through our induction programme, performance management process, core skills workshops and our management and leadership training.

Our structure enables complex transactions to be managed effectively and decisions made quickly with the overall aim of creating value and driving income growth across our portfolio. Although we are organised by discipline, we assemble specific project teams from across the business to increase creativity and innovation.

We undertake an annual anonymous staff survey which achieves a high response rate. This provides an important forum for staff to provide feedback which helps us identify areas where we have made a positive impact and areas for future improvement.

We remain focused on embedding our diversity and inclusion ambitions throughout the business.

2023 Priorities and progress

2023 Priorities	Progress
Further embed diversity and inclusion, focusing on disability	1 Joined Business Disability Forum and completed self-assessment programme. Conducted internal disability survey to identify proportion of our employees with disability or long-term condition
Maintain focus on future succession planning	1 18 internal promotions, including two to the Executive Committee
Provide further health and wellbeing initiatives	2 Variety of health and wellbeing workshops and initiatives provided. See page 53 for details
Analyse ‘pulse survey’ results and take appropriate action	2 Initiatives to improve collaboration introduced, including team coaching and personal development plan training for line managers, and workflows streamlined through DIT activities
Run fifth biennial employee survey (October 2023)	2 Conducted fifth employee survey with high 94% response rate

89%

Proud to work at Derwent London

88%

Overall employee satisfaction

88%

Staff retention rate during 2023

Performance measures:

1 3 16

➔ KPIs / See page 37

Principal risks:

6B 7A 7B 7C 8 9 10 11

➔ See page 94

Emerging risks:

B C

➔ See page 102

2024 Priorities

- Host four individuals through the #10,000 Interns programme
- Inclusive management training for line managers
- Progress work on Disability Strategy and Action Plan
- Take appropriate action identified by employee focus groups following staff survey

● Achieved ● In progress ○ Not achieved

4 To design, deliver and operate our buildings responsibly

Delivering well-designed, adaptable, occupier-focused buildings with enhanced amenity is an integral part of our business model. We believe these buildings offer better long-term value for customers through more efficient occupation, reduce letting risk and void levels, and command stronger rents, yields and values.

Setting high standards for design and environmental responsibility builds flexibility, longevity and climate resilience into our portfolio, both new schemes and the properties we manage.

To meet our target of becoming a net zero carbon business by 2030, we must deliver buildings that are increasingly energy efficient, powered by renewable energy and have very low embodied carbon footprints. Likewise, we must reduce the reliance of our managed properties on natural gas and further lower their energy consumption and associated operational carbon footprints.

Our approach to becoming net zero carbon is set out in further detail on pages 46 to 49, together with our full TCFD (Task Force on Climate-related Financial Disclosures) disclosure on pages 104 to 117. A phased programme of works to upgrade EPC ratings to ensure compliance with evolving Minimum Energy Efficiency Standards (MEES) legislation is underway.

We work with our stakeholder groups to ensure we are meeting their expectations and standards, as well as acting responsibly. This ranges from engaging with the local communities around our buildings, through using the best designers and contractors, to ensure our portfolio meets the standards we set (see pages 42 and 43). In 2023, we updated our Responsible Development Brief to keep our targets at the forefront.

We aim to ensure our portfolio is fit for purpose over the long-term and continues to generate the returns we expect.

2023 Priorities and progress

2023 Priorities	Progress
Rebase our SBTi targets to 1.5°C scenario	● Rebased near-term SBTi-verified target to 1.5°C-aligned scenario
Convert occupier engagement into lower energy usage	● Engaged with 104 occupiers (44% of ERV)
Progress EPC upgrade plans	● EPC upgrade works incorporated into asset management plans
Align our Net Zero Pathway with UK's Transition Plan Taskforce (TPT)	○ Formal publication of UK TPT delayed until late 2023; we provided comments prior to publication
Further develop our carbon impact measurement approach	● Internal workshops held to define our approach to carbon impact measurement
Complete and implement new Social Value Strategic Framework	● New Social Value Strategic Framework launched

68.4%

EPC rating A or B, including projects (by ERV)

10%

Reduction in energy intensity since 2019 baseline (kWh/sqm)

27%

Increase in operational carbon emissions (Scope 1, 2 & 3 excl. embodied carbon) since 2022 (tCO₂e)

Performance measures:

1 3 11 12 13 14 15

➔ KPIs / See page 37

Principal risks:

1 6B 6C 7A 7B 7C
8 9 10 11

➔ See page 94

Emerging risks:

A C D E

➔ See page 102

2024 Priorities

- Collaborate with occupiers to reduce energy usage
- Review and expand material Scope 3 inventory elements, including those relating to occupier energy which we do not procure
- Complete double-materiality assessment (see page 48 for definition)

● Achieved ◐ In progress ○ Not achieved

5 To maintain strong and flexible financing

We finance our business using equity and a moderate level of debt from a wide variety of sources. We are relationship-driven and value consistency and reliability with our lenders but we also look to be progressive and innovative.

Our overriding principle is one of modest financial leverage and generous interest cover, to balance the relatively higher risk attached to our regeneration schemes. Using a combination of unsecured flexible revolving bank facilities and longer term fixed rate debt (both unsecured and secured), we can adjust the level of drawn debt to our day-to-day requirements.

We aim to maintain considerable headroom under our facilities to enable us to move quickly when acquisition opportunities arise. This has a cost in terms of non-utilisation fees but demonstrates that cash flows can be funded without delay. It also reassures our management team and our stakeholders that the development pipeline is capable of being financed and delivered without overstretching the balance sheet.

We value long-term relationships with our lenders, valuing the stability and mutual understanding that this creates over an approach that seeks the very lowest funding cost.

Our financing model is based on the following principles:

- conservative financial leverage;
- a strong focus on interest cover to support our credit rating (Fitch issuer default rating of ‘BBB+’ with a stable outlook);
- borrowing from a diverse group of relationship lenders who understand and support our business model;
- managing the cost of debt but also looking to have significant protection against interest rate fluctuations and long average debt maturities;
- keeping structures and covenants simple and understandable and thinking ahead; and
- ensuring the Group’s financing strategy supports and is consistent with our overall business goals.

This approach provides financial stability and helps us when considering issues such as going concern and viability statements.

2023 Priorities and progress

Priorities	Progress
Maintain or strengthen available facilities	● Maintained existing facilities throughout the year
Maintain sufficient headroom on financial covenants	● Interest cover remains strong at 4.1 times; property income could fall by 65% before breaching the interest cover covenant. High level of cash and undrawn facilities maintained (£480m at December) and EPRA LTV remains low at 27.9%
Review refinancing options for the £83m 3.99% secured loan due in 2024	◐ Positive discussions started with a variety of lenders to renew or refinance this facility
Continue to keep close to our existing relationship lenders	● Maintained regular dialogue with all our lenders throughout the year and hosted a number of property tours

Our REIT status

Derwent London plc has been a Real Estate Investment Trust (REIT) since July 2007. The REIT regime (see page 285) was launched to provide a structure which closely mirrors the tax position of an investor holding property directly and removes tax inequalities between different real estate investors. REITs are principally property investors with tax-exempt property rental businesses, but remain subject to corporation tax on non-exempt income and gains. In addition, we are required to deduct withholding tax from certain shareholders on property income distributions and, in 2023, £9.7m was paid to HMRC.

Performance measures:

1 3 5 6

➔ KPIs / See page 37

Principal risks:

1 2 3 4 5 6A 7A 7B 7C
8 9 10 11

➔ See page 94

Emerging risks:

D E

➔ See page 102

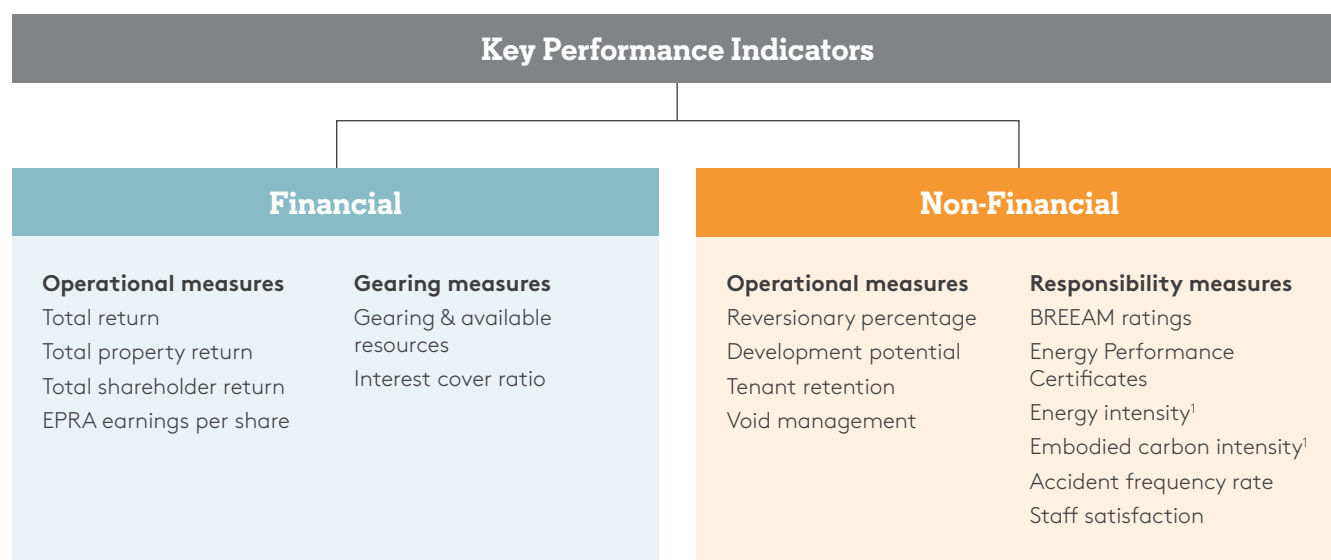
2024 Priorities

- Agree and execute strategy for £83m 3.99% secured loan due in 2024
- Consider refinancing options for £175m convertible bonds and £55m private placement notes due to mature over the next 24 months
- Maintain substantial headroom on financial covenants
- Continue to maintain close relations with our existing lenders

MEASURING OUR PERFORMANCE

Measuring our performance

We use a balance of financial and non-financial key performance indicators (KPIs) to measure our performance and assess the effectiveness of our strategy. They are also used to monitor the impact of the principal risks that have been identified and a number are used to determine remuneration.



Key to strategic objectives

- | | |
|---|---|
| 1 To optimise returns and create value from a balanced portfolio | 3 To attract, retain and develop talented employees |
| 2 To grow recurring earnings and cash flow | 4 To design, deliver and operate our buildings responsibly |
| | 5 To maintain strong and flexible financing |

- A** Audited
A Assured
R Remuneration

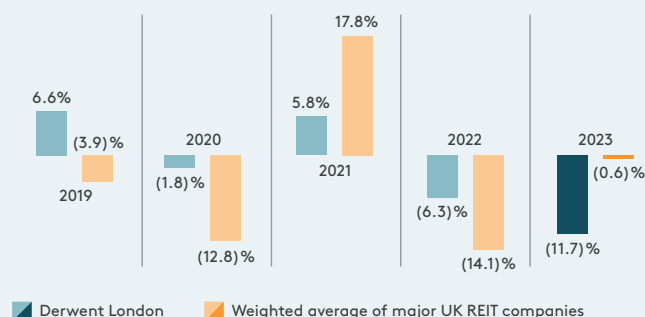
➔ Strategy/See page 30

¹ KPI introduced in 2023.

Financial

1. Total return (TR)

Total return is the movement in EPRA NTA plus dividends paid during the year. Our aim is to exceed the average of other major real estate companies (our 'benchmark').



Our performance

Total return in 2023 was -11.7% against a benchmark of about -0.6% based on current estimates. Over the past five years, our average annual return is -1.7%, a 1.7% p.a. outperformance against the benchmark (-3.4%). This demonstrates the ability of our business model to generate above average long-term returns.

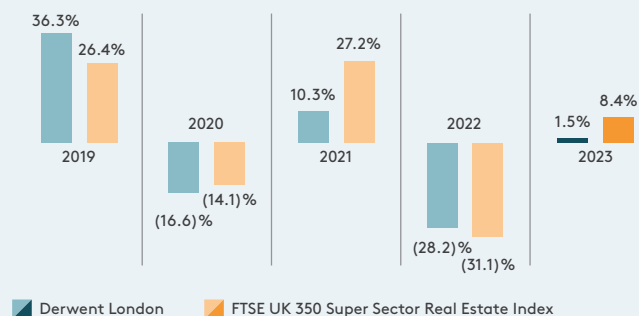
Strategic objectives 1 2 3 4 5

A R

3. Total shareholder return (TSR)

This measures the Group's success in providing above average long-term returns to its shareholders.

We compare our performance against the FTSE UK 350 Super Sector Real Estate Index, using a 30-day average of the returns in accordance with industry best practice.



Our performance

The fall in the share price during the year, in comparison to those of our peers mainly invested in other property sectors, meant that the Group underperformed its benchmark index in 2023. Despite this, our ability to deliver long-term returns is demonstrated by the fact that £100 invested in Derwent London 10 years ago would, at the end of 2023, have been worth £122, which is just below the benchmark index of £126.

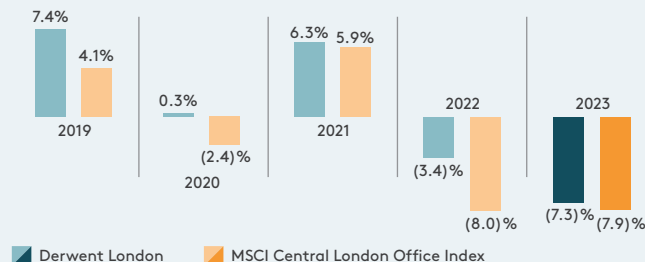
Strategic objectives 1 2 3 4 5

R

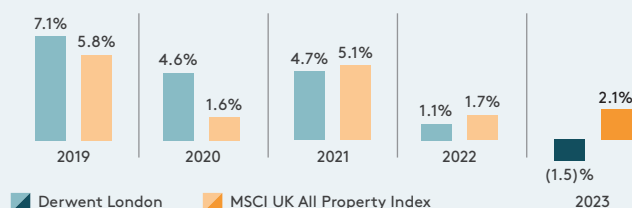
2. Total property return (TPR)

This is used to assess progress against our property-focused strategic objectives. Our aim is to exceed the MSCI Central London Office Index on an annual basis and the MSCI UK All Property Index on a three-year rolling basis.

Annual



Three-year rolling



Our performance

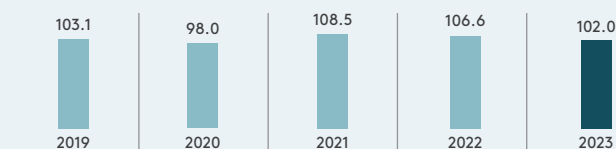
Good progress on delivery and de-risking of projects resulted in a 0.6% outperformance of the MSCI Central London Office Index during 2023. Derwent's three-year rolling average was -1.5% p.a., a 3.6% underperformance against the MSCI UK All Property Index. This was mainly due to the strength of the industrial sector in previous years.

Strategic objectives 1 2

R

4. EPRA earnings per share (EPS)

EPRA EPS is the principal measure used to assess the Group's operating performance and a key determinant of the annual dividend. A reconciliation of this figure back to the IFRS profit can be found in note 40 on page 265.



Our performance

EPRA EPS fell 4.4% to 102.0p per share in 2023. Despite an increase in gross rental income, mainly due to letting activity at recently completed developments, this was offset by void costs incurred on vacant space and higher admin costs.

Strategic objectives 1 2

A

5. Gearing & available resources

The Group monitors capital on the basis of NAV gearing and the LTV ratio. We also monitor our undrawn facilities and cash, and the level of uncharged properties, to ensure that we have sufficient flexibility to take advantage of acquisition and development opportunities.

	2022	2023
EPRA LTV ratio	23.9%	27.9%
NAV gearing	30.8%	38.7%
Cash and undrawn facilities	£577m	£480m
Uncharged properties	£4,600m	£4,202m

Our performance

Cash and undrawn facilities at the year end remains substantial at £480m, following net investment in our portfolio of £114.6m.

The fall in property values in the year has led to an increase in the NAV gearing and LTV ratios, but both remain at low levels.

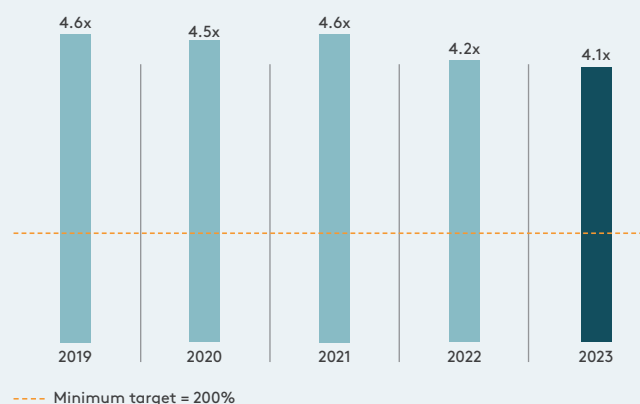
Strategic objectives 5

A

6. Interest cover ratio (ICR)

We aim for interest payable to be covered at least two times by net rents. The basis of calculation is similar to the covenant included in the facility agreements for our unsecured bank debt.

Calculation of this measure can be found in note 42 on page 271.



Our performance

The ICR decreased in 2023. Gross income increased in the year but higher property expenditure resulted in net property income falling. Despite this, rental income would need to fall by a further 65% before the main ICR covenant of 145% was breached.

Strategic objectives 5

A

Non-Financial

7. Reversionary percentage

This is used to monitor the potential future income growth of the Group.

It is the percentage by which cash flow from rental income would grow, assuming the passing rents increase to the estimated rental value (ERV), and assuming on-site schemes are completed and let.

	2019	2020	2021	2022	2023
%	79	54	65	49	50

Our performance

The Group's ERV increased by £5.0m to £309.6m. This was due to rental growth across the portfolio, including the on-site developments, partly offset by disposals in the year. The potential reversion at December 2023 was £103.1m, 50% of the net passing rent of £206.5m, of which 58% is contracted.

Strategic objectives 1 2

8. Development potential

We monitor the proportion of our portfolio with refurbishment or redevelopment potential to ensure it contains sufficient opportunities for future value creation.

	2019	2020	2021	2022	2023
%	43	43	48	43	44

Our performance

At the end of 2023, on-site developments represented 8% of the portfolio with a further 36% identified as potential schemes. This excludes Old Street Quarter EC1 (conditional acquisition).

We continue to seek opportunities to achieve the optimal balance between core income and development potential.

Strategic objectives 1

R

MEASURING OUR PERFORMANCE continued

Non-Financial continued

9. Tenant retention

Maximising tenant retention, in the absence of regeneration plans, minimises void periods and contributes towards net rental income.

	2019	2020	2021	2022	2023
Exposure (£m p.a.)	10.4	12.5	19.7	13.2	21.5
Retention (%)	83	65	47	59	62
Re-let (%)	7	22	30	20	3
Total (%)	90	87	77	79	65

Our performance

Our retention and re-let rate was 65% in 2023. This is mainly due to minor refurbishment and improvement works being carried out on a number of units where leases expired towards the end of the year.

Strategic objectives 2
R

11. BREEAM ratings

BREEAM is an environmental impact assessment method for non-domestic buildings.

Performance is measured across a series of ratings: Pass, Good, Very Good, Excellent and Outstanding.

We target minimum BREEAM ratings of 'Excellent' for major developments and 'Very Good' for major refurbishments.

	Completion	Rating
25 Baker Street W1	H1 2025 ¹	Outstanding ^{2,3}
Network W1	H2 2025 ¹	Outstanding ²

- 1 Targeted
- 2 Certified at Design Stage
- 3 Excluding the offices at 30 Gloucester Place which was rated BREEAM 'Excellent' at Design Stage

Our performance

Our two developments currently on site were rated BREEAM 'Outstanding'³ at Design Stage.

Strategic objectives 4

10. Void management

To optimise our rental income we plan to minimise the space immediately available for letting.

We aim for this to remain below 10% of the portfolio's estimated rental value (ERV).

	2019	2020	2021	2022	2023
Year end (%)	0.8	1.8	1.6	6.4	4.0
Average (%)	1.2	1.3	2.3	5.7	4.3

Our performance

Our average EPRA vacancy rate for 2023 was 4.3% and at the end of 2023 it was 4.0%. This was helped by strong letting activity of vacant space, including at recently completed developments Soho Place W1 and The Featherstone Building EC1.

Strategic objectives 1 2
R

12. Energy Performance Certificates (EPCs)

EPCs indicate the energy efficiency of a building. The ratings range from 'A' (very efficient) to 'G' (inefficient).

We target a minimum EPC of 'A' for major new-build schemes and 'B' for major refurbishments.

	Completion	Rating
25 Baker Street W1	H1 2025 ¹	A ^{1,2}
Network W1	H2 2025 ¹	A ¹

- 1 Targeted
- 2 Excluding the offices at 30 Gloucester Place which has a target EPC of B

Our performance

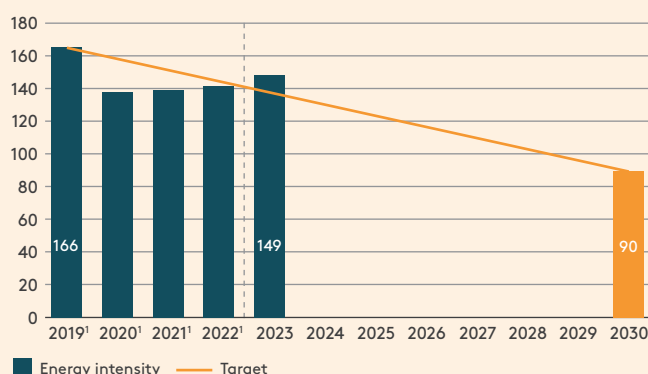
Our two on-site developments are targeting an EPC of A².

Strategic objectives 4

13. Energy intensity

The energy intensity reduction targets are aligned with the business' targets to achieve net zero by 2030.

Energy intensity is measured as energy consumption over the gross internal floor area (kWh/sqm) across our managed portfolio. The energy intensity target for 2030 is 90 kWh/sqm. This is a new KPI for 2023.



Our performance

Energy intensity across our managed portfolio increased by 5% from 2022, but is a reduction of 10% from 2019 baseline.

The increase is primarily associated with Soho Place W1, The Featherstone Building EC1 and Francis House SW1 becoming operational following major works.

Strategic objectives 4

A R

15. Accident Frequency Rate (AFR)

This is calculated based on the number of RIDDOR injuries and incidents during the year multiplied by 1,000,000 and divided by the total work exposure hours. This was a new KPI introduced in 2021 based on development RIDDOR injuries, and subsequently revised in 2023 to also include employees and managed portfolio.

	2020	2021	2022	2023
Total (%)	n/a	n/a	n/a	3.81
Developments (%)	2.72	1.26	3.60	4.38

Our performance

In 2023, the total AFR was 3.81 with 8 RIDDORs reported. As a full year of data was not available for 2022, there is no prior year comparative.

Strategic objectives 4

A R

14. Embodied carbon intensity

The embodied carbon intensity reduction targets are aligned with the business' targets to achieve net zero by 2030.

Embodied carbon intensity is the measure of total carbon emissions generated in the construction of new developments divided by the new gross floor area, measured in kgCO₂e/sqm. This is a new KPI for 2023.

	Completion	kgCO ₂ e/sqm
25 Baker Street W1	H1 2025 ¹	c.600
Network W1	H2 2025 ¹	c.530

1 Targeted.

Our performance

We have worked closely with our designers and contractors to reduce carbon across our on-site developments, 25 Baker Street W1 and Network W1. The embodied carbon intensity for both projects is anticipated to be 600 kgCO₂e/sqm or less, in line with our corporate targets.

Strategic objectives 4

R

16. Staff satisfaction

We assess employee satisfaction through a staff survey.

We target a satisfaction rate above 80%.

	2019	2020	2021	2022	2023
%	92.5	96.3	90.5	88.4	87.5

Our performance

Although the rate fell marginally in 2023, staff satisfaction remained high at 87.5%. This strong level is testament to our collaborative and supportive culture and the pride our staff feel in working for Derwent.

Strategic objectives 3

R

OUR STAKEHOLDERS

We recognise that we have a **responsibility** to all our stakeholders.



Through effective engagement, we build strong and sustainable relationships with our stakeholders based on knowledge of their concerns and priorities.

Key stakeholder groups

Local communities & others

Our buildings play an important and positive role in the communities in which they sit. We are committed to supporting local businesses, residents and the wider public. Our support takes many forms, both financial and non-financial. Employee volunteering, work experience opportunities and building open days all contribute to establishing and maintaining effective connections.

Occupiers

Our success depends on our ability to understand and respond to the changing needs and aspirations of occupiers. We maintain ongoing dialogue through our Asset and Property Management teams, provide high quality amenity, such as our Member lounges, and take a collaborative approach to sustainability.

Employees

The success of the business stems from having an experienced, diverse, inclusive and engaged workforce. We undertake an annual employee survey. Staff receive training on a variety of topics and are kept informed of business activities through monthly town hall meetings and our intranet.

Suppliers

We seek to partner with like-minded businesses for our outsourced activities. Through regular interactions, we operate our Supply Chain Responsibility Standard which includes our approach to net zero carbon. We adhere to strict Modern Slavery standards and are signatories to the CICM Prompt Payment Code, working to treat our suppliers fairly.

Central & local government

As a responsible business, we are committed to constructive engagement with central and local government to ensure we support the wider community. We engage across a variety of levels including local planners, local community groups and HMRC. The Group seeks to positively impact policy through involvement in various bodies, such as the Westminster Property Association (WPA) and the New West End Company (NWECC).

Shareholders & debt providers

We have an open and transparent approach to engagement with shareholders and debt providers and see value in these long-term relationships. It plays an important role in helping inform our strategy and monitor our governance. We host a variety of events including roadshows, presentations, property tours and a combination of one-to-one and larger group meetings. All material news is published via Regulatory News Services (RNS).

Below we show the contribution provided to Derwent London by our stakeholders and the value we create in return. Our Section 172(1) Statement for the year ended 31 December 2023, on pages 130 to 133, demonstrates how these responsibilities influenced some of the decisions taken by the Board in 2023.

Contribution received	Value we create	Value created in 2023	Priorities for 2024
Feedback on the needs of local communities, neighbourhoods and charitable organisations so that our buildings can become, and remain, an integral part of the community.	Enhancement of the local area for the joint benefit of Derwent London, our occupiers and local communities. We operate as a responsible neighbour and member of the community.	<ul style="list-style-type: none"> £464k community fund and sponsorship donations committed Launched Social Value Strategic Framework 	<ul style="list-style-type: none"> Host four individuals through the #10,000 Interns programme Prioritise homelessness as a key focus of the Sponsorship and Donations Committee Embed the Social Value Strategic Framework into all community initiatives
Invaluable feedback on changing occupier trends and requirements. Collaboration on our net zero carbon and community initiatives.	Design-led, amenity-rich 'long-life, low carbon, intelligent' space which helps to retain and enrich talent. A community 'village' environment for our occupiers.	<ul style="list-style-type: none"> Opened second member lounge, DL/28, in Old Street Launched DL/Service initiative in selective areas of portfolio Ongoing roll-out and upgrades of DL/App Continued engagement and collaboration on energy usage 	<ul style="list-style-type: none"> Promotion of DL/Member benefits to build occupier awareness Work with occupiers to further reduce energy consumption Ongoing roll-out of Intelligent Building programme
Benefit of their talent, skills, knowledge and experience. Receipt of new ideas and perspectives.	An inclusive, fulfilling and high-performing workplace. Initiatives that support health and wellbeing. Long-term relationships with our occupiers, suppliers and other key stakeholders.	<ul style="list-style-type: none"> Membership of Business Disability Forum Ongoing staff training, development and wellbeing programme Established Health, Safety & Accessibility Working Group Progressed work on Disability Strategy and Action Plan Employee health and wellbeing programme 	<ul style="list-style-type: none"> Action focus group feedback from 2023 Employee Survey Roll out the 2024 Health & Wellbeing plan incorporating feedback from the Disability Survey Launch core skills programme for 2024 to include Emotional Intelligence and Thriving Personally & Professionally, among others
Expertise and service from our supply partners.	Sustainable relationships built on trust and mutual respect for human rights.	<ul style="list-style-type: none"> Engagement with suppliers through our Supply Chain Responsibility Standard questionnaire Prompt payment of suppliers (19 days) Issued our 2023 Modern Slavery statement 	<ul style="list-style-type: none"> Continue to progress the recommendations from Unseen UK on our Modern Slavery practices Further supplier engagement on compliance with the Supply Chain Responsibility Standard from the results of the questionnaire
Better understanding of public policy and regulatory frameworks and influence over policy, where appropriate.	We are helping to lead the industry in supporting the Government's net zero carbon ambitions and improving the carbon footprint of the built environment. We provide access to employment and training opportunities.	<ul style="list-style-type: none"> Represented real estate sector at Sustainable Markets Initiative (SMI) 50 Baker Street W1 planning application contained details of our social value offer Further work with WPA and NWECC on Oxford Street East regeneration 'Low risk' tax status with HMRC was confirmed in 2023 	<ul style="list-style-type: none"> Collaborate with industry bodies to reduce carbon emissions within the built environment Monitor new regulation/best practice guidelines and ensure our compliance Prepare for UK Sustainability Disclosure Standards (SDS) and Transition Plan Taskforce (TPT)
Long-term and cost-effective finance, strategic input and stewardship.	Maintenance of our strong financial position and delivering, above average long-term returns in a responsible manner.	<ul style="list-style-type: none"> Conservative financial position and leverage (LTV 27.9%) High interest cover of 4.1 times Green finance used to fund projects at 25 Baker Street W1 and Network W1 Ongoing open dialogue with equity and debt market participants 	<ul style="list-style-type: none"> Maintain an open dialogue through a series of individual and group events Maintain conservative financial position, with a focus on interest cover Early engagement in relation to refinancing

RESPONSIBILITY

Derwent London is committed to high standards of integrity, transparency and safety, whilst ensuring our buildings are designed, delivered and operated responsibly to manage our carbon footprint and ensure climate resilience.

Our seven Environmental, Social & Governance priorities



**Our
Responsibility
Policy and
Strategy set out
what operating
responsibly
means to us.**

[➔ See our website](#)

Environmental

- 1 Designing & delivering buildings responsibly
- 2 Managing our assets responsibly

[➔ See page 46](#)

Social

- 3 Creating value in the community
- 4 Engaging & developing our employees
- 5 Ensuring the highest standards of health & safety
- 6 Protecting human rights

[➔ See page 50](#)

Governance

- 7 Setting the highest standards of corporate governance

[➔ See page 56](#)

Why

Well-designed, thoughtfully delivered real estate can positively impact the environment.

Our energy reduction targets are aligned with a 1.5°C climate scenario.

To ensure we proactively comply with forthcoming environmental legislation.

How

Energy intensity down 10% since 2019 on our journey to **net zero carbon**

Collaborating with stakeholders, including occupiers and supply chain

Developing solar park in Scotland as part of **electricity self-generation** initiative

Purchasing **renewable energy** on REGO/RGGO-backed tariffs

Stretching **embodied carbon** targets for regeneration projects

£650m of **green finance** facilities; £416.5m has been drawn for green capex

High quality carbon credits used to **offset residual**

£95m **EPC upgrade programme** to maintain compliance

Partnering with like-minded organisations to amplify impact

As a long-term investor, the success of our buildings and our collaborative approach has a positive social impact.

Supporting local communities through community funds and donations

Social value creation measured through new Social Value Strategic Framework

Local authority engagement and monitoring of post-completion social impact

Our employees are key to our successful performance and will provide the next generation of leadership talent.

High employee retention ensures continuity.

Ongoing vocational and compliance **training & mentoring**

Internship opportunities for people from diverse backgrounds

Proactive mental and physical **wellbeing** programme

Regularly measuring and addressing **employee satisfaction** levels

We seek to minimise risks and promote a safe working environment working with our supply chain and industry peers, supported by our Responsible Business Committee.

Collaborating with peers on **benchmarking and best practice**

Empowering employees and contractors to speak up

Acting in a fair and responsible manner is a core element of our business which runs through all levels starting with the Board.

Remuneration clearly linked to sustainability outcomes

Accountability throughout our organisation

Proactively adopting new and emerging legislation

Respect for **human rights** across our supply chain

Obtaining **third party assurance** on our actions and outcomes

Providing staff with access to independently operated **whistleblowing** system

Climate change

Reducing operational energy and carbon emissions

Our commitment

We are committed to operating our investment portfolio on a net zero carbon basis by 2030. This involves driving down our energy consumption significantly, upgrading and retrofitting our properties to remove gas use and improve efficiency where feasible, as well as collaborating with our occupiers.

Energy saving opportunities

Every four years, we are required to perform a portfolio-wide Energy Savings Opportunity Scheme (ESOS) assessment. Our 2023 assessment identified several operational and capex-led opportunities, many of which are already being implemented across the portfolio, including changing plant set points, LED lighting, upgrading BMS sensors, additional insulation, M&E upgrades and installation of air source heat pumps.

Data environment upgrade

In 2023, we undertook significant work upgrading our data environment to enhance our data capture and analysis processes. We also changed our corporate energy broker, which identified a number of existing energy contracts that needed to be included. In addition, a comprehensive floor area review was carried out based on new and updated surveys, alongside an update in apportionment methodology. Combined, these resulted in the restatement of Scope 1, 2 and 3 carbon as well as historic energy figures and intensity metrics – see page 60 for full details. This results in a revised 2019 baseline energy intensity of 166 kWh/sqm. Our 2030 target is unchanged at 90 kWh/sqm. To achieve our target, a 4.2% annual reduction against the 2019 baseline is required.

Occupier engagement

In addition to having a Net Zero Carbon Action Plan for each building within the managed portfolio, we have undertaken significant occupier engagement (2023: 104 occupiers representing 44% of portfolio ERV) and implemented a variety of opportunities:

- Upgrading existing **green lease clauses** in our standard documentation;
- Rolling out **intelligent building** infrastructure across managed portfolio for more granular data;
- Providing **energy usage data** and recommended **reduction targets** to occupiers;
- **Best practice sharing** and issued guidance notes on energy and water reduction; and
- Holding **behaviour change events** such as Recycling Awareness days.

Procuring and investing in renewable energy

Our commitment

The Group is committed to ensuring that all the energy we procure – electricity and gas – is from renewable sources. This means contracting electricity on renewable tariffs backed by 'Renewable Energy Guarantees of Origin' (REGO) certificates and gas contracts backed by 'Renewable Gas Guarantees of Origin' (RGGGO) certificates.

99% of energy on renewable tariffs in 2023

During 2023, 99% of purchased electricity was on REGO-backed tariffs (2022: 99%) and 99% of purchased gas was on RGGGO-backed tariffs (2022: 80%). Together, 99% of energy (electricity and gas combined) purchased in 2023 was on green contracts (2022: 93%).

All electricity is procured from within the UK and is from solar, wind or hydro projects which are less than 15 years old.

At 31 December 2023, 100% of our electricity and gas contracts were on renewable tariffs backed by REGOs/RGGGOs.

Self-generation in Scotland and London

Our Scottish land provides several opportunities which support our journey to net zero. Among others, in 2023 we received full planning consent for a c.100 acre, 18.4 MW solar park at Lochfaulds. Construction is expected to commence in 2024. On completion in mid-2025, it is forecast to generate c.40% of the electricity used across our London managed portfolio (compared to a 2019 baseline).

Where feasible, we install solar photovoltaic (PV) panels on our buildings. At 31 December 2023, six buildings have PV arrays. In addition, we also have a small PV array at Easter Cadder in Scotland.

During 2024, we will seek to identify our strategy to self-generate the remaining electricity across the managed portfolio.

Climate change is a material issue for society, our sector and our business. Incorporating the right environmental and climate change measures throughout our business enables us to operate responsibly across our portfolio and within the community.

Reducing the embodied carbon of development projects

Our commitment

Under our net zero pathway, new developments and major refurbishments will be net zero carbon on completion. We account for 100% of the embodied carbon in the year an eligible project completes, at which point it will be offset.

Defining embodied carbon

We carry out whole life cycle assessments on our projects to inform design decisions and report on the 'Cradle to Completed Development' (A1-A5) aspects. Refer to our Whole Life Carbon Assessment Brief at www.derwentlondon.com/news/publications/responsibility-policies.

The 'Completed Development' stage of delivery can be either 'Shell and Core' or 'Cat A' depending on commercial negotiations with occupiers and may differ by project.

Stretching targets

We work closely with our design and construction teams and broader supply chain to assess and reduce a scheme's embodied carbon footprint. The wider industry needs to adapt and work together to fully achieve our aims and we are active in this endeavour.

Our targets for commercial office new build developments align with the Greater London Authority (GLA) and LETi targets. They are phased by completion dates:

- From 2025: $\leq 600 \text{ kgCO}_2\text{e/sqm}$
- From 2030: $\leq 500 \text{ kgCO}_2\text{e/sqm}$

Our on-site projects are being delivered to align with our 2025 target:

- 25 Baker Street W1: $\text{c.}600 \text{ kgCO}_2\text{e/sqm}$
- Network W1: $\text{c.}530 \text{ kgCO}_2\text{e/sqm}$

To achieve these targets we hold detailed workshops with our design teams at each stage of design and ensure early supply chain engagement on procurement of low carbon materials. We also collaborate on industry-wide initiatives.

No major projects completed in 2023. Consequently, with only six smaller refurbishments completing, our Scope 3, Category 2 (Capital Goods) footprint reduced to $799 \text{ tCO}_2\text{e}$ from $32,869 \text{ tCO}_2\text{e}$ in 2022 when two major projects – Soho Place W1 and The Featherstone Building EC1 – and several smaller projects completed. This has been offset using robust and verified carbon credits.

Offsetting residual carbon emissions we cannot eliminate

Our commitment

The Group's business model of office regeneration and operation will, by its nature, result in the emission of embodied and operational carbon across Scopes 1, 2 and 3. For this reason, whilst we have set ambitious targets to reduce our carbon footprint as far as possible, we have committed to offset any residual carbon that we are unable to either manage out or eliminate.

A focus on quality

These residual emissions will be offset using robust, verified carbon offset schemes. We plan ahead for our regeneration projects which may involve the forward purchase of carbon credits. We acknowledge this is a changing landscape and refer to latest guidance from the UKGBC (Carbon Offsetting & Pricing Guidance).

We purchase carbon offsets through our provider Climate Impact Partners. Offsets already purchased are validated under the Verified Carbon Standard (VCS) or the Climate, Community and Biodiversity Standard (CCB).

We are reviewing a number of offsetting opportunities across our Scottish portfolio. In 2015, we planted 30ha of trees under the Woodland Carbon Code, the first verified credits from which were received in 2021. We have now progressed our tree planting feasibility study and intend to plant $\text{c.}50\text{ha}$ over the next two years. In addition, a further $\text{c.}240\text{ha}$ of land has been identified as potentially suitable for planting, subject to further appraisals.



Tree planting on our Scottish land

Our pathway to net zero

Achievements

Our net zero journey requires a collaborative approach which is focused on both the large and the small details. We have made good progress, but there is more to do.

- Occupier engagement strategy following net zero survey, including holding green forums for occupiers
- Energy saving measures implemented: initial roll out of LED lighting and passive infrared (PIR) sensors, EPC upgrade works, electric panel heater replacements and adding time controls to chillers/boilers
- Building Management System (BMS) health checks carried out
- Out of hours energy assessments conducted across 35% of portfolio

Future initiatives

- Continue to roll out LED lighting and PIR sensors across managed portfolio
- Incorporate semi-annual BMS checks into maintenance contracts to ensure alignment with summer/winter operation
- Implement recommendations of 2023 ESOS assessment
- Progress removal of gas supplies from buildings
- Ongoing occupier engagement: increase data sharing, introduce league tables etc
- Carry out EPC upgrade works
- Implement actions identified in Intelligent Building reports

2019

2023

2030

Land in our Scottish portfolio

2023 Highlights

- SBTi-verified targets rebased to 1.5°C-aligned scenario (42% reduction in Scope 1 & 2 by 2030 from 2022 baseline)
- Engaged with 44% of occupiers by ERV as part of our work to reduce energy usage
- Scope 3 inventory now captures categories 1, 6 & 7 (Purchased goods and services; Business travel; Employee commuting)
- New environmental database
- Refined energy intensity calculation methodology (2022: 142 kWh/sqm, revised up 15%)

2024 Priorities

- Update and finalise our long-term SBTi-verified net zero target
- Carry out double-materiality assessment¹
- Review Scope 3 materiality, with a particular focus on Purchased goods and services (category 1)
- Continue occupier engagement to further reduce energy consumption and gain additional visibility over energy we do not procure

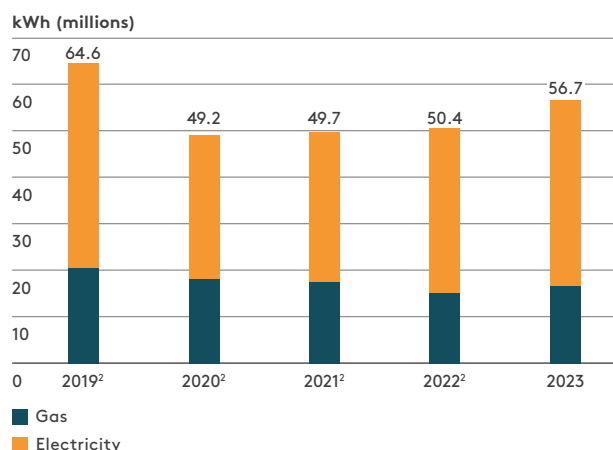
Water and waste

Water consumption was 29% higher in 2023 compared to 2022. The majority of the increase relates to Soho Place W1, The Featherstone Building EC1 and Francis House SW1 becoming operational following major works.

The recycling rate across the portfolio improved to 71% in 2023 from 68% in 2022. We performed more than 30 waste floor walks with occupiers in the year as part of our ongoing engagement to improve recycling practices.

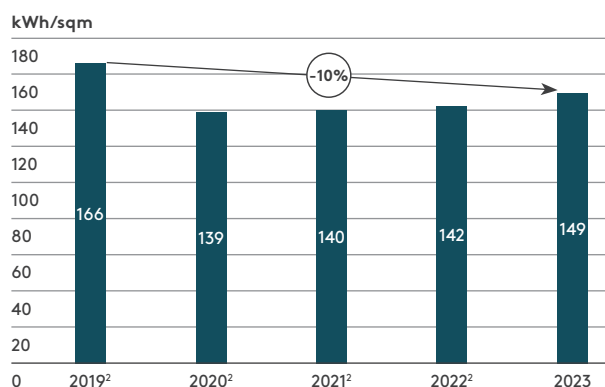
¹ Double materiality requires a company to assess how their business is impacted by ESG issues and how their activities impact society and the environment.

Energy usage – electricity and gas



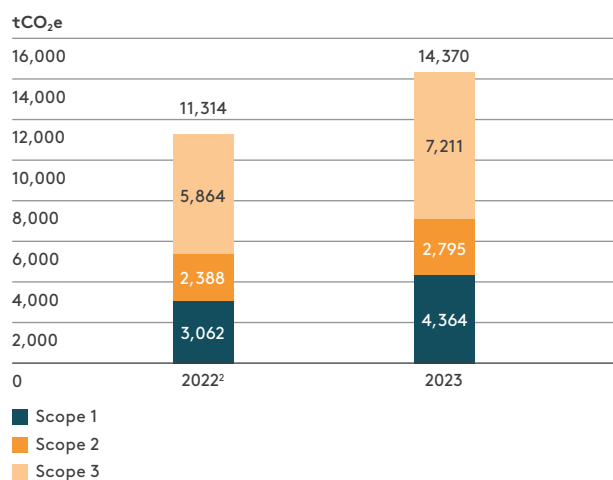
- Overall consumption increased in 2023; electricity up by 14%, gas up by 9%
- The increase is primarily associated with Soho Place W1, The Featherstone Building EC1 and Francis House SW1 becoming operational following major works
- Landlord electricity rose 9% and tenant electricity increased 16%
- On a like-for-like basis, total electricity increased by 1% and gas decreased by 7%

Energy intensity



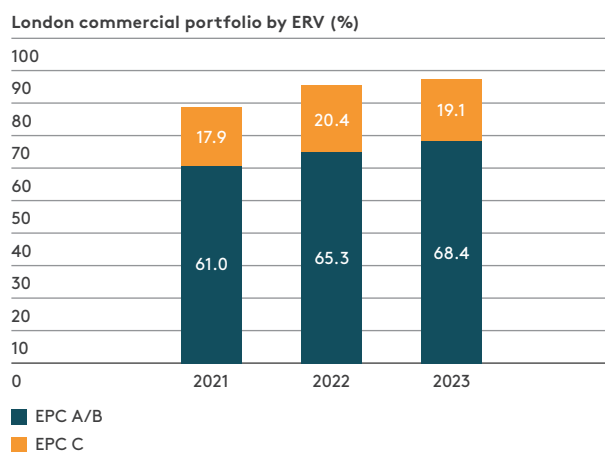
- Managed portfolio energy intensity increased 5% in 2023, but is 10% lower than our 2019 baseline
- Building optimisation works over several years helped reduce intensity at several buildings (see 'Achievements' on page 48)
- Energy reduction is unlikely to be linear and will be impacted by the completion of upgrade and regeneration projects, as well as the timing of service charge-related interventions
- We rebased our energy intensity methodology in 2023 to more accurately reflect data coverage. Our key focus for 2024 is to gain visibility over occupier electricity we do not procure

'Operational' carbon footprint – Scopes 1, 2 & 3



- 'Operational' carbon footprint up 27% year-on-year (location-based; excludes embodied carbon)
- This was primarily driven by the completion of two major projects, as well as a 7% increase in the Government's UK grid carbon conversion factor for electricity

EPC ratings



- 68.4% of portfolio rated EPC 'A' or 'B' (including on-site projects) with a further 19.1% EPC 'C'
- EPC upgrade works are factored into all refurbishment projects to ensure ongoing compliance with evolving legislation

² 2019 to 2022 data restated – see page 60 for details.

Our social contribution

We recognise that our buildings can have a significant impact on the communities in which they sit, and we strive to create value where possible for all our stakeholders.

2023 Highlights

- Finalised and published our Social Value Strategic Framework
- 10 years of operating our community funds – £1.1m of funding to date
- Pledged a four year funding commitment to London's Air Ambulance
- Funded refurbishment of UCLH staff room

2024 Priorities

- Continue investment in our community funds
- Embed the new Social Value Strategic Framework into our community work across the portfolio
- Prioritise homelessness as a key focus of the Sponsorship and Donations Committee

£464k

Community fund & sponsorship donations committed in 2023

18

Community fund projects supported in 2023

£1.1m

Community funds provided to date

Our approach to social value

Our commitment to delivering social value has been a core part of our business practice for many years. This commitment takes many forms to ensure we maximise the positive impact we have on local communities. Financial support through our corporate giving and community funds is important. We place equal value on being part of each community to ensure we remain alert to their concerns and aspirations and can have a meaningful impact. Employee volunteering, work experience opportunities and building open-days have all contributed to establishing and maintaining effective connections with these communities.

Published our Social Value Strategic Framework

Since 2022 we have been working with external consultants to help us define a framework which outlines our primary goals and how they will be measured and achieved in respect of the social value we create. This culminated in the publication of our Social Value Strategic Framework in December 2023. This strengthens our commitment and will clearly demonstrate the benefits we are delivering to local residents, businesses, our occupiers and the broader public. See www.derwentlondon.com/responsibility/social/communities for more details.



UCLH staff room

Refurbishment of a rest area for UCLH staff

At the beginning of 2023, we funded the refurbishment of a staff room at UCLH. Prior to this, the staff were using part of a three-bedded bay as a staff area as they did not have the capacity to house a room suitable for the number of employees on the ward. Staff areas for rest and relaxation became a focus for the hospital trust during the pandemic as staff wellbeing was a high priority due to the difficult circumstances many of them were experiencing while they cared for patients with Covid-19. The new staff/seminar room provides a comfortable, relaxing space where staff can meet, eat, sit and relax during time away from patients.



We are very grateful to Derwent for recognising the importance of clinical staff having somewhere comfortable, clean and well-equipped to rest during long, demanding days.

Carol Haraldsson

Head of Charitable Giving, UCLH Charity

Community fund stories

To mark the 10th anniversary of the inception of our first community fund we published a '10 Years 10 Stories' feature, highlighting some of the enterprises we have helped with the £1.1m of funds invested across a variety of local projects over this period. Here are some of those stories.

The Soup Kitchen at the American International Church – Preparing 120 meals daily, The Soup Kitchen at the American International Church is a vital community service. As well as benefiting from our funding, the kitchen is frequently assisted by our volunteers, and companies in our supply chain helped build and support a cabin, providing mental health support.

All Souls Clubhouse – Beating loneliness among older people in the community is the worthy mission of this charity. Over the years, we have provided them with new kitchen facilities, helped fund their Wednesday lunch club and other social activities and provided volunteers at Christmas.

Fitzrovia Youth in Action – The Warren five-a-side football pitch generates income that supports Fitzrovia Youth in Action's essential work with young people. The Fund helped resurface the pitch and set up a football league. We've also supported intergenerational activities, youth social action programmes and Christmas lunches for the community.



Staff volunteering at The Soup Kitchen

Continued to support our community funds

We operate two community funds: Fitzrovia and West End (founded in 2013) and the Tech Belt (founded in 2016). The key priority of these funds is to support and create value in the community by providing funding for a variety of grassroots projects with a focus on community events, environmental improvements, health and wellbeing activities, music and culture, and ongoing help for disadvantaged/isolated groups. It also acts as a springboard for further engagement with local neighbourhoods, leading to corporate volunteering, school engagement and work experience opportunities. In addition, it enables us to anticipate further funding needs.

This year we celebrated 10 years since the inception of the first fund and to date have provided over £1.1m of combined funding across 164 different projects.

To mark this milestone, we published a '10 Years 10 Stories' feature on our Community page on Instagram (see box above for more details). In 2022 we made a number of improvements to the application process to make it more flexible and inclusive, including removal of the £10,000 cap for registered charities which a number of organisations benefited from in 2023.

Other activities

In 2023, our Sponsorship and Donations Committee approved £339,000 of charitable donations to good causes. Below are some of the ways these funds have been used to create value in the community during the year.

Supporting UCLH staff members –

We provided funding to refurbish a staff room at University College Hospital. See opposite page for more details.

Bartlett scholarship – We continued to support a student on their educational journey to becoming an architect.

Donation to Westminster Wheels –

We donated funds towards a trainee's six month placement at Westminster Wheels, an organisation which helps unemployed local residents develop the skills to become qualified bike mechanics.

London's Air Ambulance – We pledged a four year commitment to provide funds to London's Air Ambulance.

In addition, our employees took part in a variety of activities during the year, including fundraising and participation in London's Air Ambulance Charity abseil down the highest rooftop helipad in Europe and regular volunteering at The Soup Kitchen.

Our people

We aim to attract, inspire and engage a talented and diverse workforce. In a year dominated by geopolitical and macroeconomic uncertainty, the dedication of our people enabled the business to remain resilient.

2023 Highlights

- Won three employer awards – see below
- Became a member of the Business Disability Forum and completed the self-assessment
- Offered one-to-one employee health checks
- Completed fifth full employee survey

2024 Priorities

- Host four individuals through the #10,000 Interns programme
- Provide inclusive management training to line managers
- Formulate a Disability Strategy and Action Plan
- Action focus group feedback from 2023 Employee Survey



The Sunday Times – Best Places to Work 2023



EG Awards – Employer of the Year



Westminster Business Council Awards – Employer of the Year

Attracting and optimising talent

The top talent we employ and develop are instrumental to the success of the business. Our aim is to create a culture which enables our exceptional and diverse workforce to thrive, have a voice and be their authentic selves.

We enjoy high employee retention (88% for 2023) and a long average tenure – 43% of our workforce have five or more years of service, and 24% are 10+ years. We seek to balance continuity with fresh ideas, experience and skills and in 2023 we recruited 38 people externally, 39% of which were for newly created roles.

Ongoing development and career progression is important to us, and we actively consider and encourage succession planning. To facilitate this, we invest in our employees with comprehensive learning and development programmes – both behavioural and technical – at all levels. These include core skills and technical workshops, one-to-one and team coaching, as well as mandatory compliance training. We also encourage regular feedback and performance conversations, in addition to formal review meetings. In 2023 there were 18 internal promotions (eight women and ten men), including three new Executive Committee appointments.

Investing in existing talent is not enough. For the real estate industry to appeal to a broader cross-section of society, creating opportunities for people from different backgrounds is important.

In 2023, we:

- Hosted seven work experience candidates;
- Provided mock interview practice for students at two Westminster schools;
- Provided career advice as part of Islington’s World of Work initiative; and
- Co-hosted an event for Construction Youth Trust with Laing O’Rourke.

Employee engagement

Employee engagement and communication is important, facilitated by our ‘open-door’ policy. 74% of employees are based at our head office which enables effective, regular face-to-face interaction. Together with a range of formal and informal communication channels, including our regular town hall meetings, we have a highly engaged workforce.

We use anonymous annual employee surveys to obtain staff feedback and gauge satisfaction levels. This consists of a short ‘pulse survey’ and a full independent survey in alternating years. In 2024, we will establish employee focus groups, comprising individuals from varying departments, gender, ethnicity, age and length of service to review the 2023 survey results and put forward recommendations to the Executive Committee.

We achieved a 94% response rate to our 2023 survey, demonstrating our open culture. The results indicate a high satisfaction rate:

88%

Overall employee satisfaction

89%

‘I am proud to work for Derwent London’

87%

‘I feel I can make a valid contribution to the success of Derwent London’

83%

‘We have an inclusive working environment’



Members of the Health, Safety & Accessibility Working Group

Health and wellbeing

The health and wellbeing of our people remained a priority during 2023. We know that people are most productive when they are physically and mentally thriving and socially connected.

In addition to a suite of employment benefits, we have trained mental health first aiders, an employee assistance programme and occupational health support. We ran a series of 'lunch and learn' sessions covering topics such as neurodiversity, brain and heart health, and the impact of changing seasons. We also launched new Menopause Guidelines and offered on-site one-to-one health checks and annual flu jabs.

Staff survey results demonstrate the value this brings to our employees. 85% of respondents agreed that 'the Health & Wellbeing initiatives were useful and informative'.

To allow us to continue to build healthy, nurturing and supportive relationships and foster a genuine community spirit, our social committee work hard to arrange regular inclusive events and volunteering opportunities are open to everyone.

Diversity and inclusion (D&I)

We believe a diverse and inclusive workforce helps foster collaboration, productivity and innovation. This year we placed an emphasis on disability awareness which included conducting an employee survey to identify what proportion of our people have a disability or long-term condition. We also became a member of the Business Disability Forum (BDF) – see adjacent box.

As part of our commitment to encouraging inclusive behaviour and a consistent approach to performance management, all line managers attended Personal Development Plan training to assist them in conducting effective performance discussions with individual team members.

One of our objectives this year was to increase communication around D&I and our activities in this area. Internally this included increasing awareness around different religious festivals and cultural celebrations, as well as issuing our first D&I Working Group newsletter which provided a comprehensive update to staff on the Group's initiatives and focus areas for 2024. Externally, we improved our social responsibility messaging and shared our inclusive values to the market via social media channels.

A focus on disability

During 2023, we had a particular focus on disability. In March, we became a member of the Business Disability Forum (BDF), a leading business membership organisation in disability inclusion.

To ensure it is integrated throughout the business, our Diversity & Inclusion and newly formed Health, Safety & Accessibility Working Groups have worked together to undertake stage 1 of the Disability Smart Audit, an in-depth Self-Assessment. This has enabled us to assess how we are performing against the ten areas in the BDF Framework and where we are in our 'disability smart' journey.

To understand, measure and improve the experiences of our employees who have a disability or long-term condition, we rolled out a short 'Disability Data' survey to which we received an 87% response rate. The results of this survey have fed into our health & wellbeing strategy and will continue to inform our work on disability in 2024.



Health & Safety

The health, safety and wellbeing of our people, occupiers, residents, service partners, contractors and the public is a high priority for us. This is achieved through robust and effective risk management.

2023 Highlights

- Set up internal Health, Safety and Accessibility forum
- Developed health and wellbeing programme for employees in partnership with Human Resources
- Embedded H&S policies and procedures into the Scottish portfolio operations
- Interpreted the Building Safety Act outcomes and provided clear guidance across the business to enhance awareness
- Achieved a Royal Society for Prevention of Accidents (RoSPA) Gold Award

2024 Priorities

- Roll out Building Safety Act plans for our 'in-scope' residential development and managed properties
- Implement a 'client audit' and early H&S risk review for our design team on our major projects
- Set up the Continuous Improvement Group (CIG) for our architects, principal designers and project managers
- Enhance our Fire Safety Management system and obtain Primary Authority fire service agreement

Our approach to health, safety and wellbeing

Our approach is centred around people, assets and developments. For our rural and agricultural portfolio in Scotland we have a separate suite of health and safety (H&S) standards tailored to their activities.

- **Our aim** is to provide healthy, safe and secure environments for our people, customers and contractors to work, live, visit and relax.
- **Our people** are fundamental to the success of our business, which is why we invest in and train them to ensure healthy and safe work environments.
- **Our integrated approach** ensures that health, safety and wellbeing is considered at every stage of a building's life cycle: from acquisition, through development, management, leasing and disposal.

We achieve this by:

- Designing suitable health, safety and wellbeing systems which are proactively managed.
- Establishing and maintaining robust policies and procedures which comply with latest legislation.
- Ensuring work is assigned to competent individuals.
- Carrying out rigorous and ongoing training on best practices.
- Regularly reviewing our health and safety performance.
- Ensuring we learn when incidents occur and make appropriate changes.

Providing a safe work environment for our people

Providing a safe place for our people to work is of paramount importance to us, with focus on both physical and mental wellbeing to enable our employees to thrive. This is achieved by ensuring staff are well informed in H&S best practices through ongoing internal and external training.

During 2023 this included 182 person days of H&S training covering topics such as Legionella (City & Guilds), Emergency First Aid and Fire Marshal (British Red Cross), Safe Systems of Work/RAMS, as well as topical H&S webinars, live coaching sessions and health check-ups.

We use an H&S training matrix to identify specific training requirements by job profile. During 2023 a comprehensive review of the matrix and programme was undertaken and updates were made.

In 2023 we set up an employee Health, Safety and Accessibility forum with wide representation from across the business. As well as considering H&S matters, this forum seeks to address the main barriers that people with disabilities encounter in the workplace. The forum also highlights where an early design stage accessibility review can be beneficial in creating more accessible schemes. To support this, the Group became a member of the Business Disability Forum (BDF) – see page 53.

Making our assets safe to occupy

Ensuring our occupiers, visitors and those who live and work in and around our buildings are safe and healthy is critical. This requires designing, building, maintaining and operating our buildings using best practices, and involves collaboration across the business.

Our in-house H&S team supports our Property Management team throughout the year to ensure our buildings are being operated safely and with minimal risk.

During 2023 the H&S team reviewed the Building Safety Act outcomes and provided guidance on its application to the Property Management and Development teams. Buildings which are in-scope were registered prior to the 1 October 2023 deadline.

To monitor and report on H&S risk and compliance across the managed portfolio we use the RiskWise system.

Ongoing monitoring includes annual inspections and fire risk assessments for each building. We also use data from the Real Estate Benchmarking Group, which we co-founded in 2021, to assess our relative H&S performance against peers in our sector.

In 2023 we achieved the Royal Society for Prevention of Accidents (RoSPA) Gold Award for the Derwent London H&S management system in respect of our managed portfolio.

High health and safety standards on construction sites

We have strong relationships with our principal and main contractors, endeavouring to lead by example as an informed and responsible construction client. As well as both independent and internal H&S monitoring of our construction sites, we require our supply chain to achieve specific stretching target scores for Construction Logistics and Community Safety (CLOCS) and Considerate Constructors Scheme (CCS).

With 437,000 sq ft of space on site, 2023 was a busy year for major developments. The RIDDOR accident frequency rate (AFR) on our developments was 4.38. This was an increase from the rate of 3.60 in 2022, principally due to our major development schemes moving into higher risk construction phases, smaller projects starting, and a general rise in 'Over 7 day injuries'.

Our H&S team continue to work closely with the Development team to improve visibility and identification of design elements which could have H&S risk implications to ensure these are addressed at an early stage of the project.



Members of the Development and Health & Safety teams

Health and Safety data

The table below details our key H&S statistics which have been subject to independent limited assurance by Deloitte LLP in accordance with the ISAE 3000 (Revised) Standard. This data allows us to identify trends and highlights areas of focus for the business. Refer to the Health and Safety Basis of Reporting in the [Responsibility Report](#).

	Employees		Managed portfolio		Developments	
	2023	2022	2023	2022	2023	2022
Person hours worked	266,513	288,000	920,142¹	370,314	913,843	833,258
Minor injuries	0	0	27	20	10	18
Near miss	1	0	20	20	37	17
Lost time injuries ⁷	3	0	3	0	4	2
RIDDORs	1	0	3²	0	4	3
Dangerous occurrences	0	0	0	0	0	0
Fatalities	0	0	0	0	0	0
Improvement notices	0	0	0	0	0	0
Prohibition notices	0	0	0	0	0	0
Injury rate ^{3,7}	0	0.00	29.34	54.01	10.94	21.60
Lost day rate ^{4,7}	48.78	0.00	10.87	0.00	5.47	2.40
Severity rate ^{5,7}	3.25	0.00	0.30	0.00	0.28	0.11
RIDDOR AFR ⁶	3.75	0.00	3.26	0.00	4.38	3.60

1 Person hours worked – significant increase in managed portfolio in 2023 due to full inclusion of third party contractor hours across all properties.

2 RIDDORs – increase in managed portfolio in 2023 due to full inclusion of third party contractor data across all properties.

3 Injury rate – (injuries excluding RIDDOR and lost time injuries)/(total hours worked) x 1,000,000.

4 Lost day rate – (lost time injuries excluding RIDDOR)/(total hours worked) x 1,000,000.

5 Severity rate – total number of lost work days (excluding RIDDORs)/total number of incidents x 1,000,000.

6 RIDDOR accident frequency rate (AFR) – the number of RIDDORs/(total hours worked) x 1,000,000.

7 Deloitte LLP do not assure lost time injuries, injury rate, lost day rate or severity rate for 'Employees'.

Responsibility governance

2023 Highlights

- Publication of climate-related financial disclosures consistent with the TCFD Recommendations as required by the Listing Rule 9.8.6 (8) (b)
- Revised the long-term remuneration targets under the Performance Share Plans to include embodied carbon and energy intensity reduction
- HMRC reaffirmed the Group's low-risk status across all tax regimes following the Business Risk Review+
- Requested evidence that our major suppliers are compliant with the Supply Chain Responsibility Standard
- Published our latest Modern Slavery Statement
- Continued mandatory compliance training for all employees (including the Board) which covered competition law, conflicts of interest, anti-bribery and cyber fraud awareness

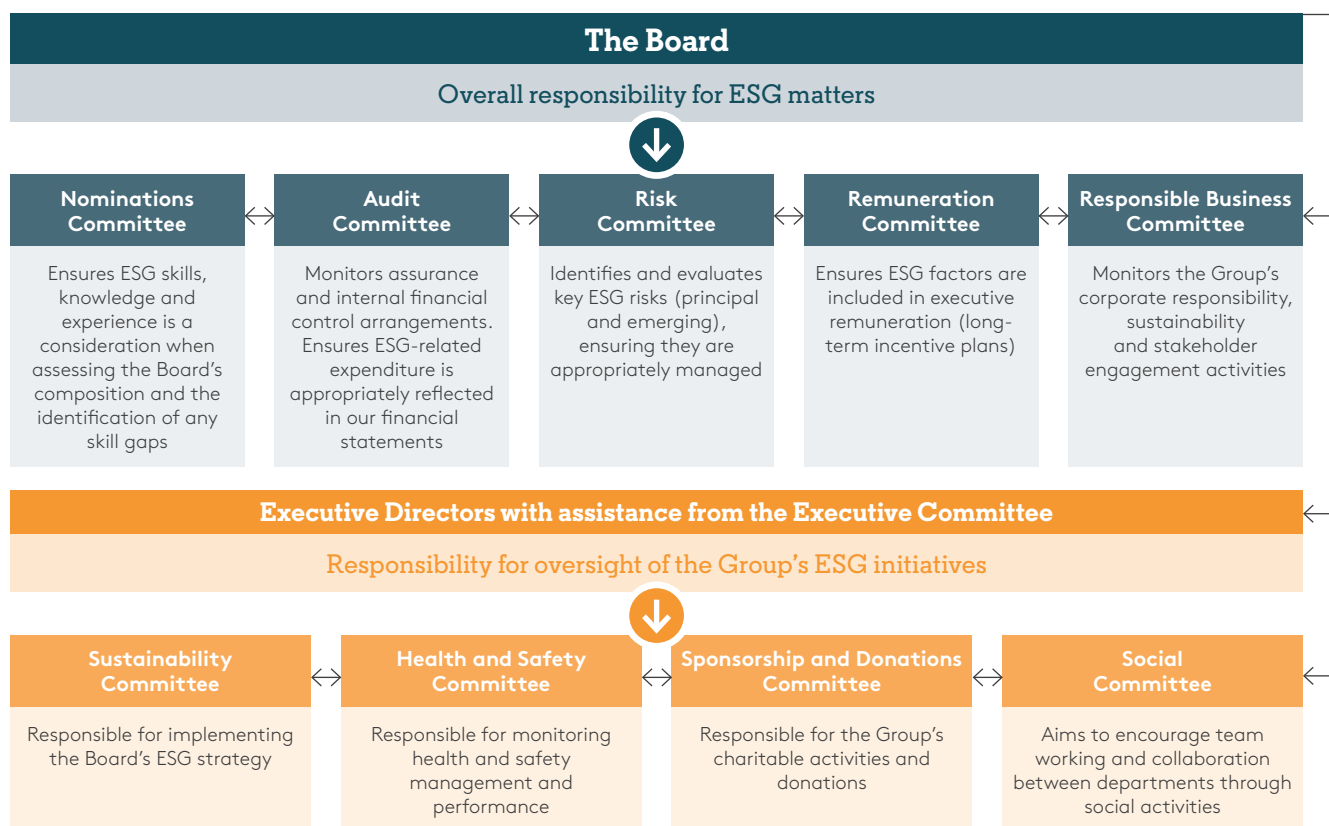
A responsible business

The oversight of ESG matters is critical. It not only allows the Board to appreciate the overall impact of its decisions on key stakeholders and the environment, but also ensures it is kept aware of any significant changes in the market. This includes the identification of emerging trends and risks, which in turn can be factored into its strategy discussions. We conduct business with integrity and work with stakeholders who share our values and ethical principles.

ESG is overseen principally by the Board, Responsible Business Committee and Sustainability Committee.

➔ Governance Framework / See page 127

Our Chief Executive, Paul Williams, is the designated Director with overall accountability for ESG matters. However, the responsibility for overseeing it is delegated to Nigel George (Executive Director). Paul Williams oversees the review and performance of our responsibility work as Chair of the Sustainability Committee and as a member of the Responsible Business Committee.



Acting in a transparent and responsible manner is a core element of our business and underpins our key governance practices.

Climate change governance

The governance of climate change risk and opportunities is ultimately the responsibility of the Board. However, day-to-day management is delegated to the Executive Committee and senior management.

The Board monitors the Group's progress against our published net zero carbon targets, specifically energy intensity, operational carbon footprint and embodied carbon intensity on major projects. In addition, specific performance indicators are assured by Deloitte LLP and these can be found in their assurance statement which is available within the latest Responsibility Report.

➔ Responsibility Report / www.derwentlondon.com/responsibility/publications

Our strategy and targets for energy consumption and carbon emissions are set and monitored by the Board. The Board, Responsible Business Committee and Executive Committee receive regular updates and presentations on sustainability performance from the Head of Sustainability. In addition, the Audit Committee received training in respect of climate-related reporting (see page 147).

Green finance governance

Our Green Finance Framework allows us to clearly link our financing to the environmental benefits our activities generate. The Audit Committee receives annual updates on our green finance initiatives including in respect to our reporting disclosures.

Our Green Finance Framework received a Second Party Opinion (SPO) from DNV that it is aligned with the Loan Market Association's Extended Green Loan Principles and the International Capital Market Association's Green Bond Principles. The SPO is available on our website. Deloitte have also provided reasonable assurance over selected green finance KPI disclosures. Their assurance statement is available within the latest Responsibility Report.

➔ Our Green Finance Framework / See page 84

£754m

Cumulative Eligible Green Project (EGP) capex at 31 December 2023 across five eligible projects

Supply chain governance

It is important to us that our suppliers and construction partners operate responsibly and share our ESG business principles.

Our supply chain governance procedures ensure our suppliers are aware of the standards we expect from them and the business practices which we will not tolerate. All suppliers with whom we spend more than £20,000 per annum are required to provide evidence of how they are complying with our Supply Chain Responsibility Standard, which sets out our principles and expectations in terms of the environmental, social, ethical and governance issues which relate to our supply chains.

➔ Supply Chain Responsibility Standard / See page 169

Ensuring our payment practices are fair is a key requirement in governing our supply chain. This will remain an area of particular importance and focus for the Group, due to the economic uncertainty businesses are currently experiencing.

Protecting human rights

The protection of human rights and fundamental freedoms is one of our key ESG priorities which we manage from an internal (within our business) and external perspective (with our supply chain and our relationships with contractors). Internally, the Board monitors our culture to ensure we maintain our values and high standards of transparency and integrity. Our HR team ensures that we have the right systems and processes in place to strengthen and sustain our culture.

➔ The Board's role in managing the Group's culture / See page 129

Externally, we are active in ensuring our ESG standards are clearly communicated to our supply chain, principally via our Supply Chain Responsibility Standard. To ensure the human rights of our supply chain are respected we are clear on our zero-tolerance position with regards to slavery and human trafficking as set out in our Modern Slavery Statement.

Based on our ongoing risk assessment, we continue to believe the risk of any slavery or human trafficking in respect of our employees is very low. Further information on our efforts to prevent modern slavery occurring in our supply chain is on page 169.

➔ Modern Slavery Statement / www.derwentlondon.com/investors/governance/modern-slavery-act

Tax governance

We take our obligations as a taxpayer seriously and focus on ensuring that, across the wide range of taxes that we deal with, we have the governance and risk management processes in place to allow us to meet all our continuing tax obligations. The Board has overall responsibility for our tax strategy, risk assessment and tax compliance.

Our statement of tax principles, which is approved by the Board, is available on our website: www.derwentlondon.com/investors/governance/tax-principles

We have an open and transparent relationship with HMRC and seek to anticipate any tax risks at an early stage, including clarifying areas of uncertainty as they become evident.

We keep HMRC informed of how our business is structured and respond to all questions or requests promptly. Senior members of our tax department regularly engage with HMRC to support consultations or to seek legislative clarification in areas that could potentially impact our business. HMRC have awarded the Group a low-risk status across all tax regimes following the Business Risk Review+ (BRR+) review.

Reporting frameworks and ESG data

Non-financial reporting



As we have fewer than 500 employees, the non-financial and sustainability information statement (NFSIS) requirements contained in the Companies Act 2006 do not apply to us. However, due to our commitment to promoting transparency in our reporting and business practices, we have elected to provide further information in the table below.

Category	Our key policies and standards	Additional Information	
Environmental matters	<ul style="list-style-type: none"> Responsibility Policy Net Zero Carbon Pathway Science-based carbon targets Task Force on Climate-related Financial Disclosures (TCFD) Streamlined Energy and Carbon Reporting (SECR) disclosure 	Responsibility Report www.derwentlondon.com/responsibility/publications	
		Our pathway to net zero carbon	Pages 48 and 49
		Climate change governance	Pages 57 and 113
		Risk management	Pages 160 and 161, 164
		Executive Directors' LTIP 2023	Pages 192 to 194
		UN SDGs	Page 59
		TCFD	Pages 104 to 107
		SECR	Pages 60 and 61
Social and employee aspects	<ul style="list-style-type: none"> Volunteer Policy Equal Opportunities and Diversity Policy Professional development and training Shared parental leave Smart Working Policy 	Community Fund	Pages 50 and 51
		Our people	Pages 52 and 53
		Executive Directors' annual bonus	Page 190
		Diversity and inclusion	Pages 53 and 168
		Employees on a committee	Page 167
		The Section 172(1) Statement	Pages 130 to 133
Respect for human rights	<ul style="list-style-type: none"> Individual Rights Policy Health and Safety Policy Statement Supply Chain Responsibility Standard Modern Slavery Statement Code of Conduct & Business Ethics 	Health and safety	Pages 54 and 55
		Human rights	Page 57
		Modern slavery	Page 169
		Supply Chain Responsibility Standard	Page 169
Anti-corruption and bribery issues	<ul style="list-style-type: none"> Anti-bribery Policy Speak up Policy Expenses Policy Money Laundering and Terrorist Financing Policy Preventing Facilitation of Tax Evasion Policy 	Audit Committee report	Pages 144 to 155
		Risk Committee report	Pages 156 to 165
		Anti-bribery and corruption	Page 165
		Our principal risks	Pages 94 to 101
		Our emerging risks	Pages 102 and 103
		Compliance training	Page 165

UN SDG reporting

The United Nations Sustainable Development Goals (SDGs) are an international standard developed to support global change and sustainable growth. We believe that we have a role in supporting the UK in responding to this standard and helping positively affect change.

We have reviewed the suite of 17 goals and have selected those goals which align most closely to our ESG priorities. Set out below is a summary of our efforts against the selected goals.

Our ESG priority	UN Goal	Target	Indicator	Our efforts
Creating value in the community and for our wider stakeholders		4.4	4.4.1	Our Community Fund enables us to invest in and support groups who work with and upskill young people from socially and economically challenged backgrounds. For example, the work of London Village Network and their Amplify programme aims to help young people identify their strengths and equip them to gain meaningful employment by way of mentoring programmes in schools with business volunteers that share their career journeys and provide industry insights and visits.
		4.a	4.a.1	Similar to the above the work of The Doorstep Library, a literacy-outreach charity, seeks to boost and improve children's reading skills in their homes, resulting in improved outcomes at school. Increased literacy and confidence stay with the children through their time in education and into the workplace.
Protecting human rights, Engaging and developing our employees		5.1	5.1.1	Beyond any legislative requirements we are active in ensuring meaningful gender equality across our business. In 2022 we achieved the National Equality Standard accreditation and our Diversity & Inclusion Working Group work hard to ensure that progress is being made and best practice is implemented. All our training and development initiatives are available company-wide, we adopt smart working practices, offer enhanced family leave policies and our employee surveys enable us to identify any differentials with regards to gender and ethnicity.
		5.5	5.5.2	We have a 48%:52% male/female ratio and 31% of Senior Managers are women. In 2023 there were 18 internal promotions with 44% being female.
Designing and delivering buildings responsibly, Managing our assets responsibly		7.2	7.2.1	Our aim is to ensure we purchase renewable energy in line with our RE100 commitment. During 2023, 99% of energy procured was on renewable tariffs. At the end of 2023, 100% of electricity contracts were on REGO-backed tariffs, and 100% of gas contracts were on RGGO-backed tariffs. As part of our net zero carbon pathway, we are developing a 100-acre solar park on our Scottish land. Planning consent has been received and construction will commence during 2024.
		7.3	7.3.1	We have developed specific energy intensity reduction targets designed to help us improve the energy efficiency of our managed properties and movement towards net zero carbon.
Creating value in the community and for our wider stakeholders		11.7	11.7.1	We actively promote the inclusion of public spaces in and around our buildings and ensure they are fully accessible. In addition, we are part of the London Mayor's Business Climate Leaders Group which was set up to help London become a zero-carbon city by 2030.
Managing our assets responsibly		12.5	12.5.1	We have established a portfolio-wide minimum recycling target of 75% and a no waste to landfill policy.
		12.6	12.6.1	We integrate comprehensive sustainability reporting information into our company reporting cycles and public reporting.
Designing and delivering buildings responsibly, Managing our assets responsibly		13.2	13.2.2	We have new independently verified science-based carbon targets which have been rebased to a 1.5°C scenario. In addition, we have set embodied carbon and energy intensity reduction targets for our developments and managed properties respectively. This means we are committed to reducing our carbon emissions and making sure our portfolio is climate resilient.

Streamlined Energy and Carbon Reporting (SECR) disclosure

In line with SECR regulations, the adjacent table shows our carbon emissions (tCO₂e) across Scopes 1, 2 and 3 together with appropriate intensity ratios (kgCO₂e/sqm). We also show the global energy consumption (kWh) used to calculate our emissions.



➔ www.derwentlondon.com/responsibility/publications

Embodied carbon emissions associated with our asset regeneration activity, included within Scope 3, Category 2 – Capital goods, are recognised in full in the year of completion. No major projects completed in 2023.

Energy efficiency actions

The Group undertook a number of energy efficiency actions in 2023. These included:

- occupier engagement with a cross-section of occupiers, some of whom we have previously engaged and others for the first time;
- six Green Forums, covering energy analysis and sharing of both best practice and 'easy wins';
- recycling and energy audits, with communication of follow-up Recycling Improvement Strategies;
- introduction to new organisations that our occupiers already work with to enhance energy saving and/or biodiversity;

- out of hours assessments to identify actions for application across the portfolio, including external light assessments with findings reported to occupiers across the portfolio; and
- ongoing roll-out of LED lighting and PIR sensors, building on work carried out in previous years.

As the average occupation level across our portfolio has continued to rise and two new large buildings became operational (Soho Place W1 and The Featherstone Building EC1), energy consumption has increased. However, as the result of the actions noted above, consumption remains below pre-pandemic levels. Compared to our 2019 baseline, energy usage has reduced 12%, or 10% on an intensity basis.

➔ See page 49

Data notes

Boundary (consolidation approach)	Operational control, based on our corporate activities and managed property portfolio which is principally in central London (UK). Landlord emissions from our retail park in Glasgow are also included.
Alignment with financial reporting	The only variation to our financial reporting approach is that GHG emissions and energy data are excluded for buildings where the Group does not have control or influence. These are either single-let properties (also referred to as FRI) or areas for which we do not have management control (e.g. we do not procure utilities). The rental income of these properties is included in the consolidated financial statements.
Reporting method	GHG emissions reporting is in line with the Greenhouse Gas (GHG) Protocol Corporate Accounting and Reporting Standard. Further details on our data calculation methodology can be found in the data section of our annual Responsibility Report .
Emissions factor source (location-based)	UK Government emissions factors are used to convert energy usage into location-based carbon equivalents (www.gov.uk/government/collections/government-conversion-factors-for-company-reporting).
Prior year restatements	There are three principal restatements to the 2022 data. First, an energy and water contract audit identified several existing supplies which have now been included where appropriate. Secondly, the landlord/occupier floor area allocation has been amended following a comprehensive floor area (GIA to NIA) reconciliation and new building measurements obtained. Thirdly, our energy intensity methodology has been updated to more clearly align floor areas and energy consumption. For further details, refer to the Environmental Basis of Reporting in the 2023 Responsibility Report .
Market-based emissions	The Scope 2 market-based factor is based on the provenance of electricity supplies, 99% of which were on REGO-backed tariffs in 2023. For gas, 99% of supplies in 2023 were RGGO-backed.
Embodied carbon	Embodied carbon, included within Scope 3, Category 2 – Capital goods – is reported in full in the year a project completes. This can lead to significant variances year on year depending on completions. Following the completion of two major projects in 2022, there were no major completions in 2023. Six smaller refurbishment projects completed in 2023.
Independent assurance	Selected 2023 metrics were subject to independent limited assurance by Deloitte LLP in accordance with ISAE 3000 (Revised) and ISAE 3410 Standards. Their unqualified assurance opinion and our Environmental Basis of Reporting can be found in the 2023 Responsibility Report .

GHG emissions

GHG emissions	Location/ Market-based	tCO ₂ e		% change
		2023	2022	2023 vs 2022
Scope 1				
Combustion of fuel ^{1,7}	Location	3,007	2,750	9
Fugitive emissions ²	Location	1,357	312	335
Total Scope 1 emissions ⁷	Location	4,364 ^(A)	3,062	43
Scope 2				
Purchased electricity, heat, steam and cooling for own use ^{3,7}	Location	2,795 ^(A)	2,388	17
Renewable tariff REGO-backed electricity ⁷	Market	29 ^(A)	36	(21)
Total Scope 1 & 2 emissions ⁷	Location	7,159	5,450	31 ^(A)
Total Scope 1 & 2 emissions intensity (kgCO ₂ e/sqm) ⁷	Location	18.2	14.7	23
Proportion UK-based		100%	100%	–
Scope 3 emissions ⁴				
Category				
1. Purchased goods and services (includes water) ⁷		36	38	(5)
2. Capital goods ⁵		799 ^(A)	32,869	(98)
3. Fuel and energy-related activities ⁷		1,411	1,309	8
5. Waste generated in operations		79	60	32
6. Business travel ⁷		58	24	142
7. Employee commuting		110	<5%	–
13. Downstream leased assets ^{6,7}		5,517	4,433	24
Total Scope 3 ⁷		8,010 ^(A)	38,733	(79)
Total Scope 1, 2 & 3 emissions ⁷				
		15,169	44,183	(66)
Total Scope 1, 2 & 3 (excluding embodied carbon) emissions ⁷				
		14,370	11,314	27
Total Scope 1, 2 & 3 (excluding embodied carbon) emissions intensity (kgCO ₂ e/sqm) ⁷				
		36.4	30.6	19

1 Managed portfolio gas use and fuel use in Derwent London owned vehicles.

2 Managed portfolio refrigerant loss from air conditioning systems.

3 Managed portfolio electricity use for common parts and shared services (landlord-controlled areas); no heat, steam or cooling was/is purchased.

4 Categories 4, 8, 9, 10, 11, 12, 14 & 15 are currently a) not identified as material to scope of business or b) not relevant.

5 Embodied carbon emissions from projects that completed in the year.

6 Emissions from tenant electricity consumption.

Metrics denoted with an ^(A) have been subject to independent limited assurance by Deloitte LLP – see Data notes on page 60.

Global energy use

	kWh		% change
	2023	2022 ⁷	2023 vs 2022 ⁷
Gas (combusted on a whole building basis)	16,424,375 ^(A)	15,027,749	9
Electricity (consumption from landlord-controlled areas)	13,596,037 ^(A)	12,427,759	9
Electricity (consumption from tenant-controlled areas)	26,642,461 ^(A)	22,926,293	16
Total energy (consumption from landlord areas for electricity and gas)	30,020,412 ^(A)	27,455,508	9
Total building energy (consumption from landlord and tenant-controlled areas and gas)	56,662,873 ^(A)	50,381,801	12
Derwent London vehicles	11,245	26,715	(5)

7 2022 carbon and energy data restated – see page 60 for details.

For more analysis of our GHG emissions, energy consumption and renewable energy generation, use and procurement, visit the data section of our latest [Responsibility Report](#).

Our buildings are our brand



Valuation

The UK economy remained sluggish in 2023, with elevated interest rates and inflation impacting confidence. In the real estate sector, higher debt costs and lower investor confidence fed through to a substantial slowdown in investment turnover. In central London, the £5.2bn of transactions was 59% below the 10-year average. Although the second half of the year saw inflation decrease and interest rates stabilise, the outward movement in property valuation yields, which began in H2 2022, continued throughout 2023.

Against this backdrop the Group's investment portfolio was valued at £4.9bn as at 31 December 2023 compared to £5.4bn at the end of 2022. There was a deficit for the year of £583.3m which, after accounting adjustments of £11.7m, produced a decline of £595.0m, including our share of joint ventures.

The portfolio valuation, including developments, decreased 10.6%, following a 6.8% decline in 2022. This takes the writedown since June 2022 to 17.8% and we believe valuations are now approaching this cycle's lows.

Our portfolio valuation movement outperformed the MSCI Central London Offices Quarterly Index which was -11.1% (and -21.6% since June 2022). This outperformance was driven by the quality of our portfolio, balanced between core income properties and value add opportunities. The wider UK All Property Index was down by 5.6%.

The EPRA initial yield is 4.3% (December 2022: 3.7%) which, after allowing for the expiry of rent-free periods and contractual uplifts, rises to 5.2% on a 'topped-up' basis (December 2022: 4.6%).

The occupier market remained more resilient for better quality buildings. Our EPRA valuation rental values were up 2.1%, an improvement on the 1.3% uplift in 2022, and towards the top end of our guidance range for 2023 of 0% to +3%. Leasing activity was particularly buoyant, with £28.4m of transactions during the year.

Our central London properties, which represent 98% of the portfolio, declined by 10.7%. West End values were down 8.6% outperforming the City Borders, where values reduced 15.8%, with the latter seeing greater outward yield movement. The balance of the portfolio, our Scottish holdings, was down 4.9%.

During the year, our two on-site developments were 25 Baker Street W1 and Network W1. Both are in the West End where occupier demand is strongest. They were valued at £394.6m, up 8.1% after adjusting for capex invested during the year and represent 8% of the portfolio.

