# Annual Results 2023 Announcement

Derwent London plc

DERWENT LONDON

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28 February 2024

**Derwent London plc** ("Derwent London" / "the Group")
**RESULTS FOR THE YEAR ENDED 31 DECEMBER 2023**
**STRONG LETTING PERFORMANCE**

**Paul Williams, Chief Executive of Derwent London, said:**

"*We had a strong year for leasing in 2023, achieving over £28m of new rent, on average 8% ahead of ERV. Today we are upgrading our rental growth guidance for 2024. Despite macro uncertainty, businesses are prioritising quality, amenity and sustainability, supporting good demand for the right product in the right location. This plays well to our strengths and reflects London's diverse and robust occupational market, particularly in the West End. After a year of substantial outward yield movement, investment opportunities are starting to emerge and our balance sheet positions us well.*"

**Letting activity**

- Lettings in 2023 of £28.4m compared to £9.8m in 2022
    - 8.0% above December 2022 ERV
    - Activity spread across our villages
    - Includes £16.0m of pre-lets at 25 Baker Street W1, 13.4% above ERV; office element now 75% pre-let
- 2024 lettings to date of £1.8m, with a further £2.7m under offer

**Financial highlights**

- EPRA net tangible assets[1] (NTA) 3,129p per share, down 13.8% from 3,632p at 31 December 2022
- Gross rental income of £212.8m, up 2.8% from £207.0m in 2022; +1.7% like-for-like
- EPRA earnings[1] £114.5m or 102.0p per share, down 4.6p from 106.6p in 2022, H2 6% higher than H1
- IFRS loss before tax £475.9m (2022: £279.5m loss)
- Total return -11.7% from -6.3% in 2022
- Full year dividend of 79.5p, up 1.3% from 78.5p
- Interest cover of 4.1 times and EPRA loan-to-value ratio of 27.9%
- Net debt increased to £1,356.8m (December 2022: £1,257.2m); undrawn facilities and cash[2] of £480m

**Portfolio highlights**

- EPRA vacancy reduced to 4.0% (December 2022: 6.4%)
- £41.5m of asset management transactions, 1.7% above December 2022 ERV
- Portfolio valued at £4.9bn, an underlying decline of 10.6% (2022: -6.8%)
    - Development valuations up 8.1% principally due to pre-letting activity at 25 Baker Street W1
    - West End properties outperformed, with values down 8.6%
- Portfolio valuation ERV growth of 2.1%, towards the top end of guidance
- True equivalent yield of 5.55% compared to 4.88% at December 2022
- Total property return -7.3% outperforming our industry benchmark[3] at -7.9%
- Two on-site major developments totalling 437,000 sq ft on programme for completion in 2025
    - 25 Baker Street W1 (298,000 sq ft) and Network W1 (139,000 sq ft)

**Outlook**

- Our upgraded 2024 guidance is for average ERVs across our portfolio to increase by 2% to 5%
- High quality space to remain in demand, with better buildings to outperform
- Inflation significantly reduced and expected to fall further; yields to respond

[1] Explanations of how EPRA figures are derived from IFRS are shown in note 25
[2] Excludes restricted cash
[3] MSCI Central London Offices Quarterly Index

**Webcast and conference call**

There will be a live webcast together with a conference call for investors and analysts at 09:00 GMT today.

To participate in the call or to access the webcast, please register at www.derwentlondon.com

A recording of the webcast will also be made available following the event on www.derwentlondon.com

**For further information, please contact:**

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## CHAIRMAN'S STATEMENT

- 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

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

## CEO STATEMENT

- 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

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. 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.

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 ≥£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.

**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.

## CENTRAL LONDON OFFICE MARKET

***See Appendix 1 for supporting graphs***

- 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.

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%).

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.

## VALUATION

***See Appendix 2 for supporting graphs and tables***

- 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%

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. 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 twelve 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.

## LEASING AND ASSET MANAGEMENT

***See Appendix 4 for supporting graphs and tables***

**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%

### 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 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

### 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** |

**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

**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.

**Asset management 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.

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.

**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.

**SUSTAINABILITY**

- 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 kg$CO_2$e/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 t$CO_2$e (2022: 44,183 t$CO_2$e). 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 t$CO_2$e in 2022 to 799 t$CO_2$e in 2023, and has been offset. Our operational carbon footprint (Scopes 1, 2 & 3, excluding embodied carbon; location-based) increased 27% to 14,370 t$CO_2$e.

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.

## INVESTMENT

**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)

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.

### Developments and refurbishments

#### Major on-site projects – 437,000 sq ft

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 $kgCO_2e$/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 $kgCO_2e$/sqm.

**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 ($kgCO_2e$/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 – Four schemes totalling c.1.3m sq ft**

Our *medium-term pipeline* comprises c.390,000 sq ft (at 100%) of high quality office-led space.

- *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* could deliver 950,000+ sq ft of mixed-use, office-led space.

- *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.

### 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** |

## FINANCE REVIEW

### Financial highlights

| | Dec 2023 | Dec 2022 |
|---|---|---|
| Total net assets | £3,508.8m | £4,075.5m |
| EPRA NTA per share | 3,129p | 3,632p |
| Property portfolio at fair value | £4,844.7m | £5,321.8m |
| Gross property and other income | £265.9m | £248.8m |
| Net rental income | £186.2m | £188.5m |
| IFRS loss before tax | (£475.9m) | (£279.5m) |
| EPRA earnings per share (EPS) | 102.0p | 106.6p |
| Total dividend per share | 79.5p | 78.5p |
| LTV ratio | 27.9% | 23.9% |
| NAV gearing | 38.7% | 30.8% |
| Net interest cover ratio | 4.1x | 4.2x |
| Net debt/EBITDA | 8.8x | 7.8x |

### Introduction

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

### 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.

| | 2023<br>p | 2022<br>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** |

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.

*See Appendix 6 for graph showing EPRA net tangible assets per share*

**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 per cent 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 twelve 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.

*See Appendix 6 for graph showing movement in gross rental income*

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:

| | H1 2022<br>£m | H2 2022<br>£m | 2022<br>£m | H1 2023<br>£m | H2 2023<br>£m | 2023<br>£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<br>£m | H2 2022<br>£m | 2022<br>£m | H1 2023<br>£m | H2 2023<br>£m | 2023<br>£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.

**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.

**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 25 and is summarised below.

*See Appendix 6 for graph showing EPRA earnings*

**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.

## 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).

## 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.

*See Appendix 6 for debt facilities and reconciliation to borrowings and net debt*

**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 credentials[1]** | **Achieved:** BREEAM – Excellent (post-construction)<br>EPC – B<br>LEED – Gold | **1 Soho Place (Site A)**<br>**Achieved:** BREEAM – Outstanding (post-construction)<br>EPC – B<br>LEED – Gold | **Achieved:** BREEAM – Outstanding (post-construction)<br>EPC – A<br>LEED – Platinum | **25 Baker Street offices[2]**<br>**Achieved:** BREEAM – Outstanding (design stage)<br>**Expected:** BREEAM – Outstanding (post-construction), on target<br>LEED – Gold, on target<br>EPC – A, on target<br>**30 Gloucester Place offices[2]**<br>**Achieved:** BREEAM – Excellent (design stage)<br>**Expected:** BREEAM – Excellent (post construction), on target<br>EPC – B, on target<br>**Private residential Expected:** Home Quality Mark – 4 Stars, on target | **Achieved: BREEAM –** Outstanding (design stage)<br>**Expected:** BREEAM – Outstanding (post construction), on target<br>LEED – Gold, on target<br>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**

| | | Subsequent spend | | |
|---|---|---|---|---|
| **EGP** | **Look back spend £m** | **Q4 2019 – FY 2022 £m** | **2023 Spend £m** | **Cumulative 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.

