DERWENT
LONDON

Derwent London plc
Report & Accounts 2020

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Front cover and back cover images:
80 Charlotte Street W1
'Choreographic Form, 2020' by Hugo Dalton

Derwent London plc

The largest London-focused REIT with a distinctive 5.6 million sq ft office-based portfolio across 14 'villages'.

Our purpose

Our purpose is to help improve and upgrade the stock of office space in central London. By taking poorer quality 'brown' buildings and turning them into modern, adaptable and 'green' workspaces, we aim for above average long-term returns to our shareholders while bringing social, environmental and economic benefits to all our stakeholders. With an open and progressive corporate culture and by promoting values that include building lasting relationships, our design-led ethos has created a brand of well-designed, flexible and efficient buildings at a wide range of rents. These help our occupiers attract and retain talent but also revitalise neighbourhoods and benefit local communities. Our approach contributes to workforce wellbeing and helps maintain London's position as a leading global business location.

Our culture

- Hard-working and adaptable
- A passion to improve London's office spaces
- Strong customer focus
- Progressive and pragmatic
- 'Open door' and inclusive
- Collaborative and supportive

Our values

- Reputation, integrity and good governance
- Building long-term relationships and trust
- Focus on creative design and embracing change
- Openness and transparency
- Sustainability and responsibility

80 Charlotte Street W1

Strategic report

> "We were attracted to this particular space because of the superb location next to a strategic Crossrail station, the quality of the buildings and our firm belief in the regeneration of this area which has an exciting future. Despite these challenging times, I have great faith in the future of the office market of Central London."
>
> Sir Lloyd Dorfman

Soho Place W1

2020 summary

The year started with an optimistic outlook, low vacancy rates and with strong occupier demand backed up by firm investment yields. As we approached the end of Q1, the significance of the Covid-19 pandemic became more apparent and lockdown took hold, forcing an unprecedented fall in economic activity in the UK.

We responded by focusing on the health and safety of our employees, occupiers and communities, enhancing communication and providing support where it was most needed. We kept our buildings open with tailored cleaning and maintenance regimes while progressing with our development projects and ESG/climate change responsibilities. Our second half focus has continued to support our customers and other stakeholders through the various phases of lockdown and business continuity, while extending leases where we can and pursuing further regeneration opportunities.

Operating highlights

- 2021 lease expiries reduced from 26% of passing rents to 17%, now 13%
- Collected 92% of 2020 rental income with a further 5% subject to payment plans
- Completed 80 Charlotte Street W1, our largest development to date, achieving a 27% profit on cost
- Progressed Soho Place W1 and The Featherstone Building EC1, together 410,000 sq ft and 61% pre-let
- Disposals of £153m
- Committed to a 297,000 office-led scheme at 19-35 Baker Street W1
- Signed new £100m 5-year Revolving Credit Facility (RCF) and extended £450m RCF by one year

Stakeholders and responsibility

- Published our pathway to be a net zero carbon business by 2030
- Supported our occupiers, communities and NHS by reducing service charge, raising donations budget by 179% and providing free accommodation to NHS staff
- Supported our supply chain by accelerating supplier payments to 20 days on average
- No employees furloughed and supported staff furloughed by some suppliers
- The results of our staff survey showed exceptional satisfaction ratings

Financial highlights

Gross rental income
2019: £191.7m

+5.8% £202.9m

EPRA earnings per share (EPS)
2019: 103.1p

-3.8% 99.2p

Dividend per share (p)
2019: 72.5p

+2.8% 74.5p

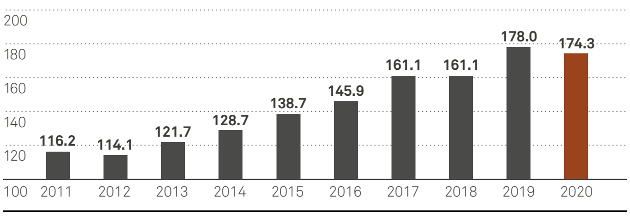
EPRA NTA per share
2019: 3,957p

-3.7% 3,812p

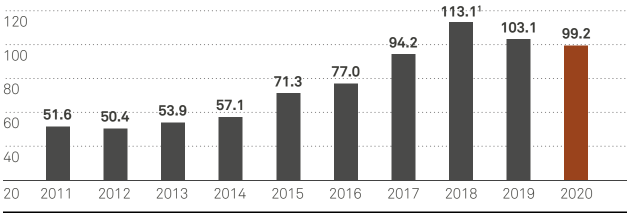
Total return
2019: 6.6%

-127.3% -1.8%

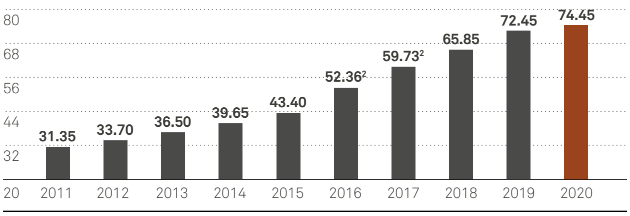
Net rental income (£m)



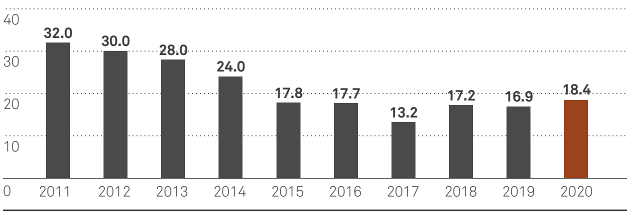
EPRA EPS (p)



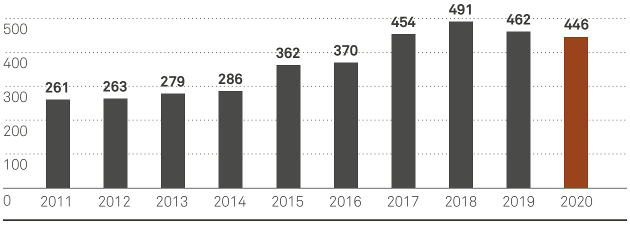
Ordinary dividend (p)



Loan-to-value ratio (%)



Net interest cover ratio (%)



Non-financial highlights

Total property return
Total property return of 0.3%, substantially above benchmark MSCI IPD Central London Offices Index of -2.4%

0.3%

Vacancy rate
Our EPRA vacancy rate increased during the year but remains low

1.8%

Carbon intensity
Like-for-like carbon intensity reduced by 27% (tCO_2e/m^2) in the year and by 57% since 2013

27%

Net zero carbon
Publication of a detailed pathway to achieve our net zero carbon target by 2030 (see page 28)

2030

Employee satisfaction
The recent employee survey reported that overall employee satisfaction remains very high

96.3%

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[1] Includes 14p per share of access rights income in 2018

[2] Excludes special dividends of 52p and 75p per share relating to 2016 and 2017, respectively

Operating in challenging times

It has been an extraordinary year; 2020 started in a positive mood following the decisive 2019 General Election result, though much of the UK's future relationship with the EU remained unclear. With a low vacancy rate, London continued to attract tenants across a wide variety of sectors and we forecast a stronger year for ERV growth supported by low interest rates and with the expectation that property yields might tighten.

Four key challenges in 2020 including a pandemic
With climate change having been a central concern of ours for some years, Brexit and the changing needs of occupiers were the other issues at the top of our agenda. However, the emergence of a pandemic in early 2020 and the restrictions that resulted to help control its impact have placed exceptional stress on many of our tenants and have affected our own business performance and behaviour too.

On page 8, we set out in the section called "A resilient business" nine important characteristics of our business which have helped us navigate these challenges over the last 12 months and which will provide us with resilience for the future.

Brexit

- The UK narrowly voted to leave the European Union (EU) in June 2016
- This created uncertainty over the UK's future trading relationships with the EU and other global partners
- The UK left the EU on 31 January 2020 with a transition period of 11 months during which intensive negotiations were conducted. A trade deal was agreed on 24 December 2020 which became effective on 1 January 2021
- The deal removes much of the uncertainty over trade and tariffs but has given rise to additional rules and paperwork
- Negotiations continue over the UK's financial services relationships with the EU. This could particularly impact the City and Docklands office markets though there have been relatively few job losses so far and London remains a global financial centre
- Trade deals are gradually being negotiated with other non-EU countries

Climate change

- Climate change is the defining issue of our time and will have much more significant long-term effects than Brexit or the Covid-19 pandemic
- It has continued to move up the agenda for office occupiers as well as for the population as a whole and there is increasing political action globally to shift behaviour and reduce emissions of greenhouse gases
- 2020 was one of the three warmest years on record, with a high number of weather-related disaster events
- On surveys of occupiers and potential occupiers, office buildings exhibiting outstanding environmental credentials are increasingly favoured while those with poor performance are less attractive

p.48 Responsibility - Environment

White Collar Factory EC1

Occupier trends

- We have seen occupiers challenge their office requirements even more through 2020 as the need for increased flexible working patterns has accelerated. This is leading to the establishment of a two-tier London office market
- Our product aims for outstanding design, adaptability and flexibility in use. We focus on space and light with generous ceiling heights, good access to public transport and value for money as well as excellent environmental credentials
- We believe the importance of good office space to improve collaboration, the development of ideas, teamwork and output productivity (rather than just the number of hours sitting at screens) is increasingly widely recognised

p. 18 Central London office market

Covid-19

- The first cases of Covid-19 emerged in Europe in early 2020
- The impact has grown in waves through 2020 and into 2021 with the UK now on its third lockdown
- Covid-19 has become the single largest global health crisis seen in many decades and continues to be a significant risk with new strains emerging to place added pressure on the healthcare sector
- In relation to the London office sector, the lockdowns and other restrictions on movement and working practices have had a greater economic impact than the virus itself. In the long-term, it may take many years to recover from the reduction in jobs, the disruption to education and the closure of many retail and hospitality venues as well as the overall cost in GDP and government borrowing
- However, there is good evidence that the vaccines now being produced and distributed, as well as social distancing and more testing, will help to contain the virus and enable economic activity to bounce back relatively quickly

p. 143 Covid-19: protecting our occupiers

A resilient business

Derwent London is built on a unique set of strengths which will enable us to meet these challenges and are described in more detail on the following pages.

A **Low leverage** p.8

B **Focus on earnings** p.8

C **Net zero carbon pathway** p.8

D **Product/‘long-life loose-fit’** p.9

E **Balanced portfolio** p.9

F **Strong relationships** p.9

G **Support for our people** p.9

H **Consistency** p.9

I **Effective governance** p.9

A resilient business

We set out here the key characteristics of our business that helped us navigate through the particular challenges of 2020.

A Low leverage

Derwent London has believed for many years that low financial leverage is right for our business. This is mainly because the yield on our assets is relatively low and, with a substantial development pipeline, our 'operational leverage' is relatively high.

A strong balance sheet is one of the reasons we did not need to raise fresh capital after the financial crisis of 2008/9. After peaking at around 40% in 2008, the Group's loan-to-value ratio has gradually fallen and has now been below 20% since 2015. This has also helped improve our interest cover, around 200bp higher than a decade ago, enabling decisions to move ahead with important developments at uncertain times. A good example is the development of the Brunel Building which commenced around the time of the Brexit vote in 2016 and which yielded a profit on cost of over 60%.

Financial covenants relating to our debt remain extremely well covered, critical in relation to the consideration of 'going concern' and viability and helping us maintain the confidence of our stakeholders. As in the past, this low leverage has enabled us to make the right decisions for our business in 2020, helping us plan ahead to launch a major new development at Baker Street and to provide support where it is needed.

18.4%

Loan-to-value ratio
2019: 16.9%

p.41 Our strategy - To maintain strong and flexible financing

p.74 Finance review

B Focus on earnings

A focus on earnings and dividend growth over the last few years has strengthened our business resilience as well as providing increasing income returns for our shareholders. This has come largely from generating reversion in the portfolio and its subsequent realisation, together with control over irrecoverable costs and a low vacancy rate.

We recognise the importance of dividends to our shareholders. Derwent London has a relatively stable income stream though our earnings have been affected significantly in 2020 after providing support for our tenants and recognising impairment charges running to over £14m. However, because we have historically operated with a dividend payout ratio of only about 70% (equivalent to the dividend being covered around 1.4 times by EPRA earnings), we have been able to propose a 2.8% increase in the total dividend for this year. This is a lower rate of growth than in recent years but remains well covered by EPRA earnings at 1.3 times.

p.38 Our strategy – To grow recurring earnings and cash flow

p.74 Finance review

C Net zero carbon pathway

After many years of working towards this goal, our pathway to net zero carbon (NZC) was published in July 2020. Details are set out on page 28. Our focus on sustainability started in 2013 and we have been publishing a report covering sustainability and wider responsibility annually since then. The Responsible Business Committee was formed in 2019 with Dame Cilla Snowball as chair and is regularly updated by the Sustainability Committee. It is a business priority for us that we are seen as leaders in our sector towards a net zero carbon future. The NZC agenda is the most significant long-term issue facing our industry and we intend to continue focusing on reducing our carbon emissions and improving all our ESG metrics as we head towards NZC by 2030.

p.28 Our pathway to net zero carbon

80 Charlotte Street W1

D Product/‘long-life loose-fit’

The concept of designing a modern, energy-efficient building with the flexible space characteristics of an older warehouse was first captured in our White Collar Factory completed in 2017. The term ‘long-life loose-fit’ was used to describe a building where space inside can be adapted easily and relatively inexpensively as occupier needs evolve – as they always do – and came from listening to our customers. We have adopted it ever since and believe that it creates attractive and flexible space that appeals to occupiers and investors. We have also focused on wellness, outstanding design and adaptability and most of our buildings are low-rise. Over the last year, many of these requirements have been talked about even more as occupiers consider how they need to adapt their spaces for a post Covid-19 world of more flexible working patterns and social distancing.