Highlights

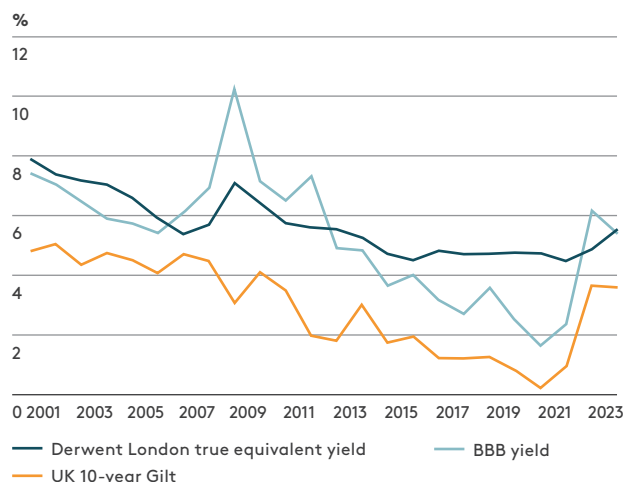
- Portfolio underlying capital value movement -10.6%
 - On-site developments +8.1%, principally due to pre-letting activity at 25 Baker Street W1
 - Portfolio excluding developments -11.9%
 - Buildings valued at ≥£1,500 psf outperformed with values -7.1%
- EPRA valuation ERV growth 2.1%
- True equivalent yield up 67bp to 5.55%



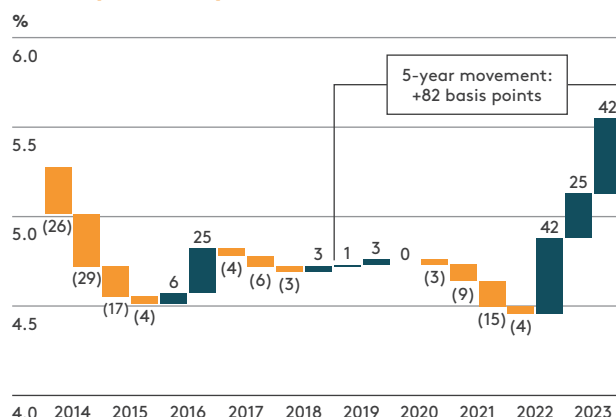
Nigel George – Executive Director

Valuation continued

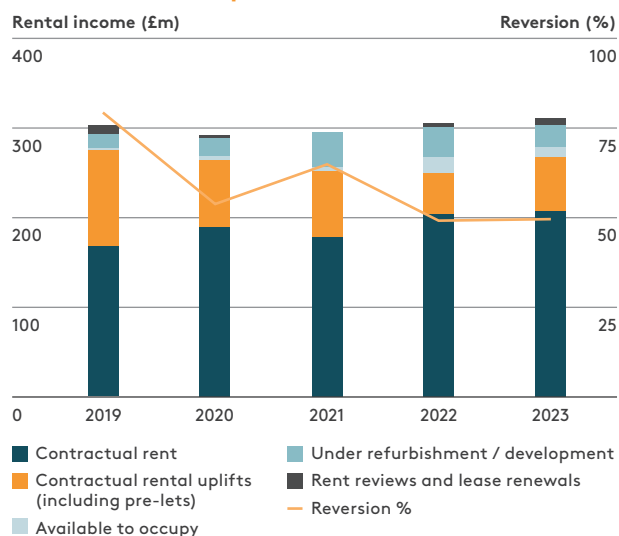
Valuation yields



True equivalent yield



Portfolio income potential



This overall strong performance mainly came from 25 Baker Street where there was significant pre-letting during the year, despite an outward movement in valuation yields. In addition, the valuers released some development surpluses following good progress on site. Both developments are due for delivery in 2025 and require £223m of capex to complete. Excluding these, the portfolio valuation decreased by 11.9% on an underlying basis.

The core income element of our portfolio is largely buildings where refurbishment or redevelopment has been undertaken, providing quality well-designed office space to meet current occupier trends. These properties generally have a higher capital value per square foot and, as illustrated below, proved more resilient. Our lower value properties mostly provide future repositioning opportunities where we can deliver the next generation of high quality space.

Valuation movement by capital value banding

Capital value banding £psf	Weighting by value %	Capital value change %
≥£1,500	22	(7.1)
£1,000 - £1,499	23	(11.4)
<£1,000	47	(14.3)
Sub-total	92	(11.9)
On-site developments	8	8.1
Portfolio	100	(10.6)

Derwent London's total property return for 2023 was -7.3%, which compares to the MSCI Quarterly Index of -7.9% for Central London Offices and -1.0% for UK All Property.

Further details on the progress of our projects are in the 'Developments and refurbishments' section below and additional guidance on the investment market is laid out in the 'Outlook and guidance' section above.

Portfolio reversion

Our contracted annualised cash rent as at 31 December 2023 was £206.5m, a 1.1% increase over the last 12 months. With a portfolio ERV of £309.6m there is £103.1m of potential reversion. Within this, £44.6m is contracted through a combination of rent-free expiries and fixed uplifts, all of which is straight-lined in the income statement under IFRS accounting standards; our IFRS accounting rent roll at 31 December 2023 was £211.0m.

On completion, our on-site developments could add £33.0m at the current ERV, of which £15.6m or 47% of this is pre-let. There are then £7.5m of smaller refurbishment projects. This is up from £2.7m a year ago, however, c.80% of this came from expiries and breaks in the last four months of the year. These units will be upgraded during 2024. The ERV of 'available to occupy' space is £10.9m, the main elements of which are £4.1m at The White Chapel Building E1, £1.8m at The Featherstone Building EC1 and £1.3m at 230 Blackfriars Road SE1. Since year end, £3.3m of available space has been let or is under offer. The balance of the potential reversion of £7.1m comes from future reviews and expiries.



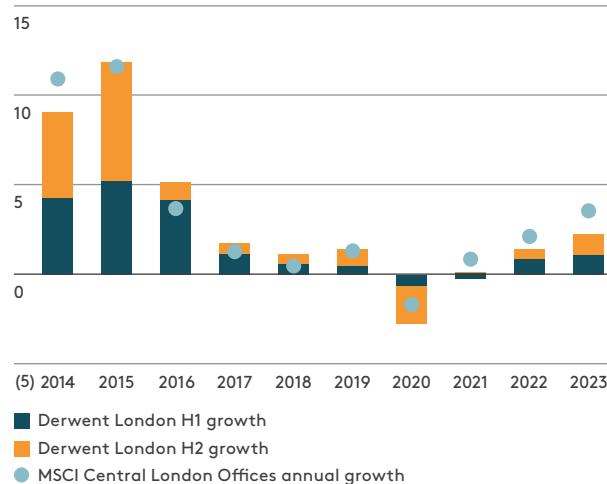
Tea Building E1



Members of the Valuation and Investment team

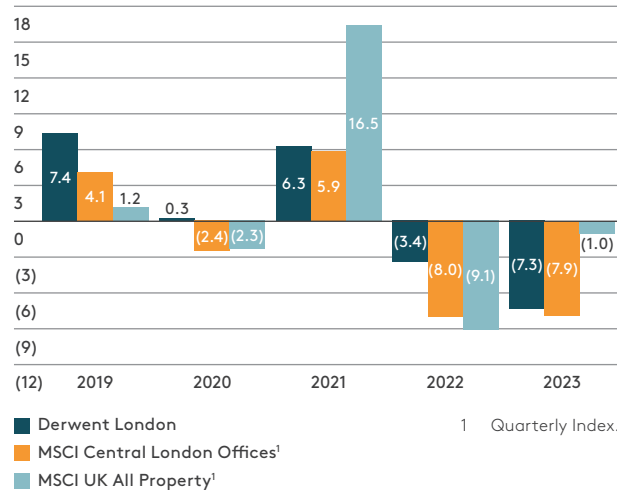
Rental value growth

Rental growth (%)



Total property return

Total return (%)



1 Quarterly Index.

Valuation continued

Portfolio statistics – valuation

	Valuation £m	Weighting %	Valuation ¹ performance %	Let floor area ² '000 sq ft	Vacant available floor area '000 sq ft	Vacant refurbishment floor area '000 sq ft	Vacant project floor area '000 sq ft	Total floor area '000 sq ft
West End								
Central	3,211.5	66	(7.9)	2,659	27	77	236	2,999
Borders	318.4	6	(15.5)	395	24	10	0	429
	3,529.9	72	(8.6)	3,054	51	87	236	3,428
City								
Borders	1,272.9	26	(15.8)	1,387	220	34	0	1,641
Central London	4,802.8	98	(10.7)	4,441	271	121	236	5,069
Provincial	75.7	2	(4.9)	312	13	0	0	325
Total portfolio 2023	4,878.5	100	(10.6)	4,753	284	121	236	5,394
2022	5,364.2	100	(6.8)	4,656	359	41	404	5,460

1 Underlying – properties held throughout the year.

2 Includes pre-lets.

Rental income profile

	Rental uplift £m	Rental per annum £m
Annualised contracted rental income, net of ground rents		206.5
Contractual rental increases across the portfolio	44.6	
Contractual rental from pre-lets on developments ¹	15.6	
Letting 284,000 sq ft available floor area	10.9	
Completion and letting 121,000 sq ft of refurbishments	7.5	
Completion and letting 236,000 sq ft of developments	17.4	
Anticipated rent review and lease renewal reversion	7.1	
Portfolio reversion		103.1
Potential portfolio rental value		309.6

1 155,500 sq ft of pre-lets in addition to 45,800 sq ft pre-sold, at 25 Baker Street W1.

Portfolio statistics – rental income

	Net contracted rental income per annum £m	Average rental income £ per sq ft	Vacant space rental value per annum £m	Lease reversion per annum ¹ £m	Portfolio estimated rental value per annum £m	Average unexpired lease length ² Years
West End						
Central	116.3	45.08	25.0	53.3	194.6	7.9
Borders	21.0	53.42	0.8	0.4	22.2	5.6
	137.3	46.17	25.8	53.7	216.8	7.5
City						
Borders	64.7	47.34	9.8	13.4	87.9	4.6
Central London	202.0	46.54	35.6	67.1	304.7	6.6
Provincial	4.5	14.53	0.2	0.2	4.9	1.6
Total portfolio 2023	206.5	44.42	35.8	67.3	309.6	6.5³
2022	204.2	44.86	50.3	50.1	304.6	6.4

1 Contracted uplifts, rent reviews/lease renewal reversion and pre-lets.

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

3 7.4 years after adjusting for 'topped-up' rents and pre-lets.

Central London office rent

'Topped-up' income

£0-£30 per sq ft	4%
£30-£40 per sq ft	8%
£40-£50 per sq ft	11%
£50-£60 per sq ft	24%
£60-£70 per sq ft	18%
£70-£80 per sq ft	17%
£80+ per sq ft	18%

1 Based upon contracted net rental income of £206.5m.

Ten largest tenants

	% of rental income¹
Expedia	7.6%
Burberry	6.7%
Public sector	6.0%
G-Research	4.7%
Boston Consulting Group	3.3%
Fora (including The Office Group)	3.1%
Arup	2.5%
VCCP	2.1%
FremantleMedia Group	2.0%
Apollo	1.9%

Tenant diversity

	% of rental income¹
Media	20
Business services	17
Retail head office	10
Online leisure	9
Fintech	9
Financial	7
Retail & hospitality	7
Technology	6
Public sector	6
Flexible office providers	4
Other	5

Sustainability

Highlights

- Planning consent secured for 18.4 MW solar park on Scottish land
- Energy usage increased to 56.7million kWh (+12.5%)
 - Soho Place W1 and The Featherstone Building EC1 completed and became operational in mid-2022
- Energy intensity increased to 149 kWh/sqm (+4.9%)
- Embodied carbon intensity of both on-site developments are in line with 2025 targets (≤600 kgCO₂e/sqm)

Our plans for an 18.4 MW solar park on our Scottish land, that we expect will generate in excess of 40% of the electricity needs of our London managed portfolio, came a step closer following receipt of planning consent in the year. Construction is scheduled to start through the second half of 2024, with generation of green electricity to commence through 2025. We also continue to explore other self-generation and carbon removal opportunities, including further tree planting.

In 2019, we published our original SBTi-verified targets which were aligned with a 2°C climate warming scenario. Following publication by SBTi of its 1.5°C-aligned pathway, we have rebased our near-term targets to align with this new methodology. We are committed to reducing our Scope 1 & 2 carbon footprint by 42% by 2030 from our 2022 baseline. We are finalising our long-term SBTi net zero carbon target, which will commit us to reducing our overall carbon footprint across all Scopes by 90% by 2040 against our 2022 baseline.

In 2023, 99% of energy used in the year was purchased on renewable tariffs backed by REGOs (electricity) or RGGOs (gas).

Whilst energy usage across the London managed portfolio increased 12.5% in 2023 to 56.7million kWh, this was principally due to Soho Place W1 and The Featherstone Building EC1 became operational in mid-2022. Consequently, energy intensity increased year on year to 149 kWh/sqm which is above the 'target' of 138 kWh/sqm. Although an increase, we remain on track to meet our longer-term target of 90 kWh/sqm in 2030, which equates to a 46% reduction compared to our 2019 baseline (166 kWh/sqm).

Our overall carbon footprint reduced in the year to 15,169 tCO₂e (2022: 44,183 tCO₂e). There were no large completions in 2023, compared to two major project completions in the prior year. Consequently, our embodied carbon (Scope 3, Category 2) fell from 32,869 tCO₂e in 2022 to 799 tCO₂e in 2023, and has been offset. Our operational carbon footprint (Scopes 1, 2 & 3, excluding embodied carbon; location-based) increased 27% to 14,370 tCO₂e.

At December 2023, 68% of our London commercial portfolio by ERV (including on-site projects) had an EPC rating of 'A' or 'B' and was compliant with proposed 2030 legislation. A further 19% was rated EPC 'C'. The costs and likely timing of upgrading the remainder of the portfolio to ensure ongoing legislative compliance have been integrated into our asset management and financial planning.

Leasing and asset management

Lettings

We saw strong occupier demand across all our villages, with total letting activity in 2023 of £28.4m across 50 transactions and covering 340,500 sq ft. This is a significant increase compared to the £9.8m of lettings in the prior year. On average, new leases (including pre-lets) were agreed 8.0% above December 2022 ERV.

Pre-lets at 25 Baker Street W1 to PIMCO and Moelis, which together total £16.0m of headline rent, were signed 13.4% above ERV with the remaining open market lettings 4.4% above ERV.

The average WAULT (to break) of new leases in 2023 was 9.9 years, rising to 10.8 years excluding the £3.6m (51,100 sq ft) of ‘Furnished + Flexible’ lettings,

and we currently operate 144,400 sq ft of these smaller units with a further 21,500 sq ft on site or committed.

Since the start of 2024, £1.8m of new leases have been agreed on average 5.6% above December 2023 ERV, and there is £2.7m under offer.

Leasing by location in 2023

Location	Pre-let income (£m)	Non pre-let income (£m)	Total income (£m)	Total income %
West End	16.3	5.6	21.9	77
City Borders	–	6.5	6.5	23
Total	16.3	12.1	28.4	100



Emily Prideaux – Executive Director

Highlights

Lettings

- £28.4m of new leases, on average 8.0% above December 2022 ERV
 - Includes £16.0m of pre-lets at 25 Baker Street W1, 13.4% above ERV
- Strong demand across all villages, split 77% West End and 23% City Borders

Asset management

- 81 asset management transactions with rent of £41.5m, 3.5% above the previous income
- Average 1.7% above December ERV

EPRA vacancy rate

- Down 2.4% through 2023 to 4.0%



45 Whitfield Street W1

Leasing in 2023 and 2024 to date

	Let			Performance against Dec-22 ERV (%)	
	Area sq ft	Income £m pa	WAULT ¹ yrs	Open market	Overall ²
H1 2023	228,000	19.3	11.0	8.9	7.3
H2 2023	112,500	9.1	7.5	10.4	9.5
2023	340,500	28.4	9.9	9.4	8.0
2024 to date	32,000	1.8	8.8	7.4 ³	5.6 ³

1 Weighted average unexpired lease term (to break).

2 Includes short-term lettings at properties earmarked for redevelopment.

3 Performance against December 2023 ERV.

Principal lettings in 2023

Property	Tenant	Area sq ft	Rent £ psf	Total annual rent £m	Lease term Years	Lease break Year	Rent-free equivalent Months
H1							
25 Baker Street W1	PIMCO	106,100	103.40	11.0	15	–	37
The Featherstone Building EC1	Buro Happold	31,100	74.40	2.3	15	10 ¹	24, plus 12 if no break
One Oxford Street W1	Uniqlo	22,200	Conf ²	Conf ²	10	5	12
Tea Building E1	Jones Knowles Ritchie	8,100	60.00	0.5	10	5	12, plus 12 if no break
The White Chapel Building E1	Comic Relief	5,000	61.90 ³	0.3	5	3	6, plus 1 if no break
Middlesex House W1	Zhonging Holding Group	4,200	81.00 ³	0.3	3	1.5	–
H2							
25 Baker Street W1	Moelis	49,400	101.25	5.0	15	10	24, plus 9 if no break
The Featherstone Building EC1	Tide	14,400	71.00	1.0	10	5	15, plus 11 if no break
The Featherstone Building EC1	Avalere Health	10,900	81.00 ³	0.9	10	5	5, plus 5 if no break
Tea Building E1	Gemba	7,100	63.80 ³	0.5	5	–	8
Tottenham Court Walk W1	Sostrene Greene	6,400	54.90	0.4	10	6	12
The White Chapel Building E1	Asthma & Lung UK	7,000	45.00	0.3	10	3	7, plus 8 if no break

1 There is an additional break at year 5 on level eight subject to a 12-month rent penalty payable by the tenant.

2 Uniqlo will pay a base rent (subject to annual indexation) plus turnover top-up.

3 'Furnished + Flexible' (Cat A+) lettings.

Leasing and asset management continued



Members of the Leasing and Marketing teams

Asset management

As the shortage of quality supply across the London office market becomes increasingly apparent, businesses are having to plan their occupational requirements earlier. Consequently, we engaged with several occupiers who have already begun planning for lease breaks/expiries in 2026/27. The opening of our two Member Lounges – DL/78 in 2021 and DL/28 in 2023 – is having a positive impact on these early conversations, with many occupiers valuing the additional amenity and level of service they provide.

Overall, asset management activity in 2023, excluding two short-term development-linked regears, totalled 670,000 sq ft, 30% higher than in 2022 (516,900 sq ft).

The key transactions were:

- **Brunel Building W2:** Paymentsense took an additional 49,600 sq ft on a lease assignment from Splunk, increasing its occupancy by 150% to 82,600 sq ft. Simultaneously the lease break on their existing space was removed and the term across all five floors was extended to 2036, with a minimum rental uplift at next review. The WAULT on these five floors increased to 12.7 years from 6.9 years.
- **1 Stephen Street W1:** As part of a wider asset management transaction, Fremantle agreed the removal of its lease break in September 2024 on levels 3 to 6 adding five years' term certain alongside a 7.2% uplift in rent in September 2024, and the hand back of level 7. The space will be refurbished this year unlocking a substantial rental uplift.

Also within the building, Freud Communications agreed the removal of its lease break in September 2024, adding five years' term certain to the lease.

- **White Collar Factory EC1:** Rent review on 28,400 sq ft to AKTII settled 15% ahead of the previous rent, and in line with December 2022 ERV.
- **Tea Building E1:** Monkey Kingdom renewed its lease on 7,500 sq ft at £0.5m, a level 9.1% above the previous rent and 4.3% above December 2022 ERV.

The WAULT (to break) across the portfolio was broadly stable at 6.5 years (December 2022: 6.4 years) despite the passage of time, reflecting our leasing and asset management activity. This is split 7.5 years in the West End and 4.6 years in the City Borders.

Our 'topped-up' WAULT (adjusted for pre-lets and rent-free periods) was also stable at 7.4 years (December 2022: 7.2 years).

At the start of 2023, 10% of passing rent was subject to break or expiry in the year. After adjusting for disposals and space taken back for larger schemes, 65% of income exposed to breaks and expiries was retained or re-let by year end. This is lower than the rate reported at H1 2023 because units with a passing rent of £6.0m were vacated in the final four months of the year and there was insufficient time to complete our asset improvement plans prior to year end. 1-2 Stephen Street W1 (units previously let to BrandOpus and G-Research on low rents of £43.75 psf and £50 psf respectively) and 20 Farringdon Road EC1 (unit previously let to Indeed at a rent of £57.50 psf) comprised 67% of this and improvement works have already commenced at these units ahead of re-letting.

Asset management activity in 2023

	Number	Area '000 sq ft	Previous rent £m pa	New rent ² £m pa	Uplift %	New rent vs Dec-22 ERV %
Rent reviews	28	381.0	22.1	23.4	5.8	2.4
Lease renewals	39	62.8	3.1	3.2	3.3	6.7
Lease regears ¹	14	226.2	14.9	14.9	0.1	-0.3
Total	81	670.0	40.1	41.5	3.5	1.7

¹ Excludes two development-linked regears.

² Headline rent, shown prior to lease incentives.



Members of the Asset and Property Management teams

Vacancy

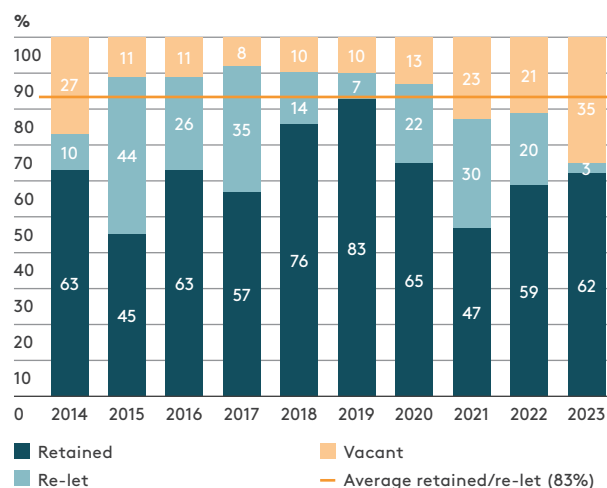
The portfolio EPRA vacancy (which is space 'available to occupy') decreased by 2.4% through 2023 to 4.0% (December 2022: 6.4%) with an ERV of £10.9m. The decrease primarily reflects leasing progress at The Featherstone Building EC1 (58,600 sq ft leased in 2023), The White Chapel Building E1 (15,200 sq ft leased in 2023) and Soho Place W1 (23,100 sq ft of retail space leased in 2023).

Within our EPRA portfolio, there is project space with an ERV of £7.5m which is excluded from the EPRA vacancy rate. This includes space vacated in the last four months of the year where projects are at an early stage. Once complete, EPRA vacancy would increase to 6.8%, a 0.3% reduction compared to the comparable rate at December 2022 (7.1%).

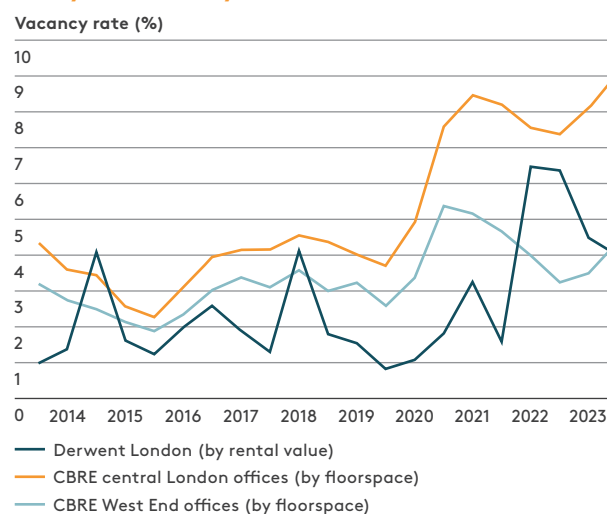
Rent and service charge collection

Rent and service charge collection rates remain high at 98% for the December 2023 quarter.

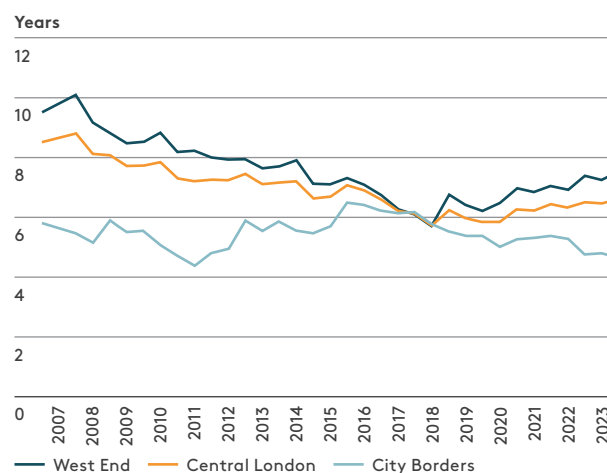
Lease expiry and break analysis



Ten-year vacancy trend



Average unexpired lease length



Investment

Over the last five years, we have sold £894.0m of property, primarily focused on smaller non-core buildings where there was limited capacity for extra floor area and amenity. Disposal proceeds have largely been recycled into our development pipeline, with £855.4m of capital expenditure and acquisitions of £468.6m. This has helped us maintain a strong balance sheet with conservative levels of gearing, despite the valuation declines seen, and provides firepower for future acquisition opportunities that we expect to arise over the coming 12-24 months.

The Group's capital allocation decisions in 2023 were focused on its exciting development and refurbishment pipeline.

We incurred total project expenditure (including our share of the 50 Baker Street W1 JV) of £162.8m, plus £6.5m of capitalised interest. Of this, £117.4m was at our two on-site major projects.

We remain committed to owning a portfolio balanced between core income properties and those that offer future regeneration potential. At 31 December 2023, the portfolio was split 56% 'core income' and 44% 'future opportunity'. This excludes Old Street Quarter EC1, with an existing floor area of c.400,000 sq ft, where our conditional acquisition is expected to complete from 2027 and offers significant potential to create a mixed-use campus.

Highlights

Developments

- £169.3m of project expenditure
- Two major projects on site – 25 Baker Street W1 (298,000 sq ft) and Network W1 (139,000 sq ft)
 - Combined 5.8% yield on cost and 13% development profit
 - 25 Baker Street offices 75% pre-let (13.4% above December 2022 ERV)
- Medium and longer-term pipeline totals over 1.3m sq ft

Disposals

- Total disposals £66m; major sales were 19 Charterhouse Street EC1 (Q1: £53.6m; 4.6% yield) and 12-16 Fitzroy Street W1 (Q2: £6.7m; 6.9% yield)



Paul Williams – Chief Executive

Nigel George – Executive Director

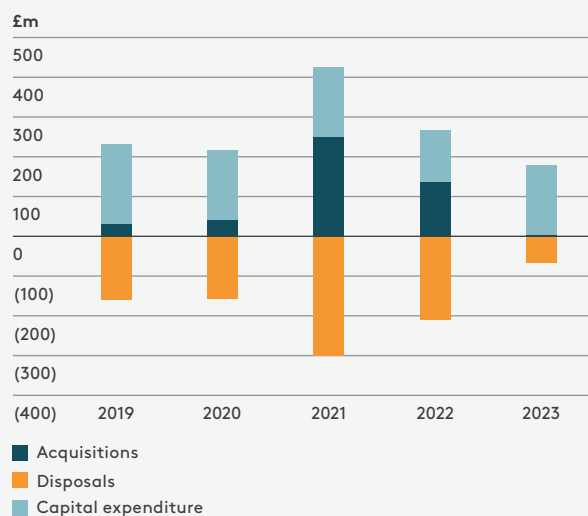
Acquisitions and disposals

There was limited investment activity in 2023. Disposals totalled £65.6m at a blended capital value of £845 psf and yield of 4.4% (excluding the forward sale of residential units at 25 Baker Street W1), compared to acquisitions of £3.8m.

Principal disposals in 2023

Property	Date	Area sq ft	Total after costs £m	Net yield %	Net rental income £m pa
19 Charterhouse Street EC1	Q1	63,200	53.6	4.6	2.6
12-16 Fitzroy Street W1	Q2	8,600	6.7	6.9	0.5
Other	–	2,200	5.3	–	–
Total		74,000	65.6	4.4	3.1

Net property investment



Developments and refurbishments

Major on-site projects

Significant progress was made through 2023 at our two on-site projects, 25 Baker Street W1 and Network W1, which together total 437,000 sq ft and are both in the West End. The construction costs are now fixed and we have substantially de-risked delivery at 25 Baker Street. With limited competing supply in either the Marylebone or Fitzrovia sub-markets, we are confident in the leasing prospects for the remainder of the available space. We currently expect them to deliver a combined 5.8% yield on cost and 13% development profit.

- **25 Baker Street W1** (298,000 sq ft) – an office-led scheme in Marylebone, which is expected to complete in H1 2025, comprising 218,000 sq ft of best-in-class offices, 28,000 sq ft of new destination retail around a central landscaped courtyard (which is being delivered for the freeholder, The Portman Estate) and 52,000 sq ft of residential, of which 45,000 sq ft is private. Occupier demand for the office space is high, with 155,500 sq ft pre-let through 2023 at an average headline rent of £103 psf, 13.4% ahead of December 2022 ERV.

In addition, seven of the 41 private residential units have exchanged for £38.9m, reflecting an average capital value of £3,560 psf, and a further three are under offer. The office and residential structures have now completed and the façade installation is making good progress. The mid-Stage 5 embodied carbon estimate is c.600 kgCO₂e/sqm.

- **Network W1** (139,000 sq ft) – an office-led scheme in Fitzrovia, targeted for completion in H2 2025, comprising 134,000 sq ft of adaptable offices and 5,000 sq ft of retail. The project is being delivered on a speculative basis. Ground and basement works have completed and construction of the core and upper slabs has reached level six. The Stage 4 design embodied carbon estimate is c.530 kgCO₂e/sqm.

Major on-site projects

437,000 sq ft

Developments and refurbishments continued



Network W1

Major on-site development pipeline

Project	Total	25 Baker Street W1	Network W1
Completion		H1 2025	H2 2025
Office (sq ft)	352,000	218,000	134,000
Residential (sq ft)	52,000	52,000	–
Retail (sq ft)	33,000	28,000	5,000
Total area (sq ft)	437,000	298,000	139,000
Est. future capex ¹ (£m)	223	139	84
Total cost ² (£m)	734	486	248
ERV (c.£ psf)	–	95	90
ERV (£m pa)	33.0	20.4 ³	12.6
Pre-let/sold area (sq ft)	201,300	201,300 ⁴	–
Pre-let income (£m pa, net)	15.6	15.6	–
Embodied carbon intensity (kgCO ₂ e/sqm) ⁵		c.600	c.530
Target BREEAM rating		Outstanding ⁶	Outstanding
Target NABERS rating		4 Star or above ⁶	4 Star or above
Green Finance		Elected	Elected

1 As at 31 December 2023.

2 Comprising book value at commencement, capex, fees and notional interest on land, voids and other costs. 25 Baker Street W1 includes a profit share to freeholder, The Portman Estate.

3 Long leasehold, net of 2.5% ground rent.

4 Includes PIMCO and Moelis pre-lets, five private residential units at year end, the pre-sold affordable housing plus the courtyard retail and Gloucester Place offices pre-sold to The Portman Estate.

5 Embodied carbon intensity estimate as at stage 4 or mid-stage 5.

6 Excludes offices at 30 Gloucester Place.

Future development projects

Our medium-term pipeline

- **Holden House W1** (c.150,000 sq ft) – from mid-2025: we are updating our plans which will have a higher office weighting and better sustainability credentials than the existing planning consent.
- **50 Baker Street W1** (c.240,000 sq ft at 100%) – from early 2026: held in a 50:50 joint venture with Lazari Investments, we have submitted a planning application, the outcome of which is expected in H1 2024. This leasehold property is on The Portman Estate and includes another building in their ownership.

Our longer-term pipeline

- **Old Street Quarter EC1** (750,000+ sq ft) – from 2027/28: we continue to progress plans for this 2.5-acre island site which our studies suggest has potential for a significant mixed-use campus development, potentially incorporating both office and 'living' components. We have had constructive engagement with the London Borough of Islington. Our acquisition of the site is expected to complete from 2027, conditional on delivery of the new eye hospital at St Pancras and subsequent vacant possession of the existing site.
- **230 Blackfriars Road SE1** (200,000+ sq ft) – from 2030: our early appraisals show capacity for a large office-led development for this 1960s building, more than three times the existing floor area.

Refurbishments

Refurbishment projects will comprise an increasing proportion of capital expenditure over the coming years as we continue to upgrade the portfolio to meet the evolving requirements of an increasingly selective occupier base. Through improving the amenity offer and overall quality, as well as upgrading EPCs, we expect these projects to deliver an attractive rental uplift. Smaller units, typically <10,000 sq ft, will be appraised for our 'Furnished + Flexible' product where occupiers are willing to pay a premium rent for flexible, high quality space.

Medium-term pipeline

c.390,000 sq ft

(at 100%) of high quality office-led space

Longer-term pipeline could deliver

950,000+ sq ft

of mixed-use, office-led space

Four schemes totalling

c.1.3m sq ft



Members of the Design team and MSMR Architects



Damian Wisniewski – Chief Financial Officer

Macroeconomics had a major impact on UK real estate in 2023, driving up property investment yields and the cost of new finance quite sharply.

Presentation of financial results

The financial statements have been prepared in accordance with UK adopted International Accounting Standards (IAS). In common with usual and best practice in our sector, alternative performance measures have also been provided to supplement IAS based on the recommendations of the European Public Real Estate Association (EPRA). EPRA Best Practice Recommendations (BPR) have been adopted widely throughout this report and are used within the business when considering our operational performance as well as matters such as dividend policy and elements of our Directors' and senior staff remuneration. Full reconciliations between IFRS and EPRA figures are provided in note 40 and the EPRA definitions are set out on pages 283 and 284.

Introduction

Most of the yield shift came in the second half of the year and, though there was a significant improvement in mood during December, volatility has carried through into early 2024. Office investment volumes in 2023 were also substantially lower than normal. General cost pressures continued to erode business and household confidence through 2023 but inflation and wage growth both moderated in the final quarter and the outlook is now for the UK base interest rate to fall rather than to rise. The pace and extent of those rate decreases will have a decisive impact upon our sector.

Derwent London has continued to operate its well-established business model effectively through this period of volatility, with many of the trends seen in 2022 continuing in 2023. Average office rents in central London grew in the year, better-quality buildings with modern amenities and stronger environmental performance outperforming. Older stock was under pressure and we also saw elevated energy costs carry into H1 2023. Together with higher average vacancy rates, these factors led to increased irrecoverable property costs which impacted our recurring earnings in 2023. In addition, rental growth continued to lag general cost inflation, a pattern we have seen now for several years.

Similarly, while development and refurbishment projects are both bringing positive incremental returns, development profits have been impacted by upward yield shift, higher construction costs/fees and elevated marginal interest rates.

Against this challenging background, we have continued to balance value creation with relatively resilient recurring earnings and dividend growth, our high-quality product is in demand and the Derwent London balance sheet remains among the strongest in the UK real estate sector.

With a shortage of top-quality stock, strong occupier demand and cost increases moderating, conditions may be starting to emerge where rents for the best office space can outpace the lower levels of general inflation.

Total net assets

£3,508.8m

Dec 2022: £4,075.5m

Property portfolio at fair value

£4,844.7m

Dec 2022: £5,321.8m

EPRA earnings per share (EPS)

102.0p

2022: 106.6p

LTV ratio

27.9%

Dec 2022: 23.9%

EPRA NTA per share

3,129p

Dec 2022: 3,632p

Gross property and other income

£265.9m

2022: £248.8m

Interim and final dividend per share

79.5p

2022: 78.5p

NAV gearing

38.7%

Dec 2022: 30.8%

IFRS loss before tax

£(475.9)m

2022: £(279.5m)

Net rental income

£186.2m

2022: £188.5m

Net interest cover ratio

4.1x

2022: 4.2x

Net debt/EBITDA

8.8x

Dec 2022: 7.8x

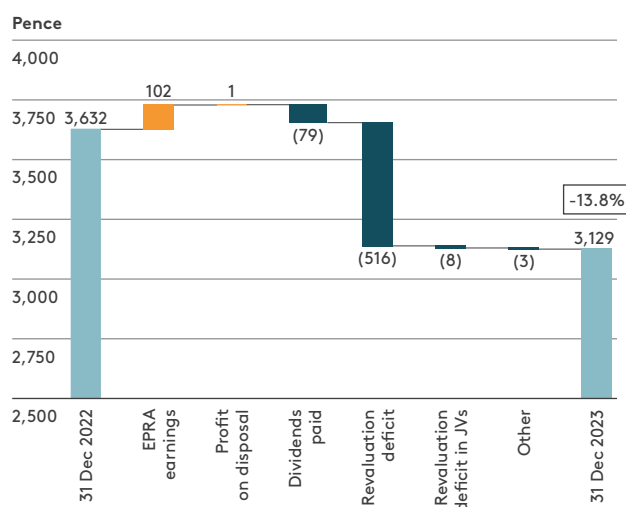
Net asset values and total return for the year

Upward yield shift, particularly in the second half, saw our IFRS net asset value fall by 13.9% from £4,076m to £3,509m over the year. EPRA net tangible asset (NTA) value per share also declined 13.8% from 3,632p per share to 3,129p at 31 December 2023, 37% of the movement coming in the first half and 63% in the second.

After adding back dividends and property income distributions paid in the year, the Group's total return for the year was -11.7% compared to -6.3% in 2022.

EPRA Net Disposal Value (NDV), which takes account of the £138m positive fair value impact of fixed rate debt and bonds over their book values, was 3,243p per share against 3,768p per share as at 31 December 2022.

EPRA net tangible assets per share



EPRA NTA movement

	2023 P	2022 P
Opening EPRA NTA	3,632	3,959
Revaluation movement	(516)	(373)
Profit on disposals	1	23
EPRA earnings	102	107
Ordinary dividends paid	(79)	(78)
Interest rate swap termination income	2	-
Share of joint venture revaluation movement	(8)	(8)
Other	(5)	2
Closing EPRA NTA	3,129	3,632

FINANCE REVIEW continued

Property portfolio at fair value

Knight Frank and Savills provided external valuations of the Group's property portfolio as at 31 December 2023, the total of £4.8bn wholly-owned properties allocated across the balance sheet as follows:

	Dec 2023 £m	Dec 2022 £m
Investment property	4,551.4	5,002.0
Non-current assets held for sale	–	54.2
Owner-occupied property	46.1	50.0
Trading property	60.0	39.4
Property carrying value	4,657.5	5,145.6
Accrued income (non-current)	173.9	165.2
Accrued income (current)	20.2	23.6
Unamortised direct letting costs (non-current)	14.5	13.8
Unamortised direct letting costs (current)	2.4	2.5
Grossing up of headlease liabilities	(33.6)	(34.2)
Revaluation of trading property	9.8	4.8
Other	–	0.5
Fair value of property portfolio	4,844.7	5,321.8
Fair value of properties held in joint venture (50%)	33.8	42.4

Capital expenditure of £152.3m (2022: £114.8m) was invested across the wholly-owned property portfolio in 2023 together with capitalised interest of £6.3m (2022: £7.0m). Acquisitions of new property were only £3.8m compared with £133.0m a year earlier and the carrying value of disposals was also lower at £64.0m (2022: £182.1m), principally the sale of 19 Charterhouse Street EC1 in Q1 which had been classified as an 'asset held for sale' at 31 December 2022. A slower investment market meant that our recycling activity was below typical levels in 2023 and, as a result, we have increased our planned disposals in 2024 and 2025.

Owner-occupied property comprises our head office at 25 Savile Row W1 and is included within 'property, plant and equipment' at £46.1m (2022: £50.0m) together with £3.8m (2022: £4.3m) of leasehold improvements, furniture, equipment and artwork.

Trading property at the year-end increased to £60.0m (2022: £39.4m) as we continue to build the residential units under construction at 25 Baker Street W1. To date, we have exchanged contracts on seven of these units totalling £39m with completion due in 2025. Sales prices achieved to date are in excess of our book cost and the estimated fair values, which are not included within the IFRS balance sheet, were £9.8m (2022: £4.8m) above cost at the year-end. The remaining trading property was Welby House SW1, held at £3.6m. It was originally acquired as a potential site for affordable housing and was sold in early 2024.

The accrued income through incentive periods also increased marginally, the non-current amount being £173.9m (2022: £165.2m) and the current portion being £20.2m (2022: £23.6m).

The fair value of our 50% holding at 50 Baker Street W1 was £33.8m (2022: £42.4m) after a revaluation deficit of £9.2m (2022: £9.3m) in the year, retained profits of £2.0m (2022: £2.0m) and capital expenditure of £0.6m (2022: £1.6m). Together with our other small joint venture interests, this is included within 'investments' of £35.8m (2022: £43.9m).

Other balance sheet items

Our agreements in relation to the 25 Baker Street development require us to deliver certain retail elements upon completion to the freeholder, The Portman Estate, at an agreed price. Further costs of £6.6m were incurred in 2023 and the £8.9m total is included within 'trading stock'. It cannot be classified as 'trading property' as we hold no legal interest in the real estate itself.

Trade and other receivables were £42.7m at 31 December 2023 (2022: £42.4m) and include £20.2m (2022: £23.6m) of income accrued through incentive periods under IFRS 16 and classified as a current asset. As noted above, £173.9m (2022: £165.2m) of accrued rent was also classified as non-current as the amounts reverse in more than one year from the balance sheet date. The remaining accrued income shown as current related to £2.4m of initial direct letting fees and £0.8m of rent and interest. The balance of other non-current receivables was made up of £14.5m (2022: £13.8m) of initial direct letting fees and £12.6m (2022: £9.1m) of design and planning application costs relating to the Old Street Quarter EC1 scheme. Our expectation is that we will acquire the site in 2027 or once the vendor provides vacant possession, if later. When that occurs, these design and planning costs will be allocated and included within investment property at fair value.

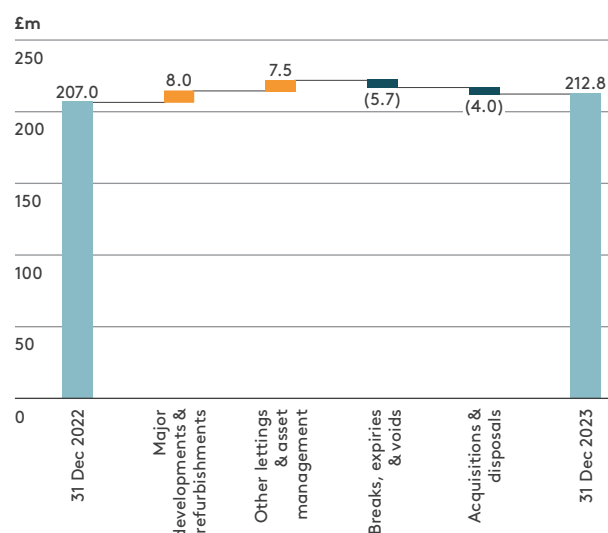
Property and other income

The Group's gross property and other income increased to £265.9m in 2023 from £248.8m in the year ended 31 December 2022. Gross rental income rose by 2.8% to £212.8m from £207.0m, a further £8.0m of rent coming from Soho Place W1, The Featherstone Building EC1 and Francis House SW1. In each case, these projects completed in 2022 but a full 12 months of income arose in 2023. £7.5m of additional rent came from the rest of the portfolio while tenants vacating and space taken back for refurbishments reduced gross rents by £5.7m compared to 2022. Net disposals also reduced rent by £4.0m compared to the prior year.

Lease surrender and rights-of-light premiums were only £0.1m in total in 2023 compared with £1.4m in 2022. With no completed residential properties available to be sold, trading property sale proceeds were £nil (2022: £1.6m) though, as noted above, we have now exchanged contracts on £39m of new sales at our 25 Baker Street W1 construction project. In accordance with our accounting policy, these sales will be reflected in the income statement on completion, expected to be in 2025.

As noted within last year's statement and our 2023 half year results, energy costs increased through late 2022 to mid 2023. In addition, many of the services provided via our service charges have also risen in price due to general inflation and wage growth. Together with higher average vacancy rates, irrecoverable service charge costs were therefore higher than usual in H2 2022 and H1 2023. With energy costs falling in the second half, irrecoverable service charge costs were substantially lower in the second half of 2023, as set out below:

Movement in gross rental income



	H1 2022 £m	H2 2022 £m	2022 £m	H1 2023 £m	H2 2023 £m	2023 £m
Service charges						
Voids	0.6	2.8	3.4	2.1	1.8	3.9
Inclusive leases	0.3	0.4	0.7	0.3	0.2	0.5
Caps	0.3	0.3	0.6	1.0	0.1	1.1
Balancing charges/other	0.3	0.1	0.4	1.1	0.0	1.1
	1.5	3.6	5.1	4.5	2.1	6.6

Other irrecoverable property expenditure also increased. In 2023, it totalled £17.4m, up from £14.4m in 2022, allocated across the following main cost categories:

	H1 2022 £m	H2 2022 £m	2022 £m	H1 2023 £m	H2 2023 £m	2023 £m
Property costs						
Legal and letting	1.8	2.0	3.8	2.2	2.4	4.6
Rates	1.1	1.0	2.1	1.1	1.7	2.8
Ground rent	0.5	1.2	1.7	1.2	1.1	2.3
Marketing	1.1	0.7	1.8	1.0	0.7	1.7
Lounges & customer service	0.2	0.3	0.5	0.3	1.1	1.4
Repairs	0.2	0.5	0.7	0.7	0.4	1.1
Other	2.0	1.8	3.8	2.1	1.4	3.5
	6.9	7.5	14.4	8.6	8.8	17.4

Our usual impairment testing of receivable balances has again been carried out on trade receivables and the accrued income balances created by the spreading of lease incentives. Office rent collection across the portfolio has remained high but there is still some weakness among the retail, gym and hospitality sectors and we also saw a few of our smaller tenants fail in 2023. We have also considered the carrying value of prepaid costs at Old Street Quarter in accordance with IAS 36. Together, this has taken the overall impairment charge to £2.6m in 2023 against a credit in 2022 of £1.0m.

After allowing for all of these costs, net rental income fell slightly to £186.2m in 2023 from £188.5m in 2022. With surrender premiums, dilapidation receipts, other property income and management fees included, net property and other income also fell a little to £190.5m from £194.6m in the prior year.

FINANCE REVIEW continued

Administrative expenses and EPRA cost ratios

Salaries increased by an average of 6% in 2023 and headcount also increased by 15 in the year. In addition, there was a £1.2m underaccrual in 2022 for bonus payments awarded in March 2023 to Directors and Executive Committee members which has therefore fallen into 2023. As a result, administrative expenses were £39.1m in 2023 against £36.4m in 2022. Adjusting for the bonus underaccrual, the underlying increase year on year was 1.0%. In accordance with our normal practice, we do not capitalise any of our overheads.

The higher property and administrative expenses in 2023 have increased our EPRA cost ratio, including direct vacancy costs, to 27.3% from 23.3% in 2022. Excluding direct vacancy costs, the EPRA cost ratio was 22.3% (2022: 19.5%).

Other income statement items

The deficit on the wholly owned investment portfolio's revaluation in 2023 was £581.5m (2022: £422.1m) with a further £9.2m (2022: £9.3m) from our share of the 50 Baker Street joint venture. Our head office at 25 Savile Row saw a revaluation deficit of £3.9m (2022: surplus of £0.7m), included within the Group Statement of Comprehensive Income.

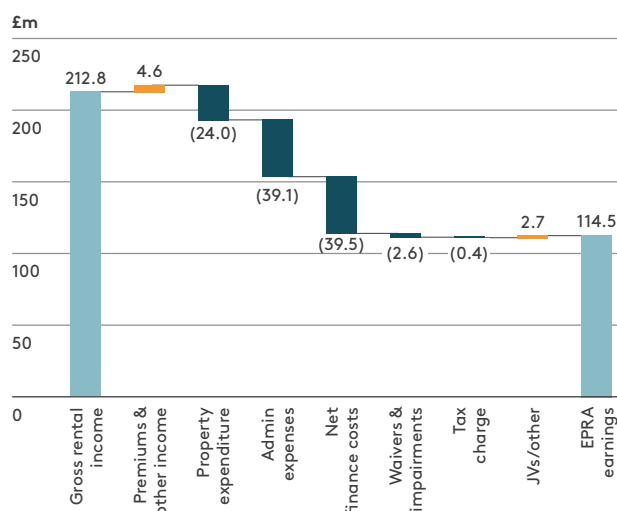
As noted above, the profit on disposal of investment properties was lower than usual in 2023 at £1.2m (2022: £25.6m), mainly from the sale of 19 Charterhouse Street EC1.

Net finance costs increased marginally to £39.5m from £39.4m in 2022 with capitalised interest slightly lower than the prior year at £6.5m (2022: £7.0m).

The Group's interest rate swaps saw a fair value loss on derivative financial instruments of £2.1m in 2023, contrasting with the £5.8m gain in 2022 when rates moved sharply upwards, but much of the 2023 movement was offset by a £1.8m gain in deferring the start date of these swaps.

Our joint venture with Lazari Investments at 50 Baker Street W1 showed a loss for the year of £7.2m (2022: £7.3m), mainly due to the £9.2m (2022: £9.3m) revaluation deficit noted above.

EPRA Earnings



IFRS loss before tax and EPRA earnings per share

The IFRS income statement, which includes the substantial fair value deficit on the property portfolio and derivative financial instruments, showed a loss before tax for the year of £475.9m (2022: loss of £279.5m). IFRS earnings per share were -424.3p (2022: -249.8p).

EPRA earnings per share, which adjust for the fair value movements and certain other items, was 102.0p per share (2022: 106.6p). As noted above, the main reason was an increase in irrecoverable property costs and overheads. A table showing a reconciliation of the IFRS results to EPRA earnings per share is included in note 40.

Like-for-like rental income

Like-for-like (LFL) gross rental income was up 1.7% over the year, reflecting modest underlying rental growth. However, LFL net rental income was lower by 1.4% due to the higher irrecoverable property costs explained above and LFL net property income, which takes account of dilapidations and other property income, was down by 2.1%.

Internal controls, assurance and the regulatory environment

Internal controls remained a key focus area during the year, with good progress made enhancing existing documentation and the evidencing of controls in anticipation of changes to governance requirements and potential regulation.

The Financial Reporting Council has recently issued the updated UK Corporate Governance Code (the Code), following consultation during 2023. Changes to the Code have been kept to a minimum, after the Government withdrew draft secondary legislation in the autumn and recognising that effective governance should be targeted and proportionate. The most significant change to the Code will require Boards to include an annual declaration in the annual report explaining how they have monitored and reviewed the effectiveness of the internal control framework, and the Board's conclusion as to the effectiveness of material controls.

In this context, we are continuing to document, review and, where necessary, strengthen key processes and controls. This will further build our resilience and enable the business to respond quickly to emerging risks, while combating fraud and enhancing the quality of reporting.

We continue to be supported by independent assurance obtained from a range of external providers. Consistent with last year, the principal sources include the annual statutory audit, which was subject to a tender process in 2023. After strong presentations from each of the shortlisted firms, the Board has recommended that PwC remain as our auditor. Additional external assurance is obtained on selected sustainability, health and safety and green finance disclosures, service charge audits, a twice-yearly external valuation and internal audits that cover a range of key business risk areas.

Work will continue throughout 2024 to further enhance the control environment, defining key controls deemed material to the long-term sustainability of the business and ensuring we have sufficient assurance in place over these to inform the Board's declaration which will be required for our financial year commencing on 1 January 2026.



Members of the Finance team

Taxation

The corporation tax charge for the year ended 31 December 2023 was £nil.

The movement in deferred tax for the year was a credit of £0.5m, (2022: charge of £0.9m) of which £0.5m was expensed through the income statement. The amount credited through 'other comprehensive income' in relation to the owner-occupied property at 25 Savile Row was £1.0m.

As well as other taxation paid during the year, in accordance with our status as a REIT, £9.7m of tax was paid to HMRC relating to withholding tax on property income distributions (PIDs).

Derwent London's principles of good governance extend to a responsible approach to tax. Derwent London has a low tolerance of tax risk and successfully retained its low risk status in every area of HMRC's Business Risk Review (BRR+) in July 2023. Our statement of tax principles is available on our website www.derwentlondon.com/investors/governance/tax-principles and is approved by the Board in line with the Group's long-term values, culture and strategy.

Borrowings, net debt and cash flow

Group borrowings rose to £1.34bn at 31 December 2023 from £1.25bn a year earlier, impacted by lower than usual property disposals in a hesitant investment market. The increase in debt came from drawings under our unsecured revolving credit facilities but available cash and undrawn facilities remained very substantial, totalling £480m at the December 2023 year end (2022: £577m). During the year, the £83m secured loan also moved into current liabilities as it is due for repayment or refinancing in October 2024.

Taking account of leasehold liabilities, which were almost unchanged over the year, derivative financial instruments and unrestricted cash, net debt was £1.36bn compared with £1.26bn in December 2022.

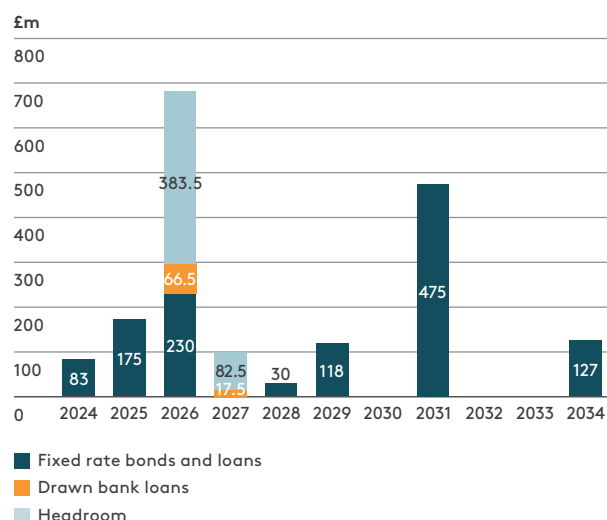
The increase in debt as well as lower property valuations meant that the Group's EPRA loan-to-value ratio increased to 27.9% from 23.9% in December 2022. It continues to be one of the lowest in the sector. Interest cover also remained strong at 4.1 times, only marginally below the 4.2 times in 2022 with our main debt covenant at 1.45 times. We have also disclosed net debt to EBITDA for the first time this year as it is increasingly being used by some of our stakeholders. As at 31 December 2023, it was 8.8 times (31 December 2022: 7.8 times).

The other main change this year was the presentation of the Cash Flow Statement, bringing us in line with a majority of our peers and simplifying the presentation of what was becoming an increasingly long statement. While the previous 'direct' method has some advantages, the 'indirect' method that we now use indicates the main working capital movements and clearly sets out the linkages between the profit/loss from operations and the cash flow from operations.

Cash generated from operations in 2023 was £135.3m (2022: £148.7m), the 2023 figure including £24.7m of cash outflows (2022: £9.7m) incurred building up trading stock and trading property balances at the 25 Baker Street development. Though this is a project lasting several years, IAS 7 requires these cashflows to be shown as a deduction against operating cash flow (rather than in investing activities) as they relate to elements to be sold on completion rather than to be held as investment properties. At the point when they are disposed of, expected to be in 2025, there will be a substantial cash inflow which will also pass through operating activities.

Though acquisitions were considerably lower than in 2022, cash generated from property disposals was also much lower this year and, as a result, the net cash used in investing activities was £98.0m (2022: £51.7m).

Maturity profile of debt facilities



FINANCE REVIEW continued

Debt and financing

In 2022 and 2023, the real estate debt environment suffered what are probably its two most challenging years since the financial crisis in 2007/8. The reasons this time are quite different and, importantly, banks and most other lenders remain well capitalised. Borrowers also have generally manageable levels of debt. However, after many years when UK interest rates were held down by quantitative easing, the return of inflation and a number of other global events have led to big increases in the rates set by many central banks. After 14 rate rises from December 2021, the UK base rate reached 5.25% in August where it remains. Other features of the past year or so have been volatility and uncertainty as the market tries to absorb rapidly changing data and sentiment.

To illustrate this, the UK 5-year swap rate started 2023 at 4.0%, reached a high of 5.3% in July, and ended the year close to its 12-month low of 3.3%. Longer rates also moved significantly: the 10-year UK gilt was 3.7% at the beginning of 2023, fell to 3.0% in early February, hit a high of 4.7% in August before falling over 100bps to end the year at 3.6%.

Credit spreads have also fluctuated significantly. Against this background, we chose not to refinance any of our debt in 2023 but continued to hold active discussions with our relationship lenders and also engaged with new parties. Conditions in early 2024 look more positive and we detect a little more optimism among both lenders and borrowers. However, rates across the curve have moved upwards since the beginning of 2024 and uncertainty remains elevated.

As we have been drawing more of our revolving credit facilities in recent months, we decided to split our 1.36% interest rate swap expiring in April 2025 into four parts. At the year end, a £20m swap was subject to a forward start date and three swaps totalling £55m were active.

Our next refinancing is due in October 2024, an £83m secured loan with a coupon of 3.99%. We are expecting to refinance this later in the year and have had a number of encouraging discussions. Expectations are that the rate will be a little higher than the current level.

At the year-end, 94% of our debt was at fixed rates, 4% was hedged by the active swaps and the balance of 2% was at floating rate. With so much of the debt at fixed rates, the Group's weighted average interest rate on a cash basis only rose very slightly to 3.17% from 3.14% in December 2022 and to 3.29% from 3.26% on an IFRS basis which adjusts for the convertible and green bonds. The weighted average maturity of our borrowings was 5.0 years at 31 December 2023 compared to 6.2 years at 31 December 2022.

Debt facilities and reconciliation to borrowings and net debt at 31 December 2023

	Drawn £m	Undrawn £m	Total £m	Maturity
Unsecured convertible bonds	175.0	–	175.0	2025
Secured bonds	175.0	–	175.0	2026
Unsecured green bonds	350.0	–	350.0	2031
Unsecured private placement notes	455.0	–	455.0	2026–2034
Secured loan	83.0	–	83.0	2024
Other loan	20.0	–	20.0	n/a
Non-bank debt	1,258.0	–	1,258.0	
Club revolving credit – unsecured	66.5	383.5	450.0	2026
Bilateral revolving credit – unsecured	17.5	82.5	100.0	2027
Committed bank facilities	84.0	466.0	550.0	
Debt facilities	1,342.0	466.0	1,808.0	
Acquired fair value of secured bonds less amortisation	5.0			
Unamortised discount on unsecured green bonds	(1.5)			
Equity adjustment to convertible bonds less amortisation	(2.0)			
Unamortised issue and arrangement costs	(7.4)			
Borrowings	1,336.1			
Leasehold liabilities	34.6			
Cash and cash equivalents	(13.9)			
Net debt	1,356.8			

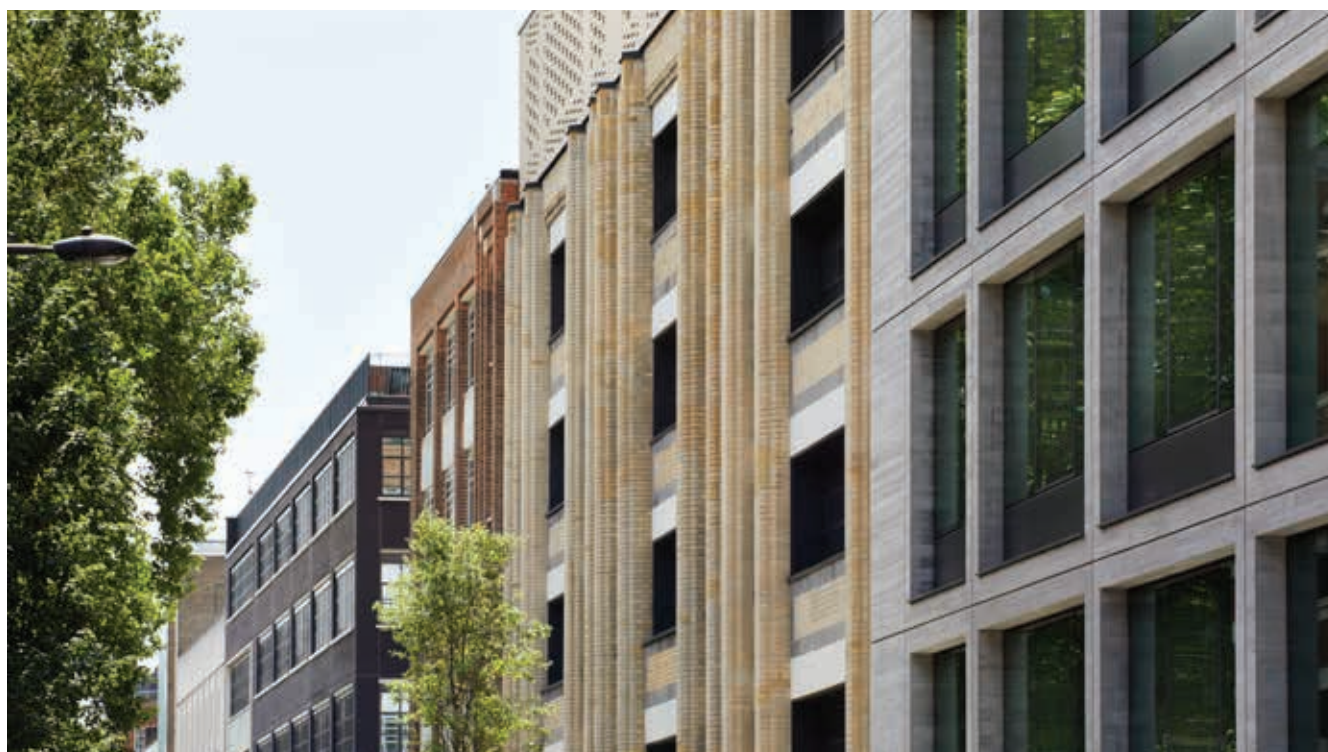
Debt: key stats

	2023	2022
Hedging profile (%)		
Fixed	94	100
Swaps	4	0
	98	100
Percentage of debt that is unsecured (%)	81	79
Percentage of non-bank debt (%)	92	100
Weighted average interest rate – cash basis (%)	3.17	3.14
Weighted average interest rate – IFRS basis (%)	3.29	3.26
Weighted average maturity of facilities (years)	4.5	5.5
Weighted average maturity of borrowings (years)	5.0	6.2
Undrawn facilities and unrestricted cash (£m)	480	577
Uncharged properties (£m)	4,202	4,600

Dividend

As in previous years, our dividend policy is to target progressive increases but to maintain a payout well-covered by EPRA earnings. We also take our obligations to other stakeholders into account and consider any other IFRS realised gains and losses which do not form part of EPRA earnings. The Board is recommending a 0.5p per share increase in the final dividend to 55.0p. It will be paid in May 2024 with 39.0p as a PID and the balance of 16.0p as a conventional dividend. The Company's ISIN reference is GB0002652740.

This will take the total dividend for the year to 79.5p, a 1.3% increase over 2022 with dividends paid and declared in relation to 2023 earnings 1.28 times covered by EPRA earnings.



Reporting under the Green Finance Framework

Derwent London's Green Finance Framework (the Framework) has been prepared in line with the LMA Green Loan Principles and ICMA Green Bond Principles guidance document, has been externally reviewed and a second party opinion has been obtained. The latest Framework is available on our website at www.derwentlondon.com.

Out of our total debt facilities of £1.8bn, £650m satisfy our definition of Green Financing Transactions (GFTs). The GFTs comprise the £350m Green Bond issuance in 2021 and a £300m 'green' tranche included within our main corporate £450m revolving credit facility taken out in 2019. Together these are used to fund qualifying green expenditure.

In accordance with the reporting requirements set out in the Framework, we are disclosing the Eligible Green Projects (EGPs) that have benefitted from our Green Financing Transactions, and the allocation of drawn funds to each project.

The projects eligible for funds from the GFTs are as follows:

Green project	80 Charlotte Street W1	Soho Place W1	The Featherstone Building EC1	25 Baker Street W1	Network W1
Expected completion date	Completed in 2020	Completed in 2022	Completed in 2022	2025	2025
Category for eligibility	Green building, criterion 1 of section 3.1 of the Framework (excludes Asta House and Charlotte Apartments)	Green building, criterion 1 of section 3.1 of the Framework (Site A)	Green building, criterion 1 of section 3.1 of the Framework	Green building, criterion 1 and 2 of section 3.1 of the Framework (excludes retail and refurbished residential)	Green building, criterion 1 of section 3.1 of the Framework
Impact reporting indicator	Building certification achieved (system & rating)	Building certification achieved (system & rating)	Building certification achieved (system & rating)	Building certification achieved (system & rating)	Building certification achieved (system & rating)
Green credentials¹	Achieved: BREEAM – Excellent (post-construction) EPC – B LEED – Gold	1 Soho Place (Site A) Achieved: BREEAM – Outstanding (post-construction) EPC – B LEED – Gold	Achieved: BREEAM – Outstanding (post-construction) EPC – A LEED – Platinum	25 Baker Street offices² Achieved: BREEAM – Outstanding (design stage) Expected: BREEAM – Outstanding (post-construction), on target LEED – Gold, on target EPC – A, on target 30 Gloucester Place² offices Achieved: BREEAM – Excellent (design stage) Expected: BREEAM – Excellent (post-construction), on target EPC – B, on target Private residential Expected: Home Quality Mark – 4 Stars, on target	Achieved: Outstanding (design stage) Expected: BREEAM – Outstanding (post-construction), on target LEED – Gold, on target EPC – A, on target

¹ Green EGP credentials disclosed in accordance with the Framework and the Green Finance Basis of Reporting, available on our website and within the Responsibility Report.

² The development includes 206,000 sq ft of offices at 25 Baker Street and 12,000 sq ft of offices at 30 Gloucester Place.

Qualifying 'green' expenditure

The qualifying expenditure as at 31 December 2023 for each project is set out in the table below. This includes an element of 'look back' capital expenditure on projects in which expenditure had been incurred prior to management's approval of the project as an EGP. This also includes capital expenditure on projects which had already been incurred as at the original refinancing date in October 2019.

Costs which form part of the initial project appraisal or which are associated with delivering the project through to practical completion are included within the eligible green expenditure of the project. Costs incurred subsequently are generally excluded unless specifically elected as green projects.

80 Charlotte Street, Soho Place, and The Featherstone Building are all completed projects and are fully operational. The 25 Baker Street scheme, which commenced on site in 2021, is due to reach practical completion in H1 2025 and the Network building, which commenced on site in 2022 and was elected as an EGP in 2023, is due to reach practical completion in H2 2025.

Cumulative spend on each EGP as at the reporting date

EGP	Look back spend £m	Subsequent spend		Cumulative Spend £m
		Q4 2019 – FY 2022 £m	2023 Spend £m	
80 Charlotte Street W1	185.6	52.5	–	238.1
Soho Place W1 ¹	57.5	166.8	(0.9) ²	223.4
The Featherstone Building EC1	29.1	67.6	0.8	97.5
25 Baker Street W1	26.5	42.3	89.8	158.6
Network W1	23.8	–	12.7	36.5
	322.5	329.2	102.4	754.1

¹ Soho Place Site B was disposed of in 2022. In accordance with section 3.3 of the Framework, the expenditure of £34.9m allocated to Site B has now been removed.

² This relates mainly to capital contributions received post completion, for costs incurred during the construction period.

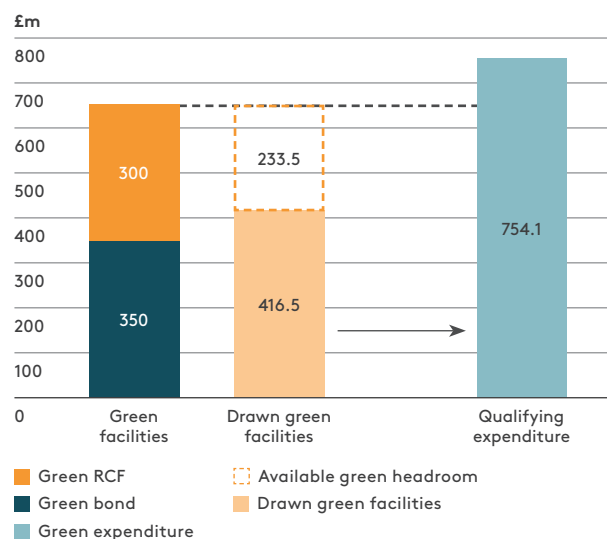
The total qualifying expenditure incurred in 2023 was £102.4m and the cumulative qualifying expenditure on the EGPs at 31 December 2023 was £754.1m.

Drawn borrowings from GFTs as at 31 December 2023 were £416.5m, which comprised of the £350m Green Bonds and £66.5m drawn under the green tranche of the RCF. Therefore, there was £233.5m undrawn under the £300m green tranche of the RCF, all of which is available to fund future cash flow requirements of the Group.

A requirement under the Framework and the facility agreement is for there to be an excess of qualifying spend on EGPs over the amount of drawn borrowings from all GFTs which, as shown above, has been met.

➔ More information can be found in the **Responsibility Report 2023**

Green borrowings and qualifying expenditure



GOING CONCERN & VIABILITY

Our resilience

In accordance with the 2018 UK Corporate Governance Code (the Code), the Directors and senior management team assessed the prospects of the Company and potential threats to our 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 2028) 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 February 2025.

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;
- potential sources of replacement financing;
- lease expiry profile; and
- any material uncertainties or assumptions.

The Group is in a strong financial position. At 31 December 2023, the Group has:

- £466m of undrawn facilities and cash (2022: £577m);
- a low EPRA loan-to-value ratio of 28.0% (including share of joint ventures);
- a low overall cost of debt with a weighted average interest rate of 3.29% as at 31 December 2023;
- 98% of our borrowings either fixed or hedged;
- significant headroom on our financial covenants; and
- strong interest cover of 414% (inc. share of joint ventures).

The Group has sufficient access to finance in the short-term and medium-term.

At 31 December 2023, our average maturity of borrowings is 5.0 years and average maturity of facilities is 4.5 years. The Group's next loan maturity is the £83m secured loan with Mass Mutual, which matures in October 2024. We are in early discussions with the existing lender, and also speaking to a number of other potential debt providers who have expressed interest in developing a lending relationship with us.

Alternatively, we have sufficient headroom on our revolving credit facility to repay the secured loan. Whilst the debt capital markets remain challenging for real estate, we have remained close to our existing lenders and continue to engage with new possible debt providers. We are also reviewing pricing and the availability of debt in the secured lending markets, which are currently looking more favourable for businesses with stronger credit profiles.

With interest rates rising considerably over the past six months, the Group benefits from having strong interest cover and substantially all borrowings are either fixed or hedged. Additionally, the Group can make use of a £75m forward-starting swap which has a fixed rate of 1.36% and runs to April 2025.

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:

Tenant default or failure

The economic situation, high interest rates and cost inflation continue to cause a heightened risk of financial difficulty among some of our tenants. 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 decrease of £0.4m in our overall impairment provision and a net charge to the income statement of £2.0m in the year. This is mainly due to write-offs of certain tenants' balances.

Fall in property values

Sentiment towards office real estate has weakened in 2023, driven mainly from the US. Together with higher interest rates, this has impacted property yields. 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 low 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 53% before our funding covenants would be breached.

Related information is on the following pages:

➔ Significant financial judgements/See page 146

➔ Property review/See page 62

Group's risk register

The Schedule of Principal Risks contains the risks which are currently impacting on the Group or could impact the Group 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 February 2025. 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 2028 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 7.4 years ('topped-up' including rent-frees and pre-lets); and
- our average maturity of borrowings is 5.0 years as at 31 December 2023.

As part of its assessment, the Board considered the Group's emerging risks (page 102), including how these were being addressed. Emerging risks 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 pages 160 and 161.

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 2028.

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 annual 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 5.39m sq ft (2022: 5.46m sq ft); and
- a progressive dividend policy, whilst targeting dividend cover in or above the range of 125% to 150%.

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.

Given the political and economic uncertainties, there has been a slowdown in the investment market although the letting market remains resilient. The Directors noted that occupier demand remains good for the right product. Our strong financial position and proactive stakeholder-focused approach will help us to weather the economic and political uncertainty.

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

GOING CONCERN & VIABILITY continued

Viability of our strategy continued

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.

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

- a 'base case' scenario which was management's best estimate of market and business changes; and
- three scenarios (two downside and one upside) of varying movements in property values, costs and income, or a combination thereof.

In all scenarios, our net interest cover remained above 3.45 times and our EPRA loan-to-value ratio below 35%, 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.

Nature of office occupation

The Directors considered changing work practices and tenant demand for amenity-rich sustainable space which has been identified as an emerging strategic risk for the Group.

The Board was satisfied that the business was:

- responding appropriately to the changing needs of our occupiers via bespoke solutions which recognise the differing demands of our diverse customer base. For larger occupiers, typically on longer leases, this might mean a combination of core and flex space with some optionality. For smaller occupiers looking for greater flexibility, our 'Furnished + Flexible' product provides an attractive solution;
- delivering well-designed, adaptable and amenity-rich workspace. Our customer-focused approach led us to initiatives such as DL/Lounges and DL/Service (see pages 23 and 133); and
- being proactive to ensure the achievement of our net zero carbon ambitions, operating a continuous upgrade/refurbishment programme to improve the sustainability credentials of our older buildings, investing in Intelligent Building infrastructure to create sustainable spaces for our occupiers, and investing in software for effective ESG data capture.

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 2023, we have significant headroom over our covenants, as shown below:

	Covenant	31 Dec 2023
Loan to value (specific assets)	≤ 60% ¹	44%
	≤ 70% ²	34%
Ratio of unencumbered assets to unsecured net debt	≥ 1.6 times	3.8 times
Group NAV gearing	≤ 145%	38.7%
Consolidated interest cover ³	> 145%	414%

1 6.5% secured bonds.

2 3.99% secured loan.

3 Includes joint ventures.

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 £2,572m (or by a further 53%). 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, 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 2023, the Group benefits from:

- reasonable income visibility for the life of our leases which on average are 11.5 years (including rent-frees and pre-lets) with upward-only or contracted rent reviews. 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 of tenants, with none of our occupiers being responsible for more than 8% of total rental income and relatively low exposure to the retail and restaurant sectors.

Refinancing risk

Refinancing risk has been classified as a principal financial risk for the Group. The availability and cost of financing has changed significantly in the past year and is a wider industry issue. Lenders are being more selective in terms of who they support and how much they lend with an impact upon liquidity. We have positive relationships with our lenders and, to date, we have had positive discussions on refinancing with existing and new lenders. The Directors considered that refinancing was unlikely to compromise the Group's viability over the five-year period to 31 December 2028.

Viability of our operations

The Board received an update from the Chairs of the Audit and Risk Committees on the work performed during 2023 in respect to risk monitoring and reviewing the effectiveness of internal controls (see page 92).

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, the strengthening of our portfolio's cyber security and cost savings for our occupiers.

Of the Group's emerging risks, the Board considered EPC compliance to have the greatest potential impact on the Group in the medium-term. Our approach to product and service, in a market where the demand for high quality amenity-rich buildings is increasing, is detailed on pages 18 to 23.

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 184
- ➔ 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 2028.

Long-term

The Board considered a number of longer term factors (which could impact on 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 28 to 36
- ➔ Regeneration projects / See pages 26 and 27
- ➔ Right product, right location / See pages 18 to 23

Climate change

Derwent London is committed to be net zero carbon by 2030. The Group has conducted risk assessments against varying temperature scenarios (~1.5°C, ~2°C to 3°C, >4°C) to identify and assess our key transition and physical risks. The time frames used for these assessments have focused on our short-, medium- and long-term resilience (see page 105).

Of the risks identified, none were likely to have a substantial impact on the viability of our business, although our cost profile could increase.

The Board receives updates on our progress to net zero carbon by 2030. The factors which could impact on our ability to become net zero carbon by 2030 have been identified as:

Newly acquired properties: one of the ways we add value through our business model is by acquiring poorer quality buildings to regenerate. As a result, there is likely to always be an element of our portfolio which is progressing towards becoming net zero carbon.

Unmanaged portfolio: within our portfolio we have a number of single-let buildings, with long leases, where the occupier is responsible for maintaining the property and ensuring its energy efficiency (currently 19% of our portfolio). As we are not responsible for the management of the building, this could be an area of challenge to achieving net zero carbon by 2030. We are actively engaging with these occupiers to promote the benefits of net zero carbon.

Emerging regulation and science: our strategy to becoming net zero carbon will need to adapt in line with emerging regulation, planning policies and science.

- ➔ Building climate resilience / See pages 104 to 117

Intelligent buildings

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.

- ➔ Digital strategy risks / See page 163

MANAGING RISKS

Our risk profile

Despite the wider macroeconomic environment, the Group had an operationally strong year with £28.4m of new rent agreed.



As a predominantly London-based Group, we are particularly sensitive to factors which impact upon central London's growth and demand for office space. We are also impacted by the wider macroeconomic environment. Some of the external and property-related risks which have impacted on the Group during 2023 are shown below. These risks are factored into the Board's strategy discussions and help to inform the scenarios chosen by the Board to stress test the viability of our business (see page 88).

External		
Climate change ➔ See page 46	Political uncertainty ➔ See page 94	Geopolitical instability ➔ See page 102
Economic growth ➔ See page 13	Inflation ➔ See page 76	Interest rates ➔ See page 82

Property-related		
Property values ➔ See page 63	Planning requirements ➔ See page 91	Vacancy rates ➔ See page 71
Contractor default ➔ See page 91	Health & safety ➔ See page 54	Energy prices ➔ See page 91

An overview of the risks and uncertainties which have impacted on the Group's risk profile during 2023

Inflation

To mitigate inflation-related risks, we aim to fix most, if not all, of our construction costs. As previously outlined, we have secured a fixed price for 99.8% of the costs for our Network W1 development and 99.0% of the costs for our 25 Baker Street W1 development. Where possible, we procure our materials locally and continue to divert our development designs away from materials attracting higher price increases.

Contractor/subcontractor default

Due to the fixed price nature of our construction contracts, the risk exposure falls principally on our contractors. To aid their cash flow, we are committed to pay our invoices within 30 days and during 2023, our average payment term was 19 days. We were pleased that none of our main contractors or subcontractors went insolvent during the year; however we are mindful that several are facing increased financial difficulties. As a result, we will continue to actively monitor our main contractors and subcontractors during 2024.

Fall in property values

During the 12 months to 31 December 2023, our property portfolio fell by 10.6% and is now valued at £4.879bn. This headline movement masks a broad range of outcomes, with our higher quality buildings and developments delivering a more resilient performance (see page 63).

Planning requirements

Planning policies in London are becoming more challenging. Local authorities are promoting a refurbishment-first approach instead of new build. There is a risk that this shift in planning policies could result in Derwent London having to retain more secondary office space which is likely to be less attractive to occupiers in comparison to top quality new space. De-risking planning is achieved by a sound understanding of policy, coupled with a collaborative approach with the borough and local community. We benefit from a strong track record of delivering quality and economic/social value.

Health and safety (H&S)

The Building Safety Act 2022 (and subsequent regulations) is arguably the most significant change to H&S legislation in decades. As a result, we have reviewed our responsibilities and have provided clear guidance across the business. Whilst we operate and develop within environments that often contain higher risk activities, Derwent London strives to continuously improve our H&S mitigations and controls. In recognition of our high safety standards, in 2023 we achieved the Royal Society for Prevention of Accidents (RoSPA) Gold Award (see page 55).

Energy prices

Energy prices impact on our occupiers as they are recharged both through the service charge for common facilities and directly for demised space. To ensure the best deal for our occupiers, we place our energy contracts via an independent utility management service, who perform benchmarking to ensure that we remain competitive against the market. We continue to be transparent with our occupiers and highlight the utility pricing within our managed portfolio service charge budgets.

Principal risks

The principal risks and uncertainties facing the Group in 2024 (as at 27 February 2024) are:

- Failure to implement the Group's strategy
- Refinancing risk **(new)**
- Risk of occupiers defaulting or occupier failure
- Income decline
- Fall in property values
- Reduced development returns
- 'On-site' risk
- Contractor/subcontractor default
- Cyber attack on our IT systems
- Cyber attack on our buildings
- Significant business interruption
- Reputational damage
- Our resilience to climate change
- Health and safety
- Non-compliance with law and regulations

➔ Our principal risks / See pages 94 to 101

Emerging risks

During 2023, the Risk Committee reassessed and consolidated its emerging risks. The emerging risks identified by the Board are:

- Nature of office occupation
- Technological change
- Climate change
- Geopolitical instability **(new)**
- Shortage of electrical power

➔ Our emerging risks / See page 102

Climate change

We identify and monitor climate change risks and opportunities as part of our wider risk management procedures. Our climate risk assessments have identified the transition and physical risks and opportunities applicable to our business:

- EPC rating requirements
- Change in customer demand
- Emission offset
- Planning requirements
- Cost of raw materials
- Cost of debt via green bonds
- Heat stress
- Flooding
- Drought
- Fire
- Windstorm
- Subsidence

➔ Building climate resilience / See pages 104 to 117

Risk management

The Board has ultimate responsibility for the Group's approach to risk management. On a regular basis, the Board reviews the Group's risk registers and conducts robust assessments of the Group's principal and emerging risks (see page 157).

Changes to our principal and emerging risks

Refinancing (new principal risk)

The availability and cost of financing has changed significantly in the past year and is a wider industry issue. Our next refinancing is in October 2024; an £83m secured facility with a coupon of 3.99%. We are in early discussions with the existing lender, and also speaking to a number of other potential debt providers who have expressed interest in developing a lending relationship with us. Despite our strong long-standing relationships with lenders, there is inevitably a small risk that the Group will be unable to raise finance in a cost-effective manner which optimises our capital structure. The Board has therefore classified refinancing as a principal risk for 2024 (see page 95).

Geopolitical instability (new emerging risk)

Geopolitical instability has been identified as an emerging risk for the Group, as continued geopolitical tensions could cause prolonged global supply chain disruption and commodity price inflation (see page 102).

Effectiveness review

To ensure focused oversight, the Board operates a separate Risk Committee (see pages 156 to 165). The Risk Committee reviews the effectiveness of the Group's risk management policies and practices. This effectiveness review is conducted through speaking with senior management directly, third party assurance reviews, reports from internal and external audit, and independent testing of our key controls. During 2024, the Board and Risk Committee intend to review the Group's risk registers and identify opportunities for consolidation and simplification.

The Audit Committee reviews the adequacy and effectiveness of the Group's system of internal financial controls which are described briefly in the table on page 149. The Audit Committee remains satisfied that the review of internal financial controls did not reveal any significant weaknesses or failures and they continue to operate effectively. Following the Audit Committee's and Risk Committee's reviews, the Chairs of each Committee confirmed to the Board that they were satisfied that the Group's internal control framework (financial and non-financial) and risk management procedures:

- operated effectively throughout the period; and
- are in accordance with the guidance contained within the FRC's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting.

Risk rating

As part of the Directors' assessment process, we estimate the likelihood of the risk occurring and the potential quantitative and qualitative impacts. Risks are rated in accordance with the Board's Risk Appetite Statement. A simplified version of our risk rating criteria is provided below. Our risk management framework is on pages 160 and 161.

		Impact					
		Insignificant	Minor	Moderate	Major	Significant	
Likelihood	Rare						Very low risk
	Unlikely						Low risk
	Possible						Medium risk
	Likely						High risk
	Certain						Very high risk

The risk ratings for our principal risks are detailed below:

Principal risks	Inherent risk (without controls)	Residual risk (with controls)	Our risk tolerance
Failure to implement the Group's strategy	Medium	Low	Low
Refinancing risk (new)	Medium	Medium	Medium
Risk of occupiers defaulting or occupier failure	Medium	Low	Medium
Income decline	Medium	Low	Medium
Fall in property values	High	Medium	Medium
Reduced development returns	Medium	Low	Medium
'On-site' risk	High	Medium	Medium
Contractor/subcontractor default	High	Medium	Medium
Cyber attack on our IT systems	Very high	Medium	Low
Cyber attack on our buildings	Very high	Medium	Low
Significant business interruption	High	Low	Medium
Reputational damage	Medium	Low	Low
Our resilience to climate change	Medium	Low	Low
Health and safety	Very high	Medium	Zero
Non-compliance with law and regulations	Medium	Low	Zero

Risk appetite

The Group's risk appetite is set by the Board and is the level of risk we are willing to accept to achieve our strategic objectives. Our overall risk appetite is low with varying levels of risk tolerance. This, alongside our culture, informs how our staff respond to risk. Due to our open and collaborative working style, any potential problem, risk or issue is identified quickly so appropriate action can be taken.

During 2023, the addition of inherent and residual 'risk ratings' within our Schedule of Principal Risks made it easier for the Board to identify which risks were not aligned with its tolerance on a residual (after controls) basis:

- When assessing our health and safety risks, we consider all of our core activities, including the work of our contractors on site at our developments. Due to the nature of these activities, health and safety is classified as a 'medium risk' at residual level, which requires further contractor-led controls to be implemented and the adoption of best practice standards. As the Board is committed to promoting the highest health and safety standards, its tolerance for health and safety risks is set at zero. Further information on health and safety is on pages 54 to 55.
- Similarly, the Board's tolerance for cyber threats is low. The Board recognises that due to the evolving nature of the threat, it is difficult to reduce the residual risk from medium to low. To provide the Board with comfort that our Digital Information and Technology (DIT) team are adopting a continuous improvement strategy towards our cyber security posture, we commission regular independent reviews and assessments (see pages 162 and 163).

Risk is inherent in running any business. At Derwent London we aim to deliver on our strategic objectives for the benefit of our shareholders and other stakeholders, whilst operating within the risk tolerance levels set by our Board.

Risk Appetite Statement

Summary of risk tolerance

Operational

Health and safety	Zero
IT continuity (including cyber attacks)	Low
Staff retention	Medium
Climate change resilience	Low
Other operational risks	Medium

Financial*

REIT status	Low
Credit rating	Low
Decrease in asset value (>£100m)	Medium
Profits (>£5m)	Medium
Cost overruns (>5%)	Medium
Interest cover (<20%)	Medium

Reputational

Brand value	Low
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Regulatory

Statutory	Zero
Governance	Low

* Financial amounts are measures of deviation from Group annual budget.

Key

Zero	The Board has a zero-tolerance approach and is committed to promoting full health & safety and statutory compliance
Low	The Board is risk averse and is reluctant to take risks
Medium	The Board is willing to take measured risks if they are identified, assessed and controlled
High	The Board is willing to take significant risks

Time horizons

The Board seeks to assess and identify the risks facing the Group in the short-, medium- and long-term.

		Imminent < 1 year	Short-term < 5 years	Medium-term 5 to 15 years	Long-term 15+ years
Principal risks	➔ See pages 94 to 101	➔			
Emerging risks	➔ See page 102		➔		
Climate-related risks	➔ See pages 104 to 117				➔

Our principal risks


Our principal risks are not an exhaustive list of all risks facing the Group but are a snapshot of the Company’s main risk profile as at 27 February 2024.

The Schedule of Principal Risks

The Board classifies the Group’s most material risks as its ‘principal risks’. Materiality is assessed based on the potential impact and its probability of occurring within the next 12 months. The key controls we have identified on pages 94 to 101 were in operation during the year under review and up to the date the 2023 Report & Accounts was approved.