*See Appendix 6 for graph showing green borrowings and qualifying expenditure*

**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.

## PRINCIPAL RISKS AND UNCERTAINTIES

## RISK MANAGEMENT AND INTERNAL CONTROLS

We have identified certain principal risks and uncertainties that could prevent the Group from achieving its strategic objectives and have assessed how these risks could best be mitigated, where possible, through a combination of internal controls, risk management and the purchase of insurance cover.

As a predominantly London-based Group, we are particularly sensitive to factors which impact upon central London's growth and demand for office space. Like many businesses, we have been impacted by ongoing macroeconomic challenges and geopolitical instability.

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.

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.

The principal risks and uncertainties facing the Group in 2024 are set out on the following pages with the potential impact and the mitigating actions and controls in place. These risks are reviewed and updated on a regular basis and were last formally assessed by the Board on 26 February 2024.

The Group's approach to the management and mitigation of these risks is included in the 2023 Report Accounts. The Board has confirmed that its risk appetite and key risk indicators remain appropriate.

### Strategic risks

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

| Risk, effect and progression | Controls and mitigation |
|---|---|
| **1. Failure to implement the Group's strategy** | |
| 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. | • 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.<br>• 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.<br>• 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.<br>• Maintain income from properties until development commences and have an ongoing strategy to extend income through lease renewals and regears. Developments are de-risked through pre-lets.<br>• Maintain sufficient headroom for all the key ratios and financial covenants, with a particular focus on interest cover.<br>• 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. |

**Financial risks**

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. Financial risks can arise from movements in the financial markets in which we operate and inefficient management of capital resources.

| Risk, effect and progression | Controls and mitigation |
|---|---|
| **2. Refinancing risks (new)** | |
| Inability to raise finance in a cost-effective manner that optimises the capital structure of the Group. | • Preparation of five-year cash flow, annual budgets and three rolling forecasts enable the Group to raise finance in advance of requirements.<br>• Excellent long-standing relationships with funders.<br>• Regular review of financial covenants to monitor the impact of changes in valuation, interest rates and rental income.<br>• Going concern and viability reviews considered at least half yearly.<br>• 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.<br>• Annual review with credit rating agency and low leverage tolerance. |
| **3. Risk of occupiers defaulting or occupier failure** | |
| 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. | • 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.<br>• Focus on letting our buildings to large and established businesses where the risk of default is lower.<br>• Active in-house rent collection, with regular reports to the Executive Directors on day 1, 7, 14 and 21 of each rent collection cycle.<br>• Ongoing dialogue is maintained with occupiers to understand their concerns and requirements.<br>• Rent deposits are held where considered appropriate. |
| **4. Income decline** | |
| 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. | • 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.<br>• A 'tenants on watch' register is maintained and regularly reviewed by the Executive Directors and the Board.<br>• Ongoing dialogue is maintained with occupiers to understand their concerns, requirements and future plans.<br>• 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.<br>• Regular review of the lease expiry profile.<br>• Regular forecasts provide visibility of potential significant vacancies. |

**5. Fall in property values**

| Risk | Controls and mitigation |
|---|---|
| The potential adverse impact of the economic and political environment on property yields has heightened the risk of a fall in property values. | • The impact of yield changes is considered when potential projects are appraised.<br>• The impact of 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.<br>• The Group's mainly unsecured financing makes management of our financial covenants more straightforward.<br>• The Group's low loan-to-value ratio reduces the likelihood that falls in property values have a significant operational impact on our business continuity. |

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

| Risk | Controls and mitigation |
|---|---|
| **6A. Reduced development returns** | |
| 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. | • Our procurement process includes the use of highly regarded firms of quantity surveyors and is designed to minimise cost uncertainty.<br>• Development costs are benchmarked to ensure that the Group obtains competitive pricing and, where appropriate, fixed price contracts are negotiated.<br>• 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.<br>• Investment appraisals are prepared and sensitivity analysis is undertaken to judge whether an adequate return is made in all likely circumstances.<br>• The Group's pre-letting strategy reduces or removes the letting risk of the development as soon as possible. The Group's pre-letting strategy reduces or removes the letting risk of the development as soon as possible. |
| **6B. 'On-site' risk** | |
| Risks that can materialise whilst on site, include:<br>• unexpected ground conditions;<br>• deleterious material (including asbestos);<br>• activity in adjacent sites/buildings; and<br>• unidentified issues with the existing building.<br><br>'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. | • 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.<br>• Adequately appraise investments prior to starting work on site, including through:<br>(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.<br>• Regular monitoring of our contractors' cash flows.<br>• Frequent meetings with key contractors and subcontractors to review their work programme and maintain strong relationships.<br>• Off-site inspection of key components to ensure they have been completed to the requisite quality.<br>• Monthly reviews of supply chain issues for each of our major projects, including in respect to potential labour shortages. |

**6C. Contractor/subcontractor default**

There have been ongoing issues within the construction industry in respect of the level of risk and narrow profit margins being accepted by contractors.

- We use known 'Tier 1' contractors with whom we have established working relationships and regular 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**

The Group may be subject to a cyber attack that results in it being unable to use its information systems and/or losing data.

- 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.

**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.

- 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.

- 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.

**8. Reputational damage**

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.

- 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**

If the Group fails to respond appropriately, and sufficiently, to climate-related risks or fails to benefit from the potential opportunities.

- 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).

**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. | • Relevant and effective health, safety, and fire management policies and procedures.<br>• The Group has a competent H&S team, whose performance is monitored and reviewed by the H&S and Risk Committees.<br>• The H&S competence of our main contractors and service partners is verified by the H&S team prior to their appointment.<br>• Our main contractors must submit suitable Construction Phase Plans, Management and Logistics Plans, and Fire Management Plans, before works commence.<br>• 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.<br>• 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.<br>• 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. | • 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.<br>• Managing our properties to ensure they are compliant with the Minimum Energy Efficiency Standards (MEES) for Energy Performance Certificates (EPCs).<br>• A Group whistleblowing system ('Speak- up') for staff is maintained to report wrongdoing anonymously.<br>• Ongoing staff training and awareness programmes.<br>• Group policies and procedures dealing with all key legislation are available on the Group's intranet.<br>• Quarterly review of our anti-bribery and corruption procedures by the Risk Committee. |

**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.

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).

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 at the end of this announcement and are derived in note 26.

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.