£189.2m

Contracted net rental income
2019: £169.1m

p.71 Development & refurbishment

E Balanced portfolio

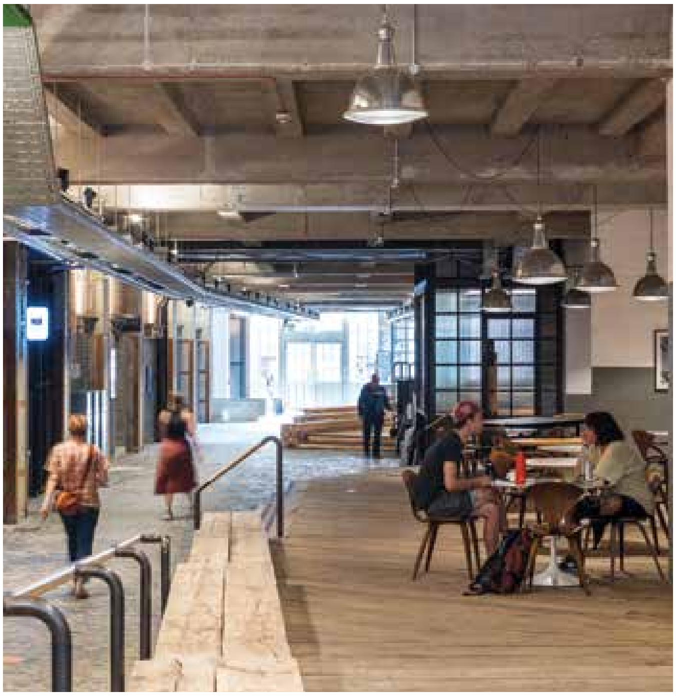
For many years, we have had a portfolio balanced between income and value creation, between finished and older stock (ripe for improvement when the time comes) and with a wide variety of price points. We recognise that some occupiers want the stability and security of longer leases while others seek more cost-effective flexible space. We have our own brand of ‘furnished and flexible’ space, i.e. smaller units which can be occupied quickly on short leases. We also have serviced office providers as tenants who specialise in providing this space (such as The Office Group). On the majority of our office space, we enter into leases with terms of 5 to 20 years with a wide range of tenants from diverse sectors.

p.36 Our strategy - To optimise returns and create value from a balanced portfolio

F Strong relationships

Derwent London’s business is built on relationships, some of them lasting many years. These cover every group of stakeholder (see page 26) and, like all good relationships, they should work for the long-term benefit of both parties. In 2020, we have supported tenants in a variety of ways based on their needs with rent deferrals, rent-free periods (in such cases as small restaurants which have had to close temporarily) and service charge waivers. With our relatively low exposure to the retail sector, we collected over 92% of our total rent in 2020 with a further 5% deferred for up to a year. In addition, we have agreed extensions on our two revolving credit facilities with our four relationship banks, all of whom we have worked with for many years. We have also paid our suppliers and contractors more quickly than ever before with an average payment period of 20 days and have accelerated retention payments for some contracts. We also topped up the salaries of staff furloughed by some of our suppliers but who normally work within our buildings.

p.26 Our stakeholders



Tea Building E1

G Support for our people

None of our own employees have been furloughed or lost their jobs. Bonuses were paid to staff in December with the necessary bonus reductions targeted towards our more highly paid employees. We have provided laptops, printers and other equipment necessary for our people to work effectively from home and have provided regular support, including health and wellbeing initiatives, and communication. They have responded magnificently and have kept our business operating as efficiently as is possible through lockdown periods.

p.50 Responsibility - Our people

H Consistency

Our business model, messaging, management team and culture has all been consistent for many years though naturally evolving and developing over time. With a high level of staff retention and engagement, this has helped us across all aspects of our business, both internally and when outward-facing. A reputation for good corporate behaviour and fairness has also helped us in our dealings through 2020.

p.30 Our business model

I Effective governance

An effective Board with committees run by experienced individuals have supported our people and processes through 2020. However, good governance is also about looking ahead, acting swiftly when things change and trying to do the right thing. We acted quickly when the pandemic emerged and have provided support to the NHS, charities and members of our local communities while also developing our practices in such areas as health and safety, diversity and inclusion.

p.101 Governance

Delivering value to our customers

Our occupiers are our valued customers and their needs are at the forefront of the business, from the buildings we design to the collaborative relationships that we build.

Modern businesses are increasingly using innovative and engaging workspaces to attract and retain the best talent. This goes beyond the physical specifications of the space and considers the full user experience, from an appealing and welcoming reception area through to the provision of valued amenities, all key features of our buildings. This is enhanced by our experienced team who work closely with our customers to cultivate strong relationships and ensure they experience consistently high levels of service, as well as the vibrant communities we strive to create within our buildings and across the portfolio.

> "As a high growth tech company that must attract top talent, we had high expectations for our new London HQ. We are delighted with the Brunel Building. It has a spectacular sense of space and design that really makes it stand out in the London cityscape. Derwent have been a pleasure to work with from the get-go. We have always felt as if they were an extension of our own people, and not the typical landlord. We share a love of design and worked hard to ensure that our interiors were worthy of the building.
> Our team loves the beautiful place that they call 'work'. And nothing could heighten our collective IQ any more than when we are together in such a collaborative, inspiring space."
>
> Paymentsense Founders

Well-designed space

We design our buildings with occupiers' business needs and aspirations in mind. We aim to create flexible space which can be adapted to the varying and evolving needs of a diverse range of occupiers. Careful consideration is given to creating space that supports physical and mental wellbeing through such means as the provision of outdoor space, cycle facilities and optimisation of both natural light and natural ventilation, all of which are of growing importance to our customers. We are also increasingly harnessing the power of technology to enable our customers to reduce their carbon footprint and operate their space more efficiently. Our White Collar Factory building at Old Street roundabout is a typical example with its generous reception, adaptable floorplates, high ceilings, openable windows linked to a building control system, ample cycle storage and rooftop running track and terrace. For a number of smaller units in the portfolio we also offer fully furnished options which are generally let on shorter lease terms, ideal for SMEs or larger organisations that want a combination of both 'core' and 'flex' space.

p.9 Product/'long-life loose-fit'

Above: White Collar Factory EC1

> "We feel privileged to be working with an amazing landlord @derwentlondon who has been supportive throughout these challenging times."
>
> An occupier in Morelands EC1

Supporting our customers

Building and supporting relationships with our customers is a fundamental part of our business. This starts with our tailored approach to agreeing commercial terms and continues with the day-to-day operational support provided by our experienced in-house Asset Management and Property Management teams. This past year has been a particularly challenging one for our customers and we have responded by working with them to provide both financial and operational support. We provided a 25% service charge waiver to all of our occupiers for a period of six months, agreed payment plans with businesses most impacted and, for those hardest hit, mainly the retail and hospitality sectors, gave further financial assistance in the form of rent-free periods. Operationally, we ensured our workspaces were safe and healthy by deep cleaning our buildings on a regular basis and providing guidance and protocols to our customers as to how their employees could reoccupy their offices safely within the government guidelines. A survey of our managed portfolio carried out in June 2020 indicated that 95% of customers who responded rated our teams' response to the situation as either 'very positive' or 'positive', with no 'negative' ratings. We have always taken the approach of maintaining frequent communication with our customers which ensures we understand their needs and can respond accordingly.

p.68 Asset management

Right: The White Chapel Building E1

Creating communities

When a customer occupies space in one of our buildings they become part of the Derwent London community. To facilitate this sense of community, we are focused on customer engagement. This includes running various events throughout the year, some of which are building specific and some of which are available to the wider portfolio. These might involve encouraging health and wellbeing, such as the annual White Collar Factory rooftop marathon relay or morning rooftop yoga, or an educational talk or discussion held in one of our spacious reception areas. Unfortunately, the pandemic has limited our activities in this regard during 2020 but we plan to return to these events and more when we can.

Left: 1 Oliver's Yard EC1

> "Since engaging with Derwent on day 1, it has been nothing short of a magnificent experience. Their Transaction, Design & Construction and Operations teams always seem to go out of their way to work with our firm to collaborate and develop a true landlord/tenant partnership that will last for years to come."
>
> Jaime Fuertes, Apollo Global Management

Supporting our stakeholders in 2020

2020 was a year in which relationships were more important than ever.

We are grateful to our teams, both internal and those we work with from other organisations, for their exceptional response to the challenges of the pandemic. This has ensured that our business continued to run smoothly to the benefit of our customers. We previously discussed our work with occupiers (page 11), so these two pages highlight examples of where we were able to provide additional support to some of our other stakeholders.

Employees

Most of our employees started working from home on 18 March. With strong support from our Digital Innovation and Technology team, equipment needed at home was either in place already or, where larger screens or printers were needed, was sourced rapidly, helped by the fact that we had operated an 'agile working' policy for several years. Processes were introduced to ensure regular contact between in-house teams, but also across the whole Group via virtual meetings, fortnightly town hall meetings for the entire workforce and online social events. To ensure the wellbeing of our employees, we focused on a number of physical and mental health initiatives. Our Savile Row office's internal layout was reconfigured and labelled to allow socially distanced working and a system was developed rapidly in-house to allow employees to book desks when they needed to be in the office. When the first lockdown was over, face-to-face contact was possible again but on a limited basis with social distancing remaining. All employees below the Board have remained on full salaries and benefits and none were furloughed.

96%

Agreed that appropriate protocols were put in place to support employees whilst working from home and in the office during the Covid-19 pandemic

Suppliers

Our supply chain is the backbone of our business, both contractors and professional teams working on our sites and those 200+ companies that ensure we provide agreed service levels across the portfolio. We communicated early with them all and have supported them with prompt payments to keep their cash flowing; in 2020, we reduced our average payment days to 20 days from 25 in 2019. On our larger sites, we moved quickly with our main contractors to ensure they were safe working environments in accordance with the Site Operating Procedures published by the Construction Leadership Council. All our sites resumed work safely in April/May 2020. In addition, we assisted supplier cash flow by early partial release of retention and contributing to additional costs generated by the delays. Partly as a preparation for any Brexit-related delays, we have facilitated payment for materials and components properly vested and safely stored off site, a strategy which has also served us well through the challenges of the pandemic. These measures helped provide our supply chain by reducing uncertainty in relation to time and cost, enabling them to concentrate on delivery and quality.

Right: The Featherstone Building EC1

> "Derwent moved very quickly to support Skanska and their supply chain in the very early stages of the pandemic, recognising the importance of this to us and the wider supply chain. This forward-thinking approach makes them stand out in the industry."
>
> Steve Holbrook, Manager Director, Skanska

NHS/hospitals

The Group has supported the NHS in a number of ways over 2020, including the free use of 16 furnished flats at Charlotte Apartments W1 for the nine months to March 2021 and subsequently extended to June 2021. This work was supported by our partners who provided over 50 pieces of artwork to brighten up the accommodation. In addition, we have provided car parking and donated commercial fridges for the use of NHS workers. We have also contributed to the UCL Medical Student Support Fund and the 1928 Project. The latter supports NHS staff at St Mary's Hospital, Paddington.

p.52 Responsibility - Community

Left: Final year medical students volunteering as part of the UCLH Covid-19 Response Team

> "We are so grateful to Derwent for allowing us to use these apartments for staff at what has been a very tough time at UCLH. This will transform the lives of staff who cannot go home because family are shielding, or who just need to be near the hospital. This could not have come at a better time. Thank you, on behalf of us all."
>
> Baroness Julia Neuberger DBE, Chair of UCLH

Communities

In these unprecedented times, we believe it is critically important to support the vulnerable in the communities around our buildings and to help where we can with vital services. As a result, we increased our charitable donations and sponsorships in 2020 by 179%. We were able to get in touch directly with the relevant organisations and respond to their immediate needs. Our Sponsorship and Donations Committee acted fast and arranged financial support within the early weeks of lockdown for homeless outreach projects, community groups maintaining contact with their elderly members and organisations supporting cancer patients. We extended our support to The Soup Kitchen in Fitzrovia, as well as initiated our support for The Brixton Soup Kitchen, Black Thrive, Juvenis and Slade Adventure Playground in Brixton.

Right: The Soup Kitchen, Fitzrovia

> "Thank you for everything Derwent has done for us. You have been instrumental in making sure that the Soup Kitchen continues our mission of feeding and caring for London's most vulnerable, especially in such a challenging year."
>
> Alex Brown, Director, The Soup Kitchen

> "Derwent's response was brilliant and we are so grateful."
>
> West London Mission

Chairman's statement

2020 was an extraordinary year dominated by the Covid-19 pandemic. We experienced our first national lockdown in March and, almost a year later, we are now in our third and hopefully last. The costs to the UK economy are considerable and London has been severely affected with its retail and entertainment venues closed and most office occupiers working from home.

John Burns
Chairman

Recovery will take time, but 2020 ended with the UK leaving the EU with a trade deal and, at the start of the new year, the roll out of a national vaccination programme. The success of this should see higher levels of economic activity later in 2021. There is now a clear strategy for relaxing the lockdown and the first steps have been taken on the roadmap to lifting all lockdown restrictions by 21 June, providing the data allows it.

In difficult circumstances our teams have been working extremely hard to ensure we have continued to function effectively and to respond quickly to support our occupiers and other stakeholders. During 2020, we significantly reduced the amount of income due for expiry in 2021 through tenant engagement. From an exceptionally low starting point, our EPRA vacancy rate remains low but has risen in the last year and we expect it to increase further in 2021. Our on-site developments are progressing well after some minor delays in the first lockdown. Climate change will remain the major global challenge of our time, which is why we made the significant commitment to become a net zero carbon business by 2030 and, in July 2020, we published our detailed pathway showing how we propose to achieve this.

Our developments, including 80 Charlotte Street W1 which completed in June, led to gross rental income rising 5.8% to £202.9m. However, this growth was more than offset by increased costs and Covid-related impairment charges which saw our net rents fall 2.1%. As a result, EPRA earnings per share fell 3.8% to 99.2p. Our £5.4bn portfolio, with good performance from our recent schemes and its low retail exposure, proved relatively resilient and outperformed its benchmarks, with underlying values falling 3.0%. This saw EPRA net tangible assets (NTA) per share fall 3.7% to 3,812p. Overall, the Group reported a total return of -1.8% as the modest decline in value of the portfolio exceeded our dividends and other retained income.

We recognise the importance of the dividend for our shareholders, and we propose raising the final dividend by 1p to 52.45p. This will be paid on 4 June 2021 to shareholders on the register of members at 30 April 2021. The final dividend would take the full year's payout to 74.45p, an increase of 2.8%. The increase was based on the level of dividend cover, the longer-term outlook and our obligations to our wider stakeholders.

This statement is my last after 37 years with the Company, either as Chief Executive or latterly as Chairman for the past two years. From its modest beginnings, Derwent London has grown to become one of the leading London office providers. It has done this, in part by focusing on what it knows best and by always striving for improvement.