Strategic

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	Our actions	Key controls
1. Failure to implement the Group’s strategy		
<p>The Group’s success depends on implementing its strategy and responding appropriately to internal and external factors including changing work practices, occupational demand, economic and property cycles. The London office market has generally been cyclical in recent decades, with strong growth followed by economic downturns, precipitated by rising interest rates. The impact of these cycles is dependent on the quality and location of the Group’s portfolio.</p> <p>Risk tolerance: Low</p> <p>Executive responsibility: Paul Williams</p> <p>Impact: Should the Group fail to respond and adapt to such cycles or execute the projects that underpin its strategy, it may have a negative impact on the Group’s expected growth and financial performance.</p> <p>Strategic objectives: 1 2 4 5</p> <p>Stakeholders: Could potentially impact on all our stakeholders</p> <p>Trend: </p> <p>Given the political and economic uncertainties, there has been a slowdown in the investment market although the letting market remains resilient. Occupier demand in London remains good for the right product in the right location, and the flight to quality continues.</p>	<p>2023</p> <ul style="list-style-type: none">• Annual Board Strategy meeting was held on 15 and 16 June 2023 which included an external presentation and discussion on the future of London.• Reviewed our portfolio for further asset management opportunities and reduced the vacancy rate.• Monitored letting progress and occupier demand for our buildings.• Progressed opportunities to self-generate renewable energy from our land holdings in Scotland.• Received political and economic updates from external advisers throughout the year.• Regularly liaised with occupiers to ensure our buildings are meeting their needs. <p>2024</p> <ul style="list-style-type: none">• Examine opportunities for acquisitions and, in order to recycle capital, identify assets for disposal.• Continue with our current controls and mitigating actions, including operating the business on a basis that balances risk and income generation. <p>Key performance indicators:</p> <ul style="list-style-type: none">• Total property return• Interest Cover Ratio (ICR)• Gearing & available resources <p>In addition, we also consider inflation, interest rates and yield changes.</p>	<ul style="list-style-type: none">1. The Board maintains a formal schedule of matters which are reserved solely for its approval. These matters include decisions relating to the Group’s strategy, capital structure, financing, any major property acquisition or disposal, the risk appetite of the Group and the authorisation of capital expenditure above the delegated authority limits.2. Frequent strategic and financial reviews. An annual strategic review and budget is prepared for Board approval alongside two-year rolling forecasts which are prepared three times a year.3. Assess and monitor the financial strength of potential and existing occupiers. The Group’s diverse and high quality occupier base provides resilience against occupier default.4. Maintain income from properties until development commences and have an ongoing strategy to extend income through lease renewals and regears. Developments are derisked through pre-lets.5. Maintain sufficient headroom for all the key ratios and financial covenants, with a particular focus on interest cover.6. Develop properties in central locations where there is good potential for future demand, such as near the Elizabeth Line. We do not have any properties in the City core or Docklands.

Strategic objectives					Trend
1	To optimise returns and create value from a balanced portfolio	2	To grow recurring earnings and cash flow	3	To attract, retain and develop talented employees
4	To design, deliver and operate our buildings responsibly	5	To maintain strong and flexible financing		
					Increased Decreased Unchanged



Financial

The main financial risk is that the Group becomes unable to meet its financial obligations. The probability of this occurring is low due to our significant covenant headroom (see page 88). Financial risks can arise from movements in the financial markets in which we operate and inefficient management of capital resources.

Risk	Our actions	Key controls
2. Refinancing risks (new)		
<p>Inability to raise finance in a cost-effective manner that optimises the capital structure of the Group.</p> <p>Risk tolerance: Medium</p> <p>Executive responsibility: Damian Wisniewski</p> <p>Impact: Gradual rise in interest costs incurred as debt refinanced over the next few years, with a consequent impact on earnings and interest cover.</p> <p>Strategic objectives: 2 5</p> <p>Stakeholders: Shareholders and debt providers</p> <p>Trend: </p> <p>The availability and cost of financing has changed significantly in the past year and is a wider industry issue. Lenders are being more selective in terms of who they support and how much they lend with an impact upon liquidity.</p>	<p>2023</p> <ul style="list-style-type: none"> Recycling of capital is a key assumption in our annual budget and is updated in each five-year cash flow and rolling forecast. Regular updates with our advisers to understand debt market trends. Monitoring the impact upon financial covenants of valuation, interest cost and/or income movements. <p>2024</p> <ul style="list-style-type: none"> Refinance the £83m secured loan expiring in October 2024. Early and frequent engagement with existing and potential lenders. Consideration of more asset disposals. <p>Key performance indicators:</p> <ul style="list-style-type: none"> Gearing & available resources Interest Cover Ratio (ICR) EPRA Earnings Per Share (EPS) 	<ol style="list-style-type: none"> Preparation of five-year cash flow, annual budgets and three rolling forecasts enable the Group to raise finance in advance of requirements. Excellent long-standing relationships with funders. Regular review of financial covenants to monitor the impact of changes in valuation, interest rates and rental income. Going concern and viability reviews considered at least half yearly. The Group's financial position is reviewed at each Executive Committee and Board meeting with update on leverage metrics and capital markets from the CFO. Annual review with credit rating agency and low leverage tolerance.
3. Risk of occupiers defaulting or occupier failure		
<p>The majority of the Group's revenues comprise rent received from our occupiers and any deterioration in their businesses and/or profitability could in turn adversely affect the Group's rental income or increase the Group's bad debts and/or number of lease terminations.</p> <p>Risk tolerance: Medium</p> <p>Executive responsibility: Paul Williams</p> <p>Impact: In the event that some of our occupiers went into default, we could incur impairments and write-offs of IFRS 16 lease incentive receivable balances which arise from the accounting requirement to spread any rent-free incentives given to an occupier over the respective lease term, in addition to a loss of rental income.</p> <p>Strategic objectives: 1 2 5</p> <p>Stakeholders: Occupiers, shareholders and debt providers</p> <p>Trend: </p> <p>Due to the current economic conditions, our occupiers could be facing increased financial difficulty. Inflation remained elevated through 2023. Significant cost increases pose a greater risk of occupier default and late payment. Although it should be noted that office rent typically remains a small proportion of a company's total overheads.</p>	<p>2023</p> <ul style="list-style-type: none"> We have maintained proactive engagement with our occupiers, dealing with their concerns on a case-by-case basis and supporting them as appropriate. The Credit Committee continued to meet on a frequent basis, at least weekly. We continued to support certain restaurants, retail and leisure occupiers in our buildings, as these businesses add value to our buildings and are seen as amenities for our other occupiers and local residents. <p>2024</p> <ul style="list-style-type: none"> Continue with our current controls and mitigating actions. <p>Key performance indicators:</p> <ul style="list-style-type: none"> Tenant retention Void management <p>In addition, we consider our Lease Incentive Debtor (LID) balance and level of rent deposits.</p>	<ol style="list-style-type: none"> Assess and monitor the financial strength of potential and existing occupiers. The Group's diverse and high quality occupier base provides resilience against occupier default. Focus on letting our buildings to large and established businesses where the risk of default is lower. Active in-house rent collection, with regular reports to the Executive Directors on day 1, 7, 14 and 21 of each rent collection cycle. Ongoing dialogue is maintained with occupiers to understand their concerns and requirements. Rent deposits are held where considered appropriate.

MANAGING RISKS continued

Financial continued

Risk	Our actions	Key controls
4. Income decline		
<p>Changes in macroeconomic factors may adversely affect London's overall office market. The Group is exposed to external factors which are outside the Group's control, such as future demand for office space, the 'grey' market in office space (i.e. occupier controlled vacant space), weaknesses in retail and hospitality businesses, increase in hybrid working, a recession, and subsequent rise in unemployment and/or interest rates.</p> <p>Risk tolerance: Medium</p> <p>Executive responsibility: Damian Wisniewski</p> <p>Impact: Such macroeconomic conditions lead to a general property market contraction, a decline in rental values and Group income, which could impact on property valuation yields.</p> <p>Strategic objectives: 1 2 5</p> <p>Stakeholders: Shareholders and debt providers</p> <p>Trend: </p> <p>Although not likely to impact on the Group in the short-term, the current economic situation could lead to some of our occupiers facing a more challenging financial situation. Footfall at restaurants, retail and leisure properties is likely to reduce, as consumer spending slows, which could impact on the revenues and operations of such occupiers. Retail, restaurants and hospitality occupiers account for approximately 7% of the Group's portfolio income. During a recession, 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.</p>	<p>2023</p> <ul style="list-style-type: none"> The Group produced a budget, five-year strategic review and three rolling forecasts during the year which contain detailed sensitivity analyses, including the effect of changes to valuation yields. Quarterly management accounts were provided to the Board. We worked to reduce our lease expiry exposure in 2023 through asset management activities and good relationships with our occupiers. The 'tenants on watch' register was regularly reviewed to carefully monitor the financial performance of existing occupiers. We maintained proactive engagement with our occupiers, dealing with their concerns on a case-by-case basis and supporting them as appropriate. <p>2024</p> <ul style="list-style-type: none"> Continue with our current controls and mitigating actions, including operating the business on a basis that balances risk and income generation. <p>Key performance indicators:</p> <ul style="list-style-type: none"> Tenant retention Void management <p>In addition, we consider the amount of 'grey space' and lease expiries/breaks.</p>	<ol style="list-style-type: none"> The Credit Committee receives detailed reviews of all prospective occupiers. The focus is on large and established businesses where the risk of default is lower, and they also ensure the Group has a diverse range of occupiers. A 'tenants on watch' register is maintained and regularly reviewed by the Executive Directors and the Board. Ongoing dialogue is maintained with occupiers to understand their concerns, requirements and future plans. The Group's low loan-to-value ratio and high interest cover ratio reduces the likelihood that falls in property values have a significant impact on our business continuity. Regular review of the lease expiry profile. Regular forecasts provide visibility of potential significant vacancies.
5. Fall in property values		
<p>The potential adverse impact of the economic and political environment on property yields has heightened the risk of a fall in property values.</p> <p>Risk tolerance: Medium</p> <p>Executive responsibility: Nigel George</p> <p>Impact: A fall in property values will have an impact on the Group's net tangible assets (NTA) and gearing levels.</p> <p>Strategic objectives: 1 2 5</p> <p>Stakeholders: Occupiers, shareholders and debt providers</p> <p>Trend: </p> <p>A fall in property values was classified as a principal risk by the Risk Committee in August 2022. Since the publication of our 2022 Report & Accounts, the MSCI Central London Office Quarterly Index has shown negative capital growth movements. Despite the economic uncertainty, London remains resilient and occupier demand remains good for the right property in the right area and the flight to quality continues.</p>	<p>2023</p> <ul style="list-style-type: none"> The Group produced a budget, five-year strategic review and two rolling forecasts during the year which contain detailed sensitivity analysis, including the effect of changes in valuation yields. Quarterly management accounts were provided to the Board and included the Group's performance against the financial covenants. <p>2024</p> <ul style="list-style-type: none"> Continue to examine opportunities for further disposals to recycle capital. Continue with our current controls and mitigating actions. <p>Key performance indicators:</p> <ul style="list-style-type: none"> Gearing & available resources Total property return Void management Reversionary percentage <p>In addition, we consider the impact of changes in property yields.</p>	<ol style="list-style-type: none"> The impact of valuation yield changes is considered when potential projects are appraised. The impact of valuation yield changes on the Group's financial covenants and performance is monitored regularly and subject to sensitivity analysis to ensure that adequate headroom is preserved. The Group's mainly unsecured financing makes management of our financial covenants more straightforward. The Group's low loan-to-value ratio and high interest cover ratio reduces the likelihood that falls in property values have a significant impact on our business continuity.

Strategic objectives					Trend
1	To optimise returns and create value from a balanced portfolio	2	To grow recurring earnings and cash flow	3	To attract, retain and develop talented employees
4	To design, deliver and operate our buildings responsibly	5	To maintain strong and flexible financing		
					Increased Decreased Unchanged

Operational

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	Our actions	Key controls
6a. Reduced development returns		
<p>Returns from the Group's developments may be adversely impacted due to: increased construction costs and interest rates; material and labour shortages; movement in yields and adverse letting conditions.</p> <p>Risk tolerance: Medium</p> <p>Executive responsibility: Paul Williams</p> <p>Impact: Any significant delay in completing the development projects may result in financial penalties or a reduction in the Group's targeted financial returns.</p> <p>Strategic objectives: 1 2</p> <p>Stakeholders: Suppliers and occupiers</p> <p>Trend: </p> <p>Planning authorities have an increasing preference for refurbishment ahead of redevelopment. The Board is monitoring the potential impact of a tighter planning environment on our strategy and future development returns. We have secured a fixed price for 99.8% of the costs for our Network development and 99.0% of the costs for our 25 Baker Street development. However, our ability to secure fixed price construction will be more challenging, and it is likely that only part of future contracts will be fixed.</p>	<p>2023</p> <ul style="list-style-type: none"> Secured a fixed price for 99.8% of the costs for our Network development. Monitored construction cost inflation in relation to future projects. The Board and Executive Directors received regular updates on our principal developments including construction costs. Specific risk assessments on budget allowances for inflation are kept under review on a quarterly basis to test adequacy of budgets. Progressed on-site activities at 25 Baker Street and Network. <p>2024</p> <ul style="list-style-type: none"> Progress planning applications for 50 Baker Street and Old Street Quarter. Progress the design of Holden House W1. Continue to monitor construction cost inflation. <p>Key performance indicators:</p> <ul style="list-style-type: none"> Total return Total property return Development potential <p>In addition, we consider construction cost inflation and project profitability status.</p>	<ol style="list-style-type: none"> Our procurement process includes the use of highly regarded firms of quantity surveyors and is designed to minimise cost uncertainty. 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. Investment appraisals are prepared and sensitivity analysis is undertaken to judge whether an adequate return is made in all likely circumstances. The Group's pre-letting strategy reduces or removes the letting risk of the development as soon as possible.
6b. 'On-site' risk		
<p>Risks that can materialise whilst on site include:</p> <ul style="list-style-type: none"> unexpected ground conditions; deleterious material (including asbestos); activity in adjacent sites/buildings; and unidentified issues with the existing building. <p>'On-site' risks can cause development projects to be significantly delayed and could lead to penalties and a deferral of rental income. 'On-site' risks typically arise if inadequate site investigations have been conducted prior to starting work on site.</p> <p>Risk tolerance: Medium</p> <p>Executive responsibility: Paul Williams</p> <p>Impact: Risk of project delays and/or cost overruns caused by unidentified issues.</p> <p>Strategic objectives: 1 2 3 4</p> <p>Stakeholders: Suppliers and occupiers</p> <p>Trend: </p> <p>There has been no change in the risk profile during the period of this review. Ongoing vigilance is always required.</p>	<p>2023</p> <ul style="list-style-type: none"> Continued to engage with our contractors, subcontractors and supply chain to understand the impact of rising inflation on their operations. The Board and Executive Directors received regular updates on our principal developments. Quarterly cost reports provided an update on development progress from a cost, profitability and programme perspective. <p>2024</p> <ul style="list-style-type: none"> We will continue with our current controls and mitigating actions. <p>Key performance indicators:</p> <ul style="list-style-type: none"> Accident Frequency Rate (AFR) Total property return 	<ol style="list-style-type: none"> Prior to construction beginning on site, we conduct thorough site investigations and surveys to reduce the risk of unidentified issues, including investigating the building's history and adjacent buildings/sites. Adequately appraise investments prior to starting work on site, 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. Regular monitoring of our contractors' cash flows. Frequent meetings with key contractors and subcontractors to review their work programme and maintain strong relationships. Off-site inspection of key components to ensure they have been completed to the requisite quality. Monthly reviews of supply chain issues for each of our major projects, including in respect to potential labour shortages.

MANAGING RISKS continued

Operational continued

Risk	Our actions	Key controls
6c. Contractor/subcontractor default		
<p>There have been ongoing issues within the construction industry in respect of the level of risk and narrow profit margins being accepted by contractors.</p> <p>Risk tolerance: Medium</p> <p>Executive responsibility: Paul Williams</p> <p>Impact: 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.</p> <p>Strategic objectives: 1 2 4</p> <p>Stakeholders: Suppliers and occupiers</p> <p>Trend: </p> <p>There is 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 risk for the contractor and subcontractors. We have engaged with our principal contractors to ensure they have sufficient headroom under the fixed contracts to cope with rising costs. On a quarterly basis, we meet with key subcontractors to understand their businesses and pressures. We will continue to actively monitor the financial health of our main contractors and subcontractors.</p>	<p>2023</p> <ul style="list-style-type: none"> Engaged continuously with our contractors, subcontractors and supply chain to understand the impact of rising inflation on their operations. Accepted early ordering of materials ahead of their need on site to accelerate cash flow to our supply chain. The Board and Executive Directors received regular updates on our principal developments. Quarterly cost reports provided an update on development progress from a cost, profitability and programme perspective. <p>2024</p> <ul style="list-style-type: none"> We will continue with our current controls and mitigating actions. <p>Key performance indicators:</p> <ul style="list-style-type: none"> Total return Total property return <p>In addition, we consider average payment days to our suppliers, project delays and construction cost inflation.</p>	<ol style="list-style-type: none"> We use known 'Tier 1' contractors with whom we have established working relationships and regularly work with tried and tested sub-contractors. 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 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. Contractors are paid promptly and are encouraged to pay subcontractors promptly. In addition, we externally publish our payment terms.
7a. Cyber attack on our IT systems		
<p>The Group may be subject to a cyber attack that results in it being unable to use its information systems and/or losing data.</p> <p>Risk tolerance: Low</p> <p>Executive responsibility: All Executive Directors</p> <p>Impact: Such an attack could severely restrict the ability of the Group to operate, lead to an increase in costs and/or require a significant diversion of management time.</p> <p>Strategic objectives: 1 2 3 4 5</p> <p>Stakeholders: Could potentially impact on all our stakeholders</p> <p>Trend: </p> <p>There has been a heightened risk of cyber attacks amid escalating geopolitical tensions. To date, Derwent London has not experienced a significant increase in cyber attacks. 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.</p>	<p>2023</p> <ul style="list-style-type: none"> Conducted an internal phishing test to help gauge the effectiveness of previous cyber security awareness campaigns with additional mandatory training being sent to anyone who did not pass the test. Enhanced the speed at which we can detect and respond to fraudulent and malicious emails with the introduction of new AI-driven technology. Sent out mandatory compliance training in Q3 on cyber security and cyber fraud. Introduced new AI-driven security awareness coaching with the ability to detect patterns of risky behaviour, identify high-risk users and tailor awareness programmes based on roles. Continued to develop and implement our Information Security Management Framework. <p>2024</p> <ul style="list-style-type: none"> Continue to develop and implement our IT governance framework. <p>Key performance indicators:</p> <p>Could indirectly impact on a number of our KPIs. In addition, we consider any security issues raised and the results of independent assurance reviews.</p>	<ol style="list-style-type: none"> The Group's Business Continuity Plan and cyber security incident response procedures are regularly reviewed and tested. Independent internal and external penetration/vulnerability tests are regularly conducted to assess the effectiveness of the Group's security. Multi-Factor Authentication is in place for access to our systems. The Group's data is regularly backed up and replicated off-site. Our IT systems are protected by anti-virus software, 24/7/365 threat hunting, security incident detection and response, security anomaly detection and firewalls that are frequently updated. Frequent staff awareness and training programmes. Security measures are regularly reviewed by the DIT team.

Strategic objectives

- 1 To optimise returns and create value from a balanced portfolio
- 2 To grow recurring earnings and cash flow
- 3 To attract, retain and develop talented employees
- 4 To design, deliver and operate our buildings responsibly
- 5 To maintain strong and flexible financing

Trend

- ▲ Increased
- ▼ Decreased
- Unchanged

Risk

Our actions

Key controls

7b. Cyber attack on our buildings

The Group is exposed to cyber attacks on its properties which may result in data breaches or significant disruption to IT-enabled occupier services.

Risk tolerance: Low

Executive responsibility: All Executive Directors

Impact: A major cyber attack against the Group or its properties could negatively impact the Group's business, reputation and operating results.

Strategic objectives: 1 2 3 4 5

Stakeholders: Could potentially impact on all our stakeholders

Trend: ▲

There has been a heightened risk of cyber attacks amid escalating geopolitical tensions. To date, Derwent London has not experienced a significant increase in cyber attacks. As part of the Intelligent Building Programme, the Digital Innovation & Technology (DIT) team have worked alongside our portfolio IT partner to conduct network and IT asset inventories and cyber security assessments.

2023

- Conducted an internal phishing test to help gauge the effectiveness of previous cyber security awareness campaigns with additional mandatory training being sent to anyone who did not pass the test.
- Created a risks, actions, issues and decisions (RAID) log for each building to identify any IT risks and track remediation.
- Continued to collaborate with our IT partner on security hardening networks and infrastructure and standardising security controls across the portfolio.
- Identified any information and communication technology (ICT) hardware that is reaching the manufacturer's end of supported life and collaborated with our IT partner on refreshing hardware if required.
- Completed an audit with our internal auditors on the cyber security controls in place in relation to intelligent buildings.

2024

- Further develop our IT governance framework, security monitoring and security incident response procedures.

Key performance indicators:

Could indirectly impact on a number of our KPIs. In addition, we consider any security issues raised and the results of independent assurance reviews.

- The Group's Business Continuity Plan and cyber security incident response procedures are regularly reviewed and tested.
- Physical segregation between the building's core IT infrastructure and occupiers' corporate IT networks.
- Physical segregation of IT infrastructure between buildings across the portfolio.
- Frequent staff awareness and training programmes. Building Managers are included in any cyber security awareness training and phishing simulations.
- Sophos Rapid Response team provides unlimited support to our Cyber Incident Response Team in the event of a cyber attack.

7c. Significant business interruption

Major incidents may significantly interrupt the Group's business, its occupiers and/or supply chain. Such incidents could be caused by a wide range of events such as fire, natural catastrophes, cyber events, terrorism, pandemic outbreak, material supply chain failures and geopolitical factors.

Risk tolerance: Medium

Executive responsibility: All Executive Directors

Impact: This could result in issues such as being unable to access or operate the Group's properties, occupier failures or reduced rental income, share price volatility or loss of key suppliers.

Strategic objectives: 1 2 3 4 5

Stakeholders: Could potentially impact on all our stakeholders

Trend: ➤

Although not classified as a significant business interruption for Derwent London, rising geopolitical tensions have elevated global supply chain and market volatility.

2023

- Review of flood risk to our portfolio with the assistance of external advisers.
- Engaged with a portfolio IT partner to provide additional support for ICT infrastructure and cyber security assessments.
- Remediated key findings from the last security penetration test and commissioned another independent internal/external test.
- Completed a business continuity technical test and full disaster recovery test.
- Conducted monthly vulnerability scans.
- Continued to configure secure VPN connections and deploy fully encrypted laptops to enable secure hybrid working capabilities.

2024

- Continue with our current controls and mitigating actions.

Key performance indicators:

Could indirectly impact on a number of our KPIs. In addition, we consider any downtime incidences and the outcome of disaster recovery testing.

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

MANAGING RISKS continued

Operational continued

Risk	Our actions	Key controls
8. Reputational damage		
<p>The Group's reputation could be damaged, for example, through unauthorised or inaccurate media coverage, unethical practices or behaviours by the Group's executives, or failure to comply with relevant legislation.</p> <p>Risk tolerance: Low</p> <p>Executive responsibility: All Executive Directors</p> <p>Impact: This could lead to a material adverse effect on the Group's operating performance and overall financial position. Our strong culture, low overall risk tolerance and established procedures and policies mitigate against the risk of internal wrongdoing.</p> <p>Strategic objectives: 1 2 3 4 5</p> <p>Stakeholders: Could potentially impact on all our stakeholders</p> <p>Trend: ></p> <p>The Derwent London brand is well-regarded and respected within our industry. We demonstrate our brand and values through our actions, external memberships and associations. We value integrity and transparency.</p>	<p>2023</p> <ul style="list-style-type: none"> Rebranded our Whistleblowing Policy and procedures to 'Speak up' to encourage reporting and remove the stigma attached to 'whistleblowing'. Published our updated Employee Handbook and Code of Conduct & Business Ethics to all employees. Conducted a review of our key governance policies to ensure they remain up to date. Continued to implement a mandatory compliance training programme for all employees (including Directors). <p>2024</p> <ul style="list-style-type: none"> Continue to communicate and listen to our stakeholders. Support our staff's training requirements. Continue with our current controls and mitigating actions. <p>Key performance indicators:</p> <ul style="list-style-type: none"> Total shareholder return Accident Frequency Rate (AFR) Staff satisfaction <p>Could indirectly impact on a number of our KPIs. In addition, we consider compliance training completion rates and feedback received from employee and occupier 'pulse surveys'.</p>	<ol style="list-style-type: none"> Social media channels are monitored, and the Group retains the services of an external PR agency to monitor external media sources. The Executive Directors and Board receive ad hoc social media reports. Our social media strategy is approved by the Executive Directors. Close involvement of senior management in day-to-day operations and established procedures for approving all external announcements. All new members of staff attend an induction programme and are issued with our Group staff handbook. A Group whistleblowing system is in place for staff to report wrongdoing anonymously. Ongoing engagement with local communities in areas where the Group operates. Staff training and awareness programmes.
9. Our resilience to climate change		
<p>If the Group fails to respond appropriately, and sufficiently, to climate-related risks or fails to benefit from the potential opportunities.</p> <p>Risk tolerance: Low</p> <p>Executive responsibility: Nigel George</p> <p>Impact: This could lead to reputational damage, loss of income and/or property values. In addition, there is a risk that the cost of construction materials and providing energy, water and other services to occupiers will rise.</p> <p>Strategic objectives: 1 2 3 4 5</p> <p>Stakeholders: Could potentially impact on all our stakeholders</p> <p>Trend: ></p> <p>Sustainability-related disclosure requirements are increasing. During the past 12 months, numerous publications have been released which could require additional disclosures on our net zero carbon plans, for example the ISSB (IFRS) Sustainability Disclosure Standards.</p>	<p>2023</p> <ul style="list-style-type: none"> Launched our new Responsible Asset Framework and a revised Responsible Development Framework. We aligned our SBTi targets to a more challenging 1.5°C climate scenario in line with our net zero carbon ambition. Received full planning consent for an 18.4 MW solar park at Lochfaulds and we have installed a solar array at Easter Cadder. Published our latest Responsibility Report in April 2023. Reviewed our climate change strategy at the June Board strategy meeting. <p>2024</p> <ul style="list-style-type: none"> Review the results of latest climate risk scenario assessment and agree mitigation plans. Progress the construction of our solar park, with delivery anticipated in 2025. Roll out a new ESG data platform to collate and analyse key data points. <p>Key performance indicators:</p> <ul style="list-style-type: none"> Total shareholder return BREEAM ratings Energy Performance Certificates (EPCs) Energy intensity Embodied carbon intensity 	<ol style="list-style-type: none"> The Board and Executive Directors 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. Production of an annual Responsibility Report with key data and performance points which are internally reviewed and externally assured. Undertake periodic multi-scenario climate risk assessments (physical and transition risks).

Strategic objectives

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Trend

- ▲ Increased
- ▼ Decreased
- Unchanged

Risk

Our actions

Key controls

10. Health and safety (H&S)

A major incident occurs at a managed property or development scheme which leads to significant injuries, harm, or fatal consequences.

Risk tolerance: Zero

Executive responsibility: Paul Williams

Impact: A major health and safety incident could cause loss of life, life-changing injuries, significant business interruption, Company or Director fines or imprisonment, reputational damage, and/or loss of our licences to operate.

Strategic objectives: 1 2 3 4 5

Stakeholders: Could potentially impact on all our stakeholders

Trend: ➤

Construction activities can have a high inherent risk for injury, harm, or loss, particularly in demolition and early construction phases. In addition, serious accidents involving falls from height, pedestrian-vehicle collision, and slips and trips are still frequent within the Property Management and Maintenance sectors. Derwent London continues to work closely to ensure high levels of H&S compliance across all of our activities.

2023

- Reviewed the internal H&S management system in line with updated legislation, guidance and best practice (Building Safety Act 2022, Fire Safety Act 2021, Fire Safety (England) Regulations 2022).
- Registered our High Risk Buildings (HRBs) with the new Building Safety Regulator and developed building safety cases for those in scope of the Building Safety Act 2022.
- Rolled out our Health & Safety Training Matrix and revised water hygiene protocols.

2024

- Ensure our internal policies and processes are effective and consistently applied across the portfolio.
- Continue to develop the Director H&S Leadership Tours which were launched in 2023.
- Continue to work with contractors on construction health, safety, and wellbeing.

Key performance indicators:

- Accident Frequency Rate (AFR)
- Staff satisfaction

In addition, we consider feedback received from employee and occupier surveys, and H&S training data.

1. Relevant and effective health, safety, and fire management policies and procedures.
2. The Group has a competent H&S team, whose performance is monitored and reviewed by the H&S and Risk Committees.
3. The H&S competence of our main contractors and service partners is verified by the H&S team prior to their appointment.
4. Our main contractors must submit suitable Construction Phase Plans, Management and Logistics Plans, and Fire Management Plans, before works commence.
5. The H&S team, with the support of internal and external stakeholders, support both our Development Project teams and our Managed Portfolio teams to ensure statutory compliance, effective reporting, and feedback.
6. The H&S team, with the support of external appointments and audits, ensure our Construction (Design and Management) (CDM) client duties are executed and monitored on a monthly basis.
7. The Board, Risk Committee and Executive Directors receive frequent updates and presentations on key H&S matters, including 'Significant Incidents', legislation updates, and trends across the development and managed portfolio.

11. Non-compliance with law and regulations

The Group breaches any of the legislation that forms the regulatory framework within which the Group operates.

Risk tolerance: Zero

Executive responsibility: All Executive Directors

Impact: The Group's cost base could increase and management time could be diverted. This could lead to damage to our reputation and/or loss of our licence to operate.

Strategic objectives: 3 4 5

Stakeholders: Could potentially impact on all our stakeholders

Trend: ▲

The Group has been actively monitoring the proposed regulatory changes which could impact on our business, including the reform of the UK Prospectus and Listing regime, and the UK Economic Crime and Corporate Transparency Act 2023. Following the publication of the UK Corporate Governance Code 2024, the Board will ensure the Group is fully compliant with the revised provisions by the applicable dates, particularly in respect of internal controls.

2023

- Following the development of our Fraud Risk Management Framework in 2022, we have been working towards the agreed focus areas.
- Reviewed the internal H&S management system in line with updated legislation, guidance and best practice.
- Arranged 'roundtable' training sessions with a data protection lawyer and specialist to discuss our current procedures.

2024

- Review the UK Corporate Governance Code 2024 to ensure our continued compliance.
- Continue with our current controls and mitigating actions.

Key performance indicators:

- Total shareholder return
- Accident Frequency Rate (AFR)
- A significant diversion of time could affect a wider range of KPIs

In addition, we consider compliance training completion rates and feedback received from employee and occupier surveys.

1. 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, if required.
2. Managing our properties to ensure they are compliant with the Minimum Energy Efficiency Standards (MEES) for Energy Performance Certificates (EPCs).
3. A Group whistleblowing system ('Speak-up') for staff is maintained to report wrongdoing anonymously.
4. Ongoing staff training and awareness programmes.
5. Group policies and procedures dealing with all key legislation are available on the Group's intranet.
6. Quarterly review of our anti-bribery and corruption procedures by the Risk Committee.

Our emerging risks

Emerging risks are conditions, situations or trends that could significantly impact the Group's financial strength, competitive position or reputation within the next five years. Emerging risks are therefore factored into the Board's viability assessment and strategic planning process. Emerging risks could involve a high degree of uncertainty. The methodology used to identify, assess and monitor emerging risks is described in the risk management framework on pages 160 and 161.

Risk	Time horizon			Impact	Our actions
	0-5 years	5-10 years	15+ years		
A. Nature of office occupation Strategic objectives: 1 2 4	●	●		The Group needs to ensure it is thinking ahead, so that our product remains attractive to businesses, thereby retaining its competitive edge. Buildings that are unable to meet these objectives may suffer in value unless they can be redeveloped or repurposed.	Close engagement with our occupiers and the wider market ensures we are aware of changing trends and respond appropriately. We believe our approach of delivering space with creative design, enhanced amenity, 'Intelligent Building' infrastructure, and employee wellbeing at its core will exceed these evolving requirements.
B. Technological change Strategic objectives: 1 2 3	●	●		A failure to adopt technology could lead to the Group becoming less efficient than its competitors, leading to a loss of competitive advantage. Buildings are becoming increasingly 'intelligent' and occupiers may begin to choose such buildings over those without the same technological amenities. If the Group fails to respond to occupier demands for technology, the Group's office spaces could become less desirable, leading to potential vacancies and loss of rental income.	We have a Digital Strategy which is being implemented by our dedicated, cross-functional and highly collaborative Digital, Innovation & Technology team. We critically analyse new technology to ensure that maximum value can be derived from any new system or service that we choose to add into our overall digital and technological framework. In particular, analysing the capability of the new system or service to support our Net Zero Carbon Pathway. Phase 2 of our Intelligent Building project commenced during 2023.
C. Climate-related risks Strategic objectives: 1 2 3 4	●	●	●	The six climate-related emerging risks which are considered to have the greatest impact on Derwent London are: EPC rating requirements, emissions offsets, planning requirements, cost of raw materials, windstorm and flooding. To avoid duplication, our climate-related emerging risks are contained on pages 110 and 111.	Through our ongoing refurbishment programme, we continually improve the energy efficiency of our buildings. In addition to purchasing renewable energy and green tariff supplies, wherever possible, we are researching opportunities to increase our own supply base of renewable energy. During 2023, we received planning consent for a c.100-acre solar park on our Scottish land.
D. Geopolitical instability (New) Strategic objectives: 2 4 5	●			Continued geopolitical tensions could cause prolonged global supply chain disruption, commodity price inflation, market uncertainty and deglobalisation. There is also a risk of increased cyber attacks and social unrest.	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.
E. Shortage of electrical power Strategic objectives: 2 4 5	●			Shortage of electrical power is a risk for London, particularly in West London. Shortage of electrical power could lead to power cuts and cost pressures. UKPN consider power cuts as being possible but unlikely and will be driven by a combined impact of very cold weather and a reduction in power generated from wind farms due to lack of wind.	UKPN are the provider in central London, covering all Derwent London properties and have put in place robust plans to meet future load requirements. Early engagement for schemes with UKPN is the key to risk mitigation for the provision of power. Derwent London engage with UKPN on a regular basis at a monthly meeting and we have a dedicated UKPN Account Manager.



Old Street Yard EC1

Climate change

A principal or emerging risk?

Due to its dynamic and complex nature, we acknowledge that climate-related risks are developing, and our exposure/vulnerability may change over time. As a result, we have included the risks arising from climate change within both our principal and emerging risk registers.

We seek to identify and monitor the climate-related risks and opportunities that could impact on our business in the short-, medium- and long-term, recognising that climate-related issues, in particular physical risks are often (but not exclusively) linked to the medium- to long-term and that the properties within our investment portfolio have a long lifespan of many decades.

Our resilience to climate change is a principal risk for the Group (see page 100). We invest significant time and effort into ensuring we are managing the risks that climate change presents. As a leading property investor, we recognise our responsibility to reduce energy and carbon emissions and make our portfolio climate resilient. We have also identified six climate-related emerging risks which we monitor to determine their future potential impact. On pages 104 to 117, we detail how we are assessing and managing climate-related risks.

Building climate resilience

We are proactive in finding solutions to further reduce emissions and develop renewable energy sources.

The Featherstone Building EC1

The built environment

Climate change is a major global challenge and will impact how business operates in the future. Given that the built environment contributes significantly to the UK's overall carbon footprint (approximately 40%), we are being proactive in finding solutions to further reduce emissions and develop renewable energy sources (see pages 46 to 49).

We are committed to being a net zero carbon business by 2030. We are also helping to lead the industry in supporting the Government's net zero carbon ambitions and improving the carbon footprint of the built environment.

Through our engagement with industry partners and organisations, such as the Better Building Partnership and the British Property Federation, we are helping to develop best practice guidance for our sector.

We were early signatories to the Westminster City Council (WCC) Sustainable City Charter, which provides a framework for reducing carbon emissions from non-domestic buildings across Westminster. John Davies, our Head of Sustainability, is the Chairman of its Steering Committee. Our CEO, Paul Williams, sits on the Sustainable Markets Initiative (SMI) Buildings Taskforce which is part of His Majesty King Charles III's Terra Carta. The aim of the initiative is to put nature, people and the planet at the heart of global value creation.

Engagement

We seek to actively engage with our peers, occupiers and other stakeholders to reduce energy use and carbon emissions within the built environment. If you wish to discuss our pathway to net zero carbon, you can contact our Sustainability team via email: sustainability@derwentlondon.com

Task Force on Climate-related Financial Disclosures (TCFD)

Compliance statement

Our disclosures in this section are consistent with the TCFD's Recommendations and Recommended Disclosures. When assessing the consistency of our disclosures, we have had due regard for all relevant guidance including the TCFD's Guidance for All Sectors. In line with the UK's Financial Conduct Authority Listing Rules, we have identified in the table on page 116 where our responses to the TCFD's 11 recommendations can be located.

We provide more granular, detailed climate-related data sets and performance metrics within our Responsibility Report at www.derwentlondon.com/responsibility/publications. We report this way to satisfy the variety of stakeholders we have and for those who want a more detailed data breakdown which the Responsibility Report provides.

We are reviewing the sustainability disclosure standards published by the International Sustainability Standards Board (IFRS S1 and IFRS S2) and will ensure our climate-related disclosures are fully compliant. During 2023, the Audit Committee received training on the IFRS S1 and IFRS S2 climate disclosure requirements (see page 147).

Our approach

Climate change is a material issue for our business. We deem an issue to be 'material' when it is assessed as being sufficiently important to both our business and our stakeholders. As a REIT our properties are subject to climate-related risks such as increasing temperatures which could lead to greater physical stresses. Our strategy involves both investing in new developments and acquiring older properties which hold future regeneration/income potential.

We ensure a high degree of resilience in our new developments and regeneration of older properties by setting high standards for sustainability, which includes climate-related aspects. When managing our core income portfolio, we focus on energy and carbon reduction (as dictated by our energy intensity reduction targets), ensuring our buildings operate as efficiently as possible. As a result, our strategy centres around the concept of continual improvement which ensures a high degree of both climate and financial resilience. Our environmental priorities are on pages 46 to 49.

Climate risk assessment

We identify and monitor climate change risks and opportunities as part of our wider risk management procedures which are overseen by the Board and its principal committees (see pages 112 to 113 and 147).

Our risk management framework is disclosed on pages 160 and 161 and comprises of four stages. We have structured our climate risk disclosures on pages 104 to 117 in accordance with this four-stage approach.

Owing to their complex nature, the identification and assessment of climate-related risks and opportunities are undertaken with the support of third party expertise. Our last independent climate risk assessment and scenario analysis was conducted in 2022 by Willis Towers Watson (WTW). The scope of the assessment included our entire London-based investment portfolio (including our head office) and our Scottish land.

During our climate risk assessments we considered short-, medium- and long-term time horizons (see page 93), recognising that climate-related issues, in particular physical risks are often (but not exclusively) linked to the medium- to long-term and that the properties within our investment portfolio have a long lifespan of many decades.

The climate risk assessments sought to identify the transition and physical risks and opportunities applicable to our business. As our business is based in and solely focused on the UK, the risks/opportunities were not considered on an international and/or segmental basis.

Through this process we identified and reviewed nearly 20 transition and physical issues. On page 106 we have disclosed the most material risks and opportunities, in terms of impact, likelihood (transition risk) and exposure (physical risk). Once the risks and opportunities had been identified, three pre-defined climate scenarios were applied to test the resilience of our business, strategy and financial planning.

Identification

➔ See page 106

Assessment

➔ See page 108

Monitoring

➔ See page 112

Response

➔ See page 114

Identification

Transition

Transition risks and opportunities are those which arise from the transition to a low carbon economy. We identified and assessed transition risks and opportunities, in terms of their impact and likelihood, via a facilitated workshop with cross-functional representation from across our business. As part of our risk assessment, we considered how these risks changed under a 1.5°C aligned scenario (the 'Low Carbon World'). Overall, our transition risk exposure under the 'Low Carbon World' scenario was assessed to be moderate in 2025 and 2030 (see table below).

The impact and likelihood of each identified risk was challenged in the context of the latest regulatory updates and Willis Towers Watson's (WTW)/our experience with the real estate sector. We also estimated the financial impact (whether to the balance sheet or income statement) and assigned high and low impact estimates to applicable cost components, depending on the success of our planned mitigating actions. Through the assessment process, we applied mitigation measures already captured within the scope of our Net Zero Carbon Pathway and those within our existing business processes, to define our residual risk profiles. Due to the strength of our mitigation strategies, the impact of these risks reduced significantly on a residual basis.

Based on our assessment, we consider EPC rating requirements, emissions offsets, planning requirements and cost of raw materials as the most material transition risks applicable to our business.

Material transition risks and opportunities identified:

Risk rating on a residual basis	'Low Carbon World' (~1.5°C)			
	Risks		Opportunities	
	0-5 years	5-15 years	0-5 years	5-15 years
EPC rating requirements	Medium	Medium		
Change in customer demand	Low	Low	Low	Very low
Emissions offsets	Medium	Medium		
Planning requirements	Low	Medium		
Cost of raw materials	Medium	Medium		
Cost of debt via green bonds	Very low	Very low	Low	Low

➔ Risk rating / See page 92

Physical

Physical risks were identified and assessed through an asset-by-asset exposure analysis using a range of acute and chronic climate hazards (risks). The scenarios were tested as at the present day, as well as for future projections under three climate scenarios (see table below). This was supplemented by a climate risk modelling analysis for flood and windstorms. Physical assets were considered exposed if they were in an area where a climate hazard may occur.

The degree of exposure was defined by the severity/intensity of that hazard, with each hazard having its own intensity scale. If an exposure was deemed to be moderate or above it could have a material impact. It should be noted that the scores were based on a global scale. For the UK, a modest increase in a chronic hazard, such as heat-stress (heatwaves), from very low to low could have wider implications on properties and infrastructure.

Our exposure to physical risks increases into the medium- and long-term and as global temperatures rise. Based on our assessment, we consider windstorm and flooding to be the most material physical risks to our business. Drought and subsidence risks have not been included as material physical risks due to there being no clear financial quantification models available within the data sets used.

Our physical risk exposure:

	Short-term 0-5 years		Medium-term 5-15 years		Long-term 15+ years	
	Present day	'Low Carbon World' (~1.5°C)	'Current Policies' (~2 to 3°C)	'Hot House World' (>4°C)	'Current Policies' (~2 to 3°C)	'Hot House World' (>4°C)
Heat stress	Very low	Very low	Very low	Low	Low	Low
Flooding	Low	Low	Low	Moderate	Moderate	Moderate
Drought	Very low	Very low	Low	Low	Low	Medium
Fire	Very low	Low	Low	Low	Low	Low
Windstorm	Moderate	Moderate	Moderate	Moderate	Moderate	Moderate
Subsidence	No data	No data	No data	High	No data	High



Solar panels at Easter Cadder Farm on our Scottish land

Solar energy in Scotland

Climate risk and opportunities

As part of our 2022 risk assessment, we investigated the climate exposure of our proposed solar park in Scotland. We have detailed below the most material risk and opportunities identified through the assessment and how this has been factored into decision making. As part of the 2022 strategy review, the Board visited our Scottish land holdings to see first-hand our sustainability initiatives. In 2023, the Board approved capital expenditure of £18.7m for the solar park in Scotland (with £1.1m of capital expenditure spent as at 31 December 2023). Construction of the solar park is due to commence in 2024.

Risk: Windstorm

There is currently no consensus for future shifts in wind speeds and storm activity in the UK and it is considered to remain within the current levels of volatility. Therefore, our solar park's exposure to windstorms was modelled against a windspeed in the range of 161-200 km/h. This windspeed was chosen as it represented a 1-in-100-year or 'bad year' event (which has a 10% likelihood of occurring in any year). Under these conditions, it was determined that no extra design provisions were required on top of current best practice. It was noted that in general, most solar panels can withstand windspeeds of up to 225 km/h.

Although the risk to our assets in Scotland (solar energy and woodlands) is relatively low, we will still ensure that the solar parks design considers extreme wind gusts, high specification impact resistant panelling and site protection from flying debris. During 2023 we designed and installed a small solar array at Easter Cadder, which was built in accordance with these principles and is performing well.

Opportunity: Sunshine and cloud cover

Our assessment identified an upward trend in observed sunshine duration per year in Scotland. Projections show that by the 2050s under the 4°C 'Hot House World' scenario, cloud cover in the summer could decrease for the UK with changes in Scotland between -15% and +5% (-5% on average).

Although Scotland receives a relatively low level of irradiation (<3 kWh/m²), solar panels still produce electricity on cloudy days and during winter, with peak efficiency reached when the sun is shining.

Under these conditions, the solar park could potentially capture more sunlight in the future. The panels we instal will be specified to ensure maximum efficiency and any future replacements will follow suit. Therefore, if sunshine levels do increase, we will be able to take advantage accordingly.

Assessment

Testing our resilience

The risks and opportunities we identified were applied against three climate scenarios to test the resilience of our business, strategy and financial planning.

Our approach to creating scenarios followed the updated guidelines produced by the TCFD within their Guidance on Scenario Analysis for Non-Financial Companies. We set out on page 117 the assumptions and risk data sources that were used in our most recent climate scenarios.

When conducting the scenario analysis, we had due regard to the following:

- **Forecasting:** scenarios are not intended to be forecasts of the future, rather a way to imagine plausible states of the world and plan for our resilience.
- **Balance:** they should have aspects of quantification, but not so much that it impairs strategic thinking.
- **Challenge:** they must ensure we challenge our own thinking about our organisation and business model.
- **Certainty:** some drivers within the scenarios may be relatively certain and predictable whilst others highly uncertain as to their development and impacts over time.
- **Number:** the resilience of our strategy should be investigated under multiple scenarios, including a 2°C or lower scenario.

The tables on pages 110 to 111 illustrate how we have incorporated these risks and opportunities into our strategy and financial planning. Ultimately, we do not envisage having to make changes to our overall strategic approach when considering climate-related scenarios.

➔ Risk rating / See page 92

Of the risks identified, none were deemed likely to have an impact such that the viability of our business would be interrupted, although our cost profile could increase.

Scenario 1 – 'Low Carbon World'

~1.5°C

A low temperature rise scenario as the world transitions to a low carbon economy

- A minimum EPC rating of B is required for commercial property.
- There are significant price increases to voluntary carbon offsets.
- Increased stringency of building planning and design requirements to meet net zero targets.
- Increased cost of high carbon raw materials (such as steel, cement and glass), which is further impacted by a carbon tax.
- Suppliers pass on 50-100% of their exposure to high carbon taxation via increased prices.

Transition risks

Moderate

Our overall risk exposure under the 'Low Carbon World' (1.5°C) scenario is moderate in both the short-term (2025) and the medium-term (2030). The most material transition risks identified were EPC rating requirements, increased cost of raw materials and rising emission offset prices.

Physical risk exposure

Very Low to Low

Our physical risk exposure was low under this scenario. However, our Scottish land had greater exposure to windstorm and river floods in comparison to our London portfolio.

Potential financial impacts

Moderate

In 2021, approximately £97m of capex was identified to achieve an EPC rating of B across our London commercial portfolio. This has since been revised to £95.3m to reflect the latest scope (change in building regulations), subsequent inflation, disposals and work carried out to date.

Based on the International Energy Agency's (IEA) projected carbon prices of £62 per tonne in 2025 and £108 per tonne in 2030, and if we achieve our emission reduction targets:

- The increased cost of voluntary carbon offsets could have a projected impact of ~£450,000 to £750,000 per annum by 2025 and ~£800,000 to £1.1m per annum by 2030. If we are unable to achieve our emission reduction targets, the impact is estimated as rising to ~£1.5m per annum by 2030.
- The increased cost of raw materials could have a projected impact of ~£200,000 to £400,000 per annum by 2025 and ~£350,000 to £700,000 per annum by 2030.

Potential impact on strategy

Low

Our strategy and financial planning already reflect more stringent planning and design requirements, primarily via the introduction of our Net Zero Carbon Pathway in July 2020. We estimate that the cost impact of achieving our pathway requirements is approximately 5% to 10% of our development costs which is factored into our appraisals.

Over the long-term, we can reduce the cost impact of carbon offsets on our balance sheet by extending our carbon removal projects (e.g. tree planting) on our Scottish land which will help to reduce our reliance on the voluntary carbon market. However, in this scenario we are unlikely to realise the full value for some time given such projects take time to yield a significant number of credits.

Scenario 2 – ‘Current Policies’ ~2 to 3°C	
The world follows the emissions trajectory based on current policies/practices <ul style="list-style-type: none"> No change in EPC rating requirements. Offset prices increase but not by as much as under the ‘Low Carbon World’ scenario. There are no changes to existing planning and design requirements for developments. The increase in cost of key materials is anticipated to be substantially lower than in the ‘Low Carbon World’ scenario. Suppliers pass on 50-100% of their exposure to high carbon taxation via increased prices. 	
Transition risks	Moderate
Under this scenario, the risk impact and likelihood profiles for transition risks were unchanged in comparison to the ‘Low Carbon World’ scenario. This is because strategically we are expecting to decarbonise in a shorter time frame compared to the current policy approach.	
Physical risk exposure	Low to Moderate
Within this climate scenario there was no scientific evidence to suggest that intensity or frequency of windstorms would increase significantly, therefore the risk profile has been deemed to be broadly similar to that in the short-term. All our London portfolio assets are either out of risk zones or are protected by the Thames Barrier. Four agricultural assets in our Scottish portfolio are currently exposed to very high flooding risk and part of the land could be flooded. As a result, flooding presents itself as a moderate risk in this scenario.	
Potential financial impacts	Moderate
Based on the IEA’s STEPS scenario and assuming the UK implements a carbon price of \$65 (£54) by 2030 in line with stated EU prices, under this scenario: <ul style="list-style-type: none"> The increased cost of voluntary carbon offsets could have a projected impact for Derwent London of £400,000 to £570,000 per annum by 2030. The increased cost of raw materials could have a projected impact of £170,000 to £340,000 per annum by 2030. 	
Potential impact on strategy	Low
Sustainability has always been part of our strategy which puts us in a good position to take advantage of market and occupier demand for more sustainable space, which in turn is leading towards better rental premiums. Likewise, there are also operational cost savings that can be achieved from reduced energy intensity of more efficient spaces.	
Under this scenario, we would continue to retrofit and improve our properties in line with our net zero strategy and overall business model.	
It is assumed the opportunities available on our Scottish portfolio remain the same.	






Scenario 3 – ‘Hot House World’ >4°C	
A high carbon scenario where the world fails to transition, and temperatures rise <ul style="list-style-type: none"> No change in EPC rating requirements. Current policies promoting sustainability are removed. No carbon pricing in existence. Exploitation of abundant fossil fuel resources. Little or no development in low carbon technology. Adoption of resource and energy intensive lifestyles. 	
Transition risk exposure	N/A
Transition risks were not modelled under this scenario. These risks only arise if the world actively attempts to transition to a low carbon economy.	
Physical risk exposure	Moderate to High
Our London portfolio could see a moderate risk of drought, between three to four months per year, a notable increase over today’s climate. Under this scenario, there is increased susceptibility of subsidence, with all the London portfolio having ‘probable’ increases and instability issues in line with the wider London area. There was also no scientific evidence to suggest that intensity or frequency of windstorm would increase significantly, therefore the risk profile has been deemed to be broadly similar to that in the ‘Current Policies’ scenario.	
Potential financial impacts	Low
Within the next 10 years, modelling showed that there was a 10% probability of windstorm damage costing approximately £2.6m.	
Potential impact on strategy	Low
Heat stress is not projected to be a significant risk by 2050 but changes in average temperatures and increased number of heatwaves in London could impact occupier comfort within buildings (overheating), increase energy costs for cooling and lead to increased demand for ventilation and air conditioning. We seek to address these risks through energy efficient building design and use of renewable energy to meet the increased demand.	
Drought might create water stress issues and shortages in water supply for London. Our water management strategy would need to be strengthened to use water more optimally (reuse, collections etc.) which could lead to higher maintenance and regeneration costs.	
Although the overall flood risk is not significant, projected changes indicate that the frequency of flood events could increase in the UK (and more for Scotland) and create additional direct building and infrastructure damage and more frequent interruptions. Flood risk assessment is one of our considerations during our acquisition’s appraisal process.	

MANAGING RISKS continued

Assessment continued




Impact on our strategy and financial planning

The outputs from the risk and scenario assessments (see pages 106 to 109) have been embedded into our business to ensure all of our core activities accurately reflect the required actions and investments. Our strategy remains unchanged as we continue to develop design-led, amenity-rich, low carbon office space in line with market and customer demand.




Material risk	Exposure			Impact on strategy	Impact on financial planning
	0-5 years	5-10 years	15+ years		
Transition risks					
Energy Performance Certificate (EPC) rating requirements Current environmental regulation in the UK prevents leasing space with an EPC rating of worse than E. These rules could become stricter in 2027 with a minimum rating of C or better. From 2030, it is projected that there will be a further change to a minimum rating of B.				<p>To improve our older buildings, we may need to commit to additional capital expenditure. The Group may be unable to lease the space during the improvement phase, leading to reduced rental income and longer void periods. Through our programme of continual improvements and regeneration, at 31 December 2023, our portfolio (including on-site projects), is 87.5% 2027 compliant by ERV and 68.4% 2030 compliant.</p> <p>Strategic objectives: 1 2 4</p> <p>Business model: All of our core activities</p>	<p>Following an independent third party assessment in 2021, approximately £97m of capex was identified to achieve 2030 EPC compliance across our London commercial portfolio. This has since been revised to £95.3m as at 31 December 2023 to reflect the latest scope (change in building regulations), subsequent inflation, disposals and work carried out to date. The Audit Committee regularly monitors how these costs are reflected in our forecasting and portfolio valuations (see page 147).</p>
Planning requirements It is likely that the UK will need to incrementally increase the stringency of building planning and design requirements as part of its efforts to meet its net zero targets. This would affect our development pipeline, including increasing development costs to ensure all new buildings are net zero carbon ready.				<p>Our Responsible Development Framework and Net Zero Carbon Pathway aim to ensure that our properties are more climate resilient, built for a longer life, flexible to occupy and operate, less reliant on mechanical cooling and free from fossil fuel use i.e. all electric heating and cooling.</p> <p>Strategic objectives: 1 2 4</p> <p>Business model: Refurbishment & Development</p>	<p>The requirement to be net zero aligned is already factored into our development appraisal process and ensures we have a more robust level of cost certainty and financial forecasting ability. Access to good quality, affordable finance is also important to enable us to deliver our development pipeline effectively and demonstrate how we are addressing and effectively managing climate risk. Further information on our green finance initiatives is on pages 84 and 85.</p>
Cost of raw materials There is a risk of increased development cost if the construction value chain passes onto us the impact of carbon pricing for high carbon building materials such as steel and cement.				<p>Setting robust embodied carbon reduction targets drives us to explore lower carbon materials and methods of construction which in turn should assist us in reducing the significance of the impact created by such carbon-related cost increases on our profit and loss.</p> <p>However, we recognise that the transition timeframe and subsequent availability of these lower carbon materials is not yet entirely clear in some instances. As a result, it could mean it takes longer to realise the use of such materials in our developments.</p> <p>Strategic objectives: 2 4</p> <p>Business model: Refurbishment & Development</p>	<p>Whilst the increased cost of raw materials cannot be borne solely by customers, the market has seen price increases to key material groups, albeit not necessarily exclusively linked to sustainability-related drivers. In line with our approach to embodied carbon we continue to engage with our principal contractors and Tier 1 suppliers on the impacts of using traditional materials and moving to less carbon intensive materials, and the implications of doing so, for example, availability, cost and supply chain knowledge.</p>

Strategic objectives

- 1** To optimise returns and create value from a balanced portfolio
- 2** To grow recurring earnings and cash flow
- 3** To attract, retain and develop talented employees
- 4** To design, deliver and operate our buildings responsibly
- 5** To maintain strong and flexible financing

Material risk	Exposure			Impact on strategy	Impact on financial planning
	0-5 years	5-10 years	15+ years		
Transition risks continued					
Emissions offsets As more companies commit to net zero, the demand for high quality carbon removal offsets is increasing, resulting in higher prices. There is also an increasing reputational risk associated with the use of emission offsets if carbon offsetting is chosen as the only net zero measure instead of focusing on reducing energy consumption and emissions first.				<p>We have put in place energy intensity reduction targets for properties in our managed portfolio which look to reduce intensity by 4% year-on-year, from our 2019 baseline out to 2030. These are designed to ensure (alongside our renewable energy procurement) that we drive down operational carbon as much as possible.</p> <p>Our strategy has been to utilise our Scottish land to create our own offsets, initially via tree planting schemes. We are reviewing our offsetting strategy for the operational emissions of our investment portfolio which will be described and quantified in subsequent disclosures once agreed.</p> <p>Strategic objectives: 4</p> <p>Business model: Asset Management & Investment activities</p>	<p>To offset our development-based residual embodied carbon we use carbon removal offsets purchased from the voluntary carbon market. Our development appraisals include a cost of carbon for these offsets, currently set at £25 per tonne with an annual inflation factor of 10% applied. This is then complemented by our embodied carbon targets which aim to drive down the amount of embodied carbon on scheme completion and subsequently the need for and cost of offsetting. The carbon price and inflation factor included within our development appraisals ensure we are robustly mapping the possible financial impact and reducing exposure to future demand-led price movements.</p>
Physical risks					
Windstorm The risk arising from windstorms is damage to our buildings (which could include façade and roof damages and power outages), primarily caused by flying debris.				<p>Our buildings are in storm susceptible regions, with our land in Scotland being at highest risk. Overall, the impact of windstorms on our portfolio does not impact on our business strategy. We have adequate building maintenance and management measures in place.</p> <p>Strategic objectives: 1 2 3 4 5</p> <p>Business model: All of our core activities</p>	<p>As modelling showed a minor potential financial loss of approximately £2.6m, we currently do not believe that it will impact on our financial planning. Recommendations from the climate assessments will be factored into our property management plans and planned preventive maintenance schedules.</p>
Flooding All of our London assets are out of risk zones or protected by the Thames Barrier. In Scotland (c.1% of our total portfolio), we have locations which are currently exposed to very high flooding risk for agricultural.				<p>The risks from flooding do not impact our overall business strategy, albeit we are likely to undertake a greater level of due diligence during the acquisition process given future purchase targets could potentially be in flood zones.</p> <p>Strategic objectives: 2 4</p> <p>Business model: All of our core activities</p>	<p>To ensure we understand the flood risk of potential new acquisitions, our due diligence procedures will need to be enhanced to account for a greater level of flood mapping to ensure we aren't introducing higher levels of risk and loss exposure into the portfolio.</p>

Further information on how we have addressed these risks can be found on the following pages:

-  Our pathway to net zero / See page 48
-  Regeneration of 6-8 Greencoat Place SW1 (EPC rating of E to B) / See page 20
-  Occupier engagement on climate change / See page 46

Monitoring

Role of the Board

The Board has overall accountability for climate-related risks and opportunities. It is responsible for ensuring that climate change is adequately reflected in the Group's strategy to ensure our future resilience. Due to its importance, climate-related matters are regularly discussed during the Board's strategy reviews and factored into the Board's assessment of our viability (see page 89).

Climate resilience has been classified as a principal risk for the Group and is contained on our Schedule of Principal Risks (see page 100). The Board reviews and approves the Group's risk registers on at least an annual basis and they are subject to review by the Risk Committee at each of its meetings.

Climate-related topics are included on the agenda of each meeting of the Responsible Business Committee and the Sustainability Committee, including our progress to net zero carbon. Climate-related risks and reporting are standing agenda items for the Risk and Audit Committee meetings. The climate risk governance framework is on page 113.

To embed a further level of oversight, we have linked climate-related performance measures into our Remuneration Policy for the Executive Directors' incentive remuneration (see page 177). These targets are directly linked to our Net Zero Carbon Pathway.

Further information on the role of the Board and its Committees in respect of climate change is available on the following pages:

- ➔ Audit Committee Report / See page 147
- ➔ Remuneration Committee Report / See page 173
- ➔ Intelligent Building Programme / See page 163

The Board does not have terms of reference, instead it maintains a schedule of matters reserved solely for its attention. Within this schedule, climate change and other environmental factors which could impact on the design or management of our portfolio is reserved to the Board and its Committees, principally the Responsible Business Committee and Audit Committee. To formalise the role of each Committee in the oversight of climate-related risks and opportunities, we intend to update their Terms of Reference in 2024.

The Board's assessment of its skills, experience and knowledge is on page 136 and includes reference to environmental matters, including climate change. The Audit Committee also received training on climate-related disclosures during the year.

- ➔ Board training in 2023 / See page 136

Role of management

As Chief Executive, Paul Williams has overall accountability to the Board for climate-related issues. Paul Williams has delegated management oversight to Nigel George (Executive Director) and responsibility for implementation to John Davies (Head of Sustainability).

The table below illustrates their involvement in the Group's climate risk framework. As a result, they have a comprehensive oversight of all our climate-related work.

	Paul Williams	Nigel George	John Davies
Board	Member	Member	By invitation
Audit Committee	By invitation	Regular attendee	Regular attendee
Risk Committee	Regular attendee	By invitation	Regular attendee
Remuneration Committee	By invitation	–	–
Nominations Committee	By invitation	–	–
Responsible Business Committee	Member	By invitation	Regular attendee
Executive Committee	Chairman	Member	Member
Sustainability Committee	Chairman	Member	Member
Sustainability Team	–	Oversight	Head of Department

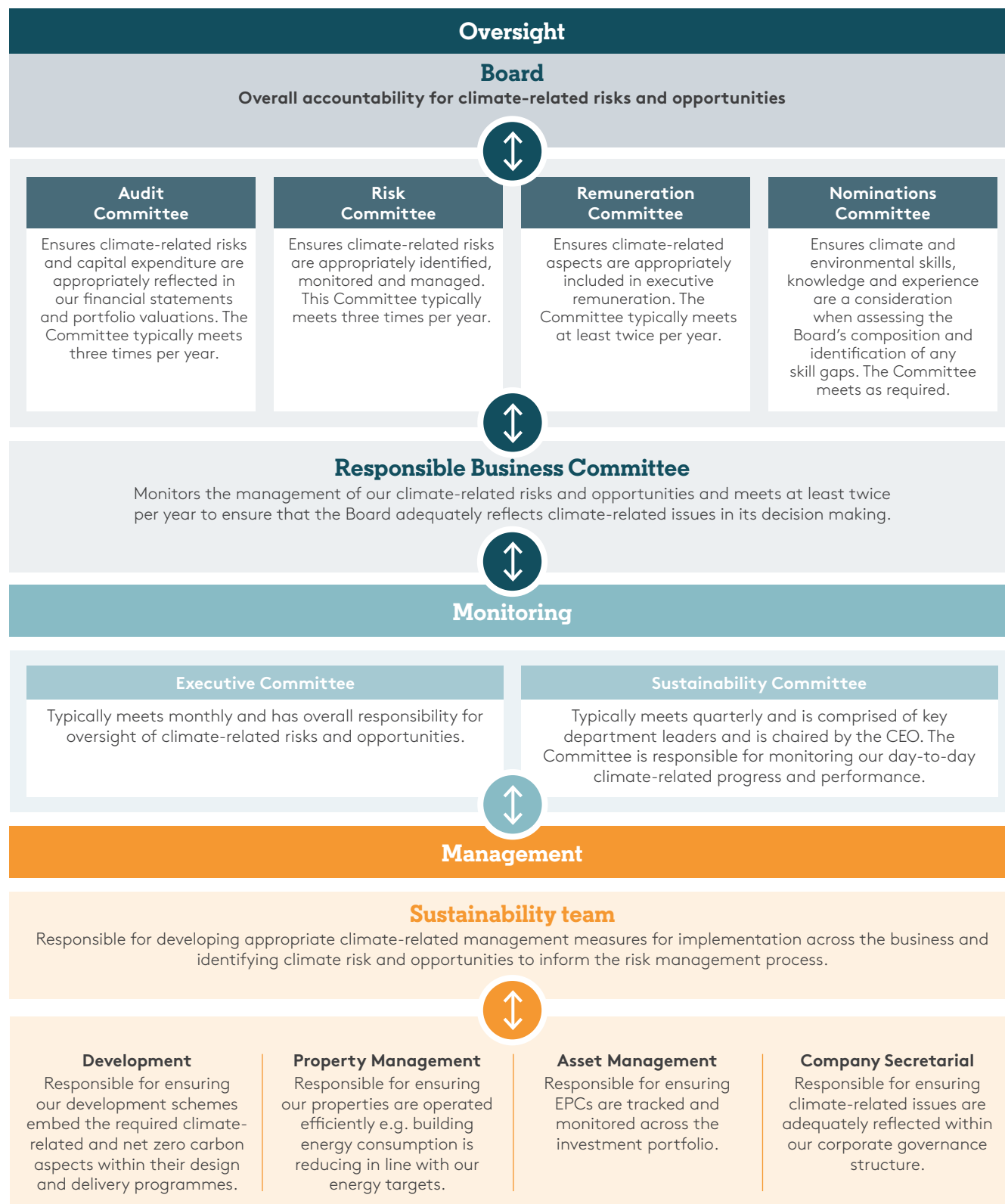
Throughout the year, the Executive Committee reviews the Group's risk registers, which include sustainability/climate change-related risks. These reviews consider the risk severity, likelihood and the internal controls and/or mitigation actions required to reduce our risk exposure, so that it is aligned with or below our risk appetite. This approach allows the effects of any mitigating procedures to be considered properly, recognising that risk cannot be eliminated in every circumstance.

The Sustainability Committee comprises of key department leaders, many of whom have a responsibility for oversight and implementation of climate-related issues within their department. At each meeting, a 'performance and data' dashboard is produced for discussion and analysis.

Members from key departments were involved in the climate risk assessment and climate scenarios conducted with Willis Towers Watson, the outputs of which underpin our disclosure.

Climate risk governance framework

As climate risks and opportunities are likely to have an impact on various aspects of our business, all the Board's Committees are involved in the oversight of climate-related matters. As illustrated below, the business has a 'top down, bottom up' approach to the oversight of climate-related aspects, from individual departments to the Board.



Response

Capturing opportunities

As a responsible business, we understand, balance and manage our environmental, social and governance opportunities proactively; it is visible in our culture, approach and design and management of our buildings. Our management structure and style ensure that we can respond to changes in regulation and occupier demand. Likewise, they enable us to plan more effectively for the long-term and ensure we are putting the right systems and processes in place to maintain our position as London's leading office-focused REIT and capture the opportunities which arise.

Through our climate risk assessment, we identified the opportunities that we could embrace. Of the opportunities identified, changing occupier demands and cost of debt through green initiatives were considered most material. We detail below some of the ways in which we are capturing climate-related opportunities.



The Poets' Park at 80 Charlotte Street W1

EPC improvements	Refurbishing space to optimise rents as and when vacancies occur is an integral part of our business model and typically includes upgrades which improve a building's energy performance. Since the independent third party assessment in 2021, we have invested £3.0m of capital expenditure on EPC upgrade works. EPC upgrades are factored into all refurbishment projects to ensure ongoing compliance with evolving legislation.
Intelligent Buildings	Our Intelligent Building Programme is a medium- to long-term initiative which seeks to enable our buildings to be digitally monitored and operated more efficiently, driving down equipment faults (and consequential maintenance) and delivering energy and operational carbon savings. The key indicators of success will be the cost savings to our occupiers and the operational carbon savings for our occupiers and Derwent London.
Green Finance	Our Green Finance Framework has been specifically developed to allow us to link our debt to our net zero carbon ambitions by clearly showing the connection between the use of our new debt and our development and refurbishment activities. To date, we have two specific debt facilities which are linked to our framework; the £300m 'green' tranche of our main corporate £450m revolving credit facility and a £350m Green Bond issued in 2021. These are being used to part-fund our latest eligible projects. Further information on our Green Finance Framework is on pages 84 and 85.
Woodlands	Nearly seven years ago we planted over 30 hectares of woodlands which has already generated 127 Woodland Carbon Code verified carbon credits and we are exploring how to increase this further. Our ambition is to be as self-sufficient with our offsetting as possible to meet our long-term needs and increase the transparency and robustness of the offsets we use. Resolution to grant planning consent was received for a c.100 acre, 18.4 MW solar park on part of our Scottish land. When completed and operational, we expect it to generate electricity equivalent to more than 40% of the needs of our managed London portfolio.

Metrics and targets

The Group reports annually on its progress towards net zero by 2030. A brief outline of our 2023 progress is set out on pages 46 to 49. To help our stakeholders to understand our performance, the data section within our annual Responsibility Report sets out a broad range of climate and energy performance data and metrics. This includes extensive carbon reporting and historical performance data to allow for trend analysis. Our Responsibility Report is available on our website.

We align our Responsibility Report disclosures to externally recognised frameworks including the EPRA Best Practices Recommendations for Sustainability Reporting and the Sustainability Accounting Standards Board (SASB). We participate in internationally recognised indices, namely CDP and GRESB and our performance against these can be found on the inside back cover.

Since 2023, embodied carbon reduction and energy intensity reduction performance metrics have been included within the Executive Director and Executive Committee incentive plan (the PSP). Further information is on page 180.

In 2020 we published our Net Zero Carbon Pathway which is aligned to the Better Building Partnership (BBP) Climate Change Commitment. As part of our Net Zero Carbon Pathway, we have set some ambitious climate-related targets, which are shown below.

Reducing operational energy and carbon emissions

An annual reduction in energy intensity of our managed portfolio to achieve 90 kWh/sqm by 2030

Near-term: we commit to reduce absolute Scope 1 and 2 GHG emissions by 42% by 2030 from a 2022 baseline and to measure Scope 3 emissions

Long-term: reduce absolute Scope 1, 2 and 3 GHG emissions by 90% by 2040 from a 2022 baseline

Reducing embodied carbon of development projects

New build commercial office schemes completing from 2025 to achieve: ≤ 600 kg/CO₂e/sqm (upfront carbon, A1-A5)

New build commercial office schemes completing from 2030 to achieve: ≤ 500 kg/CO₂e/sqm (upfront carbon, A1-A5)

Energy and carbon reporting

We publish a full breakdown of our corporate carbon footprint (inclusive of Scopes 1, 2 and 3) and energy usage in our Streamlined Energy and Carbon Reporting (SECR) disclosure on pages 60 and 61. Our Scope 1, 2 and 3 totals in 2023 have been subject to independent limited assurance by Deloitte LLP in accordance with ISAE 3000 (Revised) and ISAE 3410 Standards.

➔ SECR disclosures / See page 60

EPC ratings

EPC ratings indicate the energy efficiency of a building. We are following a phased programme of works to upgrade the EPC ratings of our portfolio. We target a minimum EPC of 'A' for major new-build schemes and 'B' for major refurbishments (see page 40 for our progress in 2023).

68.4%

of our portfolio (by ERV)
has an EPC rating of A or B

19.1%

of our portfolio (by ERV)
has an EPC rating of C

Percentage of portfolio (by ERV)	2023	2022	2021
Rated A	10%	9%	6%
Rated B	47%	45%	35%
Rated C	19%	20%	18%
Rated D	8%	9%	14%
Rated E	5%	4%	6%
Rated F	0%	0%	0%
Rated G	0%	0%	0%
Properties in development	11%	12%	19%
Exempt/under review/outstanding	0%	1%	2%

Renewable energy

The Group is committed to ensuring that all the energy we procure, electricity and gas, is from renewable sources.

99%

of our electricity is
from renewable sources
Target: 100%

	2023	2022	2021
Percentage of electricity from renewable sources ¹	99%	99%	97%
On-site renewable energy generation (kWh)	97,440	81,367	48,188

¹ Electricity purchased on renewable tariffs backed by REGOs.

Certification

BREEAM and LEED certifications recognise the sustainability of our buildings, their construction and operation. We target minimum BREEAM ratings of 'Excellent' for major developments and 'Very Good' for major refurbishments (see page 40 for our progress in 2023).

Percentage of portfolio (by floor area – NIA)	2023	2022	2021
BREEAM certified	35%	34%	30%
LEED certified	22%	13%	9%

Response continued

Our progress

As part of our commitment, we analyse our activities to ensure we are reducing our carbon footprint across all our spheres of influence. Our pathway focuses on four principal areas:

- Reducing operational energy and carbon emissions through setting annual reduction targets and engaging with our occupiers
- Procuring and investing in renewable energy
- Reducing the embodied carbon of our future pipeline
- Offsetting residual carbon emissions we cannot eliminate

Further information on these commitments and our progress in 2023 is detailed on pages 46 to 49.

Future priorities

On page 48 we have outlined our environmental priorities for 2024. In addition to these focus areas, we intend to action the following:

- **Governance:** The Board will continue to build its competency through training and monitoring of developing best practice.
- **Risk management:** In 2024, we will refresh our climate risk assessment with the support of third party expertise.
- **Strategy:** Monitor construction of our 18.4 MW solar park in Scotland which is expected to commence in 2024.
- **Metrics and targets:** Update our double-materiality assessment and start to report on our rebased SBTi-verified targets (aligned to a 1.5°C scenario).

Supporting information

TCFD directory

We have identified in the table below where our responses to the TCFD's 11 recommendations can be located. We retain sufficient evidence/records to support our compliance statement (on page 105) and our data disclosures in our annual Report & Accounts and Responsibility Reports.

Governance	
a) Describe the Board's oversight of climate-related risks and opportunities	➔ Pages 112 and 113
b) Describe management's role in assessing and managing climate-related risks and opportunities	➔ Pages 108 to 113
Strategy	
a) Describe the climate-related risks and opportunities the organisation has identified over the short-, medium- and long-term	➔ Pages 106 to 109
b) Describe the impact of climate-related risks and opportunities on the organisation's business strategy and financial planning	➔ Pages 110 and 111
c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario	➔ Pages 106 to 109
Risk management	
a) Describe the organisation's processes for identifying and assessing climate-related risks	➔ Pages 105 to 111
b) Describe the organisation's processes for managing climate-related risks	➔ Pages 100, 112 to 115
c) Describe how processes for identifying and managing climate-related risks are integrated into the organisation's overall risk management	➔ Page 105
Metrics and targets	
a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process	➔ Pages 60, 61 and 115
b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks	➔ Pages 60 and 61
c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets	➔ Pages 49 and 115

Climate scenarios – assumptions and risk data sources

2022 Willis Towers Watson risk assessment

Scenario Name	'Low Carbon World' (~1.5°C)	'Current Policies' (~2 to 3°C)	'Hot House World' (>4°C)
Temperature Range	1.4°C (median, 2100, IEA NZE2050) ~1.5°C (median, 2100, RCP2.6)	2.6°C (median, 2100, IEA STEPS) ~2.3°C (mean, 2100, RCP4.5)	~4.2°C (mean, 2100, RCP8.5)
Sources	IEA – Energy Outlook 2021: NZE2050 IPCC, 2014: Synthesis Report: RCP2.6 Narratives for SSPs*: SSP1	IEA – Energy Outlook 2021: STEPS IPCC, 2014: Synthesis Report: RCP4.5 Narratives for SSPs*: SSP2	IPCC, 2014: Synthesis Report: RCP8.5 Narratives for SSPs*: SSP5
Primary risks			
	Transition risks (2025 and 2030)	Moderate transition (2025 and 2030) and physical risks (current, 2030, 2050)	Physical risks (current, 2030, 2050)
Underlying assumptions			
Global net zero achieved by:	2050 (IEA NZE2050)	Not achieved before 2100 (IEA STEPs)	Not achieved
Carbon price	Advanced economies: 2025, 2030, 2040, 2050 \$75/tonne; \$130/tonne; \$205/tonne; \$250/tonne (IEA NZE2050)	EU: 2030, 2040, 2050 \$65/tonne; \$75/tonne; \$90/tonne (IEA STEPs)	No carbon pricing in existence. (SSP5)
Building sector policies	Implementation of more stringent building energy conservation building codes for existing and new buildings, including net zero emission requirements by 2030 and 85% of all buildings are zero carbon-ready in 2050. (IEA NZE2050)	In the UK, Low Carbon Heat Support and Heat Networks Investment Project; various retrofit incentive schemes for improving buildings efficiency as part of Plan for Jobs. It does not however assume increasing stringency of EPC requirements. (IEA STEPs)	Assumes current policies promoting sustainability are removed. (SSP5)
Social assumptions	Assumes low growth in material consumption and increasing consumer pressure on businesses to drive sustainability. (SSP1)	The world follows a path in which social, economic, and technological trends do not shift markedly from historical patterns. Global and national institutions work towards but make slow progress in achieving sustainable development goals. (SSP2)	The push for economic and social development is coupled with the exploitation of abundant fossil fuel resources and the adoption of resource and energy intensive lifestyles around the world. (SSP5)
Technology assumptions	Promotion of alternative fuels and technologies such as hydrogen, biogas, biomethane and carbon capture utilisation and storage across sectors. The share of renewables by 2030 in the global electricity supply would increase to approximately 61%, shifting economies from being fossil fuel-dependent to renewable energy driven. (IEA NZE2050)	Phase out of traditional coal-fired power by 2024 in the UK and the Ten Point Plan, with up to 40 GW offshore wind capacity by 2030. Electrification component of the Sixth Carbon Budget and Industrial Energy Transformation Fund provides grant funding for energy efficiency projects. (IEA STEPs)	Little to no development in low carbon technology. (SSP5)

Physical risk data sources

Willis Towers Watson's Global Peril Diagnostic and Climate Diagnostic Tools, data from the MunichRe hazard databases, and the Intergovernmental Panel on Climate Change (IPCC). For the climate loss modelling the catastrophe model from RMS (Risk Management Solutions) was used.

Governance





Network boasts an architecture that leaves an enduring and positive impression on the city.

Stuart Piercy
Piercy & Company

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INTRODUCTION FROM THE CHAIRMAN



Mark Breuer
Chairman

2024 Focus areas

- Ongoing review of the Group’s strategy and five-year plan
- Continue to monitor the Group’s long-term succession and talent development pipeline
- Appoint a new Non-Executive Director during H1 2024
- Monitor the Group’s performance towards net zero carbon

Board members and attendance in 2023

	Independent	Number of meetings	Attendance ¹
Chairman			
Mark Breuer	Yes	6	100%
Executive Directors			
Paul Williams	No	6	100%
Damian Wisniewski	No	6	100%
Nigel George	No	6	100%
Emily Prideaux	No	6	100%
Non-Executive Directors			
Claudia Arney	Yes	6	100%
Lucinda Bell	Yes	6	100%
Helen Gordon	Yes	6	100%
Cilla Snowball	Yes	6	100%
Sanjeev Sharma	Yes	6	100%

¹ Percentages based on the meetings entitled to attend for the 12 months ended 31 December 2023.
² Richard Dakin stepped down from the Board on 28 February 2023.

Dear Shareholder,

On behalf of the Board, I am pleased to introduce the Group’s 2023 Corporate governance statement on pages 126 to 139.

The Board’s activities

2023 has been a progressive year for the Group. The Board’s strategy awayday in June was held over two days and included a challenging review of the Group’s strategy with key members of the Executive Committee.

Following a comprehensive tender process for the Group’s external auditor, the Board approved the reappointment of PricewaterhouseCoopers LLP for the 2024 year end audit. The tender process was effectively led by the Audit Committee and was fully compliant with the Audit Committees and the External Audit: Minimum Standard. Further information can be found on pages 150 and 151.

Board changes

Succession planning for the Non-Executive Directors and Executive Directors was an area of focus for the Nominations Committee as Claudia Arney approaches her ninth year on the Board. Sanjeev Sharma will succeed Claudia Arney as Chair of the Remuneration Committee following the conclusion of the AGM on 10 May 2024. The Board expresses its gratitude to Claudia for all her valuable insights and contributions over the years.

During the year we agreed our candidate specification for the recruitment of a new Non-Executive Director and appointed an external search consultancy to begin our search (see page 142).

Stakeholder engagement

Feedback from our key stakeholders is important and informs the Board’s decision making and strategy discussions. Following the positive stakeholder feedback received on DL/78 in Fitzrovia, the Board approved and launched a new shared amenity hub, DL/28, at The Featherstone Building.

During the year, we conducted our fifth biennial employee survey. The Board was delighted with the high level of engagement, with 94% of the workforce providing their feedback. The Group also conducted its first Disability Survey which was approved by the Business Disability Forum (see page 53).

The Annual General Meeting (AGM)

The forthcoming AGM will be hosted at DL/78 on 10 May 2024. Alongside my fellow Directors, I hope that you will be able to join us. If you wish to discuss any aspect of our governance arrangements, please contact me via our Company Secretary, David Lawler.

Telephone: +44 (0)20 7659 3000 or
Email: company.secretary@derwentlondon.com

Mark Breuer
Chairman
27 February 2024

GOVERNANCE AT A GLANCE

Transparency and accountability underpins effective corporate governance and builds stakeholder confidence.

94%

employee engagement
with the employee survey

52%

female representation
in our workforce

60%

Board independence

1.5%

Total Shareholder Return for the
year ended 31 December 2023

Key governance activities

The Board's key governance activities during the year have included:

- Regularly monitored the Group's principal and emerging risks (see pages 90 to 103)
- Reviewed the Group's internal controls and Fraud Risk Assessment (see pages 148 and 149)
- Continued to monitor the Group's progress towards net zero carbon (see pages 48 and 49)
- Reviewed the Group's talent pipeline and Non-Executive Director succession plans (see page 142)
- Conducted a competitive external audit tender (see pages 150 and 151)
- Monitored the FRC's consultation on the UK Corporate Governance Code

➔ The Section 172(1) Statement / See pages 130 to 133

Major Board decisions

The major Board decisions made in 2023 included:

- Capital expenditure approval of £18.7m for the Solar Park in Scotland
- Approved the refurbishment and public realm upgrades at the Strathkelvin Retail Park for £20.2m
- Approved the portfolio value of £4.9bn as at 31 December 2023
- Agreed the specification for a new Non-Executive Director and appointed an external search consultancy
- Approved the reappointment of PwC as external Auditor for the 2024 year end audit

➔ Key activities of the Board / See pages 138 and 139

UK Corporate Governance Code 2018 (the Code)

The Board confirms that for the year ended 31 December 2023, we have complied with the provisions, and have consistently applied the principles of good corporate governance, contained in the Code.

1. Board leadership and Company purpose

We have a diverse and effective Board which leads the Group to achieve our purpose and safeguard our strong stakeholder focused culture.

➔ See pages 126 to 129

2. Division of responsibilities

Our Board is comprised of 60% independent Directors. We monitor the external commitments and conflicts of interest which could impact on our Directors' independence and effectiveness.

➔ See pages 134 and 135

3. Composition, succession and evaluation

The composition of the Board and its succession plans are kept under regular review by the Nominations Committee. We have an ongoing training programme and follow a three-year cycle of internal and external Board evaluations.

➔ See page 136

4. Audit, risk and internal control

We have a low tolerance for risk taking and a conservative management style, which is supported by a framework of internal controls and risk management policies which are routinely subject to independent assurance. During 2023 the Audit Committee conducted a competitive external audit tender.

➔ See pages 144 to 155

5. Remuneration

We are transparent about our pay practices which aim to incentivise our employees to achieve our strategy and generate sustainable value for our stakeholders. At the 2023 AGM the Remuneration Policy was approved by 95% of shareholders.

➔ See pages 172 to 197

Further information on the Code can be found on the Financial Reporting Council's website: www.frc.org.uk

BOARD OF DIRECTORS



1 Dame Cilla Snowball (Age 65) Non-Executive Director

Appointed to the Board: 2015

Cilla is the former Group Chairman and Group CEO at AMV BBDO, one of the top advertising agencies in the UK.

Other public appointments:

Governor of the Wellcome Trust, Director of Genome Research Limited, Non-Executive Director of Whitbread PLC and Lay Member of the Council of the University of Birmingham.

Committee:

Responsible Business (Chair), Audit, Nominations, Risk.

2 Emily Prideaux (Age 44) Executive Director

Appointed to the Board: 2021

Emily has overall responsibility for overseeing leasing and asset management transactions. In addition, Emily leads our DL/Member initiative, driving excellent customer service and relations; and leads our marketing and digital strategy whilst continuing to ensure that our future developments provide best in class workspace. Emily is a chartered surveyor and was previously Director of Investment Management at CBRE North America.

Other public appointments:

Director of The Paddington Partnership and NLA Expert Panel Member.

3 Paul Williams (Age 63) Chief Executive

Appointed to the Board: 1998

Paul is a chartered surveyor who joined the Group in 1987. He was appointed Chief Executive in 2019, and has overall responsibility for Group strategy, business development, sustainability, health & safety and day-to-day operations.

Other public appointments:

Director of Sadler's Wells Foundation, Chair of the New West End Company (NWECC) and Board member of the Westminster Property Association.

Committee:

Responsible Business.

4 Sanjeev Sharma (Age 60) Non-Executive Director

Appointed to the Board: 2021

Sanjeev is an independent member of the Estates Strategy Committee of King's College University London. Sanjeev is on the Patrons Committee of Real Estate Balance and a Trustee Director of the Prudential Staff Charitable Trust.

Other public appointments:

Chief Property Portfolio Officer at M&G Real Estate – a leading financial solutions provider for global real estate investors, which is part of M&G plc's £75bn Private Markets business.

Committee:

Audit, Nominations, Remuneration, Risk.

5 Helen Gordon (Age 64) Senior Independent Director

Appointed to the Board: 2018

Helen is a chartered surveyor and is Chief Executive Officer of Grainger plc. Previously, she was Global Head of Real Estate Asset Management of Royal Bank of Scotland plc and has held senior property positions at Legal & General Investment Management, Railtrack and John Laing Developments.

Other public appointments:

CEO of Grainger plc, Board member and Past President of the British Property Federation and Vice Chair and Board Member of EPRA, Non-Executive Director of Business LDN.

Committee:

Risk (Chair), Nominations, Remuneration.



6 Nigel George (Age 60) Executive Director

Appointed to the Board: 1998

Nigel is a chartered surveyor who joined the Group in 1988. Nigel is responsible for leading Derwent London's investment acquisitions, disposals and analysis. In addition, his responsibilities include overseeing the Group's Development and Sustainability teams.

Other public appointments:

None.

7 Mark Breuer (Age 62) Chairman

Appointed to the Board: 2021

Mark worked in investment banking for 30 years and, in 2017, retired from a 20-year career at JP Morgan in London, where he held the position of Vice Chairman Global M&A and was a member of the Global Strategic Advisory Council. Mark is a Fellow of the Institute of Chartered Accountants of England and Wales, having qualified in 1987, and has a BA from Vassar College in the US.

Other public appointments:

Chairman of DCC plc.

Committee:

Nominations (Chair).

8 Lucinda Bell (Age 59) Non-Executive Director

Appointed to the Board: 2019

Lucinda is a chartered accountant and from 2011 to 2018 was CFO of The British Land Company plc (British Land). Prior to that, she held a range of finance and tax roles at British Land.

Other public appointments:

Non-Executive Director at Man Group Plc.

Committee:

Audit (Chair), Nominations, Remuneration, Risk.

9 Claudia Arney (Age 53) Non-Executive Director

Appointed to the Board: 2015

Claudia was Group Managing Director of Emap until 2010. Prior to that she held senior roles at HM Treasury, Goldman Sachs and the Financial Times.

Other public appointments:

Chair of Deliveroo plc and Non-Executive Director of Kingfisher plc. Member of the Takeover Panel (Hearings Committee) and Lead Non-Executive Board member for the Department for Digital, Culture, Media & Sport.

Committee:

Remuneration (Chair), Audit, Nominations, Responsible Business.

10 Damian Wisniewski (Age 62) Chief Financial Officer

Appointed to the Board: 2010

Damian is a chartered accountant who held previous senior roles within the real estate sector. Damian has overall responsibility for financial strategy, treasury, taxation and financial reporting as well as other operational responsibilities including board responsibility for the Property Management, Facilities Management and Building Management teams.