**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.

On behalf of the Board

Paul M. Williams
Chief Executive

Damian M.A. Wisniewski
Chief Financial Officer

27 February 2024

## GROUP INCOME STATEMENT

| | 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 | 11 | **(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 | | **(475.9)** | (279.5) |
| Tax charge | 10 | **(0.5)** | (1.0) |
| Loss for the year | | **(476.4)** | (280.5) |
| Basic loss per share | 25 | **(424.25p)** | (249.84p) |
| Diluted loss per share | 25 | **(424.25p)** | (249.84p) |

## GROUP STATEMENT OF COMPREHENSIVE INCOME

| | Note | **2023 £m** | 2022 £m |
|---|---|---|---|
| Loss for the year | | **(476.4)** | (280.5) |
| Actuarial losses on defined benefit pension scheme | | **(0.7)** | (2.0) |
| Revaluation (deficit)/surplus of owner-occupied property | 11 | **(3.9)** | 0.7 |
| Deferred tax credit/(charge) on revaluation | 21 | **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) |

**GROUP BALANCE SHEET**

| | Note | **2023 £m** | 2022 £m |
|---|---|---|---|
| Non-current assets | | | |
| Investment property | 11 | **4,551.4** | 5,002.0 |
| Property, plant and equipment | 12 | **49.9** | 54.3 |
| Investments | 14 | **35.8** | 43.9 |
| Derivative financial instruments | 19 | **2.9** | 5.0 |
| Pension scheme surplus | | **2.0** | 1.2 |
| Other receivables | 15 | **201.0** | 188.1 |
| | | **4,843.0** | 5,294.5 |
| Current assets | | | |
| Trading property | 11 | **60.0** | 39.4 |
| Trading stock | 13 | **8.9** | 2.3 |
| Trade and other receivables | 16 | **42.7** | 42.4 |
| Corporation tax asset | | **0.4** | - |
| Cash and cash equivalents | 23 | **73.0** | 76.6 |
| | | **185.0** | 160.7 |
| Non-current assets held for sale | 17 | **-** | 54.2 |
| Total assets | | **5,028.0** | 5,509.4 |
| Current liabilities | | | |
| Borrowings | 19 | **102.9** | 19.7 |
| Leasehold liabilities | 19 | **0.4** | 0.5 |
| Trade and other payables | 18 | **148.0** | 148.1 |
| Corporation tax liability | | **-** | 0.9 |
| Provisions | | **0.1** | - |
| | | **251.4** | 169.2 |
| Non-current liabilities | | | |
| Borrowings | 19 | **1,233.2** | 1,229.4 |
| Leasehold liabilities | 19 | **34.2** | 34.5 |
| Provisions | | **0.3** | 0.2 |
| Deferred tax | 21 | **0.1** | 0.6 |
| | | **1,267.8** | 1,264.7 |
| Total liabilities | | **1,519.2** | 1,433.9 |
| Total net assets | | **3,508.8** | 4,075.5 |
| Equity | | | |
| Share capital | | **5.6** | 5.6 |
| Share premium | | **196.6** | 196.6 |
| Other reserves | | **939.3** | 941.9 |
| Retained earnings | | **2,367.3** | 2,931.4 |
| Total equity | | **3,508.8** | 4,075.5 |

## GROUP STATEMENT OF CHANGES IN EQUITY

| | Attributable to equity shareholders | | | | |
|---|---|---|---|---|---|
| | Share capital £m | Share premium £m | Other reserves £m | Retained earnings £m | Total equity £m |
| 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** |

| | Attributable to equity shareholders | | | | |
|---|---|---|---|---|---|
| | Share capital £m | Share premium £m | Other reserves £m | Retained earnings £m | Total equity £m |
| 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 |

## GROUP CASH FLOW STATEMENT

| | Note | **2023** £m | 2022 Restated[1] £m |
|---|---|---|---|
| Operating activities | | | |
| Cash generated from operations | 20 | **135.3** | 148.7 |
| Interest received | | **0.8** | 0.3 |
| Interest and other finance costs paid | | **(38.1)** | (37.1) |
| Distributions from joint ventures | | **0.3** | - |
| Tax paid in respect of operating activities | | **(1.3)** | (0.5) |
| Net cash from operating activities | | **97.0** | 111.4 |
| 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) |
| VAT movement | | **(8.0)** | 2.2 |
| Net cash used in investing activities | | **(98.0)** | (51.7) |
| Financing activities | | | |
| Net movement in revolving bank loans | | **84.0** | (10.1) |
| Proceeds from other loan | | **0.3** | 7.4 |
| Financial derivative termination income/(costs) | 8 | **1.8** | (0.3) |
| Net proceeds of share issues | | **-** | 1.2 |
| Dividends paid | 22 | **(88.7)** | (86.8) |
| Net cash used in financing activities | | **(2.6)** | (88.6) |
| Decrease in cash and cash equivalents in the year | | **(3.6)** | (28.9) |
| Cash and cash equivalents at the beginning of the year | 23 | **76.6** | 105.5 |
| Cash and cash equivalents at the end of the year | 23 | **73.0** | 76.6 |

[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).

## NOTES TO THE FINANCIAL STATEMENTS

### 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.

As with most other UK property companies and real estate investment trusts ('REITs'), the Group presents many of its financial measures in accordance with the guidance criteria issued by the European Public Real Estate Association ('EPRA'). These measures, which provide consistency across the sector, are all derived from the IFRS figures in note 25.

**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.

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 has 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 accounting policies used by the Group in these condensed financial statements are consistent with those applied in the Group's financial statements for the year to 31 December 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.

**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 has made a voluntary change to its accounting policy in relation to the presentation of the cash flow statement 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 cash flow statement for the year ended 31 December 2022 has been restated as shown in the table below.

There is no impact upon the main categories of cash within the cash flow statement as a result of this change in presentation.

| | **2022 £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) |
| Other administrative expenses | (8.0) |
| Interest received | 0.3 |
| Interest paid | (33.7) |
| Other finance costs | (3.4) |
| Other income | 4.2 |
| 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 operating activities | **111.4** |

| | **2022 Restated £m** |
|---|---|
| **Indirect method** | |
| Operating activities | |
| Cash generated from operations (note 20) | 148.7 |
| Interest received | 0.3 |
| Interest and other finance costs paid | (37.1) |
| Tax paid in respect of operating activities | (0.5) |
| Net cash from operating activities | **111.4** |
| **Note 20. Cash generated from operations** | |
| Loss from operations | (238.3) |
| Adjustment for non-cash items: | |
| Revaluation deficit | 422.1 |
| Depreciation | 1.0 |
| Lease incentive/cost spreading | (21.7) |
| Share based payments | 2.1 |
| Ground rent adjustment | (0.6) |
| Adjustment for other items: | |
| Profit on disposal | (25.6) |
| Changes in working capital: | |
| Increase in receivables balance | (0.5) |
| Increase in payables balance | 19.3 |
| Increase in trading property and trading stock | (9.1) |
| Cash generated from operations | **148.7** |

### 3. Significant judgments, 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. 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 these condensed 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 11.

**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 15) and 'Trade and other receivables' (see note 16) 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 eleven 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 25. 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 buildings[1] 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.