Reasons to invest

London – an established and resilient global office market

Attracting a pool of talent from around the world, London is home to many global head offices, creative and technology companies and is a global financial centre

Experienced and collaborative team

The Group has an established brand supported by a well established and experienced team with customer focus at its heart

Delivering the right product

We have a reputation for delivering buildings of outstanding design, adaptability and good value backed up by strong relationships with our supply chain and other stakeholders. Since 2019 all our developments have been NZC compliant

Strong balance sheet

With modest leverage, a focus on earnings and dividend cover and an uncomplicated financial structure, the business has remained resilient through many economic cycles

Agile and forward-looking

We have a track record of thinking ahead to anticipate future trends and being agile enough to adapt quickly to change

Net zero carbon (NZC) and responsibility

The Group behaves responsibly with all its stakeholders, providing support for those most in need and having published its pathway to becoming NZC by 2030 in July 2020

A key part of its success is the Derwent London team, whose members have complemented and supported each other so well. It is not easy to achieve this and much credit must go to our Chief Executive, Paul Williams, together with Executive Directors Damian Wisniewski, Nigel George and David Silverman. They have helped shape the Group over time and will continue to lead it into the future. Having worked with them for many years, it has been no surprise to me to see how the Group has ably navigated the difficult circumstances in the last year. I wish to thank all the staff at Derwent London for their exceptional work in 2020 and the wonderful support that they have given me over the years.

A special ‘thank you’ is owed to Simon Silver, my co-founder, who announced in August 2020 his intention to retire from the Board, stepping down on 26 February 2021. He has invested his energy in ensuring our projects are innovative and of the highest quality. He has built up strong relationships with some very talented architects and has done so much to establish our design-led Derwent London brand. He will continue to support the business as a consultant until 31 December 2022, working alongside our established and talented team as we create the next generation of office space.

I am delighted with two recent board appointments. Mark Breuer, who brings significant financial expertise, was appointed as a Non-Executive Director and Chairman designate on 1 February 2021 and, as part of our succession plans, will take over as Chairman in May. Emily Prideaux was appointed as Executive Director on 1 March 2021. Emily has been with the Group since 2010 and has played an important role in our leasing team ever since, leading it for nearly four years. Both appointments will prove valuable additions to a strong Board.

With an excellent team, a balanced portfolio and strong finances, the Group is very well placed to meet the challenges and take the opportunities that are likely to arise over the next few years. London will continue to be one of the world’s best cities for living, recreation, education and for business. With the longer-term focus on everchanging office occupation trends and climate change, our purpose of helping improve and upgrade the stock of office space in central London while providing benefits for all our stakeholders, appears as relevant today as when the business was created.

I believe that Derwent London can look ahead with confidence as it continues to provide the offices, amenities and surrounding environments that London businesses require.

John Burns
Chairman

Chief Executive's statement

Derwent London started 2020 in a positive mood, seeing robust occupier demand and keen investment interest, though few then imagined how events would unfold. Covid-19 has had a significant impact on everyone, but given the circumstances, I am pleased by the resilience the Group has shown.

Paul Williams
Chief Executive

It was an unprecedented year but, with a clear roadmap out of lockdown in place, we can now look forward to business confidence returning and our offices and city centres being vibrant again. There is much to be done and, like the economy, the London office market is in a much weaker position than one year ago. The Government's continued support will help strengthen the recovery but it will take time before confidence is fully restored.

We supported our stakeholders, made good business progress and responded to market changes by focusing on reducing our near-term lease expires. Our 2021 lease expiries have fallen from 26% of cash rent at the start of 2020 to 17% at year end and now at 13% following lease regears and the sale of Johnson Building EC1. We made good progress with our development programme, completing 80 Charlotte Street W1 and committing to start our next major scheme at 19-35 Baker Street W1 later this year. We recycled assets, completing on £153m of disposals and have ensured that our financial position remains strong. Importantly, we made continued progress on sustainability following our green financing in 2019. In February 2020, we committed to becoming a net zero carbon business by 2030 and subsequently launched our detailed pathway in July.

Further strengthening our relationships

In response to the pandemic, we quickly introduced Covid-19 compliant protocols in our buildings, and our property management teams have supported our occupiers as restrictions changed over the year. In relation to our own office, we adopted an 'agile' working policy several years ago so were well prepared to work remotely, though it is increasingly clear to us that virtual meetings are no match for face-to-face contact. No staff were placed on furlough, all employees below Director level received their full pay and benefits throughout the year and we have not accessed any government support.

This period has clearly demonstrated the value of our long-lasting relationships which have continued to strengthen as we supported each other. We provided a 25% service charge discount across the whole portfolio for two rent quarters and, for those most in need, we deferred or waived some rents. We increased our community and sponsorship donations by 179% to £1.1m including the temporary use by NHS staff of 16 flats at Charlotte Apartments. Other relationships have proven equally important. Work on our three major development sites paused in March, but the contractors recommenced work within the new protocols relatively quickly and, since then, good operational progress has been maintained. We have also extended or refinanced £550m of the Group's revolving credit facilities.

Derwent London's people

I am enormously proud of our Derwent London team and what they have achieved this year. Many of my colleagues have worked very long hours to ensure we met our operational objectives and the needs of all our stakeholders. The convenience and efficiency of office contact was replaced by online meetings and fortnightly Group town hall meetings. Maintaining a work-life balance can be difficult, and the focus has been on the wellbeing of our teams. I would like to thank them for responding to the challenges so well, and also our stakeholders for the continued support they give the Group.

I would like to give special thanks to John Burns, our Chairman, and Simon Silver, Executive Director, both of whom, as part of our succession planning, retire from the Board this year. They have helped build an enduring brand and developed a strong team with long-standing relationships. Simon will stay on as a consultant for two years, so we will continue to benefit from his advice as he works alongside our experienced team. We have made two excellent Board appointments: Mark Breuer as Chairman Designate and Emily Prideaux as Executive Director and I am confident in their future contributions.

The London office market

The pandemic saw a marked slowdown in office leasing activity as occupiers adopted a 'wait and see' approach: the overall vacancy rate for the London office market doubled to 8.1%, rents fell and incentives moved out. These headlines hide a more complex market with the majority of the vacancy concentrated on poorer quality buildings or secondhand space. The UK has left the EU with a trade deal, but we have yet to see the longer-term impacts and the financial services relationships are still to be determined. This is important for the City and Docklands office markets, where we are not located, but in the future the UK will have some more flexibility to make its own rules.

Whatever the outcome of these talks, London is a major global city with a rich and diverse culture and has a record of adapting well to change. It remains a great place to live and work. These attributes have given rise to a large and relatively young talent pool, which benefits a broad range of businesses. In recent years demand has come from a number of growing innovative sectors and this remains the case with Tech, Digital Media and Life Sciences companies looking to expand.

Over the last year, office demand has been particularly affected by both low economic activity and the enforced and widespread requirement to work from home. The latest government forecast predicts that economic activity will recover substantially over the next two years, as lockdown restrictions ease and confidence improves.

We are increasingly hearing business leaders recognising the value of the role offices play in supporting their culture, collaboration and growth. We also expect more people will work from home at least some of the time as businesses adopt more hybrid working practices. This is an acceleration of an existing trend seen prior to the pandemic. However, the impact on demand is more complex and will take time to play out.

This message was reinforced by our recent tenant survey which covered a sample of our major tenants representing over 50% of our 'topped-up' rental income. It found that all respondents were keen to return to their offices, views which appear to have strengthened since our previous survey in summer 2020. Collaboration, social interaction and employee wellbeing are high on the list of what occupiers missed most, but levels of productivity and mentoring have been of increasing concern as remote working has persisted.

We expect offices to be used differently. There will be fewer desks but more collaboration space, meeting rooms, video conference facilities and other amenities. There will also be increasing emphasis on mental health, wellbeing and environmental performance. There will be less 'max-packing' going forwards. Looking ahead in respect of changing working practices, we do believe businesses will adopt more agile working practices and, whilst we think this may reduce overall office demand to some degree, we do not believe the impact will be significant.

The buildings we create have the adaptability to meet these evolving trends and it has been very interesting to see how our occupiers have been working on their plans for change. Buildings that are unable to meet these objectives will suffer in value unless they can be redeveloped or repurposed.

Unlike the letting market, the investment market saw a strong final quarter, with investors backing London's unique attributes and with London office yields offering good value compared to other European cities and alternative asset classes. Overseas demand remains strong, with Asian and Continental European investors prominent at the end of 2020. CBRE estimate that there is between £40-£45bn of potential demand circling London offices. We expect activity to pick up once the lockdown lifts.

Outlook

As restrictions ease, economic activity should start to improve. Concern over the environment and climate change is now recognised as our most important global issue but also represents an opportunity for forward-looking businesses. This year Glasgow will host COP26 which will highlight the necessary responses. However, in the short-term, it is the pace of economic recovery that will be the most important determinant of the London office market's performance.

New office supply is anticipated to remain constrained. Larger businesses are likely to focus on good quality space and, as there is less availability for these properties, we expect rents here to hold up. Older and smaller units, where there is greater availability, may prove more vulnerable. As such, we expect overall vacancy levels will continue to rise but will remain lower in the West End than the City.

Our portfolio is weighted towards this adaptable and high quality space, with most of the remainder comprising our current and future projects. This is the raw material that can become the high quality buildings of the future. Allowing for this mix, and given that retail and hospitality represents only 9% of the portfolio, we estimate our average 2021 ERVs will move in the range of 0% to -5% but we may see a particularly wide spread of performance between our different properties. Beyond this, rents could bounce back relatively quickly along with the economy. We expect our investment yields to stay firm or tighten for the better quality properties, as the positive yield gap with alternative assets remains wide despite the recent weakness in bond prices.

Although we are on the path to recovery, the effects of the lockdown together with our policy of recycling some of our mature assets, may impact our short-term EPRA earnings and dividend growth rates. We believe these will recover relatively quickly as the economy grows, with the delivery of our value-adding developments and through income-producing acquisitions.

We continue to evolve our designs to ensure we have the right product for today's occupiers, and our next major development commences on site at 19-35 Baker Street W1 later this year. This innovative, adaptable and environmentally outstanding project will take our on-site developments to over 700,000 sq ft. On completion and letting, these schemes are estimated to create a further £131m of development surpluses. Part of our strategy is to make new acquisitions and we have the financial capacity to fund these as well as our substantial regeneration programme. We will also continue to upgrade our portfolio and explore renewable energy options to meet our net zero carbon commitments. This should ensure that we continue to deliver above average long-term returns.

Paul Williams
Chief Executive

Central London office market

At the start of 2020 the outlook for the London office market was positive; the vacancy rate was low, demand was good and the supply pipeline was significantly pre-let.

London's economic outlook

The pandemic has brought substantial economic contraction with the UK's GDP falling 9.9%, a hiatus in letting activity and has forced many people to work from home. For the first time in many years, London's job numbers have fallen. The future is still uncertain and some of the final arrangements with the EU undecided, but we are now on a roadmap that should see the London economy start to recover as the year progresses. On this basis we can look forward with some optimism.

London's economy is linked to both the domestic and international markets. Consensus expects economies to recover as health concerns reduce, with the UK economy predicted to grow 2-5% in 2021. In February 2021 the Prime Minister set out a four-step roadmap to lifting restrictions which, if all goes to plan, would see all social restrictions lifted by 21 June. Government projections indicate that the economy should recover to pre-Covid-19 levels in 2022.

The pandemic's impact on the central London office market

Take-up has been running below previous levels with many businesses adopting a 'wait and see' approach until they have a clearer view of the future. This is reflected in CBRE's estimates of 2020 take-up at 5.6m sq ft, down 57% on 2019. The main sectors behind last year's activity were business and professional services 40%, TMT 20% and financial services and insurance 20%.

The low take-up contributed to the significant rise in 2020's overall vacancy rate from 3.9% to 8.1%. As in previous periods of weaker occupier demand, the City vacancy rate at 10.8% has risen faster and is higher than in the West End which is 5.8%. There has also been a significant increase in secondhand and 'grey' space. CBRE defines secondhand space as that which is not new, and for a number of years it has represented an increasing proportion of vacancy. In December 2020 it was 75% of the total, up from 69% a year earlier. Even more significant was the rise in tenant controlled or grey space which has risen over the same period from 26% to 35% of total vacancy.

Flexible office providers have been an important component of demand over the last five years, but over the course of last year we saw take-up from the sector more than halve to 6%. The pandemic and multiple lockdowns have certainly put the short-let business model under pressure which has already seen casualties among the more stretched businesses with potentially more to come. Longer term there will still be demand and we expect flexibly-let space to remain an important component of the London market.

Taking this into account, headline prime central London office rents fell 7.6% in the year and rent-free periods moved out from c.24 to 27 months on a typical 10-year lease producing a fall in net effective rents of c.10%.

In 2020, 4.7m sq ft of completed development space was added to the London market. This was only 66% of what was predicted at the beginning of the year. Looking forward there is 12.1m sq ft under construction which is slightly below last year's number despite the high number of schemes carried forward. Of this additional space, 42% is pre-let or under offer, which leaves about 7.0m sq ft available to let over the next three years. This represents c.3% of London's total office stock, a figure unchanged from previous years.

Given the market outlook, we expect the appetite for new development will reduce and there is evidence that a number of schemes were deferred in 2020. We believe development specific funding may prove harder to secure and that some schemes will become conditional on pre-lets. Conversely demand for better quality space will continue to promote new activity, which should mean that well-funded developers remain active.

> "The 80 Charlotte Street office reflects our commitment to sustainable integrated design fit to inspire staff and visitors. The new offices provide access to open space and greenery and reflect our aspirations for low operational carbon and to be part of the team to build one of the UK's first all electric commercial buildings. We look forward to 80 Charlotte Street being part of our wider London estate."
>
> Geoff Hunt, Chief Operating Officer, UKIMEA at Arup

80 Charlotte Street W1

The London property market will take time to recover and we have yet to see the impact of the withdrawal of the significant levels of current government support. However, Knight Frank estimate that there is 7.7m sq ft of active demand and we have seen an increased level of activity since the recent roadmap was announced.

London has a rich culture and a large, diversified and relatively young talent pool which benefits many businesses. It has proven adaptable in the past with new industries replacing declining ones. Industries looking to take space in London are Life Science, Artificial Intelligence (AI), Fintech, Digital Media as well as the existing Tech Titans.

