

## Going concern & viability

# Our resilience

**In accordance with the UK Corporate Governance Code 2024 (the Code), the Directors and senior management team assessed the prospects of the Company and potential threats to its resilience:**

- in the short-term (over the next 12 months as required by the 'Going concern' provision); and
- in the medium-term (a five-year period to 31 December 2030) 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).**

## Viability of our strategy

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

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

- focus on the central London office market to continue but with a willingness to consider alternatives such as living-led schemes where these produce better returns;
- an accelerated 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;
- debt facilities are refinanced on a timely basis with a balance between flexible and longer term fixed rate;
- a property portfolio containing income producing properties with added income/asset management potential plus development/refurbishment opportunities; and
- a progressive dividend policy, whilst targeting dividend cover around 125% or more over the medium-term.

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

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

The Board agreed that no material change was required to its strategy, which continued to generate sustainable returns, but there is more focus on accelerated disposals over the next three to five years and a rebalancing of the portfolio targeting growth in earnings.

## Short-term

Under provision 30 of the Code, the Board is required to report whether it considers it appropriate to adopt the going concern basis of accounting in the preparation of our financial statements. The assessment focused primarily on the short-term and at least the next 12 months to March 2027.

The Directors' assessment included consideration of:

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

The Group is in a strong financial position. As at 31 December 2025, the Group has:

- £627m of undrawn facilities and cash (2024: £487m);
- an EPRA loan-to-value ratio of 29.4%;
- an overall cost of debt with a weighted average interest rate of 4.1%;
- 82% of our borrowings either fixed or hedged;
- net debt/EBITDA of 9.0 times; and
- significant headroom on our financial covenants.

The Group has sufficient access to finance in the short-term and medium-term. At 31 December 2025, our average maturity of borrowings was 4.2 years and average maturity of facilities was 4.0 years. Although £230m of USPP notes and bonds fall due for repayment by March 2026, these are well covered by alternative arrangements already in place and the Group has significant liquidity to fund its ongoing operations. As noted above, it had access to £627m of available undrawn facilities and cash at the year end. Further information is on pages 56 and 57.

The Directors stress tested the latest rolling forecast against various scenarios to determine whether they were likely to have a significant impact on the Group's solvency and liquidity in the short-term. This included a reverse stress test scenario and indicated that the Group has sufficient liquidity and plenty of headroom before breaching financial covenants.

## 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 which is supported by the ability to let vacant space, operate a strong asset management strategy and secure refinancing.

However, with any business there are sources of uncertainty that could impact on operations. The key sources of estimated uncertainty in the next 12 months are considered to be:

- the economic environment creating a more challenging financial environment for occupiers;
- execution of leasing transactions due to cautious decision making and a more 'stay put' attitude adopted by some occupiers; and
- the extent to which liquidity returns for larger lot sizes in the office investment market.

Related information is on the following pages:

☒ Significant financial judgements / See page 144

☒ Property review / See pages 35 to 51

## Group's Risk Register

The Schedule of Principal Risks contains the risks which are currently impacting the Group or could impact it over the next 12 months. These risks are routinely subject to a comprehensive review by the Executive Committee, Risk Committee and the Board. Consideration is given to the risk likelihood, impact and velocity (speed at which the risk could impact 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.

☒ Our principal risks / See pages 104 to 109

## Going concern statement

**After making appropriate enquiries, the Directors have a reasonable expectation that the Group and Company have adequate resources to continue in operational existence until at least March 2027. 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 2030 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 7.0 years ('topped-up' including rent-frees and pre-lets).
- The average maturity of borrowings is 4.2 years as at 31 December 2025.

As part of its assessment, the Board considered the Group's emerging risks (page 110), including how these are being addressed. Emerging risks could involve a high degree of uncertainty and are therefore factored into the Board's medium-term viability assessment and the long-term sustainability of the Group. The methodology used to identify, assess and monitor emerging risks is described in the risk management framework on page 158. 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 2030.

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

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

- a 'base case' scenario;
- a downside scenario which considers the impact of a fall in property values of c.5% over two years;
- an upside scenario which includes a combination of higher ERV growth, yield compression and shorter letting voids for major schemes; and
- five scenarios covering varying disposals assumptions and alternative capital structures.

The modelling indicated that under all scenarios the Group would still be able to execute its strategic plan over the next five years or modify it using reasonable assumptions without breaching any covenants or experiencing liquidity concerns.

## Going concern & viability continued

### Allocation of capital

Capital recycling is a key part of our business model. Our ability to sell assets and reinvest these funds into higher-returning opportunities is an important part of our strategy and future performance.

We completed £216.1m of property sales in 2025 and investment activity has recently improved, especially for larger lot sizes. Since the year end we have agreed a further £32.6m of sales. We are targeting £1bn of disposals over the next three years. A lower level of disposals would impact our future capital allocation decisions.

Regeneration opportunities are carefully appraised against clear performance targets and benchmarking of costs. Rigorous stress testing is carried out by flexing appraisal assumptions which consider the potential impact of the key commercial risks of a project, including the impact of rising construction costs, fluctuating rents due to changes in occupier demand and varying investment yields. To maximise returns, we may consider alternative uses of an asset and may pursue strategic partnerships with other investors. Where this is the case, comprehensive due diligence is conducted to ensure the selection of an appropriate partner.