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

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

**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.

**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 11.

**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 £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.

## 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 14 for further details of the Group's joint ventures.

**10. 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.

## 11. 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 |
|---|---|---|---|---|---|---|---|
| **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 |

| | Freehold £m | Leasehold £m | Total investment property £m | Owner-occupied property £m | Assets held for sale £m | Trading property £m | Total property portfolio £m |
|---|---|---|---|---|---|---|---|
| **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 |

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 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.

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.

**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) |

**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.

**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:

| **At 31 December 2023** | West End central[1] | West End borders/other | City borders | Provincial commercial | Total |
|---|---|---|---|---|---|
| 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.

**12. Property, plant and equipment**

| | Owner-occupied property £m | Artwork £m | Other £m | Total £m |
|---|---|---|---|---|
| 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 |

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). See note 11 for the historical cost of owner-occupied property.

### 13. Trading stock

| | **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.

### 14. Investments

The Group has a 50% interest in four joint venture vehicles, Derwent Lazari Baker Street Limited Partnership, Dorrington Derwent Holdings Limited, Primister Limited and Prescot Street Limited Partnership.

| | **2023** **£m** | 2022 £m |
|---|---|---|
| At 1 January | **43.9** | 51.1 |
| Additions | **-** | 0.1 |
| Revaluation deficit (see note 9) | **(9.2)** | (9.3) |
| Other profit from operations (see note 9) | **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 |

[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.

### 15. Other receivables (non-current)

| | **2023** **£m** | 2022 £m |
|---|---|---|
| Prepayments and accrued income | | |
| Rents recognised in advance | **173.9** | 165.2 |
| Initial direct letting costs | **14.5** | 13.8 |
| Prepayments | **12.6** | 9.1 |
| | **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 16), 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 16) | **(20.2)** | (23.6) |
| At 31 December | **173.9** | 165.2 |

## 16. Trade and other receivables

| | **2023 £m** | 2022 £m |
|---|---|---|
| Trade receivables | **10.4** | 4.9 |
| Other receivables | **2.0** | 5.8 |
| Prepayments | **6.9** | 3.8 |
| Accrued income[1] | | |
| Rents recognised in advance | **20.2** | 23.6 |
| Initial direct letting costs | **2.4** | 2.5 |
| Other | **0.8** | 1.8 |
| | **42.7** | 42.4 |

**Trade receivables are split as follows:**

| | **2023 £m** | 2022 £m |
|---|---|---|
| less than three months due | **10.3** | 4.9 |
| between three and six months due | **0.1** | - |
| | **10.4** | 4.9 |

[1] Accrued income for the year ended 31 December 2022 has been re-presented to provide more detail and has no impact on the total amount disclosed.

Trade receivables are stated net of impairment.

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 15).

**Provision for bad debts**

| | 2023<br>£m | 2022<br>£m |
|---|---|---|
| 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:**

| | 2023<br>£m | 2022<br>£m |
|---|---|---|
| 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 |

### 17. Non-current assets held for sale

| | 2023<br>£m | 2022<br>£m |
|---|---|---|
| Transferred from investment properties (see note 11) | **-** | 54.2 |
| | **-** | 54.2 |

### 18. Trade and other payables

| | 2023<br>£m | 2022<br>£m |
|---|---|---|
| Trade payables | **0.7** | 0.4 |
| Other payables[1] | **3.6** | 2.2 |
| Other taxes | **3.3** | 11.8 |
| Accruals | **30.5** | 35.8 |
| Deferred income | **50.8** | 48.2 |
| Tenant rent deposits | **27.0** | 27.3 |
| Service charge balances[1] | **32.1** | 22.4 |
| | **148.0** | 148.1 |

[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 amount disclosed.

Deferred income primarily relates to rents received in advance.

**19. Net debt and derivative financial instruments**

| | 2023 | | 2022 | |
|---|---|---|---|---|
| | **Book value £m** | **Fair value £m** | Book value £m | Fair value £m |
| Current liabilities | | | | |
| Other loans | **20.0** | **20.0** | 19.7 | 19.7 |
| 3.99% secured loan 2024 | **82.9** | **81.8** | - | - |
| | **102.9** | **101.8** | 19.7 | 19.7 |
| Non-current liabilities | | | | |
| 1.5% unsecured convertible bonds 2025 | **172.1** | **164.7** | 170.1 | 157.2 |
| 6.5% secured bonds 2026 | **179.6** | **178.1** | 181.0 | 179.7 |
| 1.875% unsecured green bonds 2031 | **346.8** | **279.0** | 346.4 | 247.3 |
| Unsecured private placement notes 2026 - 2034 | **453.5** | **399.0** | 453.3 | 410.4 |
| 3.99% secured loan 2024 | **-** | **-** | 82.7 | 80.6 |
| Unsecured bank loans | **81.2** | **84.0** | (4.1) | - |
| Borrowings | **1,336.1** | **1,206.6** | 1,249.1 | 1,094.9 |
| Derivative financial instruments expiring in greater than one year | **(2.9)** | **(2.9)** | (5.0) | (5.0) |
| Total borrowings and derivative financial instruments | **1,333.2** | **1,203.7** | 1,244.1 | 1,089.9 |
| **Reconciliation to net debt:** | | | | |
| Borrowings and derivative financial instruments | **1,333.2** | | 1,244.1 | |
| Adjustments for: | | | | |
| Leasehold liabilities | **34.6** | | 35.0 | |
| Derivative financial instruments | **2.9** | | 5.0 | |
| Cash at bank excluding restricted cash (see note 23) | **(13.9)** | | (26.9) | |
| Net debt | **1,356.8** | | 1,257.2 | |

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

The fair values of the 3.99% secured loan and the unsecured private placement notes were determined by 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 fair values of the Group's outstanding interest rate swaps have been estimated by using the mid-point of the yield curves prevailing on the reporting date and represent the net present value of the differences between the contracted rate and the valuation rate when applied to the projected balances for the period from the reporting date to the contracted expiry dates. These represent Level 2 fair value measurement.

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

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

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

There have been no transfers between Level 1 and Level 2 or Level 2 and Level 3 in either 2023 or 2022.

Unsecured bank borrowings are accounted for at amortised cost. At 31 December 2023, there was £84.0m (2022: £nil) drawn on the RCFs and the unamortised arrangement fees were £2.8m (2022: £4.1m), resulting in the carrying value being a £81.2m credit balance (2022: debit balance of £4.1m).

Other loans consist of a £20.0m (2022: £19.7m) 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).

The 3.99% secured loan 2024 was secured by a fixed charge over £246.6m (31 December 2022: £272.8m) of the Group's properties. In addition, the secured bonds 2026 were secured by a floating charge over a number of the Group's subsidiary companies which contained £395.9m (31 December 2022: £448.8m) of the Group's properties.

**20. Cash generated from operations**

The cash flow statement has 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.

| | **2023 £m** | 2022 Restated[1] £m |
|---|---|---|
| Loss from operations | **(428.9)** | (238.3) |
| Adjustment for non-cash items: | | |
| Revaluation deficit | **581.5** | 422.1 |
| Depreciation | **1.1** | 1.0 |
| Lease incentive/cost spreading | **(6.6)** | (21.7) |
| Share based payments | **2.5** | 2.1 |
| 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) |
| Increase in payables balance | **17.5** | 19.3 |
| Increase in trading property and trading stock | **(27.2)** | (9.1) |
| Cash generated from operations | **135.3** | 148.7 |

[1] Prior year figures have been restated for changes in accounting policies. See note 2 for additional information.