The impact of working from home

As well as their impact on the economy, multiple lockdowns over the last year have forced many people to work from home. We anticipate that businesses will embrace positive change as we come out of the pandemic and will adopt agile working policies on a greater scale. This is not the same as full-time working from home. A more agile workforce does not necessarily mean a reduction in overall footprint. It will vary from business to business, is quite complex and will take time to fully determine. To date, we have found in our buildings these policies tend to lead to a reconfiguration rather than a reduction in space requirements. Overall demand for offices will inevitably be affected by both economic factors and workplace strategies such as a reduction in workplace densities and a move away from hot-desking. However, it is peak occupancy that will determine overall space requirements. Whilst we see that there may be a short-term reduction in demand, we do not believe this will be significant or long-term.

This is supported by the results of our own recent tenant survey in which we spoke to business leaders representing over half our rental income. 82% of those surveyed agreed that they will be adopting more agile working practices. We also learned that almost half (44%) of those interviewed will be reducing overall office densities, meaning more space will be required for each individual. In terms of headcount, over the past year 39% of those interviewed have increased their headcount whilst 45% have reduced – the remaining 16% have seen no change. Encouragingly, looking ahead to the next 6-12 months, 51% anticipate headcount growing with only 8% anticipating a decrease, 18% expecting equilibrium and 23% undecided.

One clear message that came from the survey was that everyone asked was looking forward to getting back to the office.

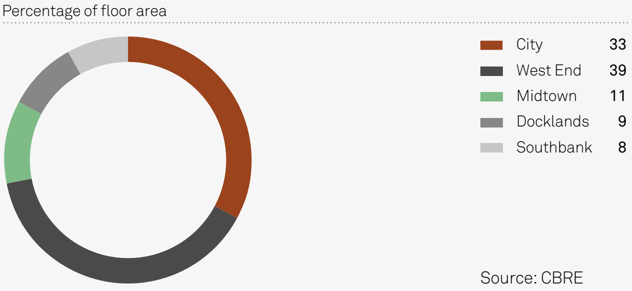
Attitudes appear to have changed the longer the lockdowns have continued, the rhetoric has shifted and more of our occupiers are highlighting the challenges they face from being away from the office. These can be summarised as:

- Talent: this is as important as ever. Office quality, amenities and surrounding areas play an important part in staff recruitment, personal development and retention.
- Culture and identity: a business's culture and identity is very hard to convey and even harder to build from scratch in a virtual world. The workplace is an opportunity to showcase company culture, values and identity. This is important for employees and customers alike.
- Communication, collaboration and social interaction: are greatly missed and are not easy to replicate through remote working, especially with new colleagues.
- Wellbeing: an office can help promote this through face-to-face interaction and create a more distinct work-life balance.
- Productivity: space shared with other team members helps inspire colleagues to produce a much more powerful response to complex, challenging and creative tasks.

Central London office stock

There is 232m sq ft of office space in central London. 72% is concentrated in the City and the West End (see below). Our portfolio is principally in the West End and the Tech Belt. We have no buildings in the City core and Docklands, and only one building in Mayfair, the traditional heart of the West End.

Central London office stock

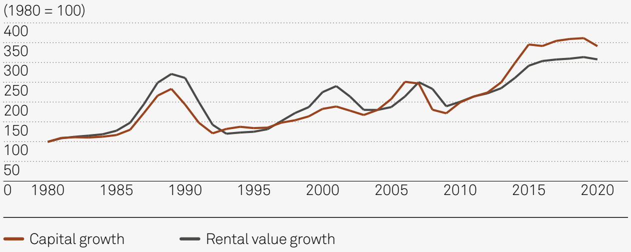


Source: CBRE

London's office cycle

London's office market had three major cycles between 1980 and 2009 (see chart below), when strong growth was followed by a sudden decline. These events were typically associated with recessions and rising interest rates, and sometimes exacerbated by office oversupply and distressed property disposals. The latest cycle has been different with growth rates peaking in 2015 and then stabilising until 2020.

London office cycle – index

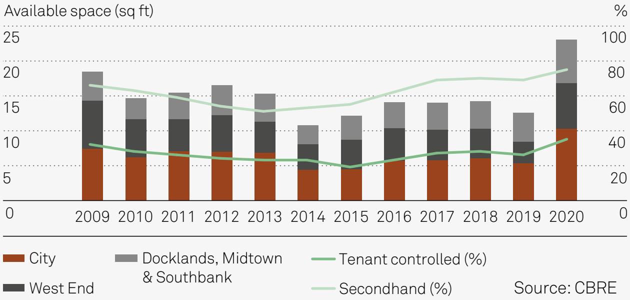


Source: MSCI IPD

London's vacant office space

In 2020 London's vacancy rose significantly from 3.9% to 8.1%. Behind these figures lie a number of trends discussed above. These are the sharper increase in City vacancy compared to the West End, the importance of secondhand space, which represents 75% of the vacancy, and the significant rise in tenant controlled or 'grey' space which is now 35% of total vacancy. These trends are shown in the chart below.

Breakdown of available space



Source: CBRE

Central London office market continued

A flight to quality

We believe a two-tier market is developing with occupier demand, particularly for larger businesses, focused on the best buildings. These need to provide generous and adaptable spaces as exemplified by Derwent London's 'long-life loose-fit' approach. In addition, our projects have expansive reception areas, roof terraces and amenities such as cafés, ample bike storage and showers.

Today's occupiers are also focused on health and wellbeing and the impact their workplaces are having on the environment and climate change in particular. These latter aspects are much better understood today through the increasing use of digital technology in new buildings to monitor air quality and energy consumption in real time.

Property management is another important component especially for multi-let buildings. Occupiers are expecting a greater sense of customer service, hospitality and community both inside and outside their buildings. This is becoming increasingly important as leases have generally become shorter with occupiers keen to get more flexibility on at least some of their requirements.

Space that cannot meet the more exacting standards of today's occupiers may prove slower to let and may need to be redeveloped or repurposed. We expect this existing trend to have been reinforced by the lockdowns as businesses emerge with adjusted requirements, our special product and wider portfolio initiatives standing us in good position to benefit.

Investment demand expected to remain firm

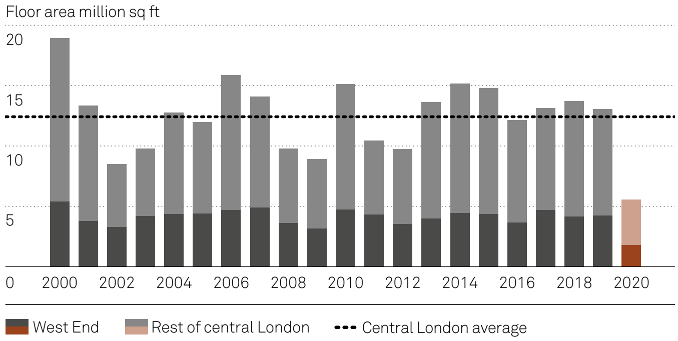
Investment activity in 2020 at £7.6bn was down a third on 2019. However, there was a strong final quarter totalling £4.3bn or 57% of 2020's total activity. Demand has come from Asia and Europe representing 61% of the total, whereas UK property companies and North American investors were only 8% in total.

The London office investment market remains attractive globally for its transparency, liquidity and its yields. The recent CBRE EMEA 2021 Investor Intentions Survey ranked London as the number one city for investment. International interest rates and bond yields remain at very low levels despite some recent price moves. The strongest demand remains for modern buildings let on long leases and there is also good interest in development sites. There is no evidence yet of any bank driven distress in the office market. CBRE estimate that there is currently £40-45bn of equity circling for London offices which compares to £7.1bn of London office buildings currently available. In the short-term, during lockdown, activity is likely to be lower but interest remains strong so we expect a significant pick up in transactions as restrictions are lifted.

Our portfolio's rental and yield outlook for 2021 is included in the Chief Executive's statement on pages 16 and 17.

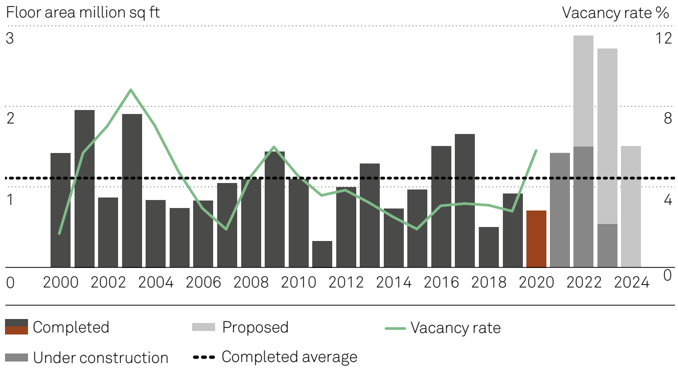
London skyline looking east

Central London office take-up



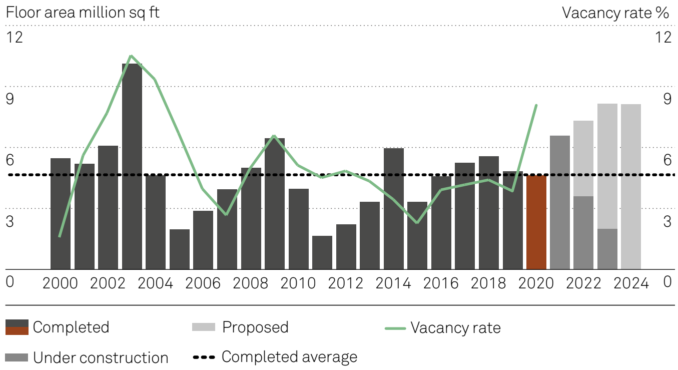
Source: CBRE

West End office development pipeline



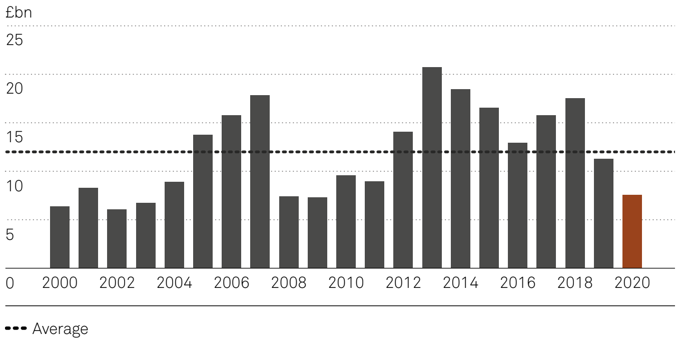
Source: CBRE

Central London development pipeline



Source: CBRE

Central London office investment transactions



Source: CBRE

Portfolio statistics

£189.2m
Contracted net rental income
2019: £169.1m

3.7%
EPRA net initial yield
2019: 3.4%

6.2 years
Weighted average unexpired lease term (WAULT)
2019: 5.8 years

7.9 years
WAULT including rent-free and pre-lets
2019: 8.3 years

£291.2m
Estimated rental value[1]
2019: £303.0m

4.74%
True equivalent yield
2019: 4.77%

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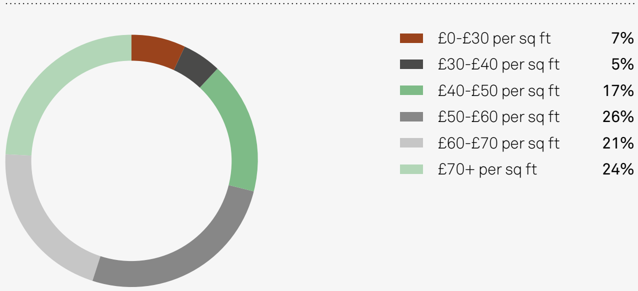
[1] After additional capex of £208m

Central London office rent

'Topped-up' income



Ten largest tenants
% of rental income[2]

Expedia	8.9%
Burberry	5.0%
Government	4.7%
The Office Group	3.3%
Arup	2.5%
FremantleMedia Group	2.4%
Publicis Groupe	2.3%
WPP Group	1.9%
Ticketmaster	1.5%
Adobe	1.5%

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[2] Based upon contracted net rental income of £189.2m

Tenant diversity
% of rental income[2]

Media	26%
Business services	16%
Online leisure	11%
Retail & hospitality	9%
Retail head office	7%
Technology	7%
Government & public administration	6%
Flexible office providers	6%
Financial	5%
Fintech	3%
Other	4%

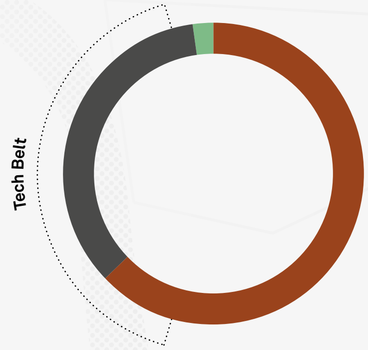
A well placed portfolio

99% of our portfolio is located in 14 London 'villages', each with its own individual identity.

Our 'villages' [1]

Fitzrovia/North of Oxford Street	32%
Victoria	8%
Paddington	6%
Soho/Covent Garden	5%
Baker Street/Marylebone	3%
Mayfair	2%
Islington/Camden	8%
Clerkenwell	10%
Old Street	13%
Shoreditch/Whitechapel	8%
Holborn	3%
Brixton	1%
Provincial	1%

[1] By value



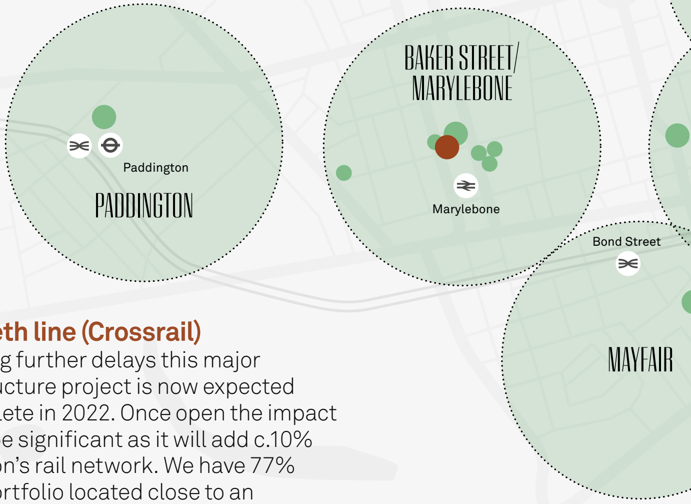
Portfolio weighting

🟥 West End and other London	65%
⬛ City Borders	34%
🟩 Provincial	1%

p.246 Principal properties

Baker Street/Marylebone

Most of our properties in this village are currently held in a joint venture with The Portman Estate, in which the Group has a 55% interest. Following our commitment to start the development of 297,000 sq ft at 19-35 Baker Street in 2021, we have reached agreement to convert our share into a wholly-owned long leasehold interest in the new project and to dispose of our interests in other buildings in the area.