Other public appointments:

Member of the governing body and Chair of Audit Committee at the Royal Academy of Music and Deputy Chairman and Chair of the Finance and Business Development Committee at the ABRSM.

EXECUTIVE MANAGEMENT TEAM



1 Richard Baldwin
Director of Development

Joined Derwent London:
January 2011

Appointed to Executive Committee:
January 2011

2 Philippa Davies
Head of Leasing

Joined Derwent London:
April 2013

Appointed to Executive Committee:
July 2022

3 Jennifer Whybrow
Head of Financial Planning
& Analysis

Joined Derwent London:
June 2007

Appointed to Executive Committee:
January 2018

4 Robert Duncan
Head of Investor Relations
& Strategic Planning

Joined Derwent London:
September 2021

Appointed to Executive Committee:
January 2023

5 Katy Levine
Head of Human Resources

Joined Derwent London:
September 2008

Appointed to Executive Committee:
January 2023

6 Richard Dean
Director of Investment

Joined Derwent London:
January 2023

Appointed to Executive Committee:
July 2023

Senior management

		Joined Derwent London
Lesley Bufton	Head of Marketing	October 2003
Tim Hyman	Group Architect	September 2008
Benjamin Lesser	Head of Design & Innovation	May 2010
Umar Loane	Head of Property Accounts	February 2013
Matt Massey	Head of Project Management	March 2014



7 Jay Joshi
Group Financial Controller

Joined Derwent London:
April 2012

Appointed to Executive Committee:
April 2021

8 Vasiliki Arvaniti
Head of Asset Management

Joined Derwent London:
September 2019

Appointed to Executive Committee:
January 2022

9 Matt Cook
Head of Digital Innovation
& Technology

Joined Derwent London:
November 2015

Appointed to Executive Committee:
January 2024

10 Victoria Steventon
Head of Property Management

Joined Derwent London:
December 2019

Appointed to Executive Committee:
January 2022

11 John Davies
Head of Sustainability

Joined Derwent London:
January 2013

Appointed to Executive Committee:
January 2022

12 David Lawler
Company Secretary

Joined Derwent London:
September 2017

Appointed to Executive Committee:
September 2017

Heethen Patel

Matt Peaty

Julie Schutz

Giles Sheehan

Jonathan Theobald

Financial Controller

Head of Health & Safety

Head of Internal Audit

Head of Investment

Head of Investment Analytics

Joined Derwent London

January 2008

November 2022

January 2023

February 2007

December 2012

CORPORATE GOVERNANCE STATEMENT

Governance

At Derwent London our approach to governance is rooted in the concepts of fairness, transparency, and accountability.

The Governance section has been organised to follow the structure (1 to 5) and principles (A to R) of the 2018 UK Corporate Governance Code (the Code) to illustrate how we have applied the Code principles and complied with the provisions. Further information on the Code and our compliance is on page 121.

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Board leadership

Effective Board

Our Board is composed of diverse professionals who bring a range of skills, perspectives and corporate experience to our boardroom. The composition of the Board is subject to periodic review by the Nominations Committee to ensure it remains sufficiently balanced and diverse to effectively oversee and determine the Group's strategy.

The Board, its principal committees and individual Directors are subject to annual effectiveness evaluations to identify areas for improvement or action (see page 137). The Chairman discusses with each Director their training needs to ensure they keep their knowledge and skills up to date.

To ensure sufficient time for discussion, the Board utilises its five principal committees to effectively manage its time (see page 127). At each Board meeting, the agenda ensures sufficient time for the committee chairs to report on the contents of discussions, any recommendations to the Board which require approval and the actions taken.

➔ Board composition / See page 136

➔ Board diversity policy / See page 143

➔ Training / See page 136

Value creation and preservation

The role of the Board is to generate long-term value for shareholders and other key stakeholders and contribute to wider society.

The appropriateness of our strategy is subject to detailed review at the Board's Strategy Awaydays which are held annually. Additionally, before making a material decision, the Directors have due regard for the wider context including the macroeconomic environment, property cycle and the impacts on all our stakeholders and wider society.

Some of the key aspects discussed by the Board during its strategy discussions include:

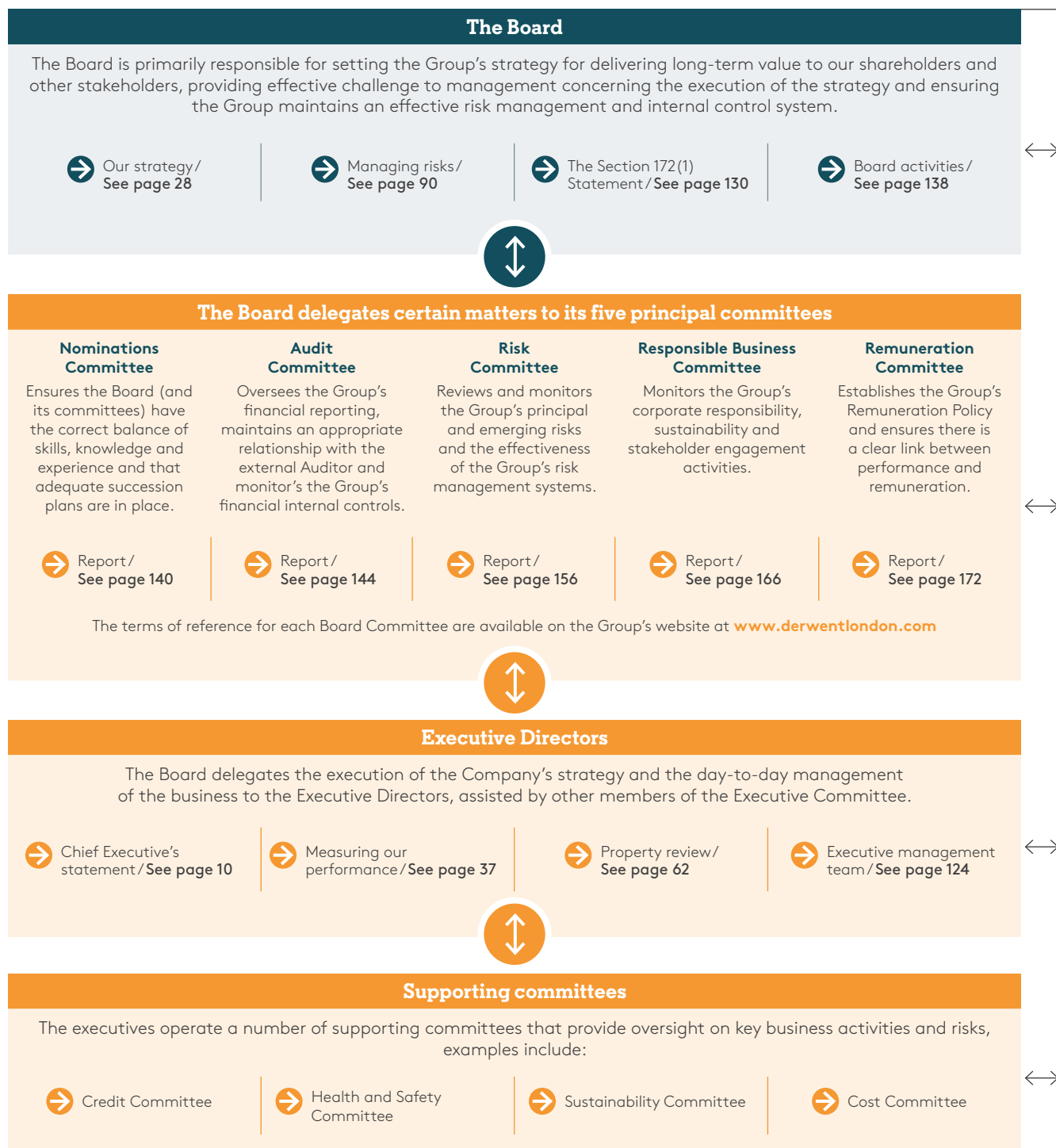
- changes to the London office market and investment market (see pages 13 to 15);
- nature of office occupation;
- our aspirations, culture and purpose;
- feedback received from our employees and other key stakeholders;
- climate change risk and opportunities;
- our development pipeline in respect to its replenishment and future potential; and
- review of the five-year plan including the potential impact of external risk factors on the business and our stakeholders, including inflation, interest rates and recession.

The Board required no significant changes to the Group's strategy which continues to assist in the achievement of our purpose and is aligned with our values. As a business, we continue to create value responsibly through responsible initiatives, a conservative balance sheet and resilient strategy (see pages 16 and 17).

Governance framework

We pride ourselves on conducting our business in an open and transparent manner.

Our well-established culture ensures that our governance framework remains flexible, allowing for fast decision making, effective oversight and clear accountability throughout the organisation.



Our shareholders and other key stakeholders play an important role in monitoring and safeguarding the governance of our Group. Further information on how we engage with our key stakeholders is on pages 42, 43 and 131.

CORPORATE GOVERNANCE STATEMENT continued

Governance arrangements

Corporate governance is essential to ensuring our business is run in the right way for the benefit of all of our stakeholders. Our governance arrangements support the development and delivery of strategy by:

- ensuring accountability and responsibility;
- facilitating the sharing of information to inform decisions;
- establishing engagement programmes with key stakeholders (see page 131);
- maintaining a sound system of risk oversight, management and an effective suite of internal controls (see pages 90 to 117 and 144 to 165);
- providing independent insight and knowledge from the Non-Executive Directors;
- facilitating the development and monitoring of key performance indicators (see pages 37 to 41); and
- promoting the desired culture and values (see page 129).

The Board maintains a formal schedule of matters which are reserved solely for its approval. These matters include decisions relating to the Group's strategy, capital structure, financing, any major property acquisition or disposal, the risk appetite of the Group and the authorisation of capital expenditure above the delegated authority limits.

The delegated authority limits are detailed below:

Board approval is required for: Level of approval:

Major property acquisition or disposal	Valued above £40m
Major capital expenditure project	Projected costs above £20m
Material occupier lease or contract	Rental income greater than 7.5% of the Group's total rental income

Although the Board is formally required to authorise capital expenditure above this limit, the open nature of our organisation means that the Board is aware of all active projects within our portfolio.

If any Director has concerns about the running of the Group or a proposed course of action, they are encouraged to express those concerns which are then minuted. No such concerns were raised during 2023.

All Directors have access to the services of the Company Secretary and any Director may instigate an agreed procedure whereby independent professional advice may be sought at the Company's expense. No such advice was sought by any Director during the year.

→ Governance framework / See page 127

→ Key activities of the Board / See pages 138 and 139

Workforce policies and practices

The Executive Directors have been delegated responsibility for ensuring that policies and behaviours set at Board level are effectively communicated and implemented across the business.

Policies are published on the intranet and where relevant included in the employee handbook. To ensure policies are embedded in our business practices, we operate a mandatory training programme which aims to reinforce key compliance messages in areas such as anti-bribery, modern slavery, conflicts of interest, etc.

If the Board is concerned or dissatisfied with any behaviours or actions, it seeks assurance that corrective action is being taken. No such action was required during 2023.

→ Compliance training / See page 165

Conflicts of interest

All employees (including the Board) are required to notify the Company as soon as they become aware of a situation that could give rise to a conflict or potential conflict of interest.

Prior to all major Board decisions, the Chairman requires the Directors to confirm that they do not have a potential personal conflict with the matter being discussed. If a conflict does arise, the Director is excluded from discussions and voting, unless the Board unanimously decides otherwise.

→ Independence / See page 135

Anonymous reporting of concerns

As a business, we seek to conduct ourselves with honesty and integrity and believe that it is our duty to take appropriate measures to identify and remedy any malpractice within or affecting the Company. Our employees embrace our high standards of conduct and are encouraged to speak out if they witness any wrongdoing which falls short of those standards.

All employees have access to our 'Speak up' system. Our procedures are included within our employee handbook, on our Group intranet and staff noticeboards. Following receipt of a message we have procedures in place to ensure an independent and proportionate investigation.

The Board receives updates from the Company Secretary on the operation of the 'Speak up' system. During the year under review, we did not receive any messages via our system (2022: no messages). Due to the 'open door' nature of our business, concerns are often raised directly with management, the CEO or the HR team.

Purpose, values & culture

Our purpose communicates the Group's strategic direction and intentions to our employees, occupiers and wider stakeholders. Due to its importance, it is routinely reviewed by the Board. Further information on our progress towards achieving our purpose during 2023 can be reviewed on the following pages:

- ➔ Long-life, low carbon, intelligent offices / See pages 18 to 27
- ➔ Long-term returns for all our stakeholders / See pages 38 and 195

Embedding our culture

The Board reinforces our culture and values through its decisions, strategy and conduct. Culture and value 'fit' is a key consideration during our recruitment process, which is reinforced during our induction programme, town halls run by the CEO, and is monitored through performance appraisals.

As part of the six-monthly performance review cycle, our employees reflect on whether they demonstrate the core 'competencies' outlined in the review. These competencies include the ability to build strong internal and external relationships, communicate clearly, build trust, and demonstrate creativity, initiative and teamwork. These discussions reinforce the behaviours we wish to foster within our workforce and link our culture to our reward mechanisms.

Our senior management team undertake training to ensure they are supporting their teams and encouraging the behaviours which align with our culture. During 2023, management training covered the use of Personal Development Plans and strength profiles.

Assessment and monitoring

The Board monitors the culture and values of the Group via:

- Regularly meeting with management and inviting employees to present at Board and committee meetings.
- Receiving feedback via the four employee representatives that sit on our Responsible Business Committee.
- Assessing cultural indicators such as:
 - management's attitude to risk;
 - health and safety data;
 - compliance with the Group's policies and procedures; and
 - key performance indicators, including staff retention.
- Feedback from our wider stakeholders, including from occupier 'pulse surveys'.
- Promptness of payments to suppliers.
- Independent assurance was sought via the outsourced internal audit function and other advisers.

The feedback received from employee surveys provides valuable insights into what is valued and seen as corporate norms. The biennial employee survey includes a specific question on how our employees would describe our culture.



The Section 172(1) Statement

The Board of Directors confirm that during the year under review, it has acted to promote the long-term success of the Company for the benefit of shareholders, whilst having due regard to the matters set out in section 172(1)(a) to (f) of the Companies Act 2006.

Issues, factors and stakeholders

The Board has direct engagement principally with our employees and shareholders but is also kept fully informed of the material issues of other stakeholders through the Responsible Business Committee, Executive Directors, reports from senior management and external advisers.

We utilise various engagement channels to receive informative feedback from our key stakeholders which can be factored into our principal decisions and activities. On page 131, we outline the ways in which we have engaged with key stakeholders.

s.172 factor	Relevant disclosures
a) the likely consequences of any decision in the long-term	Company purpose (page 5) Central London office market (page 13) Our business model and strategy (page 28)
b) the interests of the Company's employees	Our people (page 52) Diversity and inclusion (page 53) Non-financial reporting (page 58) Employee engagement (page 131)
c) the need to foster the Company's business relationships with suppliers, customers and others	Social Value Strategic Framework (page 50) Responsible payment practices (page 169) Modern slavery (page 169) Supply Chain Responsibility Standard (page 169)
d) the impact of the Company's operations on the community and the environment	Environmental (page 46) Our pathway to net zero (page 48) Community Fund (page 51) Streamlined Energy and Carbon Reporting (SECR) disclosure (pages 60 to 61) Task Force on Climate-related Financial Disclosures (TCFD) (pages 104 to 117)
e) the desirability of the Company maintaining a reputation for high standards of business conduct	'Speak up' procedures (page 128) Purpose, values and culture (page 129) Internal financial controls (page 148) Risk management (page 157) Anti-bribery and corruption (page 165) Awards and recognition (see inside back cover)
f) the need to act fairly between members of the Company	Annual General Meeting (page 200) Voting (page 200) Rights attached to shares (page 201)

Principal methods used by the Board in 2023

The main methods used by the Directors to perform their duties include:

- strategy reviews which assess the long-term sustainable success of the Group and our impact on key stakeholders;
- the Responsible Business Committee monitors the Group's corporate responsibility, sustainability and stakeholder engagement activities and reports to the Board on its activities (see pages 166 to 171);
- assessing the potential impact of significant capital expenditure decisions on our stakeholders;
- identifying the risks and potential consequences of decisions in the short-, medium- and long-term so that mitigation plans can be put in place;
- direct and indirect stakeholder engagement (see page 131);
- external assurance is received from stakeholder surveys, brokers and advisers; and
- specific training for our Directors and senior managers, in addition to the mandatory compliance training programme (see pages 136 and 165).

Informed decision making

The Board's procedures require a stakeholder impact analysis to be completed for all material decisions requiring its approval that could impact on one or more of our stakeholder groups. The stakeholder impact analysis assists the Directors in performing their duties under s.172 of the Companies Act 2006 and provides the Board with assurance that the potential impacts on our stakeholders are being carefully considered by management when developing plans for Board approval. The key activities and principal decisions undertaken by the Board in 2023 are detailed on pages 138 and 139.

Public Interest Statement – 2023

We are aware of our wider obligations to be a responsible business partner to our occupiers and to the communities in which we operate. As our activities impact on multiple stakeholder groups, our Board ensures that stakeholder matters are central to its decision making alongside the long-term financial success of our business. We extend our obligations beyond the statutory requirements to add value and build long-term mutually beneficial relationships. Our obligations are incorporated into our purpose, which strongly influences our values (see page 129). We have detailed on pages 44 to 61 and 130 to 133 how we have acted in the public interest during 2023.

Stakeholder engagement

We recognise the importance of clear communication and proactive engagement with all of our stakeholders. Our Chairman aims to routinely meet with institutional investors and report their views to the Board. On an annual basis, Mark Breuer writes to all our major shareholders inviting them to meet with him to discuss any areas of concern or provide feedback. For our private investors, there is an opportunity to meet the entire Board (including the Non-Executive Directors) at our Annual General Meeting (AGM).

The Board appointed four employees to the Responsible Business Committee, who are fully involved in all aspects of the Committee's activities (see page 167). Employees at Board level enable our employees to have direct involvement in decision making and bring the voice of our employees directly to the boardroom. All stakeholder engagement programmes are kept under routine review by the Board.

Stakeholder	Engagement methods	Material concerns
Occupiers Strategic objectives: 2 4 5	<ul style="list-style-type: none"> Occupier 'pulse surveys' Constructive and collaborative discussions on sustainability initiatives and achieving net zero carbon Interaction and engagement through the DL/App Occupier-focused amenity with the development of DL/28 	<ul style="list-style-type: none"> Well-designed and sustainable buildings Suitable lease terms Exclusive access to available amenities Adaptable space to accommodate new and collaborative ways of working
Employees Strategic objectives: 3 4	<ul style="list-style-type: none"> Biennial employee survey Disability survey, approved by the Business Disability Forum Employee Working Groups, including the newly established Health, Safety and Accessibility Working Group Independent 'Speak up' system A dedicated Non-Executive Director for gathering the views of the workforce Employee members of the Responsible Business Committee 	<ul style="list-style-type: none"> Overall health and wellbeing A diverse and inclusive working environment Opportunities for training, development and progression Adoption of smart working principles
Local communities & others Strategic objectives: 3 4	<ul style="list-style-type: none"> Operation of our Community Fund Volunteering and charitable donations Provided employment and work experience opportunities Engagement throughout the planning and development process Engagement with Non-Governmental Organisations (NGOs), Business Improvement Districts and industry bodies 	<ul style="list-style-type: none"> Minimising local disruption Impact on the local economy Effective communication and engagement Being a responsible neighbour
Suppliers Strategic objectives: 4	<ul style="list-style-type: none"> Regular correspondence and updates at the Responsible Business Committee Supply Chain Questionnaire circulated to all major suppliers Signatories to the Prompt Payment Code 'Unseen', the independent charity, conducted a gap analysis on our modern slavery procedures 	<ul style="list-style-type: none"> Long-term partnerships Collaborative approach Open terms of business Fair payment practices
Central & local government Strategic objectives: 4	<ul style="list-style-type: none"> Maintain proactive relationships through regular dialogue and correspondence with government departments such as HMRC Continued our pledge to the Westminster City Council Sustainability City Charter Ongoing engagement with local authorities to ensure high quality planning applications are submitted 	<ul style="list-style-type: none"> Openness and transparency Proactive engagement with local authorities Support for local economic plans and strategies Compliance with legislation
Shareholders & debt providers Strategic objectives: 1 5	<ul style="list-style-type: none"> Annual General Meeting (AGM) Our annual Report & Accounts Regular announcements via the London Stock Exchange's regulatory news service (RNS) Annual Bondholders Meeting Investor meetings, presentations and property tours Shareholder consultations 	<ul style="list-style-type: none"> Financial performance Environmental, social and governance performance Openness and transparency Dividend

Key to strategic objectives

1

To optimise returns and create value from a balanced portfolio

2

To grow recurring earnings and cash flow

3

To attract, retain and develop talented employees

4

To design, deliver and operate our buildings responsibly

5

To maintain strong and flexible financing

The Section 172(1) Statement continued

Factoring our stakeholders into our decisions

The three case studies below are examples of how the Board has factored stakeholders into its decisions in 2023.



Strathkelvin Retail Park

Engagement and communication with our occupiers is integral in order to ensure all needs and demands are consistently considered and met.

The Strathkelvin Retail Park in Bishopbriggs, near Glasgow, totals over 313,000 sq ft and has near full occupancy. Occupier feedback was received that smaller retail units are more desirable in comparison to larger floor-plates and that there were opportunities to improve the wider public realm surrounding the retail park to improve the user experience and prioritise stakeholder needs.

In response, the Board approved capital expenditure of £20.2m to refurbish the retail park, including:

- the subdivision of a larger unit into three smaller units providing 129,643 sq ft of lettable space and preserving c.£1.33m pa of income and a highly valued occupier relationship; and
- public realm improvements to the car park, pathways and signage to improve congestion, wayfinding and ensure safety of pedestrians.

It is expected that the works will be completed during 2024.



Diversity and inclusion

Creating an inclusive and diverse environment is paramount to ensuring all employees feel supported. The 2022 employee 'pulse survey' showed that 84.1% of employees strongly agreed that Derwent London is an inclusive place to work. Whilst this is an excellent outcome, we continually seek opportunities to improve and provide an even more inclusive workspace for our employees.

During 2023, the Responsible Business Committee approved our membership of the Business Disability Forum and for us to complete stage one of the Disability Smart Audit, in the form of a Business Disability Self-Assessment. The results of the self-assessment were shared with the Committee and an action plan for implementing the recommendations was agreed. The Committee, and Board, will monitor our progress during 2024.

We also launched a range of wellbeing sessions on a variety of inclusivity topics including, but not limited to, neurodiversity and mental health awareness. All sessions were well attended and received positive feedback.

During 2024, the Group's wellbeing strategy will continue to be an area of focus with actions implemented by employee-led working groups.

Investor meetings

253

we engaged with 72% of our shareholder register during 2023

Conferences

12

during 2023, we attended 12 property conferences

Property tours

73

during the year we hosted 73 property tours

Occupiers

104

occupiers engaged with as part of our work to reduce energy usage (44% of ERV)



DL/Service at The White Chapel Building E1

DL/ Service

We recognise the important role that design-led, well-located and amenity-rich offices play in attracting and retaining talent. In response to feedback from occupiers, in 2023 we introduced DL/Service, a food and beverage offering, at four of our buildings – The Featherstone Building EC1, DL/28, The White Chapel Building E1 and White Collar Factory EC1.

DL/Service offers our occupiers a diverse all-day menu and preferential pricing for our community of Members. Operated in partnership with a third party service provider (at cost to Derwent London), we have flexibility to update the offering to suit evolving occupier requirements. Early feedback has been positive, with the additional amenity well received by occupiers.

Division of responsibilities

Board roles

There is clear division between executive and non-executive responsibilities which ensure accountability and oversight. The roles of the Chairman and Chief Executive are separately held and their responsibilities are well defined, set out in writing and subject to review by the Board.

Chairman, Mark Breuer

- Responsible for the effective running of the Board and ensuring it is appropriately balanced to deliver the Group's strategic objectives
- Promote a boardroom culture that is rooted in the principles of good governance and enables transparency, debate and challenge
- Ensure that the Board as a whole plays a full and constructive part in the development of strategy and that there is sufficient time for boardroom discussion
- Effective engagement between the Board, its shareholders and other key stakeholders

Chief Executive, Paul Williams

- To provide clear and visible leadership
- Execute the Group's strategy and commercial objectives together with implementing the decisions of the Board and its committees
- To keep the Chairman and Board apprised of important and strategic issues facing the Group
- To ensure that the Group's business is conducted with the highest standards of integrity, in keeping with our culture
- Manage the Group's risk profile and ensure actions are compliant with the Board's risk appetite
- Investor relation activities, including effective and ongoing communication with shareholders

Senior Independent Director, Helen Gordon

- Provide a 'sounding board' for the Chairman in matters of governance or the performance of the Board
- Available to shareholders if they have concerns which have not been resolved through the normal channels of communication
- To at least annually lead a meeting of the Non-Executive Directors without the Chairman present to appraise the performance of the Chairman
- To act as an intermediary for Non-Executive Directors when necessary and act as Chairman if the Chairman is conflicted
- To act as an independent point of contact in the Group's whistleblowing procedures

Chief Financial Officer, Damian Wisniewski

- Support the CEO in developing and implementing strategy
- Provide financial leadership to the Group and align the Group's business and financial strategy
- Responsible for financial planning and analysis, treasury and tax functions
- Responsible for presenting and reporting accurate and timely historical financial information
- Manage the capital structure of the Group
- Investor relation activities, including communications with shareholders, alongside the CEO

Designated NED for gathering the views of our workforce¹, Dame Cilla Snowball

Cilla Snowball has been designated the NED responsible for gathering the views of our workforce. This is achieved by:

- Attendance at key employee and business events, including property launches and the Summer Party
- Review messages received through the 'Speak up' system from the Group's employees
- Monitor the effectiveness of engagement programmes established for employees
- Monitor the outcome of employee surveys and provide input on their design

Other Executive Directors

- Support the CEO in developing and implementing strategy
- Oversee the day-to-day activities of the Group
- Manage, motivate and develop staff
- Develop business plans in collaboration with the Board
- Ensure that the policies and practices set by the Board are adopted at all levels of the Group
- Investor relation activities, including communications with shareholders, alongside the CEO

Non-Executive Directors (NEDs)

- Provide constructive challenge to our executives, help to develop proposals on strategy and monitor performance against our KPIs
- Ensure that no individual or group dominates the Board's decision making
- Promote the highest standards of integrity and corporate governance throughout the Company and particularly at Board level
- Determine appropriate levels of remuneration for the senior executives
- Review the integrity of financial reporting and that financial controls and systems of risk management are robust

Company Secretary, David Lawler

- Secretary to the Board and its committees
- Develop Board and committee agendas and collate and distribute papers
- Ensure compliance with Board procedures
- Advise on regulatory compliance and corporate governance
- Facilitate induction programmes for Directors and assist with their training and development, as required
- Responsible for communications with retail shareholders and the organisation of the Annual General Meeting
- Available to support all Directors

¹ Cilla Snowball was chosen for this position as she chairs the Responsible Business Committee which oversees stakeholder engagement. The Chairman ensures that all Directors continue to remain engaged with our employees, and challenge and contribute to discussions on workforce engagement.

Appointments to the Board

At Derwent London, we ensure that appointments to our Board are made solely on merit with the overriding objective of ensuring that the Board maintains the correct balance of skills, length of service and knowledge of the Group to successfully determine the Group's strategy. The Nominations Committee report on pages 140 to 143 provides further information on:

- Board composition and Non-Executive Director tenure;
- Board appointments and induction; and
- Succession planning and diversity.

Independence

The Non-Executive Directors play an important role in holding to account the performance of executive management and ensuring that no individual or group dominates the Board's decision making. It is therefore of paramount importance that their independence is maintained. To safeguard their independence, Non-Executive Directors are not permitted to serve more than three three-year terms unless in exceptional circumstances (see page 141).

The Board has identified in the table below which Directors are considered to be independent. The Board has reconfirmed that our Non-Executive Directors remain independent from executive management and free from any business or other relationships which could materially interfere with the exercise of their judgement.

The Chairman held a number of meetings with the Non-Executive Directors without executive management being present. These meetings are useful to safeguard the independence of our Non-Executive Directors by providing them with time to discuss their views in a more private environment.

 Related party disclosures / See page 262

External commitments

The Board takes into account a Director's other external commitments when considering them for appointment to satisfy itself that the individual can discharge sufficient time to the Derwent London Board and assess any potential conflicts of interest. Our Directors are required to notify the Chairman of any alterations to their external commitments that arise during their tenure with an indication of the time commitment involved.

When assessing additional directorships, the Board considers the number of public directorships held by the individual already and their expected time commitment for those roles (see biographies on pages 122 and 123).

Executive Directors may accept a non-executive role at another company with the approval of the Board. Currently, none of our Executive Directors are directors of other listed companies. However, several of our Executive Directors are Trustees of charitable organisations or members of industry-related bodies.

All Directors have confirmed (as they are required to do annually) that they have been able to allocate sufficient time to discharge their responsibilities effectively (see page 120 for Board meeting attendance).

The 2023 Board evaluation conducted by Helen Gordon, Senior Independent Director, also considered whether each Director had sufficient time to discharge their responsibilities effectively at Derwent London (see page 137).

Other publicly listed appointments

The Board takes into account guidance published by institutional investors and proxy advisers as to the maximum number of public appointments which can be managed efficiently. For the table below, we have used the methodology contained in the ISS UK and Ireland Proxy Voting Guidelines in respect of 'overboarding' to calculate our Non-Executive Directors' mandates in respect of their publicly listed appointments. Any person who holds more than five mandates at listed companies would be classified as 'overboarded'. The Board confirms that none of our Directors are overcommitted and are capable of discharging sufficient time to Derwent London.

	Independent	Non-Executive Director		Board Chairman		Executive Director		Total Mandates ¹
		Appointments	Mandates	Appointments	Mandates	Appointments	Mandates	
Mark Breuer	Yes	–	–	Derwent London plc DCC plc	4	–	–	4
Claudia Arney	Yes	Derwent London plc Kingfisher plc	2	Deliveroo plc	2	–	–	4
Lucinda Bell	Yes	Derwent London plc Man Group Plc	2	–	–	–	–	2
Helen Gordon	Yes	Derwent London plc	1	–	–	Grainger plc	3	4
Sanjeev Sharma	Yes	Derwent London plc	1	–	–	M&G Real Estate	3	4
Cilla Snowball	Yes	Derwent London plc Whitbread PLC	2	–	–	–	–	2

¹ Inclusive of their appointment at Derwent London plc. For the purposes of calculating the number of total mandates: a non-executive directorship counts as one mandate, a non-executive chairmanship counts as two mandates, and a position as executive director (or a comparable role) is counted as three mandates.

Composition, succession and evaluation

Board composition and knowledge

Our Board is a diverse and effective team, focused on promoting the long-term success of the Group for the benefit of all stakeholders. Further information on Board composition is on pages 141 and 143.

100%
Board meeting attendance
during 2023

60%
Independence of the Board

50%
of our Board are women

9.1%
of the Board is from an
ethnic minority group

Training

With the ever-changing environment in which Derwent London operates, it is important for our Executive and Non-Executive Directors to remain aware of recent, and upcoming, developments. We require all Directors to keep their knowledge and skills up to date and include training discussions with the Chairman in their annual performance reviews.

As required, we invite professional advisers to provide in-depth updates. Updates and training are not solely reserved for legislative developments but aim to cover a range of issues including, but not limited to, market trends, the economic and political environment, environmental, technological and social considerations.

Our Company Secretary provides regular updates to the Board and its committees on regulatory and corporate governance matters. In addition, we invite our Directors to attend courses hosted by the Deloitte Academy and PwC.

During 2023

- The Audit Committee received training on the International Sustainability Standards Board (IFRS S1 and IFRS S2) climate disclosure requirements and Energy Certificate Performance (EPC) improvements.
- The Risk Committee reviewed a legal update on upcoming legislative changes in November.
- All Directors attended regular external briefing sessions from the major accountancy firms.
- All employees (including Directors) participated in online compliance training courses on a range of topics including competition law, conflicts of interest, anti-bribery and cyber fraud awareness.

➔ Compliance training / See page 165

Board skills and experience

The chart below provides an overview of the skills and experience of our Directors as at 31 December 2023. To be counted for each skill area, a Director is required to have executive or senior management experience.

Executive or strategic leadership	4	6
Property, real estate or construction	4	3
CFO, accountancy or audit	1	3
Financial markets, investment banking or capital projects	4	5
Risk management	2	5
Health and safety	2	4
Environmental (including climate change)	3	3
Corporate responsibility or community relations	1	4
Investor relations and engagement	4	6
Governance, legal or compliance	2	6
Remuneration, human resources or people management	2	5
Technology, digital, data or cyber security	1	2

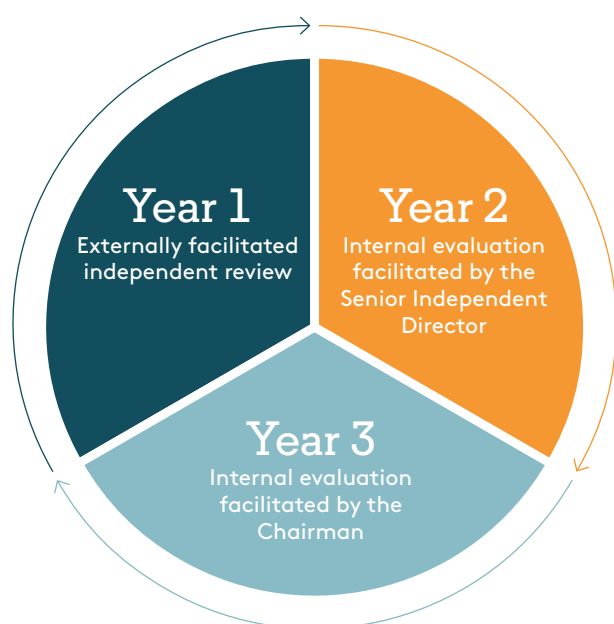
For the skill areas in which our Directors have less experience at an executive-level, we provide training and regular updates either to the entire Board or to specific committees.

■ Executive Director
■ Non-Executive Director

➔ Board biographies / See pages 122 and 123

Annual Board evaluation

On an annual basis, an evaluation process is undertaken which considers the effectiveness of the Board, its principal committees and individual Directors. This review identifies areas for improvement, informs training plans for our Directors and identifies areas of knowledge, expertise or diversity which should be considered in our succession plans. The Board follows a formal three-year cycle that was developed to enable reviews to be led from a fresh perspective, each year.



Evaluation for the year ended 31 December 2022

The 2022 Board evaluation was externally facilitated by Manchester Square Partners LLP and was outlined in the 2022 Report & Accounts on page 149. As a result of this evaluation, the Board identified a number of areas which it wished to focus upon during 2023:

Focus area	Actions during 2023
Succession and talent development	The Nominations Committee continued to focus on succession planning and talent development across the Group (see page 142)
Board skills matrix	A specification was prepared for the appointment of a new Non-Executive Director. The specification outlined a detailed composition review of the Board, including its skills, experience, and diversity
Site visits and Board meetings	During the year a number of site visits were held across the portfolio. The Board held a meeting at DL/28, the new amenity at The Featherstone Building

Evaluation for the year ended 31 December 2023

The 2023 Board evaluation was internally facilitated by Helen Gordon, our Senior Independent Director, who was informed by the recommendations arising from the 2022 external Board evaluation. The process covered the following areas:

- Role of the Board
- Effective use of committees
- The Board's understanding of purpose and values
- Board skills
- Executive succession
- The Board's understanding of business
- Strategy review and execution monitoring
- Horizon scanning for risk and resilience
- Agenda planning
- Assurance
- Stakeholders' perspective

Feedback from the 2023 Board evaluation

As a result of the evaluation, the Board confirmed that its structure, balance of skills and operation continues to be satisfactory and appropriate for the Group. Overall, the feedback of the internal evaluation was positive from all Board members, however, for continuous improvement the Board identified a number of focus areas for 2024 arising from the evaluation:

- A wider range of outside voices to be brought into the boardroom.
- To hold a broader debate on risk appetite.
- Further discussions around the use of artificial intelligence and technology.
- Further interaction and engagement between the Board and wider workforce.

Re-election of Directors

In accordance with the Code, all Directors (excluding Claudia Arney) will be putting themselves forward for re-election at the AGM on 10 May 2024. Following the formal performance evaluation (detailed above) and taking into account the Directors' skills and experience (set out on page 136), the Board believes that the re-election of each Director is in the best interests of the Company.

Evaluation for the year ending 31 December 2024

In accordance with our three-year cycle, the performance evaluation for the year ending 31 December 2024 will be internally facilitated by Mark Breuer, our Chairman.

Key activities of the Board during 2023

Overview

The Board met six times during the year (including the Annual General Meeting). Additional meetings are arranged if necessary for the Board to properly discharge its duties. An overview of our Board's key activities is provided below.

Property portfolio	Strategy and financing	Risk management and internal control
<ul style="list-style-type: none"> Approved the refurbishment of the Strathkelvin Retail Park inclusive of the subdivision and wider public realm improvements Capital expenditure approval for £18.7m at the Solar Park in Scotland Received regular updates on key construction projects Reviewed the portfolio pipeline for future acquisitions and disposals Continued to invest across the portfolio on various upgrades including in respect of EPC ratings Regular updates from the Asset and Property Management teams on the portfolio 	<ul style="list-style-type: none"> Ongoing updates from the Executive Directors on the implementation of strategy throughout the year, including a Board Strategy Awayday in June Received regular updates on lease expiries and potential vacancies Reviewed and approved the Group's five-year plan and forecast Reviewed quarterly project cost reports Approved the portfolio valuation as at 30 June 2023 and 31 December 2023 Approved the 2023 interim and final dividends 	<ul style="list-style-type: none"> Updates from the Risk and Audit Committee Chairs on the key areas discussed Routinely considered the Board's conflict of interests Regular reports received on health and safety matters Received assurance reports from Deloitte in respect to environmental reporting and green finance Reviewed the compliance training completion rates and approved the 2023/2024 training programme Conducted regular 'deep dive' analysis of the share register in line with the UK sanctions regime Approved the Group's model for internal audit services
Strategic objectives: 1 2 4	Strategic objectives: 1 4 5	Strategic objectives: 2 3 4

	Jan	Feb	Mar	Apr	May
Board and committee meetings	Remuneration Committee	Audit Committee & Valuers meeting Executive Committee Main Board Remuneration Committee	Remuneration Committee	Executive Committee Risk Committee	Annual General Meeting Audit Committee Main Board Responsible Business Committee
Key announcements and activities	Sale of 19 Charterhouse Street EC1	Full year results announcement	Investor meetings	2022 Report & Accounts and Notice of AGM	Q1 Business update

Key to strategic objectives

- 1 To optimise returns and create value from a balanced portfolio
- 2 To grow recurring earnings and cash flow
- 3 To attract, retain and develop talented employees
- 4 To design, deliver and operate our buildings responsibly
- 5 To maintain strong and flexible financing

Corporate reporting and performance monitoring	Stakeholder engagement	Governance
<ul style="list-style-type: none"> Reviewed the rolling forecasts and approved the 2024 budget Received updates on the Group's Net Zero Carbon Pathway to 2030 Approved the full year and interim results Approved the Q1 and Q3 business updates Reviewed the 2023 Report & Accounts to ensure it is fair, balanced, and understandable Published our annual Responsibility Report Our Senior Independent Director, Helen Gordon, conducted the 2023 internal Board evaluation 	<ul style="list-style-type: none"> Hosted the Annual General Meeting (AGM) on 12 May 2023 Invited all shareholders to engage in the external audit tender Received updates from the Responsible Business Committee on the Group's sustainability and stakeholder initiatives Reviewed the results of the biennial employee survey Appointed Unseen UK to conduct a gap analysis on our modern slavery policies and procedures Conducted a Disability Survey and became members of the Business Disability Forum Received updates on our investor engagement programmes and regular investor relations reports Held an analyst/investor launch event at the new amenity space, DL/28 	<ul style="list-style-type: none"> Performed a review of the Board committees' memberships, led by the Chairman Monitored the FRC's consultation on the UK Corporate Governance Code Approved the 2023 Modern Slavery Statement Implemented the recommendations and focus areas arising from the 2022 Board evaluation Approved the reappointment of PwC for the 2024 year end audit Reviewed succession planning and talent development across the business Adopted the 2023 Performance Share Plan following its approval at the 2023 AGM Received regular governance updates from the Company Secretary
Strategic objectives: 1 2 5	Strategic objectives: 3 4	Strategic objectives: 1 3

June	Jul	Aug	Sep	Oct	Nov	Dec
Main Board (Strategy Awayday)	Executive Committee	Audit Committee & Valuers meeting Main Board Risk Committee	Executive Committee	Main Board Nominations Committee Remuneration Committee	Audit Committee Executive Committee Risk Committee	Main Board Remuneration Committee Responsible Business Committee
		Unaudited interim results	Portfolio site tour with Board and members of senior management		Q3 Business update DL/28 analyst/ investor launch event	

NOMINATIONS COMMITTEE REPORT



Mark Breuer
Chair of the Nominations Committee

2024 Focus areas

- Recruit a new Non-Executive Director in H1 2024
- Continue to monitor the talent development pipeline
- Further discuss the long-term succession of senior executives
- Ensure a smooth transition of responsibility to Sanjeev Sharma as he succeeds Claudia Arney as Remuneration Chair from 10 May 2024

Committee membership during 2023

	Independent	Number of meetings	Attendance ¹
Mark Breuer	Yes	2	100%
Claudia Arney	Yes	2	100%
Lucinda Bell	Yes	2	100%
Helen Gordon	Yes	2	100%
Sanjeev Sharma	Yes	2	100%
Cilla Snowball	Yes	2	100%

¹ Percentages are based on the meetings entitled to attend for the 12 months ended 31 December 2023.

Dear Shareholder,

I am pleased to present an overview of the Committee's work during 2023. The Committee has principally focused on succession planning and the recruitment of a Non-Executive Director.

Board changes

Claudia Arney will step down from the Board at the 2024 AGM as she reaches her ninth year anniversary. The Board thanks Claudia for all her support and valuable contributions over the years. Sanjeev Sharma who is currently a member of the Remuneration Committee, will take over responsibility for chairing the Remuneration Committee from 10 May 2024.

During H1 2024, the Committee will recruit a new Non-Executive Director. Further information is on page 142. To ensure we have the correct skills and experience, the Committee has prepared a specification for a new Non-Executive Director based on the Board's skills, experience and diversity.

Executive development and succession planning

I am delighted to see a number of internal promotions as well as the strengthening of teams through external appointments. Derwent London's talented and diverse employees are a key asset and as such, the Committee met regularly to review succession and talent development plans.

During 2023, the Committee has focused on succession planning particularly in respect to the Executive Directors.

Diversity and inclusion

The Board is fully compliant with the diversity recommendations arising from the Parker Review and the FTSE 350 Women Leaders Review (see page 143). In respect to ethnic diversity, we are mindful that this remains a focus area so that we can further harness its benefits.

In accordance with the latest Parker Review recommendations, we are setting a target for the percentage of our senior management team self-identifying as being of an ethnic minority by December 2027. Due to being a relatively small company in respect to the number of people we employ, we feel the target we have set is challenging but realistic.

Further engagement

If you wish to discuss any aspect of the Committee's activities, I will be attending the forthcoming AGM on 10 May 2024 and would welcome your questions. I am also available via our Company Secretary, David Lawler.

Telephone: **+44 (0)20 7659 3000** or

Email: company.secretary@derwentlondon.com

Mark Breuer
Chair of the Nominations Committee
27 February 2024

Committee composition and performance

Our Committee consists of five independent Non-Executive Directors as well as our independent Chairman (biographies are available on pages 122 and 123). At the request of the Committee, members of the Executive Committee, Executive Directors, members of the senior management team and external advisers may be invited to attend all or part of any meeting, as and when appropriate. During the year under review, the Committee held two meetings (2022: three meetings).

On a regular basis, the Nominations Committee considers the composition of the Board and its committees in terms of its balance of skills, experience, length of service, knowledge of the Group and wider diversity considerations; alongside considering whether each Non-Executive Director has sufficient time to discharge their duties (see page 135).

The Committee did not identify any material skill gaps on the Board or its committees, but agreed that Cilla Snowball should be appointed to the Audit Committee in August. An overview of the Board's skills, experience and knowledge is on page 136.

The Committee's role and responsibilities are set out in the terms of reference, which were last updated in November 2023 and are on the Company's website at: www.derwentlondon.com/investors/governance/board-committees

The 2023 evaluation of the Board, its committees and individual Directors was internally facilitated by the Senior Independent Director, Helen Gordon, in accordance with our three-year cycle of evaluations (see page 137). The review confirmed that the Committee continues to operate effectively, with no significant matters raised.

The table below provides an overview of the composition of the Board's five principal committees as at 31 December 2023. Further information on the Board's diversity is on page 143.

Board and committee composition

	Audit	Risk	Remuneration	Nominations	Responsible Business
Mark Breuer				Chair	
Claudia Arney	✓		Chair	✓	✓
Cilla Snowball	✓	✓		✓	Chair
Helen Gordon		Chair	✓	✓	
Lucinda Bell	Chair	✓	✓	✓	
Sanjeev Sharma	✓	✓	✓	✓	
Number of independent NEDs:	4	4	4	6	2
Number of Executive Directors:	–	–	–	–	1
Number of employee representatives:	–	–	–	–	4
Total membership:	4	4	4	6	7

Following the Committee's review, it was confirmed that the membership of the five principal committees continues to be appropriate, effective and in accordance with the 2018 UK Corporate Governance Code.

Non-Executive Directors' tenure

The Committee monitors a schedule of the Non-Executive Directors' tenure and reviews potential departure dates assuming the relevant Directors are not permitted to serve more than three three-year terms (nine years) from their appointment date, unless in exceptional circumstances (see the chart below).

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Claudia Arney ¹																	
Cilla Snowball																	
Helen Gordon																	
Lucinda Bell																	
Mark Breuer																	
Sanjeev Sharma																	

¹ Claudia Arney will step down from the Board at the 2024 AGM.

Succession planning

As Directors we have a duty to ensure the long-term success of the Company, which includes ensuring that we have a steady supply of talent for executive positions and established succession plans for Board changes.

Executive and Non-Executive Director succession

The Committee considers the Group’s succession planning on a regular basis to ensure that changes to the Board are proactively planned and coordinated. During the year, the Committee had a detailed discussion on the succession of the Executive leadership team.

The Committee continues to monitor the Non-Executive Directors’ tenure (see page 141). To identify and capture any future requirements for Non-Executive Directors, the Committee has prepared a specification following a detailed composition review of the Board, including of its skills, experience and diversity.

Claudia Arney will step down at the 2024 AGM as she reaches her ninth year on the Board. The Committee has facilitated an effective handover of responsibility to Sanjeev Sharma who will succeed Claudia Arney as Remuneration Chair from 10 May 2024. The Committee is aware that Dame Cilla Snowball will also be approaching her ninth anniversary on the Board during 2024.

Board appointments

The Committee is responsible for leading the recruitment process for new Directors. Generally, the Committee will utilise an external search consultancy when recruiting a Chairman for the Board or a new Non-Executive Director. During the year under review, there have not been any new appointments made to the Board but the recruitment process has commenced for a new Non-Executive Director.

The Board’s appointment policy requires that, where possible, each time a Director is recruited at least one of the shortlisted candidates is female and at least one of the candidates is from an ethnic minority group. Whilst we have identified areas where we could further improve our diversity balance, principally our ethnic diversity, we do not positively discriminate during the recruitment process.

The Company provides new Directors with a comprehensive and tailored induction process which includes visiting a number of the Group’s properties, meetings with the Group’s audit partner and corporate lawyer, together with meetings with the Executive Directors, Executive Committee and senior management.

Induction programmes are developed by the Group’s Company Secretarial team and approved by the Chairman. If considered appropriate, new Directors are also provided with external training that addresses their role and duties as a Director of a quoted public company. We aim to limit the amount of information provided as reading material during an induction process. All new Directors are provided with access to our electronic Board paper system.

Appointment review

As Mark Breuer and Helen Gordon reached the end of their current three-year terms, the Committee performed a rigorous review of their appointments. Mark and Helen were not present when their terms of appointment were considered by the Committee, respectively. The Committee is pleased to report that it is satisfied with both Mark’s and Helen’s ongoing performance and commitment and has recommended that their appointments be extended for another three years.

Executive Committee

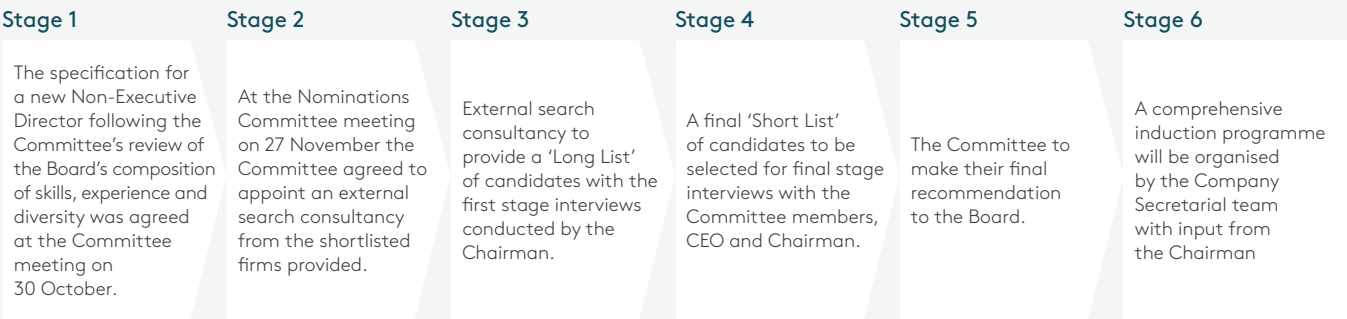
The Group’s talent pipeline has been strengthened through a number of internal promotions. During the year, Richard Dean (Director of Investment) joined the Executive Committee.

As at 31 December 2023, the composition of the Executive Committee consists of four Executive Directors, the Company Secretary and 10 senior managers. The gender diversity composition of the Executive Committee is now 40% female, achieving the FTSE 350 Women Leaders Review target of 40% (see page 143).

Senior management

The Executive Directors are responsible for the Group’s succession plans below the Board. The Committee receives periodic updates on these succession plans and monitors the development of the Executive management team below the Board, to ensure that there is a diverse supply of senior executives and potential future Board members with appropriate skills and experience.

Non-Executive Director recruitment process



The Board confirms that the external search consultancy was appointed free from any conflicts of interest.

Board diversity

A diversified Board brings constructive challenge and fresh perspectives to discussions. We consider diversity, in its widest sense (and not limited to gender), during our Board and committee composition reviews and the development of recruitment specifications during recruitment.

The Listing Rules include specific diversity targets which require companies to report against on a 'comply or explain' basis.

Target	Compliance
At least 40% of the Board are women	50.0% of our Board are women
At least one of the senior Board positions is held by a woman	Helen Gordon is our Senior Independent Director
At least one member of the Board is from a minority ethnic background	Sanjeev Sharma joined the Board in October 2021

Ethnic diversity

The Parker Review continues to monitor and champion ethnic diversity on boards. During 2023, the Parker Review issued the results of the 2022 voluntary census. Derwent London achieved the 2024 target in 2021 with the appointment of Sanjeev Sharma to the Board. Within the FTSE 250, 224 companies responded to the Parker Review questionnaire, with 149 out of the 224 (67%) currently meeting the December 2024 target.

During the results publication of the 2022 voluntary census the Parker Review published a new recommendation for a December 2027 target. In accordance with these latest recommendations, we are setting a target of at least 15% of our senior management team self-identifying as being of an ethnic minority by December 2027. In accordance with the Parker Review we have defined our senior management team as being our Executive Committee (inclusive of Executive Directors) and our senior managers (see pages 122 to 125). The Board recognises that this is a challenging but realistic target. As at 31 December 2023, we had 26 managers in our senior management team of which three self-identify as being of an ethnic minority (11.5%).

Throughout the year, the Diversity and Inclusion Working Group (D&I Working Group) has established initiatives and events which focused on further harnessing, and celebrating, the benefits of diversity. Further information on the actions of the D&I Working Group is on page 168.

FTSE Women Leaders Review

During 2022, the FTSE 350 Women Leaders Review published its recommendations which aim to further female representation on boards beyond the Hampton-Alexander Review targets, increasing the target from 33% to 40%.

We are pleased that Derwent London's efforts to actively promote the importance of diversity has ensured our Board and senior management teams achieve the targets set by the FTSE 350 Women Leaders Review, the Listing Rules and the Parker Review.

50.0%

Women on the Board
Target: 40%

40.0%

Women on the Executive Committee¹
Target: 40%

80.0%

Female Non-Executive Directors²
Target: 40%

45.6%

Female direct reports of the Executive Committee³
Target: 40%

¹ The combined diversity balance of the Executive Committee and its direct reports (excluding administrative and support staff) is 44.4% women.

² Independent Non-Executive Directors, excluding the Chairman.

³ Direct reports to the Executive Committee, excluding administrative and support staff, is 45.6% women. Direct reports to the Executive Committee, including administrative and support staff, is 53.7% women.

AUDIT COMMITTEE REPORT



Lucinda Bell
Chair of the Audit Committee

2024 Focus areas

- Ensure a smooth and effective transition to Thomas Norrie at PwC, as the new Lead Audit Partner
- Continue to monitor the internal control framework and its effectiveness
- Monitor the performance of the new in-house internal audit function
- Oversee the implementation of a new finance system which is expected to commence in 2024
- Monitor the transition from Savills to Knight Frank as Valuers of the Scottish land

Committee membership during 2023

	Independent	Number of meetings ¹	Attendance ²
Lucinda Bell	Yes	4	100%
Claudia Arney ³	Yes	4	100%
Sanjeev Sharma	Yes	4	100%
Cilla Snowball ⁴	Yes	2	100%

- ¹ In addition to the scheduled meetings, a number of extra meetings were held for the external audit tender.
- ² Percentages are based on the meetings that each member is entitled to attend for the 12 months ended 31 December 2023.
- ³ Claudia Arney will be stepping down from the Board at the 2024 AGM.
- ⁴ Cilla Snowball was appointed as a member of the Audit Committee on 1 August 2023.

Dear Shareholder,

I am pleased to provide you with an overview of the Committee's main activities and areas of focus.

External audit tender

During the year, the Committee conducted a competitive tender for the Group's external Auditor. The Committee was mindful of best practice and ensured that the tender was conducted in accordance with the Audit Committees and the External Audit: Minimum Standard (see page 150).

An invitation was extended to all shareholders for their engagement in the tender, however, no responses were received. Overall, the Committee has found the tender process informative and gained further insight on audit quality. Following a comprehensive discussion, the Board approved the reappointment of PwC as external Auditor for the 2024 year end audit (see pages 150 and 151).

Portfolio valuation and the latest guidance from the Royal Institution of Chartered Surveyors (RICS)

Due to its importance, the Committee considers the valuation of the Group's property portfolio to be a principal area of judgement. During 2023, the Committee reviewed the latest guidance published by RICS, following the independent review performed by Peter Pereira Gray, and approved an amendment to its Valuer Policy. Following the change of valuers in 2022, the vast majority of our valuation was in compliance with the new rules. However, to ensure full compliance, the valuation of our Scottish land will be conducted by Knight Frank from June 2024.

Climate change and ESG disclosures

A continuing focus area for 2023 was climate change matters in respect of our financial statements and portfolio valuation. The Committee reviewed the assurance provided by Deloitte on our ESG disclosures and Green Finance Framework. For further information on assurance over external reporting see pages 154 and 155.

Internal controls and internal audit

The Committee is responsible for reviewing the robustness of the Group's internal controls, in partnership with the Risk Committee (see pages 148 and 149). Positive progress has been made to further strengthen our controls during the year. During 2024, the Committee will continue to review the internal control environment, particularly as new systems are introduced. Since 2018, RSM have been the Group's outsourced internal auditors. As the Group's internal control framework continues to mature, the Committee reviewed the provision of internal audit and decided to bring the function in-house with Julie Schutz being appointed as the Head of Internal Audit.

Further engagement

If you wish to discuss any aspect of this report, please contact me via our Company Secretary, David Lawler.

Telephone: **+44 (0)20 7659 3000** or

Email: **company.secretary@derwentlondon.com**

Lucinda Bell
Chair of the Audit Committee
27 February 2024

Committee composition and performance

During the year under review, the Committee was composed of independent Non-Executive Directors with a wide range of experience, including real estate and finance (biographies are available on pages 122 and 123).

The Board considers that the Committee (including its Chair, Lucinda Bell) is composed of a sufficient number of financial experts, with an appropriate level of recent and relevant financial experience, to discharge its duties. At the request of the Committee Chair, meetings are attended by the Board Chairman, internal and external Auditors, and members of the Group's senior management team. In addition, Deloitte regularly attends meetings when ESG assurance is discussed. To further facilitate open dialogue, the Committee holds private sessions with the Auditors without members of management being present.

During 2023, the Committee held four scheduled meetings (2022: three meetings) two of which included an update from the Group's external property valuers. A number of additional meetings were held during the year as part of the external audit tender process (see page 150). In addition, the Risk Committee held four meetings during 2023.

The Committee's role and responsibilities are set out in the terms of reference, which were last updated in August 2023. Following the publication of the 2024 UK Corporate Governance Code, the Committee's terms of reference will be updated in 2024. The Audit Committee terms of reference are available on the Company's website at: www.derwentlondon.com/investors/governance/board-committees

The 2023 evaluation of the Board, its committees and individual Directors was internally facilitated by Helen Gordon, Senior Independent Director, in accordance with our three-year cycle of evaluations (see page 137). The review confirmed that the Committee continues to operate effectively, with no significant matters raised.

Financial reporting

One of the Committee's principal responsibilities is to review and report to the Board on the clarity and accuracy of the Group's financial statements, including the annual Report & Accounts and interim statement. When conducting its reviews, the Committee considers the overall requirement that the financial statements present a 'true and fair view' and the following:

- the accounting policies and practices applied (see note 43 on pages 272 to 276) including in respect to any significant transactions during the year;
- material accounting assumptions and estimates made by management (see note 3 on pages 221 to 223);
- significant judgements and key audit matters identified by the external Auditor (see page 146 and pages 207 to 209);
- the effectiveness and application of internal financial controls (see pages 148 and 149); and
- compliance with relevant accounting standards and other regulatory financial reporting requirements including the UK Corporate Governance Code and European Single Electronic Format (ESEF) requirements.

2024 UK Corporate Governance Code (the Code)

The FRC conducted a consultation during 2023 and subsequently published the updated Code in January 2024. Overall, the Committee remains confident in the Group's compliance with the existing Code, and will work closely with Julie Schutz, Head of Internal Audit, to ensure requirements of the new Code are addressed in advance of applicable dates.

Review of the 2023 Report & Accounts

At the request of the Board, the Committee was asked to review the Group's Report & Accounts and to consider whether, taken as a whole, it was fair, balanced and understandable. In carrying out its review, the Committee had regard to the following:

Fairness and balance

- Is the report open and honest?
- Are we reporting on our weaknesses, difficulties and challenges alongside our successes and opportunities?
- Do we provide clear explanations of our KPIs and is there strong linkage between our KPIs and our strategy?
- Do we show our progress over time and is there consistency in our metrics and measurements?

Understandable

- Do we explain our business model, strategy and accounting policies simply, using precise and clear language?
- Do we break up lengthy narrative with quotes, tables, case studies and graphics?
- Do we have a consistent tone across the Report & Accounts?
- Are we clearly 'signposting' to where additional information can be found?

Specific considerations for the 2023 Report & Accounts

- Our external audit tender disclosures and confirmation of our compliance with the Audit Committees and the External Audit: Minimum Standard (see pages 150 and 151).
- Whether our restructured climate change section adequately explains the climate-related risks and opportunities facing the Group (see pages 104 to 117).
- The disclosure of our December 2027 target for ethnic diversity in our senior management team in accordance with the Parker Review's latest recommendation (see page 143).

The Committee paid particular attention to these changes to ensure they did not adversely impact on the balance and clarity of the Report & Accounts.

Following its review, the Committee confirmed to the Board that the 2023 Report & Accounts is fair, balanced and provides sufficient clarity for shareholders to understand our business model, strategy, financial position and performance.

AUDIT COMMITTEE REPORT continued

Significant financial judgements, key assumptions and estimates

Any key accounting issues or judgements made by management are monitored and discussed with the Committee throughout the year. The table below provides information on the key issues discussed with the Committee in 2023 and the judgements adopted.

Issue	Assumptions or estimates	Outcome
Valuation of the Group's property portfolio		
Due to its size, nature and the direct impact upon the Group's net asset value, the Committee considers this to be the primary area of judgement in determining the accuracy of the financial statements.	The valuation considers a range of assumptions including future rental income, 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 and take into account the impact of climate change and related Environmental, Social and Governance (ESG) considerations. Where reasonable and measurable, the effects and consequences of climate change are reflected in these financial statements and valuations (see note 16 on pages 233 and 237).	The valuation is performed twice yearly by the external valuers and due to its significance, is also reviewed by the external Auditor. The Committee reviewed the underlying assumptions used in the valuation, including the Group's development property portfolio and property held in joint ventures, in addition to the external valuers' objectivity and methodology. These procedures enabled the Committee to be satisfied with the assumptions and estimates used in the valuation of the Group's property portfolio.
Impairment review		
Sentiment amongst our occupiers continued to improve through 2023, with rent collection levels across the office portfolio close to pre-Covid levels. However, due to the economic situation, with relatively high interest rates and inflation, there remains a heightened risk of financial difficulty among some of our tenants.	Impairment testing of trade receivables and accrued income recognised in advance of receipt has been carried out under IFRS 9 and IAS 36, respectively. This has required estimates to be made in relation to recoverability and the probability of default across our portfolio. Recoverability and estimated probability of default has been judged to be broadly the same as in 2022.	The probability of default was considered using a risk-based approach. In particular, our top 50 tenants, those in administration or CVA or in high risk sectors such as retail and hospitality, were looked at in detail with the remaining balances classified by sector. The review was carried out by the Finance team in conjunction with the Credit Committee and a detailed paper was reviewed by the Audit Committee in February 2024.
Taxation and REIT compliance		
Should the Group not comply with UK REIT regulations, it could incur tax penalties or ultimately be expelled from the REIT regime, which would have a significant impact on the financial statements.	As a REIT, the Group benefits from tax advantages. Income and chargeable gains on the qualifying property rental business are exempt from corporation tax. Income that does not qualify as property income within the REIT rules is subject to corporation tax in the normal way. There are a number of tests that are applied annually, and in relation to forecasts, to ensure the Group remains well within the limits allowed within those tests.	The Group has a qualified and experienced tax team who the Committee meets at least annually. The Committee noted the frequency with which compliance with the tests and regulations was reported to the Board and considered the substantial margin by which the Group complied. Based on this, and the level of headroom shown in the latest Group forecasts, the Committee agreed that sound application of judgement has been made.

Climate change

The Group is committed to be net zero carbon by 2030. The Committee's role is to gain assurance that the effects and consequences of climate change are being adequately reflected in our financial statements and valuations.

Training and assurance

Climate disclosures and emissions reporting can be complex. During 2023, the Committee received training on the following:

- The International Sustainability Standards Board (ISSB) and their sustainability reporting standards – IFRS S1 and IFRS S2. See pages 104 to 117 for the climate-related risks and opportunities we have identified.
- The sustainability effect of Energy Performance Certificate (EPC) improvements on the valuation of our portfolio. Further information on our EPC ratings is on page 115.

The Committee will continue to monitor developing best practice, and seek training/professional guidance when required, to ensure it continues to effectively oversee our reporting in this area.

The Committee receives further assurance through Deloitte's review of selected ESG metrics. During 2023 we reviewed the number of metrics assured by Deloitte and received limited assurance from them in relation to 2023 data (see pages 154 and 155).

Impact on the valuation

Following an independent third party assessment in 2021, approximately £97m of capital expenditure was identified to achieve 2030 EPC compliance across our London commercial portfolio. This has since been revised to £95.3m to reflect the latest scope (change in building regulations), subsequent inflation, disposals and work carried out to date. Of this, Knight Frank made a specific deduction of £48m in their December 2023 external valuation. In addition, further amounts have been allowed for general upgrades between assumed tenant vacancies.

- ➔ Environmental/See pages 46 to 49
- ➔ Net zero carbon/See pages 48 and 49
- ➔ Building climate resilience/See pages 104 to 117

Portfolio valuation

The main area of reporting risk relates to the valuation of our portfolio. Our property portfolio is valued by external valuers for both our interim and year end results. As at 31 December 2023, it was valued at £4.879bn (2022: £5.364bn) and principally consists of 66 properties. Further information on our valuation is on pages 63 to 66.

The valuation of our portfolio is a major component of EPRA net tangible assets (NTA) and is a key determinant for our investors when assessing our performance. Movements in the valuation are a significant part of how we measure our progress and a material determinant of the Group's total return.

Due to its significance, the biannual valuation is overseen by the Audit Committee and also subject to a detailed internal review by our Investment and Valuation team, which consists of experienced and qualified professionals.

Key matters discussed during the meetings in 2023 included:

- The performance of Knight Frank.
- The valuation of our on-site developments; 25 Baker Street W1 and Network W1.
- The impact of the macroeconomy on the valuation.
- How the valuation was taking into account the costs to achieve 2030 EPC compliance and the impact of other climate change factors.
- The valuation of joint venture properties, which was on the same basis as other Derwent London properties.
- Any valuation movements that were not broadly in line with the MSCI indices.

The assumptions underlying the valuation are discussed with the external Auditor and an update on the matters discussed at the meetings is provided to the Board. During the year, RICS published guidance following its 'Independent Review of Real Estate Investment Valuation'. Our Scottish land is a relatively small portfolio that has previously been valued by Savills. However, to ensure full compliance with the latest guidance, it has been agreed that Knight Frank will value the Scottish land from June 2024.

Effectiveness of the Group's valuers

A review into the effectiveness of the external valuers is performed after the year end and interim valuations, with assistance from Nigel George, Executive Director.

The effectiveness review for 2023 was conducted in February and August and considered the following:

- experience, qualification and objectivity of the valuation team;
- quality of presentation and data; and
- robustness of the valuation.

At both meetings it was concluded that the external valuers performed to a high standard and the timetable for delivery was achieved.

Internal audit

The Internal Audit Plan for 2023 was jointly approved by the Risk and Audit Committees and was comprised of risk-based reviews across a range of business areas. Both Committees receive reports on internal audit activity and monitor the status of internal audit recommendations.

During 2023, a formal review of the effectiveness of the internal auditor and the internal audit process was conducted. It was concluded that the process had been conducted effectively and that the independent assurance received through internal audits had been beneficial to the Committee and management. Audits performed during 2023:

- Intelligent buildings implementation and management
- Energy Performance Certificate (EPC) compliance
- Supplier selection and due diligence
- Fraud controls
- IT development controls
- Financial controls

Annual review of the internal audit function

The internal audit function has been outsourced to RSM since December 2018, and they have carried out all reviews during 2023. In line with the Group's commitment to continuously enhance the internal control environment, the Audit and Risk Committees reviewed the model for the provision of internal audit services and decided to bring the function in-house.

Julie Schutz, our new Head of Internal Audit, is a Chartered Accountant with extensive experience in the provision of risk and assurance services across a diverse range of industries. Julie will work closely with the Risk and Audit Committees to develop and deliver a risk-based internal audit programme for 2024. The plan will include a combination of both assurance activities over key risk areas and advisory work, which will support the business in further strengthening its control environment.



“
Internal audit is responsible for fostering a culture of accountability and continuous improvement.

Julie Schutz
Head of Internal Audit

Internal controls

Our internal financial controls environment allows the Company to safeguard its assets, prevent and detect material fraud and errors, and ensure accuracy and completeness of its accounting records which are used to produce reliable financial information. During 2023, we have undertaken the following actions to further strengthen our financial controls:

- Cyber risk continues to be an area of key focus and is subject to independent testing (pages 162 and 163). The Digital Innovation & Technology (DIT) team enhanced our Business Continuity Plan and conducted a full disaster recovery test with minor lessons learned to further resilience.
- Implementation of a new continuous learning approach to cyber awareness. Staff are now completing 'small' modules throughout the year enabling us to raise awareness of new attack methods in real-time and targeting those at heightened risk due to their role type.
- Ongoing documentation, review and enhancement of key financial processes and controls as part of the Internal Controls Project.
- Implementation of a new HR solution to automate workflows and introduce more preventative controls. The payroll module is to go live during 2024.
- Development of a new supplier set-up portal to strengthen controls by automating due diligence checks.

Effectiveness review

The Committee receives detailed reports on the operation and effectiveness of the internal financial controls from members of the senior management team and our internal auditors. In addition, the outcome of the external audit at year end and the half year review are considered in respect of ongoing enhancements to internal controls.

On an annual basis, the Committee reviews the Group's fraud risk management framework, of which a fraud risk assessment is a key component. The framework helps management assess and improve upon its fraud resilience measures across a range of key components, while the risk assessment sets out the detailed controls which safeguard the Company's assets and help prevent and detect fraud and errors. A heat map summarises residual risk scores based on the fraud risk assessment, and those risks with scores above tolerance levels have action plans in place to help further mitigate the residual risk.

As training and staff awareness forms part of the Group's internal control framework, the Risk Committee receives updates on key policies and procedures in place and how these are being communicated to, and complied with, by our staff. Further information is on pages 159 and 165.

Following the Audit and Risk Committees' reviews (see page 92), the Chairs of each Committee confirmed to the Board that they are satisfied that the Group's internal control framework (financial and non-financial) and risk management procedures:

- operated effectively throughout the period; and
- are in accordance with the guidance contained within the FRC's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting.

Internal financial controls

Our internal financial controls operate within the following control environment and context:

- **Company culture:** We have a defined set of values and strategic objectives that are supported by a Code of Conduct and Business Ethics which creates an environment that values integrity, openness, transparency and building long-term relationships. Our culture promotes collaboration and encourages employees to ask questions and challenge decisions.
- **Workforce:** Our flat structure and modest headcount (relative to asset values) allows for the close supervision and monitoring of activity by members of the Executive Committee.
- **Group structure:** Relatively simple and transparent Group legal structure with relatively few subsidiaries and joint ventures.
- **Income/costs:** Rent, service charge, administrative costs (mainly salaries), interest and other finance costs are predictable. Quarterly management accounts are prepared that analyse income and expenditure and compare them with the prior year and budget, with unexpected variances investigated and explained.
- **Capital costs:** The largest costs incurred relate to capital expenditure. All capex on investment properties is approved and, where material, is subject to external confirmation, before being paid. These approved budgets are monitored internally.

Overview of internal financial controls:

Governance framework	Our governance framework (see page 127) supports effective internal control through an approved schedule of matters reserved for decision by the Board and the Executive Directors, supported by defined responsibilities, levels of delegated authority and supporting committees.
Risk identification and monitoring	Management regularly review and assess key risks facing the Group, including scenarios which could result in material financial and/or tax fraud or errors. Key risks are documented in risk registers, along with a schedule of key controls and key risk indicators. The schedule of key controls provides evidence of how the controls are being operated, their effectiveness and areas of potential weakness and further improvement. Risk management activities are overseen by the Risk Committee, and their report is on pages 156 to 165.
Financial controls	Comprehensive systems of financial control are in place including an annual budgeting exercise with three rolling forecasts, as well as a five-year strategic review. Breakeven and sensitivity analyses are included in both the five-year review and the rolling forecasts, with quarterly variance analysis performed between budget and actuals. A range of both preventative and detective controls, including segregation of duties, reconciliations, approvals, management reviews and exception reporting helps ensure accuracy and completeness of financial records.
Treasury and tax controls	Treasury activities are controlled by the Chief Financial Officer and Group Financial Controller. All large and/or complex transactions are discussed in advance with the Board and Executive Directors, executed in line with delegated authority levels and externally reviewed by our advisers. Taxation is a complex area and is subject to frequent external review. Corporate tax returns are prepared by the Tax Analyst, reviewed and prepared internally by senior members of the tax department and externally by RSM on a sample basis. Other higher risk areas like VAT, PAYE and CIS are subject to thorough examination and testing. We maintain an open relationship with HMRC who assessed our tax status in 2023 as 'low risk' in all categories. Further information on tax governance is on page 58.
IT controls	IT general controls are a fundamental part of the financial control environment and apply to applications, databases and operating systems. They ensure appropriate access to, and integrity of our data, which ultimately flows through to the financial statements. A robust system of back up is in place to protect against the potential loss or corruption of data against the backdrop of ever-evolving cyber threats.
Training and staff awareness	Key policies and procedures are available to employees on our Group intranet. Employees are required to confirm their understanding of our key internal policies upon joining, and periodically thereafter as required for compliance purposes. Cyber risk training is delivered throughout the year to help maintain high levels of staff awareness and core system training is delivered when new systems are implemented, or ways of working are changed. The Group operates a 'Speak Up' Policy which includes access to an anonymous reporting hotline to raise any concerns of misconduct, wrongdoing, or fraud (see page 128).
External evaluation	The outsourced internal auditors, RSM, performed various assurance reviews over key financial controls as part of the 2023 Internal Audit Plan. The implementation of recommendations arising from the reviews are monitored by the Risk and Audit Committees. During the year, it was decided that the provision of internal audit services would be brought in-house (see page 148). The Group's VAT procedures are subject to ongoing periodic review by external advisers. An independent review of particular financial controls is undertaken with assistance from external advisers, as required. An annual credit rating review is performed by an external agency and each year, at renewal, a comprehensive review of the Group's insurance cover is prepared by our independent insurance adviser.

External audit tender

During 2023, the Audit Committee conducted a competitive audit tender taking into account best practice guidance from the FRC.

Compliance statement

During 2023 the Audit Committee, Non-Executive Directors and members of senior management have been involved in conducting a rigorous and detailed external audit tender for the 2024 year end audit.

The Committee confirms that for the year ended 31 December 2023, it has complied with the Audit Committees and the External Audit: Minimum Standard and that the external audit tender was conducted free from third party influence, and consistently applied the key principles.

Shareholder engagement

Ongoing and transparent dialogue with our shareholders is important to us and informs the Board's decision making.

In preparation for the tender, we invited all shareholders to engage with us via the 2022 Report & Accounts and the Notice of AGM. The Committee sought shareholder views on the following matters; however, no response was received:

- firms to be included on the 'Long List';
- number and size of the firms to involve; and
- factors the Committee should consider when selecting its 'Short List' and making its final recommendation.

Preparation

In advance of the tender the following tasks were performed by the Committee:

- Reviewed best practice guidelines on external audit tenders
- Agreed the tender process timetable
- Discussed the key attributes required from our external Auditor and the Lead Audit Partner
- Identified suitable firms for the 'Long List'

'Long List'

The Committee carefully tailored the 'Long List' to ensure that the chosen firms had the experience, track record and capacity to perform a robust audit. The 'Long List' included the current incumbent firm, PwC, as well as three firms from the 'Big 4' and two non-'Big 4' firms.

One of the 'Big 4' firms withdrew from the tender due to having limited resources available for December year end audits. Confirmation of independence was sought from each firm on the 'Long List'. As one of the firms provided no response to our request for independence, they were excluded from the process.

An assessment criteria was prepared to ensure critical and fair evaluation of each firm. As part of the tender process, Lucinda Bell (Committee Chair) and Damian Wisniewski (CFO) held introductory meetings with all of the proposed Lead Audit Partners. Lucinda Bell provided the Committee with feedback on each proposed Lead Audit Partner. Following which, the Committee agreed the 'Short List', which was comprised of two 'Big 4' firms and a non-'Big 4' firm.

'Short List'

Each shortlisted firm received a Request for Proposal (RFP) on 4 September 2023 outlining the selection criteria and further information in preparation for the presentations to the Committee. In addition to the RFP, and following the completion of the prepared NDA, secure access to the Data Room was provided to the shortlisted firms on 15 September 2023.

All firms were given the opportunity to meet with members of the Audit Committee, Executive Committee and senior management to aid them in understanding our requirements and in preparing their proposal.

External Audit Tender Timetable



Presentations to the Audit Committee

Presentations by all firms to the Audit Committee were held on 7 November 2023 with a scorecard template used to assess each firm based on the selection criteria outlined in the RFP.

The Committee has remained consistently involved throughout the tender process. The presentations were well attended by members of the Committee, Non-Executive Directors and senior managers from the Finance team.

Following the presentations, an average score for each firm was calculated. The 'approach to transition' from the selection criteria was not included in the calculation of scores, as it would have provided an unfair advantage to the incumbent auditor.

Approach to fees

Throughout the tender process the primary focus of the Committee has been on securing a firm who will provide a robust and independent audit.

Although the approach to fees was outlined by each firm in advance, the content was not disclosed to the Committee until the final selection stage. Consideration of fees only became a focus when the Committee prepared to make its final recommendations to the Board.

Recommendations to the Board

On 14 November 2023, a robust discussion was held by the Committee to agree its recommendations for the Board. The Committee took into consideration the feedback from individual Committee members, Non-Executive Directors, members of the finance team and the results of presentation scorecards. It was agreed that all three shortlisted firms were appointable candidates who had performed well throughout the tender; however, careful consideration was given to audit quality.

At the Board meeting on 8 December 2023, the Audit Committee recommended two of the shortlisted firms. After a detailed discussion, the Board agreed to reappoint PwC as the external Auditor for the 2024 year end audit.

Audit firm selection criteria:

Capability and competence (including reputation)

- Knowledge and experience, particularly on REIT audits
- Team's skillset and expertise of the real estate industry
- The firm's independence, internal quality processes and performance assessed by the Audit Quality Review
- ESG assurance capability

Audit approach

- Clear audit plan based on transparent risk assessment of the business
- Ability to demonstrate independence and challenge
- Approach to systems and controls reliance and ability to deliver insights and added value
- Plans to use technology to drive efficiency and insight
- Approach to judgemental issues, including timing, use of experts and communication to the Audit Committee
- Clarity on fees, time spent and staffing mix

Alignment with our values

- Culture of the audit firm
- Approach to diversity and inclusion within the firm and audit team
- Ability to build a practical working relationship with management and the Audit Committee

Quality of deliverables

- Clarity and conciseness of proposal document and presentation
- Behaviour of team: quality of interaction, organisation and preparation
- Ability to demonstrate independence and challenge

Approach to transition

- A clear and well thought out transition plan

Access to Data Room and management meetings

From 15 September to 12 October 2023

Presentations to the Audit Committee

7 November 2023

Recommendations to the Board

8 December 2023

External Auditor

The Committee has primary responsibility for managing the relationship with the external Auditor, including assessing their performance, effectiveness, and independence annually and recommending to the Board their reappointment or removal.

The Company has complied with the provisions of the Competition and Markets Authority’s order for the financial year under review in respect to audit tendering and the provision of non-audit services.

The Committee conducts an effectiveness review of the external Auditor on an annual basis which aims to ensure a robust audit is performed, auditor performance is optimised and encourages candid feedback and communication between the Auditor and the Committee. The aspects considered by the Committee during its review are detailed in the adjacent table.

An important aspect of managing the external Auditor relationship is ensuring there are adequate safeguards to protect auditor objectivity and independence. In assessing this matter, the Committee considered the following:

- the Auditor’s independence letter which annually confirms their independence and compliance with the Financial Reporting Council’s (FRC) Ethical Standard;
- how the Auditor demonstrated professional scepticism and challenged management’s assumptions, where necessary;
- the tenure of the external Auditor and the Lead Audit Partner;
- the outcome of the FRC’s latest inspection of PwC’s audit quality; and
- how the Auditor identified risks to audit quality and how these were addressed, including the network level controls the Auditor relied upon.

In assessing how the Auditor demonstrated professional scepticism and challenged management’s assumptions, the Committee considered the depth of discussions held with the Auditor, particularly in respect to challenging the Group’s approach to its significant judgements and estimates (see pages 207 to 209).

Audit quality can be challenging to define and measure. The Committee utilises Audit Quality Indicators (AQIs) to assess PwC’s audit quality. The Committee finds the use of AQIs an effective addition to its review processes. The proposed AQIs for the 2023 year end were as follows:

- experience and continuity of the audit team;
- success in achieving the agreed timetable;
- management and engagement team feedback;
- number of audit misstatements, both adjusted and unadjusted; and
- number of control findings.

After taking all of these matters into account, the Committee concluded that PwC had performed their audit effectively, efficiently, and to a high quality. Following the tender conducted during 2023 (see pages 150 and 151) the Committee recommended two shortlisted firms to the Board. The Board agreed to reappoint PwC as Auditor to the Group for the year ending 31 December 2024, subject to reappointment at the 2024 AGM.

Annual effectiveness review of the external Auditor

Qualification and expertise
The qualification and expertise of the Lead Audit Partner and the wider audit team
Resources
The availability of resources to perform a comprehensive and timely audit
Non-audit services
Adherence to the Non-Audit Services Policy
Quality
Quality of the audit plan, overall audit and outcome report
Planning
Quality of planning and ability to meet deadlines
Judgements and estimates
Quality of audit in respect of key judgements and estimates

The Independent Auditor’s report to the members of Derwent London plc is available on pages 206 to 213, and its audit opinion is consistent with the report received by the Audit Committee.

Change in audit partner

Sandra Dowling has been Lead Audit Partner since the 2020 half year review. The Committee has been pleased with the challenge raised by Sandra Dowling and her team during the year. Following the external audit tender, Thomas Norrie will succeed Sandra Dowling as Lead Audit Partner in 2024.

Audit exemption

For the year ended 31 December 2023, a number of the Group’s wholly owned subsidiaries are entitled to exemption from audit, under section 479A of the Companies Act 2006. We have identified in the table on pages 216 and 262 which subsidiaries intend to utilise the audit exemption.

Derwent London plc is the sole member of these companies and has unanimously agreed to the adoption of the exemptions and to the granting of a guarantee in accordance with section 479C of the Companies Act 2006.

Non-audit services

The objective of maintaining the Non-Audit Services Policy (the Policy) is to ensure the independence of the external Auditor is not compromised and that the provision of such services does not impair the external Auditor's objectivity. The Policy was last approved by the Audit Committee in November 2023. The review confirmed that the Policy remains compliant with regulation, with no significant matters raised.

The Committee has provided pre-approval limits which allow management to appoint the external Auditor to conduct permissible non-audit services if they fall below an amount it deems as trivial. The approval limits for non-audit services are provided below and are subject to review:

Value	Approval required prior to engagement
Up to £25,000	Chief Financial Officer
£25,001 to £100,000	At least two members of the Audit Committee (including the Committee Chair)
£100,001 and above	Board of Directors

Extract of the Non-Audit Services Policy

Under the policy, all services provided by the external Auditor (other than the audit itself) are regarded as non-audit services. Our policy draws a distinction between permissible services (which could be provided subject to conditions set by the Committee) and prohibited services (which may not be provided by the external Auditor except in exceptional circumstances when the Auditor has been provided with approval by the Financial Conduct Authority).

The type of non-audit services deemed to be permissible includes review of the half year results and assurance work on non-financial data. In accordance with audit legislation, the total fees for non-audit services provided by the external Auditor to the Group shall be limited to no more than 70% of the average of the statutory audit fee for the Company paid to the Auditor in the last three consecutive financial years.

When reviewing requests for permitted non-audit services, the Committee will assess:

- whether the provision of such services impairs the Auditor's independence or objectivity and any safeguards in place to eliminate or reduce such threats;
- the nature of the non-audit services;
- whether the skills and experience make the Auditor the most suitable supplier of the non-audit service;
- the fee to be incurred for non-audit services, both for individual non-audit services and in aggregate, relative to the Group audit fee; and
- the criteria which govern the compensation of the individuals performing the audit.

In accordance with the FRC Ethical Standard, the Committee would also assess whether it is probable that an objective, reasonable and informed third party would conclude independence is not compromised.

Audit and non-audit services in 2023

The audit fees incurred by PwC during the year totalled £619,500. In respect to the non-audit services provided by PwC, this equated to £70,500 and related to the review of interim results. The Committee confirmed that it does not believe that the level or nature of the non-audit services provided during 2023 have impacted on PwC's actual or perceived independence as Auditor.

	2023		2022		2021	
	£'000	%	£'000	%	£'000	%
Audit of Derwent London plc and subsidiaries	620	90	657 ²	90	530	78
Review of interim results	71	10	64	10	60	9
Other non-audit services	–	–	–	–	90 ¹	13
Total fees	691	100	721	100	680	100

1 During 2021, PwC assisted with the preparation and issue of comfort letters as part of the green bond issuance. The fee for this project was £90,000.

2 The audit fee in relation to the year ended 31 December 2022 includes a cost overrun of £97,800.

Assurance over external reporting

Our approach to assurance is influenced by our low tolerance to risk taking and our management approach and culture.

Our approach

It is crucial that the information we disclose is relevant, informative and sufficiently transparent, so that our stakeholders can assess our performance and have trust in the integrity of our reporting. To keep our shareholders and the wider market informed, we release results on a quarterly basis. Our financial calendar for 2024 can be found on page 287.

Full year results announcement and annual Report & Accounts

Our financial year is the 12 months to 31 December, and we finalise our full year results in late February. The disclosures contained in this announcement form the foundation for our annual Report & Accounts (principally the front end of the Strategic report as well as the financial statements).

Our financial statements are subject to audit by our external Auditor, PricewaterhouseCoopers LLP (PwC) and the entire annual Report is subject to a fair, balanced and understandable review by both the Audit Committee and the Derwent London Board (see page 145). In addition, any key accounting issues or judgements made by management are reviewed and agreed with the Audit Committee (page 146).

The main area of reporting risk relates to the valuation of our portfolio. Our property portfolio is valued by external valuers for both our interim and year end results (see page 147).

Impairment review

Impairment testing of trade receivables and accrued rental income recognised in advance of receipt remains a key area of estimation for the Group, and is subject to extensive review by our internal team.

As at 31 December 2023, our lease incentive and trade debtors, including impairment, amounted to £204.5m (2022: £193.7m) and an ECL provision of £4.6m has been recorded (2022: £5.0m) for bad debts (see pages 222 and 240).

Risks and uncertainties

Our principal and emerging risk registers are regularly reviewed by the Executive Committee and Risk Committee, prior to approval by the Board. As part of our review of principal risks, the Risk Committee utilises a Board Assurance Framework which identifies the key controls for each risk and the level of assurance available.

Remuneration

Key disclosures in our Remuneration Committee report are subject to independent audit by PwC. Our remuneration disclosures are also reviewed by Deloitte LLP to ensure they are aligned with best practice. Deloitte LLP also independently review the executive incentive outcomes under the PSP and annual bonus to provide assurance to the Remuneration Committee that the outcomes have been accurately calculated.