Net cash 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.

**21. Deferred tax**

| | Revaluation £m | Other £m | Total £m |
|---|---|---|---|
| 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 |

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.

**22. Dividend**

| | | Dividend per share | | | | |
|---|---|---|---|---|---|---|
| | Payment date | PID p | Non-PID p | Total p | **2023 £m** | 2022 £m |
| **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 | | |
| 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 | | |
| 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.

**23. Cash and cash equivalents**

| | **2023 £m** | 2022 £m |
|---|---|---|
| Cash at bank | **13.9** | 26.9 |
| Cash held in restricted accounts | | |
| Tenant rent deposits | **27.0** | 27.3 |
| Service charge balances | **32.1** | 22.4 |
| | **73.0** | 76.6 |

## 24. Related parties

There have been no related party transactions for the year ended 31 December 2023 that have materially affected the financial position or performance of the Group. All related party transactions are materially consistent with those disclosed by the Group in its financial statements.

## 25. EPRA performance measures

Unaudited unless stated otherwise.

**Number of shares**

| | Earnings per share Weighted average | | Net asset value per share 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**

| | IFRS £m | Adjustments A £m | Adjustments B £m | Adjustments 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.

| | IFRS £m | Adjustments A £m | Adjustments B £m | Adjustments 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 year 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.

**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 ratios (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.

| | | |
|---|---|---|
| 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.

**Property-related capital expenditure (unaudited)**

| | **2023** | | | 2022 | | |
|---|---|---|---|---|---|---|
| | **Group (excl. Joint ventures)** | **Joint ventures (50% share)** | **Total Group** | Group (excl. Joint ventures) | Joint ventures (50% share) | Total Group |
| | **£m** | **£m** | **£m** | £m | £m | £m |
| Acquisitions | 3.8 | - | 3.8 | 133.0 | - | 133.0 |
| Development | 127.3 | 0.6 | 127.9 | 94.7 | 1.6 | 96.3 |
| 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 |

**26. 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 |
| Group 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 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 payable 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 |
| 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 to EBITDA** | | |
| Net debt | **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 |

**27. Total return (unaudited)**

| | **2023** | 2022 |
|---|---|---|
| | **p** | 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%) |

**28. List of definitions**

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

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

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

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

**Earnings/earnings per share (EPS)**
Earnings represent the profit or loss for the 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.

**EBITDA**
Earnings before interest, tax, depreciation and amortisation.

**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.

- **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.

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

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

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

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

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

**Loan-to-value ratio (LTV)**
Drawn debt net of cash divided by the fair value of the property portfolio. Drawn debt is equal to drawn facilities less 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 IPD)**
MSCI Inc. is a company that produces independent benchmarks of property returns. The Group measures its performance against both the Central London Offices Index and the UK All Property Index.

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

**NAV gearing**
Net debt divided by net assets.

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

**Net debt**
Borrowings plus bank overdraft less 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).

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

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

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

**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.

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

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

**Total return**
The movement in EPRA Net Tangible Assets per share on a diluted basis between the beginning and the end of each financial 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.

**Well to tank (WTT)**
The emissions associated with extracting, refining and transporting raw fuel to the vehicle, asset or process under scrutiny.

**Yields**

- **Net initial yield**

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

- **Reversionary yield**

The anticipated yield 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 period. Yield compression is a commonly-used term for a reduction in yields.

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

## Notes to editors

### Derwent London plc

Derwent London plc owns 66 buildings in a commercial real estate portfolio predominantly in central London valued at £4.9 billion as at 31 December 2023, making it the largest London office-focused real estate investment trust (REIT).

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

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

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

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

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

In January 2022 we were proud to announce that we had achieved the National Equality Standard – the UK's highest benchmark for equality, diversity and inclusion. In May 2023 we were recognised on the Sunday Times Best Places to Work List 2023 within the medium-sized organisation category and in the following month we won two OAS awards – West End New Build for Soho Place W1 and Developer of the Year whilst we were also highly commended for The Featherstone Building in the City New Build category. In October 2023, White Collar Factory EC1 won the BCO's Test of Time 2023 award, Soho Place W1 won the British Construction Industry Awards' Best Commercial Property Project of the Year and Derwent London was awarded the EG Employer Award. In March 2023 we placed in the top three of the Property Sector in Management Today's Britain's Most Admired Companies awards 2022. In October 2022, 80 Charlotte Street won the BCO's Best National Commercial Workplace award 2022. In 2013 the Company launched a voluntary Community Fund which has to date supported over 160 community projects in the West End and the Tech Belt. The Company is a public limited company, which is listed on the London Stock Exchange and incorporated and domiciled in the UK. The address of its registered office is 25 Savile Row, London, W1S 2ER.

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

### Forward-looking statements

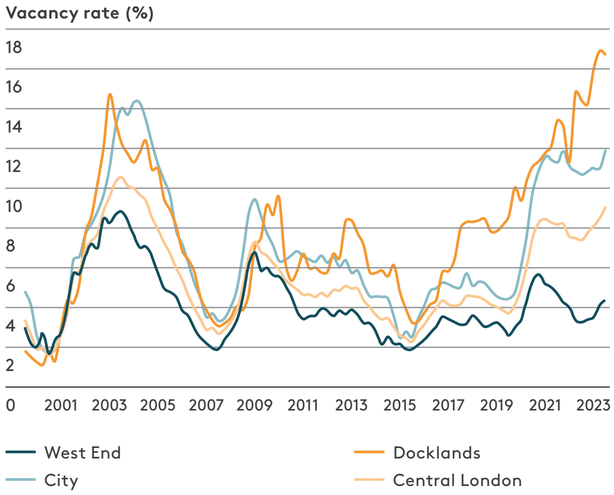
This document contains certain forward-looking statements about the future outlook of Derwent London. By their nature, any statements about future outlook involve risk and uncertainty because they relate to events and depend on circumstances that may or may not occur in the future. Actual results, performance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