Elizabeth line (Crossrail)

Following further delays this major infrastructure project is now expected to complete in 2022. Once open the impact should be significant as it will add c.10% to London's rail network. We have 77% of our portfolio located close to an Elizabeth line station.

Fitzrovia/North of Oxford Street/Soho

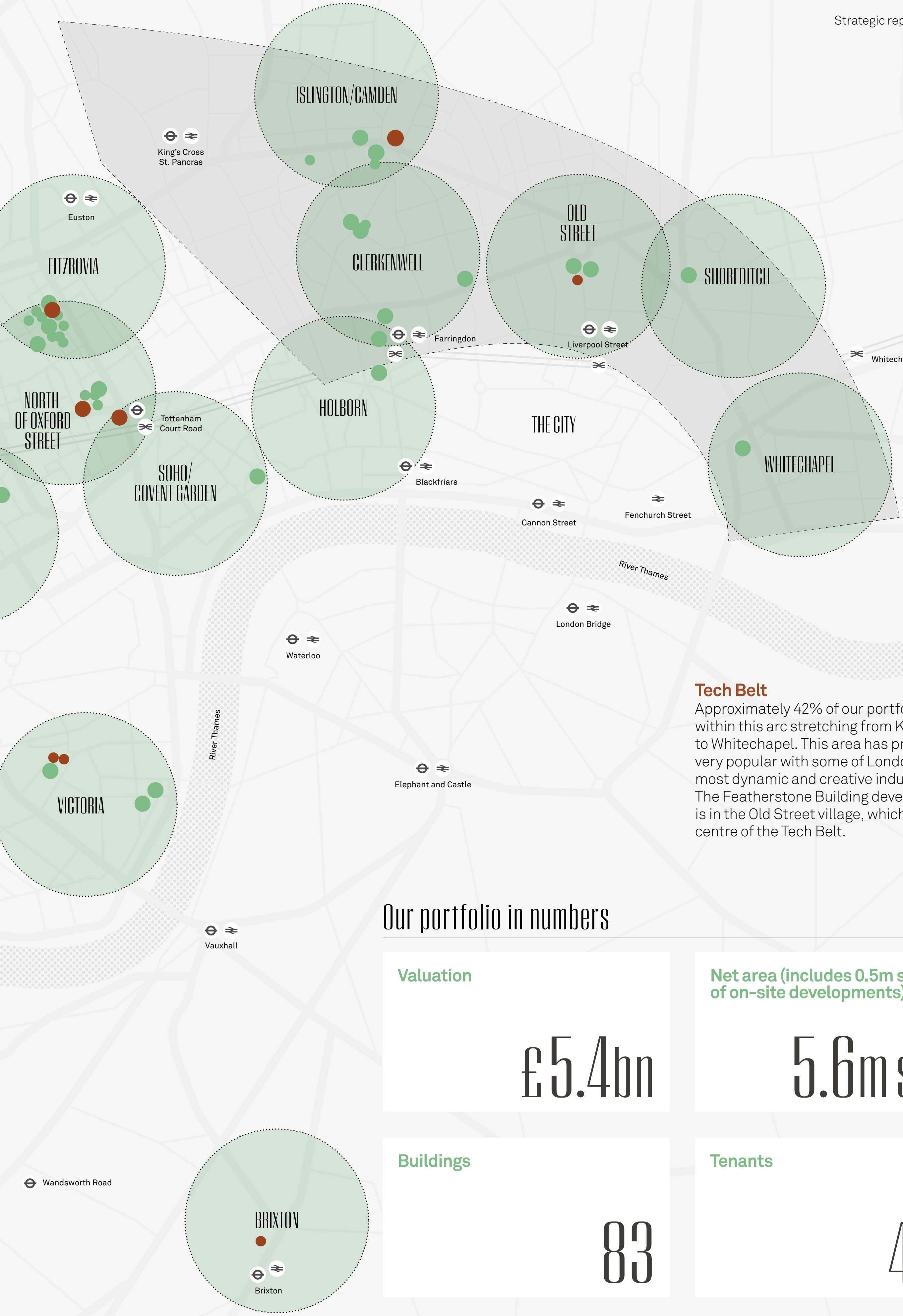
These three villages represent 37% of our portfolio and our largest single concentration of property. Soho Place, 285,000 sq ft, our largest on-site development, is located here and we recently submitted plans for the redevelopment of Network Building which, subject to planning, could start in 2022.

Brixton

Following the acquisition of Blue Star House early in 2020, Brixton has become our latest new village. It is a vibrant mixed-use location, well connected to the centre of London, being only 11 minutes from Oxford Circus on the Victoria line.

Key

- ◌ Our villages
- ◌ Tech Belt
- ● Pipeline assets (see pages 24 and 25)
- ● Other properties
- = Elizabeth line



Tech Belt
Approximately 42% of our portfolio lies within this arc stretching from King's Cross to Whitechapel. This area has proved very popular with some of London's most dynamic and creative industries. The Featherstone Building development is in the Old Street village, which lies at the centre of the Tech Belt.

Our portfolio in numbers

Valuation

£5.4bn

Net area (includes 0.5m sq ft of on-site developments)

5.6m sq ft

Buildings

83

Tenants

482

Investing in our pipeline

At any one time, 5-15% of our portfolio is typically under construction. Once completed, developments move into our core income portfolio, while another 30-40% of our portfolio represents our pipeline of future schemes.

The depth of our pipeline of existing income-producing buildings allows us to work up several different opportunities at once. This gives us optionality over which schemes to progress and their timing. We give some examples here:

On site

Soho Place W1

285,000 sq ft
Development

Green Finance – elected
BREEAM rating –
Target: Outstanding
(Site A)/Excellent (Site B)

Completion is expected in the first half of 2022. The buildings 'topped out' in 2020 and work is well advanced on the cladding, basement and reception areas. During 2020 we pre-let the remaining office space to Apollo Group and forward sold the long leasehold interest in 2-4 Soho Place, an 18,000 sq ft office building plus a theatre. There is 36,000 sq ft of retail space still to let.

The Featherstone Building EC1

125,000 sq ft
Development

Green Finance – elected
BREEAM rating –
Target: Outstanding

Completion is expected in the first half of 2022. It sits next to White Collar Factory, incorporating many of the latter's innovative features: 3.3m floor to ceiling height, concrete core cooling and openable windows. The building is predominantly offices with 2,000 sq ft of ancillary retail. We expect to launch our main leasing campaign later in 2021.

6-8 Greencoat Place SW1

32,000 sq ft
Refurbishment

Green Finance – eligible
EPC rating –
Target: B from E

Completion is due in the first half of 2021. The building is part of a larger 287,000 sq ft holding in Victoria. We are refurbishing this space, including converting gas boilers to more energy efficient all electric ones.

Committed

Francis House SW1

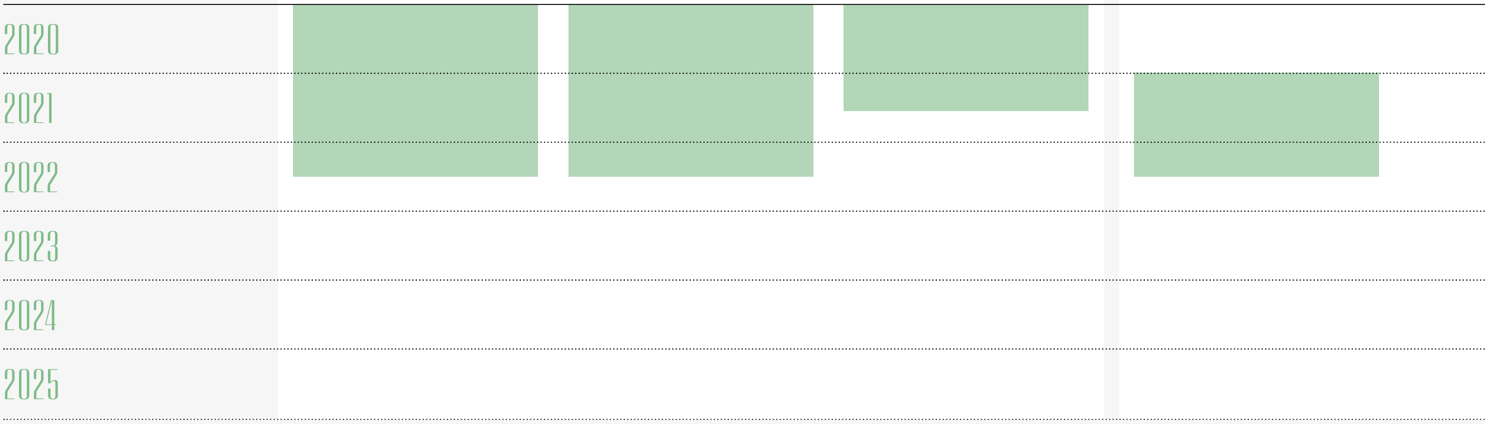
38,000 sq ft
Refurbishment

EPC rating –
Target: B from C

This building is also part of the larger holding in Victoria. Work has started on an upgrade which will involve retrofitting the heating system to all electric boilers (see page 29). Completion is due in the first half of 2022.

Key
🟩 On site and committed
▨ Not yet committed

Site timeline



19-35 Baker Street W1

297,000 sq ft
Consented

Green Finance – proposed BREEAM rating – Target: Excellent

The Group has committed to start this project in the second half of 2021. It will provide a mix of 217,000 sq ft offices, 28,000 sq ft retail and 52,000 sq ft residential. Prior to construction, our interests with the freeholder will be restructured so that we have a wholly-owned 129-year leasehold interest. Work is expected to complete in 2025.

Not yet committed

Angel Square EC1

c.140,000 sq ft
Under appraisal

EPC rating – Target: B from D

The Group is considering its options for this building which could involve a partial or complete refurbishment. Work could start in H2 2021.

Network Building W1

c.130,000 sq ft
Under appraisal

BREEAM rating – Target: Excellent

We have applied for planning permission to develop a 100-130,000 sq ft principally Life Sciences or office building, with some ground floor retail. A decision on the planning application is expected in the first half of 2021. If approved, work could start in 2022 for completion in 2025.

Holden House W1

150,000 sq ft
Consented

BREEAM rating – Target: Excellent

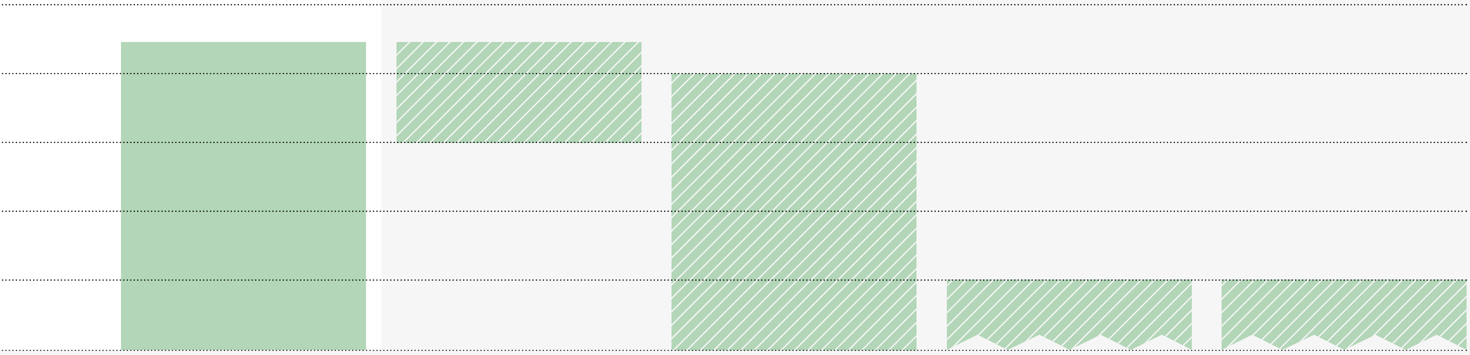
We have consent for a 150,000 sq ft office and retail scheme. In response to the economic outlook, we have pushed back the potential start date. In the interim, we are retaining income through extending leases. Work could start in 2025.

Blue Star House SW9

c.110,000 sq ft
Under appraisal

BREEAM rating – Target: TBC

Acquired one year ago, this property sits on a 0.7 acre site including a car park. During 2020 we appointed architects to help us consider the options for regenerating this building. Work could start in 2025.



Our stakeholders

We believe that to secure our long-term success, we must take account of what is important to our key stakeholders. This is best achieved through proactive and effective engagement.

Each stakeholder group requires a tailored engagement approach to foster effective and mutually beneficial relationships. It is by understanding our stakeholders, and factoring them into our decisions, that we can secure our long-term success. Our section 172(1) statement for the year ended 31 December 2020 is on pages 104 and 105 and demonstrates how our stakeholders influenced some of the principal decisions taken by the Board in 2020. Acting in a fair and responsible manner is a core element of our business practice as seen in the Responsibility section on pages 46 to 63.

These are extraordinary times, and we recognise that we have a responsibility to all our stakeholders. Through our engagement strategy, existing relationships with our key stakeholders and our understanding of their key concerns and issues, we have been able to work closely alongside them during the pandemic and, wherever possible, offer proactive support.

Foremost in our efforts was the health, safety and wellbeing of all our stakeholders, especially our customers and employees, as well as the communities around our buildings. See ‘Supporting our stakeholders in 2020’ on pages 12 and 13 for further information.

The Featherstone Building EC1 – Early payment to our subcontractor Skonto Plan (based in Latvia) for the façade cladding enabled our main contractor Skanska to store the majority of the façade elements before 31 December 2020. This meant site operations were able to continue unaffected by tariffs and the movement of goods arising from Brexit.