Going concern and viability

In order to assure our stakeholders that the Company remains viable for the next 12 months and into the medium-term (the next five years), we have provided detailed disclosures on pages 86 to 89. The process and assumptions underlying the short-, medium- and long-term assessments and scenarios, which form the going concern and viability statements, are subject to a detailed review by the Audit Committee and Board. As part of their audit, PwC tested the integrity of the underlying calculations within the going concern modelling, assessed the appropriateness of the key assumptions and agreed the underlying cash flow projections (see page 210).

Environmental, social and governance (ESG)

We understand the importance of clear and accurate reporting of key ESG data to our stakeholders. During the year, we have obtained independent limited assurance from Deloitte LLP in accordance with ISAE 3000 (Revised) and ISAE 3410 Standards, in respect of:

- Selected energy and carbon reporting metrics (Scope 1, 2 and 3 GHG emissions data, intensity ratio and energy data); and
- Selected health and safety metrics (all RIDDORs, fatalities, minor injuries, significant near misses, and any enforcement notices data).

The assurance statements are published in our annual Responsibility Reports which are available on our website (the assurance received over our Responsibility Report is detailed on page 155).

We have voluntarily disclosed under the Task Force on Climate-related Financial Disclosures (TCFD) since the 2018 Report & Accounts. As these disclosures are now mandatory, our TCFD disclosures are subject to periodic third party review. Our last review was undertaken on our 2022 Report & Account disclosures.

Other annual report disclosures

The rest of our Strategic report and governance disclosures are subject to detailed internal review and verification. Other key audit matters which, in the Auditor's professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement were:

- Valuation of investment properties
- Compliance with REIT guidelines
- Valuation of investments in, and loans to, subsidiaries

Information on PwC's audit of these disclosures is provided on pages 207 to 209.

Half year results announcement

The main risks in relation to half year reporting are the valuation and revenue recognition. In respect to valuation, a similar process to year end is adopted with our investment properties being independently valued which is then reviewed at valuation meetings by the Audit Committee and approved by the Board.

Although not legally required, our external Auditor performs a review on our half year results announcement. Whilst this is not to the same level of assurance as a year end audit, it does allow an independent review of our half year results announcement and any issues are raised and discussed with the Audit Committee.

Investor presentations

We prepare detailed investor presentations for year end and half year results. A significant amount of information contained in our investor presentations is extracted from results announcements released via the London Stock Exchange's regulatory news service (RNS). Any additional information is subject to detailed internal review.

Quarterly business updates

We provide a market update with portfolio information in April/May and October/November. No financial numbers are provided, nor do we revalue or provide any forecasts in respect to the valuation of our portfolio. Due to the limited information provided, no external assurance is provided or deemed necessary. However, the announcements are subject to significant internal review and verification.

Assurance over key disclosures

The table below provides an overview of our key reporting disclosures in the 2023 Report & Accounts and the level of assurance we received. This is in addition to the detailed verification process adopted by the Executive management team to ensure the accuracy of our disclosures.

Key reporting risk area	Current level of assurance	Current provider(s)	Further information
Financial statements	International Standards on Auditing (UK) and applicable law	PwC	Pages 214 to 282
Key EPRA financial metrics¹	International Standards on Auditing (UK) and applicable law	PwC	Page 278
Portfolio valuation	External valuation in accordance with RICS Valuation Global Standards and the Red Book	Knight Frank & Savills	Pages 63 to 66
Key performance indicators²	Detailed internal review and external assurance on specific KPIs from PwC and Deloitte LLP	PwC & Deloitte LLP	Pages 37 to 41
Environmental, energy and carbon	ISAE 3000 (Revised) and ISAE 3410 Standards 'limited assurance'	Deloitte LLP	Pages 60 and 61
Task Force on Climate-related Financial Disclosures (TCFD)	Detailed internal review during 2023 following an external private review in 2022	–	Pages 104 to 117
Health and safety statistics	ISAE 3000 (Revised) Standard 'limited assurance'	Deloitte LLP	Page 55
Green Finance Framework and disclosures	Our Green Finance Framework received a Second Party Opinion (SPO) from DNV that it is aligned with the Loan Market Association's Extended Green Loan Principles and the International Capital Market Association's Green Bond Principles. Deloitte have also provided reasonable assurance over selected green finance KPI disclosures.	Deloitte LLP & DNV	Pages 84 and 85

¹ EPRA earnings and EPRA NAV metrics (EPRA NRV, EPRA NTA and EPRA NDV).

² The key performance indicators subject to independent limited assurance by Deloitte LLP (energy intensity) and audit by PwC are identified on pages 37 to 41.

Annual Responsibility Report and our progress to net zero carbon

We publish an annual Responsibility Report which is structured around our seven key ESG priorities (see page 44). Certain environmental and health and safety metrics are subject to independent limited assurance under the ISAE 3000 (Revised) and ISAE 3410 Standards. This assurance captures the data we disclose on utility usage, waste generation and energy consumption.

In addition to TCFD (see pages 104 to 117), we report in accordance with the EPRA Best Practices Recommendations on Sustainability Reporting. Disclosures are prepared by the Sustainability team and subject to detailed internal reviews.

Other reports

There are a limited number of other financial reports provided to external stakeholders. These relate mainly to RNS and press release announcements of transactions. The announcements are subject to internal verification checks to ensure values, rental levels, areas and yields are fairly stated and, where material, are signed off by the CEO and CFO. In relation to acquisitions and disposals, figures are reconciled to cash movements and completion statements.

When reported, rent collection figures are generated internally from daily cash sheets and entered into our property management database. Given the daily nature of this information, and the immateriality of individual amounts, it is not considered practical to seek external assurance in relation to this information.

RISK COMMITTEE REPORT



Helen Gordon
Chair of the Risk Committee

2024 Focus areas

- Ongoing monitoring of the Group's principal and emerging risks
- Identify opportunities for consolidation and simplification of the Group's risk registers
- Ensure health and safety risks are being effectively managed across the Group
- Continue to receive regular updates on the Group's main development projects

Committee membership during 2023

	Independent	Number of meetings ¹	Attendance ²
Helen Gordon	Yes	4	100%
Lucinda Bell	Yes	4	100%
Sanjeev Sharma	Yes	4	100%
Cilla Snowball	Yes	4	100%

¹ In addition to the scheduled meetings, an additional meeting was held in October 2023 to review the management of health and safety risks.

² Percentages are based on the meetings entitled to attend for the 12 months ended 31 December 2023.

Dear Shareholder,

I am pleased to provide a report on the activities and focus areas of the Risk Committee. This is my first report to you, as I succeeded Richard Dakin as Chair of the Risk Committee from 1 March 2023.

The Group's risk profile remained elevated during 2023, as the sector continued to be impacted by the wider macro environment. Further information can be found in the Managing risks section on pages 90 to 117.

Key activities of the Committee during 2023

It has been another busy year for the Committee. In addition to monitoring the wider macroeconomic risks, the Committee has overseen a wide range of activities within four key categories (see pages 158 to 159):

- Property and market
- Technology
- People and environment
- Compliance

The Committee invited members of the senior management team to present on risks relevant to their departments. This allowed the Committee to delve deeper into management's approach to risk and compliance with key policies. The Committee also conducted 'deep dive' reviews with senior management on water hygiene management and construction health and safety. The Committee was pleased that both risk areas are subject to intensive independent oversight and assurance. Further information on health and safety is on pages 54 to 55.

Following the media reporting of Reinforced Autoclaved Aerated Concrete (RAAC) failing, an independent review of our portfolio was conducted and the outcome was presented to the Committee. The review provided assurance that our managed portfolio did not contain RAAC (see page 160).

Emerging risks

During the year, the Committee revisited its emerging risks and agreed they would be consolidated from eight risks to five to simplify its disclosures (see page 102). It has been another year of rising geopolitical tensions. If this continues, there could be prolonged global supply chain disruption and commodity price inflation. As a result, the Committee has classified geopolitical risks as a new emerging risk for the Group.

Further engagement

The forthcoming AGM is on 10 May 2024 and I will be available to answer any questions on the Committee's activities that you may have. If you wish to contact me, I am available via our Company Secretary, David Lawler.

Telephone: **+44 (0)20 7659 3000** or

Email: company.secretary@derwentlondon.com

Helen Gordon
Chair of the Risk Committee
27 February 2024

Committee composition and performance

The Committee's membership for the year under review is detailed in the table on page 156. In addition to the Committee members, the Board Chairman, other Directors, senior management and the internal and/or external Auditors, are often invited to attend all or part of any meeting as and when appropriate or necessary. In 2023, the Risk Committee met four times (2022: three meetings). The meetings in August and November included a joint session with the Audit Committee to review the outcome of the internal auditor's reviews (see page 148).

The Committee's role and responsibilities are set out in the terms of reference, which were last updated in March 2023, and are available on the Company's website at: www.derwentlondon.com/investors/governance/board-committees

The 2023 evaluation of the Board, its committees and individual Directors was internally facilitated, in accordance with our three-year cycle of evaluations (see page 137). The review confirmed that the Committee continues to operate effectively, with no significant matters raised.

Risk management

At Derwent London, the management of risk is treated as a critical and core aspect of our business activities. Although the Board has ultimate responsibility for the Group's robust risk identification and management procedures, certain risk management activities are delegated to the level that the Board judge is most capable of overseeing and managing the risks. In order to gain a comprehensive understanding of the risks facing the business and the management thereof, the Risk Committee invites senior managers and external advisers to present at its meetings.

A robust assessment of the principal risks facing the Group is regularly performed by the Directors, taking into account the risks that could threaten our business model, future performance, solvency or liquidity, as well as the Group's strategic objectives over the coming 12 months. Our principal risks are documented in the Schedule of Principal Risks (see pages 94 to 101) which includes a comprehensive overview of the key (financial and non-financial) internal controls in place to mitigate each risk and the potential impact. The Directors also review an assurance framework which evidences how each internal control is managed, overseen and (where appropriate) independently assured.

Due to its importance, changes to the Schedule of Principal Risks can only be made with approval from the Risk Committee or Board (changes made to our principal risks during 2023 are on page 92). Further information on the Group's risk registers subject to review by the Risk Committee are detailed in the table below.

Risk documentation and monitoring

Schedule of Principal Risks (see pages 94 to 101)	Contains the risks which are classified as the Group's main risks which impact on the Group or could impact the Group over the next 12 months. The Schedule of Principal Risks also includes an assurance framework to evidence how each control is managed, overseen, and independently verified. As at 31 December 2023, the Schedule of Principal Risks contains 15 risks (2022: 14 risks).
Schedule of Emerging Risks (see page 102)	Contains the internal and external emerging risks that could significantly impact the Group's financial strength, competitive position or reputation within the next five years. Emerging risks could involve a high degree of uncertainty. As at 31 December 2023, the Schedule of Emerging Risks contains five risks (2022: eight risks).
Group Risk Register	Risks not deemed to be principal to the Group are documented within the Group's Risk Register, which is maintained by the Executive Directors, with assistance from the Executive Committee. The Board reviews and approves the Group's Risk Register on an annual basis and it is reviewed by the Risk Committee at each of its meetings. As at 31 December 2023, the Group Risk Register contains 47 risks (2022: 37 risks).
Key risk indicators	The Risk Committee has identified risk areas which could indicate an increase in the Group's risk profile. These indicators are reviewed at each Risk Committee meeting and are compared against the Board's Risk Appetite Statement (see page 93). Any deviance or significant increase is subject to challenge by the Risk Committee. The risk indicator contains 10 risk areas including cyber security, cost inflation, project status, data protection, and health and safety incidents etc.
Functional/departmental risk registers	Risk registers are maintained at a departmental/functional level to ensure detailed monitoring of risks, where necessary. These registers are the responsibility of each department and are periodically reviewed by the Risk Committee during risk-specific presentations. Examples of these registers are the development risk registers for each building project and the 'tenant on watch' register.

Key activities of the Committee

During 2023, the Committee has focused its attention on a variety of risks within four key categories.

Property and market

Development risks

The Committee regularly reviewed the key risks affecting our major on-site developments. In addition, the Committee received updates on the wider factors which could impact on our developments, including construction cost inflation, supply chain disruption, site security and material/labour shortages (see page 97).

Planning risk

The Committee requested that at each of its meetings, the Development team provide an update on the progress of planning applications for all major projects via the Committee's key risk indicator schedule.

Reinforced Autoclaved Aerated Concrete (RAAC)

The Committee reviewed the outcome of surveys conducted to ensure RAAC was not present in our managed portfolio (see page 160).

Subcontractor insolvency risk

The Committee received a presentation on the causes of subcontractor insolvency and its consequences. The Group's mitigation strategies were also subject to review.

Lease expiries and breaks

The Committee monitored our lease expiry profile throughout the year. It was noted that due to our asset management activities, our exposure for 2023 and 2024 had fallen.

Portfolio valuation

The Committee discussed the maximum percentage value that the Group is willing to accept in respect of individual buildings as a proportion of the Group's property portfolio for approval by the Board.

Energy Performance Certificates (EPCs)

The Committee received regular updates on the work performed by the Sustainability, Development and Asset Management teams to upgrade the EPC ratings of our buildings.

Technology

Cyber security

Our cyber security controls have been strengthened considerably in recent years in response to the increasing threat this poses to businesses, and it remains an area that the Committee keeps under continuous review (see pages 162 and 163).

Crisis Management Team (CMT)

On 3 November 2023, the CMT conducted a scenario exercise facilitated by an external consultant. The aim of the exercise was to test our procedures and identify improvement areas. In addition, a full recovery test was conducted. The Committee received an initial update on the tests outcome and will review the full report in April 2024.

Vendor risk management and access controls

The Committee received a report on how we manage access to our systems by third parties.

Phishing tests

The Committee received updates on the phishing tests conducted by the DIT team throughout the year, which sought to test the robustness of our training programme.

Security in our buildings

During 2023, we commissioned an independent consultancy to conduct physical penetration tests across our high profile locations in the portfolio to ensure continuous improvement in our perimeter security protocols. The Risk Committee also received an update on the trauma first aid and critical incident training arranged for on-site teams in high profile locations.

Power rationing test

The Committee reviewed the outcome of the power loss scenario tests conducted in November and December 2022 in response to the speculation of rolling power cuts to conserve fuel supplies. The Committee noted the lessons learnt from the exercise and the actions being implemented in response.

Strategic objectives:	1	2	4
Principal risks:	1	4	5 6A 6B 6C 8
Emerging risks:	A	D	E

Strategic objectives:	3	4
Principal risks:	7A	7B 7C
Emerging risks:	A	B

Strategic objectives

- 1 To optimise returns and create value from a balanced portfolio
- 2 To grow recurring earnings and cash flow
- 3 To attract, retain and develop talented employees
- 4 To design, deliver and operate our buildings responsibly
- 5 To maintain strong and flexible financing

➔ Principal risks / See page 94

➔ Emerging risks / See page 102

People and environment

Health and safety

At each Committee meeting, a detailed update is provided on health and safety matters and identified key risks, both in the managed portfolio and development pipeline. During 2023, all Executive Directors conducted Leadership Tours to reinforce the Board's commitment and visibility to health and safety.

Water management

During 2023, our water hygiene management procedures were subject to independent review, which confirmed they were robust.

Fire safety

The Committee received an update on the frequency and robustness of the Group's:

- Fire risk assessments
- Fire alarm and sprinkler system testing
- Fire strategies

Asbestos management

The Committee received an update on the asbestos registers and asbestos management plans in place, which are reviewed at least annually by an external consultancy. The Committee noted that there are currently no high risk items requiring encapsulation or removal. However, we will continue to manage known asbestos as per guidance and survey for potential asbestos where there is a known risk.

Net Zero Carbon risks

The Committee reviewed the risk register being monitored in respect to the achievement of our Net Zero Carbon Pathway and the mitigation and controls in place.

Collapse of the Thames Valley Water Barrier

The Committee reviewed the outcome of an undefended flood scenario, whereby the Thames Valley Water Barrier is fully breached. It was noted that only a small proportion of our portfolio was at risk under this scenario.

Compliance

Building Safety Act 2022

Of the five residential properties within our portfolio which are 'in-scope' of the Act, one was sold in early 2023, three are under the control of a third party 'Accountable Person', and one is directly managed by Derwent London. During the year, the Committee received an update on our responsibilities and how we are ensuring our compliance.

Fire Safety (England) Regulations 2022

The Committee received updates on new regulations and our actions to date, noting that of the 11 residential properties within our portfolio, one property was sold and nine remain in scope of the new Fire Safety Regulations.

Anti-bribery and corruption

At each meeting, the Committee reviews the Hospitality & Gift Register which contains the returns prepared by all employees (including Directors) on a quarterly basis. During 2023, the Group's Anti-Bribery & Corruption Policy and risk assessment were subject to review and update. To assist in raising awareness of the new policy, the mandatory compliance training topic for Q3 was anti-bribery.

Compliance training

The Risk Committee agreed the 2023 and 2024 training programme and monitored completion rates. Engagement with the training continues to be high with on average 98% of employees (including Directors) completing quarterly training (see page 165).

Internal audits

Alongside the Audit Committee, the Risk Committee received updates on the work performed by the outsourced internal auditor, RSM. Further information on the audits conducted during 2023 is on page 148.

Data protection

The Committee reviewed a report from the employee Data Protection Committee on their work during 2023 to oversee data protection risks and opportunities.

Strategic objectives: 3 4

Principal risks: 9 10 11

Emerging risks: A C

Strategic objectives: 3 4

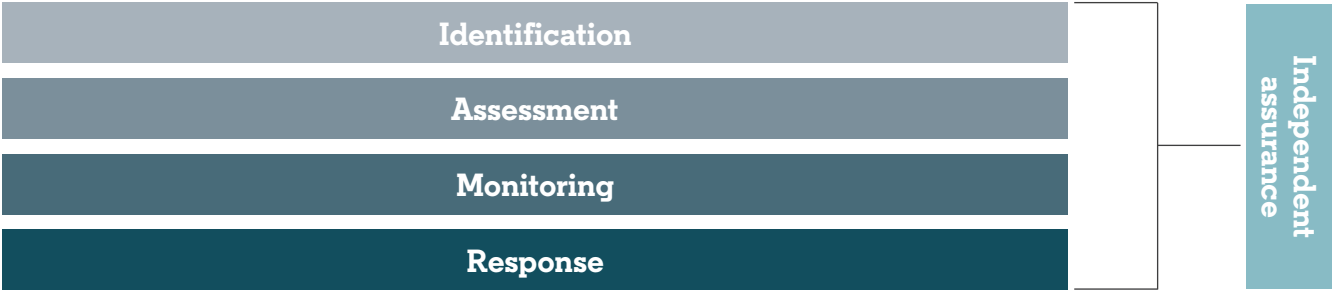
Principal risks: 8 11

Emerging risks: C D

Risk management framework

Our risk management procedures are regularly reviewed and strengthened to ensure that all foreseeable and emerging risks are identified, understood and managed.

Our risk management framework is summarised below.



Identification

- **Top down approach to identify the principal risks that could threaten the delivery of our strategy:**
At the Board’s annual strategy reviews, scenarios for the future are considered which assist with the identification of principal and emerging risks and how they could impact on our strategy. The continuous review of strategy and our environment ensures that we do not become complacent and that we respond in a timely manner to any changes.
- **Bottom up approach at a departmental and functional level:** Risks are identified through workshop debates between the Executive Committee and members of senior management, analysis, independent reviews and use of historical data and experience. Risk registers are maintained at a departmental/functional level to ensure detailed monitoring of risks, where necessary. Risks contained on the departmental registers are fed into the main Group Risk Register depending on the individual risk probability and potential impact.

Assessment

Following the identification of a potential risk, the Executive Committee undertakes a detailed assessment process to:

- gain sufficient understanding of the risk to allow an effective and efficient mitigation strategy to be determined;
- allow the root cause of the risk to be identified;
- estimate the probability of the risk occurring and the potential quantitative and qualitative impacts; and
- understand the Group’s current exposure to the risk and the ‘target risk profile’ (in accordance with the Board’s risk tolerance) which will be achieved following the completion of mitigation plans.

Where necessary, external assistance is sought to assess potential risks and advise on mitigation strategies. Emerging risks are kept under review at each Risk Committee meeting and are reassessed during the Board’s annual strategy reviews.

Reinforced Autoclaved Aerated Concrete

Reinforced Autoclaved Aerated Concrete (RAAC) was commonly used in construction between the 1950s and 1990s. As a cost-effective material, it was predominantly used in government/institutional buildings, but this does not preclude its use in the wider industry. RAAC is now recognised as a deleterious material, with first instances of failure occurring in the 1990s.

Following the media reporting on failure of RAAC installations in several buildings, we undertook an independent review of our portfolio. An external consultancy was commissioned to review and survey the managed portfolio to confirm if RAAC was present in any of our buildings.

The portfolio was reviewed to identify sites which were constructed within the timeframe that RAAC was in use or had structural works undertaken within the specified period, with 19 properties identified for further investigation. Our investigations included:

- A site walk
- ‘Back of house’ inspection and identification of construction type
- Review of visible concrete and removal of suspended ceilings to access concrete behind
- Photographic survey
- Identification of further investigation required

The results of the surveys were presented to the Risk Committee in November 2023 and confirmed that RAAC was not present in our managed portfolio.

Monitoring

Once a risk has been identified and assessed, a risk owner is assigned who is considered to be in the best position to influence and implement mitigation plans. In addition, under the Board's assurance framework, a control owner is assigned who can monitor and assess the effectiveness of the controls in place to address each principal risk.

As part of our risk management procedures, the Executive Committee and Risk Committee routinely conduct monitoring exercises to ensure that risk management activities are being consistently applied across the Group, that they remain sufficiently robust and identify any weaknesses or enhancements which could be made to the procedures.

Monitoring activities include:

- the regular review and updating of the Schedule of Principal Risks, Schedule of Emerging Risks and the Group's Risk Register;
- independent third party reviews of the risk management process to provide further assurance of its effectiveness;
- alerting the Board to new emerging risks and changes to existing risks;
- monitoring how the risk profile is changing for the Group; and
- providing assurance that risks are being managed effectively and where any assurance gaps exist, identifiable action plans are being implemented.

Response

We implement controls and procedures in response to identified risks with the aim of reducing our risk exposure, so that it is aligned or below our risk tolerance. The successful management of risk cannot be done in isolation without understanding how risks relate and impact upon each other. The mitigation plans in place for our principal risks are described on pages 94 to 101. We use insurance to transfer risks which we cannot fully mitigate.

Insurance

Our comprehensive insurance programme covers all of our assets and insurable risks. We are advised by insurance brokers, who provide a report to the Risk Committee on an annual basis. We have a long-standing relationship with our property insurers, who perform regular reviews of our properties that aim to identify risk improvement areas. Due to our proactive risk management processes, Derwent London has a low claims record which makes us attractive to insurers.

Independent assurance

The Group's internal audit function performs periodic reviews of key activities and controls which provides independent assurance to the Board and Committee that risks are being identified and effectively managed. In addition, these reviews highlight any recommendations for further action.

➔ Assurance over external reporting / See page 154 and 155



Network W1

'Designing out' risk in our developments

We endeavour to ensure that our development schemes are designed to address and respond to the following strategic risks:

- Creating the right 'product' for the specific target market and its location
- Achieving adaptability for varying uses over the long-term to avoid obsolescence
- Designing for efficient buildability and modern methods of construction delivery
- Designing for cost effectiveness, material and carbon efficiency
- Enhancing our reputation for sustainable design excellence in the marketplace

As a minimum, our development schemes are designed to avoid or minimise the following risks:

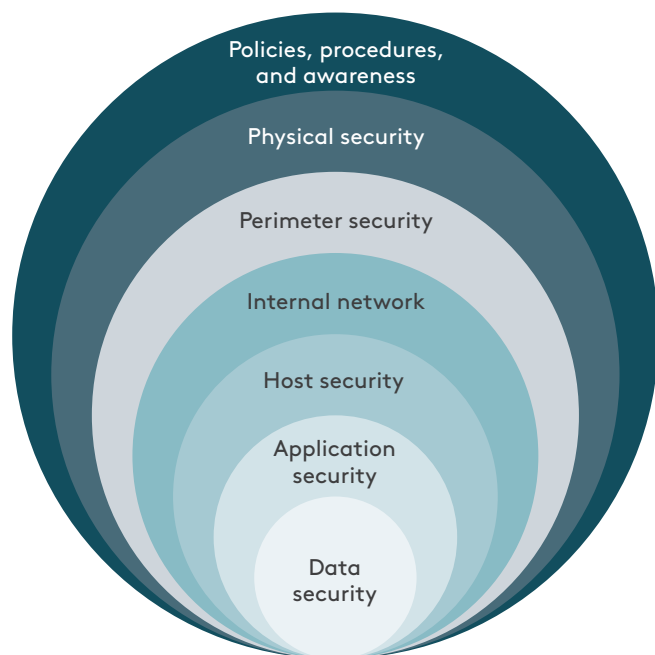
- Health and safety, and fire safety risks
- Town planning and conservation risk
- Inclusive design risk (including ability discrimination)
- Operation and maintenance risk (including access, repair and replacement strategies)
- Adverse impacts on the local community

We carry out our own research and innovation initiatives across a broad spectrum of relevant subjects, that influence our design thinking. This includes our work on the Intelligent Building Programme. In February 2023, we updated the British Council for Offices (BCO) 'Guidance to Specification' criteria to include a recalibration of occupancy densities and building performance to reflect more accurately how buildings are occupied and used, enabling them to meet net zero carbon targets.

Digital security risks

Cyber security

We adopt a layered approach to cyber security which provides multiple opportunities for threats to be identified before they can cause harm. Our layered security approach consists of the following:



Our cyber security procedures are subject to regular independent reviews and tests, the results of which are presented to the Risk Committee, which monitors the implementation of any arising actions. The Committee reviews a dashboard of key risk indicators at each meeting which includes information security and cyber risk-related KPIs.

During 2023, there was a 169% increase in the total number of potential attacks when compared to 2022, none of which resulted in a security incident. 99.98% of the attempts were stopped before they reached the intended targets, with the remaining attempts immediately being reported to our DIT team. This highlights the robustness of our cyber security posture and awareness campaigns.

Information security

We have robust procedures in place to safeguard the security and privacy of information entrusted to us. As part of the Committee's key risk indicator schedule, we monitor the number of 'near miss' data breaches and how these have been addressed.

Our procedures ensure that we:

- maintain the confidentiality, integrity and availability of data and safeguard the privacy of our customers and employees, to ensure that the business retains their trust and confidence;
- protect the Group's intellectual property rights, financial interests and competitive edge;
- maintain our reputation and brand value; and
- comply with applicable legal and regulatory requirements.

We operate a Data Protection Steering Committee which meets on a quarterly basis and is comprised of Data Protection Champions from each department. Our DIT team routinely conducts supplier information security due diligence assessments as part of the on-boarding process for all new suppliers of digital services to help provide assurance on the security posture of our suppliers and reduce the risk of supply chain attacks. Data Protection Impact Assessments (DPIAs) are also completed for any new projects or changes to processes that involve data processing, to help identify and mitigate any data privacy risks.



25 Savile Row W1

Cyber awareness

As part of our ongoing commitment to protect our employees and the business against cyber-attacks, we launched a new Cyber Security compliance training platform in 2023. The new platform allows for continuous learning, with modules that are customisable, small and frequent. Due to ever-evolving cyber threats, the platform is capable of raising awareness of new and prevalent attack methods in real time. Cyber awareness training is mandatory for all employees including the Board of Directors. Further information on training is available on pages 136 and 165.

Digital strategy risks

As we increase the digitalisation of our business model through our Intelligent Building Programme, our potential exposure to digital risks will increase. A cyber attack on our buildings has been identified as a principal risk for the Group, and our key controls to mitigate these risks are detailed on page 99.

In alignment with our strategy and purpose, the Derwent London Intelligent Building Programme seeks to enable our buildings to be digitally monitored and operated more efficiently, driving down equipment faults (and consequential maintenance) and delivering energy and operational carbon savings. During 2023, the Executive Committee monitored the phased roll out of the Intelligent Building Programme. The Committee will be kept updated on progress and its success.

The key indicators of success will be the cost savings to our occupiers (due to early fault detection) and the operational carbon savings for our occupiers and Derwent London.

Business continuity

On 3 November 2023, our Crisis Management Team (CMT) conducted a scenario-based exercise to test the robustness of our Incident Response Playbooks and Business Continuity Plan. The exercise was externally facilitated by an independent consultant.

The consultant's feedback was that the group took the exercise seriously, talked through each of the events in a logical manner and handled the (theoretical) situation well. One of the actions arising from the exercise was to add a representative from the reception/front-of-house team to the CMT.

As part of this exercise, a full disaster recovery test was completed which included a failover of all internal systems to our backup data centre. All services were restored to 25 Savile Row in a timely manner. In 2024, we intend to undertake a full review of our Incident Response Playbooks and organise our next simulation test.

Disaster recovery

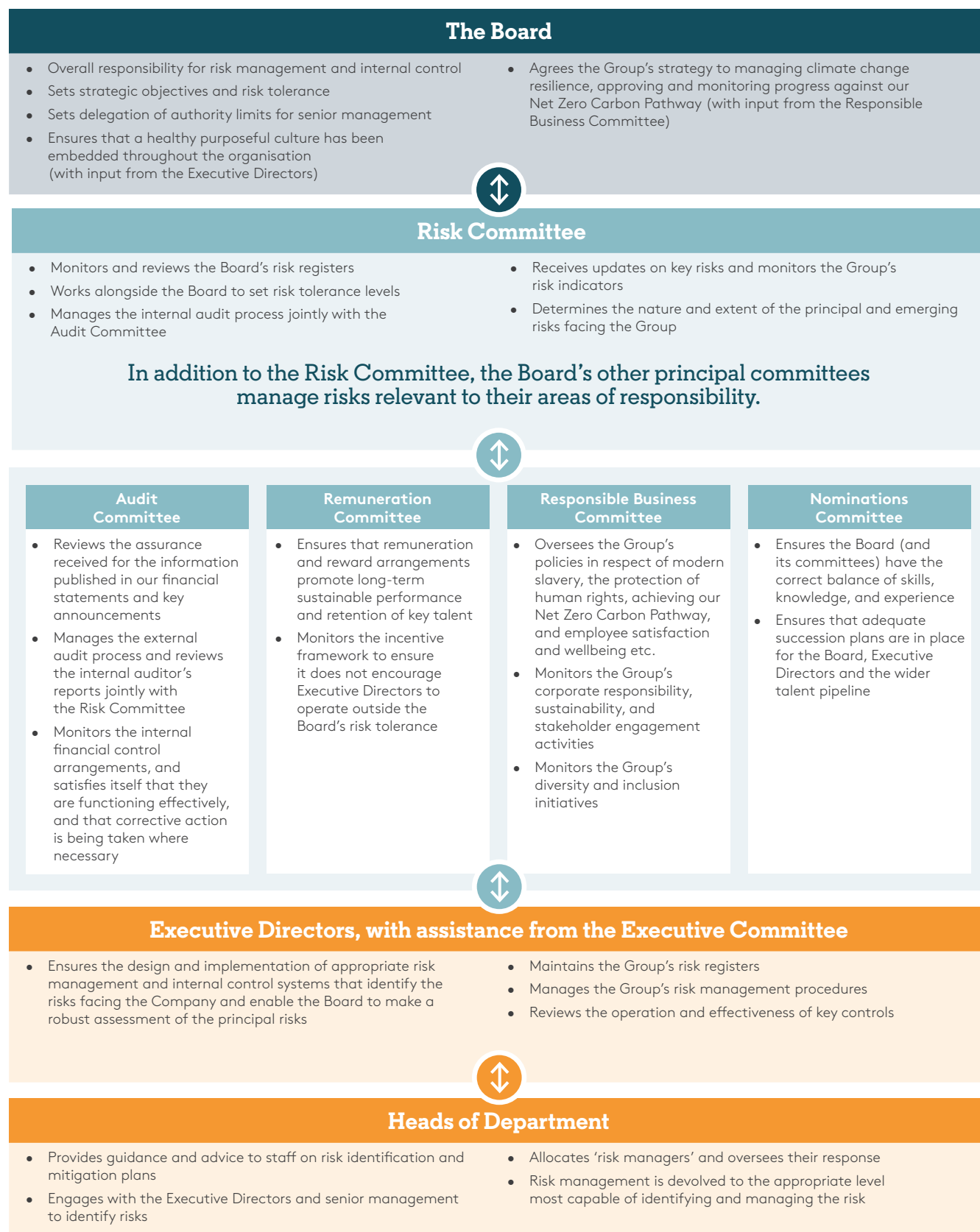
Derwent London has formal procedures for use in the event of an emergency that disrupts our normal business operations and consist of:

Business Continuity Plan (BCP)	Crisis Management Team (CMT)	Off-site disaster recovery data centre	Testing and review
The BCP serves as the centralised repository for the information, tasks and procedures that would be necessary to facilitate Derwent London's decision making process and its timely response to any disruption or prolonged interruption to our normal activities. The aim of the BCP is to enable the recovery of prioritised business operations as soon as practicable.	The CMT is composed of key personnel deemed necessary to assist with the recovery of the business. The BCP empowers the CMT to make strategic and effective decisions to support the recovery of the business until we are able to return to normal working.	An off-site disaster recovery data centre is available in the event of an emergency, to provide continued access to IT services and data to our staff.	The strength of our business continuity and disaster recovery plans are regularly tested to ensure they are continually refined and to reduce the potential for failure.

Disaster recovery tests proposed for 2024/25

Test	Purpose	Date
IT component test	A technical test of the individual components required to carry out a failover of IT services to our disaster recovery data centre.	Q2 2024
Business Continuity Plan review	The CMT team meets regularly to review and update the Business Continuity Plan and cascade list, review current threat levels and agree on any action points.	Q2 & Q4 2024
Incident response	A tabletop group exercise to review our incident response procedures (in respect of cyber threats) and rehearse various disaster recovery scenarios to ensure we are adequately prepared.	Q4 2024
Full IT disaster recovery test	A full IT systems failover from our 25 Savile Row office to our disaster recovery data centre and testing that all IT functions and business-related activities can be adequately performed.	Q3 2025

Risk management structure



Anti-bribery and corruption

We are committed to the highest standards of ethical conduct and integrity in our business practices and adopt a zero-tolerance approach to bribery and corruption. The Company has assessed the nature and extent of its exposure to bribery and corrupt practices and, overall, considers our residual exposure to be low. To address the risk areas identified, and other risks that may arise from time to time, the Company has established procedures which are designed to prevent bribery and corrupt practices from occurring. An overview of our policies and procedures in this area is contained in the table below.

The greatest potential risk area for Derwent London is in respect of our long supply chains. Our zero-tolerance approach is communicated to all of our suppliers, contractors and business partners. Before we enter into a new business relationship, our due diligence procedures determine if a third party has previous convictions under the Bribery Act. All contracts with suppliers or contractors prohibit the payment of bribes, or engaging in any corrupt practice, and we have the right to terminate agreements in the event a bribe is paid or other corrupt practice undertaken.

During 2023, our anti-bribery and corruption procedures were subject to review and all employees (including the Board) received refresher training as part of the mandatory compliance training programme.

Compliance training

The Group operates a compliance training programme which is mandatory for all employees and members of the Board. The Risk Committee oversees the programme, agrees the topics to be covered and receives an update on completion rates. The programme covers a range of risk and compliance topics (including anti-bribery and corruption, diversity and inclusion, data protection, fraud and modern slavery).

At the launch of each training topic, an introductory email is sent to participants advising them of why the training is important and links to further information (including Company policies and guidance notes). The topics covered over the past two years are:

- reporting of wrongdoing;
- insider trading;
- disability awareness;
- modern slavery;
- competition law;
- conflicts of interest;
- anti-bribery and corruption; and
- cyber fraud awareness.

The Committee was pleased with the level of engagement from employees with, on average, c.98% of all participants (inclusive of the Board) completing each training module.

Policy and procedures to prevent bribery and corruption	
Corporate hospitality	Hospitality must be reasonable in value, appropriate to the occasion and provided openly and transparently. It must not compromise, nor appear to compromise, the Group nor the business judgement of our staff.
Business gifts	Generally, gifts should not be accepted unless valued at less than £50, are not cash or a cash equivalent (e.g. gift certificate), are appropriate to the circumstances and are not given with the intention of compromising or influencing the party to whom it is being given.
Hospitality and Gift Returns	All staff are required to complete quarterly Hospitality and Gift Returns which document all instances of third party hospitality or gifts (given or received) over that three-month period if the value is in excess of £50 for hospitality and £10 for gifts. The Hospitality and Gift Returns are subject to review by the Risk Committee.
Political donations	The Company strictly prohibits any political donations being made on its behalf.
Charitable donations	Charitable donations are handled by the Sponsorships and Donations Committee. 'Know your client' procedures are applied to charitable organisations to ensure we are dealing with a valid body acting in good faith and with charitable objectives.
Contractors and suppliers	As detailed above.
Supply Chain Responsibility Standard	Contains the minimum standards we expect from our major suppliers (further information on page 169).
Payments and expenses	All payments made must be warranted, transparent and proper. All payments must be accurately recorded through the normal accounting and financial procedures without any deception or disguise as to the recipient's identity or the purpose of the payment in question. No one approves their own expense claim. All expense claims must be approved by a Director or senior manager.
Facilitation payments	Facilitation payments are bribes and are strictly prohibited.
Conflicts of interest	All conflicts of interest or potential conflicts of interest must be notified to the Company Secretary and a register of such notifications is maintained. The Corporate governance statement on page 128 explains our process for managing potential conflicts.
Training	We provide our employees with guidance notes and regular training on anti-bribery, corruption, ethical standards and the prevention of the facilitation of tax evasion.
'Speak up' procedures	A confidential helpline is available for staff to report concerns anonymously (see page 128).

RESPONSIBLE BUSINESS COMMITTEE REPORT



Dame Cilla Snowball
Chair of the Responsible Business Committee

2024 Focus areas

- Monitor the Group's Net Zero Carbon Pathway and receive regular updates on progress
- Recruit new employee members during Q3 2024
- Focus on the feedback from the Business Disability Forum self-assessment framework and formulate a Disability Inclusion Strategy
- Continue to monitor the Group's community, charitable and sponsorship initiatives

Committee membership during 2023

	Independent	Number of meetings	Attendance ¹
Cilla Snowball	Yes	2	100%
Claudia Arney	Yes	2	100%
Matt Massey	Employee	2	100%
Davina Smith	Employee	2	100%
Lucy Taylor	Employee	2	100%
Kirsty Williams	Employee	2	100%
Paul Williams	No	2	100%

¹ Percentages are based on the meetings entitled to attend for the 12 months ended 31 December 2023.

Dear Shareholder,

As the Chair of the Responsible Business Committee, I am pleased to present our report for 2023.

Engagement with our stakeholders

Stakeholder engagement is a core priority in our business and the Committee regularly reviews feedback from and impact with our employees, occupiers, the supply chain and communities. 2023 marked the 10th year of Derwent's Community Fund which over the decade has supported 164 projects with grants totalling over £1.1m. This is a key driver of our Social Value Strategy which focuses on helping our neighbours, communities and the local economy to thrive.

We were pleased with our strong performance in the Sunday Times Best Places to Work Survey, with scores way above industry averages on employee reward and recognition, empowerment, wellbeing, pride, and job satisfaction (see page 52). Similarly, in our 2023 Employee Survey we saw an exceptional response rate and very high employee pride and satisfaction levels. Importantly the Committee employee members have played a key role in listening and responding to any improvement actions arising from these surveys.

We engaged with suppliers to ensure compliance with our Supply Chain Responsibility Standard and appointed Unseen UK to undertake analysis of and best practice on modern slavery risk mitigation. For further information see page 169.

Diversity and inclusion

The Committee was pleased to receive regular updates from the Diversity & Inclusion (D&I) Working Group who reported strong progress with the Business Disability Forum (BDF), carrying out the first disability survey and self-assessment, with strategy and action plans in formulation, in line with the BDF Framework. The Committee also approved the new Parker Review target for ethnicity representation in senior management by 2027 (see page 143).

Wider D&I impact and awareness is being felt within the organisation which is positively impacting team performance, inclusion and employee wellbeing. The Committee is grateful to the D&I Working Group for the progress and momentum which has been built over the year.

Net zero carbon

In its oversight role, the Committee was pleased to receive dashboard updates on the Group's progress towards being net zero carbon by 2030, reviewing impacts to date and progress to be made on reducing carbon emissions, renewable energy, reducing embodied carbon and offsetting residual emissions. We reviewed progress on occupier engagement with sustainability.

Employee members

The Board and Committee are grateful for the wise and valuable contributions made by our employee members who bring such insight, energy and momentum to our Committee discussions and decisions. The Board truly values this interface. Davina Smith concluded her three-year term in December 2023 and leaves the Committee with thanks for her wonderful work.

New employee members will be recruited in 2024 when the other members' terms are completed.

Further engagement

I would recommend that this report is read alongside the Responsibility section on pages 44 to 61. If you wish to discuss any aspect of the Committee's activities, I will be available at the 2024 AGM and would welcome your questions. I am also available via our Company Secretary, David Lawler.

Telephone: **+44 (0)20 7659 3000** or

Email: company.secretary@derwentlondon.com

Dame Cilla Snowball

Chair of the Responsible Business Committee
27 February 2024

Committee composition and performance

During 2023, our Committee consisted of two independent Non-Executive Directors, the Chief Executive and four employee members. As Claudia Arney steps down from the Board at the 2024 AGM, Mark Breuer will join the Committee. The Committee thanks Claudia for all her valuable contributions and insight.

At the request of the Committee, members of the Executive Committee, senior management team, other Board members and external advisers were invited to attend all or part of any meeting, as and when appropriate. During the year under review, the Committee held two formal meetings (in May and December) (2022: two meetings).

The Chair of the Committee is also the Group's designated NED for gathering the views of our workforce (see page 134).

The Committee's role and responsibilities are set out in the terms of reference, which were last updated in December 2023 and are available on the Company's website at: www.derwentlondon.com/investors/governance/board-committees

The 2023 evaluation of the Board, its committees and individual Directors was internally facilitated by Helen Gordon, Senior Independent Director, in accordance with our three-year cycle of evaluations (see page 137). The review confirmed that the Committee continues to operate very effectively.

Employees on the Responsible Business Committee

Having employee members on a Board-level committee enables the diverse voice of our employees to be brought directly into our boardroom, providing invaluable insight. The employee members are fully engaged in all aspects of the Committee's activities. Additionally, they extend the Committee's influence by meeting regularly with the HR team to review initiatives and provide six-monthly updates to the Executive Committee and wider workforce.

During 2023, the employee members continued to work closely with teams across the business to receive and respond to suggested areas of improvement which were highlighted by employees directly and through the results of the 2022 'pulse survey'. After three years as an employee member, Davina Smith reached the end of her tenure on the Committee in December 2023. The Committee is thankful for the level of commitment Davina has shown in her role.



Davina Smith
Property Account
Manager
Appointment: October 2020

Kirsty Williams
Associate, Property
Management
Appointment: January 2022

Lucy Taylor
Senior Investment
Manager
Appointment: January 2022

Matt Massey
Head of Project
Management
Appointment: January 2022

RESPONSIBLE BUSINESS COMMITTEE REPORT continued

Key activities of the Committee during 2023

The Committee continued to strengthen the Board's oversight of environmental and social issues, and monitored the Group's corporate responsibility, sustainability and stakeholder engagement activities.

During 2023, the Committee's key activities included:

Responsible business

- Reviewed the outcome of an independent review of our modern slavery policies and practices and the proposed action plan for implementing the best practice recommendations (see page 169)
- Engagement was sought with our major suppliers to ensure compliance with our Supply Chain Responsibility Standard
- Approved the development of a Modern Slavery Policy

Stakeholder engagement

- Received regular updates on our community initiatives and engagement (see pages 50 and 51)
- Finalised the Social Value Strategic Framework
- The Sponsorship & Donations Committee committed £339k for a variety of causes to be supported throughout the year

Diversity and inclusion

- Received regular updates on the D&I Working Group and its activities and discussions (see page 53)
- Conducted our first internal disability survey following our membership of the Business Disability Forum
- Agreed the new Parker Review target for ethnicity in senior management by December 2027 (see page 143)
- Launched our first diversity and inclusion (D&I) newsletter to ensure wider communication of D&I initiatives

Employees

- Reviewed the excellent results of the Sunday Times Best Places to Work Survey
- Reviewed the feedback from the biennial employee survey conducted in October
- Offered a series of initiatives including 1:1 Health Checks for all employees to support in proactively managing health and wellbeing
- Celebrated the careers and achievements of individual employees through the 'Monday Meets' initiative
- Organised a 'meet the Board' evening for a selection of employees

Net zero carbon

- Reviewed the revised Net Zero Carbon Dashboard which will assist the Committee in monitoring the Group's progress to net zero
- Discussed the engagement received from our occupiers on sustainability
- Reviewed the change in guidance and standards on embodied carbon as well as our current embodied carbon targets for 2025 and 2030

Diversity and inclusion

Having a diverse, highly talented and skilled group of employees at all levels in Derwent London is vital to the successful delivery of our strategy and long-term business performance. Diversity and inclusion brings new ideas and fresh perspectives which fuel innovation and creativity.

The Diversity and Inclusion Working Group

The Diversity and Inclusion Working Group (the D&I Working Group) consists of 12 members and meets monthly to discuss the progress being made towards the Group's diversity and inclusion vision, strategy and KPIs.

On an ad hoc basis and when deemed necessary, Executive Directors and/or Heads of Departments are invited to join the Group's meetings, which provides insights into the diversity and inclusion initiatives being discussed. The Committee received updates on the work of the D&I Working Group at each meeting during 2023 which included:

- **Business Disability Forum (BDF):** Derwent London became a member of the BDF from 1 March 2023. During the year, the D&I Working Group prioritised stage one of the Disability Smart Audit, in the form of a Business Disability Self-Assessment. The feedback from the Self-Assessment was used to develop an action plan for all 10 of the BDF Framework areas. Each of the areas will continue to be reviewed individually to ensure we are best placed to communicate our Disability Strategy.
- **Wellbeing initiatives:** During the year, all employees were invited to attend a range of wellbeing initiatives. The initiatives were well attended and included sessions on Neurodiversity, Mental Health Awareness, Brain & Heart Health and the Impact of the Change of Seasons. Additionally, 1:1 Health Checks were offered to support employees in proactively managing their health and wellbeing.
- **Communication:** The importance of D&I has continued to be communicated via staff inductions, town halls and the intranet. The first D&I newsletter was launched to all employees with positive engagement achieved. To further share in the careers and achievements of individual employees the D&I Working Group continued to post 'Monday Meets' via the Intranet and social media channels.

In 2024, the D&I Working Group will continue to focus on the Business Disability Forum Framework and action plan, as well as the ongoing wellbeing strategy and inclusive management training. We have also committed to the #10,000 Interns programme.

Supply Chain Responsibility Standard

The primary purpose of the Supply Chain Responsibility Standard (the Standard) is to clearly set out our principles and expectations in terms of the environmental, social, ethical and governance issues which relate to our supply chains.

It renews our commitment to ensuring our supply chain remains as engaged as we are in setting the highest standards. All our suppliers are expected to read, acknowledge and comply with the Standard.

Our Standard addresses the following headline themes:

- Governance
- Employment and labour practices
- Modern Slavery
- Diversity and inclusion
- Payment practices
- Health and safety
- Environmental standards
- Community

In accordance with the Standard, all suppliers with whom we spend more than £20,000 per annum are required to periodically provide evidence of their compliance.

During 2023, we requested evidence that our major suppliers were compliant with the Standard through a questionnaire. This extends beyond basic compliance and requires our suppliers to advise on how they are embedding best practice into their working practices. Additionally, the Maru Group were commissioned to assist in assessing supplier compliance with both the Standard and other key policies. This review provided valuable insight into other important areas outlined in the questionnaire, such as diversity & inclusion and modern slavery.

Overall, the results of both the questionnaire and third party review provided reassurance that our supply chain is in alignment with the standards and expectations set out in our Supply Chain Responsibility Standard.

Responsible payment practices

Derwent London is a signatory to the Office of the Small Business Commissioner (OSBC) Prompt Payment Code, which confirms our commitment to best practice payment practices and the fair and equal treatment of our suppliers.

Unless otherwise agreed, we aim to pay our suppliers within 30 days. We expect our suppliers to adopt similar practices throughout their supply chains to ensure fair and prompt treatment of all creditors.

In 2023, our average payment term was 19 days, which continues to remain below our payment terms of 30 days and well below the industry average.

Modern slavery

We endeavour to ensure that the risk of modern slavery and human trafficking occurring in our activities, our supply chains or in any part of our wider business is reduced as much as possible.

During the year, we continued to identify and implement ways to strengthen our policies and procedures. In support of this, the independent anti-slavery charity, Unseen UK, were commissioned to conduct a detailed review of our procedures and identify areas for further improvement. Through this review, we were able to receive independent assurance that our procedures are sufficiently robust and in accordance with best practice.

Overall, the review provided us with useful insights to help enhance our ability to prevent and detect modern slavery. During 2024, our Community & Social Value Manager and Company Secretarial team will work with the wider business to implement the key recommendations, including the development of a Modern Slavery Policy.

Our latest Modern Slavery Statement is available to view on our website www.derwentlondon.com, with our key modern slavery practices outlined below.

Risk	The potential greatest risk exists in the supply chains of our construction contractors as well as the property management suppliers and maintenance contractors used in our buildings.
Governance	The Modern Slavery Act 2015 requires companies with an annual turnover of £36m to provide a modern slavery statement. Where legally required, our suppliers publish a modern slavery statement. Regardless of this threshold we encourage all suppliers to adhere to the Act. Suppliers are expected to provide modern slavery training to employees and ensure they have provisions in place for full compliance.
Policies	We have a number of internal policies that promote our culture and expected behaviours in accordance with the Act's objectives.
Engagement	We are clear on our zero-tolerance position and all suppliers receive Derwent London's latest Modern Slavery Statement. Similarly, modern slavery statements are obtained from all suppliers. We expect our main contractors to conduct due diligence within their supply chains to ensure that the risk of modern slavery or human trafficking occurring is checked and minimised.
Effectiveness	All new starters are required to complete a 'core skills' programme which includes training on modern slavery. Ongoing training initiatives and our mandatory compliance training programme ensures that employees are kept up to date with the latest requirements.

RESPONSIBLE BUSINESS COMMITTEE REPORT continued

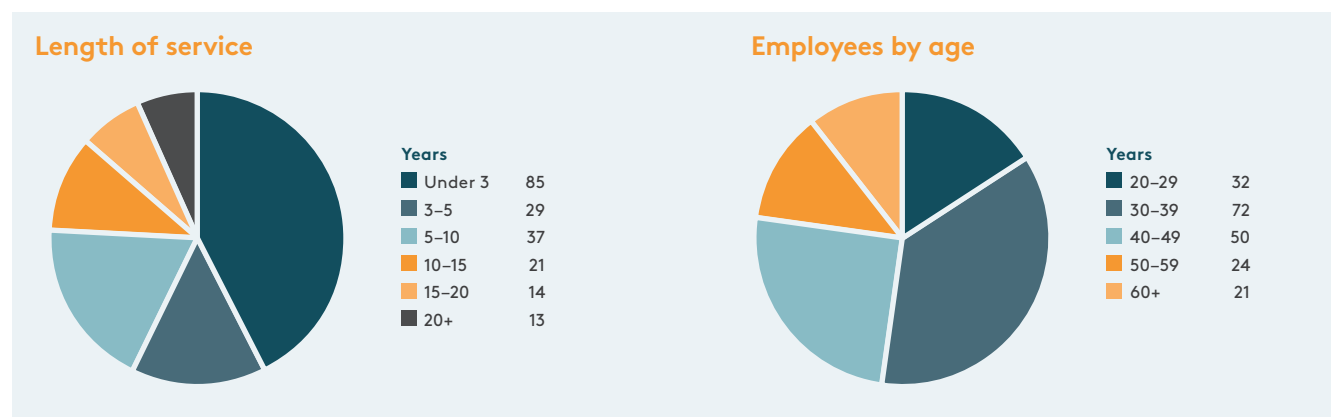
Diversity focus areas

The Board has established clear focus areas which aim to build an inclusive culture that promotes, encourages and celebrates the importance of diversity and inclusion at all stages, from attracting diverse and talented individuals through to retention and career opportunities. Ensuring sufficient attention is being given to diversity continues to be a key focus area.

Focus	Actions taken during 2023	Further actions proposed in 2024
Attracting diverse, highly skilled and talented employees <ul style="list-style-type: none"> Tackle any unconscious bias All shortlists to have due regard for diversity considerations (not limited to gender and ethnicity) Recruit from a wide pool of talent (including women returning to work) 	<ul style="list-style-type: none"> Continued to work closely with recruitment consultants to ensure a diverse pool of candidates for all vacancies Continued to promote our accreditation to the National Equality Standard, our membership of the Business Disability Forum and 'Monday Meets' posts which celebrate the careers and achievements of individual employees, via our website and social media channels Ensured our recruitment guidelines are adhered to, ensuring consistency across the business Maintained our internal recruitment log to ensure data and demographics are captured during the recruitment process Launched our Code of Conduct (internally and externally) Established a Health, Safety & Accessibility Working Group 	<ul style="list-style-type: none"> Continue with current initiatives including our social responsibility messaging, communicating our culture and inclusive values to the market Continue to make it a requirement for recruitment consultants to provide a diverse pool of candidates To focus on our wellbeing strategy for 2024 taking into account the feedback from our internal disability survey
Retaining the best talent <ul style="list-style-type: none"> Focus on supporting women returning to work Promote the importance of wellbeing initiatives Prioritise training and development Equal opportunities for all Maintain high levels of employee satisfaction 	<ul style="list-style-type: none"> Inclusive social events were held more regularly and open to everyone to support in building relationships across the business Arranged a number of 'Lunch and Learns' relating to mental health and wellbeing, including 1:1 Health Checks Acted on the feedback from the October 2022 employee 'pulse survey' and implemented recommendations Held a training session for line managers on devising and using Personal Development Plans & Strengths Profiles Rolled out our fifth full employee survey in October 2023 run by an independent provider Focused on succession planning across the business Continued to review and get feedback on our Smart Working Policy Core skills programme was varied and included topics on 'inclusive and collaborative working' and 'leading from any seat in the room' 	<ul style="list-style-type: none"> Analyse the feedback from our fifth biennial employee survey, hold focus groups and agree an action plan Review the performance appraisal process Further training for all line managers on how to upskill with the tools needed to manage diverse teams inclusively Launch our core skills programme for 2024 including, but not limited to, emotional intelligence and thriving personally and professionally
Promoting diversity <ul style="list-style-type: none"> Gender balance within our internships and work experience placements Aim to attract more women to the construction and property industry Heads of Departments to demonstrate that we are an inclusive employer 	<ul style="list-style-type: none"> Participated in careers and volunteering events The importance of diversity and inclusion was regularly reinforced in our induction programme, town halls and via our intranet and guest speakers Continued to engage with, and learn from, external specialists e.g. Business Disability Forum The D&I Working Group have continued to meet monthly to share best practice and ensure the lines of communication internally and externally remain open through a newsletter and town halls All employees were required to complete compliance training on disability awareness Rolled out an internal disability survey to provide us with a greater understanding of our employee base and enable us to provide the necessary support or adjustments 	<ul style="list-style-type: none"> Host four individuals through the #10,000 Interns programme in the summer of 2024 Continue to participate in community, careers and volunteering events Continue to work through the Business Disability Assessment Framework and recommendations

The Group's composition and diversity

The information below provides a breakdown of our diversity as at 31 December 2023. Further information on the Board's composition is shown on page 136. The variance between genders in response to employee surveys is taken into account by the Remuneration Committee when determining the annual bonus payout for Executive Directors in relation to the staff satisfaction metric (see page 191).



Diversity key performance indicators (KPIs)

52%

total number of female employees as at 31 December 2023

36.8%

of new recruits during 2023 were from an ethnic minority group

44.4%

of the Executive Committee & its direct reports are women

50%

of the Board are women

Gender diversity and ethnic origin⁵

	Total employees ¹		Executive Committee & its direct reports ²		Board ³		Senior positions on the Board ⁴
	Number	%	Number	%	Number	%	Number
Gender							
Men	95	48%	40	55.6%	5	50%	3
Women	104	52%	32	44.4%	5	50%	1
Other	–	–	–	–	–	–	–
Not specified/prefer not to say	–	–	–	–	–	–	–
	199		72		10		4
Ethnicity							
White British/White Other	143	71.8%	63	87.5%	9	90%	4
Mixed/Multiple Ethnic Groups	12	6.03%	2	2.8%	–	–	–
Asian/Asian British	21	10.5%	3	4.2%	1	10%	–
Black/African/Caribbean/Black British	16	8.0%	2	2.8%	–	–	–
Other Ethnic Group	6	3.0%	2	2.8%	–	–	–
Not specified/prefer not to say	1	0.5%	–	–	–	–	–
Total	199		72		10		4

¹ Total employees include the Board of Directors.

² Includes the Executive Committee and its direct reports (excluding administrative and support staff).

³ The Board includes the Chairman, Executive Directors and Non-Executive Directors.

⁴ Senior positions on the Board include the CEO, CFO, Chairman and Senior Independent Director.

⁵ The information disclosed, and the format of the table, is prescribed by Listing Rule 9.8.6R(10).

REMUNERATION COMMITTEE REPORT



Claudia Arney
Chair of the Remuneration Committee

2024 Focus areas

- Ensure a smooth transition as Sanjeev Sharma succeeds Claudia Arney as Chair of the Remuneration Committee following the 2024 AGM (see page 174)
- Continue to keep wider workforce remuneration arrangements under review, taking these into account when considering remuneration arrangements for Executive Directors
- Operation of the 2024 annual bonus and grant of 2024 Performance Share Plan (PSP) awards
- Continue to keep under review the effectiveness and relevance of the Remuneration Policy along with performance measures and comparator groups for variable remuneration
- Consideration of the revised UK Corporate Governance Code and updated shareholder guidance

Committee membership during 2023

	Independent	Number of meetings ¹	Attendance ²
Claudia Arney	Yes	4	100%
Lucinda Bell	Yes	4	100%
Helen Gordon	Yes	4	100%
Sanjeev Sharma	Yes	4	100%

1 The Committee attended four scheduled meetings with an additional ad hoc meeting being held in March. Due to prior business arrangements Lucinda Bell and Helen Gordon were unable to attend the ad hoc meeting but had the opportunity to provide views to the Committee Chair on the matters discussed.

2 Percentages are based on the meetings entitled to attend for the 12 months ended 31 December 2023.

Annual statement

Dear Shareholder,

As Chair of the Remuneration Committee and on behalf of the Board, I am pleased to present our report on Directors' remuneration for 2023.

The Annual report on remuneration, describing how the Remuneration Policy has been applied for the year ended 31 December 2023 and how we intend to implement the Policy for 2024, is provided on pages 176 to 197. Our Remuneration Policy was approved by shareholders at the AGM held on 12 May 2023, and received 95% of votes cast in favour. We have provided a summary of the Policy on pages 178 to 181. A copy of the complete Remuneration Policy can be found on our website at: www.derwentlondon.com/investors/governance/board-committees

Linking Executive Directors' remuneration with our purpose, values and strategy

Our Remuneration Policy is designed to be simple and transparent and to promote effective stewardship in the context of the nature of the sector in which we operate. Further details, including how remuneration aligns with our purpose, values and strategy and how our KPIs are embedded within the incentive framework, are set out on page 177.

The Committee strives to provide clarity on how pay and performance is reported at Derwent London and how decisions made by the Committee support our purpose and values and strategic direction of the Group and take into account the experience of key stakeholders. During the year, the Committee considers that our Remuneration Policy has operated as intended in terms of supporting the delivery of the strategy and aligning outcomes with Company performance.

Performance outcomes in 2023

Based on performance against the financial and strategic targets, the incentive outcomes for 2023 were as follows:

- Annual bonus outcome of 31.0% of the maximum opportunity (equivalent to 46.5% of base salary) based on the outcome of the relative total return and total property return performance metrics and strategic objectives (see pages 190 and 191).
- The PSP award granted in 2021 will lapse in full based on the outcome of the relative total shareholder return and relative total property return performance metrics (see page 192).

The Committee considered the formulaic vesting outcomes against broader perspectives including: underlying business performance and affordability; the experience of shareholders; and the experience of employees and other stakeholders.

The Group has continued to perform strongly relative to central London office-based real estate peers (the Group's total property return performance was -7.3% compared to the MSCI Quarterly Offices Index of -7.9%) in the face of a subdued market and continued economic uncertainty, which is testament to the execution of the strategy over multiple years, the quality of our portfolio, and the performance and commitment of our Executive leadership team.

The Group raised the 2023 interim dividend by 2.1% to 24.5p per share and the proposed 2023 final dividend has been increased by 0.9% to 55.0p per share. The Committee also recognises that shareholders have been impacted by the Group's absolute share price performance during the last couple of years.

A dedicated section is included within this report which incorporates several disclosures to demonstrate the Committee's belief that remuneration arrangements for Executive Directors are fair and appropriate in the context of pay policies and practice across the wider workforce (see pages 184 to 187). In particular, it is noted that all eligible employees received a bonus for 2023.

On balance taking into account these factors, the Committee considered the vesting outcome of the annual bonus and PSP awards to be appropriate and no discretion was applied to adjust the formulaic outcome.

2022 annual bonus outcome update

37.5% of the annual bonus is subject to relative total return performance. A robust methodology for assessing the Group's total return performance against the comparator group has been applied for several years which includes, for some comparators, an estimate of performance to 31 December. As disclosed in the 2022 Report & Accounts, in light of volatility and uncertainty in respect of property valuations, the Committee decided to delay the assessment of the total return performance of the comparator group until more published data was available to provide a more robust assessment of performance.

Subsequent to the finalisation of the 2022 Report & Accounts, the Committee determined the Group's relative total return performance and vesting outcome of the proportion of the 2022 annual bonus subject to relative total return performance. Derwent's total return performance for 2022 was -6.3% compared to a comparator group median of -9.8% (for which 22.5% of the award would vest) and a comparator group upper quartile of -4.6% (for which 100% of the award would vest).

Based on this performance, the Committee determined that 28% of the 37.5% of the 2022 annual bonus subject to relative total return performance was earned. Accordingly, the total 2022 annual bonus earned was 83.1% of maximum (equivalent to 124.7% of salary) when also taking into account the outcome of the total property return and strategic performance measures (which are disclosed in the 2022 Report & Accounts).

The Committee considered the overall vesting outcome of the 2022 annual bonus to be appropriate and no discretion was applied to adjust the formulaic outcome. In accordance with our previous Remuneration Policy, the proportion of the 2022 annual bonus earned in excess of 100% of salary was deferred into shares for three years.

Implementation in 2024

Base salaries

The Committee awarded the Executive Directors (with the exception of Emily Prideaux) a 4.0% salary increase with effect from 1 January 2024. Therefore, Paul Williams' salary was increased to £707,200 and Damian Wisniewski's and Nigel George's salaries were increased to £545,500.

The average increase for the wider workforce was 6.2%.

Emily Prideaux was appointed to the Board on 1 March 2021 with a base salary of £410,000. As disclosed in the 2021 and 2022 Report & Accounts, Emily's salary was positioned below that of the other Executive Directors' salaries to reflect that she was stepping into an Executive Director role; with the intention that Emily's salary would align with the other Executive Directors' salaries over three years as her role and experience develops. A phased approach to the salary increases was considered to be in line with good governance.

Emily's salary was increased to £450,000 and £492,500 with effect from 1 January 2022 and 1 January 2023, respectively. Emily continues to perform to a very high standard and has taken on additional responsibility for both the asset management and letting departments whilst taking an important role in the design of our development pipeline. The Committee therefore agreed to align her salary with Damian Wisniewski's and Nigel George's salaries with effect from 1 January 2024 (being £545,000).

Annual bonus and PSP

The annual bonus and PSP opportunities and performance measures remain largely unchanged for 2024. Minor changes have been made to the strategic targets which make up 25% of the bonus (see page 180).

Embodied carbon and energy intensity reduction performance measures were introduced within the 2023 PSP awards at a 10% weighting.

As disclosed in the 2022 Report & Accounts, the Committee intended to increase the weighting of the embodied carbon and energy intensity reduction performance measures to 20% within the 2024 PSP awards. The Committee has further considered this approach as it is mindful that the Group is still embedding a robust approach to managing embodied carbon and energy data and measuring performance against the UKGBC-aligned targets set under our Net Zero Carbon Pathway. In the current environment the Committee also wants to ensure that sufficient focus is retained on delivering total property return and total shareholder return performance.

Therefore, after careful reflection, the Committee considers it appropriate to retain the weighting of the embodied carbon and energy intensity reduction performance measures at 10% within the 2024 PSP awards. The Committee still intends to increase the weighting of the embodied carbon and energy intensity reduction performance measures to 20% in the future.

Staying ahead of the sustainability curve and delivering on its net zero carbon commitments remains a fundamental part of Derwent London's long-term strategy. The Committee strongly believes that, whilst it is appropriate for a proportion of PSP awards to be subject to embodied carbon and energy intensity performance metrics, the Executive Directors are fully committed to delivering our sustainability strategy regardless of this link to the incentive framework. Furthermore, the Board believes that strong sustainability performance will ultimately enhance the Group's total returns and total property returns over the longer term, both of which are performance measures within the incentive framework.

Annual statement continued

Amendment to energy intensity performance targets for the 2023 PSP awards

We have revised our methodology for calculating energy intensity which has resulted in the Group's energy intensity reduction pathway being refined. The Committee considered it appropriate to amend the energy intensity targets for the 2023 PSP awards so that they align with the Group's refined energy intensity reduction pathway (see page 49 for details).

Non-Executive Chairman and Non-Executive Director fees

The Non-Executive Chairman's annual fee was set at £250,000 at the time of his appointment (1 February 2021) in line with the annual fee for the previous Non-Executive Chairman. The Committee reviewed the Non-Executive Chairman's annual fee during the year and decided to increase it from £250,000 to £280,000 with effect from 1 January 2024 (12% increase).

The Committee considers this fee level to be appropriate for a company of our size and complexity, noting that the fee is reasonably positioned compared to the FTSE 250 and real estate companies of a similar size, and reflecting the experience and calibre of the Non-Executive Chairman.

The fee increase is equivalent to an annual compounded increase of 3.8% over three years since Mark Breuer's appointment. By comparison, the average annual compounded salary increase for the wider workforce over the last three years is c.4.9%.

The Board reviewed the Non-Executive Director fees during the year (without the Non-Executive Directors being present) and decided to increase, with effect from 1 January 2024, the base fee from £52,500 to £57,000 (8.6% increase), the Audit Committee Chair fee from £10,000 to £12,500 (to reflect the role's increased workload and responsibilities) and the Senior Independent Director fee from £10,000 to £12,500.

The Board considers these fee levels to be appropriate for a company of our size and complexity, noting that the fees are reasonably positioned compared to the FTSE 250 and real estate companies of a similar size. The base fee increase is equivalent to annual compounded increase of 4.2% over two years noting that the last increase to the Non-Executive Director base fee was with effect from 1 January 2022. By comparison, the average annual compounded salary increase for the wider workforce over the last two years is c.4.6%. The last increase to the Senior Independent Director fee was with effect from 1 January 2019.

Going forward, the fees payable to the Chairman and Non-Executive Directors will be reviewed annually with increases awarded by reference to the average salary increase for the wider workforce, unless circumstances for a particular year warrant no fee increase or an exceptional increase.

Further engagement

I look forward to receiving your support at our 2024 AGM, where Sanjeev Sharma (my Remuneration Committee Chair successor) and I will be available to respond to any questions shareholders may have on this report or in relation to any of the Committee activities. In the meantime, if you would like to discuss any aspect of our Remuneration Policy or incentive framework, please feel free to contact me through the Company Secretary, David Lawler (telephone: +44 (0)20 7659 3000 or email: company.secretary@derwentlondon.com).

The Directors' remuneration report has been approved by the Board of Directors and signed on its behalf by:

Claudia Arney
Chair of the Remuneration Committee
27 February 2024



Committee Chair succession

Sanjeev joined the Derwent London Board in 2021 and has been a member of the Remuneration Committee since 1 March 2022. Sanjeev has a wealth of experience in governance, human resources and the real estate sector. Sanjeev is on the Patrons Committee of Real Estate Balance and is a Trustee Director of the Prudential Staff Charitable Trust.

Sanjeev will succeed Claudia Arney as Chair of the Remuneration Committee following the conclusion of the 2024 AGM. Sanjeev has more than 12 months' experience on our Remuneration Committee before his succession to Committee Chair, in accordance with the 2018 UK Corporate Governance Code.

Sanjeev Sharma
Non-Executive Director
Incoming Chair of Remuneration Committee

Remuneration at a glance

Our Remuneration Policy is designed to be simple and transparent and to promote effective stewardship that is vital to the delivery of the Group's purpose and strategy.

Reward linked to performance

Annual bonus earned by Executive Directors

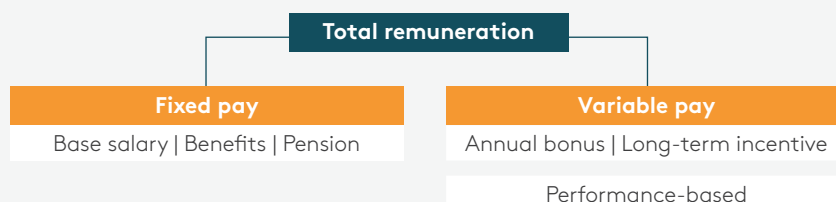
Measure	Threshold %	Maximum %	Actual %	Bonus earned % max	
Relative TR	37.5%	(2.8)	3.3	(11.7)	0.0
Relative TPR	37.5%	(7.85)	(5.85)	(7.30)	16.5
Strategic	25%				14.5
Total					31.0

PSP earned by Executive Directors

Measure		Threshold %	Maximum %	Actual %	PSP earned % max
Relative TSR	50%	(5.0)	4.6	(24.4)	0.0
Relative TPR	50%	1.65	3.65	(1.63)	0.0
Total					0.0

We provide further information on how our remuneration arrangements align with our purpose, values and strategy on page 177.

Remuneration Policy Summary – 2024



Component	Key features ³
Base salary and benefits	Attract and retain high calibre executives
Pension	In line with the contributions available for the majority of the wider workforce (currently 15% of salary)
Annual bonus¹	Maximum opportunity of 150% of salary Any bonus earned in excess of 75% of salary is deferred into shares over three years
LTIP¹	Maximum opportunity of 200% of salary Three-year performance period plus two-year holding period
Shareholding guidelines²	200% of salary for all executives Post-employment guidelines apply

¹ Strong link between performance against strategy and KPIs and reward.

² Supports long-term stewardship.

³ Takes into account risk management.

Wider stakeholder considerations

The Committee considers pay policies and practices for employees, as well as feedback from key stakeholders, when making remuneration decisions for Executive Directors.

+6.2%

average salary increase for the wider workforce effective from 1 January 2024

+1.3%

increase to the dividend (2022 to 2023)

95%

of votes cast in favour of our revised Remuneration Policy at the 2023 AGM

14:1

CEO pay ratio at 50th percentile (median) for 2023 (see page 187)

£339k

amounts committed by the Sponsorship and Donations Committee in 2023

Annual report on remuneration

(unaudited unless otherwise indicated)

The annual report on remuneration (pages 176 to 197) explains how we have implemented our Remuneration Policy during 2023. The Remuneration Policy in place for the year was approved by shareholders at the 2023 AGM and is available to download from our website at: www.derwentlondon.com/investors/governance/board-committees

Role of the Remuneration Committee

The role of the Committee is to determine and recommend to the Board the Remuneration Policy for Executive Directors, and set the remuneration for the Chairman, Executive Directors and Executive Committee (including the Company Secretary).

In doing so, the Committee has due regard for the remuneration arrangements available to the entire workforce and ensures that our Remuneration Policy supports our strategy, the achievement of our purpose, and is aligned with our values. We detail the Group's key remuneration principles, which inform our remuneration structure, in the table below.

Structure of the annual report on remuneration

The Committee has structured this report to demonstrate that the remuneration arrangements for Executive Directors are fair and appropriate in the context of pay policies and practices across the wider workforce, mitigating risk and rewarding genuine outperformance. Key sections include:

- Aligning remuneration with our purpose, values and strategy (page 177)
- Overview of our Remuneration Policy and its implementation in 2024 (pages 178 to 181)
- Risk management (pages 182 and 183)
- Remuneration decisions in context (pages 184 to 187)
- Executive Director remuneration in 2023 (pages 188 to 196)

Our remuneration principles

The Committee ensures that the remuneration arrangements for Executive Directors are aligned with our key remuneration principles which are detailed below, as well as taking into account the principles of clarity, simplicity, risk, predictability, proportionality and alignment to culture set out in the 2018 UK Corporate Governance Code.

Attract, retain and motivate	Support an effective pay for performance culture which enables the Company to attract, retain and motivate Executive Directors who have the skills and experience necessary to deliver the Group's purpose.
Clarity and simplicity	Ensure that remuneration arrangements are simple and transparent to key stakeholders and take account of pay policies for the wider workforce.
Alignment to strategy and culture	Align remuneration with the Group's objectives and long-term strategy and reflect our culture through a balanced mix of short- and long-term performance-related pay and ensure that performance metrics remain effectively aligned with strategy.
Risk management	Promote long-term sustainable performance through sufficiently stretching performance targets, whilst ensuring that the incentive framework does not encourage Executive Directors to operate outside the Group's risk appetite (see page 93). Further information on risk management within our remuneration structures is on pages 182 and 183.
Stewardship	Promote long-term shareholdings by Executive Directors that support alignment with long-term shareholder interests. Executive Directors are subject to within-employment and post-employment shareholding guidelines. Once PSP awards have vested there is a two-year holding period during which Executive Directors are not able to sell their shares (net of tax) to support sustainable decision making.
Predictability	Details of the maximum potential values that may be earned through the remuneration arrangements are set out in the summary of our Remuneration Policy on pages 178 to 181.
Proportionality and fairness	Total remuneration should fairly reflect the performance delivered by the Executive Directors and the Group. The Committee takes into account underlying business performance and the experience of shareholders, employees and other stakeholders when determining vesting outcomes, ensuring that poor performance is not rewarded. The Committee considers the approach to wider workforce pay and policies when determining the Remuneration Policy to ensure that it is appropriate in this context.

Aligning remuneration with our purpose, values and strategy

Remuneration that aligns with our values

Our core values are reflected in our remuneration arrangements in the following ways:

We build long-term relationships

We seek to create long-term collaborative relationships with our occupiers and employees. The annual bonus contains strategic targets for tenant retention and staff satisfaction. A staff satisfaction metric helps the Committee, and the Board, monitor the wellbeing of the wider workforce and gauge our ability to retain key talent.

We lead by design

Our Remuneration Policy has been designed to reflect our key remuneration principles (page 176). Incentive arrangements reward genuine out performance and progress against our strategic objectives. The structure of our Remuneration Policy is kept under routine review.

We act with integrity

Total remuneration fairly reflects the performance delivered by the Executive Directors and the Group. The Committee takes into account underlying business performance and the experience of shareholders, employees and other stakeholders when determining vesting outcomes, ensuring that poor performance is not rewarded.

Remuneration that supports our strategy and helps us to achieve our purpose

We seek to create above average long-term returns for our shareholders, retain and develop our talented workforce, design 'long-life, low carbon' space, and work towards achieving our net zero carbon ambitions.

Our Remuneration Policy has been designed to support our strategy by aligning our performance-based pay with our strategic objectives and Net Zero Carbon Pathway. Our ability to provide above average returns to our shareholders is a substantial element of our PSP (see page 179). Our total shareholder return is ranked against the FTSE 350 Super Sector Real Estate Index and vesting of this element only occurs if we reach or exceed median. Further information on the rationale for the Committee's chosen strategic performance targets is on page 182.

Sustainability is an integral part of the Group's strategy; it differentiates us from our peers and ensures we continue to adapt. We have ESG-related metrics within both elements of variable remuneration for Executive Directors (annual bonus and PSP).

Environmental

As delivering on our net zero carbon commitments is a fundamental part of Derwent London's long-term strategy, sustainability performance metrics (embodied carbon reduction and energy intensity reduction) are included within the Executive Directors' long-term incentive plan awards (PSP).

Social

All employees receive at least the London Living Wage. Our generous benefit package includes a 15% company pension contribution. We continue to invest significantly in our employees to ensure that everyone thrives in their roles, feels valued, supported and has the opportunity of continuous growth and development.

Governance

Risk management is factored into the design of our remuneration arrangements and the setting of targets. We seek to ensure fairness and transparency in our disclosures, and voluntarily report on our CEO pay ratio on page 187.

How our KPIs are embedded within the executive remuneration framework

Success against our strategic objectives is measured using a range of financial and non-financial key performance indicators (KPIs), which are largely embedded within the executive remuneration framework as illustrated by the chart below.

KPIs	
Financial	Non-financial
Total return	Reversionary percentage
Total property return ¹	Development potential
Total Shareholder Return (TSR)	Tenant retention
EPRA Earnings Per Share (EPS)	Void management
Gearing & available resources	BREEAM ratings
Interest Cover Ratio (ICR)	Energy Performance Certificates (EPCs)
B Annual Bonus	Energy intensity
P Performance Share Plan	Embodied carbon intensity
	Accident Frequency Rate (AFR)
	Staff satisfaction

¹ Total Property Return (TPR) performance for the annual bonus is measured against the MSCI Quarterly Central London Offices Total Return Index (see page 191) whereas performance under the Performance Share Plan is our annualised TPR versus the MSCI Quarterly UK All Property Index measured over three years (see page 192).

Annual report on remuneration continued

Summary of Remuneration Policy

We always seek to engage with shareholders when considering material changes to our remuneration policies or practices. In 2022, the Remuneration Committee consulted on the Remuneration Policy with 20 of our largest shareholders, representing approximately 64% of our issued share capital. The Committee was extremely pleased with the level of shareholder support at the 2023 AGM in respect of the Remuneration Policy and the annual report on remuneration.

	Annual report on remuneration (2023 AGM)		Remuneration Policy (2023 AGM)	
Votes cast in favour	89.7m	93.5%	91.6m	95.0%
Votes cast against	6.3m	6.5%	4.8m	5.0%
Votes withheld	0.0m	0.0%	0.0m	0.0%
Total votes cast	96.0m	100%	96.4m	100%

The Committee did not consult with shareholders in the lead up to the 2024 AGM as no material changes to our remuneration policies or practices have been proposed for 2024. We have provided a summary of the key elements of the Remuneration Policy for Executive Directors and Non-Executive Directors approved by shareholders at the 2023 AGM on pages 178 to 181. In addition, we have set out how the Remuneration Policy will be implemented in 2024. Our full Remuneration Policy can be found on our website at: www.derwentlondon.com/investors/governance/board-committees

Executive Directors

The summary table below sets out the key elements of the remuneration package for Executive Directors.

Element	How operated	Maximum opportunity	Implementation for 2024															
Base salary	Normally reviewed annually. Any increase is normally effective from 1 January. Factors taken into account in the review include: <ul style="list-style-type: none">the role, experience and performance of the individual and the Company;pay and conditions throughout the business; andpractice in companies with similar business characteristics.	No maximum, but increases will normally be consistent with the policy applied to the workforce generally (in percentage of salary terms). Increases above this level may be awarded in certain circumstances such as, but not limited to: <ul style="list-style-type: none">where there is a change in role or responsibility;an Executive Director's development or performance in role (e.g. to align a new hire's salary with the market over time); andwhere there is a significant change in the size and/or complexity of the Group.	With effect from 1 January 2024, Executive Directors' salaries (excluding Emily Prideaux) were increased by 4.0%. The average increase received by the wider workforce was 6.2%. <table><tr><th>Executive Director</th><th>2023 salary (£'000)</th><th>2024 salary (£'000)</th></tr><tr><td>Paul Williams</td><td>680.0</td><td>707.2</td></tr><tr><td>Damian Wisniewski</td><td>524.5</td><td>545.5</td></tr><tr><td>Nigel George</td><td>524.5</td><td>545.5</td></tr><tr><td>Emily Prideaux</td><td>492.5</td><td>545.5</td></tr></table>	Executive Director	2023 salary (£'000)	2024 salary (£'000)	Paul Williams	680.0	707.2	Damian Wisniewski	524.5	545.5	Nigel George	524.5	545.5	Emily Prideaux	492.5	545.5
	Executive Director	2023 salary (£'000)	2024 salary (£'000)															
Paul Williams	680.0	707.2																
Damian Wisniewski	524.5	545.5																
Nigel George	524.5	545.5																
Emily Prideaux	492.5	545.5																
Benefits	Benefits include, but are not limited to, private medical insurance, car and fuel allowance and life assurance. Executive Directors may participate in the Sharesave Plan and any other all-employee plans on the same basis as other employees up to HMRC approved limits.	Set at a level which the Committee considers to be appropriate taking into account relevant factors including but not limited to the overall cost to the Company in securing the benefits, individual circumstances, benefits provided to the wider workforce and market practice.	Benefits will continue to include a fully expensed car or car allowance, fuel allowance, private medical insurance and life assurance.															
Pension	Executive Directors may receive cash payments in lieu of contributions where considered appropriate (for example where contributions would exceed either the lifetime or annual contribution limits).	The maximum Company contribution or cash supplement (or a mix of both) for Executive Directors is aligned with the contribution available to the majority of the wider workforce (currently 15% of salary).	Company pension contribution and/or cash supplement for the Executive Directors is aligned with the majority of the wider workforce (currently at 15% of salary).															

Element	How operated	Maximum opportunity	Implementation for 2024
Annual bonus	<p>At least 75% of the annual bonus will be based on financial measures with up to 25% based on strategic objectives.</p> <p>Bonuses up to 75% of salary are paid as cash. Amounts in excess of 75% are deferred into shares for three years subject to continued employment.</p> <p>Dividend equivalents may accrue on deferred shares. Such amounts will normally be paid in shares.</p> <p>Malus and clawback provisions apply (see table on page 182).</p> <p>The Committee has discretion to adjust the payment outcome if it is not deemed to reflect the underlying financial or non-financial performance of the business, the performance of the individual or the experience of shareholders or other stakeholders over the performance period.</p>	Maximum opportunity of up to 150% of salary may be awarded in respect of a financial year.	<p>The maximum bonus potential for Executive Directors is 150% of salary. In line with recent years, bonuses for 2024 are subject to the following performance metrics:</p> <ul style="list-style-type: none"> • Total return (weighting: 37.5%). Performance measured against a comparator group of real estate companies. Targets and amounts vesting for threshold and maximum performance are outlined on page 191. • Total property return (weighting: 37.5%). Performance measured against the MSCI Quarterly Central London Offices Total Return Index. Targets and amounts vesting for threshold and maximum performance are outlined on page 191. • Strategic targets (weighting: 25.0%). The strategic targets, ranges and weightings are outlined on page 180.
Long-term incentives	<p>Award of performance shares which vest after three years subject to performance measures set by the Committee and continued employment.</p> <p>Awards will be subject to a two-year post-vesting holding period.</p> <p>Dividend equivalents may accrue on performance shares. Such amounts will normally be paid in shares.</p> <p>Malus and clawback provisions apply (see table on page 182).</p> <p>The Committee has discretion to adjust the vesting outcome if it is not deemed to reflect appropriately the underlying financial or non-financial performance of the business, the performance of the individual or the experience of shareholders or other stakeholders over the performance period.</p>	Maximum opportunity of up to 200% of salary may be awarded in respect of a financial year.	<p>The Committee reviewed the Group's share price performance prior to determining the award levels for the 2024 PSP award. As the share price on 23 February 2024 was not materially different to the share price at the time the 2023 PSP awards were granted (£24.32), the Committee considered it appropriate to award a maximum opportunity of 200% of salary to Executive Directors.</p> <p>PSP awards for 2024 are subject to the following performance metrics:</p> <ul style="list-style-type: none"> • Total Shareholder Return (50%) • Total Property Return (40%) • Embodied carbon (5%) • Energy intensity reduction (5%) <p>The targets for Total Shareholder Return and Total Property Return remains the same as for the 2023 PSP awards detailed on page 193.</p> <p>The embodied carbon and energy intensity reduction targets are based on the business' UKGBC-aligned milestone targets to achieve net zero by 2030 and are detailed on page 180.</p>

Service contracts

Executive Directors' service contracts do not have a fixed expiry date; however, they are terminable either by the Company providing 12 months' notice or by the executive providing six months' notice.

	Date of service contract
Paul Williams	22 November 2018
Damian Wisniewski	10 July 2019
Nigel George	10 July 2019
Emily Prideaux	26 February 2021

Executive Directors may accept a non-executive role at another company with the approval of the Board (see page 135). The Executive Director is entitled to retain any fees paid for these services.

REMUNERATION COMMITTEE REPORT continued

Annual report on remuneration continued

Performance targets for 2024

Annual bonus strategic targets

The strategic targets for the 2024 annual bonus are broadly the same as those used for the 2023 annual bonus (see page 191). For the 2024 annual bonus we have amended our accident rate measure to capture significant (Direct) RIDDOR injuries and incidents (see footnote 3).

Performance measure	Link to strategic objectives ¹	Target range ²	Weighting % of bonus
Void management This is measured by the Group's EPRA vacancy rate for the year calculated as the average of each quarter end figure.	1 2	10% to 2%	5.0%
Tenant retention This is measured by the percentage of tenants that remain in their space when their lease expires or the space is re-let during the reporting period.	1 2	50% to 75%	5.0%
Staff satisfaction Staff surveys are used to assess this measure. In assessing this target the Committee will consider any variance in staff satisfaction scores between genders.	3	80% to 90%	4.0%
Accident rate The Group's RIDDOR Accident Frequency Rate (AFR) is calculated based on significant ('Direct') RIDDOR injuries and incidents during the year ³ , multiplied by 1,000,000 and divided by 'total work exposure hours'. This target is also conditional on each Executive Director completing, during 2024, an annual health and safety leadership tour.	4	4.0 to 1.0	4.0%
Portfolio development potential⁴ This is measured by the percentage of the Group's portfolio by area where a potential development scheme has been identified, including committed acquisitions.	1	35% to 50%	7.0%
			25%

1 The references above show the link between our strategic objectives and our annual bonus targets (see pages 32 to 36).

2 Payout accrues on a broadly straight-line basis, between threshold and maximum performance.

3 The RIDDOR reportable injuries that we capture in our Accident Frequency Rate are all HSE-reportable accidents or incidents which result in a fatality or 'specified injuries' (such as fractures, serious burns etc). In addition, we will include all injuries caused to members of the public, where we may have contributed to the causation and where they are taken directly to hospital, and injuries to our employees which result in them being unable to return to work for seven consecutive days. Our key health and safety statistics are available on page 55.