The appraisal process is important given the long horizon, typically 3-5 years, between approval to proceed and completion of a project so we could end up delivering in a market that has changed significantly. There is a possibility that capital allocated to specific assets, use types or locations do not generate the expected returns.



Holden House W1

### Viability of our finances

Derwent London could potentially become unviable if the Group were unable to meet its financial covenants. If this occurred, we would potentially need to refinance or repay debt facilities, likely requiring the disposal of assets. As at 31 December 2025, the Group had significant headroom over its covenants, as shown below:

	Covenant	31 Dec 2025
Loan to value (specific assets)	≤ 60% <sup>1</sup>	<b>51%</b>
Ratio of unencumbered assets to unsecured net debt	≥ 1.6 times	<b>3.7 times</b>
Group NAV gearing	≤ 145%	<b>40.1%</b>
Consolidated interest cover	> 145%	<b>306%</b>

<sup>1</sup> 6.5% secured bonds

Our covenant headroom was subject to sensitivity analysis and scenario testing as part of the Group's strategy review. Even in the most extreme 'downside' scenario we modelled, the covenant ratios are covered and sufficient cash and unutilised facilities are available. For the Group to breach the NAV gearing limit, the value of our portfolio would have to fall in excess of £2,615m (or by a further 51%).

Valuations have generally increased since H2 2024 after a period of significant declines and rental growth is now widely expected to continue for good quality central London offices against a background of relatively stable yields. Our portfolio has continued to outperform the MSCI Central London Office Index over recent financial periods, most recently by 69bp in 2025. Our final secured facility, the £175m LMS bonds, are due for repayment in March 2026 after which we will no longer have asset specific covenants to manage.

During the year the Directors also reviewed:

- a detailed five-year strategic review which included assessment of the Group's cash flows, dividend cover, REIT compliance and other key financial ratios. These metrics were subjected to sensitivity analysis to assess the Group's ability to deliver its strategic objectives under varying market conditions;
- the risks which could impact 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 continuing volatility and uncertainty in the macroeconomic environment during 2025, the Group benefitted from:

- reasonable income visibility for the life of our leases which on 2025 lettings averaged 5.3 years on the headline rent. In addition, the Group has a known level of tenant lease expiries and breaks which is actively managed by our Asset Management team; and
- a high quality customer base, with none of our occupiers being responsible for more than 6.4% of total rental income on a 'topped-up' basis and relatively low exposure to the retail and restaurant sector.

## Refinancing risk

The availability of financing for good quality covenants generally improved through 2025 and, though still subject to market volatility, the cost of long-term debt moderated. In addition, UK base rates fell through 2025 to end the year at 3.75% with a consequent reduction in the cost of short-term bank debt.

We remained close to our existing lenders and were very active in 2025, repaying the £175m convertible bonds at maturity, arranging £250m of new 7-year unsecured bonds in June and refinancing £565m of bank facilities. We continue to review market conditions and have facilities in place to repay £230m of fixed rate debt maturing in early 2026.

## Viability of our operations

The Board received an update from the Chairs of the Audit and Risk Committees on the work performed during 2025 in respect to risk monitoring and reviewing the effectiveness of internal controls (see page 103).

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

The Digital Innovation & Technology (DIT) team are proactive in providing regular guidance and refresher training to all employees on cyber security matters. We have a robust approach to cyber security which is routinely subject to independent testing (see pages 160 and 161).

Our Intelligent Building programme is a medium to long-term initiative which will assist with meeting our net zero carbon ambitions, strengthen our portfolio's cyber security and help realise cost savings for our occupiers.

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

Related information is on the following pages:

- ▢ [Investing in our employees / See page 194](#)
- ▢ [Disaster recovery and business continuity / See page 160](#)
- ▢ [Mandatory compliance training / See page 163](#)

## 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 2030.

## Long-term

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

Related information is on the following pages:

- ▢ [Strategic framework & business model / See pages 22 and 23](#)
- ▢ [Regeneration projects / See pages 19 to 21](#)
- ▢ [Our portfolio / See pages 6 and 7](#)

## Climate change

Willis Towers Watson performed an updated independent climate risk assessment and scenario analysis in 2024. The scope of the assessment included our entire London-based investment portfolio (including our head office) and our Scottish portfolio. Of the risks identified, none were likely to have a substantial impact on the viability of our business, although our cost profile could increase.

- ▢ [Task Force on Climate-related Financial Disclosures / See pages 86 to 99](#)

## Technology advancements

Acceleration of technology is an emerging risk for the Group and includes consideration of developments in Artificial Intelligence (AI). Technology in our sector is advancing at a rapid pace.

The Executive Committee has monitored the phased roll-out of Intelligent Building infrastructure during the year. The Derwent London Intelligent Building programme seeks to enable our buildings (where appropriate) to be digitally monitored and operated more efficiently, driving down equipment faults (and consequential maintenance) and delivering energy and operational carbon savings.

During the year, the Risk Committee received a detailed overview of the Group's current cyber posture and how future technological trends could impact on the Group's future performance (see pages 110 and 161).

- ▢ [Digital strategy risks / See page 161](#)

## Geopolitical instability

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