Our key stakeholders	Their material issues
Occupiers	
Our success is dependent on our ability to understand and respond to our occupiers’ needs and aspirations	• Health and wellbeing of their employees and visitors • Continuity of their businesses during the pandemic • Suitable lease terms • Well-designed and sustainable work spaces • Talent attraction/retention • Amenities for their employees
Employees	
We have an experienced, diverse and dedicated workforce which we recognise as a key asset of our business	• Their health and wellbeing • Agile and flexible working practices • Opportunities for development and progression • Opportunity to share ideas and make a difference • Diversity and inclusion
Local communities and others	
We are committed to supporting the communities in which we operate, including the local businesses, residents, the NHS, and the wider public	• Minimising local disruption • Impact on the local economy • Derwent London being a responsible neighbour • Effective communication and engagement
Suppliers	
We outsource many of our activities to third party suppliers and providers. As a result, it is crucial that we develop strong working relationships	• Long-term partnerships • Collaborative approach • Open terms of business • Fair payment terms
Central and local government	
As a responsible employer and business, we are committed to engaging constructively with central and local government to ensure we are supporting the wider community	• Openness and transparency • Proactive and compliant with new legislation • Proactive engagement with local authorities • Support for local economic plans and strategies • Timing of the economic recovery, as people return to city centres for work and to support businesses
Debt providers	
We maintain close and supportive relationships with this group of long-term stakeholders, characterised by openness, transparency and mutual understanding	• Financial performance • Openness and transparency • Proactive approach to communication • Credit rating • Low gearing
Shareholders	
We adopt an open and transparent approach with our investors with frequent contact. They play an important role in helping shape our strategy and monitoring our governance	• Financial performance • Strategy and business model • Environmental, social and governance (ESG) performance • Dividend

How we engage	2020 outcomes and highlights	Further links
We communicate regularly with our existing occupier base via our dedicated Leasing, Asset and Property Management teams and close Director involvement. We do this through calls, meetings, social media, events and forums. During 2020, proactive engagement was critical in providing support to our occupiers and to understand how the pandemic was impacting upon them. Occupier surveys were commissioned to gather feedback and to measure our response to the pandemic.	• Rent deferrals and concessions given • 25% contribution to tenants' service charges for March and June quarters • £6.7m of new lettings • 1.8% EPRA vacancy rate • 87% tenant retention/re-lets	p.68 Asset management p.161 Executive annual bonus – Void management target p.10 Delivering value to our customers
We have an open and collaborative management structure and engage regularly with our employees. Engagement methods include, but are not limited to, employee surveys, company presentations, awaydays and our wellbeing programme. Employee engagement is frequently measured, and we have three employee representatives on our Responsible Business Committee which is chaired by a designated Non-Executive Director. During 2020, the CEO and other Directors hosted 17 town hall meetings to share news, provide support and clear communication with all employees.	• 96.3% staff satisfaction • 93.0% staff retention • 17 town hall meetings hosted virtually for all employees • Three employees on the Responsible Business Committee (see page 147) • Responses from employee surveys on page 51 • Appointed mental health champions	p.45 KPI – Staff satisfaction p.115 Employee engagement p.12 Supporting our employees
We engage with the local community through the planning process, our Community Fund, volunteering, charity work and providing employment and work experience opportunities. We also liaise with Non-Governmental Organisations (NGOs), Business Improvement Districts and industry bodies to enhance the positive impact we have on the communities in which we operate. During 2020, our CEO was in regular contact with the principal central London borough councils to aid in support coordination.	• Use of 16 flats donated to University College Hospital (see page 13) • Charitable donations and community funding budget increased by 179% to £1.1m • Contributed to the UCL Medical Student Support Fund and the 1928 Project	p.53 Our Community Fund p.13 Supporting our communities p.28 Our pathway to net zero carbon
Through effective collaboration, we aim to build long-term relationships with our suppliers so that we can develop and operate great spaces for our occupiers. We are signatories to the CICM Prompt Payment Code and are clear about our payment practices. We expect our suppliers to adopt similar practices throughout their supply chains to ensure fair and prompt treatment of all creditors.	• Accelerated our payments, so our average payment term was 20 days • Supported furloughed third party service staff (see page 9) • £175m capital expenditure • £1.4m of early retention payments	p.148 Supply Chain Sustainability Standard p.135 Responsible payment practices p.57 Supply chain governance
We take a constructive, positive approach to working with local authorities to ensure high quality planning applications are submitted. Similarly, we maintain positive and proactive relationships with government departments, such as HMRC, via regular dialogue and correspondence. During 2020, we have been discussing and supporting initiatives to reopen central London after lockdown.	• Maintained our 'low-risk' tax rating with HMRC • Progressing a theatre and public realm as part of the Soho Place development • Delivered a 'pocket park' at 80 Charlotte Street	p.98 Our principal risks – Regulatory non-compliance p.57 Tax governance p.24 Investing in our pipeline
We arrange debt facilities from a diverse group of providers ranging from banks to institutional pension funds. We engage with these providers and credit rating agencies through regular meetings and presentations to ensure that they remain fully informed on all relevant areas of our business. This high level of engagement helps to support our credit relationships.	• Extended our existing £450m Revolving Credit Facility (RCF) and agreed a £100m RCF with Wells Fargo • 18.4% loan-to-value ratio • Interest cover 446% • Fitch corporate credit rating of A-	p.44 KPI – Interest cover ratio p.78 Debt and financing arrangements p.79 Green Finance Framework
Through our investor relations programme, which includes regular updates, meetings, roadshows and our Annual General Meeting, we ensure shareholder views are brought into our boardroom and considered in our decision making.	• 2.8% increase in dividend in 2020 • We received votes from 80.1% of shareholders for the 2020 AGM	p.43 KPI – Total shareholder return (TSR) p.114 Shareholder engagement p.175 Annual General Meeting

Our pathway to net zero carbon

In July 2020 we set out our pathway to achieve our commitment to become a net zero carbon business by 2030.

We have been working on reducing our carbon footprint for many years and in 2020 we brought forward our target to be a net zero carbon business by 20 years to 2030. This is a major commitment but reflects the Group's view that rising temperatures represent a major risk and the built environment has an important role to play in mitigating it.

In July, we published our pathway that sets out in detail how we aim to achieve this. It covers our corporate activities, developments and investment portfolio. Our guiding principles are set out in the chart below. Included in these is a commitment to annually report our progress, to prioritise energy reductions and to only use offsetting as a last option.

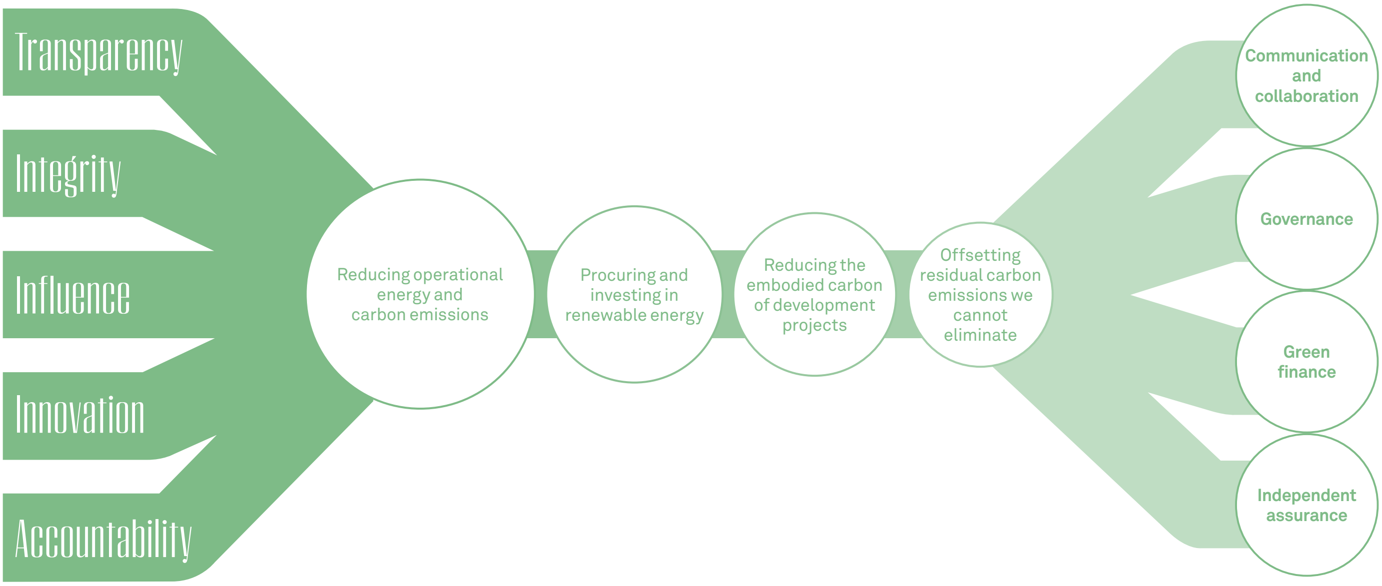
To achieve our ambitions, we will need the support and collaboration of our occupiers as our research found that over 60% of the portfolio's energy consumption fell under Scope 3 (activities where we have no direct control).

Our actions are focused on reducing operational energy and carbon through numerous initiatives across the portfolio. On the next page we highlight examples of projects where we are creating all electric buildings and, on some older buildings, we are replacing old gas boilers with electric heating systems. A second important element is to power our buildings using renewable sources of power. As part of this we are looking at ways of creating renewable energy on our Scottish estate. Unfortunately, our business activities necessitates the creation of some embodied carbon but we aim to reduce it, in part by using carbon accounting to measure the impact of our schemes and by using alternative materials where appropriate. Finally, for those carbon emissions we cannot eliminate we will be looking to offset using reputable projects.

These activities tie into our green financing, which in turn complies with our Green Finance Framework. Both our financing and our environmental data is independently assured. Day-to-day responsibility for our strategy is led by our Net Zero Carbon Committee which reports to the Responsible Business and Executive Committees.

p.48 Responsibility - Environment

Net zero carbon pathway



New developments

80 Charlotte Street W1

Located in the heart of Fitzrovia, this 323,000 sq ft building completed in June 2020. It is our first all electric building and uses air source heat pumps for all heating and cooling needs and, to ensure the building is net zero carbon, it is powered by renewable energy. There are 80m² of solar panels on the roof. Operational efficiency is enhanced by the façade design limiting solar gain, LED lighting and sensors allowing lighting to respond to ambient light levels. Embodied carbon was reduced during development by using lower carbon materials with higher recycled content and increased waste minimisation. The Group has offset the remaining embodied carbon emissions that could not be eliminated (see page 71).

19-35 Baker Street W1

The Group expects to start this mixed-use 297,000 sq ft development in H2 2021. It will have all electric heating and cooling, air source heat pumps, openable windows, sensors to allow energy monitoring and greywater harvesting to reduce water wastage. There will be a significant number of cycle racks and shower facilities, as well as biodiverse roofs and an expansive courtyard area for public use. It will be our first development to utilise the NABERS UK operational energy rating system which has the aim of reducing the gap between a building's expected and actual operational performance. Completion is expected in 2025. The remaining embodied carbon in the development will be offset using verified schemes to achieve our net zero carbon objective.

Retrofitting existing buildings

Francis House SW1

We recently obtained vacant possession and have commenced refurbishment works to deliver 38,000 sq ft of high quality office space. The refurbished premises will become all electric, with the old gas boilers removed. We will install high efficiency heat recovery air conditioning with state-of-the-art energy monitoring systems to maximise energy efficiency and encourage occupier engagement.

Further improvements include installing openable double glazed windows and a large cycle store with showers served by a low energy air source heat pump. High efficiency LED lighting and controls will also be installed. All fitted appliances will be energy efficient and rated A+. This is anticipated to save c.16 tonnes of CO_2 pa compared to the previous system. The scheme is due to complete in H1 2022.

90 Tottenham Court Road W1

An older multi-let office building located in Fitzrovia. Several leases were due to expire in 2021 but we knew that University College London (UCL) wanted more space. In Q3 2020 we signed an agreement to lease with UCL to take 37,400 sq ft, up from 23,300 sq ft, on a 10-year term with a break in 2031.

The Group, in parallel with UCL's own sustainability agenda, has upgraded the gas fired boilers, replacing them with electric heat pumps. The electric system is estimated to have a higher operating cost than the traditional gas boilers, but the CO_2 emission is more than halved, saving c.14 tonnes of CO_2 pa. Work has recently completed.

Our business model

We apply our asset management and regeneration skills to the Group's 5.6m sq ft property portfolio using our people, relationships and financial resources to add value and grow income while benefiting the communities in which we operate and the wider environment beyond.

Driven by

Our purpose
To help improve and upgrade the stock of office space in central London, providing above average long-term returns to our shareholders while bringing social and economic benefits to all our stakeholders.

By promoting **values** that include building long-term relationships and setting an open and progressive corporate **culture**, our design-led ethos has created a brand of well-designed, flexible and efficient buildings at affordable rents.

Impacted by

Our environment
The London office market and its wider context

p.18

Our assets and resources
Properties

p.22

Financial resources

p.74

People and relationships

p.50

The views of our stakeholders
Understanding their key issues through effective engagement

p.26

How we add value

Our core activities

Asset management

Understanding our occupiers helps us tailor buildings and leases to their needs thereby growing our income streams and adding value

p.68

Development & refurbishment

Our focus on design, innovation and value for money creates sustainable and adaptable buildings characterised by generous volumes, good natural light and class-leading amenities and wellness facilities

p.71

Investment activity

We recycle capital, acquiring properties with future regeneration opportunities to build a pipeline of projects and disposing of those which no longer meet our investment criteria

p.68

Strong governance and risk management

p.84 p.101

Driven by our five strategic objectives

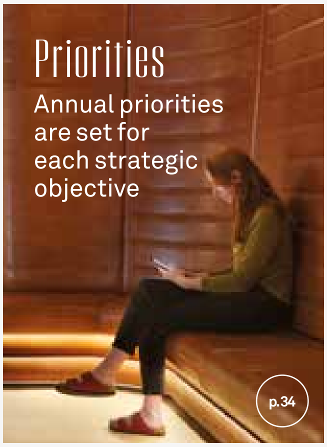
1. To optimise returns and create value from a balanced portfolio p.36

2. To grow recurring earnings and cash flow p.38

3. To attract, retain and develop talented employees p.39

4. To design, deliver and operate our buildings responsibly p.40

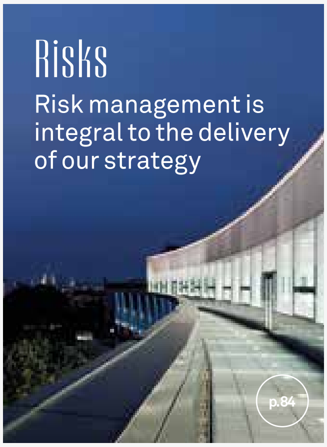
5. To maintain strong and flexible financing p.41



Priorities

Annual priorities are set for each strategic objective

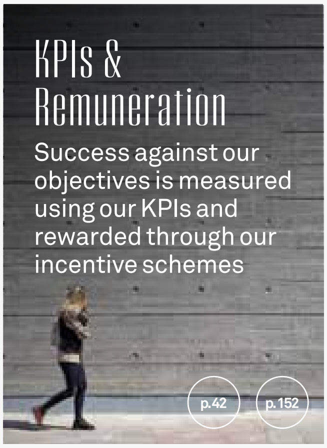
p.34



Risks

Risk management is integral to the delivery of our strategy

p.84



KPIs & Remuneration

Success against our objectives is measured using our KPIs and rewarded through our incentive schemes

p.42 p.152

Value created for our stakeholders

724,000 sq ft

Rent reviews, lease renewals and lease regears agreed in 2020 at a rent of £38.9m pa

480,000 sq ft

On-site projects, 52% pre-let

+9.9%

Average annual ordinary dividend growth over 10 years

+11.6%

Average annual total return over 10 years

+179%

Increase in community and sponsorship donations to £1.1m from £0.4m in 2019

Measured via our KPIs

p.42

Our strategy

Our strategy sets out the approach we take to fulfil our purpose for the benefit of our stakeholders. This strategy has been consistent for several years but our priorities have shifted as we adapt and adjust to changing market conditions and occupier needs.