4 The target range for portfolio development potential includes Old Street Quarter.

Long-term incentives

The PSP targets for total shareholder return and total property return remain the same as for the 2023 PSP awards detailed on page 193. Our embodied carbon and energy intensity targets are based on the business' UKGBC-aligned milestone targets to achieve net zero by 2030 and are as follows:

Measure	Weighting % of PSP	Threshold	Maximum ⁴
Embodied carbon intensity ^{1,3} (new build commercial office)	5%	600 kg CO ₂ e/m ²	500 kg CO ₂ e/m ²
Energy intensity ^{2,3} (managed properties)	5%	average energy intensity of 127 kWh/m ² across 2024, 2025 and 2026	average energy intensity of 124 kWh/m ² across 2024, 2025 and 2026

1 Calculated based on an overall weighted average embodied carbon performance for all live projects during the performance period.

2 Energy intensity is assessed based on the end of year energy (gas and electricity) consumption of the managed portfolio.

3 The purchasing of carbon offsets will not affect the outcome of the embodied carbon or energy intensity reduction performance measures.

4 Vesting accrues on a straight-line basis, between threshold (22.5% of maximum) and maximum performance.

Our embodied carbon and energy intensity performance will be independently assured by an external third party.

Strategic objectives

- 1** To optimise returns and create value from a balanced portfolio
- 2** To grow recurring earnings and cash flow
- 3** To attract, retain and develop talented employees
- 4** To design, deliver and operate our buildings responsibly
- 5** To maintain strong and flexible financing

Chairman and Non-Executive Directors

	Operation	Implementation for 2024																		
Chairman	<p>The remuneration of the Chairman is set by the Remuneration Committee.</p> <p>The Chairman receives an annual fee and may be eligible to receive benefits including, but not limited to, secretarial provision and travel costs. Non-significant benefits may be provided if considered appropriate. The Chairman does not receive pension or participate in incentive arrangements.</p>	<p>Mark Breuer's inclusive Chairman fee for 2024 is £280,000 per annum (2023: £250,000). Further information on page 174.</p>																		
Non-Executive Directors	<p>The remuneration for Non-Executive Directors is set by the Executive Directors and Non-Executive Chairman.</p> <p>Non-Executive Directors receive a base fee plus additional fees for committee chairmanship, committee membership and for the Senior Independent Director. Additional fees may be paid to reflect additional Board or committee responsibilities or time commitment as appropriate.</p> <p>Non-Executive Directors may be eligible to receive benefits including, but not limited to, secretarial provision and travel costs.</p> <p>Non-Executive Directors do not receive pension contributions or participate in incentive arrangements.</p>	<p>The fees payable to Non-Executive Directors were increased effective from 1 January 2024 (further information on page 174).</p> <table> <tr> <th>(£'000)</th><th>2023</th><th>2024</th></tr> <tr> <td>Base fee</td><td>52.5</td><td>57.0</td></tr> <tr> <td>Audit Committee Chair</td><td>10.0</td><td>12.5</td></tr> <tr> <td>Other Committee Chairs</td><td>10.0</td><td>10.0</td></tr> <tr> <td>Senior Independent Director</td><td>10.0</td><td>12.5</td></tr> <tr> <td>Committee membership</td><td>5.0</td><td>5.0</td></tr> </table> <p>In addition to their chairmanship fee, a Committee Chair also receives the Committee membership fee.</p>	(£'000)	2023	2024	Base fee	52.5	57.0	Audit Committee Chair	10.0	12.5	Other Committee Chairs	10.0	10.0	Senior Independent Director	10.0	12.5	Committee membership	5.0	5.0
(£'000)	2023	2024																		
Base fee	52.5	57.0																		
Audit Committee Chair	10.0	12.5																		
Other Committee Chairs	10.0	10.0																		
Senior Independent Director	10.0	12.5																		
Committee membership	5.0	5.0																		

Letters of appointment

The Chairman and Non-Executive Directors do not have service contracts but are appointed for initial three-year terms which thereafter may be extended, subject to re-election, at each AGM. Details are set out in the table below. Further information on Non-Executive Director tenure and succession is on pages 141 and 142 of the Nominations Committee report.

	Date of latest appointment letter	Latest appointment letter expiry date
Mark Breuer	3 November 2023	1 February 2027
Claudia Arney ¹	5 May 2021	18 May 2024
Dame Cilla Snowball	9 August 2021	31 August 2024
Helen Gordon	3 November 2023	31 December 2026
Lucinda Bell	9 November 2021	1 January 2025
Sanjeev Sharma	6 August 2021	1 October 2024

¹ Claudia Arney will step down as a Director at the 2024 AGM upon reaching her ninth anniversary of appointment. Further information on Non-Executive Director succession is on page 142.

Annual report on remuneration continued

Risk management

We are transparent about our pay practices which aim to incentivise our employees to achieve our strategy and generate sustainable value for our stakeholders. Risk management is a key remuneration principle and has been incorporated into our remuneration policy, principally through:

Stretching performance targets

Sufficiently stretching performance targets which promote long-term sustainable performance

Malus and clawback provisions

Enables the Committee to recover sums paid, or cancel awards, in specific circumstances

Discretion

The Committee has the means to apply discretion and judgement to vesting outcomes

Shareholding guidelines

Requirement to build up and retain a shareholding in Derwent London during and post employment

Choice of performance measures

The performance measures used for the annual bonus and PSP awards reflect the short- and long-term financial and strategic priorities of the business, and are aligned with performance measures used by our real estate sector peers. A significant proportion of annual bonus and PSP awards are subject to performance relative to the real estate sector. This helps support an incentive framework whereby Executive Directors may be fairly and equitably rewarded for outperforming peers and protecting and delivering shareholder value in a cyclical market. For relative performance measures, performance targets are set each year relative to the real estate comparator group.

For strategic measures, targets are set taking into account the Group's strategic plan. Maximum vesting will only occur for what the Committee considers to be outstanding performance. Details of the performance measures for the 2024 annual bonus and PSP awards are set out on page 180. When setting the targets to be achieved, the Committee aims to ensure that they are sufficiently stretching so as to reward genuine out performance without promoting inappropriate risk taking outside of the Board's risk appetite (see page 93).

Malus and clawback

It is a condition of the grant of any awards that the Executive Directors agree to terms of the relevant Plan rules and, in particular, the operation of malus and clawback provisions. A summary of our malus and clawback provisions is provided below.

	Malus	Clawback
Annual bonus	To such time as payment is made.	Up to two years following payment.
Deferred bonus	To such time as the award vests.	No clawback provisions apply (as malus provisions apply for three years from the date of award).
PSP awards	To such time as the award vests.	Up to two years following vesting.

The circumstances in which malus and clawback provisions could be applied:

1. Material misstatement of financial results.
2. An error in assessing performance conditions which has led to an overpayment.
3. Serious or gross misconduct.
4. Serious reputational damage.
5. Corporate failure.

A clawback period of two years following payment of an annual bonus and vesting of PSP awards is considered appropriate on the basis that:

- It is reasonable to assume that a material misstatement of financial results relating to the performance period, an error in assessing performance conditions, or an event act or omission which occurred during the performance period resulting in serious reputational damage, or corporate failure, would be discovered within a two-year period.
- It is considered a reasonable period to support the enforceability of clawback.
- It is aligned with market practice across the FTSE 250.

The Company has not needed to use the malus and clawback provisions in the last five years (including the latest reporting period).

Discretion

The Committee has discretion to adjust the annual bonus or PSP award outcome if it is not deemed to reflect the underlying financial or non-financial performance of the business, the performance of the individual or the experience of shareholders or other stakeholders over the performance period.

Shareholding guidelines

Our Remuneration Policy promotes long-term shareholdings by Executive Directors through within-employment and post-employment shareholding guidelines.

Within-employment	Executive Directors are expected to build up and retain a shareholding equal to 200% of salary. Until the shareholding guideline is met, 50% of any deferred bonus awards or PSP awards vesting (net of tax) normally must be retained. Once PSP awards have vested there is a two-year holding period during which Executive Directors are not able to sell their shares to support sustainable decision making.
Post-employment	Executive Directors who step down from the Board are normally expected to retain a holding in 'guideline shares' equal to 200% of salary (or their actual shareholding at the point of stepping down if lower) for the first 12 months following stepping down as an Executive Director. Then, 100% of salary (or their actual shareholding at the point of stepping down if lower) for the subsequent 12 months. The Committee retains discretion to waive this guideline if it is not considered to be appropriate in the specific circumstance.

1 'Guideline shares' do not include shares that the Executive Director has purchased or which have been acquired pursuant to deferred share awards or PSP awards which vested before 1 January 2020. Unless the Committee determines otherwise, an Executive Director or former Executive Director shall be deemed to have disposed of shares which are not 'guideline shares' before 'guideline shares'.

As at 31 December 2023, all Executive Directors have exceeded the within-employment shareholding guideline, except Emily Prideaux who was appointed an Executive Director from 1 March 2021. Emily Prideaux is working towards achieving the within-employment shareholding guideline.

Executive Directors	Beneficially held shares	2023 salary ¹	Target	Achieved	Value of beneficially held shares ²
			% of base salary		
Paul Williams	95,497	£680,000	200%	331%	£2,253,729
Damian Wisniewski	69,095	£524,500	200%	311%	£1,630,642
Nigel George	100,046	£524,500	200%	450%	£2,361,086
Emily Prideaux	6,081	£492,500	200%	29%	£143,512

1 The base salaries shown in the table above are as at 31 December 2023. Further information on fixed pay during 2023 is provided on page 189.

2 The value of the Executive Directors' beneficially held shares has been calculated using the average closing share price during the year ended 31 December 2023 of £23.60.

All other employees granted PSP awards are expected to work towards holding shares in Derwent London plc equivalent to 50% of base salary. The share ownership guidelines for all PSP recipients (including Executive Directors) require them to retain at least half of any deferred bonus shares or performance shares which vest (net of tax) until the guideline is met. Only wholly-owned shares will count towards the guideline. There is no shareholding guideline for Non-Executive Directors.

Due to the relatively large shareholdings of our Executive Directors, a small change in our share price would have a material impact on their wealth. For example, a 5% drop in our share price would result in a loss of value for our Chief Executive, Paul Williams, equivalent to approximately 17% of his base salary.

Independent advice

The Committee has authority to obtain the advice of external independent remuneration consultants. Deloitte LLP have been appointed as the Committee's principal consultants since July 2018, following a competitive tender process. The Committee has been fully briefed on Deloitte's compliance with the voluntary code of conduct in respect of the provision of remuneration consulting services. During the year under review, Deloitte provided independent assistance to the Committee in respect of, among other things, the following matters:

- Performance assessment against annual bonus and PSP targets.
- Benchmarking of Chairman and Non-Executive Director remuneration.
- Market practice and corporate governance updates.

The fees paid to Deloitte for their services to the Committee during the year, based on time and expenses, amounted to £69,000. Separate teams at Deloitte LLP also provided sustainability and health and safety limited assurance under the ISAE 3000 (Revised) standard, corporate tax consultancy and employment tax consultancy services to the Group.

The Committee took this work into account and, due to the nature and extent of the work performed, concluded that it did not impair Deloitte's ability to advise the Committee objectively and free from influence. It is the view of the Committee that the Deloitte engagement team which provides remuneration advice to the Committee does not have connections with Derwent London or its Directors that may impair its independence. The Committee therefore deems Deloitte capable of providing appropriate, objective and independent advice.

Annual report on remuneration continued

Remuneration decisions in context

The Committee is kept informed of salary increases for the wider workforce, as well as any significant changes in practice or policy, which is taken into consideration when making remuneration decisions for Executive Directors. The Committee has introduced this dedicated section (pages 184 to 187) which incorporates several disclosures to demonstrate the Committee's belief that remuneration arrangements for Executive Directors are fair and appropriate in the context of pay policies and practices across the wider workforce.

Investing in our employees

We recognise that our employees are our brand ambassadors and vital to the successful delivery of our strategy and long-term business performance. We continue to invest significantly in our employees to ensure that everyone thrives in their roles, feels valued, supported and has the opportunity of continuous growth and development.

We run a detailed induction programme, hold CEO led monthly town halls, provide a series of core skills workshops, internal technical workshops, mandatory compliance training and various management and leadership initiatives (including 1:1 and team coaching). In addition, we support and sponsor further professional qualifications and encourage internal and external personal development opportunities wherever possible. This is coupled with six-monthly performance reviews and optional Personal Development Plans, alongside regular dialogues with line managers to discuss performance, identify training requirements and understand individual career aspirations.



Derwent London has been London Living Wage Foundation accredited since 2017

Engaging with our employees

We have an open, collaborative and inclusive management structure and engage regularly with our employees on a variety of issues. We do this through a range of one-way and two-way channels including appraisals, employee surveys, our intranet site, Company presentations, awaydays and our wellbeing programme.

During 2023, the Committee introduced an 'engagement' section within the explanatory booklet of the wider employee incentive plan, ESOP, which details our remuneration strategy and principles. This page also provides further information on the differences between the executive and wider employee incentive arrangements (PSP and ESOP).

Our employees are provided with the means to engage on a range of matters, including the Group's approach to executive remuneration, how executive remuneration aligns with the Group's pay policy and how the structure of executive remuneration compares to wider workforce remuneration. The Committee considers pay across the Group, as well as any employee feedback, when making decisions on executive remuneration.

Further information on the remuneration structure for our wider workforce is on the following pages:

- ➔ Sharesave Plan / See page 196
- ➔ Employee Share Option Plan / See pages 185 and 227
- ➔ Our people / See page 52

Relative importance of the Company's spend on pay

In order to give shareholders an understanding of how total expenditure on remuneration (for all employees) compares to certain core financial dispersals of the Company, the table below demonstrates the relative importance of the Company's spend on employee pay for the period 2022 to 2023.

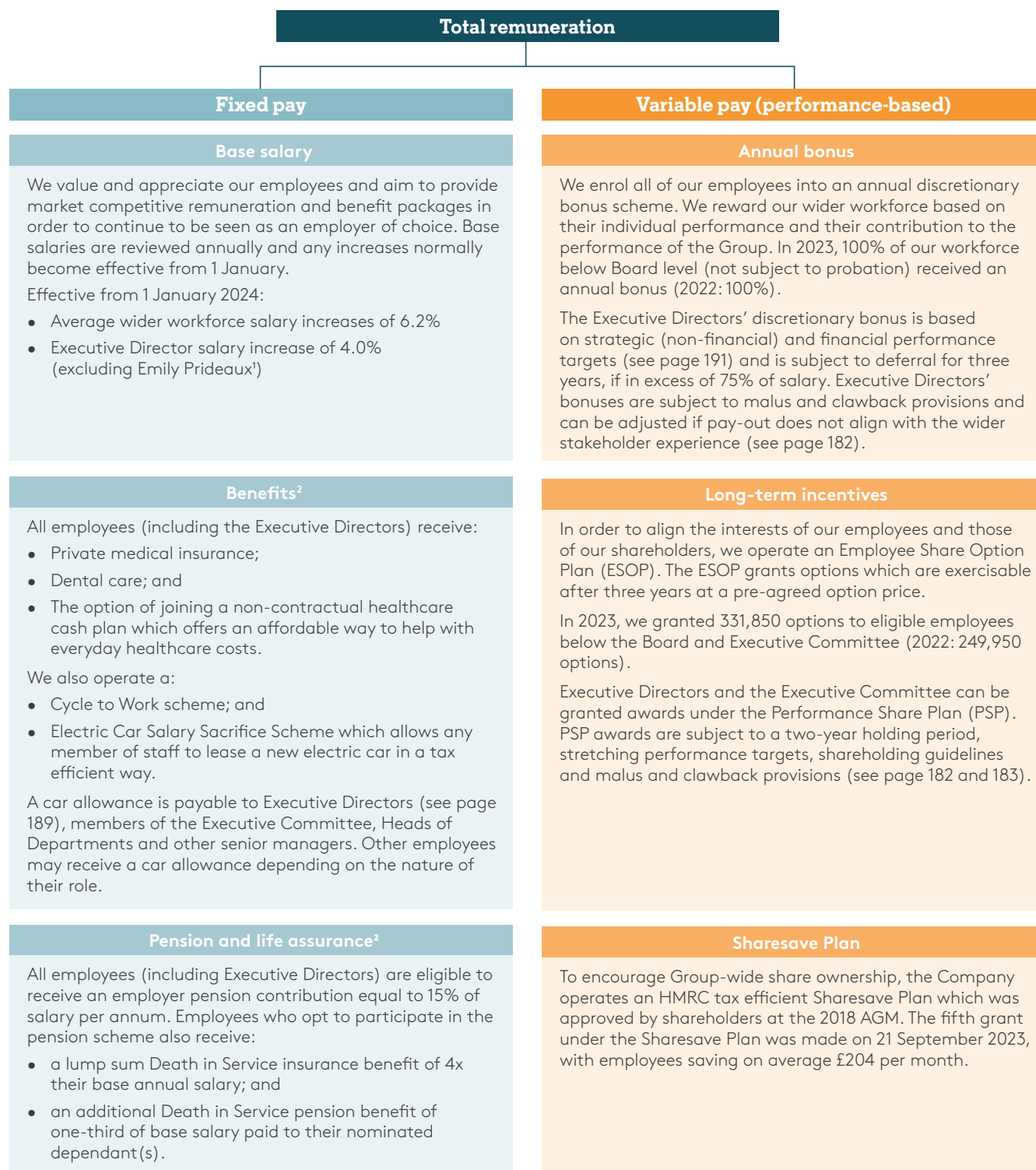
£m	2023	2022	% change
Staff costs ¹	28.8	26.0	10.8
Distributions to shareholders	88.7	87.0	2.0
Net asset value attributable to equity shareholders ²	3,508	4,076	(13.9)

1 Staff costs includes salaries, employer pension contributions, social security costs and share-based payment expenses relating to equity settled schemes.

2 Net asset value attributable to equity shareholders was chosen as it is a key determinate of the Group's total return and is used by management to measure our progress. We base our total return calculation on EPRA net tangible assets (NTA).

Remuneration structure

The remuneration structure for our wider workforce is similar to that of our Executive Directors³ and contains both fixed and performance-based elements (see below).



¹ The Committee approved a 10.8% increase to Emily Prideaux's salary from 1 January 2024, as part of a phased alignment with the other Executive Directors' salaries. Further information is on page 173.

² All benefits are subject to the terms and conditions of the insurance policy in force.

³ A summary of our Remuneration Policy for Executive Directors is on page 178 to 180. Further information on the remuneration received by Executive Directors during 2023 is on pages 188 to 196.

REMUNERATION COMMITTEE REPORT continued

Annual report on remuneration continued

Percentage change in remuneration

The table below shows the annual percentage change in the salary or fees, benefits and annual bonus, for each of the Directors compared to that for an average employee, from 2020 to 2023. The Directors' remuneration used to calculate the percentage change is taken from the 'single figure' table on page 188.

As noted on page 173, the vesting outcome of the relative total return element of the 2022 annual bonus was determined after the publication of the 2022 Report & Accounts. As a result, the 2021 to 2022 bonus figure for the Executive Directors has been restated in the table below to reflect the actual bonus outcome. Full details of the total bonus earned in respect of 2022 is disclosed on page 188.

% change	2022 to 2023			2021 to 2022			2020 to 2021			2019 to 2020		
	Salary/ fees	Benefits ⁷	Bonus	Salary/ fees	Benefits	Bonus (restated)	Salary/ fees	Benefits	Bonus	Salary/ fees	Benefits	Bonus
Average employee ^{1,2}	+2.6	(1.5)	(27.1)	+1.4	(9.9)	(24.5)	+0.3	(3.7)	+22.5	+4.7	(6.2)	(21.0)
Executive Directors												
Paul Williams ³	+7.8	+7.1	(59.8)	+3.0	(7.0)	+177	+2.0	(0.2)	(52.5)	+10.5	+0.1	(24.4)
Damian Wisniewski	+4.0	+3.8	(61.2)	+3.0	+1.0	+177	+2.0	(0.2)	(52.5)	+3.7	(1.4)	(29.0)
Nigel George	+4.0	+3.6	(61.2)	+3.0	+0.7	+177	+2.0	(0.0)	(52.5)	+3.7	(3.9)	(29.0)
Emily Prideaux ⁴	+9.4	+1.1	(59.2)	+9.8	+20.0	+253	n/a	n/a	n/a	n/a	n/a	n/a
Non-Executive Directors⁶												
Mark Breuer	0	–	–	0	–	–	n/a	–	–	n/a	–	–
Claudia Arney	0	–	–	+16.2	–	–	0	–	–	0	–	–
Cilla Snowball ⁵	+3.0	–	–	+15.7	–	–	0	–	–	0	–	–
Helen Gordon	0	–	–	+10.7	–	–	+3.0	–	–	0	–	–
Lucinda Bell	0	–	–	+16.2	–	–	0	–	–	+6.0	–	–
Sanjeev Sharma	0	–	–	+13.5	–	–	n/a	–	–	n/a	–	–
Former Non-Executive Directors												
Richard Dakin ⁶	n/a	–	–	+15.7	–	–	0	–	–	0	–	–

Average employee calculation

- The annual percentage change for the average employee is calculated based on the mean employee pay for employees of Derwent London plc, the parent company of the Group, and not those employed by other subsidiary companies, on a full-time equivalent basis. The average employee salary increase includes employees who were not eligible for a salary increase (i.e. new joiners and leavers, depending on the date of joining or leaving the Group).
- The average employee salary figures have been impacted by the 8% increase in our workforce from 2022 to 2023 (from 184 to 199 employees). The average actual increase in base salaries for all employees effective from 1 January 2023 was 6.1%.

Executive Director base salaries and annual bonuses

- Since Paul Williams' appointment to CEO in May 2019, the Committee had disclosed its commitment to keep Paul's salary level under review as he developed and gained experience in the role with a view to moving his salary level closer to the market rate over time. As a result of its review during 2022, the Committee approved a 7.8% increase to Paul's salary from 1 January 2023.
- Emily Prideaux was appointed an Executive Director on 1 March 2021 with a base salary of £410,000, to reflect that she was stepping into an Executive Director role, with the intention that Emily's salary would align with the other Executive Directors' salaries over three years as her role and experience develops (see page 189). Emily Prideaux's percentage change in annual bonus from 2021 to 2022 also reflects that her 2021 annual bonus was for the period 1 March to 31 December 2021 only.

Non-Executive Director fees

- Cilla Snowball's percentage change in fee for '2022 to 2023' relates to her appointment as an Audit Committee member with effect from 1 August 2023.
- Richard Dakin stepped down from the Board on 28 February 2023. Richard Dakin received his normal fees for the period 1 January 2023 until his leaving date. There was no payment for loss of office in respect of Richard Dakin's departure.

Benefits

- There has been no change in the benefits received by the average employee or the Executive Directors. The change in the annual cost is due to the cost of purchasing private medical and life insurance. Non-Executive Directors and the Chairman did not receive taxable benefits during the relevant years.

Chief Executive pay ratio

As Derwent London has less than 250 employees, we are not required to disclose the CEO pay ratio. However, given our commitment to high standards of transparency and corporate governance, the Committee considers it appropriate to disclose the CEO pay ratio voluntarily. For the years ended 31 December 2018 to 31 December 2023, the Chief Executive's total remuneration as a ratio against the full-time equivalent remuneration of UK employees is detailed in the table below.

As noted on page 173, the vesting outcome of the relative total return element of the 2022 annual bonus was determined after the publication of the 2022 Report & Accounts. As a result, the 2022 CEO pay ratios and the total remuneration figure for the Chief Executive have been restated in the table below to reflect the actual bonus outcome. Full details of the total bonus earned in respect of 2022 is disclosed on page 188.

	Employee remuneration ⁶		CEO pay ratio ⁷
	Base salary	Total remuneration	
Year ended 31 December 2023 ^{1,2}			
25th percentile	£51,750	£63,380	18:1
50th percentile	£58,750	£80,512	14:1
75th percentile	£90,000	£127,822	9:1
Year ended 31 December 2022 ³			
25th percentile	£45,219	£60,909	25:1
50th percentile	£56,000	£81,266	19:1
75th percentile	£80,000	£124,481	12:1
Year ended 31 December 2021			
25th percentile	£48,500	£67,908	19:1
50th percentile	£63,750	£90,289	14:1
75th percentile	£91,750	£143,168	9:1
Year ended 31 December 2020 ⁴			
25th percentile	£47,000	£62,499	35:1
50th percentile	£64,000	£86,463	26:1
75th percentile	£95,266	£137,452	16:1
Year ended 31 December 2019 ⁵			
25th percentile	£40,993	£63,211	40:1
50th percentile	£68,462	£89,274	28:1
75th percentile	£67,500	£153,828	17:1
Year ended 31 December 2018			
25th percentile	£45,057	£58,237	38:1
50th percentile	£59,250	£76,842	29:1
75th percentile	£75,000	£148,867	15:1

1 Employee remuneration at each percentile has been impacted by a 8% increase in our workforce (from 184 to 199 employees) in the year ended 31 December 2023.

2 Chief Executive remuneration for the year ended 31 December 2023 is Paul Williams' 2023 'single figure' (see page 188).

3 Chief Executive remuneration for the year ended 31 December 2022 is Paul Williams' restated 2022 'single figure' (see page 188).

4 Chief Executive remuneration for the year ended 31 December 2020 is Paul Williams' 2020 'single figure' (see page 181 of the 2021 Report & Accounts), before the voluntary 20% salary waiver.

5 Chief Executive remuneration for the year ended 31 December 2019 is based on the aggregated total remuneration earned by John Burns and Paul Williams in respect of their tenures as Chief Executive during 2019.

6 The workforce comparison is based on the payroll data for the period 1 January to 31 December for all employees (including the Chief Executive but excluding the Non-Executive Directors) and includes salary, employer pension contributions, life assurance and the healthcare cash plan, annual bonuses earned in respect of the year and one-off gains received through the exercise of options granted under the Employee Share Option Plan (see pages 185 and 227).

7 The CEO pay ratio has been rounded to the nearest whole number.

A substantial proportion of the CEO's remuneration is performance related and delivered in shares. The CEO pay ratio will therefore depend significantly on the CEO's annual bonus and PSP outcomes and may fluctuate year-on-year. The CEO's total remuneration for 2023 was less compared to 2022 primarily as a result of a lower 2023 bonus outcome compared to 2022. Consequently, the CEO pay ratio for 2023 has fallen compared to 2022. For each year, the Company has calculated the ratio in line with the reporting regulations using 'Method A' (determine total full-time equivalent remuneration for all UK employees for the relevant financial year as at 31 December; rank the data and identify employees whose remuneration places them at the 25th, 50th and 75th percentile). This method was used due to being the most accurate way of calculating the ratio. The Board has confirmed that the ratio is consistent with the Company's wider policies on employee pay, reward and progression.

REMUNERATION COMMITTEE REPORT continued

Annual report on remuneration continued

Executive Directors' remuneration in 2023

Total remuneration (audited)

The table below sets out the remuneration paid to each Director for the financial years ended 31 December 2023 and 31 December 2022 as a single figure. A full breakdown of fixed pay and pay for performance in 2023 can be found on pages 188 to 196. As noted on page 173, the vesting outcome of the relative total return element of the 2022 annual bonus was determined after the publication of the 2022 Report & Accounts. As a result, the 2022 figures have been updated in the table below to reflect the actual bonus outcome.

Executive Directors

(£'000)	Fixed pay				Pay for performance					Other items in the nature of remuneration ²	Total remuneration
	Salary	Taxable benefits	Pension and life assurance	Subtotal	Bonus		Performance LTIPs ¹	Subtotal			
					Cash	Deferred					
2023											
Paul Williams	680	23	111	814	316	–	–	316	3	1,133	
Damian Wisniewski	525	24	85	634	244	–	–	244	1	879	
Nigel George	525	23	87	635	244	–	–	244	3	882	
Emily Prideaux	493	19	80	592	229	–	–	229	3	824	
2022											
Paul Williams	630	22	109	761	630	156	–	786	2	1,549	
Damian Wisniewski	504	23	86	613	504	125	–	629	2	1,244	
Nigel George	504	22	88	614	504	125	–	629	2	1,245	
Emily Prideaux	450	19	76	545	450	111	–	561	2	1,108	

Non-Executive Directors

(£'000)	2023			2022		
	Fees	Taxable benefits	Total	Fees	Taxable benefits	Total
Mark Breuer	250	–	250	250	–	250
Claudia Arney	83	–	83	83	–	83
Cilla Snowball	80	–	80	78	–	78
Helen Gordon	86	–	86	77	–	77
Lucinda Bell	83	–	83	83	–	83
Sanjeev Sharma	73	–	73	72	–	72
Former Director						
Richard Dakin ³	13	–	13	78	–	78

1 Performance LTIPs for 2023 relate to the 2021 PSP awards for which the performance conditions related to the year ended 31 December 2023. As the performance conditions have not been satisfied, the 2021 PSP awards will lapse on 12 March 2024 (see page 192).

2 Included in the column for 'other items in the nature of remuneration' is the grant under the Derwent London Sharesave Plan made on 21 September 2023. These have been calculated based on the middle market share price on the date of grant being £19.33 minus the value of the awards at the option price which was £14.87. Further information on the Derwent London Sharesave Plan is on page 196.

3 Richard Dakin stepped down from the Board on 28 February 2023. The fees for 2023 shown in the table above are the actual fees paid to Richard Dakin for the period 1 January 2023 to 28 February 2023.

Payments to former Directors and for loss of office

No payments were made to past Directors or in respect of loss of office during 2023. As disclosed in the 2022 Report & Accounts, Simon Silver was employed as an adviser reporting to Paul Williams and was paid a salary of £50,000 during 2023. Simon Silver's employment with Derwent London ended on 31 December 2023. PSP awards granted on 12 March 2021 to former Executive Director David Silverman remained capable of vesting. As disclosed on page 172, the 2021 PSP grant will not vest and therefore David's award will lapse in full. David Silverman has no further PSP awards outstanding.

Fixed pay

Base salaries and fees (audited)

Salaries for the Executive Directors (excluding Paul Williams and Emily Prideaux) were increased by 4.0% to £524,500 with effect from 1 January 2023. The average salary increase for the wider workforce was 6.2%. As disclosed in the 2022 Report & Accounts (pages 191 and 192), the Committee approved a 7.8% increase to Paul Williams' salary from 1 January 2023. The Committee approved a 9.4% increase to Emily Prideaux's salary from 1 January 2023, as part of a phased alignment with the other Executive Directors' salaries. Emily's salary has been fully aligned with the other Executive Directors' salaries from 1 January 2024, reflecting her development in role and performance (see page 173).

	2023 base salary/fee	2022 base salary/fee
Executive Directors		
Paul Williams	£680,000	£630,400
Damian Wisniewski	£524,500	£504,300
Nigel George	£524,500	£504,300
Emily Prideaux	£492,500	£450,000
Non-Executive Directors		
Mark Breuer	£250,000	£250,000
Claudia Arney	£82,500	£82,500
Cilla Snowball ¹	£79,583	£77,500
Helen Gordon ²	£85,833	£76,666
Lucinda Bell	£82,500	£82,500
Sanjeev Sharma	£72,500	£71,666
Former Director		
Richard Dakin ³	£12,917	£77,500

1 Cilla Snowball was appointed a member of the Audit Committee on 1 August 2023.

2 From 1 March 2023, Helen Gordon succeeded Richard Dakin as Chair of the Risk Committee.

3 Richard Dakin stepped down from the Board on 28 February 2023. The fees for 2023 shown in the table above are the actual fees paid to Richard Dakin for the period 1 January 2023 to 28 February 2023.

Benefits (audited)

Executive Directors are entitled to a fully expensed car or car allowance, fuel allowance, private medical insurance and life assurance. Further details of the taxable benefits paid in 2023 can be found in the table below.

	Car allowance ¹	Private medical insurance	Total 2023 taxable benefits
Executive Directors			
Paul Williams	£16,000	£7,412	£23,412
Damian Wisniewski	£16,000	£7,886	£23,886
Nigel George	£16,000	£7,115	£23,115
Emily Prideaux	£16,000	£2,934	£18,934

1 Damian Wisniewski and Emily Prideaux participate in the Electric Car Salary Sacrifice Scheme and as such sacrifice a significant proportion of their car allowance in return for leasing an electric car.

Pension and life assurance (audited)

All of the Executive Directors paid into the Group's defined contribution scheme, being the Fidelity Master Trust pension scheme, with the remainder of their entitlement paid as a cash supplement. No other Directors are accruing benefits under a money purchase pension scheme.

	Paid into defined contribution scheme	Pension cash supplement	Total pension	Life assurance ¹	Total 2023 pension and life assurance
Executive Directors					
Paul Williams	£4,167	£97,025	£101,192	£9,386	£110,578
Damian Wisniewski	£7,500	£70,872	£78,372	£6,976	£85,348
Nigel George	£7,500	£70,872	£78,372	£8,713	£87,085
Emily Prideaux	£8,500	£65,375	£73,875	£5,661	£79,536

1 There was no change in the life assurance benefits received by the Executive Directors in 2023. The change in the annual cost is due to changes in premiums.

REMUNERATION COMMITTEE REPORT continued

Annual report on remuneration continued

Pay for performance

Annual bonus (audited)

Determination of 2023 annual bonus outcome

The performance measures set for the year under review were a combination of financial-based metrics (worth 75% of the bonus potential) and strategic targets (worth 25% of the bonus potential). The maximum bonus potential for Executive Directors is 150% of salary. Based on actual 2023 performance, the annual bonus payout for Executive Directors is 31.0% of the maximum potential (2022: 83.1%; 2021: 30.9%). Further information is available on page 191.

The Committee considered the formulaic performance outcome alongside broader perspectives including: underlying business performance and affordability; the experience of shareholders; and the experience of employees and other stakeholders. Points specifically considered are set out in the Chair's Annual statement on pages 172 and 173. The Committee determined that it was not appropriate to apply discretion to adjust the formulaic outcome.

The total bonus for each Executive Director based on performance is therefore:

	Bonus payable as % of salary	Cash bonus payable £'000	Deferred bonus	
			£'000	% of salary
Executive Directors				
Paul Williams	46.5%	316.2	–	–
Damian Wisniewski	46.5%	243.9	–	–
Nigel George	46.5%	243.9	–	–
Emily Prideaux	46.5%	229.0	–	–

Outstanding deferred bonus awards

In accordance with our previous Remuneration Policy, the proportion of the 2022 annual bonus earned in excess of 100% of salary was deferred into shares on 4 April 2023 and will be released on 4 April 2026, subject to continued employment. The annual bonus deferral requirements have been strengthened under the current Remuneration Policy. Going forward, the proportion of annual bonuses earned in excess of 75% of salary are deferred into shares and released after three years, subject to continued employment. Details of the deferred bonus shares held by Directors and employees are set out in the table below:

At grant			During the year (number)					Market price at date of release £		
Date of award	Market price at date of grant ¹ £		Original grant	1 January 2023	Deferred	Released	31 December 2023			
Executive Directors										
Paul Williams	04/04/2023	23.70	6,570	–	6,570	–	6,570	–	–	04/04/2026
			6,570	–	6,570	–	6,570	–	–	
Damian Wisniewski	04/04/2023	23.70	5,256	–	5,256	–	5,256	–	–	04/04/2026
			5,256	–	5,256	–	5,256	–	–	
Nigel George	04/04/2023	23.70	5,256	–	5,256	–	5,256	–	–	04/04/2026
			5,256	–	5,256	–	5,256	–	–	
Emily Prideaux	04/04/2023	23.70	4,690	–	4,690	–	4,690	–	–	04/04/2026
			4,690	–	4,690	–	4,690	–	–	
Other employees	04/04/2023	23.70	562	–	562	–	562	–	–	04/04/2026
			562	–	562	–	562	–	–	
Total			22,334	–	22,334	–	22,334	–	–	

¹ The share price on the dealing day immediately preceding the grant date.

2023 Annual bonus outcome

Bonus payable for financial-based performance	16.5% out of 75%
Bonus payable for strategic target performance	14.5% out of 25%

Financial-based metrics

Performance measure	Weighting % of bonus	Basis of calculation	Threshold ² %	Maximum ³ %	Actual %	Payable %
Total return	37.5	Total return versus other major real estate companies ¹	(2.8)	3.3	(11.7)	0.0
Total property return (TPR)	37.5	Versus the MSCI Quarterly Central London Office Total Return Index	(7.85)	(5.85)	(7.30)	16.5
Total bonus payable for financial-based metrics						16.5

- 1 The major real estate companies contained in the comparator group for the 2023 annual bonus are: Big Yellow Group plc, The British Land Company plc, CLS Holdings plc, Great Portland Estates plc, Hammerson plc, Helical plc, Landsec plc, LondonMetric Property plc, Segro plc, Shaftesbury Capital plc, UK Commercial Property, Unite Group plc and Workspace Group plc. The comparator group remains unchanged for the 2024 annual bonus.
- 2 For achieving the threshold performance target, i.e. at the MSCI Index or median total return against our sector peers, 22.5% of the maximum bonus opportunity will become payable.
- 3 Total return payout accrues on a straight-line basis between the threshold level for median performance and maximum payment for upper quartile performance or better. For TPR, the payout accrues on a straight-line basis between the threshold level for Index performance and maximum payment for Index +2%.

Strategic targets

Performance measure	Link to strategic objectives ¹	Target range ²	Maximum award	2023 achievement	Proportion awarded for 2023 %
Void management This is measured by the Group's EPRA vacancy rate for the year calculated as the average of each quarter end figure ³ .	1 2	10% to 2%	5.0%	4.3%	3.6
Tenant retention This is measured by the percentage of tenants that remain in their space when their lease expires or the space is re-let during the reporting period.	1 2	50% to 75%	5.0%	64.7%	2.9
Staff satisfaction Staff surveys are used to assess this measure. In assessing this target the Committee will consider any variance in staff satisfaction scores between genders ⁴ .	3	80% to 90%	4.0%	87.5%	3.0
Accident rate The Group's Accident Frequency Rate which is calculated based on total development, construction projects and managed portfolio RIDDOR injuries and incidents during the year, multiplied by 1,000,000, and divided by 'total work exposure hours'. This target is also conditional on each Executive Director completing a health and safety leadership tour during 2023 ⁵ .	4	4.4 to 2.1	4.0%	3.81	1.0
Portfolio development potential This is measured by the percentage of the Group's portfolio by area where a potential development scheme has been identified, including committed acquisitions.	1	35% to 50%	7.0%	43.6%	4.0
				25%	14.5

- 1 Success against our strategic objectives is measured using our KPIs (see pages 37 to 41) and rewarded through our incentive schemes and annual bonus. The references above show the link between our strategic objectives and our annual bonus targets (further information on our five strategic objectives can be found on pages 32 to 36).
- 2 Payout accrues on a straight-line basis, between threshold and maximum performance.
- 3 We have clarified within the performance measure description how we calculate the yearly average (calculated as the average of each quarter-end).
- 4 The variance between genders in response to employee surveys is taken into account by the Committee when determining the payout for staff satisfaction. In 2023, the results showed a 7% variance between genders, with female satisfaction being at 97% and male satisfaction at 90%.
- 5 All Executive Directors completed health and safety leadership tours during 2023. There were no work-based fatalities during 2023 (see page 55).

REMUNERATION COMMITTEE REPORT continued

Annual report on remuneration continued

Performance Share Plan (PSP) (audited)

Vesting of PSP awards

The Group granted share-based awards under the PSP on 12 March 2021. The grant was subject to performance conditions over a three-year performance period which ended on 31 December 2023. As shown in the table below, the PSP awards granted in 2021 will not vest, and will lapse in full on 12 March 2024.

Performance measure	Weighting % of award	Basis of calculation	Threshold ² %	Maximum ³ %	Actual %	% vesting/ estimated vesting
Total property return (TPR)	50	MSCI Quarterly UK All Property Total Return Index	1.65	3.65	(1.63)	0.0
Total shareholder return (TSR)	50	FTSE 350 Super Sector Real Estate Index ¹	(5.0)	4.6	(24.4)	0.0

1 The constituents of the FTSE 350 Super Sector Real Estate Index as at the start of the Performance Period (i.e. 1 January 2021).

2 For achieving the threshold performance target, i.e. at the MSCI Index or median TSR against our sector peers, 22.5% of the maximum award will vest.

3 For TSR (which is calculated based on a three-month weekday average Return Index excluding UK public holidays ended on: (1) the day before the performance period start date; and (2) the performance period end date) vesting accrues on a straight-line basis between the threshold level for median performance and maximum level for upper quartile performance or better. For TPR, vesting accrues on a straight-line basis between the threshold level for Index performance and maximum level for Index +2%.

The Committee determined that it was not appropriate to apply discretion to adjust the formulaic outcome. Therefore, the vesting for each executive will be:

	Number of awards granted	Number of shares vesting based on performance (0.0%)
Executive Director		
Paul Williams	36,911	–
Damian Wisniewski	29,529	–
Nigel George	29,529	–
Emily Prideaux	24,728	–
Former Executive Director		
David Silverman ¹	29,529	–

1 As disclosed in the 2021 Report & Accounts, PSP awards granted on 12 March 2021 to former Executive Director David Silverman remained capable of vesting, subject to performance. David Silverman has no further PSP awards outstanding.

Holding period

In accordance with the PSP rules, vested awards are subject to a two-year holding period whereby at least the after-tax number of vested shares must be retained by the executive for a minimum of two years from the point of vesting. The 2020 and 2021 grants have been removed from the table below as they both lapsed in full.

Grant	Grant date	Performance period	Vesting date	Holding period	Holding period ceases
2019 Grants	12 March 2019 14 August 2019	1 January 2019 to 31 December 2021	12 March 2022 14 August 2022	Two years	12 March 2024 14 August 2024
2022 Grant	9 March 2022	1 January 2022 to 31 December 2024	9 March 2025	Two years	9 March 2027
2023 Grant	14 March 2023	1 January 2023 to 31 December 2025	14 March 2026	Two years	14 March 2028

Grant of PSP awards

On 14 March 2023, the Committee made an award under the Group's 2014 PSP to Executive Directors on the following basis:

Executive Directors	Number of shares awarded	Face value of award £
Paul Williams	55,921	1,359,999
Damian Wisniewski	43,133	1,048,995
Nigel George	43,133	1,048,995
Emily Prideaux	40,501	984,984

Awards were granted as nil-cost options and equivalent to 200% of base salary, with 22.5% of the award vesting at threshold performance. The share price used to determine the level of the awards was the closing share price on the day immediately preceding the grant date of £24.32. The performance period will run over three financial years ending on 31 December 2025 and, dependent upon the achievement of the performance conditions, the awards will vest on 14 March 2026 and will be subject to a two-year holding period as outlined in the table on page 192.

The Committee has discretion to reduce the extent of vesting in the event that it considers that performance against either measure is inconsistent with underlying financial performance and/or the experience of key stakeholders. At least the after-tax number of vested shares must be retained for a minimum holding period of two years. To the extent that awards vest, the Committee has discretion to allow the Executive Directors to receive the benefit of any dividends paid over the vesting period in the form of additional vesting shares.

The balance of performance metrics reflects Derwent London's continued focus on delivering above average long-term returns to shareholders, together with our commitment to sustainability and ambition to be a net zero carbon business by 2030. The performance conditions for the 2023 Awards are:

Metric	Basis of calculation	Weighting of PSP	Threshold ¹	Maximum
Total shareholder return (TSR)	Position of the Company's TSR against the TSR of the ranked members of the FTSE 350 Super Sector Real Estate Index assessed over the three-year performance period ending 31 December 2025	50%	Median	Upper quartile and above
Total property return (TPR)	The Company's annualised TPR relative to the MSCI Quarterly UK All Property Total Return Index assessed over the three-year performance period ending 31 December 2025	40%	At Index	Index +2%
Embodied carbon intensity	Weighted average embodied carbon for all Projects during the three-year performance period ending 31 December 2025	5%	600 kgCO ₂ e/m ²	500 kgCO ₂ e/m ²
Energy intensity	Average energy intensity for 2023, 2024 and 2025, assessed based on total end of year electricity and gas consumption across the managed portfolio	5%	134 kWh/m ²	131 kWh/m ²

¹ For achieving the threshold performance target, 22.5% of the maximum award will vest.

The threshold and maximum energy intensity targets for the 2023 PSP awards were originally set at 129 kWh/m² and 126 kWh/m², respectively. These aligned with the Group's energy intensity reduction pathway in place at the time the 2023 PSP awards were granted. We have subsequently revised our methodology for calculating energy intensity which has resulted in the Group's energy intensity reduction pathway being refined. Our ultimate target of achieving the 2030 UKGBC energy intensity target of 90 kWh/m² remains unchanged. However, our 2019 baseline, and consequently intervening milestone targets, have been rebased (see page 49).

The Committee considered it appropriate to amend the energy intensity targets for the 2023 PSP awards so that they align with the Group's refined energy intensity reduction pathway. The amended targets are not considered to be materially more or less difficult to satisfy and they continue to achieve their original purpose of incentivising the Executive Directors to deliver energy intensity reduction in line with the Group's energy intensity reduction pathway. The amended energy intensity targets are disclosed in the table above.

REMUNERATION COMMITTEE REPORT continued

Annual report on remuneration continued

Outstanding PSP awards

The outstanding PSP awards held by Directors and employees are set out in the table below:

At grant			During the year (number)					Market price at date of vesting £	Value vested (inclusive of dividend equivalents) £'000	Earliest vesting date
Date of award	Market price at date of grant¹ £	1 January 2023	Granted²	Vested	Lapsed³	31 December 2023				
Executive Directors										
Paul Williams	13/03/2020	33.14	36,210	–	–	(36,210)	–	–	–	13/03/2023
	12/03/2021	33.16	36,911	–	–	–	36,911	–	–	12/03/2024
	09/03/2022	29.36	42,942	–	–	–	42,942	–	–	09/03/2025
	14/03/2023	24.32	–	55,921	–	–	55,921	–	–	14/03/2026
			116,063	55,921	–	(36,210)	135,774	–	–	
Damian Wisniewski	12/03/2019	32.53	5,253	–	–	–	5,253	–	–	12/03/2022
	13/03/2020	33.14	28,968	–	–	(28,968)	–	–	–	13/03/2023
	12/03/2021	33.16	29,529	–	–	–	29,529	–	–	12/03/2024
	09/03/2022	29.36	34,352	–	–	–	34,352	–	–	09/03/2025
	14/03/2023	24.32	–	43,133	–	–	43,133	–	–	14/03/2026
			98,102	43,133	–	(28,968)	112,267	–	–	
Nigel George	13/03/2020	33.14	28,968	–	–	(28,968)	–	–	–	13/03/2023
	12/03/2021	33.16	29,529	–	–	–	29,529	–	–	12/03/2024
	09/03/2022	29.36	34,352	–	–	–	34,352	–	–	09/03/2025
	14/03/2023	24.32	–	43,133	–	–	43,133	–	–	14/03/2026
			92,849	43,133	–	(28,968)	107,014	–	–	
Emily Prideaux	13/03/2020	33.14	9,052	–	–	(9,052)	–	–	–	13/03/2023
	12/03/2021	33.16	24,728	–	–	–	24,728	–	–	12/03/2024
	09/03/2022	29.36	30,653	–	–	–	30,653	–	–	09/03/2025
	14/03/2023	24.32	–	40,501	–	–	40,501	–	–	14/03/2026
			64,433	40,501	–	(9,052)	95,882	–	–	
Former Executive Directors								–	–	
David Silverman	13/03/2020	33.14	28,968	–	–	(28,968)	–	–	–	13/03/2023
	12/03/2021	33.16	29,529	–	–	–	29,529	–	–	12/03/2024
			58,497	–	–	(28,968)	29,529	–	–	
Simon Silver	13/03/2020	33.14	35,063	–	–	(35,063)	–	–	–	13/03/2023
			35,063	–	–	(35,063)	–	–	–	
Other employees	13/03/2020	33.14	34,843	–	–	(34,843)	–	–	–	13/03/2023
	12/03/2021	33.16	31,654	–	–	–	31,654	–	–	12/03/2024
	09/03/2022	29.36	61,199	–	–	–	61,199	–	–	09/03/2025
	14/03/2023	24.32	–	116,698	–	–	116,698	–	–	14/03/2026
			127,696	116,698	–	(34,843)	209,551	–	–	
Total			592,703	299,386	–	(202,072)	690,017	–	–	

1 The share price on the dealing day immediately preceding the grant date.

2 The PSP awards granted on 14 March 2023 will vest on 14 March 2026. The performance targets attached to these awards are detailed on page 193.

3 The PSP awards granted on 13 March 2020 lapsed in full during 2023. The weighted average exercise price of awards that lapsed in 2023 was £nil (2022: £nil).

	31/12/2023	31/12/2022	31/12/2021
Weighted average exercise price of PSP awards	–	–	–
Weighted average remaining contracted life of PSP awards	1.20 years	1.19 years	1.20 years

Pay for performance comparison

The graph below shows the value on 31 December 2023 of £100 invested in Derwent London on 31 December 2013, compared to that of £100 invested in the FTSE 350 Super Sector Real Estate Index. The other points plotted are the values at intervening financial year ends. This index has been chosen by the Committee as it is considered the most appropriate benchmark against which to assess the relative performance of the Company for this purpose.

Total shareholder return (TSR)



Source: Datastream (Thomson Reuters)

Note: The TSR chart data is based on the 30 day average over the period 2 December to 31 December for each year.

Remuneration of the Chief Executive

The table below shows the remuneration earned by the Chief Executive over the past ten years. As noted on page 173, the vesting outcome of the relative total return element of the 2022 annual bonus was determined after the publication of the 2022 Report & Accounts. As a result, the 2022 total remuneration and annual bonus earned (% of maximum) figures for the Chief Executive have been restated in the table below to reflect the actual bonus outcome. Full details of the total bonus earned in respect of 2022 is disclosed on page 188.

Financial year ended	31/12/2014	31/12/2015	31/12/2016	31/12/2017	31/12/2018	31/12/2019 ^{1,2}		31/12/2020	31/12/2021	31/12/2022	31/12/2023
Chief Executive	John Burns	John Burns	John Burns	John Burns	John Burns	John Burns	Paul Williams	Paul Williams	Paul Williams	Paul Williams	Paul Williams
Total remuneration (single figure) (£'000)	2,648	2,529	1,403	1,681	2,219	1,399	2,100	2,214	1,238	1,549	1,133
Annual bonus (% of maximum)	92.6	74.2	23.3	53.6	68.5	97.0	97.0	66.3	30.9	83.1	31.0
Long-term variable pay (% of maximum)	50.0	65.7	24.9	26.5	46.0	65.75	65.75	81.6	18.1	0.0	0.0

1 Paul Williams' 2019 total remuneration is in respect of his tenure as Chief Executive from 17 May 2019. His salary, bonus and PSP were subject to a pro rata time reduction.

2 The annual bonus (% of maximum) and long-term variable pay (% of maximum) for John Burns in 2019 is based on remuneration in the role of the Chief Executive.

REMUNERATION COMMITTEE REPORT continued

Annual report on remuneration continued

Sharesave Plan (audited)

Grant of Sharesave options

To encourage Group-wide share ownership, the Company has operated an HMRC tax efficient Sharesave Plan since the 2018 AGM. On 21 September 2023, the Company granted options under the Derwent London Sharesave Plan. The three-year contract for the Options started on 1 November 2023. These Options are exercisable at a price of £14.87 per share from 1 November 2026 and are not subject to any performance conditions.

Executive Directors	Monthly saving amount	Number of shares under option	Option price	Market price at grant	Value of award ¹
Paul Williams	£250	623	£14.87	£19.33	£2,779
Damian Wisniewski	£125	311	£14.87	£19.33	£1,387
Nigel George	£250	623	£14.87	£19.33	£2,779
Emily Prideaux	£250	623	£14.87	£19.33	£2,779

¹ The value of the award is based on the middle market share price on the grant date minus the option price.

Outstanding Sharesave options

The outstanding Sharesave options held by Directors and employees are set out in the table below:

	At grant		During the year (number)					Maturity date	Market price at date of exercise £	Value of award at exercise £'000
	Date of award	Option price £	1 January 2023	Granted	Exercised	Lapsed ¹	31 December 2023			
Executive Directors										
Paul Williams	09/04/2020	27.53	326	–	–	(326)	–	01/06/2023	–	–
	21/09/2022	19.61	458	–	–	–	458	01/11/2025	–	–
	21/09/2023	14.87	–	623	–	–	623	01/11/2026	–	–
			784	623	–	(326)	1,081		–	–
Damian Wisniewski	09/04/2020	27.53	163	–	–	(163)	–	01/06/2023	–	–
	15/04/2021	25.93	173	–	–	–	173	01/06/2024	–	–
	21/09/2022	19.61	458	–	–	–	458	01/11/2025	–	–
	21/09/2023	14.87	–	311	–	–	311	01/11/2026	–	–
			794	311	–	(163)	942		–	–
Nigel George	09/04/2020	27.53	326	–	–	(326)	–	01/06/2023	–	–
	21/09/2022	19.61	458	–	–	–	458	01/11/2025	–	–
	21/09/2023	14.87	–	623	–	–	623	01/11/2026	–	–
			784	623	–	(326)	1,081		–	–
Emily Prideaux	15/04/2021	25.93	347	–	–	(347)	–	01/06/2024	–	–
	21/09/2022	19.61	458	–	–	–	458	01/11/2025	–	–
	21/09/2023	14.87	–	623	–	–	623	01/11/2026	–	–
			805	623	–	(347)	1,081		–	–
Other employees	30/04/2019	25.80	139	–	–	(139)	–	01/06/2022	–	–
	09/04/2020	27.53	14,711	–	–	(14,711)	–	01/06/2023	–	–
	15/04/2021	25.93	9,270	–	–	(4,434)	4,836	01/06/2024	–	–
	21/09/2022	19.61	32,217	–	–	(4,635)	27,582	01/11/2025	–	–
	21/09/2023	14.87	–	48,738	–	(623)	48,115	01/11/2026	–	–
			56,337	48,738	–	(24,542)	80,533		–	–
Total			59,504	50,918	–	(25,704)	84,718		–	–

¹ On 1 June 2023, the options granted on 9 April 2020 became capable of exercise at a price of £27.53 per share. As the option price was higher than the market value of the shares, the options were deemed to be 'underwater' and lapsed at the end of the exercise period (on 1 December 2023).

Directors' interests in shares (audited)

Details of the Directors' (and their connected persons) interests in shares are provided in the table below.

	Number at 31 December 2023					Number at 31 December 2022				
	Beneficially held ¹	Deferred shares ²	Conditional shares ³	Share options ⁴	Total	Beneficially held	Deferred shares	Conditional shares	Share options	Total
Executive Directors										
Paul Williams	95,497	6,570	135,774	1,081	238,922	95,497	–	116,063	784	212,344
Damian Wisniewski	69,095	5,256	112,267	942	187,560	69,095	–	98,102	794	167,991
Nigel George	100,046	5,256	107,014	1,081	213,397	100,046	–	92,849	784	193,679
Emily Prideaux	6,081	4,690	95,882	4,001	110,654	6,081	–	64,433	3,725	74,239
Total	270,719	21,772	450,937	7,105	750,533	270,719	–	371,447	6,087	648,253
Non-Executive Directors										
Mark Breuer	7,000	–	–	–	7,000	7,000	–	–	–	7,000
Claudia Arney	2,500	–	–	–	2,500	2,500	–	–	–	2,500
Cilla Snowball	–	–	–	–	–	–	–	–	–	–
Helen Gordon ¹	990	–	–	–	990	961	–	–	–	961
Lucinda Bell	1,000	–	–	–	1,000	1,000	–	–	–	1,000
Sanjeev Sharma	1,261	–	–	–	1,261	1,261	–	–	–	1,261
Total	12,751	–	–	–	12,751	12,722	–	–	–	12,722

There have been no other changes to the above interests between 31 December 2023 and 27 February 2024.

- 1 There was no change in the shares beneficially held by the Directors during the year ended 31 December 2023, except for Helen Gordon, who reinvested her dividend to purchase an additional 29 shares.
- 2 The 2022 annual bonus in excess of 100% of salary was deferred into shares on 4 April 2023 and will be released on 4 April 2026, subject to continued employment. Further information on the deferred bonus is on page 190.
- 3 Conditional shares are those which are subject to performance conditions. For further information on the Performance Share Plan see pages 192 to 194.
- 4 Share options principally relate to the Sharesave Plan (see page 196) and are unvested. For Emily Prideaux only, she also has outstanding Employee Share Option Plan (ESOP) awards which were granted in respect of her role prior to being appointed an Executive Director.

Managing shareholder dilution

The table below sets out the available dilution capacity for the Company's employee share plans based on the limits set out in the rules of those plans that relate to issuing new shares.

	2023
Total issued share capital as at 31 December 2023	112.3m
Investment Association share limits (in any consecutive 10-year period):	
Current dilution for all share plans	2.5%
Headroom relative to 10% limit	7.5%
5% for executive plans – current dilution for discretionary (executive) plans	1.1%
Headroom relative to 5% limit	3.9%

DIRECTORS' REPORT



David Lawler
Company Secretary

The Directors' report for the financial year ended 31 December 2023 is set out on pages 198 to 202. Additional information, which is incorporated into this Directors' report by reference, including information required in accordance with the Companies Act 2006 and Listing Rule 9.8.4R of the Financial Conduct Authority's Listing Rules, can be located by page reference in the body of this Directors' report and on the following pages:

	Page
Future business developments	5 to 117
Stakeholder engagement	131
Diversity and inclusion	53
Charitable donations	50
Going concern & viability	86 to 89
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The Directors present their Report & Accounts and audited financial statements for the year ended 31 December 2023.

This Report & Accounts contains certain forward-looking statements. By their nature, any statements about the 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. Each forward-looking statement speaks only as of the date of that particular statement. No representation or warranty is given in relation to any forward-looking statements made by Derwent London, including as to their completeness or accuracy. Nothing in this report and accounts should be construed as a profit forecast.

Both the Strategic report and the Directors' report have been drawn up and presented in accordance with and in reliance upon applicable English company law, and the liabilities of the Directors in connection with that report shall be subject to the limitations and restrictions provided by such law.

Corporate governance arrangements

During the year ended 31 December 2023, we have applied the principles and complied with the provisions of good governance contained in the UK Corporate Governance Code 2018 (the Code). Our Compliance Statement for 2023 is on page 121. Further details on how we have applied the Code can be found in the Governance section on pages 118 to 197. The Board will ensure the requirements of the new Code are addressed in advance of the applicable dates. The Code can be found in the Corporate Governance section of the Financial Reporting Council's website: www.frc.org.uk

Amendment of Articles of Association

Unless expressly specified to the contrary in the Company's Articles of Association (the Articles), the Articles may be amended by a special resolution of the Company's shareholders.

In accordance with the Company's Articles, the maximum aggregate fees payable to Non-Executive Directors is currently £800,000 a year. During the year under review, the Board reviewed the fees payable to the Non-Executive Directors and Non-Executive Chairman (see page 174) and agreed that, going forward, their fees would be reviewed on an annual basis and increased in alignment with the wider workforce. To provide the Board with sufficient future headroom, shareholder approval will be sought at the 2024 AGM to raise the aggregate maximum fees payable to Non-Executive Directors by £175,000 to £975,000 a year. The Board considers these fee levels to be appropriate for a company of our size and complexity, noting that the fees are reasonably positioned compared to the FTSE 250 and real estate companies of a similar size.

Company status and branches

Derwent London plc is a Real Estate Investment Trust (REIT) and the holding company of the Derwent London group of companies which includes no branches. It is a public limited company on the London Stock Exchange main market with a premium listing and is registered and domiciled in England and Wales (company number 01819699).

Key stakeholders

The long-term success of the Group is dependent on its relationships with its key stakeholders. On pages 130 to 133, we outline the ways in which we have engaged with all of our key stakeholders to understand their material concerns and factor them into our decision making.

Substantial shareholders

The table below shows the holdings in the Company's issued share capital which had been notified to the Company pursuant to the Financial Conduct Authority's Disclosure Guidance and Transparency Rules. The information below was correct at the date of notification. It should be noted that these holdings may have changed since the Company was notified. However, notification of any change is not required until the next notifiable threshold is crossed.

	31 December 2023			27 February 2024		
	Direct/indirect	Number of shares (m)	%	Direct/indirect	Number of shares (m)	%
Norges Bank	Direct	9.9	8.9	Direct	9.9	8.9
BlackRock Investment Management (UK) Ltd	Indirect	6.0	5.4	Indirect	6.0	5.4
Resolution Capital Limited	Direct	5.4	4.9	Direct	5.6	5.0
Ameriprise Financial Inc (Columbia Threadneedle)	Indirect	4.9	4.8	Indirect	4.9	4.8
Lady Jane Rayne	Direct	4.1	3.6	Direct	4.1	3.6
Canada Pension Plan Investment Board	Direct	3.5	3.1	Direct	3.5	3.1
APG Asset Management N.V.	Direct	5.3	5.1	Direct	5.3	5.1

Employees

The Board recognises the importance of attracting, developing and retaining the right people. In accordance with best practice, we have employment policies in place which provide equal opportunities for all employees, irrespective of sex, race, colour, disability, sexual orientation, religious beliefs or marital status. Dame Cilla Snowball is the designated Director responsible for gathering the views of the workforce. Further information on the Board's methods for engaging with the workforce is on pages 130 and 131.

Greenhouse gas emissions

In line with our commitment to transparent and best practice reporting, we have included our streamlined energy and carbon reporting (SECR) disclosures on pages 60 and 61 of the Responsibility section, which includes our annual GHG (greenhouse gas) emissions footprint and an intensity ratio appropriate for our business, which fulfil the requirements of the Companies Act 2006 (Strategic and Directors' report) Regulations 2013. For further analysis and detail on our GHG emissions, please see our latest Responsibility Report, which can be found at: www.derwentlondon.com/responsibility/publications

Directors

The Directors of the Company are set out on pages 122 and 123 all of which were in office during the year under review.

The Board is required to consist of no fewer than two Directors and not more than 15. Shareholders may vary the minimum and/or maximum number of Directors by passing an ordinary resolution. Copies of the Executive Directors' service contracts are available to shareholders for inspection at the Company's registered office and at the Annual General Meeting (AGM). Details of the Directors' remuneration and service contracts and their interests in the shares of the Company are set out on pages 172 and 197.

Directors' indemnity

The Company maintains appropriate Directors' and Officers' liability insurance cover in respect of any potential legal action brought against its Directors. The Company has also indemnified each Director to the extent permitted by law against any liability incurred in relation to acts or omissions arising in the ordinary course of their duties. The indemnity arrangements were in force throughout the year (and at the date of approval of the financial statements) and are qualifying indemnity provisions under the Companies Act 2006. Our indemnity arrangements were subject to a best practice review with our lawyers during 2021.

Powers of the Directors

Subject to the Company's Articles of Association, the Companies Act 2006 and any directions given by special resolution, the business of the Company is managed by the Board, who may exercise all the powers of the Company, whether relating to the management of the business of the Company or not. In particular, the Board may exercise all the powers of the Company to borrow money, to guarantee, to indemnify, to mortgage or charge any of its undertakings, property, assets (present and future) and uncalled capital and to issue debentures and other securities and to give security for any debt, liability or obligation of the Company or of any third party.

Directors' training and development

Details of the training that has been provided to the Executive and Non-Executive Directors during the year can be found on page 136.

Appointment and replacement of Directors

Directors may be appointed by ordinary resolution of the shareholders, or by the Board. Appointment of a Director from outside the Group is on the recommendation of the Nominations Committee, whilst internal promotion is a matter decided by the Board unless it is considered appropriate for a recommendation to be requested from the Nominations Committee.

At every AGM of the Company, any of the Directors who have been appointed by the Board since the last AGM shall seek election by the members.

Notwithstanding provisions in the Company's Articles of Association, the Board has agreed, in accordance with the Code and in line with previous years, that all of the Directors wishing to continue will retire and, being eligible, offer themselves for re-election by the shareholders at the 2024 AGM.

All Directors who held office during the financial year under review (except Claudia Arney) will be putting themselves forward for re-election at the 2024 AGM. After serving nine years on the Board, Claudia Arney will not be seeking re-election and will step down from the Board at the conclusion of the AGM.

Significant agreements

There are no agreements between the Company and its Directors or employees providing for compensation for loss of office or employment that occurs because of a takeover bid, except that, under the rules of the Group's share-based remuneration schemes some awards may vest following a change of control.

Some of the Group's banking and financial arrangements are terminable upon a change of control of the Company. As a REIT, a tax charge may be levied on the Company if it makes a distribution to another company which is beneficially entitled to 10% or more of the shares or dividends in the Company or controls 10% or more of the voting rights in the Company (a substantial shareholder), unless the Company has taken reasonable steps to avoid such a distribution being made.

The Company's Articles of Association give the Directors power to take such steps, including the power to:

- identify a substantial shareholder;
- withhold the payment of dividends to a substantial shareholder; and
- require the disposal of shares forming part of a substantial shareholding.

There is no person with whom the Group has a contractual or other arrangement that is essential to the business of the Company.

Annual General Meeting (AGM)

At the 2023 AGM, we were delighted to receive in excess of 88% votes in favour of all resolutions. In total, 86.4% of our shareholders (voting capital) voted.

The 40th AGM of Derwent London plc will be held in DL/78 at 78 Charlotte Street, London W1T 4QS on 10 May 2024 at 10.30am. The Notice of Meeting together with explanatory notes is contained in the circular to shareholders that accompanies the Report & Accounts.

In the event we receive 20% or more votes against a recommended resolution at a general meeting, we would announce the actions we intend to take to engage with our shareholders to understand the result in accordance with the Code. We would follow this announcement with a further update within six months of the meeting, with an overview of our shareholders' views on the resolutions and the remedial actions we have taken. All announcements made via RNS are available to shareholders on our website.

To date, the Board has not been required to follow these procedures due to the high level of support received from shareholders.

Voting

Shareholders will be entitled to vote at a general meeting whether on a show of hands or a poll, as provided in the Companies Act 2006. Voting at the 2024 AGM will be via poll.

Where a proxy is given discretion as to how to vote on a show of hands this will be treated as an instruction by the relevant shareholder to vote in the way in which the proxy decides to exercise that discretion. This is subject to any special rights or restrictions as to voting which are given to any shares or upon which any shares may be held at the relevant time and to the Articles of Association.

If more than one joint holder votes (including voting by proxy), the only vote which will count is the vote of the person whose name is listed first on the register for the share.

Restrictions on voting

Unless the Directors decide otherwise, a shareholder cannot attend or vote shares at any general meeting of the Company or upon a poll or exercise any other right conferred by membership in relation to general meetings or polls if they have not paid all amounts relating to those shares which are due at the time of the meeting, or if they have been served with a restriction notice (as defined in the Articles of Association) after failure to provide the Company with information concerning interests in those shares required to be provided under the Companies Act 2006.

The Company is not aware of any agreements between shareholders that may result in restrictions on voting rights.

Our 40th AGM

10 May 2024

Capital structure

As at 27 February 2024, the Company's issued share capital comprised a single class of 5p ordinary shares (ISIN: GB0002652740) and equalled an amount of £5,614,546.45 divided into 112,290,929 ordinary shares.

The market price of the 5p ordinary shares at 31 December 2023 was £23.60 (2022: £23.68). During the year, they traded in a range between £17.66 and £27.50 (2022: £17.83 and £35.80). Details of the ordinary share capital and shares issued during the year can be found in note 30 to the financial statements.

Rights and restrictions attaching to shares

Subject to the Articles of Association, the Companies Act 2006 and other shareholders' rights, shares in the Company may be issued with such rights and restrictions as the shareholders may by ordinary resolution decide, or if there is no such resolution, as the Board may decide provided it does not conflict with any resolution passed by the shareholders. These rights and restrictions will apply to the relevant shares as if they were set out in the Articles of Association. Subject to the Articles of Association, the Companies Act 2006 and other shareholders' rights, unissued shares are at the disposal of the Board.

Variation of rights

The rights attached to any class of shares can be amended if approved, either by 75% of shareholders holding the issued shares in that class by amount, or by special resolution passed at a separate meeting of the holders of the relevant class of shares.

Every member and every duly appointed proxy present at a general meeting or class meeting has, upon a show of hands, one vote and every member present in person or by proxy has, upon a poll, one vote for every share held by him or her. No person holds securities in the Company carrying special rights with regard to control of the Company.

Restrictions on transfer of securities in the Company

There are no specific restrictions on the transfer of securities in the Company, which is governed by its Articles of Association and prevailing legislation. The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities.

➔ Directors' interests in shares / See page 197

➔ Managing shareholder dilution / See page 197

Disapplication of pre-emption rights

At the 2024 AGM, the Company will seek approval from its shareholders to disapply pre-emption rights in accordance with the Pre-Emption Group's 2022 Statement of Principles. Special resolutions 16 and 17 will seek authority to:

- disapply pre-emption rights on up to a nominal amount of £561,455 (representing 10% of our issued share capital), with a further disapplication for up to 2 per cent to be used only for the purposes of a follow-on offer; and
- disapply pre-emption rights for an additional 10 per cent for transactions which the Board determines to be either an acquisition or a specified capital investment as defined by the Statement of Principles, with a further disapplication for up to 2 per cent to be used only for the purposes of a follow-on offer.

The Company confirms its intention to comply with the 'letter and spirit' of the Pre-Emption Group's Statement of Principles in respect of the use of the annual disapplication of pre-emption rights.

Powers in relation to the Company issuing or buying back its own shares

At the 2023 AGM, shareholders authorised the Company to allot relevant securities:

- (i) up to a nominal amount of £1,871,324; and
- (ii) up to a nominal amount of £3,743,210, after deducting from such limit any relevant securities allotted under (i), in connection with an offer by way of a rights issue.

This authority is renewable annually. An ordinary resolution will be proposed at the 2024 AGM to grant a similar authority to allot:

- (i) up to a nominal amount of £1,871,328 (being one-third of the issued share capital of the Company); and
- (ii) up to a nominal amount of £3,743,218, after deducting from such limit any relevant securities allotted under (i), in connection with an offer by way of a rights issue (being two-thirds of the issued share capital).

A further special resolution will be proposed to renew the Directors' authority to repurchase the Company's ordinary shares in the market. The authority will be limited to a maximum of 11,229,093 ordinary shares and the resolution sets the minimum and maximum prices which may be paid. The Directors will only purchase the Company's shares in the market if they believe it is in the best interests of shareholders generally.

Derwent London shares held by the Group

As at 31 December 2023, the Group holds 33,000 Derwent London shares in order to deliver vesting shares under the Performance Share Plan (PSP) to participants, allot dividend equivalents as additional vesting shares and deliver deferred bonus shares when the deferral periods expire. Movements on the holding of these shares are detailed below. The shares held as at 31 December 2023 include the 22,334 deferred bonus shares purchased on 4 April 2023 (see page 190) and Damian Wisniewski's vested but unexercised PSP 2019 award (5,253 shares). The outstanding balance (5,413 shares) will be utilised for dividend equivalents in respect of the PSP (see page 194).

	1 January 2023	During the year			31 December 2023
		Acquired	Allotted	Disposal	
Deferred bonus	–	22,334	–	–	22,334
Performance Share Plan	10,666	–	–	–	10,666
Total	10,666	22,334	–	–	33,000
Price (£)		23.70			
Percentage of issued share capital					0%

Results and dividends

The financial statements set out the results of the Group for the financial year ended 31 December 2023 and are shown on pages 214 to 282. The Directors recommend a final dividend of 55.00p per ordinary share for the year ended 31 December 2023. When taken together with the interim dividend of 24.50p per ordinary share paid in October 2023, this results in a total dividend for the year of 79.50p (2022: 78.50p) per ordinary share. Subject to approval by shareholders of the recommended final dividend, the dividend to shareholders for 2023 will total £61.7m. If approved, the Company will pay the final dividend on 31 May 2024 to shareholders on the register of members at 26 April 2024.

PID and non-PID dividends

As a REIT, Derwent London must distribute at least 90% of the Group's income profits from its tax-exempt property rental business by way of a dividend, which is known as a property income distribution (PID). These distributions can be subject to withholding tax at 20%. Dividends from profits of the Group's taxable residual business are non-PID and will be taxed as an ordinary dividend.

Fixed assets

The Group's portfolio was professionally revalued at 31 December 2023, resulting in a deficit of £583.3m, before accounting adjustments of £11.8m and share of joint venture of £9.3m. The portfolio is included in the Group balance sheet at a carrying value of £4,657.5m. Further details are given in note 16 of the financial statements.

Post-balance sheet events

There are no post balance sheet events requiring disclosure.

Political donations

There were no political donations during 2023 (2022: nil).

Audit exemption

For the year ending 31 December 2023, a number of the Group's wholly owned subsidiaries are entitled to exemption from audit, under section 479A of the Companies Act 2006. We have identified in the table on pages 261 and 262 which subsidiaries intend to utilise the audit exemption. As the sole member of these companies, Derwent London plc has unanimously agreed to the adoption of the exemptions and to the granting of a guarantee in accordance with section 479C of the Companies Act 2006.

Auditors

PricewaterhouseCoopers LLP were appointed in 2014. In accordance with the current regulation that requires a tender every 10 years (see pages 150 to 151) a competitive tender process for the role of Group Auditor was conducted during 2023, for the 2024 year end audit.

Following an in-depth discussion the Board decided to reappoint PwC as the Group's external auditors. The reappointment of PwC is to be approved at the 2024 AGM under resolutions 13 and 14 as set out in the Notice of Meeting.

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's Auditor is unaware and that each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and ensure that the Auditor is aware of such information.

The Strategic report and Directors' report have been approved by the Board of Directors and signed by order of the Board by:

David Lawler
Company Secretary
27 February 2024

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and the Company financial statements in accordance with UK-adopted international accounting standards.

Under Company law, Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period. In preparing the financial statements, the Directors are required to:

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

The Directors are responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements and the Directors' remuneration report comply with the Companies Act 2006.

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

Directors' confirmations

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

Each of the Directors, whose names and functions are listed on pages 122 to 123 confirm that, to the best of their knowledge:

- the Group and Company financial statements, which have been prepared in accordance with UK-adopted international accounting standards, give a true and fair view of the assets, liabilities and financial position of the Group and Company, and of the loss of the Group; and
- the Strategic report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that it faces.



Soho Place W1

On behalf of the Board

Paul Williams
Chief Executive
27 February 2024

Damian Wisniewski
Chief Financial Officer

Financial statements



The retrofit exposes the weight and materiality of the robust concrete structure and original detailing, whilst introducing warmth, colour and carefully curated finishes to reinforce its identity.

Joshua Scott
dMFK

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INDEPENDENT AUDITORS' REPORT

to the members of Derwent London plc

Report on the audit of the financial statements

Opinion

In our opinion, Derwent London plc's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2023 and of the group's loss and the group's and company's cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Report and Accounts 2023 (the "Annual Report"), which comprise: the Balance sheets as at 31 December 2023; the Group income statement, the Group statement of comprehensive income, the Cash flow statements, and the Statements of changes in equity for the year then ended, and the notes to the financial statements, comprising material accounting policy information and other explanatory information.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in note 10 to the financial statements, we have provided no non-audit services to the company or its controlled undertakings in the period under audit.

Our audit approach

Overview

Audit scope

- We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the group, the accounting processes and controls, and the industry in which the group operates.
- The group's properties are spread across a number of statutory entities, with the group financial statements being a consolidation of these entities, the company and the group's joint ventures. All work was carried out by the group audit team.

Key audit matters

- Valuation of investment properties (group)
- Compliance with REIT guidelines (group)
- Valuation of investments in and loans to subsidiaries (parent)

Materiality

- Overall group materiality: £50.2 million (2022: £55.0 million) based on 1% of Total assets.
- Specific group materiality: £5.7 million (2022: £6.0 million) based on 5% of Profit Before Tax after removing revaluation of investment properties (whether held directly or through joint ventures), profit on disposal and fair value movements on derivatives, which is applied to the group income statement except for these removed items.
- Overall company materiality: £46.0 million (2022: £41.1 million) based on 1% of Total assets.
- Performance materiality: £37.6 million (2022: £41.2 million) (group) and £34.5 million (2022: £30.8 million) (company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

Accounting for the expected credit loss (ECL) provision (group) and revenue recognition (group), which were key audit matters last year, are no longer included because of the decrease in complexity and subjectivity surrounding these areas. We have removed revenue recognition due to the decrease in complexity as there have not been new material lease incentives in the year. We have removed the ECL provision as we have downgraded the accounting for the ECL from an elevated to normal risk due to the group's recovery post COVID-19 and return to pre pandemic collection rates.

Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter for 2024
<p>Valuation of investment properties (group)</p> <p>Refer to the Audit Committee report (Significant financial judgements, key assumptions and estimates), note 3 (Significant judgements, key assumptions and estimates) and note 16 (Property portfolio) to the financial statements.</p> <p>The group has investment properties totalling £4,551.4 million (2022: £5,002.0 million).</p> <p>The group's property portfolio is held directly or through joint ventures and principally consists of offices and commercial space within central London. The remainder of the portfolio represents a retail park, cottages and strategic land in Scotland.</p> <p>Valuations are carried out by third party valuers (the 'Valuers') in accordance with the Royal Institution of Chartered Surveyors ('RICS') Valuation – Global Standards 2022, International Accounting Standard 40 (Investment Property) and International Financial Reporting Standard 13 (Fair Value Measurement).</p> <p>There are significant judgements and estimates to be made in relation to the valuation of the group's investment properties. Where available, the valuations take into account evidence of market transactions for properties and locations comparable to those of the group.</p> <p>The central London investment property portfolio mainly features office accommodation and includes:</p> <p>Standing investments: These are existing properties that are currently let. They are valued using the income capitalisation method.</p> <p>Development projects: These are properties currently under development or identified for future development. They have a different risk and investment profile to the standing investments. These are valued using the residual appraisal method (i.e. by estimating the fair value of the completed project using the income capitalisation method less estimated costs to completion and a risk premium).</p>	<p>Given the inherent subjectivity involved in the valuation of the property portfolio, and therefore the need for deep market knowledge when determining the most appropriate assumptions and the technicalities of valuation methodology, we engaged our internal valuation experts to assist us in our audit of this matter.</p> <p>Assessing group's external Valuers' expertise and objectivity</p> <p>The Valuers used by the group are Knight Frank for the central London portfolio and Savills for the investment property portfolio in Scotland. They are well-known firms, with sufficient experience of the group's market. We assessed the competence and capabilities of the Valuers and verified their qualifications by discussing the scope of their work and reviewing the terms of their engagements for unusual terms or fee arrangements. Based on this work, we are satisfied that the Valuers remain objective and competent and that the scope of their work was appropriate.</p> <p>Testing the valuations assumptions and capital movement</p> <p>We obtained details of each property held by the group and set an expected range for yield and capital value movement, determined by reference to published benchmarks and using our experience and knowledge of the market. We obtained and read the Valuers' valuation reports covering all of the group's investment properties and confirmed that the valuation approach was in accordance with RICS standards.</p> <p>We held meetings with management and the Valuers, at which the valuations and the key assumptions therein were discussed. We focused on the largest properties, development properties, and any outliers (where the assumptions used and/or year on year capital value movement were out of line with our range of assumptions developed using externally published market data for the relevant sector). Where assumptions did not fall within our expected range, we assessed whether additional evidence presented in arriving at the final valuations was appropriate. We also challenged the Valuers as to the extent to which recent market transactions and expected rental values which they made use of in deriving their valuations took into account the impact of climate change and related ESG considerations. Specifically, we challenged the Valuers on their consideration of any Energy Performance Certificate related costs identified by management and how that was reflected within the underlying property valuations.</p>

INDEPENDENT AUDITORS' REPORT continued

to the members of Derwent London plc

Key audit matter	How our audit addressed the key audit matter for 2024
<p>Valuation of investment properties (group) continued</p> <p>The most significant estimates affecting the valuation included yields and estimated rental value ("ERV") growth (as described in note 16 of the financial statements). For development projects, other assumptions included costs to completion and risk premium assumptions are also factored into the valuation.</p> <p>The existence of significant estimation uncertainty, coupled with the fact that only a small percentage difference in individual property valuations when aggregated could result in material misstatement, is why we have given specific audit focus and attention to this area.</p>	<p>Information and standing data</p> <p>We tested the data inputs underpinning the investment property valuation for a sample of properties, including rental income, acquisitions and capital expenditure, by agreeing the inputs to the underlying property records held by the group to assess the reliability, completeness and accuracy of the underlying data used by the Valuers. The underlying property records were assessed for reliability by obtaining signed and approved lease contracts or sale/purchase contracts and by inspecting approved third party invoices and tracing back to bank statements on a sample basis. For development properties, we agreed the costs to date included within development appraisals to quantity surveyor reports and capitalised expenditure was tested on a sample basis to invoices. We agreed the total forecasted cost of upgrading buildings to Energy Performance Certificate B to a third party report commissioned by the group.</p> <p>We considered reasons why the market capitalisation was lower than the net asset value of the group.</p> <p>We have no matters to report in respect of this work.</p>
<p>Compliance with REIT guidelines (group)</p> <p>Refer to the Audit Committee report (Significant financial judgements, key assumptions and estimates) and note 3 (Significant judgements, key assumptions and estimates).</p> <p>The UK REIT regime grants companies tax exempt status provided they meet the rules within the regime. The rules are complex and the tax exempt status has a significant impact on the financial statements. The complexity of the rules creates a risk of an inadvertent breach and the group's profit becoming subject to tax.</p> <p>The obligations of the REIT regime include requirements to comply with balance of business, dividend and income cover tests. The group's status as a REIT underpins its business model and shareholder returns. For this reason, it warrants special audit focus.</p>	<p>We confirmed our understanding of management's approach to ensuring compliance with the REIT regime rules.</p> <p>We obtained management's calculations and supporting documentation, checking their accuracy by verifying the inputs and calculations. We involved our internal taxation experts to verify the accuracy of the application of the rules and to re-perform the REIT compliance tests.</p> <p>We have no matters to report in respect of this work.</p>
<p>Valuation of investments in and loans to subsidiaries (parent)</p> <p>Refer to notes 19 (Investments) and 21 (Trade and other receivables) to the financial statements.</p> <p>The company has investments in subsidiaries of £2,189.8 million (2022: £2,224.7 million) and loans to subsidiaries of £2,327.3 million (2022: £1,759.2 million) as at 31 December 2023. This is following the recognition of a £169.9 million (2022: £130.1 million) net provision for impairment on investments in subsidiaries and an expected credit loss impairment of £nil (2022: £nil) recognised on loans to subsidiaries in the year.</p> <p>The company's accounting policy for investments and loans is to hold them at cost less any impairment. Impairment of the loans is calculated in accordance with International Financial Reporting Standard 9 (Financial Instruments). Investments in subsidiaries are assessed for impairment in line with International Accounting Standard 36 (Impairment of Assets).</p> <p>Given the inherent judgement and complexity in assessing both the carrying value of a subsidiary company and the expected credit loss of intercompany receivables, this was identified as a key audit matter.</p>	<p>We obtained management's impairment assessment for the recoverability of investments in and loans to subsidiaries as at 31 December 2023.</p> <p>We assessed the accounting policy for investments and loans to subsidiaries to ensure they were compliant with UK-adopted International Accounting Standards. We verified that the methodology used by management in arriving at the carrying value of each subsidiary, and the expected credit loss for intercompany receivables, was compliant with UK-adopted International Accounting Standards.</p> <p>We identified the key judgement within the requirement for impairment of both the investments and loans to subsidiaries to be the underlying valuation of investment property held by the subsidiaries. For details of our procedures over investment property valuations please refer to the group key audit matter above.</p> <p>We have no matters to report in respect of this work.</p>

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

The group's properties are spread across a number of statutory entities, with the group financial statements being a consolidation of these entities, the company and the group's joint ventures. All work was carried out by the group audit team.

The impact of climate risk on our audit

In planning our audit, we made enquiries with management to understand the extent of the potential impact of climate change risk on the financial statements. Our evaluation of this conclusion included challenging key judgements and estimates in areas where we considered that there was greatest potential for climate change impact. We particularly considered how climate change risks would impact the assumptions made in the valuation of investment properties as explained in our key audit matter above. We also considered the consistency of the disclosures in relation to climate change made within the Annual Report, the financial statements and the knowledge obtained from our audit. We assessed the consideration of the cost of delivering the group's climate change and sustainability strategy within the going concern and viability forecasts.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Financial statements – group	Financial statements – company
Overall materiality	£50.2 million (2022: £55.0 million).	£46.0 million (2022: £41.1 million).
How we determined it	1% of Total assets	1% of Total assets
Rationale for benchmark applied	The primary measurement attribute of the group is the carrying value of property investments. On this basis, we set an overall group materiality level based on total assets.	The primary measurement attribute of the company is the carrying value of investments in subsidiaries. On this basis, we set an overall company materiality level based on total assets.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2022: 75%) of overall materiality, amounting to £37.6 million (2022: £41.2 million) for the group financial statements and £34.5 million (2022: £30.8 million) for the company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

In addition, we set a specific group materiality level of £5.7 million (2022: £6.0 million) which is calculated based on 5% of Profit Before Tax after removing revaluation of investment properties (whether held directly or through joint ventures), profit on disposal and fair value movements on derivatives, and which is applied to the group income statement except for these removed items.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £2.5 million (group audit) (2022: £2.7 million) and £2.3 million (company audit) (2022: £2.0 million) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

INDEPENDENT AUDITORS' REPORT continued

to the members of Derwent London plc

Conclusions relating to going concern

Our evaluation of the directors' assessment of the group's and the company's ability to continue to adopt the going concern basis of accounting included:

- Agreed the underlying cash flow projections to Board approved forecast and assess how this forecast is compiled;
- Considered management's forecasting accuracy by comparing how the forecast made at the half year compares to the actual performance in the second half of the year;
- Tested the integrity of the underlying formulas and calculations within the going concern and cash flow models;
- Understood and assessed the appropriateness of the key assumptions used in the base case and in the severe but plausible downside scenarios, including assessing whether we considered the downside sensitivities to be appropriately severe;
- Performed sample testing over the data and information of the properties used in the forecast made by the MRI forecasting system to the supporting documents to gain comfort over the accuracy of the data and information in the MRI forecasting system;
- Assessed the consideration of the cost of delivering the group's climate change and sustainability strategy within the underlying going concern and viability forecasts;
- Evaluated whether the directors' conclusion, that sufficient liquidity and covenant headroom existed to continue trading operationally throughout the going concern period under the base and severe but plausible scenarios, is appropriate; and
- Reviewed the disclosures provided relating to the going concern basis of preparation and found that these provided an explanation of the directors' assessment that was consistent with the evidence we obtained.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the group's and the company's ability to continue as a going concern.

In relation to the directors' reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2023 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

Directors' Remuneration

In our opinion, the part of the Remuneration Committee report to be audited has been properly prepared in accordance with the Companies Act 2006.