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

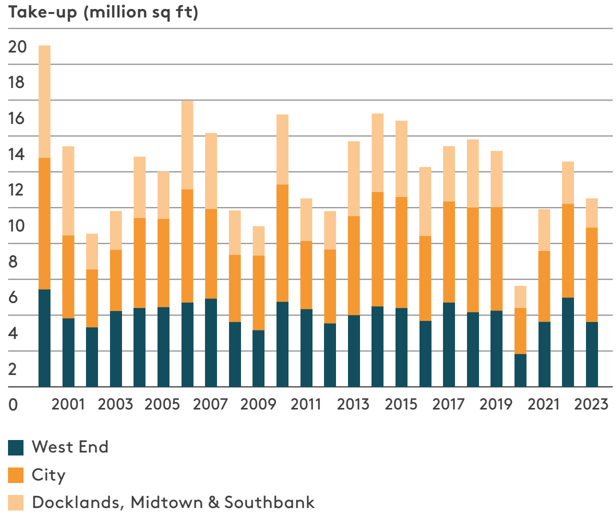
# APPENDIX 1

## Our market

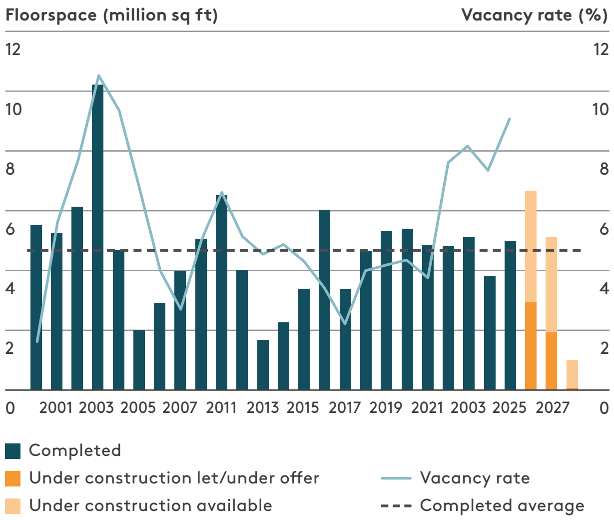
### Available space by sub-market



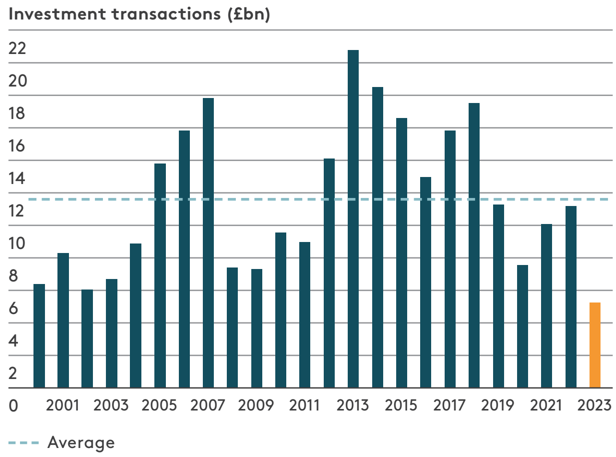

### Central London office take-up



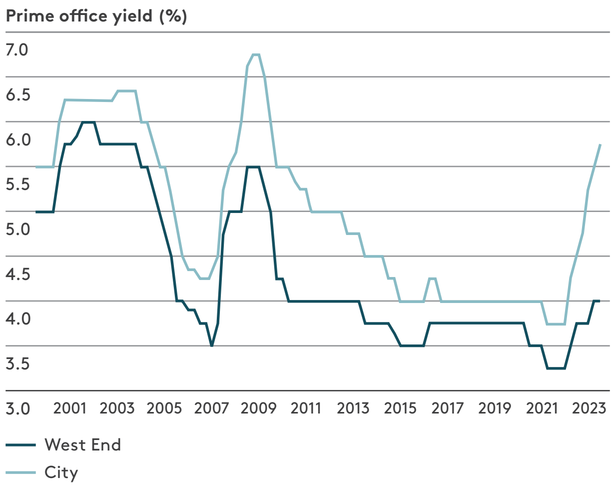

### Central London development pipeline




### Central London office investment transactions



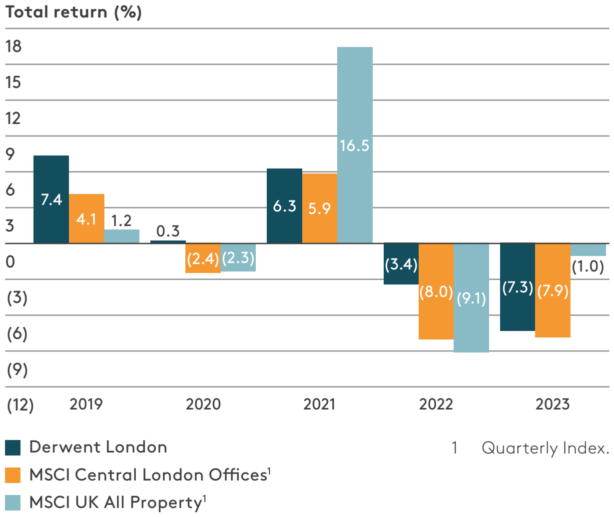

### Central London office yields



# APPENDIX 2

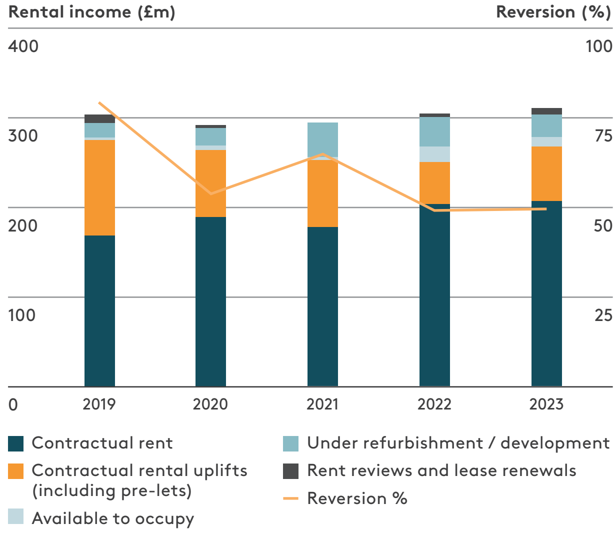
## Valuation

### Total property return

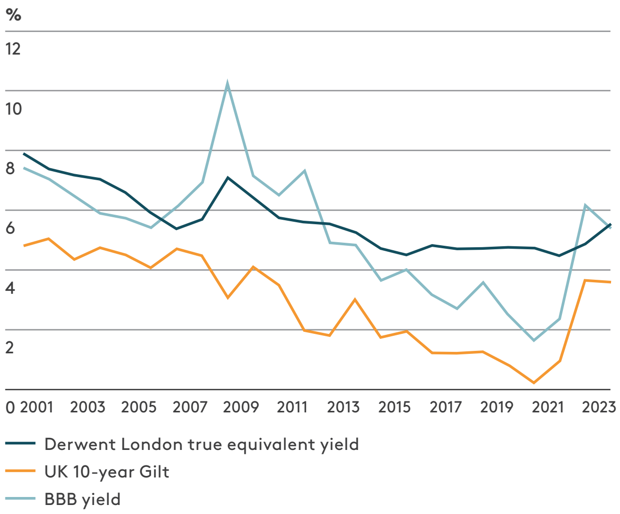



1 Quarterly Index.

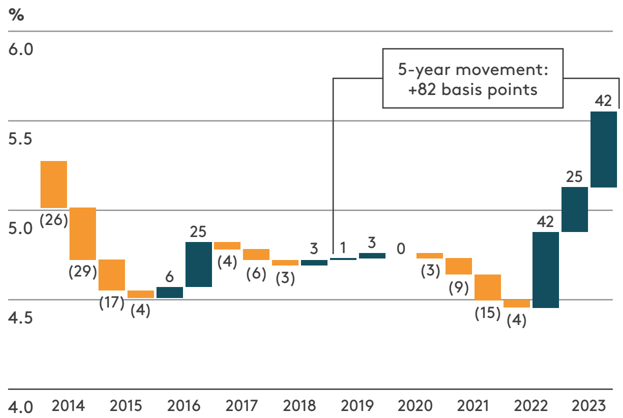
### Portfolio income potential



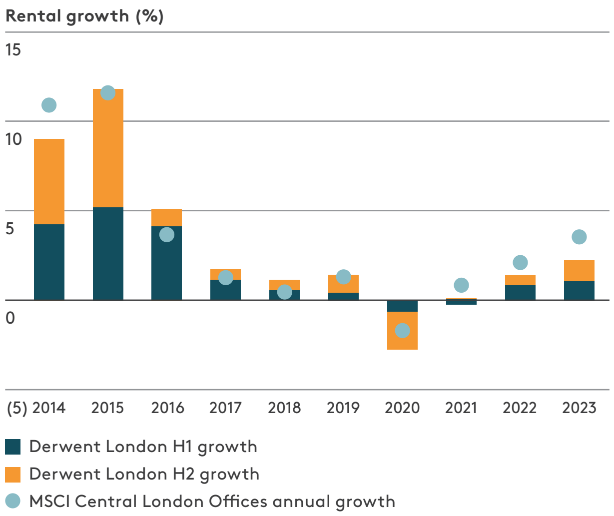

### Valuation yields




### True equivalent yield




### Rental value growth



# 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 reversions | 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** | **6.5[3]** |
| | 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.

# APPENDIX 3

## Disposals

### Disposals (excluding trading property)

| 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** |

# APPENDIX 4

## Leasing, asset management & property management

### 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 | 100.25 | 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 |

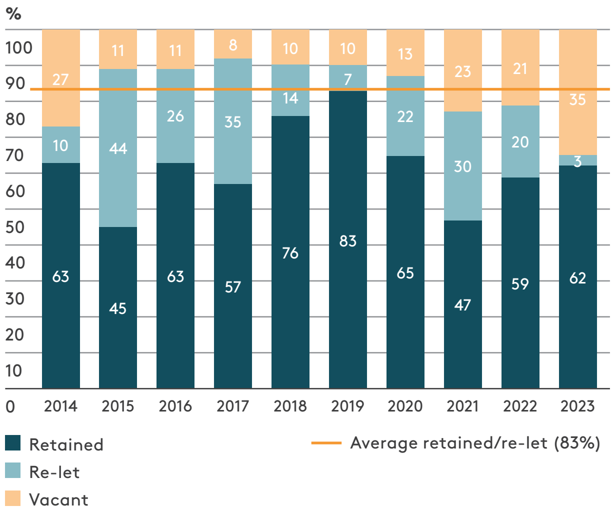
1 There is an additional break at year 5 on level eight subject to a 12-month rent penalty payable by the tenant.

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

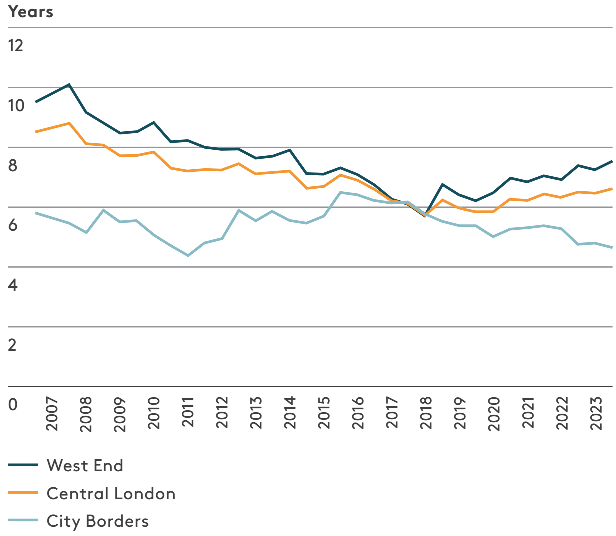