The starting point involves acquiring properties at low capital values in central London where there is potential to add value. This may come from planning uplift, the regearing of leases or via refurbishment or redevelopment, with good design at its heart and a primary focus on the needs of our potential customers. The returns generated by our value-adding schemes have helped us consistently outperform our benchmarks (principally the MSCI IPD Central London Offices Index).

Balancing the inherent risk of our development projects are the 'core income' properties, currently 57% of our portfolio. Here the focus is on recurring earnings and cash flow through active asset management. Integral to this are long-term relationships with our customers and meeting their needs, for example by offering a wide range of lease terms, providing adaptable space and excellent amenities while creating a work environment for their employees that supports productivity and wellbeing.

Whether designing and delivering schemes, we take a long-term view, looking to identify risks to income or values early on. An annual five-year plan is prepared to assess risks and opportunities, and ensure our product is forward-looking and appeals to a wide range of tenants.

Successful implementation of our strategy requires our teams, such as Investment, Development, Asset Management, Property Management and Finance, to work together with a shared vision and common values. As set out on page 34, these include focusing on creative design and ensuring sustainability and responsibility are embedded in everything we do. Management has fostered an inclusive culture that is progressive and hard-working, building a team passionate about improving London's office space.

This strategy is defined through our five strategic objectives:

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

Our 2020 priorities

Even though the year brought more challenging circumstances than expected, we have managed to achieve our original set objectives with only minor delays while adding more priorities as the year progressed.

80 Charlotte Street was completed in June 2020 with a profit on cost of 27% and both The Featherstone Building and Soho Place were progressed with programme slippage of one to three months due to lockdowns. We also committed to start our Baker Street scheme on site in Q4 2021 while moving forward with pipeline projects for the future (see page 24).

Blue Star House in Brixton was acquired in Q1 2020 but it has been a difficult market in which to buy. We also recycled capital by exchanging contracts for the sale of Johnson Building in Q4 2020.

Our Net Zero Carbon Pathway was published in July 2020 and we have continued to foster and embed responsibility throughout the business (see Responsibility section pages 46 to 63).

Our asset managers have focused on supporting our occupiers while also extending leases and removing breaks. At the same time, our property teams have worked with occupiers dealing with the challenges of the pandemic and the resulting restrictions and lockdowns.

The year ended with an EPRA vacancy rate of 1.8%, considerably lower than the London property market as a whole, and we carried out asset management activities over 724,000 sq ft of area which resulted in a rental uplift of 7.6%, from £36.1m to £38.9m.

In terms of other priorities, we now have a more diverse membership on our Responsible Business Committee and have also set up a Diversity Committee. Our management training programme has continued in 2020 with a further 26 staff members benefiting and we have also supported our stakeholders through the year with no staff furloughed, faster payment of suppliers and additional funds allocated to the NHS and other charitable bodies. Finally, we refinanced or extended the terms of our two main revolving credit facilities thereby strengthening further our balance sheet and finances. Further details are on page 78.

Our 2021 priorities

- Seek new acquisition opportunities with potential to add value with a focus on those where we can increase the scheme area or create best-in-class accommodation, while balancing income generation and development activity
- Be prepared to sacrifice income generation in the short-term to find the right opportunities for future value creation
- Further define our net zero carbon programme and monitor progress
- Commence demolition of 19-35 Baker Street W1 and progress other pipeline schemes
- Manage voids and lease expiries within the portfolio
- Continue to work with occupiers to tackle the current pandemic while increasing activity as the situation starts to recover

Risk management

Risk management is an integral part of our business and is monitored regularly. This is split into categories considering the likely impact on strategy, operations, financial position and stakeholders. Our projects may take many years to complete, requiring long-term planning, risk mitigation and financial discipline.

p.84 Our principal risks

Performance measurement and remuneration

Key Performance Indicators (KPIs) help us measure our performance and assess the effectiveness of our strategy.

These are listed on page 42 for each objective, but the principal measures that we apply to ascertain overall business performance are total return (TR), total property return (TPR) and total shareholder return (TSR). TR combines our dividends with the growth in net asset value per share (measured using the EPRA NTA metric) to provide an overall return for the year and is measured against a peer group. TPR measures the income and growth in value from our properties and is measured against an index of other properties. TSR compares our dividends and share price performance with the relevant index. TR, TPR and TSR are the main performance measures we use to determine the variable elements of executive remuneration to ensure there is strong alignment between the interests of shareholders and our decision makers.

An increasingly polarised central London office market

We have seen an increasing gap open up over the last year between properties which offer high quality, adaptable, modern space and which therefore appeal to the most discerning occupiers and other office properties.

The first category offers strong flexibility in use, high levels of wellbeing and excellent energy/ESG credentials as well as good design. It is in short supply and we are seeing continuing demand from occupiers who wish to attract and retain the most talented employees, thereby helping to sustain rental levels. These properties also appeal to investors, keeping yields low with values remaining relatively strong. We expect that this category will remain in short supply and have prioritised higher levels of development/refurbishment to help create more of this type of product.

Examples in our portfolio are recently completed developments like Brunel Building or White Collar Factory but would also include high quality older refurbishments like Angel Building and 90 Whitfield Street.

Brunel Building W2

White Collar Factory EC1

The second category would either require significant capital investment to reach the highest standards or may not be capable of reaching that level due to inherent problems in the fabric, layout, energy efficiency or location of the property. These buildings are suffering from increasing vacancy rates as occupiers choose more modern space or more flexible solutions and we expect to see both their rents and values fall more rapidly than the market as a whole. The properties that we acquire tend to be of secondary quality so that we can then add value to create the typical Derwent London product.

Examples in our portfolio are 19-35 Baker Street or The Network Building where schemes are either underway or planned.

Network Building W1

19-35 Baker Street W1

Our strategy continued

2020 priorities **2020 progress**

1. To optimise returns and create value from a balanced portfolio

Seek acquisitions in improving areas of London with regeneration opportunities to move the balance between ‘core income’ and development potential closer to 50/50	●	Purchased Blue Star House, Brixton SW9 for £38.1m (before costs) in January 2020. Building is located in an emerging area and has future redevelopment potential with a significant uplift in area
Complete 80 Charlotte Street in H1 2020	●	Completed in June 2020 with the office space 100% pre-let. Project delivered 27% profit on cost and development yield of 6.9%
Progress Soho Place and The Featherstone Building	◐	Both projects on track for completion in H1 2022. Impact of Covid-19 minimised through close collaboration with contractors. Agreed forward sale of 2 & 4 Soho Place
Consider pre-lets at The Featherstone Building	◐	Engaged in pre-let discussions with potential new tenants
Advance regeneration opportunities within the portfolio	◐	Took further steps to agree terms with The Portman Estate to re-develop 19-35 Baker Street W1. Submitted planning application for 100-130,000 sq ft redevelopment scheme at Network Building W1

2. To grow recurring earnings and cash flow

Continue to be ‘landlord of choice’ by meeting tenants’ needs and providing quality product	●	Provided both operational and financial support to tenants during pandemic. A survey showed 95% of customers who participated rated our actions as either ‘very positive’ or ‘positive’
Continuously monitor portfolio for further asset management initiatives	●	Asset management activity covered 724,000 sq ft (13% of portfolio area), increasing rent by 7.6% from £36.1m to £38.9m
Extend income through renewals and regears for properties not earmarked for regeneration	●	Our retention and re-let rate was 87% in 2020. Decreased our 2021 lease expiry exposure from 26% of portfolio income to 17% through renewals and regears, and increased average lease length from 5.8 years to 6.2 years

3. To attract, retain and develop talented employees

Start the next 12-month ‘Fit for the Future’ programme for 28 employees	●	‘Fit for the Future’ programme continued during 2020 for 26 employees using a virtual format, including 1-1 and group coaching sessions
Offer Unconscious Bias training, core skills sessions and technical workshops to all employees	◐	Unconscious bias training commenced but now on hold until face-to-face sessions permitted. Both core skills programme and technical workshops continued virtually during 2020
Launch initiatives and run social events to enhance wellbeing and collaboration	●	Line managers completed mental health training and mental health first aiders were appointed. Various activities run including online exercise and mindfulness classes, fortnightly social quiz and health assessments. Regular town hall meetings took place to help staff remain connected and informed
Set up steering group to assess the results of the 2019 staff survey	●	Steering group formed of 14 employees reviewed results of the staff survey and presented ideas to the Executive Committee in November 2020

4. To design, deliver and operate our buildings responsibly

Publish our programme that targets net carbon zero by 2030 and realign our Science Based Targets accordingly	◐	Published our Net Zero Carbon Pathway in July 2020. First UK REIT to provide detailed pathway. Progressed realignment of our Science Based Targets
Deliver the next rounds of our Community Fund	●	2020 rounds were successfully launched with over £97,000 invested in a range of grassroots projects. An additional £50,000 was committed to community groups particularly affected by the pandemic

5. To maintain strong and flexible financing

Maintain or strengthen available facilities	●	Signed a new £100m 5-year Revolving Credit Facility (RCF) with Wells Fargo, this refinances a £75m facility with the same lender The £450m RCF was extended by one year to 2025
Maintain good interest cover	●	Interest cover remains strong at 446%; property income could fall by 68% before breaching the interest cover covenant
Manage the process of LIBOR discontinuation and the transition to SONIA	◐	Ongoing discussion with our banks and advisers on the transition to SONIA. New facilities contain provisions that cover the cessation of LIBOR with a replacement benchmark