Corporate governance statement

The Listing Rules require us to review the directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the company's compliance with the provisions of the UK Corporate Governance Code specified for our review. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the group's and company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The directors' explanation as to their assessment of the group's and company's prospects, the period this assessment covers and why the period is appropriate; and
- The directors' statement as to whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the directors' statement regarding the longer-term viability of the group and company was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the group and company and their environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the group's and company's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the Audit Committee.

We have nothing to report in respect of our responsibility to report when the directors' statement relating to the company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditors.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the company or to cease operations, or have no realistic alternative but to do so.

INDEPENDENT AUDITORS' REPORT continued

to the members of Derwent London plc

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to compliance with the Real Estate Investment Trust (REIT) status Part 12 of the Corporation Tax Act 2010 and the UK regulatory principles, such as those governed by the Listings Rules, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue, and management bias in accounting estimates and judgemental areas of the financial statements such as the valuation of investment properties. Audit procedures performed by the engagement team included:

- Discussions with management, including the Company Secretary, as well as those charged with governance, over their consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Understanding and evaluating management's controls designed to prevent and detect irregularities;
- Reviewing the reports made by internal audit;
- Assessment of matters reported through the group's whistleblowing helpline and the results of management's investigation of such matters where relevant;
- Review of tax compliance with the involvement of our tax experts in the audit;
- Procedures relating to the valuation of investment properties described in the related key audit matter above;
- Reviewing relevant meeting minutes, including those of the Board of Directors, Risk Committee and the Audit Committee; and
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations, those that contained unusual words, those posted after the general ledger was closed, journals posted to revenue in the last week of the year, or posted by unexpected users.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the company financial statements and the part of the Remuneration Committee report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the directors on 14 May 2014 to audit the financial statements for the year ended 31 December 2014 and subsequent financial periods. The period of total uninterrupted engagement is ten years, covering the years ended 31 December 2014 to 31 December 2023.

Other matter

As required by the Financial Conduct Authority Disclosure Guidance and Transparency Rule 4.1.14R, these financial statements form part of the ESEF-prepared annual financial report filed on the National Storage Mechanism of the Financial Conduct Authority in accordance with the ESEF Regulatory Technical Standard ('ESEF RTS'). This auditors' report provides no assurance over whether the annual financial report has been prepared using the single electronic format specified in the ESEF RTS.

Sandra Dowling (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

27 February 2024

GROUP INCOME STATEMENT

for the year ended 31 December 2023

	Note	2023 £m	2022 £m
Gross property and other income	5	265.9	248.8
Net property and other income	5	190.5	194.6
Administrative expenses		(39.1)	(36.4)
Revaluation deficit	16	(581.5)	(422.1)
Profit on disposal	6	1.2	25.6
Loss from operations		(428.9)	(238.3)
Finance income	7	0.9	0.3
Finance costs	7	(40.4)	(39.7)
Movement in fair value of derivative financial instruments		(2.1)	5.8
Financial derivative termination income/(costs)	8	1.8	(0.3)
Share of results of joint ventures	9	(7.2)	(7.3)
Loss before tax	10	(475.9)	(279.5)
Tax charge	15	(0.5)	(1.0)
Loss for the year		(476.4)	(280.5)
Basic loss per share	40	(424.25p)	(249.84p)
Diluted loss per share	40	(424.25p)	(249.84p)

The notes on pages 219 to 276 form part of these financial statements.

GROUP STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2023

	Note	2023 £m	2022 £m
Loss for the year		(476.4)	(280.5)
Actuarial losses on defined benefit pension scheme	14	(0.7)	(2.0)
Revaluation (deficit)/surplus of owner-occupied property	16	(3.9)	0.7
Deferred tax credit/(charge) on revaluation	29	1.0	(0.2)
Other comprehensive expense that will not be reclassified to profit or loss		(3.6)	(1.5)
Total comprehensive expense relating to the year		(480.0)	(282.0)

The notes on pages 219 to 276 form part of these financial statements.

BALANCE SHEETS

as at 31 December 2023 (Registered No. 1819699)

	Note	Group		Company	
		2023 £m	2022 £m	2023 £m	2022 £m
Non-current assets					
Investment property	16	4,551.4	5,002.0	–	–
Property, plant and equipment	17	49.9	54.3	19.1	21.0
Investments	19	35.8	43.9	2,189.8	2,224.7
Derivative financial instruments	25	2.9	5.0	2.9	5.0
Deferred tax	29	–	–	2.6	3.0
Pension scheme surplus	14	2.0	1.2	2.0	1.2
Other receivables	20	201.0	188.1	–	–
		4,843.0	5,294.5	2,216.4	2,254.9
Current assets					
Trading property	16	60.0	39.4	–	–
Trading stock	18	8.9	2.3	–	–
Trade and other receivables	21	42.7	42.4	2,359.1	1,788.0
Corporation tax asset		0.4	–	0.3	–
Cash and cash equivalents	34	73.0	76.6	24.8	67.3
		185.0	160.7	2,384.2	1,855.3
Non-current assets held for sale	22	–	54.2	–	–
Total assets		5,028.0	5,509.4	4,600.6	4,110.2
Current liabilities					
Borrowings	25	102.9	19.7	82.9	–
Leasehold liabilities	25	0.4	0.5	1.3	1.3
Trade and other payables	23	148.0	148.1	2,009.6	1,707.5
Corporation tax liability		–	0.9	–	0.9
Provisions	24	0.1	–	0.1	–
		251.4	169.2	2,093.9	1,709.7
Non-current liabilities					
Borrowings	25	1,233.2	1,229.4	1,053.6	1,048.4
Leasehold liabilities	25	34.2	34.5	20.3	21.6
Provisions	24	0.3	0.2	0.3	0.2
Deferred tax	29	0.1	0.6	–	–
		1,267.8	1,264.7	1,074.2	1,070.2
Total liabilities		1,519.2	1,433.9	3,168.1	2,779.9
Total net assets		3,508.8	4,075.5	1,432.5	1,330.3
Equity					
Share capital	30	5.6	5.6	5.6	5.6
Share premium	31	196.6	196.6	196.6	196.6
Other reserves	31	939.3	941.9	926.2	925.9
Retained earnings ¹	31	2,367.3	2,931.4	304.1	202.2
Total equity		3,508.8	4,075.5	1,432.5	1,330.3

1 Retained earnings for the Company include profit for the year of £189.6m (2022: £34.3m).

The financial statements were approved by the Board of Directors and authorised for issue on 27 February 2024.

Paul Williams
Chief Executive

Damian Wisniewski
Chief Financial Officer

The notes on pages 219 to 276 form part of these financial statements.

STATEMENTS OF CHANGES IN EQUITY

for the year ended 31 December 2023

	Share capital £m	Share premium £m	Other reserves ¹ £m	Retained earnings £m	Total equity £m
Group					
At 1 January 2023	5.6	196.6	941.9	2,931.4	4,075.5
Loss for the year	–	–	–	(476.4)	(476.4)
Other comprehensive expense	–	–	(2.9)	(0.7)	(3.6)
Share-based payments	–	–	0.3	1.7	2.0
Dividends paid	–	–	–	(88.7)	(88.7)
At 31 December 2023	5.6	196.6	939.3	2,367.3	3,508.8
At 1 January 2022	5.6	195.4	941.1	3,299.7	4,441.8
Loss for the year	–	–	–	(280.5)	(280.5)
Other comprehensive income/(expense)	–	–	0.5	(2.0)	(1.5)
Share-based payments	–	1.2	0.3	1.2	2.7
Dividends paid	–	–	–	(87.0)	(87.0)
At 31 December 2022	5.6	196.6	941.9	2,931.4	4,075.5
Company					
At 1 January 2023	5.6	196.6	925.9	202.2	1,330.3
Profit for the year	–	–	–	189.6	189.6
Other comprehensive expense	–	–	–	(0.7)	(0.7)
Share-based payments	–	–	0.3	1.7	2.0
Dividends paid	–	–	–	(88.7)	(88.7)
At 31 December 2023	5.6	196.6	926.2	304.1	1,432.5
At 1 January 2022	5.6	195.4	925.6	255.7	1,382.3
Profit for the year	–	–	–	34.3	34.3
Other comprehensive expense	–	–	–	(2.0)	(2.0)
Share-based payments	–	1.2	0.3	1.2	2.7
Dividends paid	–	–	–	(87.0)	(87.0)
At 31 December 2022	5.6	196.6	925.9	202.2	1,330.3

¹ See note 31.

The notes on pages 219 to 276 form part of these financial statements.

CASH FLOW STATEMENTS

for the year ended 31 December 2023

	Note	Group		Company	
		2023 £m	2022 Restated ¹ £m	2023 £m	2022 Restated ¹ £m
Operating activities					
Cash generated from/(used in) operations	28	135.3	148.7	(33.7)	(29.8)
Interest received		0.8	0.3	0.8	0.2
Interest and other finance costs paid		(38.1)	(37.1)	(29.2)	(28.9)
Distributions from joint ventures		0.3	–	–	–
Tax paid in respect of operating activities		(1.3)	(0.5)	–	–
Net cash from/(used in) operating activities		97.0	111.4	(62.1)	(58.5)
Investing activities					
Acquisition of properties		(3.8)	(137.6)	–	–
Capital expenditure ²		(151.5)	(120.7)	–	–
Disposal of investment properties		65.4	206.7	–	–
Investment in joint ventures		–	(0.3)	–	–
Repayment of joint venture loans		0.6	–	–	–
Purchase of property, plant and equipment		(0.7)	(2.0)	(0.4)	(0.6)
VAT movement		(8.0)	2.2	–	–
Net cash used in investing activities		(98.0)	(51.7)	(0.4)	(0.6)
Financing activities					
Net movement in intercompany loans		–	–	22.9	131.8
Net movement in revolving bank loans	27	84.0	(10.1)	84.0	(10.1)
Proceeds from other loan		0.3	7.4	–	–
Financial derivative termination income/(costs)	8	1.8	(0.3)	1.8	(0.3)
Net proceeds of share issues	30	–	1.2	–	1.2
Dividends paid	33	(88.7)	(86.8)	(88.7)	(86.8)
Net cash (used in)/from financing activities		(2.6)	(88.6)	20.0	35.8
Decrease in cash and cash equivalents in the year		(3.6)	(28.9)	(42.5)	(23.3)
Cash and cash equivalents at the beginning of the year	34	76.6	105.5	67.3	90.6
Cash and cash equivalents at the end of the year	34	73.0	76.6	24.8	67.3

¹ Prior year figures have been restated for changes in accounting policies. See note 2 for additional information.

² Finance costs of £6.5m (2022: £7.0m) are included in capital expenditure (see note 7).

The notes on pages 219 to 276 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2023

1 Basis of preparation

The financial statements have been prepared in accordance with UK-adopted International Accounting Standards, (the 'applicable framework'), and have been prepared in accordance with the provisions of the Companies Act 2006 (the 'applicable legal requirements'). The financial statements have been prepared under the historical cost convention as modified by the revaluation of investment properties, the revaluation of property, plant and equipment, assets held for sale, pension scheme, and financial assets and liabilities held at fair value.

Going concern

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

- The Group's latest rolling forecast for the next two years, in particular the cash flows, borrowings and undrawn facilities, including the severe but plausible downside case.
- 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 predictable nature of the income receivable under the tenant leases, the Group's year end loan-to-value ratio for 2023 of 27.9%, the interest cover ratio of 414%, the £480m total of undrawn facilities and cash and the fact that the average maturity of borrowings was 5.0 years at 31 December 2023. The impact of the current economic situation, the increases to interest rates and cost inflation on the business and its occupiers have been considered. Office occupation rates are also gradually increasing. The likely impact of climate change has been incorporated into the Group's forecasts which have also taken account of a programme of EPC upgrades across the portfolio as space becomes available. In total, at 31 December 2023 the estimated EPC upgrade costs is £95m. Based on the Group's forecasts, rental income would need to decline by 65% and property values would need to fall by 53% before breaching its financial covenants. Further information is provided in the Group's viability statement on page 86.

The £83m fixed rate loan, which matures in October 2024, is now a current liability and therefore the Group is in a net current liabilities position. However, as noted above, the Group has access to £480m of available undrawn facilities and cash to meet all current liabilities as they fall due.

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 and the Company have adequate resources to continue in operational existence for a period of at least 12 months from the date of signing of these consolidated financial statements and, therefore, the Board continues to adopt the going concern basis in their preparation.

2 Changes in accounting policies

The principal accounting policies are described in note 43 and are consistent with those applied in the Group's financial statements for the year to 31 December 2022, as amended to reflect the adoption of new standards, amendments and interpretations which became effective in the year as shown below.

New standards adopted during the year

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

- IAS 1 and IFRS Practice Statement 2 (amended) – Disclosure of Accounting Policies;
- IAS 8 (amended) – Definition of Accounting Estimate;
- IAS 12 (amended) – Income Taxes: Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction;
- IAS 12 (amended) – International Tax Reform – Pillar Two Model Rules;
- IFRS 17 (amended) – Insurance Contracts;
- IFRS 17 (amended) and IFRS 9 – Comparative Information.

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 31 December 2023

2 Changes in accounting policies continued

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.

IAS 1 (amended) – Classification of liabilities as current or non-current, Non-current Liabilities with Covenants;
IFRS 10 and IAS 28 (amended) – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture;
IFRS 16 (amended) – Lease Liability in a Sale and Leaseback;
IAS 7 and IFRS 7 (amended) – Supplier Finance Arrangements;
IAS 21 (amended) – Lack of Exchangeability.

Restatement – Presentation of the Statement of Cash Flows – Change from the direct method to the indirect method

The Group and Company has made a voluntary change to its accounting policy in relation to the presentation of the cash flow statements and, as a result, the operating cash flows will now be presented using the 'indirect' method as set out in IAS 7 Statement of Cash Flows. The alternative presentation allowed under IAS 7 known as the 'direct' method has been used previously.

The indirect method contains a number of adjustments including non-cash items included within the income statement and also sets out the main working capital movements. As a result, it provides a clearer understanding of the linkages between the profit/loss from operations and the cash flow from operations. It aligns more closely with practice within the real estate industry and provides more relevant information to users of the accounts.

The Group and Company cash flow statements for the year ended 31 December 2022 have been restated as shown in the table below.

There is no impact upon the main categories of cash within the cash flow statements as a result of this change in presentation.

	2022	
	Group £m	Company £m
Direct method		
Operating activities		
Rents received	193.7	–
Surrender premiums and other property income	0.7	–
Property expenses	(22.5)	–
Costs recoverable from tenants	(1.9)	–
Service charge balance inflows	64.5	–
Service charge balance outflows	(61.5)	–
Tenant deposit inflows	13.9	–
Tenant deposit outflows	(4.2)	–
Cash paid to and on behalf of employees	(25.1)	(25.0)
Other administrative expenses	(8.0)	(8.0)
Interest received	0.3	0.2
Interest paid	(33.7)	(26.6)
Other finance costs	(3.4)	(2.3)
Other income	4.2	3.2
Disposal of trading properties	3.0	–
Expenditure on trading properties/stock	(9.7)	–
Tax paid in respect of operating activities	(0.5)	–
VAT movement	1.6	–
Net cash from/(used in) operating activities	111.4	(58.5)

	2022 restated	
	Group £m	Company £m
Indirect method		
Operating activities		
Cash generated from/(used in) operations (note 28)	148.7	(29.8)
Interest received	0.3	0.2
Interest and other finance costs paid	(37.1)	(28.9)
Tax paid in respect of operating activities	(0.5)	–
Net cash from/(used in) operating activities	111.4	(58.5)
	2022 restated	
	Group £m	Company £m
Note 28. Cash generated from operations		
Loss from operations	(238.3)	(12.3)
Adjustment for non-cash items:		
Revaluation deficit	422.1	–
Depreciation	1.0	2.1
Lease incentive/cost spreading	(21.7)	–
Share-based payments	2.1	2.2
Ground rent adjustment	(0.6)	–
Adjustment for other items:		
Profit on disposal	(25.6)	–
Changes in working capital:		
Increase in receivables balance	(0.5)	(22.4)
Increase in payables balance	19.3	0.6
Increase in trading property and trading stock	(9.1)	–
Cash generated from/(used in) operations	148.7	(29.8)

3 Significant judgements, key assumptions and estimates

The preparation of financial statements in accordance with the applicable framework requires the use of certain significant accounting estimates and judgements. It also requires management to exercise judgement in the process of applying the Group's accounting policies. The Group's significant accounting policies are stated in note 43. Not all of these accounting policies require management to make difficult, subjective or complex judgements or estimates. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may differ from those estimates. The following is intended to provide an understanding of the policies that management consider critical because of the level of complexity, judgement or estimation involved in their application and their impact on the consolidated financial statements.

Key sources of estimation uncertainty

Property portfolio valuation

The Group uses the valuation carried out by external valuers as the fair value of its property portfolio. The valuation considers a range of assumptions including future rental income, 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 and take into account the impact of climate change and related Environmental, Social and Governance considerations. Where reasonable and measurable, the effects and consequences of climate change are reflected in these financial statements and valuations. Knight Frank LLP were appointed to value the whole London-based portfolio as at 31 December 2022. More information is provided in note 16.

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 31 December 2023

3 Significant judgements, key assumptions and estimates continued

Key sources of estimation uncertainty continued

Impairment testing of trade receivables and lease incentive receivables

Trade receivables and accrued rental income recognised in advance of receipt are subject to impairment testing under IFRS 9 and IAS 36, respectively. 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 testing remains a key area of estimation for the Group.

Impairment calculations have been carried out and the result is a £0.4m reduction in the provision to £4.6m. Taking account of receivable balances written off of £2.4m, the total charge to the income statement for 2023 was £2.0m, compared to the £1.0m credit recognised in 2022. In arriving at these 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 also considered the remaining balances classified by sector.

The impairment provisions are included within 'Other receivables (non-current)' (see note 20) and 'Trade and other receivables' (see note 21) as shown below:

	Other receivables (non-current) £m	Trade and other receivables (current) £m	Total £m
Lease incentive receivables before impairment	176.8	20.8	197.6
Impairment of lease incentive receivables	(2.2)	(0.5)	(2.7)
Write-off	(0.7)	(0.1)	(0.8)
Net lease incentive included within accrued income	173.9	20.2	194.1
Trade receivables before impairment	–	13.9	13.9
Impairment of trade receivables	–	(1.0)	(1.0)
Service charge provision	–	(0.9)	(0.9)
Write-off	–	(1.6)	(1.6)
Net trade receivables	–	10.4	10.4

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 lease incentive receivable balances was £2.7m and against trade receivable balances was £1.9m.

	Lease incentive receivables (non-current) £m	Lease incentive receivables (current) £m	Trade receivables (current) £m
Balance before impairment			
Low risk	168.7	17.8	8.8
Medium risk	2.8	1.9	1.8
High risk	4.6	1.0	1.7
	176.1	20.7	12.3
Impairment			
Low risk	–	–	–
Medium risk	(0.1)	(0.1)	(0.2)
High risk	(2.1)	(0.4)	(1.7)
	(2.2)	(0.5)	(1.9)
	173.9	20.2	10.4

A 10% increase/decrease to the absolute probability rates of tenant default used in the impairment calculations in the year would increase/decrease the Group's loss for the year by £1.3m and £0.9m, respectively. This sensitivity has been performed on tenants deemed to be medium and high risk.

Significant judgements

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

As a REIT, the Group benefits from tax advantages. Income and chargeable gains on the qualifying property rental business are exempt from corporation tax. Income that does not qualify as property income within the REIT rules is subject to corporation tax in the normal way. There are a number of tests that are applied annually, and in relation to forecasts, to ensure the Group remains well within the limits allowed within those tests.

The Group met all the criteria in 2023 in each case, thereby ensuring its REIT status is maintained. The Directors intend that the Group should continue as a REIT for the foreseeable future.

In July 2023, it was confirmed that the Group has maintained its low risk rating following a detailed review carried out by HMRC, continued regular dialogue and a focus on transparency and full disclosure.

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 makers (which in the Group's case are the four Executive Directors assisted by the other 11 members of the Executive Committee) 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 IFRS figures but also report non-IFRS figures for the EPRA earnings and net asset value. Reconciliations of each of these figures to their statutory equivalents are detailed in note 40. 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 96% office buildings¹ by value at 31 December 2023 (2022: 97%). The Directors consider that these individual properties have similar economic characteristics and therefore have been aggregated into a single reportable segment. The remaining 4% (2022: 3%) represented a mixture of retail, residential and light industrial properties, as well as land, each of which is de minimis in its own right and below the quantitative threshold in aggregate. Therefore, in the view of the Directors, there is one reportable segment under the provisions of IFRS 8.

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

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

Gross property income

	2023			2022		
	Office buildings £m	Other £m	Total £m	Office buildings £m	Other £m	Total £m
West End central	123.7	1.7	125.4	118.3	1.5	119.8
West End borders/other	17.3	–	17.3	16.3	–	16.3
City borders	65.2	0.5	65.7	67.2	0.5	67.7
Provincial	–	4.5	4.5	–	4.6	4.6
Gross property income (excl. joint venture)	206.2	6.7	212.9	201.8	6.6	208.4
Share of joint venture gross property income	2.2	–	2.2	2.1	–	2.1
	208.4	6.7	215.1	203.9	6.6	210.5

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

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 31 December 2023

4 Segmental information continued

Property portfolio

	2023			2022		
	Office buildings £m	Other £m	Total £m	Office buildings £m	Other £m	Total £m
Carrying value						
West End central	2,945.4	99.2	3,044.6	3,123.9	81.2	3,205.1
West End borders/other	302.3	–	302.3	356.9	–	356.9
City borders	1,228.8	6.7	1,235.5	1,494.5	10.4	1,504.9
Provincial	–	75.1	75.1	–	78.7	78.7
Group (excl. joint venture)	4,476.5	181.0	4,657.5	4,975.3	170.3	5,145.6
Share of joint venture	34.0	–	34.0	42.6	–	42.6
	4,510.5	181.0	4,691.5	5,017.9	170.3	5,188.2
Fair value						
West End central	3,068.1	109.5	3,177.6	3,234.9	86.3	3,321.2
West End borders/other	318.4	–	318.4	376.6	–	376.6
City borders	1,266.3	6.7	1,273.0	1,534.2	10.4	1,544.6
Provincial	–	75.7	75.7	–	79.4	79.4
Group (excl. joint venture)	4,652.8	191.9	4,844.7	5,145.7	176.1	5,321.8
Share of joint venture	33.8	–	33.8	42.4	–	42.4
	4,686.6	191.9	4,878.5	5,188.1	176.1	5,364.2

A reconciliation between the fair value and carrying value of the portfolio is set out in note 16.

5 Property and other income

	2023 £m	2022 £m
Gross rental income	212.8	207.0
Surrender premiums received	0.1	1.1
Other property income	–	0.3
Gross property income	212.9	208.4
Trading property sales proceeds ¹	–	1.6
Service charge income ¹	48.5	34.6
Other income ¹	4.5	4.2
Gross property and other income	265.9	248.8
Gross rental income	212.8	207.0
Movement in impairment of receivables	(2.0)	1.0
Movement in impairment of prepayments	(0.6)	–
Service charge income ¹	48.5	34.6
Service charge expenses	(55.1)	(39.7)
	(6.6)	(5.1)
Property costs	(17.4)	(14.4)
Net rental income	186.2	188.5
Trading property sales proceeds ¹	–	1.6
Trading property cost of sales	–	(1.4)
Profit on trading property disposals	–	0.2
Other property income	–	0.3
Other income ¹	4.5	4.2
Surrender premiums received	0.1	1.1
Dilapidation receipts	0.1	0.5
Write-down of trading property	(0.4)	(0.2)
Net property and other income	190.5	194.6

¹ In line with IFRS 15 Revenue from Contracts with Customers, the Group recognised a total of £53.0m (2022: £40.4m) of other income, trading property sales proceeds and service charge income within gross property and other income.

Gross rental income includes £5.9m (2022: £20.3m) relating to rents recognised in advance of cash receipts.

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

6 Profit on disposal

	2023 £m	2022 £m
Investment property		
Gross disposal proceeds	66.3	209.6
Costs of disposal	(0.7)	(3.2)
Net disposal proceeds	65.6	206.4
Carrying value	(64.0)	(180.8)
Adjustment for lease costs and rents recognised in advance	(0.4)	–
Profit on disposal	1.2	25.6

Included within gross disposal proceeds for 2023 is £54.0m relating to the disposal of the Group's freehold interest in 19 Charterhouse Street EC1 in January 2023, £6.8m relating to the disposal of the Group's freehold interest in 12-16 Fitzroy Street W1 in April 2023, and £2.8m relating to the disposal of the Group's leasehold interest in 216-218 Blackfriars Road SE1 in May 2023.

7 Finance income and finance costs

	2023 £m	2022 £m
Finance income		
Net interest received on defined benefit pension scheme asset	(0.1)	–
Bank interest receivable	(0.8)	(0.2)
Other	–	(0.1)
Finance income	(0.9)	(0.3)
Finance costs		
Bank loans	1.1	1.1
Non-utilisation fees	2.2	2.1
Unsecured convertible bonds	3.9	3.9
Unsecured green bonds	6.7	6.7
Secured bonds	11.4	11.4
Unsecured private placement notes	15.6	15.6
Secured loan	3.3	3.3
Amortisation of issue and arrangement costs	2.6	2.6
Amortisation of the fair value of the secured bonds	(1.5)	(1.4)
Obligations under headleases	1.3	1.1
Other	0.3	0.3
Gross finance costs	46.9	46.7
Less: interest capitalised	(6.5)	(7.0)
Finance costs	40.4	39.7

Finance costs of £6.5m (2022: £7.0m) have been capitalised on development projects, in accordance with IAS 23 Borrowing Costs, using the Group's average cost of borrowings during each quarter. Total finance costs paid to 31 December 2023 were £44.6m (2022: £44.1m) of which £6.5m (2022: £7.0m) out of a total of £151.5m (2022: £120.7m) was included in capital expenditure on the property portfolio in the Group cash flow statement under investing activities.

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 31 December 2023

8 Financial derivative termination income/(costs)

The Group benefitted from net receipts of £1.8m in the year to 31 December 2023 (2022: incurred costs of £0.3m) deferring or terminating interest rate swaps. Included in this is £1.8m (2022: £0.3m) of receipts and £nil (2022: £0.6m) of costs.

9 Share of results of joint ventures

	2023 £m	2022 £m
Net property income	2.2	2.1
Administrative expenses	(0.2)	(0.1)
Revaluation deficit	(9.2)	(9.3)
	(7.2)	(7.3)

The share of results of joint ventures for the year ended 31 December 2023 includes the Group's 50% share in the Derwent Lazari Baker Street Limited Partnership. See note 19 for further details of the Group's joint ventures.

10 Loss before tax

	2023 £m	2022 £m
This is arrived at after charging:		
Depreciation	1.1	1.0
Rent payable under headleases	2.3	1.7
Auditor's remuneration:		
Audit – Group ¹	0.5	0.5
Audit – subsidiaries	0.1	0.2

¹ The Group audit fee in relation to the year ended 31 December 2022 has been restated to include a cost overrun of £97,800.

In 2023, audit fees for the Group were £501,000 (2022: £497,800) and for the subsidiaries £118,500 (2022: £159,000). The prior year comparatives include additional fees billed for scope changes and cost overruns. Fees for non-audit services, relating to the half year review, were £70,500 (2022: £64,000) and other non-audit services were £nil (2022: £nil).

Details of the Auditor's independence are included on page 152.

11 Directors' emoluments

	2023 £m	2022 £m
Remuneration for management services	3.3	4.1
Share-based payments	–	0.5
Post-employment benefits	0.4	0.4
	3.7	5.0
National insurance contributions	0.5	0.7
	4.2	5.7

An amount of £0.9m (2022: £0.6m) relating to the Directors is included within share-based payments expense of £2.5m (2022: £1.9m) relating to equity-settled schemes in note 12. This is in accordance with IFRS 2 Share-based Payment.

Details of the Directors' remuneration awards under the long-term incentive plan and options held by the Directors under the Group share option schemes are given in the report of the Remuneration Committee on pages 172 to 197. The only key management personnel are the Directors.

12 Employees

	Group		Company	
	2023 £m	2022 £m	2023 £m	2022 £m
Staff costs, including those of Directors:				
Wages and salaries	19.9	18.8	20.2	18.8
Social security costs	2.9	2.7	2.7	2.6
Other pension costs	2.6	2.6	2.3	2.4
Share-based payments expense relating to equity-settled schemes	2.5	1.9	2.5	1.9
	27.9	26.0	27.7	25.7

The monthly average number of employees in the Group during the year, excluding Directors, was 178 (2022: 166). The monthly average number of employees in the Company during the year, excluding Directors, was 142 (2022: 140). All were employed in administrative or support roles. Of the Group's employees, there were 59 (2022: 56) whose costs were recharged or partially recharged to tenants via service charges.

1 The prior year number of employees whose costs were recharged or partially recharged has been adjusted from 37 to 56.

13 Share-based payments

Details of the options held by Directors under the Performance Share Plan (PSP) are given in the report of the Remuneration Committee on page 194.

Group and Company – equity-settled option scheme

The Employee Share Option Plan (ESOP) is designed to incentivise and retain eligible employees. The ESOP is separate to the PSP disclosed in the report of the Remuneration Committee. The Directors are not entitled to any awards under the ESOP.

Year of grant	Exercise price £	Adjusted exercise price¹ £	Outstanding at 1 January	Movement in options			Outstanding at 31 December
				Granted	Exercised	Lapsed	
For the year to 31 December 2023							
2013	21.99	21.09	250	–	(250)	–	–
2014	27.39	26.27	13,443	–	–	(1,969)	11,474
2015	34.65	33.23	31,050	–	–	(4,425)	26,625
2016	31.20	29.93	33,987	–	–	(4,946)	29,041
2017	28.93	27.75	63,550	–	–	(5,882)	57,668
2018	30.29	29.57	84,417	–	–	(5,886)	78,531
2019	32.43	32.43	108,825	–	–	(8,310)	100,515
2020	30.02	30.02	147,358	–	–	(11,172)	136,186
2021	33.28	33.28	182,414	–	–	(16,785)	165,629
2022	31.10	31.10	243,341	–	–	(20,341)	223,000
2023	22.86	22.86	–	331,850	–	(7,000)	324,850
			908,635	331,850	(250)	(86,716)	1,153,519
For the year to 31 December 2022							
2013	21.99	21.09	4,158	–	(3,908)	–	250
2014	27.39	26.27	17,050	–	(3,607)	–	13,443
2015	34.65	33.23	35,062	–	–	(4,012)	31,050
2016	31.20	29.93	37,635	–	(3,648)	–	33,987
2017	28.93	27.75	70,553	–	(5,212)	(1,791)	63,550
2018	30.29	29.57	91,835	–	(4,609)	(2,809)	84,417
2019	32.43	32.43	124,025	–	(5,000)	(10,200)	108,825
2020	30.02	30.02	165,975	–	–	(18,617)	147,358
2021	33.28	33.28	200,829	–	–	(18,415)	182,414
2022	31.10	31.10	–	249,950	–	(6,609)	243,341
			747,122	249,950	(25,984)	(62,453)	908,635

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 31 December 2023

13 Share-based payments continued

Group and Company – equity-settled option scheme continued

	31 December 2023	31 December 2022	1 January 2022
Number of shares:			
Exercisable	440,040	335,522	256,293
Non-exercisable	713,479	573,113	490,829
Weighted average exercise price of share options:			
Exercisable	£30.33	£30.46	£29.37
Non-exercisable	£27.86	£31.52	£31.96
Weighted average remaining contracted life of share options:			
Exercisable	4.53 years	4.72 years	4.92 years
Non-exercisable	8.47 years	7.47 years	7.30 years
Weighted average exercise price of share options that lapsed:			
Exercisable	£30.31	£31.87	£33.23
Non-exercisable	£30.58	£31.51	£31.56

¹ In 2018, following the payment of the special dividend of 75 pence per share, the Remuneration Committee exercised their discretion and adjusted the number of outstanding unapproved 'B' options and their option price, to ensure participants were not disadvantaged by the payment to shareholders of the special dividend.

The weighted average share price at which options were exercised during 2023 was £25.00 (2022: £33.02).

The weighted average fair value of options granted during 2023 was £5.71 (2022: £6.85).

The following information is relevant in the determination of the fair value of the options granted during 2023 and 2022 under the equity-settled employee share plan operated by the Group.

	2023	2022
Option pricing model used	Binomial lattice	Binomial lattice
Risk-free interest rate	3.4%	1.5%
Volatility	28.0%	25.0%
Dividend yield	3.4%	2.5%

For both the 2023 and 2022 grants, additional assumptions have been made that there is no employee turnover and 50% of employees exercise early when the share options are 20% in the money and 50% of employees exercise early when the share options are 100% in the money.

The volatility assumption, measured as the standard deviation of expected share price returns, is based on a statistical analysis of daily prices over the last four years.

Group and Company – Save As You Earn scheme

The Save As You Earn (SAYE) is designed to allow employees (including Directors) to purchase shares in the Company in a tax efficient manner. The SAYE plan is an HMRC approved scheme. Employees can participate on an annual basis and save up to £250 per month per grant. Further details are given in the report of the Remuneration Committee on page 196.

14 Pension costs

The Group and Company operate both a defined contribution scheme and a defined benefit scheme. The latter was acquired as part of the acquisition of London Merchant Securities plc in 2007 and is closed to new members. All new employees are entitled to join the defined contribution scheme. The assets of the pension schemes are held separately from those of Group companies.

Defined contribution plan

The total expense relating to this plan in the current year was £2.3m (2022: £2.3m).

Defined benefit plan

The Group sponsors the scheme which is a funded defined benefit arrangement. This is a separate trustee-administered fund holding the pension scheme assets to meet long-term pension liabilities for past employees. The Scheme closed to future benefit accrual on 31 July 2019. The level of retirement benefit is principally based on basic salary at the last scheme anniversary of employment prior to leaving active service and increases at 5% pa in deferment.

The trustees of the scheme are required to act in the best interest of the scheme's beneficiaries. The appointment of the trustees is determined by the scheme's trust documentation. It is policy that one third of all trustees should be nominated by the members.

A full actuarial valuation was carried out as at 31 October 2022 in accordance with the scheme funding requirements of the Pensions Act 2004 and the funding of the scheme is agreed between the Group and the trustees in line with those requirements. The funding valuation requires the surplus/deficit to be calculated using prudent actuarial assumptions, as opposed to best estimate assumptions required for pensions accounting purposes.

The 2022 actuarial valuation showed a deficit of £2.8m. The Group agreed with the trustees that it will aim to eliminate the deficit over a period of three years and two months from 31 October 2022 by three payments of £1.4m payable by 31 December 2022, 31 December 2023 and the final contribution by 31 December 2026. In addition, the Group has agreed with the trustees that the Group will meet expenses of running the scheme and levies to the Pension Protection Fund separately. The estimated amount of total employer contributions expected to be paid to the scheme during the year to 31 December 2024 is £nil (31 December 2023 actual: £1.4m).

For the purposes of IAS 19 the actuarial valuation as at 31 October 2022, which was carried out by a qualified independent actuary, has been updated on an approximate basis to 31 December 2023.

Amounts included in the balance sheet

	2023 £m	2022 £m	2021 £m
Fair value of plan assets	39.6	42.2	62.7
Present value of defined benefit obligation	(37.6)	(41.0)	(60.9)
Net asset	2.0	1.2	1.8

The present value of the scheme liabilities is measured by discounting the best estimate of future cash flows to be paid out by the scheme. The value calculated in this way is reflected in the net asset in the balance sheet as shown above.

All actuarial gains and losses are recognised in the year in which they occur in the Group statement of comprehensive income.

Reconciliation of the impact of the asset ceiling

We have considered the application of IFRIC 14 and deemed it to have no material effect on the IAS 19 figures.

Reconciliation of the opening and closing present value of the defined benefit obligation

	2023 £m	2022 £m
At 1 January	41.0	60.9
Interest cost	1.9	1.1
Actuarial gains due to scheme experience	(3.0)	–
Actuarial gains due to changes in demographic assumptions	(0.8)	–
Actuarial losses/(gains) due to changes in financial assumptions	1.2	(18.4)
Benefits paid, death in service premiums and expenses	(2.7)	(2.6)
At 31 December	37.6	41.0

There have been no scheme amendments, curtailments or settlements in the year.

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 31 December 2023

14 Pension costs continued**Reconciliation of opening and closing values of the fair value of plan assets**

	2023 £m	2022 £m
At 1 January	42.2	62.7
Interest income	2.0	1.1
Return on plan assets (excluding amounts included in interest income)	(3.3)	(20.4)
Contributions by the Group	1.4	1.4
Benefits paid, death in service premiums and expenses	(2.7)	(2.6)
At 31 December	39.6	42.2

The actual return on the plan assets including interest income over the year was a loss of £1.3m (2022: loss of £19.3m).

Defined benefit income recognised in the income statement

	2023 £m	2022 £m
Net interest income	(0.1)	–
Defined benefit income recognised in the income statement	(0.1)	–

Amounts recognised in other comprehensive income

	2023 £m	2022 £m
Loss on plan assets (excluding amounts recognised in net interest cost)	(3.3)	(20.4)
Experience gains arising on the defined benefit obligation	3.0	–
Gain from changes in the demographic assumptions underlying the present value of the defined benefit obligation	0.8	–
(Loss)/gain from changes in the financial assumptions underlying the present value of the defined benefit obligation	(1.2)	18.4
Total loss recognised in other comprehensive income	(0.7)	(2.0)

Fair value of plan assets

	2023 £m	2022 £m	2021 £m
UK equities	–	–	0.6
Overseas equities	–	–	0.6
LDI	13.8	4.5	6.2
Buy and maintain credit	–	2.7	4.1
Cash	0.1	1.2	1.4
Other	–	4.2	9.3
Insured assets	25.7	29.6	40.5
Total assets	39.6	42.2	62.7

The £nil (2022: £4.2m) in the 'other' asset class is made up of holdings of £nil (2022: £2.7m) in equity-linked bonds, £nil (2022: £nil) in global funds and £nil (2022: £1.5m) in sterling liquidity funds.

The scheme's assets are held exclusively within instruments that are valued with inputs other than quoted prices in active markets, but which are observable, with the exception of the holdings in insurance policies and the trustee's bank account. The insured assets have been set equal to the value of the insured liabilities but before allowance has been made for the impact of equalising benefits for the different effects of Guaranteed Minimum Pensions for males and females.

The scheme does not invest directly in property occupied by the Group or in financial securities issued by the Group.

It is the policy of the trustees and the Group to review the investment strategy at the time of each funding valuation. The trustees' investment objectives and the processes undertaken to measure and manage the risks inherent in the plan investment strategy are illustrated by the asset allocation at 31 December 2023.

Significant actuarial assumptions

	2023 %	2022 %	2021 %
Discount rate	4.5	4.8	1.9
Inflation (RPI)	n/a	n/a	n/a
Salary increases	n/a	n/a	n/a
Allowance for commutation of pension for cash at retirement	75% of Post A Day Pension	75% of Post A Day Pension	75% of Post A Day Pension

The mortality assumptions adopted at 31 December 2023 are 85% of the standard tables S3NXA_L, year of birth, no age rating for males and females, projected using CMI 2022 converging to 1.25% p.a. These imply the following life expectancies:

Life expectancy at age 65	Years
Male retiring in 2023	24.4
Female retiring in 2023	26.2
Male retiring in 2043	25.6
Female retiring in 2043	27.5

Analysis of the sensitivity to the principal assumptions of the present value of the defined benefit obligation

	Change in assumption	Change in liabilities
Discount rate	Decrease of 0.25% pa	Increase by 3.0%
Rate of mortality	Increase in life expectancy of one year	Increase by 5.0%

The sensitivities shown above are approximate. Each sensitivity considers one change in isolation. The average duration of the defined benefit obligation at the year ended 31 December 2023 is 12 years (2022: 12 years) for the scheme as a whole or 20 years (2022: 22 years) when only considering non-insured members.

The scheme typically exposes the Group to actuarial risks such as investment risk, interest rate risk, salary growth risk, mortality risk and longevity risk. A decrease in corporate bond yields or an increase in life expectancy would result in an increase to the scheme's liabilities. This would detrimentally impact the balance sheet position and may give rise to increased charges in the income statement. This effect would be partially offset by an increase in the value of the scheme's LDI and gilt holdings.

The best estimate of contributions to be paid by the Group to the plan for the year commencing 1 January 2024 is £nil.

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for the year ended 31 December 2023

15 Tax charge

	2023 £m	2022 £m
Corporation tax		
UK corporation tax and income tax in respect of results for the year	–	0.5
Other adjustments in respect of prior years' tax	–	0.4
Corporation tax charge	–	0.9
Deferred tax		
Origination and reversal of temporary differences	0.5	0.1
Deferred tax charge	0.5	0.1
Tax charge	0.5	1.0

In addition to the tax charge of £0.5m (2022: charge of £1.0m) that passed through the Group income statement, a deferred tax credit of £1.0m (2022: charge of £0.2m) relating to the revaluation of the owner-occupied property at 25 Savile Row W1 was recognised in the Group statement of comprehensive income.

The effective rate of tax for 2023 is lower (2022: lower) than the standard rate of corporation tax in the UK. The differences are explained below:

	2023 £m	2022 £m
Loss before tax	(475.9)	(279.5)
Expected tax credit based on the standard rate of corporation tax in the UK of 23.50% (2022: 19.00%) ¹	(111.8)	(53.1)
Difference between tax and accounting profit on disposals	6.1	(3.1)
REIT exempt income	(20.8)	(16.0)
Revaluation deficit attributable to REIT properties	131.7	78.6
Expenses and fair value adjustments not allowable for tax purposes	2.1	0.4
Capital allowances	(7.6)	(6.5)
Other differences	0.8	0.3
Tax charge in respect of loss before tax	0.5	0.6
Adjustments in respect of prior years' tax	–	0.4
Tax charge	0.5	1.0

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 enacted tax rate and this is reflected in these financial statements.

16 Property portfolio

	Freehold £m	Leasehold £m	Total investment property £m	Owner- occupied property £m	Assets held for sale £m	Trading property £m	Total property portfolio £m
Group							
Carrying value							
At 1 January 2023	3,700.5	1,301.5	5,002.0	50.0	54.2	39.4	5,145.6
Acquisitions	3.8	–	3.8	–	–	–	3.8
Capital expenditure	59.8	72.5	132.3	–	–	20.0	152.3
Interest capitalisation	1.1	4.2	5.3	–	–	1.0	6.3
Additions	64.7	76.7	141.4	–	–	21.0	162.4
Disposals	(7.3)	(2.5)	(9.8)	–	(54.2)	–	(64.0)
Revaluation	(477.4)	(104.1)	(581.5)	(3.9)	–	–	(585.4)
Write-down of trading property	–	–	–	–	–	(0.4)	(0.4)
Movement in grossing up of headlease liabilities	–	(0.7)	(0.7)	–	–	–	(0.7)
At 31 December 2023	3,280.5	1,270.9	4,551.4	46.1	–	60.0	4,657.5
At 1 January 2022	4,140.4	1,220.8	5,361.2	49.3	102.8	32.2	5,545.5
Acquisitions	0.1	132.9	133.0	–	–	–	133.0
Capital expenditure	47.7	58.8	106.5	–	–	8.3	114.8
Interest capitalisation	1.3	3.9	5.2	–	1.4	0.4	7.0
Additions	49.1	195.6	244.7	–	1.4	8.7	254.8
Disposals	(46.6)	(30.0)	(76.6)	–	(104.2)	(1.3)	(182.1)
Transfers	(54.2)	–	(54.2)	–	54.2	–	–
Revaluation	(388.2)	(33.9)	(422.1)	0.7	–	–	(421.4)
Write-down of trading property	–	–	–	–	–	(0.2)	(0.2)
Movement in grossing up of headlease liabilities	–	(51.0)	(51.0)	–	–	–	(51.0)
At 31 December 2022	3,700.5	1,301.5	5,002.0	50.0	54.2	39.4	5,145.6
Adjustments from fair value to carrying value							
At 31 December 2023							
Fair value	3,450.0	1,278.8	4,728.8	46.1	–	69.8	4,844.7
Revaluation of trading property	–	–	–	–	–	(9.8)	(9.8)
Lease incentives and costs included in receivables	(169.5)	(41.5)	(211.0)	–	–	–	(211.0)
Grossing up of headlease liabilities	–	33.6	33.6	–	–	–	33.6
Carrying value	3,280.5	1,270.9	4,551.4	46.1	–	60.0	4,657.5
At 31 December 2022							
Fair value	3,865.8	1,307.1	5,172.9	50.0	54.7	44.2	5,321.8
Selling costs relating to assets held for sale	–	–	–	–	(0.5)	–	(0.5)
Revaluation of trading property	–	–	–	–	–	(4.8)	(4.8)
Lease incentives and costs included in receivables	(165.3)	(39.8)	(205.1)	–	–	–	(205.1)
Grossing up of headlease liabilities	–	34.2	34.2	–	–	–	34.2
Carrying value	3,700.5	1,301.5	5,002.0	50.0	54.2	39.4	5,145.6

Reconciliation of fair value

	2023 £m	2022 £m
Portfolio including the Group's share of joint ventures	4,878.5	5,364.2
Less: joint ventures	(33.8)	(42.4)
IFRS property portfolio	4,844.7	5,321.8

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 31 December 2023

16 Property portfolio continued

The property portfolio is subject to semi-annual external valuations and was revalued at 31 December 2023 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. There were no such instances in the year.

The external valuations for the London-based portfolio at December 2023 were carried out by Knight Frank LLP.

Knight Frank valued properties at £4,807.9m (2022: £5,285.6m) and other valuers at £36.8m (2022: £36.2m), giving a combined value of £4,844.7m (2022: £5,321.8m). Of the properties revalued, £46.1m (2022: £50.0m) relating to owner-occupied property was included within property, plant and equipment and £69.8m (2022: £44.2m) was in relation to trading property.

The total fees, including the fee for this assignment, earned by Knight Frank (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.

Net zero carbon and EPC compliance

The Group published its pathway to net zero carbon in July 2020 and has set 2030 as its target date to achieve this. £102.4m (year to 31 December 2022: £99.9m) of eligible 'green' capital expenditure, in accordance with the Group's Green Finance Framework, was incurred in the year to 31 December 2023 on the major developments at 80 Charlotte Street W1, Soho Place W1, The Featherstone Building EC1, 25 Baker Street W1 and Network W1. In addition, the Group continues to hold carbon credits to support certain externally validated green projects to offset embodied carbon.

To quantify the impact of climate change on the valuation, an independent third-party assessment was carried out in 2021. Following a review of the latest scope changes in building regulation, subsequent inflation, disposals, and work carried out to date, the estimated amount was £95m at the end of 2023. Of this amount, a specific deduction of £48m was included in the 31 December 2023 external valuation. In addition, further amounts have been allowed for in the expected costs of future refurbishment projects. Any committed capital expenditure has been included in note 35.

Reconciliation of revaluation deficit

	2023 £m	2022 £m
Total revaluation deficit	(583.3)	(401.8)
Less:		
Share of joint ventures	9.3	9.2
Lease incentives and costs	(5.8)	(23.2)
Assets held for sale selling costs	–	(2.5)
Trading property revaluation adjustment	(5.2)	(3.3)
Other	(0.8)	–
IFRS revaluation deficit	(585.8)	(421.6)
Reported in the:		
Revaluation deficit	(581.5)	(422.1)
Write-down of trading property	(0.4)	(0.2)
Group income statement	(581.9)	(422.3)
Group statement of comprehensive income	(3.9)	0.7
	(585.8)	(421.6)

Valuation process

The valuation reports produced by the external valuers are based on information provided by the Group such as current rents, terms and conditions of lease agreements, service charges and capital expenditure. This information is derived from the Group's financial and property management systems and is subject to the Group's overall control environment. In addition, the valuation reports are based on assumptions and valuation models used by the external valuers. The assumptions are typically market related, such as yields and discount rates, and are based on their professional judgement and market observation and take into account the impact of climate change and related Environmental, Social and Governance considerations. Each property is considered a separate asset class based on the unique nature, characteristics and risks of the property.

Members of the Group's investments team, who report to the Executive Director responsible for the valuation process, verify all major inputs to the external valuation reports, assess the individual property valuation changes from the prior year valuation report and hold discussions with the external valuers. When this process is complete, the valuation report is recommended to the Audit Committee, which considers it as part of its overall responsibilities.

Valuation techniques

The fair value of the property portfolio has been determined using an income capitalisation technique, whereby contracted and market rental values are capitalised with a market capitalisation rate. The resulting valuations are cross-checked against the equivalent yields and the fair market values per square foot derived from comparable recent market transactions on arm's length terms.

For properties under construction, the fair value is calculated by estimating the fair value of the completed property using the income capitalisation technique less estimated costs to completion and a risk premium.

These techniques are consistent with the principles in IFRS 13 Fair Value Measurement and use significant unobservable inputs such that the fair value measurement of each property within the portfolio has been classified as Level 3 in the fair value hierarchy.

There were no transfers between Levels 1 and 2 or between Levels 2 and 3 in the fair value hierarchy during either 2023 or 2022.

Gains and losses recorded in profit or loss for recurring fair value measurements categorised within Level 3 of the fair value hierarchy amount to a loss of £581.5m (2022: loss of £422.1m) and are presented in the Group income statement in the line item 'revaluation deficit'. The revaluation loss for the owner-occupied property of £3.9m (2022: surplus of £0.7m) was included within the Group statement of comprehensive income.

All gains and losses recorded in profit or loss in 2023 and 2022 for recurring fair value measurements categorised within Level 3 of the fair value hierarchy are attributable to changes in unrealised gains or losses relating to investment property held at 31 December 2023 and 31 December 2022, respectively.

Quantitative information about fair value measurement using unobservable inputs (Level 3)

At 31 December 2023	West End central	West End borders/other	City borders	Provincial commercial	Provincial land	Total
Valuation technique	Income capitalisation	Income capitalisation	Income capitalisation	Income capitalisation	Income capitalisation	
Fair value (£m) ¹	3,211.5	318.4	1,272.9	38.8	36.9	4,878.5
Area ('000 sq ft)	2,999	429	1,641	325	–	5,394
Range of unobservable inputs ² :						
Gross ERV (per sq ft pa)						
Minimum	£32	£23	£37	£nil	n/a ³	
Maximum	£103	£59	£74	£13	n/a ³	
Weighted average	£67	£52	£54	£13	n/a ³	
Net initial yield						
Minimum	3.0%	6.4%	2.6%	9.5%	0.0%	
Maximum	8.3%	8.3%	6.6%	9.5%	1.5%	
Weighted average	3.4%	6.2%	4.8%	9.5%	1.3%	
Reversionary yield						
Minimum	3.2%	4.6%	3.3%	7.2%	0.0%	
Maximum	10.2%	9.0%	7.5%	7.2%	1.5%	
Weighted average	5.4%	6.5%	6.4%	7.2%	1.3%	
True equivalent yield (EPRA basis)						
Minimum	3.2%	4.3%	5.2%	10.5%	0.0%	
Maximum	6.8%	6.9%	6.8%	10.5%	0.0%	
Weighted average	5.1%	6.5%	6.1%	10.5%	0.0%	

1 Includes the Group's share of joint ventures.

2 Costs to complete are not deemed a significant unobservable input by virtue of the high percentage that is already fixed.

3 There is no calculation of gross ERV per sq ft pa. The land totals 5,500 acres.

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 31 December 2023

16 Property portfolio continued

Quantitative information about fair value measurement using unobservable inputs (Level 3) continued

At 31 December 2022	West End central	West End borders/other	City borders	Provincial commercial	Provincial land	Total
Valuation technique	Income capitalisation	Income capitalisation	Income capitalisation	Income capitalisation	Income capitalisation	
Fair value (£m) ¹	3,363.7	376.6	1,544.5	43.0	36.4	5,364.2
Area ('000 sq ft)	3,002	429	1,703	326	–	5,460
Range of unobservable inputs ² :						
Gross ERV (per sq ft pa)						
Minimum	£28	£23	£30	£nil	n/a ³	
Maximum	£100	£59	£69	£13	n/a ³	
Weighted average	£64	£52	£53	£13	n/a ³	
Net initial yield						
Minimum	2.8%	2.2%	2.3%	8.5%	0.0%	
Maximum	6.4%	6.1%	6.4%	8.5%	1.3%	
Weighted average	3.1%	5.3%	4.1%	8.5%	1.3%	
Reversionary yield						
Minimum	2.8%	4.1%	3.4%	6.8%	0.0%	
Maximum	7.1%	6.6%	6.3%	6.8%	1.3%	
Weighted average	4.9%	5.5%	5.4%	6.8%	1.3%	
True equivalent yield (EPRA basis)						
Minimum	2.8%	3.8%	4.1%	9.3%	0.0%	
Maximum	6.4%	5.7%	5.7%	9.3%	0.0%	
Weighted average	4.6%	5.4%	5.1%	9.3%	0.0%	

1 Includes the Group's share of joint ventures.

2 Costs to complete are not deemed a significant unobservable input by virtue of the high percentage that is already fixed.

3 There is no calculation of gross ERV per sq ft pa. The land totals 5,500 acres.

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 has been performed to ascertain the impact of a 25 basis point shift in true equivalent yield and a £2.50 per sq ft 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 ¹	West End borders/other	City borders	Provincial commercial	Total
At 31 December 2023					
True equivalent yield					
+25bp	(4.7%)	(3.7%)	(3.9%)	(2.3%)	(4.3%)
- 25bp	5.2%	4.0%	4.3%	2.4%	4.7%
ERV					
+£2.50 psf	3.8%	4.8%	4.6%	18.8%	4.3%
- £2.50 psf	(3.8%)	(4.8%)	(4.6%)	(18.8%)	(4.3%)
At 31 December 2022					
True equivalent yield					
+25bp	(5.2%)	(4.4%)	(4.7%)	(2.6%)	(4.9%)
- 25bp	5.7%	4.9%	5.2%	2.8%	5.4%
ERV					
+£2.50 psf	3.9%	4.8%	4.7%	19.3%	4.4%
- £2.50 psf	(3.9%)	(4.8%)	(4.7%)	(19.3%)	(4.4%)

¹ Includes the Group's share of joint ventures.

Historical cost

	2023 £m	2022 £m
Investment property	3,602.6	3,469.0
Owner-occupied property	19.6	19.6
Assets held for sale	–	42.5
Trading property	81.8	60.8
Total property portfolio	3,704.0	3,591.9

Historical cost for 2022 has been re-presented to reclassify £9.0m from assets held for sale to trading property. In addition, £9.3m has been reclassified from investment property to trading property. This re-presentation has no impact on the total 2022 historical cost amount previously disclosed.

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 31 December 2023

17 Property, plant and equipment

	Owner-occupied property £m	Right-of-use asset £m	Artwork £m	Other £m	Total £m
Group					
At 1 January 2023	50.0	–	0.8	3.5	54.3
Additions	–	–	–	0.6	0.6
Depreciation	–	–	–	(1.1)	(1.1)
Revaluation	(3.9)	–	–	–	(3.9)
At 31 December 2023	46.1	–	0.8	3.0	49.9
At 1 January 2022	49.3	–	0.8	3.9	54.0
Additions	–	–	–	0.6	0.6
Depreciation	–	–	–	(1.0)	(1.0)
Revaluation	0.7	–	–	–	0.7
At 31 December 2022	50.0	–	0.8	3.5	54.3
Net book value					
Cost or valuation	46.1	–	0.8	8.4	55.3
Accumulated depreciation	–	–	–	(5.4)	(5.4)
At 31 December 2023	46.1	–	0.8	3.0	49.9
Net book value					
Cost or valuation	50.0	–	0.8	7.8	58.6
Accumulated depreciation	–	–	–	(4.3)	(4.3)
At 31 December 2022	50.0	–	0.8	3.5	54.3
Company					
At 1 January 2023	–	16.8	0.8	3.4	21.0
Additions	–	–	–	0.4	0.4
Depreciation	–	(1.2)	–	(1.1)	(2.3)
At 31 December 2023	–	15.6	0.8	2.7	19.1
At 1 January 2022	–	18.0	0.8	3.8	22.6
Additions	–	–	–	0.6	0.6
Depreciation	–	(1.2)	–	(1.0)	(2.2)
At 31 December 2022	–	16.8	0.8	3.4	21.0
Net book value					
Cost or valuation	–	21.5	0.8	8.1	30.4
Accumulated depreciation	–	(5.9)	–	(5.4)	(11.3)
At 31 December 2023	–	15.6	0.8	2.7	19.1
Net book value					
Cost or valuation	–	21.5	0.8	7.7	30.0
Accumulated depreciation	–	(4.7)	–	(4.3)	(9.0)
At 31 December 2022	–	16.8	0.8	3.4	21.0

The artwork is periodically valued by Bonhams on the basis of fair value using their extensive market knowledge. The latest valuation was carried out in December 2021. In accordance with IFRS 13 Fair Value Measurement, the artwork is deemed to be classified as Level 3.

The historical cost of the artwork in the Group at 31 December 2023 was £0.9m (2022: £0.9m) and £0.9m (2022: £0.9m) in the Company. See note 16 for the historical cost of owner-occupied property and IFRS 13 Fair Value Measurement disclosures.

18 Trading stock

	Group		Company	
	2023 £m	2022 £m	2023 £m	2022 £m
Trading stock	8.9	2.3	–	–

Trading stock relates to capitalised development expenditure incurred which is due to be transferred under development agreements to a third party upon completion. This has been included in trading stock as the Group does not have an ownership interest in the property.

19 Investments

Group

The Group has a 50% interest in four joint venture vehicles, Derwent Lazari Baker Street Limited Partnership, Dorrington Derwent Holdings Limited, Primister Limited and Prescott Street Limited Partnership.

	2023 £m	2022 £m
At 1 January	43.9	51.1
Additions	–	0.1
Revaluation deficit	(9.2)	(9.3)
Other profit from operations	2.0	2.0
Repayment of joint venture loans	(0.6)	–
Distributions received	(0.3)	–
At 31 December	35.8	43.9

The Group's share of its investments in joint ventures is represented by the following amounts in the underlying joint venture entities.

	2023		2022	
	Joint ventures £m	Group share £m	Joint ventures £m	Group share £m
At 1 January	85.0	42.5	100.4	50.2
Additions	1.3	0.6	3.2	1.6
Revaluation	(18.4)	(9.2)	(18.6)	(9.3)
Non-current assets ¹	67.9	33.9	85.0	42.5
Current assets	7.2	3.6	5.0	2.5
Current liabilities	(2.8)	(1.4)	(2.7)	(1.4)
Non-current liabilities	(121.0)	(60.5)	(121.0)	(60.5)
Net liabilities	(48.7)	(24.4)	(33.7)	(16.9)
Loans provided to joint ventures		60.2		60.8
Total investment in joint ventures		35.8		43.9
Net property income	4.4	2.2	4.2	2.1
Administrative expenses	(0.4)	(0.2)	(0.3)	(0.1)
Revaluation deficit	(18.4)	(9.2)	(18.5)	(9.3)
Loss for the year	(14.4)	(7.2)	(14.6)	(7.3)

¹ Non-current assets for the year ended 31 December 2022 has been re-presented to provide more detail and has no impact on the total amount disclosed.

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for the year ended 31 December 2023

19 Investments continued

Company

	Subsidiaries £m
At 1 January 2022	1,749.8
Additions	605.0
Reversal of impairment	3.9
Impairment	(134.0)
At 31 December 2022	2,224.7
Additions	135.0
Reversal of impairment	0.2
Impairment	(170.1)
At 31 December 2023	2,189.8

At 31 December 2023, the carrying values of the investment in wholly owned subsidiaries were reviewed in accordance with IAS 36 Impairment of Assets on both a 'value in use' and 'fair value less costs to sell' basis. The Company's accounting policy is to carry investments in subsidiary undertakings at the lower of cost and recoverable amount and recognise any impairment, or reversal thereof, in the income statement. As a result, the Company recognised a net impairment charge of £169.9m (2022: £130.1m). This was due to property revaluation deficits charged to the income statement in a number of the property investment subsidiaries held directly or indirectly by the Company. Investment properties are held by the property investment subsidiaries with any surpluses or deficits on revaluation being reported in the income statement of those subsidiaries. The Group uses the valuation carried out by external valuers as the fair value of its property portfolio. See note 3 for further details.

20 Other receivables (non-current)

	Group		Company	
	2023 £m	2022 £m	2023 £m	2022 £m
Rents recognised in advance	173.9	165.2	–	–
Initial direct letting costs	14.5	13.8	–	–
Prepayments	12.6	9.1	–	–
Prepayments and accrued income	201.0	188.1	–	–

Prepayments and accrued income include £173.9m (2022: £165.2m) after impairments 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, £14.5m (2022: £13.8m) relates to the spreading effect of the initial direct costs of letting over the same term. Together with £22.6m (2022: £26.1m), which was included as accrued income within trade and other receivables (see note 21), these amounts totalled £211.0m at 31 December 2023 (2022: £205.1m).

Prepayments represent £12.6m (2022: £9.1m) of costs incurred in relation to Old Street Quarter EC1. This was after a £0.6m (2022: £nil) impairment in accordance with IAS 36 Impairment of Assets. In May 2022, the Group entered into a conditional contract to acquire the freehold of Old Street Quarter island site. The site is being sold by Moorfields Eye Hospital NHS Foundation Trust and UCL, together the Oriel joint initiative ('Oriel'). Completion is subject to Oriel's receipt of final Treasury approval (received in February 2023), delivery by Oriel of a new hospital at St Pancras and subsequent vacant possession of the site, which is anticipated in 2027.

The total movement in tenant lease incentives is shown below:

	2023 £m	2022 £m
At 1 January	188.8	167.0
Amounts taken to income statement	5.9	20.4
Capital incentives granted	–	0.6
Lease incentive reversal	0.5	1.0
Disposal of investment properties	(0.3)	–
Write off to bad debt	(0.8)	(0.2)
	194.1	188.8
Amounts included in trade and other receivables (see note 21)	(20.2)	(23.6)
At 31 December	173.9	165.2

21 Trade and other receivables

	Group		Company	
	2023 £m	2022 £m	2023 £m	2022 £m
Trade receivables	10.4	4.9	–	–
Amounts owed by subsidiaries	–	–	2,327.3	1,759.2
Other receivables	2.0	5.8	1.0	4.2
Prepayments ¹	6.9	3.8	2.6	2.5
Other taxes	–	–	4.0	–
Accrued income ²				
Rents recognised in advance	20.2	23.6	–	–
Initial direct letting costs	2.4	2.5	–	–
Other ¹	0.8	1.8	24.2	22.1
	42.7	42.4	2,359.1	1,788.0

1 Other accrued income for the Company for the year ended 31 December 2022 has been re-presented to include a reclassification of £22.1m from prepayments.

2 Accrued income for the Group for the year ended 31 December 2022 has been re-presented to provide more detail and has no impact on the total amount disclosed.

	2023 £m	2022 £m
Group trade receivables are split as follows:		
less than three months due	10.3	4.9
between three and six months due	0.1	–
	10.4	4.9

Group trade receivables are stated net of impairment.

Amounts owed by subsidiaries are unsecured, have no fixed date of repayment and are repayable on demand. These balances have been considered as part of the full expected credit loss assessment under IFRS 9 and no impairments were determined to be required (2022: £nil).

In response to the Group's climate change agenda, costs of £1.1m (2022: £0.7m) were incurred in relation to a c.100-acre, 18.4MW solar park on its Scottish land and have been included within prepayments. Resolution to grant planning consent for this project was received in 2022.

The Group has £4.6m of provision for bad debts as shown below. £1.9m is included in trade receivables, £0.5m in accrued income and £2.2m in prepayments and accrued income within other receivables (non-current) (note 20).

	2023 £m	2022 £m
Provision for bad debts		
At 1 January	5.0	8.3
Trade receivables provision	0.5	(0.8)
Lease incentive provision	–	(0.2)
Service charge provision	0.7	(0.2)
Released	(1.6)	(2.1)
At 31 December	4.6	5.0
The provision for bad debts are split as follows:		
less than three months due	0.7	2.2
between three and six months due	0.3	0.1
between six and twelve months due	0.8	0.3
over twelve months due	2.8	2.4
	4.6	5.0

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for the year ended 31 December 2023

22 Non-current assets held for sale

	2023 £m	2022 £m
Transferred from investment properties (see note 16)	–	54.2
	–	54.2

23 Trade and other payables

	Group		Company	
	2023 £m	2022 £m	2023 £m	2022 £m
Trade payables	0.7	0.4	0.4	–
Amounts owed to subsidiaries	–	–	1,992.2	1,685.3
Other payables ¹	3.6	2.2	0.4	0.3
Other taxes	3.3	11.8	–	4.8
Accruals	30.5	35.8	16.4	16.4
Deferred income	50.8	48.2	0.2	0.7
Tenant rent deposits	27.0	27.3	–	–
Service charge balances ¹	32.1	22.4	–	–
	148.0	148.1	2,009.6	1,707.5

1 Other payables for the year ended 31 December 2022 has been re-presented to disaggregate service charge balances and has no impact on the total trade and other payables amount disclosed.

Deferred income primarily relates to rents received in advance.

24 Provisions

	Group £m	Company £m
At 1 January 2023	0.2	0.2
Provided in the income statement	0.2	0.2
Utilised in year	–	–
At 31 December 2023	0.4	0.4
Due within one year	0.1	0.1
Due after one year	0.3	0.3
	0.4	0.4
At 1 January 2022	0.6	0.6
Provided in the income statement	(0.2)	(0.2)
Utilised in year	(0.2)	(0.2)
At 31 December 2022	0.2	0.2
Due within one year	–	–
Due after one year	0.2	0.2
	0.2	0.2

The provisions in both the Group and the Company relate to national insurance that is payable on gains made by employees on the exercise of share options granted to them. The eventual liability to national insurance is dependent on:

- the market price of the Company's shares at the date of exercise;
- the number of equity share options that are exercised; and
- the prevailing rate of national insurance at the date of exercise.

25 Net debt and derivative financial instruments

	Group		Company	
	2023 £m	2022 £m	2023 £m	2022 £m
Current liabilities				
Other loans	20.0	19.7	–	–
3.99% secured loan 2024	82.9	–	82.9	–
	102.9	19.7	82.9	–
Non-current liabilities				
1.5% unsecured convertible bonds 2025	172.1	170.1	–	–
6.5% secured bonds 2026	179.6	181.0	–	–
1.875% unsecured green bonds 2031	346.8	346.4	346.8	346.4
2.68% unsecured private placement notes 2026	54.9	54.9	54.9	54.9
3.46% unsecured private placement notes 2028	29.9	29.9	29.9	29.9
4.41% unsecured private placement notes 2029	24.9	24.9	24.9	24.9
2.87% unsecured private placement notes 2029	92.8	92.7	92.8	92.7
2.97% unsecured private placement notes 2031	49.8	49.8	49.8	49.8
3.57% unsecured private placement notes 2031	74.8	74.7	74.8	74.7
3.09% unsecured private placement notes 2034	51.8	51.8	51.8	51.8
4.68% unsecured private placement notes 2034	74.6	74.6	74.6	74.6
3.99% secured loan 2024	–	82.7	–	82.7
Unsecured bank loans	81.2	(4.1)	81.2	(4.1)
Intercompany loan	–	–	172.1	170.1
	1,233.2	1,229.4	1,053.6	1,048.4
Borrowings	1,336.1	1,249.1	1,136.5	1,048.4
Leasehold liabilities – current	0.4	0.5	1.3	1.3
Leasehold liabilities – non-current	34.2	34.5	20.3	21.6
Derivative financial instruments – non-current	(2.9)	(5.0)	(2.9)	(5.0)
Gross debt	1,367.8	1,279.1	1,155.2	1,066.3
Reconciliation to net debt:				
Gross debt	1,367.8	1,279.1	1,155.2	1,066.3
Derivative financial instruments	2.9	5.0	2.9	5.0
Cash at bank excluding restricted cash (see note 34)	(13.9)	(26.9)	(11.6)	(26.4)
Net debt	1,356.8	1,257.2	1,146.5	1,044.9

1.5% unsecured convertible bonds 2025

In June 2019 the Group issued £175m of convertible bonds. The unsecured instruments pay a coupon of 1.5% until June 2025 or the conversion date, if earlier. The initial conversion price was set at £44.96 per share. In accordance with IAS 32, the equity and debt components of the bonds are accounted for separately and the fair value of the debt component has been determined using the market interest rate for an equivalent non-convertible bond, deemed to be 2.3%. As a result, £167.3m was recognised as a liability in the balance sheet on issue and the remainder of the proceeds, £7.7m, which represents the equity component, was credited to reserves. The difference between the fair value of the liability and the principal value is being amortised through the income statement from the date of issue. Issue costs of £4.0m were allocated between equity and debt and the element relating to the debt component is being amortised over the life of the bonds. The issue costs apportioned to equity of £0.2m were not amortised. The fair value was determined by the ask-price of £95.25 per £100 as at 31 December 2023 (2022: £91.75 per £100), representing Level 1 fair value measurement as defined by IFRS 13 Fair Value Measurement. The carrying value at 31 December 2023 was £172.1m (2022: £170.1m).

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 31 December 2023

25 Net debt and derivative financial instruments continued

1.5% unsecured convertible bonds 2025 continued

Reconciliation of nominal value to carrying value:

	£m
Nominal value	175.0
Fair value adjustment on issue allocated to equity	(7.7)
Debt component on issue	167.3
Unamortised issue costs	(0.9)
Amortisation of fair value adjustment	5.7
Carrying amount included in borrowings	172.1

6.5% secured bonds 2026

As a result of the acquisition of London Merchant Securities plc in 2007, the secured bonds 2026 were included at fair value less unamortised issue costs. This difference between fair value at acquisition and principal value is being amortised through the income statement. The fair value at 31 December 2023 was determined by the ask-price of £101.77 per £100 (2022: £102.67 per £100), representing Level 1 fair value measurement. The carrying value at 31 December 2023 was £179.6m (2022: £181.0m).

1.875% unsecured green bonds 2031

In November 2021, the Group issued £350m of green bonds on a 10-year term maturing in 2031. The unsecured instrument pays a coupon of 1.875% and the effective interest rate is 1.934%. This represents an issue discount of £1.8m. The unsecured green bonds 2031 are accounted for at amortised cost. The fair value at 31 December 2023 was determined by the ask-price of £79.71 per £100 (2022: £70.63 per £100), representing Level 1 fair value measurement. The carrying value at 31 December 2023 was £346.8m (2022: £346.4m). The £350m green bonds are used to fund qualifying 'green' expenditure in accordance with the Group's Green Finance Framework.

2.68% unsecured private placement notes 2026, 2.87% unsecured private placement notes 2029, 2.97% unsecured private placement notes 2031 and 3.09% unsecured private placement notes 2034

In October 2018, the Group arranged unsecured private placement notes, comprising £55m for 7 years, £93m for 10 years, £50m for 12 years and £52m for 15 years. The funds were drawn on 31 January 2019. The fair values were determined by discounting the contractual cash flows by the replacement rate. The replacement rate is the sum of the current underlying gilt rate plus the market implied margin. These represent Level 2 fair value measurement. The carrying values at 31 December 2023 were £54.9m (2022: £54.9m), £92.8m (2022: £92.7m), £49.8m (2022: £49.8m) and £51.8m (2022: £51.8m), respectively.

3.46% unsecured private placement notes 2028 and 3.57% unsecured private placement notes 2031

In February 2016, the Group arranged unsecured private placement notes, comprising £30m for 12 years and £75m for 15 years. The funds were drawn on 4 May 2016. The fair values were determined by discounting the contractual cash flows by the replacement rate. The replacement rate is the sum of the current underlying gilt rate plus the market implied margin. These represent Level 2 fair value measurement. The carrying values at 31 December 2023 were £29.9m (2022: £29.9m) and £74.8m (2022: £74.7m), respectively.

4.41% unsecured private placement notes 2029 and 4.68% unsecured private placement notes 2034

In November 2013, the Group arranged unsecured private placement notes, comprising £25m for 15 years and £75m for 20 years. The funds were drawn on 8 January 2014. The fair values were determined by discounting the contractual cash flows by the replacement rate. The replacement rate is the sum of the current underlying gilt rate plus the market implied margin. These represent Level 2 fair value measurement. The carrying values at 31 December 2023 were £24.9m (2022: £24.9m) and £74.6m (2022: £74.6m), respectively.

3.99% secured loan 2024

In July 2012, the Group arranged a 12½-year secured fixed rate loan. The loan was drawn on 1 August 2012. The fair value was determined by discounting the contractual cash flows by the replacement rate. The replacement rate is the sum of the current underlying gilt rate plus the market implied margin. This represents Level 2 fair value measurement. The carrying value at 31 December 2023 was £82.9m (2022: £82.7m).

Unsecured bank loans

Unsecured bank borrowings are accounted for at amortised cost. At 31 December 2023, there was £84.0m (2022: £nil) drawn on the revolving credit facility (RCF) and the unamortised arrangement fees were £2.8m (2022: £4.1m), resulting in the carrying value being an £81.2m credit balance (2022: debit balance of £4.1m).

The main corporate £450m RCF includes a £300m 'green tranche' to fund qualifying 'green' expenditure in accordance with the Group's Green Finance Framework.

As all main corporate facilities were refinanced or amended recently, the fair values of the Group's bank loans are deemed to be approximately the same as their carrying amount, after adjusting for the unamortised arrangement fees, and represent Level 2 fair value measurement.

Undrawn committed bank facilities – maturity profile

	< 1 year £m	1 to 2 years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	> 5 years £m	Total £m
Group							
At 31 December 2023	–	–	383.5	82.5	–	–	466.0
At 31 December 2022	–	–	–	450.0	100.0	–	550.0
Company							
At 31 December 2023	–	–	383.5	82.5	–	–	466.0
At 31 December 2022	–	–	–	450.0	100.0	–	550.0

Other loans

Other loans consist of a £20.0m interest-free loan with no fixed repayment date from a third party providing development consultancy services on the residential element of the 25 Baker Street W1 development. The loan will be repaid from the sale proceeds of these residential apartments after completion of the scheme. The agreement provides for a profit share on completion of the sales which, under IFRS 9 Financial Instruments, has been deemed to have a carrying value of £nil at 31 December 2023 (2022: £nil). The carrying value of the loan at 31 December 2023 was £20.0m (2022: £19.7m).

Intercompany loans

The terms of the intercompany loan in the Company mirror those of the unsecured convertible bonds 2025. As with the convertible bonds, debt and equity components of the intercompany loan have been accounted for separately, and the fair value of the debt components is identical to that of the bonds. The carrying value of this loan at 31 December 2023 was £172.1m (2022: £170.1m).

Derivative financial instruments

The derivative financial instruments consist of interest rate swaps, the fair values of which represent the net present value of the difference between the contracted fixed rates and the fixed rates payable if the swaps were to be replaced on 31 December 2023 for the period to the contracted expiry dates. These represent Level 2 fair value measurement.

The Group has a £20m forward-starting interest rate swap effective from 2 January 2024. This swap is not included in the 31 December 2023 figures in the table below. The Group also has three interest rate swaps of £25m, £20m and £10m, respectively which are effective at 31 December 2023.

The fair values of the Group's outstanding interest rate swaps have been estimated 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.

	Group			Company		
	Principal £m	Weighted average interest rate %	Average life Years	Principal £m	Weighted average interest rate %	Average life Years
At 31 December 2023						
Interest rate swaps	55.0	1.36	1.3	55.0	1.36	1.3
At 31 December 2022						
Interest rate swaps	–	–	–	–	–	–

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for the year ended 31 December 2023

25 Net debt and derivative financial instruments continued**Secured and unsecured debt**

	Group		Company	
	2023 £m	2022 £m	2023 £m	2022 £m
Secured				
6.5% secured bonds 2026	179.6	181.0	–	–
3.99% secured loan 2024	82.9	82.7	82.9	82.7
	262.5	263.7	82.9	82.7
Unsecured				
1.5% unsecured convertible bonds 2025	172.1	170.1	–	–
1.875% unsecured green bonds 2031	346.8	346.4	346.8	346.4
Unsecured private placement notes 2026–2034	453.5	453.3	453.5	453.3
Unsecured bank loans	81.2	(4.1)	81.2	(4.1)
Other loans	20.0	19.7	–	–
Intercompany loan	–	–	172.1	170.1
	1,073.6	985.4	1,053.6	965.7
Borrowings	1,336.1	1,249.1	1,136.5	1,048.4

As at 31 December 2023, the Group's secured bonds 2026 were secured by a floating charge over a number of the Group's subsidiary companies which contained £395.9m (2022: £448.8m) of the Group's properties.

At 31 December 2023, the Company's 3.99% secured loan 2024 was secured by a fixed charge over £246.6m (2022: £272.8m) of the Group's properties.

Fixed interest rate and hedged debt

At 31 December 2023 and 31 December 2022, the Group's fixed rate and hedged debt included the unsecured convertible bonds, the unsecured green bonds, the secured bonds, a secured loan, the unsecured private placement notes and other loans.

At 31 December 2023 and 31 December 2022, the Company's fixed rate and hedged debt included the unsecured green bonds, a secured loan, the unsecured private placement notes and the intercompany loans.

Interest rate exposure

After taking into account the various interest rate hedging instruments entered into by the Group and the Company, the interest rate exposure of the Group's and Company's borrowings were:

	Floating rate £m	Hedged £m	Fixed rate £m	Borrowings £m	Weighted average interest rate ¹ %	Weighted average life Years
Group						
At 31 December 2023						
1.5% unsecured convertible bonds 2025	–	–	172.1	172.1	2.30	1.4
6.5% secured bonds 2026	–	–	179.6	179.6	6.50	2.2
1.875% unsecured green bonds 2031	–	–	346.8	346.8	1.88	7.9
Unsecured private placement notes 2026–2034	–	–	453.5	453.5	3.42	6.6
3.99% secured loan 2024	–	–	82.9	82.9	3.99	0.8
Unsecured bank loans	28.0	53.2	–	81.2	3.71	3.0
Other loans ²	–	–	20.0	20.0	–	–
	28.0	53.2	1,254.9	1,336.1	3.29	5.0
At 31 December 2022						
1.5% unsecured convertible bonds 2025	–	–	170.1	170.1	2.30	2.4
6.5% secured bonds 2026	–	–	181.0	181.0	6.50	3.2
1.875% unsecured green bonds 2031	–	–	346.4	346.4	1.93	8.9
Unsecured private placement notes 2026–2034	–	–	453.3	453.3	3.42	7.7
3.99% secured loan 2024	–	–	82.7	82.7	3.99	1.8
Unsecured bank loans	(4.1)	–	–	(4.1)	–	–
Other loans	–	–	19.7	19.7	–	–
	(4.1)	–	1,253.2	1,249.1	3.26	6.2
Company						
At 31 December 2023						
1.875% unsecured green bonds 2031	–	–	346.8	346.8	1.88	7.9
Unsecured private placement notes 2026–2034	–	–	453.5	453.5	3.42	6.6
3.99% secured loan 2024	–	–	82.9	82.9	3.99	0.8
Unsecured bank loans	28.0	53.2	–	81.2	3.71	3.0
Intercompany loan	–	–	172.1	172.1	2.30	1.4
	28.0	53.2	1,055.3	1,136.5	2.84	5.5
At 31 December 2022						
1.875% unsecured green bonds 2031	–	–	346.4	346.4	1.93	8.9
Unsecured private placement notes 2026–2034	–	–	453.3	453.3	3.42	7.7
3.99% secured loan 2024	–	–	82.7	82.7	3.99	1.8
Unsecured bank loans	(4.1)	–	–	(4.1)	–	–
Intercompany loan	–	–	170.1	170.1	2.30	2.4
	(4.1)	–	1,052.5	1,048.4	2.78	6.7

¹ The weighted average interest rates are based on the nominal amounts of the debt facilities.

² Other loans shown above are interest free and have no fixed repayment date. For further detail, see 'Other loans' section above.

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 31 December 2023

25 Net debt and derivative financial instruments continued

Contractual undiscounted cash outflows

IFRS 7 Financial Instruments: Disclosure, requires disclosure of the maturity of the Group's and Company's remaining contractual financial liabilities. The tables below show the contractual undiscounted cash outflows arising from the Group's gross debt.

	< 1 year £m	1 to 2 years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	> 5 years £m	Total £m
Group							
At 31 December 2023							
1.5% unsecured convertible bonds 2025	–	175.0	–	–	–	–	175.0
6.5% secured bonds 2026	–	–	175.0	–	–	–	175.0
1.875% unsecured green bonds 2031	–	–	–	–	–	350.0	350.0
Unsecured private placement notes 2026–2034	–	–	55.0	–	30.0	370.0	455.0
3.99% secured loan 2024	83.0	–	–	–	–	–	83.0
Unsecured bank loans	–	–	66.5	17.5	–	–	84.0
Other loans	–	20.0	–	–	–	–	20.0
Total on maturity	83.0	195.0	296.5	17.5	30.0	720.0	1,342.0
Leasehold liabilities	1.7	1.7	1.7	1.7	1.8	209.6	218.2
Interest on borrowings	42.9	37.5	25.4	21.1	20.0	54.3	201.2
Effect of interest rate swaps	(2.4)	(0.4)	–	–	–	–	(2.8)
Gross loan commitments	125.2	233.8	323.6	40.3	51.8	983.9	1,758.6
At 31 December 2022							
1.5% unsecured convertible bonds 2025	–	–	175.0	–	–	–	175.0
6.5% secured bonds 2026	–	–	–	175.0	–	–	175.0
1.875% unsecured green bonds 2031	–	–	–	–	–	350.0	350.0
Unsecured private placement notes 2026–2034	–	–	–	55.0	–	400.0	455.0
3.99% secured loan 2024	–	83.0	–	–	–	–	83.0
Other loans	–	–	19.7	–	–	–	19.7
Total on maturity	–	83.0	194.7	230.0	–	750.0	1,257.7
Leasehold liabilities	1.8	1.7	1.7	1.7	1.8	211.3	220.0
Interest on borrowings	39.4	38.8	34.8	27.1	20.7	80.3	241.1
Effect of interest rate swaps	(1.8)	(2.4)	(1.1)	–	–	–	(5.3)
Gross loan commitments	39.4	121.1	230.1	258.8	22.5	1,041.6	1,713.5

Reconciliation to borrowings:

		Adjustments						
	Gross loan commitments £m	Interest on gross debt £m	Effect of interest rate swaps £m	Leasehold liabilities £m	Non-cash amortisation £m	Borrowings £m		
Group								
At 31 December 2023								
Maturing in:								
< 1 year	125.2	(42.9)	2.4	(1.7)	(0.1)	82.9		
1 to 2 years	233.8	(37.5)	0.4	(1.7)	–	195.0		
2 to 3 years	323.6	(25.4)	–	(1.7)	(5.4)	291.1		
3 to 4 years	40.3	(21.1)	–	(1.7)	4.1	21.6		
4 to 5 years	51.8	(20.0)	–	(1.8)	(0.1)	29.9		
> 5 years	983.9	(54.3)	–	(209.6)	(4.4)	715.6		
	1,758.6	(201.2)	2.8	(218.2)	(5.9)	1,336.1		
At 31 December 2022								
Maturing in:								
< 1 year	39.4	(39.4)	1.8	(1.8)	–	–		
1 to 2 years	121.1	(38.8)	2.4	(1.7)	(0.3)	82.7		
2 to 3 years	230.1	(34.8)	1.1	(1.7)	(4.9)	189.8		
3 to 4 years	258.8	(27.1)	–	(1.7)	2.5	232.5		
4 to 5 years	22.5	(20.7)	–	(1.8)	(0.7)	(0.7)		
> 5 years	1,041.6	(80.3)	–	(211.3)	(5.2)	744.8		
	1,713.5	(241.1)	5.3	(220.0)	(8.6)	1,249.1		
		< 1 year £m	1 to 2 years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	> 5 years £m	Total £m
Company								
At 31 December 2023								
1.875% unsecured green bonds 2031	–	–	–	–	–	350.0	350.0	
Unsecured private placement notes 2026–2034	–	–	55.0	–	30.0	370.0	455.0	
3.99% secured loan 2024	83.0	–	–	–	–	–	83.0	
Unsecured bank loans	–	–	66.5	17.5	–	–	84.0	
Intercompany loan	–	175.0	–	–	–	–	175.0	
Total on maturity	83.0	175.0	121.5	17.5	30.0	720.0	1,147.0	
Leasehold liability	2.1	2.1	2.1	2.1	2.1	16.8	27.3	
Interest on debt	31.5	26.1	23.0	21.1	20.0	54.3	176.0	
Effect of interest rate swaps	(2.4)	(0.4)	–	–	–	–	(2.8)	
Gross loan commitments	114.2	202.8	146.6	40.7	52.1	791.1	1,347.5	
At 31 December 2022								
1.875% unsecured green bonds 2031	–	–	–	–	–	350.0	350.0	
Unsecured private placement notes 2026–2034	–	–	–	55.0	–	400.0	455.0	
3.99% secured loan 2024	–	83.0	–	–	–	–	83.0	
Intercompany loan	–	–	175.0	–	–	–	175.0	
Total on maturity	–	83.0	175.0	55.0	–	750.0	1,063.0	
Leasehold liability	2.1	2.1	2.1	2.1	2.1	18.9	29.4	
Interest on debt	28.1	27.4	23.4	21.4	20.7	80.3	201.3	
Effect of interest rate swaps	(1.8)	(2.4)	(1.1)	–	–	–	(5.3)	
Gross loan commitments	28.4	110.1	199.4	78.5	22.8	849.2	1,288.4	

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 31 December 2023

25 Net debt and derivative financial instruments continued

Contractual undiscounted cash outflows continued

Reconciliation to borrowings:

		Adjustments				
	Gross loan commitments £m	Interest on gross debt £m	Effect of interest rate swaps £m	Leasehold liabilities £m	Non-cash amortisation £m	Borrowings £m
Company						
At 31 December 2023						
Maturing in:						
< 1 year	114.2	(31.5)	2.4	(2.1)	(0.1)	82.9
1 to 2 years	202.8	(26.1)	0.4	(2.1)	–	175.0
2 to 3 years	146.6	(23.0)	–	(2.1)	(5.4)	116.1
3 to 4 years	40.7	(21.1)	–	(2.1)	(0.5)	17.0
4 to 5 years	52.1	(20.0)	–	(2.1)	(0.1)	29.9
> 5 years	791.1	(54.3)	–	(16.8)	(4.4)	715.6
	1,347.5	(176.0)	2.8	(27.3)	(10.5)	1,136.5
At 31 December 2022						
Maturing in:						
< 1 year	28.4	(28.1)	1.8	(2.1)	–	–
1 to 2 years	110.1	(27.4)	2.4	(2.1)	(0.3)	82.7
2 to 3 years	199.4	(23.4)	1.1	(2.1)	(4.9)	170.1
3 to 4 years	78.5	(21.4)	–	(2.1)	(3.5)	51.5
4 to 5 years	22.8	(20.7)	–	(2.1)	(0.7)	(0.7)
> 5 years	849.2	(80.3)	–	(18.9)	(5.2)	744.8
	1,288.4	(201.3)	5.3	(29.4)	(14.6)	1,048.4

Derivative financial instruments cash flows

The following table provides an analysis of the anticipated contractual cash flows for the derivative financial instruments using undiscounted cash flows. These amounts represent the gross cash flows of the derivative financial instruments and are settled as either a net payment or receipt.