3 'Furnished + Flexible' (Cat A+) lettings.

# Leasing, asset management & property management continued

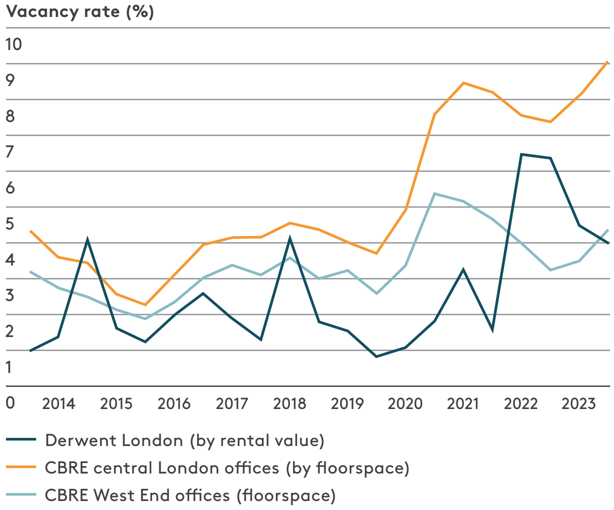
## Lease expiry and break analysis




## Average unexpired lease length




## Ten-year vacancy trend



# APPENDIX 5

## Development and refurbishment

### Project summary – current projects

| Property | Current net income £m pa | Pre scheme area '000 sq ft | Proposed area '000 sq ft | 2024 capex £m | 2025 capex £m | 2026+ capex £m | Total capex to complete £m | Delivery date | Current office c.ERV psf |
|---|---|---|---|---|---|---|---|---|---|
| **On-site major projects** | | | | | | | | | |
| 25 Baker Street W1[1] | – | 143 | 298 | 101 | 38 | – | 139 | H1 2025 | £95.00 |
| Network W1 | – | 70 | 139 | 38 | 44 | 2 | 84 | H2 2025 | £90.00 |
| Other | – | – | – | 5 | – | – | 5 | | |
| | **–** | **213** | **437** | **144** | **82** | **2** | **228** | | |
| **Other** | | | | | | | | | |
| Strathkelvin Retail Park | – | – | – | 14 | 5 | – | 19 | | |
| Lochfaulds solar park | – | – | – | 13 | 4 | – | 17 | | |
| Planning and design[2] | – | – | – | 9 | 4 | – | 13 | | |
| Other[3] | – | – | – | 30 | 24 | 31 | 85 | | |
| | **–** | **–** | **–** | **210** | **119** | **33** | **362** | | |
| Capitalised interest | – | – | – | 12 | 4 | – | 16 | | |
| **Total** | **–** | **213** | **437** | **222** | **123** | **33** | **378** | | |

1 Includes profit share payments and expenditure on trading property/stock.
2 Includes 50% share of 50 Baker Street W1 JV scheme and Old Street Quarter EC1.
3 Includes EPC upgrades. Excludes major refurbishments not yet committed.