	2023		2022	
	Receivable £m	Payable £m	Receivable £m	Payable £m
Group				
Maturing in:				
< 1 year	3.4	(1.0)	2.5	(0.7)
1 to 2 years	0.7	(0.3)	3.4	(1.0)
2 to 3 years	–	–	1.6	(0.5)
3 to 4 years	–	–	–	–
4 to 5 years	–	–	–	–
> 5 years	–	–	–	–
Gross contractual cash flows	4.1	(1.3)	7.5	(2.2)
Company				
Maturing in:				
< 1 year	3.4	(1.0)	2.5	(0.7)
1 to 2 years	0.7	(0.3)	3.4	(1.0)
2 to 3 years	–	–	1.6	(0.5)
3 to 4 years	–	–	–	–
4 to 5 years	–	–	–	–
> 5 years	–	–	–	–
Gross contractual cash flows	4.1	(1.3)	7.5	(2.2)

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 all 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. Further information on risk as required by IFRS 7 is given on pages 90 to 117.

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. The Group's EPRA loan-to-value ratio has increased to 27.9% as at 31 December 2023, but remains low relative to the UK REIT sector.

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.

Impairment calculations have been carried out on trade receivables and lease incentive receivables, applying IFRS 9 and IAS 36, respectively. 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 risk. However, this is mitigated by the wide range of tenants from a broad spectrum of business sectors.

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

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

Market risk

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

The Group monitors its interest rate exposure on at least a quarterly basis. Sensitivity analysis performed to ascertain the impact on profit or loss and net assets of a 50 basis point shift in interest rates would result in an increase of £0.1m (2022: £nil) or decrease of £0.1m (2022: £nil).

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 31 December 2023

25 Net debt and derivative financial instruments continued

General objectives, policies and processes continued

It is currently Group policy that generally between 60% and 85% of external Group borrowings (excluding finance lease payables) are at fixed rates. Where the Group wishes to vary the amount of external fixed rate debt it holds (subject to it being generally between 60% and 85% of expected Group borrowings, as noted above), the Group makes use of interest rate derivatives to achieve the desired interest rate profile. Although the Board accepts that this policy neither protects the Group entirely from the risk of paying rates in excess of current market rates nor eliminates fully cash flow risk associated with variability in interest payments, it considers that it achieves an appropriate balance of exposure to these risks. At 31 December 2023, the proportion of fixed debt held by the Group was above this range at 98% (2022: 100%). During both 2023 and 2022, 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 and retained earnings).

The Group's objectives when maintaining capital are:

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

The Group sets the amount of capital it requires in proportion to risk. The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may vary the amount of dividends paid to shareholders subject to the rules imposed by its REIT status. It may also seek to redeem bonds, return capital to shareholders, issue new shares or sell assets to reduce debt. Consistent with others in its industry, the Group monitors capital on the basis of NAV gearing and loan-to-value ratio. During 2023, the Group's strategy, which was unchanged from 2022, was to maintain the NAV gearing below 80% in normal circumstances. These two gearing ratios, as well as the net interest cover ratio, are defined in the list of definitions on pages 284 and 285 and are derived in note 42.

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 £4.2bn (2022: £4.6bn) of uncharged property as at 31 December 2023.

26 Financial assets and liabilities and fair values

Categories of financial assets and liabilities

	Fair value through profit and loss £m	Financial assets held at amortised cost £m	Financial liabilities held at amortised cost £m	Total carrying value £m
Group				
Financial assets				
Cash and cash equivalents	–	73.0	–	73.0
Other assets – current ¹	–	13.2	–	13.2
	–	86.2	–	86.2
Financial liabilities				
1.5% unsecured convertible bonds 2025	–	–	(172.1)	(172.1)
6.5% secured bonds 2026	–	–	(179.6)	(179.6)
1.875% unsecured green bonds 2031	–	–	(346.8)	(346.8)
Unsecured private placement notes 2026 – 2034	–	–	(453.5)	(453.5)
3.99% secured loan 2024	–	–	(82.9)	(82.9)
Bank borrowings due after one year	–	–	(81.2)	(81.2)
Other loans	–	–	(20.0)	(20.0)
Leasehold liabilities	–	–	(34.6)	(34.6)
Derivative financial instruments	2.9	–	–	2.9
Other liabilities – current ²	–	–	(93.9)	(93.9)
	2.9	–	(1,464.6)	(1,461.7)
At 31 December 2023	2.9	86.2	(1,464.6)	(1,375.5)
Financial assets				
Cash and cash equivalents	–	76.6	–	76.6
Other assets – current ¹	–	12.5	–	12.5
	–	89.1	–	89.1
Financial liabilities				
1.5% unsecured convertible bonds 2025	–	–	(170.1)	(170.1)
6.5% secured bonds 2026	–	–	(181.0)	(181.0)
1.875% unsecured green bonds 2031	–	–	(346.4)	(346.4)
Unsecured private placement notes 2026 – 2034	–	–	(453.3)	(453.3)
3.99% secured loan 2024	–	–	(82.7)	(82.7)
Bank borrowings due after one year	–	–	4.1	4.1
Other loans	–	–	(19.7)	(19.7)
Leasehold liabilities	–	–	(35.0)	(35.0)
Derivative financial instruments	5.0	–	–	5.0
Other liabilities – current ^{2,3}	–	–	(88.1)	(88.1)
	5.0	–	(1,372.2)	(1,367.2)
At 31 December 2022	5.0	89.1	(1,372.2)	(1,278.1)

1 In 2023, other assets includes all amounts shown as trade and other receivables in note 21 except lease incentives and costs; sales and social security taxes; and prepayments of £29.5m (2022: £29.9m) for the Group. All amounts are non-interest bearing and are receivable within one year.

2 In 2023, other liabilities include all amounts shown as trade and other payables in note 23 except deferred income and sales and social security taxes of £54.1m (2022: £60.0m) for the Group. All amounts are non-interest bearing and are due within one year.

3 Other liabilities – current for the Group for the year ended 31 December 2022 has been adjusted to include £27.3m of tenant rent deposits (see note 23).

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 31 December 2023

26 Financial assets and liabilities and fair values continued

Categories of financial assets and liabilities continued

	Fair value through profit and loss £m	Financial assets held at amortised cost £m	Financial liabilities held at amortised cost £m	Total carrying value £m
Company				
Financial assets				
Cash and cash equivalents	–	24.8	–	24.8
Other assets – current ¹	–	2,352.5	–	2,352.5
	–	2,377.3	–	2,377.3
Financial liabilities				
1.875% unsecured green bonds 2031	–	–	(346.8)	(346.8)
Unsecured private placement notes 2026 – 2034	–	–	(453.5)	(453.5)
3.99% secured loan 2024	–	–	(82.9)	(82.9)
Bank borrowings due after one year	–	–	(81.2)	(81.2)
Intercompany loan	–	–	(172.1)	(172.1)
Leasehold liabilities	–	–	(21.6)	(21.6)
Derivative financial instruments	2.9	–	–	2.9
Other liabilities – current ²	–	(1,992.2)	(17.2)	(2,009.4)
	2.9	(1,992.2)	(1,175.3)	(3,164.6)
At 31 December 2023	2.9	385.1	(1,175.3)	(787.3)
Financial assets				
Cash and cash equivalents	–	67.3	–	67.3
Other assets – current ^{1,3}	–	1,785.5	–	1,785.5
	–	1,852.8	–	1,852.8
Financial liabilities				
1.875% unsecured green bonds 2031	–	–	(346.4)	(346.4)
Unsecured private placement notes 2026 – 2034	–	–	(453.3)	(453.3)
3.99% secured loan 2024	–	–	(82.7)	(82.7)
Bank borrowings due after one year	–	–	4.1	4.1
Intercompany loan	–	–	(170.1)	(170.1)
Leasehold liabilities	–	–	(22.9)	(22.9)
Derivative financial instruments	5.0	–	–	5.0
Other liabilities – current ²	–	(1,685.3)	(16.7)	(1,702.0)
	5.0	(1,685.3)	(1,088.0)	(2,768.3)
At 31 December 2022	5.0	167.5	(1,088.0)	(915.5)

1 In 2023, other assets includes all amounts shown as trade and other receivables in note 21 except lease incentives and costs; sales and social security taxes; and prepayments of £6.6m (2022: £2.5m) for the Company. All amounts are non-interest bearing and are receivable within one year.

2 In 2023, other liabilities include all amounts shown as trade and other payables in note 23 except deferred income and sales and social security taxes of £0.2m (2022: £5.5m) for the Company. All amounts are non-interest bearing and are due within one year.

3 Other assets – current for the Company for the year ended 31 December 2022 has been adjusted to include £22.1m of accrued income (see note 21).

Reconciliation of net financial assets and liabilities to gross debt

	Group		Company	
	2023 £m	2022 £m	2023 £m	2022 £m
Net financial assets and liabilities	(1,375.5)	(1,278.1)	(787.3)	(915.5)
Other assets – current ¹	(13.2)	(12.5)	(2,352.5)	(1,785.5)
Other liabilities – current ²	93.9	88.1	2,009.4	1,702.0
Cash and cash equivalents	(73.0)	(76.6)	(24.8)	(67.3)
Gross debt	(1,367.8)	(1,279.1)	(1,155.2)	(1,066.3)

1 Other assets – current for the Company for the year ended 31 December 2022 has been adjusted to include £22.1m reclassified from prepayments (see note 21).

2 Other liabilities – current for the Group for the year ended 31 December 2022 has been adjusted to include £27.3m of tenant rent deposits (see note 23).

Fair value measurement

The table below shows the fair values, where applicable, of borrowings and derivative financial instruments held by the Group, together with a reconciliation to net financial assets and liabilities. Details of inputs and valuation methods used to derive the fair values are shown in note 25.

	Group		Company		
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m	Fair value hierarchy
At 31 December 2023					
1.5% unsecured convertible bonds 2025	(172.1)	(164.7)	–	–	Level 1
6.5% secured bonds 2026	(179.6)	(178.1)	–	–	Level 1
1.875% unsecured green bonds 2031	(346.8)	(279.0)	(346.8)	(279.0)	Level 1
Unsecured private placement notes 2026 – 2034	(453.5)	(399.0)	(453.5)	(399.0)	Level 2
3.99% secured loan 2024	(82.9)	(81.8)	(82.9)	(81.8)	Level 2
Bank borrowings due after one year	(81.2)	(84.0)	(81.2)	(84.0)	Level 2
Other loans	(20.0)	(20.0)	–	–	Level 2
Intercompany loan	–	–	(172.1)	(164.7)	Level 2
Derivative financial instruments	2.9	2.9	2.9	2.9	Level 2
	(1,333.2)	(1,203.7)	(1,133.6)	(1,005.6)	
Amounts not fair valued:					
Cash and cash equivalents	73.0		24.8		
Other assets – current	13.2		2,352.5		
Leasehold liabilities	(34.6)		(21.6)		
Other liabilities – current	(93.9)		(2,009.4)		
Net financial assets and liabilities	(1,375.5)		(787.3)		
At 31 December 2022					
1.5% unsecured convertible bonds 2025	(170.1)	(157.2)	–	–	Level 1
6.5% secured bonds 2026	(181.0)	(179.7)	–	–	Level 1
1.875% unsecured green bonds 2031	(346.4)	(247.3)	(346.4)	(247.3)	Level 1
Unsecured private placement notes 2026 – 2034	(453.3)	(410.4)	(453.3)	(410.4)	Level 2
3.99% secured loan 2024	(82.7)	(80.6)	(82.7)	(80.6)	Level 2
Bank borrowings due after one year	4.1	–	4.1	–	Level 2
Other loans	(19.7)	(19.7)	–	–	Level 2
Intercompany loan	–	–	(170.1)	(157.2)	Level 2
Derivative financial instruments	5.0	5.0	5.0	5.0	Level 2
	(1,244.1)	(1,089.9)	(1,043.4)	(890.5)	
Amounts not fair valued:					
Cash and cash equivalents	76.6		67.3		
Other assets – current ¹	12.5		1,785.5		
Leasehold liabilities	(35.0)		(22.9)		
Other liabilities – current ²	(88.1)		(1,702.0)		
Net financial assets and liabilities	(1,278.1)		(915.5)		

1 Other assets – current for the Company for the year ended 31 December 2022 has been adjusted to include £22.1m of accrued income (see note 21).

2 Other liabilities – current for the Group for the year ended 31 December 2022 has been adjusted to include £27.3m of tenant rent deposits (see note 23).

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

- 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 2023 or 2022.

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 31 December 2023

27 Net debt to cash flow reconciliation

Net debt reconciliation

The table below shows net debt movement during the year as a result of cash flows and other non-cash movements.

	2022 £m	Cash flows £m	Non-cash changes				2023 £m
			Impact of issue and arrangement costs £m	Fair value adjustments £m	Unwind of discount £m	Transfer from non-current to current £m	
Group							
Current liabilities							
Borrowings	19.7	0.3	0.1	–	–	82.8	102.9
Leasehold liabilities	0.5	–	–	–	(0.1)	–	0.4
Non-current liabilities							
Borrowings	1,229.4	84.0	2.5	0.1	–	(82.8)	1,233.2
Leasehold liabilities	34.5	–	–	–	(0.3)	–	34.2
Total liabilities from financing activities	1,284.1	84.3	2.6	0.1	(0.4)	–	1,370.7
Cash at bank ¹	(26.9)	13.0	–	–	–	–	(13.9)
Net debt	1,257.2	97.3	2.6	0.1	(0.4)	–	1,356.8
Company							
Current liabilities							
Borrowings	–	–	0.1	–	–	82.8	82.9
Leasehold liabilities	1.3	–	–	–	–	–	1.3
Non-current liabilities							
Borrowings	1,048.4	84.0	2.4	1.6	–	(82.8)	1,053.6
Leasehold liabilities	21.6	–	–	–	(1.3)	–	20.3
Total liabilities from financing activities	1,071.3	84.0	2.5	1.6	(1.3)	–	1,158.1
Cash at bank ¹	(26.4)	14.8	–	–	–	–	(11.6)
Net debt	1,044.9	98.8	2.5	1.6	(1.3)	–	1,146.5

¹ Cash at bank excluding restricted cash (see note 34).

28 Cash generated from operations

The cash flow statements have been restated, with operating cash flows now being presented using the 'indirect' method as set out in IAS 7 Statement of Cash Flows. See note 2 Changes in accounting policies for more information.

	Group		Company	
	2023 £m	2022 Restated ¹ £m	2023 £m	2022 Restated ¹ £m
Loss from operations	(428.9)	(238.3)	(12.7)	(12.3)
Adjustment for non-cash items:				
Revaluation deficit	581.5	422.1	–	–
Depreciation	1.1	1.0	2.3	2.1
Lease incentive/cost spreading	(6.6)	(21.7)	–	–
Share-based payments	2.5	2.1	2.5	2.2
Ground rent adjustment	0.3	(0.6)	–	–
Adjustment for other items:				
Profit on disposal	(1.2)	(25.6)	–	–
Changes in working capital:				
Increase in receivables balance	(3.7)	(0.5)	(24.3)	(22.4)
Increase in payables balance	17.5	19.3	(1.5)	0.6
Increase in trading property and trading stock	(27.2)	(9.1)	–	–
Cash generated from/(used in) operations	135.3	148.7	(33.7)	(29.8)

¹ Prior year figures have been restated for changes in accounting policies. See note 2 for additional information.

Group cash generated from operations includes £nil (2022: £3.0m) inflow from disposal of trading properties and £24.7m (2022: £9.7m) outflow in relation to expenditure on trading properties and stock.

29 Deferred tax

	Revaluation £m	Other £m	Total £m
Group			
At 1 January 2023	3.7	(3.1)	0.6
Charged to the income statement	0.1	0.4	0.5
Credited to other comprehensive income	(1.0)	–	(1.0)
At 31 December 2023	2.8	(2.7)	0.1
At 1 January 2022	3.3	(3.6)	(0.3)
Charged/(credited) to the income statement	0.2	(0.1)	0.1
Charged to other comprehensive income	0.2	–	0.2
Charged to equity	–	0.6	0.6
At 31 December 2022	3.7	(3.1)	0.6
Company			
At 1 January 2023	–	(3.0)	(3.0)
Charged to the income statement	–	0.4	0.4
At 31 December 2023	–	(2.6)	(2.6)
At 1 January 2022	–	(3.6)	(3.6)
Credited to the income statement	–	(0.1)	(0.1)
Charged to equity	–	0.7	0.7
At 31 December 2022	–	(3.0)	(3.0)

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for the year ended 31 December 2023

29 Deferred tax continued

Deferred tax on the balance sheet revaluation deficit/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 ring-fence.

Where applicable, deferred tax assets in the Company 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.

30 Share capital

The movement in the number of 5p ordinary shares in issue is shown in the table below:

Number of shares in issue fully paid	Number
At 1 January 2022	112,208,510
Issued as a result of awards vesting under the Group's Performance Share Plan	39,614
Issued as a result of the exercise of share options ^{1,2}	42,555
At 31 December 2022	112,290,679
Issued as a result of the exercise of share options ¹	250
At 31 December 2023	112,290,929

1 Proceeds from these issues were £nil (2022: £1.2m).

2 The number of shares issued as a result of the exercise of share options in 2022 has been re-presented to include an additional 16,571 shares issued in relation to SAYE.

The number of outstanding share options and other share awards granted are disclosed in the report of the Remuneration Committee and note 13.

31 Reserves

The following describes the nature and purpose of each reserve within shareholders' equity:

Reserve	Description and purpose
Share premium	Amount subscribed for share capital in excess of nominal value less directly attributable issue costs.
Other reserves:	
Merger	Premium on the issue of shares as equity consideration for the acquisition of London Merchant Securities plc (LMS).
Revaluation	Revaluation of the owner-occupied property and the associated deferred tax.
Other	Equity portion of the convertible bonds for the Group and intercompany loans for the Company. Fair value of equity instruments granted but not yet exercised under share-based payments.
Retained earnings	Cumulative net gains and losses recognised in the Group income statement together with other items such as dividends.

	Group		Company	
	2023 £m	2022 £m	2023 £m	2022 £m
Other reserves				
Merger reserve	910.5	910.5	910.5	910.5
Revaluation reserve	13.1	16.0	–	–
Equity portion of the convertible bonds	7.5	7.5	–	–
Equity portion of long-term intercompany loan	–	–	7.5	7.5
Fair value of equity instruments under share-based payments	8.2	7.9	8.2	7.9
	939.3	941.9	926.2	925.9

32 Profit for the year attributable to members of Derwent London plc

Company retained earnings includes a profit of £189.6m (2022: £34.3m) for the year. The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own income statement in these financial statements.

33 Dividend

	Payment date	Dividend per share			2023 £m	2022 £m
		PID p	Non-PID p	Total p		
Current year						
2023 final dividend ¹	31 May 2024	39.00	16.00	55.00	–	–
2023 interim dividend	13 October 2023	24.50	–	24.50	27.5	–
		63.50	16.00	79.50	27.5	–
Prior year						
2022 final dividend	2 June 2023	38.50	16.00	54.50	61.2	–
2022 interim dividend	14 October 2022	24.00	–	24.00	–	26.9
		62.50	16.00	78.50	61.2	26.9
2021 final dividend	1 June 2022	35.50	18.00	53.50	–	60.1
Dividends as reported in the Group statement of changes in equity					88.7	87.0
2023 interim dividend withholding tax	12 January 2024				(3.7)	–
2022 interim dividend withholding tax	13 January 2023				3.7	(3.7)
2021 interim dividend withholding tax	14 January 2022				–	3.5
Dividends paid as reported in the Group cash flow statement					88.7	86.8

¹ Subject to shareholder approval at the AGM on 10 May 2024.

34 Cash and cash equivalents

	Group		Company	
	2023 £m	2022 £m	2023 £m	2022 £m
Cash at bank	13.9	26.9	11.6	26.4
Cash held in restricted accounts:				
Tenant rent deposits	27.0	27.3	8.3	27.3
Service charge balances	32.1	22.4	4.9	13.6
	73.0	76.6	24.8	67.3

35 Capital commitments

Contracts for capital expenditure entered into by the Group at 31 December 2023 and not provided for in the accounts relating to the construction, development or enhancement of the Group's investment properties amounted to £156.0m (2022: £147.3m), whilst that relating to the Group's trading properties amounted to £77.6m (2022: £87.9m). At 31 December 2023 and 31 December 2022, there were no material contractual obligations for the purchase, repair or maintenance of investment or trading properties.

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for the year ended 31 December 2023

36 Contingent liabilities

In May 2022, Derwent London exchanged a conditional contract to acquire the freehold of the Old Street Quarter site, the existing site of the Moorfields Eye Hospital and the UCL Institute of Ophthalmology. Consideration for the site has been agreed as £239m before costs, subject to receipt of final Treasury approval (received in February 2023), delivery of the new hospital at St Pancras and subsequent vacant possession of the Old Street Quarter island site.

In 2021, the Group entered into a 50:50 joint venture with Lazari Investments Limited, Derwent Lazari Baker Street Limited Partnership (see note 19). Subject to receiving planning on a scheme which includes the three leasehold properties within the joint venture and a fourth property owned by the freeholder, and a regear of the headlease, up to £7.3m of additional consideration is payable to Lazari Investments Limited upon certain minimum planning areas being achieved.

The Company and its subsidiaries are party to cross guarantees securing certain bank loans. At 31 December 2023 and 31 December 2022, there was no liability that could arise for the Company from the cross guarantees.

37 Leases

	2023 £m		2022 £m	
Operating lease receipts				
Minimum lease receipts under non-cancellable operating leases to be received:				
not later than one year	205.6		200.8	
later than one year and not later than five years	676.2		642.3	
later than five years	809.6		884.1	
	1,691.4		1,727.2	
	Group		Company	
	2023 £m	2022 £m	2023 £m	2022 £m
Headlease obligations				
Minimum lease payments under headleases that fall due:				
not later than one year	1.7	1.8	2.1	2.1
later than one year and not later than five years	6.9	6.9	8.4	8.4
later than five years	209.6	211.3	16.8	18.9
	218.2	220.0	27.3	29.4
Future finance charges on headleases	(183.6)	(185.0)	(5.7)	(6.5)
Present value of headlease liabilities	34.6	35.0	21.6	22.9
Present value of minimum headlease obligations:				
not later than one year	0.4	0.5	1.3	1.3
later than one year and not later than five years	1.8	1.7	5.7	5.5
later than five years	32.4	32.8	14.6	16.1
	34.6	35.0	21.6	22.9

The Group has approximately 644 leases granted to its tenants. These vary dependent on the individual tenant and the respective property and demise but typically are let for a term of five to 20 years, at a market rent with provisions to review to market rent every five years. Standard lease provisions include service charge payments and recovery of other direct costs. The weighted average lease length of the leases commencing during 2023 was 8.6 years (2022: 8.1 years). Of these leases, on a weighted average basis, 84% (2022: 94%) included a rent-free or half-rent period.

38 List of subsidiaries and joint ventures

A full list of subsidiaries and joint ventures as at 31 December 2023 is set out below.

Audit exemption taken for subsidiaries

Certain UK subsidiaries are exempt from the requirement of the Companies Act 2006 relating to the audit of individual accounts by virtue of Section 479A of the Act. These subsidiaries are identified in the table below (superscript/footnote 2):

	Company number	Ownership ³	Principal activity
Subsidiaries			
Asta Commercial Limited	09644973	100%	Property investment
Bargate Quarter Limited	04307168	65%	Investment company
BBR Property Limited ¹	08486476	100%	Dormant
Caledonian Properties Limited ²	00669924	100%	Property investment
Caledonian Property Estates Limited ²	07412270	100%	Property investment
Caledonian Property Investments Limited ²	00669923	100%	Property investment
Carlton Construction & Development Company Limited	00538216	100%	Dormant
Central London Commercial Estates Limited	00656914	100%	Property investment
Charlotte Apartments Limited ²	09642563	100%	Property investment
80 Charlotte Street Limited ^{1,2}	10579271	100%	Property investment
Derwent Asset Management Limited ^{1,2}	07325387	100%	Property management
Derwent Central Cross Limited ^{1,2}	07320070	100%	Property investment
Derwent Henry Wood Limited ¹	07412653	100%	Property investment
Derwent London Angel Building Limited	13247175	100%	Property investment
Derwent London AD Limited ¹	13227143	100%	Dormant
Derwent London Asta Limited	09643005	100%	Property trading
Derwent London Asta Residential Limited	11253423	100%	Property investment
Derwent London Baker Street Limited	00806862	100%	Property investment
Derwent London BH Limited ^{1,2}	13136439	100%	Property investment
Derwent London Brixton Limited ^{1,2}	12405614	100%	Property investment
Derwent London BSP Limited ²	13635308	100%	Property investment
Derwent London Capital No. 3 (Jersey) Limited ¹	00129106	100%	Finance company
Derwent London Development Services Limited ¹	09850541	100%	Development services
Derwent London Farringdon Limited ¹	09310500	100%	Property investment
Derwent London Featherstone Limited ^{1,2}	11296132	100%	Property investment
Derwent London Gallery Limited ^{1,2}	12752908	100%	Property investment
Derwent London George Street Limited ¹	13034088	100%	Property trading
Derwent London Green Energy Limited ^{1,2}	12824452	100%	Energy production
Derwent London Holden House Limited ^{1,2}	11325906	100%	Property investment
Derwent London Holford Works Limited ^{1,2}	13302967	100%	Property investment
Derwent London Horseferry Limited ^{1,2}	13136399	100%	Property investment
Derwent London KSW Limited ¹	08802313	100%	Property investment
Derwent London Member Services Limited ²	14958936	100%	Events & catering services
Derwent London No.2 Limited ^{1,2}	13136412	100%	Property investment
Derwent London No.4 Limited ¹	13655681	100%	Property investment
Derwent London No.5 Limited ^{1,2}	13906854	100%	Property investment
Derwent London No.6 Limited ¹	14009618	100%	Property investment
Derwent London Oliver's Yard Limited ¹	10775826	100%	Property investment
Derwent London Page Street (Nominee) Limited	07540717	100%	Dormant
Derwent London Page Street Limited ^{1,2}	07540699	100%	Property investment
Derwent London Savile Row Limited ^{1,2}	12902975	100%	Property investment
Derwent London White Chapel Limited ¹	13136446	100%	Property investment
Derwent London White Collar Limited ^{1,2}	13136415	100%	Property investment

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for the year ended 31 December 2023

	Company number	Ownership ³	Principal activity
Subsidiaries continued			
Derwent London Whitfield Street Limited ¹	10775868	100%	Property investment
Derwent Valley Central Limited ¹	00205226	100%	Property investment
Derwent Valley Employee Trust Limited ^{1,2}	04177132	100%	Employee trust
Derwent Valley Finance Limited ²	05622597	100%	Investment holding
Derwent Valley Limited	00445037	100%	Holding company
Derwent Valley London Limited ¹	00229333	100%	Property investment
Derwent Valley Property Developments Limited ¹	02148266	100%	Property investment
Derwent Valley Property Investments Limited ^{1,2}	01885847	100%	Property investment
Derwent Valley Property Trading Limited ¹	03087749	100%	Property trading
Derwent Valley Railway Company ¹		100%	Dormant
Derwent Valley West End Limited ^{1,2}	02035801	100%	Property investment
Kensington Commercial Property Investments Limited	00590078	100%	Property investment
LMS (City Road) Limited ²	05642456	100%	Property investment
LMS Finance Limited ²	05622669	100%	Investment holding
LMS Offices Limited ²	05308784	100%	Property investment
London Merchant Securities Limited ¹	00007064	100%	Holding company
The New River Company Limited	00085094	100%	Property investment
Urbanfirst Limited	02213216	100%	Investment holding
West London & Suburban Property Investments Limited	00538148	100%	Property investment
Joint ventures			
Derwent Lazari Baker Street GP Limited	13644777	50%	Management company
Derwent Lazari Baker Street Limited Partnership	LP022112	50%	Property investment
Dorrington Derwent Holdings Limited	02355611	50%	Holding company
Dorrington Derwent Investments Limited	02359387	50%	Investment company
Prescot Street GP Limited	09347783	50%	Management company
Prescot Street Limited Partnership	LP016484	50%	Property investment
Prescot Street Nominees Limited	09347776	50%	Dormant
Primister Limited	02068292	50%	Property investment

¹ Indicates subsidiary undertakings held directly.

² Exempt from the requirement of the Companies Act 2006 relating to the audit of individual accounts by virtue of Section 479A of the Act.

³ All holdings are of ordinary shares.

The Company controls 50% of the voting rights of its joint ventures, which are accounted for and disclosed in accordance with IFRS 11 Joint Arrangements.

All of the entities above are incorporated and domiciled in England and Wales, with the exception of Derwent London Capital No. 3 (Jersey) Limited which is incorporated and domiciled in Jersey. In addition, all the entities are registered at 25 Savile Row, London, W1S 2ER, with the exception of:

- Derwent London Capital No. 3 (Jersey) Limited, which is registered at 47 Esplanade, St Helier, JE1 0BD, Channel Islands;
- Dorrington Derwent Holdings Limited and Dorrington Derwent Investments Limited, which are registered at 16 Hans Road, London, SW3 1RT; and
- Primister Limited, which is registered at Quadrant House, Floor 6, 4 Thomas More Square, London, E1W 1YW.

39 Related party disclosure

Details of Directors' remuneration are given in the report of the Remuneration Committee on pages 172 to 197 and note 11.

Details of transactions with joint ventures are shown in note 19. A full list of subsidiaries and joint ventures is given in note 38.

Other related party transactions are as follows:

Group

The Group earned fees of £0.5m (2022: £0.5m) in relation to development management, asset management and administration of the Derwent Lazari Baker Street Limited Partnership.

Company

The Company received interest from and paid interest to some of its subsidiaries during the year. These transactions are summarised below:

	Interest income/(expense)		Balance receivable/(payable)	
	2023 £m	2022 £m	2023 £m	2022 £m
Related party				
80 Charlotte Street Limited	10.3	9.3	271.0	270.7
Derwent Asset Management Limited	–	–	(1.0)	(1.1)
Derwent Central Cross Limited	6.6	6.6	171.5	174.3
Derwent Henry Wood Limited	–	(0.2)	(1.3)	(3.5)
Derwent London AD Limited	–	–	(5.0)	(5.0)
Derwent London Angel Building Limited	–	–	(4.8)	–
Derwent London BH Limited	(1.3)	(0.3)	(21.4)	(45.8)
Derwent London Brixton Limited	0.6	1.1	15.0	12.1
Derwent London BSP Limited	1.4	1.3	37.1	35.7
Derwent London Capital No. 3 (Jersey) Limited ¹	(3.9)	(3.9)	(172.2)	(170.2)
Derwent London Development Services Limited	3.7	2.1	158.9	30.4
Derwent London Farringdon Limited	(1.0)	(0.7)	(28.7)	(24.8)
Derwent London Featherstone Limited	1.2	1.0	27.4	34.6
Derwent London Gallery Limited	–	–	0.8	0.4
Derwent London George Street Limited	–	(0.1)	11.6	8.1
Derwent London Green Energy Limited	–	–	(3.5)	(3.9)
Derwent London Holden House Limited	1.5	3.1	29.9	46.1
Derwent London Holford Works Limited	0.5	0.6	11.1	16.2
Derwent London Horseferry Limited	2.3	–	123.2	–
Derwent London KSW Limited	(4.3)	(4.1)	(114.9)	(110.6)
Derwent London No.2 Limited	1.7	3.4	33.5	56.3
Derwent London No.4 Limited	1.4	1.3	35.1	37.0
Derwent London No.5 Limited	(0.1)	–	(20.2)	(17.3)
Derwent London No.6 Limited	0.2	–	4.9	3.1
Derwent London Oliver's Yard Limited	0.3	2.6	(1.2)	18.1
Derwent London Savile Row Limited	–	–	–	(0.5)
Derwent London White Chapel Limited	2.1	1.2	40.9	64.6
Derwent London White Collar Limited	4.4	–	229.0	(2.0)
Derwent London Whitfield Street Limited	1.6	1.7	44.8	45.5
Derwent Valley Central Limited	(2.8)	3.6	(99.6)	(20.0)
Derwent Valley London Limited	7.4	4.4	238.5	150.5
Derwent Valley Property Developments Limited	(6.6)	(8.1)	(128.0)	(223.1)
Derwent Valley Property Investments Limited	(5.1)	(4.8)	(137.3)	(131.2)
Derwent Valley Property Trading Limited	0.1	0.1	4.8	2.5
Derwent Valley Railway Company ²	–	–	(0.2)	(0.2)
Derwent Valley West End Limited	(0.1)	(0.1)	(4.0)	(3.8)
London Merchant Securities Limited ³	(17.7)	(10.9)	(582.7)	(339.5)
	4.4	10.2	163.0	(96.3)

1 The payable balance at 31 December 2023 includes the intercompany loan of £172.1m (2022: £170.1m) included in note 25.

2 Dormant company.

3 Balance owed includes subsidiaries which form part of the LMS sub-group.

The Company has not made any provision for bad or doubtful debts in respect of related party debtors. Intercompany balances are repayable on demand except the loan from Derwent London Capital No. 3 (Jersey) Limited, the payment and repayment terms of which mirror those of the convertible bonds.

Interest is charged on the on-demand intercompany balances at an arm's length basis.

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40 EPRA performance measures and core recommendations

Unaudited unless stated otherwise.

Summary table of EPRA performance measures

	2023		2022	
		Pence per share p		Pence per share p
EPRA earnings (audited)	£114.5m	101.97	£119.7m	106.62
EPRA Net Tangible Assets (audited)	£3,522.1m	3,129	£4,083.7m	3,632
EPRA Net Disposal Value (audited)	£3,649.6m	3,243	£4,236.2m	3,768
EPRA Net Reinstatement Value (audited)	£3,852.9m	3,423	£4,447.4m	3,956
EPRA Cost Ratio (including direct vacancy costs)	27.3%		23.3%	
EPRA Cost Ratio (excluding direct vacancy costs)	22.3%		19.5%	
EPRA Net Initial Yield	4.3%		3.7%	
EPRA 'topped-up' Net Initial Yield	5.2%		4.6%	
EPRA Vacancy Rate	4.0%		6.4%	

The definition of these measures can be found on pages 283 and 284.

Number of shares

	Earnings per share		Net asset value per share	
	Weighted average		At 31 December	
	2023 Audited '000	2022 Audited '000	2023 Audited '000	2022 Audited '000
For use in basic measures	112,291	112,270	112,291	112,291
Dilutive effect of share-based payments	243	142	257	138
For use in diluted measures	112,534	112,412	112,548	112,429

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 the year ended 31 December 2022 and 2023, 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 year, the bonds were not expected to convert.

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

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

Earnings and earnings per share

		Adjustments			
	IFRS £m	A £m	B £m	C £m	EPRA basis £m
Year ended 31 December 2023 (audited)					
Net property and other income	190.5	–	1.0	–	191.5
Total administrative expenses	(39.1)	–	–	–	(39.1)
Revaluation deficit	(581.5)	–	581.5	–	–
Profit on disposal of investments	1.2	(1.2)	–	–	–
Net finance costs	(39.5)	–	–	–	(39.5)
Movement in fair value of derivative financial instruments	(2.1)	–	–	2.1	–
Financial derivative termination income	1.8	–	–	(1.8)	–
Share of results of joint ventures	(7.2)	–	9.2	–	2.0
Loss before tax	(475.9)	(1.2)	591.7	0.3	114.9
Tax charge	(0.5)	–	0.1	–	(0.4)
(Loss)/earnings attributable to equity shareholders	(476.4)	(1.2)	591.8	0.3	114.5
(Loss)/earnings per share	(424.25p)				101.97p
Diluted (loss)/earnings per share	(424.25p)				101.75p

The diluted loss per share for the period to 31 December 2023 was restricted to a loss of 424.25p per share, as the loss per share cannot be reduced by dilution in accordance with IAS 33 Earnings per Share.

		Adjustments			
	IFRS £m	A £m	B £m	C £m	EPRA basis £m
Year ended 31 December 2022 (audited)					
Net property and other income	194.6	(0.2)	0.2	–	194.6
Total administrative expenses	(36.4)	–	–	–	(36.4)
Revaluation deficit	(422.1)	–	422.1	–	–
Profit on disposal of investments	25.6	(25.6)	–	–	–
Net finance costs	(39.4)	–	–	–	(39.4)
Movement in fair value of derivative financial instruments	5.8	–	–	(5.8)	–
Financial derivative termination costs	(0.3)	–	–	(0.1)	(0.4)
Share of results of joint ventures	(7.3)	–	9.3	–	2.0
Loss before tax	(279.5)	(25.8)	431.6	(5.9)	120.4
Tax charge	(1.0)	–	0.3	–	(0.7)
(Loss)/earnings attributable to equity shareholders	(280.5)	(25.8)	431.9	(5.9)	119.7
(Loss)/earnings per share	(249.84p)				106.62p
Diluted (loss)/earnings per share	(249.84p)				106.48p

The diluted loss per share for the period to 31 December 2022 was restricted to a loss of 249.84p per share, as the loss per share cannot be reduced by dilution in accordance with IAS 33 Earnings per Share.

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 31 December 2023

40 EPRA performance measures and core recommendations continued

EPRA Net Asset Value metrics

	2023 Audited £m	2022 Audited £m
Net assets attributable to equity shareholders	3,508.8	4,075.5
Adjustment for:		
Revaluation of trading properties	9.8	4.8
Deferred tax on revaluation surplus ¹	1.4	1.9
Fair value of derivative financial instruments	(2.9)	(5.0)
Fair value adjustment to secured bonds	5.0	6.5
EPRA Net Tangible Assets	3,522.1	4,083.7
Per share measure – diluted	3,129p	3,632p
Net assets attributable to equity shareholders	3,508.8	4,075.5
Adjustment for:		
Revaluation of trading properties	9.8	4.8
Fair value adjustment to secured bonds	5.0	6.5
Mark-to-market of fixed rate debt	133.4	159.5
Unamortised issue and arrangement costs	(7.4)	(10.1)
EPRA Net Disposal Value	3,649.6	4,236.2
Per share measure – diluted	3,243p	3,768p
Net assets attributable to equity shareholders	3,508.8	4,075.5
Adjustment for:		
Revaluation of trading properties	9.8	4.8
Deferred tax on revaluation surplus	2.8	3.7
Fair value of derivative financial instruments	(2.9)	(5.0)
Fair value adjustment to secured bonds	5.0	6.5
Purchasers' costs ²	329.4	361.9
EPRA Net Reinstatement Value	3,852.9	4,447.4
Per share measure – diluted	3,423p	3,956p

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 ratio (unaudited)

	2023 £m	2022 £m
Administrative expenses	39.1	36.4
Write-off/impairment of receivables	2.0	(1.0)
Other property costs	15.2	12.7
Dilapidation receipts	(0.1)	(0.5)
Net service charge costs	6.6	5.1
Service charge costs recovered through rents but not separately invoiced	(0.9)	(0.7)
Management fees received less estimated profit element	(4.5)	(4.2)
Share of joint ventures' expenses	0.4	0.5
EPRA costs (including direct vacancy costs) (A)	57.8	48.3
Direct vacancy costs	(10.4)	(7.9)
EPRA costs (excluding direct vacancy costs) (B)	47.4	40.4
Gross rental income	212.8	207.0
Ground rent	(2.2)	(1.7)
Service charge components of rental income	(0.9)	(0.7)
Share of joint ventures' rental income less ground rent	2.4	2.5
Adjusted gross rental income (C)	212.1	207.1
EPRA cost ratio (including direct vacancy costs) (A/C)	27.3%	23.3%
EPRA cost ratio (excluding direct vacancy costs) (B/C)	22.3%	19.5%

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

	2023 £m	2022 £m
Property portfolio at fair value (D)	4,844.7	5,321.8
Portfolio cost ratio (A/D)	1.2%	0.9%

The Group has not capitalised any overheads in either 2023 or 2022.

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 31 December 2023

40 EPRA performance measures and core recommendations continued**Net Initial Yield and 'topped-up' Net Initial Yield (unaudited)**

	2023 £m	2022 £m
Property portfolio – wholly owned	4,844.7	5,321.8
Share of joint ventures	33.8	42.5
Less non-EPRA properties ¹	(488.3)	(364.4)
Completed property portfolio	4,390.2	4,999.9
Allowance for:		
Estimated purchasers' costs	298.5	340.0
EPRA property portfolio valuation (A)	4,688.7	5,339.9
Annualised contracted rental income, net of ground rents	204.9	201.6
Share of joint ventures	2.5	2.6
Less non-EPRA properties ¹	(0.7)	(0.6)
Add outstanding rent reviews	0.1	3.1
Less estimate of non-recoverable expenses	(6.6)	(7.5)
	(7.2)	(5.0)
Current income net of non-recoverable expenses (B)	200.2	199.2
Contractual rental increases across the portfolio	44.6	46.4
Contractual rental increases across the EPRA portfolio	44.6	46.4
'Topped-up' net annualised rent (C)	244.8	245.6
EPRA net initial yield (B/A)	4.3%	3.7%
EPRA 'topped-up' net initial yield (C/A)	5.2%	4.6%

Vacancy rate (unaudited)

	2023 £m	2022 £m
Annualised estimated rental value of vacant premises	10.8	17.3
Portfolio estimated rental value	314.0	307.7
Less non-EPRA properties ¹	(46.0)	(38.0)
	268.0	269.7
EPRA vacancy rate	4.0%	6.4%

¹ In accordance with EPRA best practice guidelines, deductions are made for development properties, land and long-dated reversions.

Like-for-like rental growth (unaudited)

	Like-for-like portfolio £m	Development property £m	Acquisitions and disposals £m	Total £m
2023				
Gross rental income	190.3	20.5	2.0	212.8
Other property expenditure	(18.2)	(5.0)	(0.8)	(24.0)
Write-off/impairment of receivables	(1.3)	(0.6)	(0.1)	(2.0)
Impairment included in prepayments (see note 20)	–	–	(0.6)	(0.6)
Net rental income	170.8	14.9	0.5	186.2
Other	4.7	(0.4)	–	4.3
Net property and other income	175.5	14.5	0.5	190.5
2022				
Gross rental income	187.2	13.2	6.6	207.0
Other property expenditure	(14.2)	(5.1)	(0.2)	(19.5)
Write-off/impairment of receivables	0.2	0.6	0.2	1.0
Net rental income	173.2	8.7	6.6	188.5
Other	6.1	(0.2)	0.2	6.1
Net property and other income	179.3	8.5	6.8	194.6
Change based on:				
Gross rental income	1.7%			2.8%
Net rental income	(1.4%)			(1.2%)
Net property and other income	(2.1%)			(2.1%)

Property-related capital expenditure (unaudited)

	2023			2022		
	Group (excl. Joint ventures) £m	Joint ventures (50% share) £m	Total Group £m	Group (excl. Joint ventures) £m	Joint ventures (50% share) £m	Total Group £m
Acquisitions	3.8	–	3.8	133.0	–	133.0
Development	127.3	0.6	127.9	94.7	1.6	96.3
Investment properties						
Incremental lettable space	–	–	–	0.9	–	0.9
No incremental lettable space	25.0	–	25.0	18.5	–	18.5
Tenant incentives	–	–	–	0.8	–	0.8
Capitalised interest	6.3	–	6.3	6.9	–	6.9
Total capital expenditure	162.4	0.6	163.0	254.8	1.6	256.4
Conversion from accrual to cash basis	12.1	0.1	12.2	11.1	0.1	11.2
Total capital expenditure on a cash basis	174.5	0.7	175.2	265.9	1.7	267.6

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 31 December 2023

41 Total return (unaudited)

	2023 p	2022 p
EPRA Net Tangible Assets on a diluted basis		
At end of year	3,129	3,632
At start of year	(3,632)	(3,959)
Decrease	(503)	(327)
Dividend per share	79	78
Decrease including dividend	(424)	(249)
Total return	(11.7%)	(6.3%)

42 Gearing and interest cover**NAV gearing**

	2023 £m	2022 £m
Net debt	1,356.8	1,257.2
Net assets	3,508.8	4,075.5
NAV gearing	38.7%	30.8%

Loan-to-value ratio

	2023 £m	2022 £m
Group loan-to-value ratio		
Net debt	1,356.8	1,257.2
Fair value adjustment of secured bonds	(5.0)	(6.5)
Unamortised discount on unsecured green bonds	1.5	1.7
Unamortised issue and arrangement costs	7.4	10.1
Leasehold liabilities	(34.6)	(35.0)
Drawn debt net of cash (A)	1,326.1	1,227.5
Fair value of property portfolio (B)	4,844.7	5,321.8
Loan-to-value ratio (A/B)	27.4%	23.1%
Proportionally consolidated loan-to-value ratio		
Drawn debt net of cash (A)	1,326.1	1,227.5
Share of cash and cash equivalents in joint ventures	(2.2)	(1.6)
Drawn debt net of cash including Group's share of joint ventures (C)	1,323.9	1,225.9
Fair value of property portfolio (B)	4,844.7	5,321.8
Share of fair value of property portfolio of joint ventures	33.8	42.4
Fair value of property portfolio including Group's share of joint ventures (D)	4,878.5	5,364.2
Proportionally consolidated loan-to-value ratio (C/D)	27.1%	22.9%
EPRA loan-to-value ratio		
Drawn debt net of cash including Group's share of joint ventures (C)	1,323.9	1,225.9
Debt with equity characteristics	(20.0)	(19.7)
Adjustment for hybrid debt instruments	2.0	3.3
Net payables adjustment	57.2	74.1
Adjusted debt (E)	1,363.1	1,283.6
Fair value of property portfolio including Group's share of joint ventures (D)	4,878.5	5,364.2
EPRA loan-to-value ratio (E/D)	27.9%	23.9%

Net interest cover ratio

	2023 £m	2022 £m
Group net interest cover ratio		
Net property and other income	190.5	194.6
Adjustments for:		
Other income	(4.5)	(4.2)
Other property income	–	(0.3)
Surrender premiums received	(0.1)	(1.1)
Write-down of trading property	0.4	0.2
Profit on disposal of trading properties	–	(0.2)
Adjusted net property income	186.3	189.0
Finance income	(0.9)	(0.3)
Finance costs	40.4	39.7
	39.5	39.4
Adjustments for:		
Finance income	0.9	0.3
Other finance costs	(0.3)	(0.3)
Amortisation of fair value adjustment to secured bonds	1.5	1.4
Amortisation of issue and arrangement costs	(2.6)	(2.6)
Finance costs capitalised	6.5	7.0
Net interest payable	45.5	45.2
Group net interest cover ratio	409%	418%
Proportionally consolidated net interest cover ratio		
Adjusted net property income	186.3	189.0
Share of joint ventures' net property income	2.2	2.1
Adjusted net property income including share of joint ventures	188.5	191.1
Net interest payable	45.5	45.2
Proportionally consolidated net interest cover ratio	414%	423%

Net debt to EBITDA

	2023 £m	2022 £m
Net debt (A)	1,356.8	1,257.2
Loss for the year	(476.4)	(280.5)
Add back: tax charge	0.5	1.0
Loss before tax	(475.9)	(279.5)
Add back: net finance charges	39.5	39.4
Add back: movement in fair value of derivative financial instruments	2.1	(5.8)
Add back: financial derivative termination (income)/costs	(1.8)	0.3
	(436.1)	(245.6)
Add back: profit on disposal of investment property	(1.2)	(25.6)
Add back: revaluation deficit	581.5	422.1
Add back: share of joint venture revaluation deficit (note 9)	9.2	9.3
Add back: depreciation	1.1	1.0
EBITDA (B)	154.5	161.2
Net debt to EBITDA (A/B)	8.8	7.8

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 31 December 2023

43 Material accounting policies

Basis of consolidation

The Group financial statements incorporate the financial statements of Derwent London plc and all of its subsidiaries, together with the Group's share of the results of its joint ventures.

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are no longer consolidated from the date that control ceases.

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement. Interests in joint ventures are accounted for using the equity method of accounting as permitted by IFRS 11 Joint Arrangements, and following the procedures for this method set out in IAS 28 Investments in Associates and Joint Ventures. The equity method requires the Group's share of the joint venture's post-tax profit or loss for the year to be presented separately in the income statement and the Group's share of the joint venture's net assets to be presented separately in the balance sheet.

Intra-group balances and any unrealised gains and losses arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with joint ventures are eliminated to the extent of the Group's interest in the joint venture concerned. Unrealised losses are eliminated in the same way, but only to the extent that there is no evidence of impairment.

Gross property income

Gross property income arises from two main sources:

- (i) **Rental income** – This arises from operating leases granted to tenants. An operating lease is a lease other than a finance lease. A finance lease is one whereby substantially all the risks and rewards of ownership are passed to the lessee.

Rental income is recognised in the Group income statement on a straight-line basis over the term of the lease in accordance with IFRS 16 Leases. This includes the effect of lease incentives given to tenants, which are normally in the form of rent-free or half-rent periods or capital contributions in lieu of rent-free periods, and the effect of contracted rent uplifts and payments received from tenants on the grant of leases. Where the total consideration due under a lease is modified, the revised total amount due under the lease is recognised on a straight-line basis over the remaining term of the lease. Where rent demanded is forgiven for periods that have passed, these amounts are assessed under IFRS 9 and written off. Where rent is forgiven for future periods, this is considered a lease modification and spread on a straight-line basis over the remaining lease term in accordance with IFRS 16.

For income from property leased out under a finance lease, a lease receivable asset is recognised in the balance sheet at an amount equal to the net investment in the lease, as defined in IFRS 16 Leases. Minimum lease payments receivable, again defined in IFRS 16, are apportioned between finance income and the reduction of the outstanding lease receivable so as to produce a constant periodic rate of return on the remaining net investment in the lease. Contingent rents, being the difference between the rent currently receivable and the minimum lease payments when the net investment in the lease was originally calculated, are recognised in property income in the years in which they are receivable.

- (ii) **Surrender premiums** – Payments received from tenants to surrender their lease obligations are recognised immediately in the Group income statement. In circumstances where surrender payments received relate to specific periods, they are deferred and recognised in those periods.

Other income

Other income consists of commissions, fees charged to tenants for the management of certain Group properties and administration services provided to joint ventures. Other income is recognised in the Group income statement in accordance with the delivery of services as required by IFRS 15 Revenue from Contracts with Customers.

Service charges

Service charge income relates to expenditure that is directly recoverable from tenants, excluding management fees which are included in 'other income'. Service charge income is recognised as revenue in the period to which it relates as required by IFRS 15 Revenue from Contracts with Customers.

Expenses

- (i) **Lease payments** – For leasehold investment properties held, a right of use asset is recognised at commencement date of the lease within the investment property carrying value. The initial cost includes the lease liabilities recognised, initial direct costs incurred and any lease payments made at commencement adjusted for any lease incentives received. In addition, a corresponding lease liability is also included on the balance sheet. Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability so as to produce a constant periodic rate of interest on the remaining lease liability.

- (ii) **Dilapidations** – Dilapidations monies received from tenants in respect of their lease obligations are recognised immediately in the Group income statement, unless they relate to future capital expenditure. In the latter case, where the costs are considered to be recoverable they are capitalised as part of the carrying value of the property.
- (iii) **Reverse surrender premiums** – Payments made to tenants to surrender their lease obligations are charged directly to the Group income statement unless the payment is to enable the probable redevelopment of a property. In the latter case, where the costs are considered to be recoverable they are capitalised as part of the carrying value of the property.
- (iv) **Other property expenditure** – Vacant property costs and other property costs are expensed in the year to which they relate, with the exception of the initial direct costs incurred in negotiating and arranging leases which are, in accordance with IFRS 16 Leases, added to the carrying value of the relevant property and recognised as an expense over the lease term on the same basis as the lease income.

Employee benefits

(i) Share-based remuneration

Equity-settled – The Company operates a long-term incentive plan and share option scheme. The fair value of the conditional awards of shares granted under the long-term incentive plan and the options granted under the share option scheme are determined at the date of grant. This fair value is then expensed on a straight-line basis over the vesting period, based on an estimate of the number of shares that will eventually vest. At each reporting date, the non-market based performance criteria of the long-term incentive plan are reconsidered and the expense is revised as necessary. In respect of the share option scheme, the fair value of the options granted is calculated using a binomial lattice pricing model.

(ii) Pensions

Defined contribution plans – Obligations for contributions to defined contribution pension plans are recognised as an expense in the Group income statement in the period to which they relate.

Defined benefit plans – The Group's net obligation in respect of defined benefit post-employment plans, including pension plans, is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. The discount rate is the yield at the balance sheet date on AA credit rated bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method. Any actuarial gain or loss in the period is recognised in full in the Group statement of comprehensive income.

Business combinations

Business combinations are accounted for under the acquisition method. Any excess of the purchase price of business combinations over the fair value of the assets, liabilities and contingent liabilities acquired and resulting deferred tax thereon is recognised as goodwill. Any discount is credited to the Group income statement in the period of acquisition. Goodwill is recognised as an asset and reviewed for impairment. Any impairment is recognised immediately in the Group income statement and is not subsequently reversed. Any residual goodwill is reviewed annually for impairment.

Investment property

- (i) **Valuation** – Investment properties are those that are held either to earn rental income or for capital appreciation or both, including those that are undergoing redevelopment. Investment properties are measured initially at cost, including related transaction costs. After initial recognition, they are carried in the Group balance sheet at fair value adjusted for the carrying value of leasehold interests and lease incentive and letting cost receivables. Fair value is the price that would be received to sell an investment property in an orderly transaction between market participants at the measurement date. The valuation is undertaken by independent valuers who hold recognised and relevant professional qualifications and have recent experience in the locations and categories of properties being valued.

Surpluses or deficits resulting from changes in the fair value of investment property are reported in the Group income statement in the year in which they arise.

The Group leases out investment properties under operating leases with rents generally payable monthly or quarterly. The Group is exposed to changes in the residual value of properties at the end of current lease agreements, and mitigates this risk by actively managing its tenant mix in order to maximise the weighted average lease term, minimise vacancies across the portfolio and maximise exposure to tenants with strong financial characteristics. The Group also grants lease incentives to encourage high quality tenants to remain in properties for longer lease terms.

- (ii) **Capital expenditure** – Capital expenditure, being costs directly attributable to the redevelopment or refurbishment of an investment property, up to the point of it being completed for its intended use, are capitalised in the carrying value of that property. In addition, in accordance with IAS 23 Borrowing Costs, finance costs that are directly attributable to such expenditure are capitalised using the Group's average cost of borrowings during each quarter.

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 31 December 2023

43 Material accounting policies continued

Investment property continued

- (iii) **Disposal** – Properties are treated as disposed when the Group transfers the significant risks and rewards of ownership to the buyer. Generally this would occur on completion of contract. On disposal, any gain or loss is calculated as the difference between the net disposal proceeds and the carrying value at the last year end plus subsequent capitalised expenditure during the year. Where the net disposal proceeds have yet to be finalised at the balance sheet date, the proceeds recognised reflect the Directors' best estimate of the amounts expected to be received. Any contingent consideration is recognised at fair value at the balance sheet date. The fair value is calculated using future discounted cash flows based on expected outcomes with estimated probabilities taking account of the risk and uncertainty of each input.
- (iv) **Development** – When the Group begins to redevelop an existing investment property for continued use as an investment property or acquires a property with the subsequent intention of developing as an investment property, the property is classified as an investment property and is accounted for as such. When the Group begins to redevelop an existing investment property with a view to sale, the property is transferred to trading properties and held as a current asset. The property is remeasured to fair value as at the date of transfer with any gain or loss being taken to the income statement. The remeasured amount becomes the deemed cost at which the property is then carried in trading properties.

Trading property and trading stock

Trading property relates to property being developed for sale. Trading stock relates to development expenditure which is due to be disposed of to third parties under development agreements. In accordance with IAS 2 Inventories, trading property and trading stock are held at the lower of cost and net realisable value. Proceeds from sale are recognised in the Group's income statement when title has been transferred to the purchaser as required by IFRS 15 Revenue from Contracts with Customers.

Prepayment (non-current)

Acquisition and capital expenditure costs incurred in advance of ownership of a property are initially included as a prepayment in the Group's balance sheet and measured at cost. This asset is then tested for impairment under IAS 36 Impairment of Assets and carried at the higher of (a) fair value less costs to sell and (b) value in use. On completion of the purchase, the asset will be transferred to either investment property or trading property as appropriate.

Property, plant and equipment

- (i) **Owner-occupied property** – Owner-occupied property is stated at its revalued amount, which is determined in the same manner as investment property. It is depreciated over its remaining useful life (40 years) with the depreciation included in administrative expenses. On revaluation, any accumulated depreciation is eliminated against the gross carrying amount of the property concerned, and the net amount restated to the revalued amount. Subsequent depreciation charges are adjusted based on the revalued amount for each property. Any difference between the depreciation charge on the revalued amount and that which would have been charged under historic cost is transferred, net of any related deferred tax, between the revaluation reserve and retained earnings as the property is utilised. Surpluses or deficits resulting from changes in the fair value are reported in the Group statement of comprehensive income. The land element of the property is not depreciated.
- (ii) **Artwork** – Artwork is stated at revalued amounts on the basis of open market value.
- (iii) **Other** – Plant and equipment is depreciated at a rate of between 10% and 25% per annum which is calculated to write off the cost, less estimated residual value of the individual assets, over their expected useful lives.

Investments

Investments in joint ventures, being those entities over whose activities the Group has joint control, as established by contractual agreement, are included in the Group's balance sheet at cost together with the Group's share of post-acquisition reserves, on a net equity basis. Investments in subsidiaries and joint ventures are included in the Company's balance sheet at the lower of cost and recoverable amount. Any impairment is recognised immediately in the income statement.

Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying value will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met if the sale is highly probable, the asset is available for immediate sale in its present condition, being actively marketed and management is committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets, including related liabilities, classified as held for sale are measured at the lower of carrying value and fair value less costs of disposal.

Financial assets

- (i) **Cash and cash equivalents** – Cash at bank comprises cash in hand and on-demand deposits. Cash at bank comprises short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Tenant rent deposits are subject to contractual restrictions and meet the definition of ‘cash and cash equivalents’ under IAS 7 and are recognised as restricted cash.

Cash collected on behalf of tenants to fund service charges of properties in the portfolio meet the definition of ‘cash and cash equivalents’ under IAS 7 and are recognised as restricted cash.

- (ii) **Trade receivables** – Trade receivables are recognised and carried at the original transaction value. This balance is subject to impairment testing under IFRS 9 using the forward-looking, simplified approach to the expected credit loss model.

Lease incentive receivables

In accordance with IFRS 16, rental income is recognised in the Group income statement on a straight-line basis over the term of the lease. This includes the effect of lease incentives given to tenants (in the form of rent-free periods, half-rent periods or capital contributions in lieu of rent-free periods) and any contracted rental uplifts granted at lease inception. The result is included within accrued income in the balance sheet. This balance is subject to impairment testing under IAS 36.

Financial liabilities

- (i) **Bank loans and fixed rate loans** – Bank loans and fixed rate loans are included as financial liabilities on the balance sheets at amortised cost. Interest payable is expensed as a finance cost in the year to which it relates.

Where there has been a change to the terms of a debt agreement, such as the applicable interest rate or benchmark rate, this is assessed under IFRS 9 using quantitative and qualitative assessments to determine if the debt modification is considered substantial enough to be deemed an extinguishment. It is common for loan facilities agreements to include extension options which extend the loan maturity out by one year. When these options are exercised as per the agreement, with no changes to other terms, this is deemed to be a modification of the loan and not an extinguishment.

- (ii) **Non-convertible bonds** – These are included as a financial liability on the balance sheet net of the unamortised discount and costs on issue. The difference between this carrying value and the redemption value is recognised in the Group income statement over the life of the bond on an effective interest basis. Interest payable to bond holders is expensed in the year to which it relates.

- (iii) **Convertible bonds** – The fair value of the liability component of a convertible bond is determined using the market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders’ equity, net of income tax effects and is not subsequently remeasured. Issue costs are apportioned between the liability and the equity components of the convertible bonds based on their carrying amounts at the date of issue. The portion relating to the equity component is charged directly against equity. The issue costs apportioned to the liability are amortised over the life of the bond. The issue costs apportioned to equity are not amortised.

- (iv) **Finance lease liabilities** – Finance lease liabilities arise for those investment properties held under a leasehold interest and accounted for as investment property. The liability is initially calculated as the present value of the minimum lease payments, reducing in subsequent years by the apportionment of payments to the lessor, as described above under the heading for lease payments.

- (v) **Interest rate derivatives** – The Group uses derivative financial instruments to manage the interest rate risk associated with the financing of the Group’s business. No trading in financial instruments is undertaken.

At each reporting date, these interest rate derivatives are measured at fair value, being the estimated amount that the Group would receive or pay to terminate the agreement at the balance sheet date, taking into account current interest rates and the current credit rating of the counterparties. The gain or loss at each fair value remeasurement is recognised in the Group income statement because the Group does not apply hedge accounting.

- (vi) **Trade payables** – Trade payables are recognised and carried at the original transaction value.

NOTES TO THE FINANCIAL STATEMENTS continued

for the year ended 31 December 2023

43 Material accounting policies continued**Deferred tax**

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the tax computations, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. In respect of the deferred tax on the revaluation surplus, this is calculated on the basis of the chargeable gains that would crystallise on the sale of the investment portfolio as at the reporting date. The calculation takes account of available indexation on the historical cost of the properties.

Deferred tax is calculated at the tax rates that are expected to apply in the period, based on Acts substantially enacted at the year end, when the liability is settled or the asset is realised. Deferred tax is included in profit or loss for the period, except when it relates to items recognised in other comprehensive income or directly in equity.

Cash flow

Transactions in the cash flow statement under operating, investing and financing activities have been prepared net of value added tax in order to reflect the true cash inflows and outflows of the Group.

Dividends

Dividends payable on the ordinary share capital are recognised in the year in which they are declared.

TEN-YEAR SUMMARY

(unaudited)

	2023 £m	2022 £m	2021 £m	2020 £m	2019 £m	2018 £m	2017 £m	2016 £m	2015 £m	2014 £m
Income statement										
Gross property income	212.9	208.4	200.9	205.2	192.7	196.0	172.2	156.0	152.0	138.4
Net property income and other income	190.5	194.6	187.2	183.5	182.6	185.9	164.8	149.2	148.6	136.1
Profit on disposal of properties and investments	1.2	25.6	10.4	1.7	13.8	5.2	50.3	7.5	40.2	30.2
(Loss)/profit before tax	(475.9)	(279.5)	252.5	(83.0)	280.6	221.6	314.8	54.5	779.5	753.7
Earnings and dividend per share										
EPRA earnings	114.5	119.7	121.7	109.6	115.1	126.1	105.0	85.7	78.7	58.6
EPRA earnings per share (p)	101.97	106.62	108.53	97.93	103.09	113.07	94.23	76.99	71.34	57.08
Dividend paid (p)	79.00	77.50	75.45	73.45	67.75	136.50	107.83	44.66	40.60	37.40
Interim/final dividend for the year (p)	79.50	78.50	76.50	74.45	72.45	65.85	59.73	52.36	43.40	39.65
Special dividend paid (p)	–	–	–	–	–	–	75.00	52.00	–	–
Net asset value										
Net assets	3,508.8	4,075.5	4,441.8	4,315.1	4,476.9	4,263.4	4,193.2	3,999.4	3,995.4	3,075.7
Net asset value per share (p) – undiluted	3,125	3,629	3,959	3,808	3,956	3,767	3,703	3,530	3,528	2,931
EPRA NTA per share (p) – diluted	3,129	3,632	3,959	3,812	3,957	3,775	3,714	3,550	3,532	2,906
EPRA NDV per share (p) – diluted	3,243	3,768	3,884	3,682	3,847	3,696	3,617	3,450	3,463	2,800
EPRA NRV per share (p) – diluted	3,423	3,956	4,301	4,138	4,290	4,092	4,011	3,852	3,825	3,163
Total return (%)	(11.7)	(6.3)	5.8	(1.8)	6.6	5.3	7.7	1.7	23.0	30.1
Property portfolio										
Property portfolio at fair value ¹	4,844.7	5,321.8	5,646.3	5,355.5	5,475.2	5,190.7	4,850.3	4,942.7	4,954.5	4,168.1
Revaluation (deficit)/surplus	(585.4)	(421.4)	134.8	(194.3)	154.6	84.1	149.7	(42.6)	651.4	671.9
Cash flow statement										
Cash flow ²	(89.7)	(27.1)	(142.0)	(63.4)	(22.3)	(245.9)	247.8	19.6	(43.6)	(57.3)
Net cash (used in)/from financing activities	(2.6)	(88.6)	74.7	(27.2)	(16.6)	25.2	(298.2)	(57.0)	2.0	23.4
Gearing and debt										
Net debt	1,356.8	1,257.2	1,251.5	1,049.1	981.6	956.9	657.9	904.8	911.7	1,013.3
NAV gearing (%)	38.7	30.8	28.2	24.3	21.9	22.4	15.7	22.6	22.8	32.9
Loan-to-value ratio (%) ³	27.9	23.9	22.3	18.4	16.9	17.2	13.2	17.7	17.8	24.0
Net interest cover ratio (%)	414	423	464	446	462	491	454	370	362	286

1 Excludes share of joint ventures.

2 Cash flow is the net cash from operating and investing activities less the dividend paid.

3 Presented on an EPRA basis since 2021.

A list of definitions is provided on pages 283 to 286.

EPRA SUMMARY

(unaudited)

EPRA Performance Measures

EPRA measure	Definition	2023	2022
EPRA earnings	Earnings from operational activities	£114.5m	£119.7m
EPRA undiluted earnings per share	EPRA earnings divided by the weighted average number of ordinary shares in issue during the financial year	101.97p	106.62p
EPRA Net Tangible Assets (NTA)	Assumes that entities buy and sell assets, thereby crystallising certain levels of unavoidable deferred tax	£3,522.1m	£4,083.7m
EPRA diluted NTA per share	EPRA NTA divided by the number of ordinary shares in issue at the financial year end adjusted to include the effects of potential dilutive shares issuable under the Group's share option schemes and the convertible bonds	3,129p	3,632p
EPRA Net Disposal Value (NDV)	Represent 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	£3,649.6m	£4,236.2m
EPRA diluted NDV per share	EPRA NDV divided by the number of ordinary shares in issue at the financial year end adjusted to include the effects of potential dilutive shares issuable under the Group's share option schemes and the convertible bonds	3,243p	3,768p
EPRA Net Reinstatement Value (NRV)	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	£3,852.9m	£4,447.4m
EPRA diluted NRV per share	EPRA NRV divided by the number of ordinary shares in issue at the financial year end adjusted to include the effects of potential dilutive shares issuable under the Group's share option schemes and the convertible bonds	3,423p	3,956p
EPRA cost ratio (including direct vacancy costs)	Administrative & operating costs (including costs of direct vacancy) divided by gross rental income	27.3%	23.3%
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	4.3%	3.7%
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)	5.2%	4.6%
EPRA vacancy rate	Estimated rental value (ERV) of immediately available space divided by the ERV of the EPRA portfolio	4.0%	6.4%
EPRA loan-to-value ratio	Debt divided by the property value. Debt is equal to drawn facilities less cash, adjusted with equity characteristics, adding back the equity portion of hybrid debt instruments and including net payables if applicable. Property value is equal to the fair value of the property portfolio including net receivables if applicable	27.9%	23.9%

EPRA Sustainability Performance Measures

Environmental Sustainability Performance Measures

EPRA measure	Definition	2023	2022
Landlord grid electricity consumption	Electricity use across our managed portfolio (landlord/common areas) – annual kWh	13,236,503	12,144,621 ¹
Onsite renewable electricity consumption	Electricity use across our managed portfolio (onsite renewables) – annual kWh	97,440	81,367
DL occupied grid electricity consumption	Electricity use across our managed portfolio (landlord occupied areas) – annual kWh	262,094	201,771 ¹
Tenant grid electricity consumption	Electricity use across our total managed portfolio (tenant occupied areas) – annual kWh	26,642,461	22,926,293 ¹
Total electricity consumption	Electricity use across our total managed portfolio	40,238,497	35,354,052¹
Like-for-like landlord grid electricity consumption	Energy use across our like-for-like portfolio (landlord/common areas) – annual kWh	11,663,397	11,782,011 ¹
Like-for-like onsite renewable electricity consumption	Electricity use across our like-for-like portfolio (onsite renewables) – annual kWh	60,933	46,324
Like-for-like DL occupied grid electricity consumption	Electricity use across our like-for-like portfolio (landlord occupied areas) – annual kWh	244,947	200,908 ¹
Like-for-like tenant grid electricity consumption	Electricity use across our like-for-like portfolio (tenant occupied areas) – annual kWh	22,228,322	21,936,319 ¹
Total like-for-like electricity consumption	Electricity use across our like-for-like portfolio	34,197,599	33,965,562¹
Total fuel consumption	Fuel use (gas, oil, biomass) across our managed portfolio (landlord/common areas) – annual kWh	16,424,375	15,027,749 ¹
Like-for-like total fuel consumption	Fuel use (gas, oil, biomass) use across our like-for-like portfolio (landlord/common areas) – annual kWh	12,498,270	13,381,560 ¹
Building energy intensity	Energy use across our total managed portfolio (landlord/common areas) – kWh per m ²	76	74 ¹
Building energy intensity	Energy use across our total managed portfolio (landlord & tenants) – kWh per m ²	149	142 ¹
Total direct greenhouse gas (GHG) emissions	Total managed portfolio emissions (landlord influenced portfolio emissions); a total of gas Scope 1 emissions – annual metric tonnes CO ₂ e	4,364	3,062 ¹
Total indirect greenhouse gas (GHG) emissions	Total managed portfolio emissions (landlord influenced portfolio emissions); Scope 2 energy use – annual metric tonnes CO ₂ e	2,795	2,388 ¹
Like-for-like total direct greenhouse gas (GHG) emissions	Like-for-like emissions (landlord influenced portfolio emissions, building related only); Scope 1 energy use – annual metric tonnes CO ₂ e	3,646	2,761 ¹
Like-for-like total indirect greenhouse gas (GHG) emissions	Like-for-like emissions (landlord influenced portfolio emissions, building related only); Scope 2 energy use – annual metric tonnes CO ₂ e	2,466	2,317 ¹
Greenhouse gas (GHG) intensity from building energy consumption	Intensity (Scopes 1 & 2) per m ² – tCO ₂ e/m ² /year	0.018	0.015
Greenhouse gas (GHG) intensity from building energy consumption	Intensity (Scopes 1 & 2) per m ² /£m fair market value	1.47	1.02
Greenhouse gas (GHG) intensity from building energy consumption	Intensity (Scopes 1 & 2) per m ² /£m turnover	34	27 ¹
Total water consumption	Water use across our total managed portfolio (excluding retail consumption) – annual m ³	179,627	139,410 ¹
Like-for-like total water consumption	Water use across our like-for-like portfolio (excluding retail consumption) – annual m ³	151,266	133,919 ¹

EPRA SUMMARY continued

(unaudited)

EPRA Sustainability Performance Measures continued

Environmental Sustainability Performance Measures continued

EPRA measure	Definition	2023	2022
Building water intensity	Water use across our total managed portfolio (excluding retail consumption) – m ³ /m ² /year	0.44	0.37
Total weight of waste by disposal route	Waste generated across our total managed portfolio – annual metric tonnes and proportion by disposal route	2,227	1,847
Like-for-like total weight of waste by disposal route	Waste generated across our like-for-like portfolio – annual metric tonnes and proportion by disposal route	1,984	1,803 ¹

¹ 2022 figures have been restated. Please refer to the Environmental Basis of Reporting in the 2023 Responsibility Report for further details.

Social Performance Measures

EPRA measure	Definition	
Employee gender diversity	Percentage of male and female employees in the organisation's governance bodies (committees or boards responsible for the strategic guidance of the organisation)	See page 171
Gender pay ratio	Ratio of the basic salary and/or remuneration of men to women. As we have less than 250 employees we are not obliged by the Equality Act 2010 (Gender Pay Gap Information) Regulations 2017 to disclose our gender pay gap information.	
Employee turnover and retention	Total number and rate of new employee hires and employee turnover during the reporting period	See page 52
Employee health and safety	Occupational health and safety performance with relation to direct employees	See pages 54 and 55
Asset health and safety assessments	Proportion of assets controlled for which health and safety impacts have been reviewed or assessed for compliance or improvement	See pages 54 and 55
Asset health and safety compliance	Any incidents of non-compliance with regulations and/or voluntary standards concerning the health and safety impacts of assets assessed during the reporting period	See pages 54 and 55
Employee training and development	Average hours of training that the organisation's employees have undertaken in the reporting period	See the EPRA Reporting section in our 2023 Responsibility Report
Employee performance appraisals	Percentage of total employees who received regular performance and career development reviews during the reporting period	
Community engagement, impact assessments and development programs	Percentage of assets under operational control that have implemented local community engagement, impact assessments and/or development programmes	

Governance Performance Measures

EPRA measure	Definition	
Composition of the highest governance body	Number of Executive Board members, number of independent/ Non-Executive Board members, average tenure of the governance body and number of independent/Non-Executive Board members with competencies relating to environmental and social topics	See pages 122 to 123, 136, 141, 143 and 171
Process for nominating and selecting the highest governance body	Nomination and selection process for the highest governance body and its members, and the criteria used to guide the nomination and selection process	See pages 140 to 143
Process for managing conflicts of interest	Process for the highest governance body to ensure conflicts of interest are avoided and managed	See page 128

PRINCIPAL PROPERTIES

(unaudited)

	Value banding £m	Offices (O), Retail/restaurant (R), Residential (Re), Industrial (I), Leisure (L)	Freehold (F), Leasehold (L)	BREEAM rating	Approximate net area sq ft
West End: Central (66%)					
Fitzrovia (34%)					
80 Charlotte Street W1 ¹	300+	O/R/Re	F	Excellent	347,600
1-2 Stephen Street & Tottenham Court Walk W1	200-300	O/R/L	F	Very Good	265,800
250 Euston Road NW1	100-200	O	F	*Outstanding	165,900
Network, 10 Howland Street W1	50-100	O/R	F		139,000
90 Whitfield Street W1	100-200	O/R/Re	F	Very Good	103,100
Holden House, 54-68 Oxford Street W1	50-100	O/R	F		90,600
Henry Wood House, 3-7 Langham Place W1	50-100	O/R/L	L		79,800
Middlesex House, 34-42 Cleveland Street W1	50-100	O	F		66,500
Charlotte Building, 17 Gresse Street W1	25-50	O	L		47,200
88-94 Tottenham Court Road W1	25-50	O/R	F	L/F	45,900
3-10 Rathbone Place W1	25-50	O/R/Re/L	L/F		45,500
80-85 Tottenham Court Road W1	25-50	O/R	F	F	44,500
60 Whitfield Street W1	50-100	O	F		36,200
43 and 45-51 Whitfield Street W1	25-50	O	F	F	28,700
171-174 Tottenham Court Road W1	0-25	O/R	F		15,800
1-5 Maple Place W1	0-25	O	F	F	11,500
76-78 Charlotte Street W1	0-25	O	F		11,200
19-23 Fitzroy Street W1	0-25	O	F	F	8,100
50 Oxford Street W1 ²	0-25	O/R	F		6,100
Victoria (9%)					
Horseferry House, Horseferry Road SW1	100-200	O	F	Excellent	162,700
Greencoat and Gordon House, Francis Street SW1	50-100	O	F		138,300
1 Page Street SW1	50-100	O	F		127,800
Francis House, 11 Francis Street SW1	50-100	O	F		51,800
6-8 Greencoat Place SW1	25-50	O	F		32,400
Soho/Covent Garden (7%)					
1 Soho Place W1	300+	O/R	L	Outstanding	225,400
Marylebone (7%)					
25 Baker Street W1	300+	O/R/Re	L	*Outstanding, *Very Good	298,000
50 Baker Street W1 JV (50% share)	25-50	O/R	L		61,100
Paddington (7%)					
Brunel Building, 2 Canalside Walk W2	300+	O/R	L	Excellent	243,400
Mayfair (2%)					
25 Savile Row W1	50-100	O/R	F	Very Good	43,000

PRINCIPAL PROPERTIES continued

(unaudited)

	Value banding £m	Offices (O), Retail/restaurant (R), Residential (Re), Industrial (I), Leisure (L)	Freehold (F), Leasehold (L)	BREEAM rating	Approximate net area sq ft
West End: Borders/Other (6%)					
Islington/Camden (6%)					
Angel Building, 407 St. John Street EC1	200-300	O/R	F	Excellent	268,300
4 & 10 Pentonville Road N1	25-50	O	F	Very Good	53,400
Holford Works, Cruikshank Street WC1	0-25	O/I	F		41,600
401 St. John Street EC1	0-25	O	F		12,300
Brixton (-)					
Blue Star House, 234-244 Stockwell Road SW9	25-50	O/R	F		53,400
City: Borders (26%)					
Old Street (12%)					
White Collar Factory, Old Street Yard EC1	300+	O/R/Re	F	Outstanding, Excellent, Very Good	294,600
1 Oliver's Yard EC1	100-200	O/R	F		185,900
The Featherstone Building, 66 City Road EC1	100-200	O/R	F	Outstanding	124,000
Shoreditch/Whitechapel (7%)					
The White Chapel Building E1	100-200	O/L	F		274,400
Tea Building, 56 Shoreditch High Street E1	200-300	O/R/L	F		272,200
Clerkenwell (6%)					
20 Farringdon Road EC1	100-200	O/R/L	L		166,300
88 Rosebery Avenue EC1	50-100	O	F		103,700
Morelands, 5-27 Old Street EC1	50-100	O/R	L	Outstanding	88,400
Turnmill, 63 Clerkenwell Road EC1	50-100	O/R	F	Excellent, Very Good	70,300
Southbank (1%)					
230 Blackfriars Road SE1	25-50	O	L		60,100
Provincial (2%)					
Scotland (1%)					
Strathkelvin Retail Park, Bishopbriggs, Glasgow	25-50	R/L	F		325,500
Land, Bishopbriggs, Glasgow	25-50	-	F		5,500 acres

1 Excludes sold residential.

2 Includes 36-38 and 42-44 Hanway Street W1.

* On track for Post Completion target.

() Percentages weighted by valuation.

LIST OF DEFINITIONS

(unaudited)

Better Buildings Partnership (BBP)

The BBP is a collaboration of the UK's leading commercial property owners who are working together to improve the sustainability of existing commercial building stock.

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.

Carbon emissions Scopes 1, 2 and 3

Scope 1 – direct emissions;
Scope 2 – indirect emissions; and
Scope 3 – other indirect emissions.

CDP

The CDP is an organisation which works with shareholders and listed companies to facilitate the disclosure and reporting of climate change data and information.

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.

Department for Environment, Food and Rural Affairs (DEFRA)

The government department responsible for environmental protection, food production and standards, agriculture, fisheries and rural communities in the United Kingdom.

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.

EBITDA

Earnings before interest, tax, depreciation and amortisation.

Earnings/earnings per share (EPS)

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

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 Loan-To-Value (LTV)

Debt divided by the property value. Debt is equal to drawn facilities less cash, adjusted with equity characteristics, adding back the equity portion of hybrid debt instruments and including net payables if applicable. Property value is equal to the fair value of the property portfolio including net receivables if applicable.

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

Represent 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 capital expenditure

The total expenditure incurred on the acquisition, enhancement, and development of investment properties. This can include amounts spent on any investment properties under construction or related development projects, as well as the amounts spent on the completed (operational) investment property portfolio. Capitalised finance costs included in the financial statements are also presented within this total. The costs are presented on both an accrual and a cash basis, for both the Group and the proportionate share of joint ventures.

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.

LIST OF DEFINITIONS continued

(unaudited)

EPRA Cost Ratio (excluding direct vacancy costs)

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

EPRA Net Initial Yield (NIY)

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

EPRA 'topped-up' Net Initial Yield

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

EPRA vacancy rate

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

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

Like-for-like rental income growth

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

Fair value adjustment

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

Global Real Estate Sustainability Benchmark (GRESB)

The Global Real Estate Sustainability Benchmark is an initiative set up to assess the environmental and social performance of public and private real estate investments and allow investors to understand their performance.

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.

ISS-Oekom

ISS-Oekom is an ESG rating service that provides corporate and country ESG research and ratings that enables its clients to identify material social and environmental risks and opportunities.

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. Performance measured against them is referenced in the Annual Report.

Leadership in Energy and Environmental Design (LEED)

LEED is a US-based environmental impact assessment method for buildings. Performance is measured across a series of ratings – Certified, Silver, Gold and Platinum.

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 unrestricted 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)

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 which provides an energy performance benchmark using a simple star rating system on a 1 to 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 unrestricted cash and cash equivalents.

Net debt to EBITDA

Net debt to EBITDA is the ratio of gross debt less unrestricted cash to earnings before interest, tax, depreciation and amortisation (EBITDA).

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 (PID). 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).

Renewable Energy Guarantees of Origin (REGO)

The REGO scheme administered by Ofgem provides transparency to consumers about the proportion of electricity that suppliers source/provide from renewable generation.

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.

Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDORs)

The regulations place a legal duty on employers to report work-related deaths, major injuries or over-three-day injuries, work related diseases and dangerous occurrences (near miss accidents) to the Health and Safety Executive.

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.

Science Based Targets initiative (SBTi)

The Science Based Targets initiative (SBTi) is a collaboration between CDP, the United Nations Global Compact, World Resources Institute (WRI) and the World Wide Fund for Nature (WWF). The SBTi defines and promotes best practice in science-based target setting and independently assesses and approves companies' targets. Science-based targets provide companies with a clearly defined pathway to future-proof growth by specifying how much and how quickly they need to reduce their greenhouse gas emissions.

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.

Streamlined energy and carbon reporting (SECR)

The SECR regulations were introduced in April 2019 and require companies incorporated in the UK to undertake enhanced disclosures of their energy and carbon emissions in their financial reporting.

Task Force on Climate-related Financial Disclosures (TCFD)

Set up by the Financial Stability Board (FSB) in response to the G20 Finance Ministers' and Central Bank Governors' request for greater levels of decision-useful, climate-related information; the TCFD was asked to develop climate-related disclosures that could promote more informed investment, credit (or lending), and insurance underwriting decisions. In turn, this would enable stakeholders to understand better the concentrations of carbon-related assets in the financial sector and the financial system's exposures to climate-related risks.

LIST OF DEFINITIONS continued

(unaudited)

'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 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 year plus the dividend per share paid during the year 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 year, expressed as a percentage of the share price at the beginning of the year.

Transmission and distribution (T&D)

The emissions associated with the transmission and distribution losses in the grid from the transportation of electricity from its generation source.

Underlying portfolio

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

Underlying valuation increase

The valuation increase on the underlying portfolio.

Yields

Net initial yield

Annualised rental income based on the 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 to which the net initial yield will rise once the rent reaches the estimated rental values.

True equivalent yield

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

Yield shift

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

SHAREHOLDER INFORMATION

Shareholder enquiries

Our Registrar

Enquiries relating to shareholders, such as queries concerning notification of change of address, dividend payments and lost share certificates, should be made to the Company's registrar, Equiniti (EQ).

The Company has a share account, management and dealing facility for all shareholders via Equiniti Limited. This offers shareholders secure access to their account details held on the share register, to amend address information and payment instructions directly, as well as providing a simple and convenient way of buying and selling the Company's ordinary shares. For internet services visit: www.shareview.co.uk

The Shareview Dealing service is also available by telephone on +44 (0) 3456 037 037 between 8.00am and 4.30pm, Monday to Friday (excluding public holidays in England and Wales).

The best way to ensure that dividends are received as quickly as possible is to instruct the Company's registrars to pay them directly into a bank or building society account; tax vouchers are then mailed to shareholders separately. This method also avoids the risk of dividend cheques being delayed or lost in the post. Dividend mandate forms are available from the registrars, either from their website at: www.shareview.co.uk or by telephone on the Equiniti general shareholder helpline number.

Financial and dividend calendar – 2024

Our forthcoming financial and dividend calendar for 2024 is provided below. These dates are provisional and subject to change. For up to date information, refer to the financial calendar on our corporate website at: www.derwentlondon.com/investors/calendar

Financial calendar

Final results announced	28 February
Q1 Business update	09 May
Annual General Meeting	10 May
Interim results announced	08 August
Q3 Business update	07 November

Dividend calendar

	Final dividend	Interim dividend
Ex-dividend date	25 April	05 September
Record date	26 April	06 September
Dividend paid	31 May	11 October

Company information

As at 27 February 2024, the Company's issued share capital consisted of 112,290,929 ordinary shares of 5 pence each with voting rights (ISIN: GB0002652740).

The Company is a public limited company, which is listed on the London Stock Exchange and incorporated and domiciled in the UK. Financial information about the Company, including annual reports, public announcements and share price data, is available from the Company's website at: www.derwentlondon.com

Useful contact information

Equiniti (EQ)

Equiniti Limited

Aspect House
Lancing Business Park, Lancing
West Sussex BN99 6DA
United Kingdom

Equiniti general shareholder helpline:

Calling from the UK: **0371 384 2192**

Calling from overseas: **+44 (0) 371 384 2192**

Lines are open 8.30am to 5.30pm, Monday to Friday (excluding public holidays in England and Wales)

Derwent London plc

For Company Secretarial or Investor enquiries:

David Lawler

Company Secretary

Telephone: **+44 (0)20 7659 3000**

Email: company.secretary@derwentlondon.com

Robert Duncan

Head of Investor Relations & Strategic Planning

Telephone: **+44 (0)20 7659 3000**

Email: ir@derwentlondon.com

AWARDS AND RECOGNITION

Derwent London won numerous awards for its achievements and buildings in 2023, a sample of which are shown below.

Corporate



The Sunday Times –
Best Places to Work list 2023



Westminster Business Council –
Employer of the Year



Estates Gazette –
Employer of the Year



EPRA BPR –
Gold Award 2023



European Real Estate
Brand Award – UK Developers
Office 2023



RoSPA Gold Award

Buildings



BCO Awards – Test of Time,
White Collar Factory



British Construction Industry
Awards – Best Commercial
Property, Soho Place



OAS Awards – New Build
West End, Soho Place
OAS Awards – Developer
of the Year

Sustainability



Greenstar status, 'A' rated
public disclosure (100/100),
Development 5 Star
(97/100), Standing Assets
4 Star (84/100)



CDP 2023 –
Climate Change: A-rating



MSCI – AAA rating



EPRA Sustainability BPR –
Gold Award 2023



ISS Oekom – Prime status



DERWENT LONDON

Derwent London plc

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