### Project summary – future projects

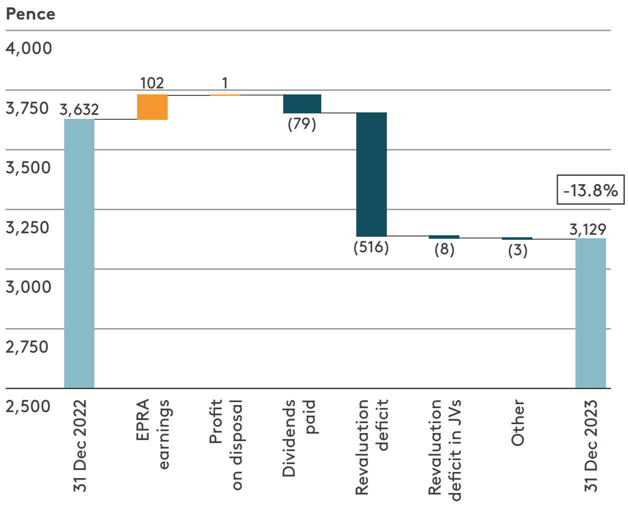
| Property | Current net income £m pa | Pre scheme area '000 sq ft | Proposed area '000 sq ft | Earliest possession year | Comment |
|---|---|---|---|---|---|
| **Consented** | | | | | |
| Holden House W1 | 4.4 | 91 | 150 | 2025 | |
| Strathkelvin Retail Park | 0.9 | 108 | 130 | 2024 | B&Q unit sub-division |
| | **5.3** | **199** | **280** | | |
| **Under appraisal[1]** | | | | | |
| 50 Baker Street W1 JV[2] | 2.6 | 61 | 120 | 2026 | Joint venture, shown at 50% share |
| Greencoat & Gordon House SW1 | 6.0 | 138 | 138 | 2025 | |
| Other[3] | 11.6 | 351 | 408 | | |
| | **20.2** | **550** | **666** | | |
| **Consented and under appraisal** | **25.5** | **749** | **946** | | |
| Future appraisal[4] | 40.1 | 1,165 | 1,165 | | |
| Current major projects | – | 213 | 437 | | |
| **Pipeline** | **65.6** | **2,127** | **2,548** | | |

1 Areas proposed are estimated from initial studies.
2 Planning application submitted.
3 Includes refurbishment opportunities at Middlesex House W1, 20 Farringdon Road EC1, Blue Star House SW9, 4 & 10 Pentonville Road N1 and 1-5 Maple Place W1.
4 Includes redevelopment/refurbishment opportunities at 230 Blackfriars Road SE1, 1-2 Stephen Street W1, 250 Euston Road NW1 and 1 Oliver's Yard EC1.

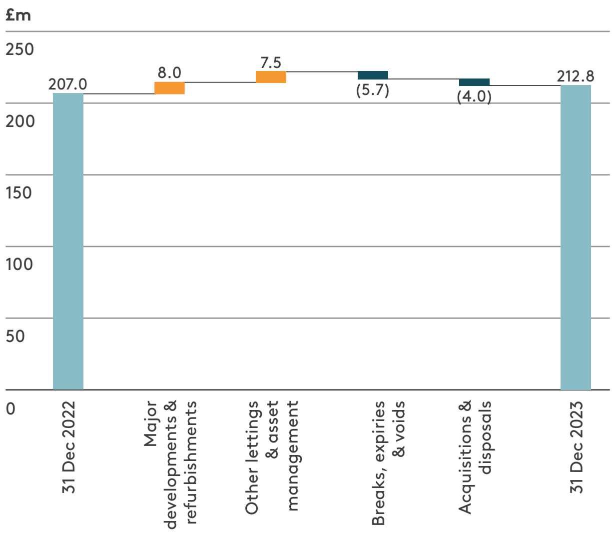
# APPENDIX 6

## Finance

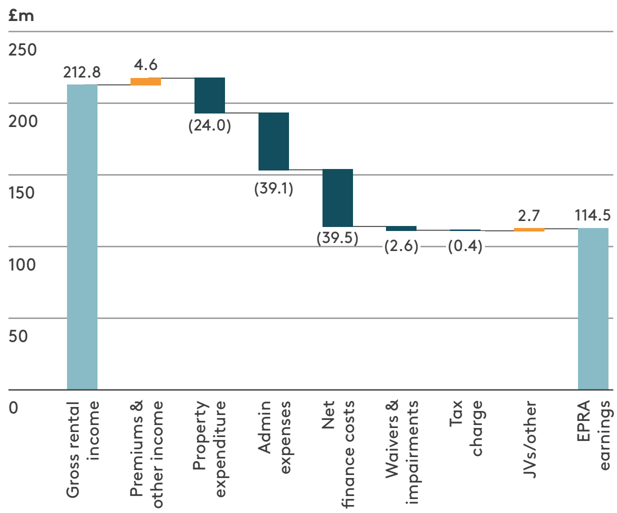
### EPRA net tangible assets per share



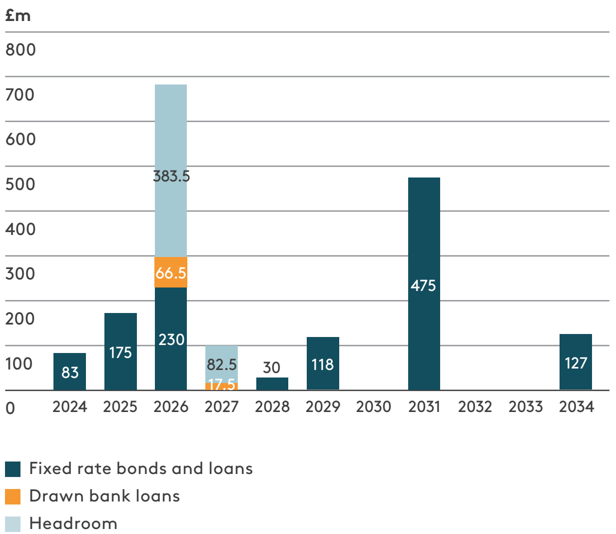

### Movement in gross rental income



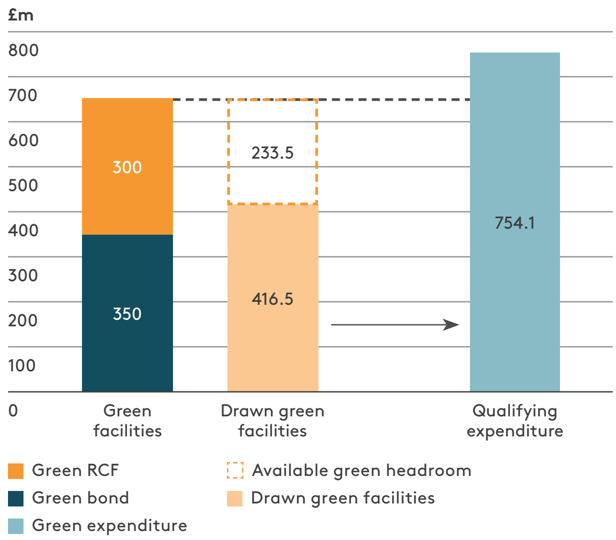

### EPRA Earnings




### Maturity profile of debt facilities




### Green borrowings and qualifying expenditure



# Finance continued

## 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 |