Key

● Achieved

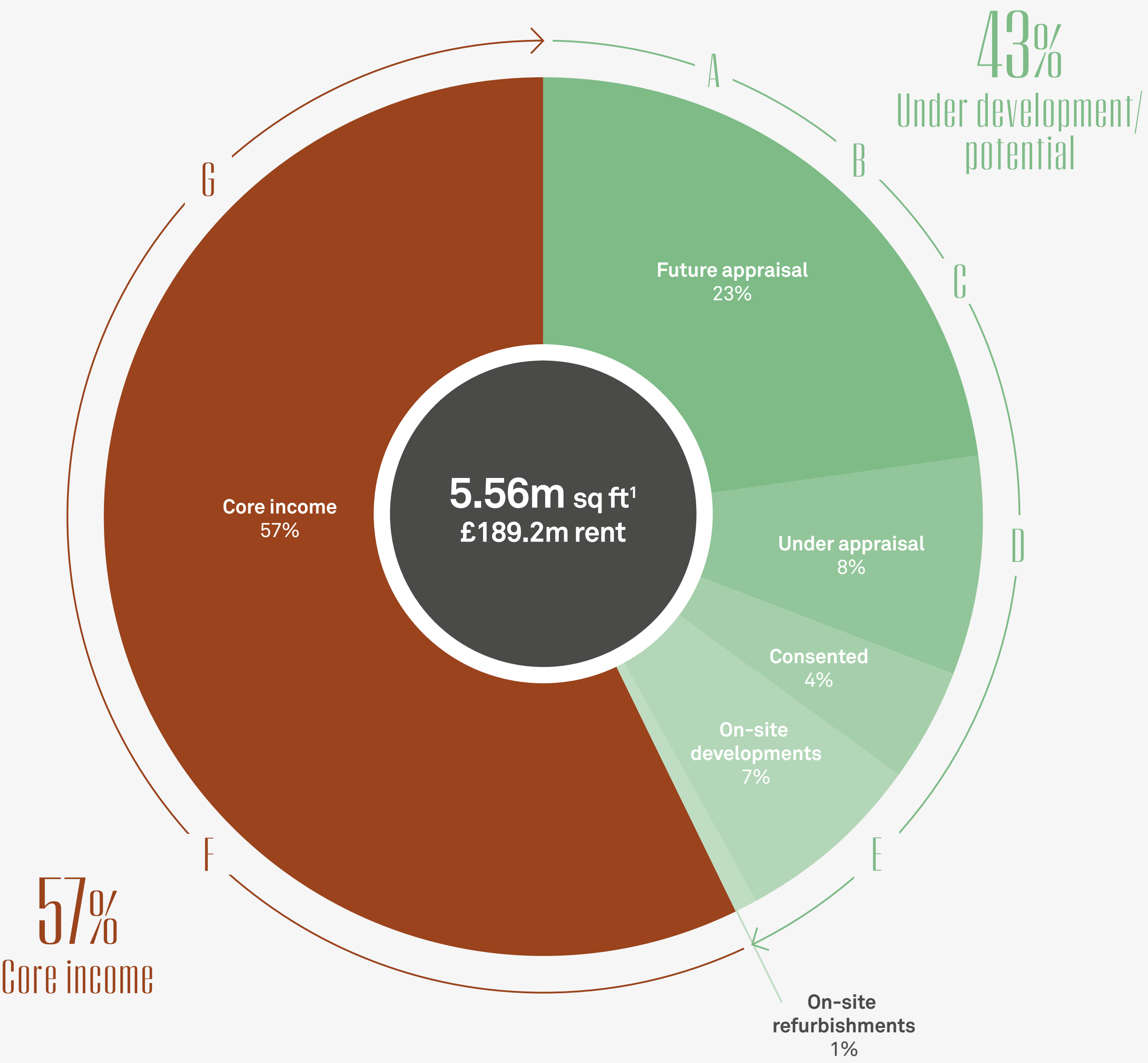
◐ On target

○ Not achieved

Priorities for 2021	Key performance measures	Risks
		p.36
• Seek new acquisitions in emerging areas of London with potential to add value either by increasing floor area or upgrading to higher quality stock • Dispose of properties that no longer meet our investment criteria • Progress Soho Place and The Featherstone Building • Secure pre-lets at The Featherstone Building • Commence on site works at 19-35 Baker Street W1 • Progress regeneration opportunities within the portfolio	• Total return • Total property return • Total shareholder return • EPRA earnings per share • Reversionary percentage • Development potential • Void management	• Failure to implement the Group's strategy • Implications of Brexit • Risk of tenants defaulting or tenant failure • Income decline • The potential impact on our business from the introduction of a new tax to replace or complement business rates • Reduced development returns • 'On-site' risk • Contractor/subcontractor default • Cyber attack on our IT systems • Cyber attack on our buildings • Significant business interruption • Reputational damage • Our resilience to climate change • Non-compliance with health and safety legislation
		p.38
• Increase our amenity and customer experience offering to tenants • Continue to work with tenants to ensure the safe re-occupation of their work places • Manage voids and expiries with a focus on extending income through renewals and regears • Consider opportunities to upgrade existing stock to optimise income as vacancies occur	• Total return • Total property return • Total shareholder return • EPRA earnings per share • Reversionary percentage • Tenant retention • Void management	• Failure to implement the Group's strategy • Implications of Brexit • Risk of tenants defaulting or tenant failure • Income decline • The potential impact on our business from the introduction of a new tax to replace or complement business rates • Reduced development returns • 'On-site' risk • Contractor/subcontractor default • Cyber attack on our IT systems • Cyber attack on our buildings • Significant business interruption • Reputational damage • Non-compliance with health and safety legislation
		p.39
• Continue 'Fit for the Future' programme • Continue core skills sessions and technical workshops and resume Unconscious Bias training • Continue health and wellbeing initiatives • Ensure safe re-occupation of our offices and review hybrid working arrangement to ensure collaboration is maintained • Work towards achieving National Equality Standards (NES) accreditation • Conduct our 4th full employee survey in October 2021	• Total return • Total shareholder return • Staff satisfaction	• Cyber attack on our IT systems • Cyber attack on our buildings • Significant business interruption • Reputational damage • Our resilience to climate change • Non-compliance with health and safety legislation • Other regulatory non-compliance
		p.40
• Continue to embed our net zero carbon pathway requirements across the business • Continue to progress realigning our Science Based Targets in accordance with guidance • Develop, refine and embed our approach to carbon accounting • Deliver the next rounds of our Community Fund and continue to extend our criteria to consider charities facing financial hardship	• Total return • Total shareholder return • BREEAM ratings • Energy performance certificates • Carbon intensity	• Failure to implement the Group's strategy • 'On-site' risk • Contractor/subcontractor default • Cyber attack on our IT systems • Cyber attack on our buildings • Significant business interruption • Reputational damage • Our resilience to climate change • Non-compliance with health and safety legislation • Other regulatory non-compliance
		p.41
• Maintain or strengthen available facilities • Maintain sufficient headroom on financial covenants • Transition all relevant loans and swaps from LIBOR to SONIA based	• Total return • Total shareholder return • Gearing and available resources • Interest cover ratio	• Failure to implement the Group's strategy • Implications of Brexit • Risk of tenants defaulting or tenant failure • Income decline • The potential impact on our business from the introduction of a new tax to replace or complement business rates • Reduced development returns • Cyber attack on our IT systems • Cyber attack on our buildings • Significant business interruption • Reputational damage • Non-compliance with health and safety legislation • Other regulatory non-compliance

Our strategy continued

1. To optimise returns and create value from a balanced portfolio



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[1] Comprises 5.08m sq ft of existing buildings plus 0.48m sq ft of on-site developments and on-site refurbishments

Our portfolio is dynamic and properties tend to fall into one of several categories. The chart shown here is often referred to as the 'Derwent doughnut' and shows how we balance our 5.6m sq ft portfolio between those properties with potential to add value through regeneration, and those which have already been improved but where our asset management skills can continue to grow value and income. No two buildings are identical but the typical life cycle (A to G) of our properties is explained below, with portfolio balance, stakeholder and environmental impacts all key considerations in the strategy we pursue for each property.

43% Under development/potential

A

Acquiring opportunities

It all starts with the acquisition of a new building where we see potential to add value. We try to look for opportunities that others might not see but the buildings typically have low capital values and are usually income-producing with low rents. We particularly look for potential to add area to the building and/or to improve the quality or environmental impact of the space. Acquisitions may be in locations which have underperformed or are due to benefit from infrastructure upgrades. If these features are not apparent or we do not see good value, we are disciplined in our capital allocation and are not 'forced buyers'. A combination of low interest rates and a lack of distress among property owners has meant that identifying the right properties at pricing that provides adequate returns proved difficult in 2020 but we were pleased to buy Blue Star House in Brixton, a new village for us.

B

The importance of cash flow

Though we are prepared to be flexible, most of the properties that we acquire are occupied and provide cash flow, so we have time to work out our plans while enjoying an income yield. This gives us the necessary flexibility to arrive at an optimal solution, our ideas regularly going through several iterations before settling on a final solution.

C

Dialogue with tenants and landlords

While working through our plans for a building, we engage with existing tenants and, where appropriate, any ultimate landlord or other interested party. This helps us understand all the constraints and may allow income streams to be extended or made more flexible with built-in or rolling breaks at future dates. We sometimes have to accept income below market levels, but we aim to retain cash flow until we are ready to commence on-site. During this period, we will negotiate with landlords if we do not hold the property freehold, and will work with our many design team relationships, including experts in minimising the social and environmental/climate impacts, to arrive at our solution. This also requires liaising with the relevant planning authorities to seek planning consent and consulting with the local community.

D

Risk mitigation

We plan ahead to determine the appropriate balance of risk and opportunity for the business and, when we are comfortable, will normally start schemes speculatively, i.e. without any pre-letting in place. Whether a refurbishment of an existing building or an all-new design, by ensuring the end product appeals to as many occupiers as possible, we often receive early interest from potential tenants once we are on-site. Design and construction of large and complex projects requires considerable skill, experience and collaboration so we work with a chosen group of consultants, contractors and subcontractors to minimise the risks of delivery. Those risks principally relate to delays and/or cost overruns, but there are many technical and physical issues to consider such as health, safety and wellbeing. Preparation of an annual 'five-year plan' helps us anticipate and maintain the critical balance between income/dividend growth and longer-term value creation within our 'total return' model guided strongly by our responsibilities to stakeholders and the environment.

E

Pre-letting during construction

With our reputation for delivering well-designed, adaptable and affordable buildings, we normally de-risk each project by agreeing terms with one or more tenants during the construction phase. The momentum that this provides encourages us to consider the next phase of our project pipeline too, adding further value where we see opportunities and planning several years ahead.

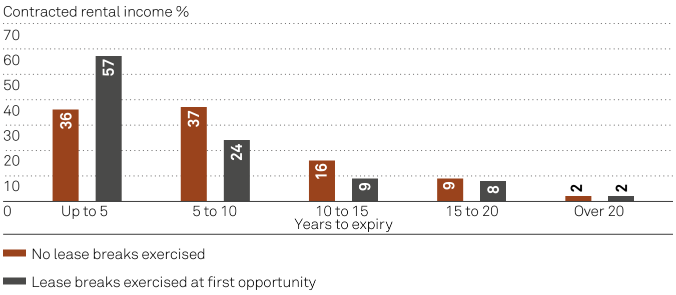
57% Core income

F

Income and reversion

The whole process takes many years but, once a building is completed and let, it moves to the 'core income' sector, shown in brown on the chart. Here, we focus more on property management skills to satisfying our tenants' needs, growing our income, adding further value or improving other aspects such as energy efficiency or amenities to promote 'wellness'. This part of the portfolio is not 'dry' or without opportunity and remains the main focus of our Asset Management team (see page 68). Leases typically vary from very short to over 10 years, as shown in the table below and, in current market conditions, there has been a focus on extending leases or removing breaks where we can agree reasonable terms.

Profile of rental income expiry



G

Recycling assets

When we believe that we have extracted most of the upside in value, or where it no longer satisfies our investment criteria, we will normally look to dispose of a property, thereby freeing up human and financial capital for the next generation of acquisitions and projects.

Our strategy continued

2. To grow recurring earnings and cash flow

Real estate values are largely determined by contracted and expected future cash flows combined with a market yield which takes account of risk, growth expectations, quality and other factors.

Creating and then capturing reversion

Putting in place the right strategy for a property can both add value and increase cash flow. Value is usually recognised earlier in the life cycle with the increasing cash flows following later. The value creation normally comes from expectations of rental growth thereby giving rise to what we call 'reversion', i.e. the expectation that income will grow from its current passing level. This is a long-term model for us and the focus in 2020 was biased more towards support for our occupiers and maintaining cash flow.

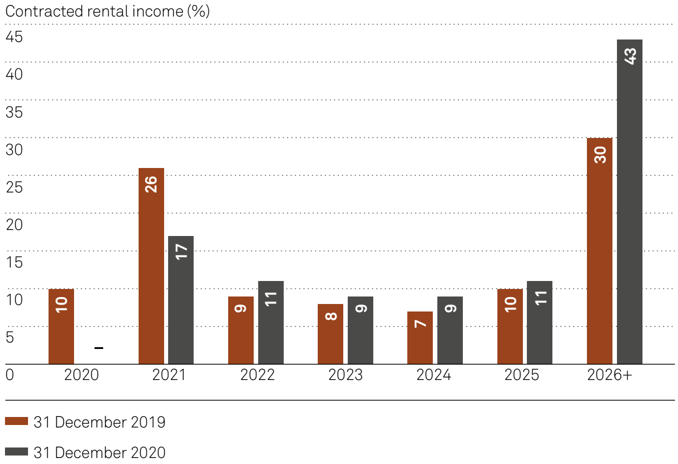
Asset management actions

Our asset managers look to capture any increase in rents through rent reviews, lease regears or other lease restructuring. This is underpinned by strong relationships with occupiers and always with a focus on the needs of our local communities and other stakeholders. With market conditions becoming more difficult through 2020, there was an increased focus on maintaining income streams and supporting occupiers where this was needed. Our customer focus is important in establishing and retaining excellent relationships with our occupiers.

Impact on income of the pandemic

Covid-19 and the resulting lockdowns in 2020 and early 2021 have had a significant impact on our occupiers. This has required support for our stakeholders, including many among our tenant base. It also meant that the collection of rents became a core business activity in 2020 and our Credit Committee met multiple times each week to consider tenants' financial positions and requests for help, initiatives such as service charge mitigation and the detailed management of information relating to our income streams.

Change in lease expiry profile
Extending income was a priority in 2020



As a result, extending income streams rather than growing rents was our priority in 2020. In addition, we have been offering particular support to our retail and hospitality tenants, many of whom have had to close their premises for parts of the year and who offer an amenity to our office occupiers.

What we do to capture reversion

- we work with tenants and consultants to arrive at appropriate rent review settlements;
- we negotiate to extend leases or remove break clauses (a particularly important focus for our asset managers in 2020);
- we arrange 'block dates' to gain access to buildings at an appropriate time;
- we review levels of 'grey' space, i.e. floor area that is let but which is not currently occupied or is being marketed by a tenant;
- we look to reduce irrecoverable costs, as measured by the EPRA cost ratio;
- we try to anticipate our tenants' needs, thereby optimising income. Examples are fixed or minimum rental uplifts and a flexible approach to dilapidations and alienation clauses in leases;
- we believe that creating the right sort of space that appeals to the tenants' own employees and addressing the climate change aspects of our buildings will help generate further rental growth in the future; and
- occupiers are increasingly looking for adaptability and flexibility. For many years, we have taken a flexible approach as part of our core brand values, e.g. our 'furnished and flexible' units, while, at other buildings, aiming for longer leases, particularly on larger lettings.

Performance measures

We use like-for-like rent analysis (see EPRA definitions on page 248) to measure how net and gross rental income has grown within the non-development part of the portfolio. We monitor irrecoverable costs through the EPRA cost ratio and void percentages. We also place emphasis on growing EPRA earnings over the medium-term though this has been impacted in 2020 by the effect of the lockdown on our occupiers.

3. To attract, retain and develop talented employees

Our employees are key to the successful delivery of Derwent London's strategy and to our long-term business performance.

We are an inclusive and respectful employer that welcomes diversity and promotes equality. We have a high performing, progressive and collaborative culture coupled with a consultative and professional leadership style – one that focuses on teamwork and acting with integrity in order to build long-term relationships with our colleagues and other stakeholders. Our employees are ambassadors for our brand and we therefore invest considerable time and resources in recruiting outstanding individuals who bring new ideas, skills and competencies to the business.

The Group's reputation stems from behaviours and values promoted by the Board and these are reinforced through our induction programme, performance management process, core skills workshops and our management and leadership development programmes. Our structure enables complex transactions to be managed effectively and decisions made quickly with the overall aim of creating value and driving income growth across our portfolio. Although we are organised by discipline, we assemble teams for specific projects that draw on expertise from across the business to increase creativity and innovation. Collaboration is also facilitated through a number of supporting committees (for example the Cost, Credit and Health and Safety Committees) which, together with the project teams, report into our Executive Committee.

Derwent London held another staff satisfaction survey in late 2020 which achieved very high scores. We also enjoy a high rate of staff retention with 51% having been with the business for more than five years but we are also pleased to have welcomed 30 new employees to the Group in 2020. We aim for all our employees to feel valued and part of a happy and supportive team. As a result, diversity and wellbeing have been high on the agenda again during 2020. We remain focused on continuous improvement and several successful initiatives have been implemented during the year, some of which were due to recommendations made in our employee surveys.

p.50 Responsibility - Our people

100%
Response rate to our staff survey

96%
Staff satisfaction

98%
Proud to work at Derwent London

Management development level 1 training programme

'Fit for the Future' level 1 training programme 2020: Emma Bester, Mark Caldwell, Karolina Gasiorowska, Graham Jones, Emma Lange, Jamie Margaritis, Kevin Metherall, Lorna O'Neil, Natalie Sivil and Ben Thomson

Our strategy continued

4. To design, deliver and operate our buildings responsibly

Delivering well-designed, adaptable, occupier-focused buildings is an integral part of our business model. We believe these buildings offer better long-term value for occupiers, reduce letting risk and void levels and command better rents, yields and values.

Setting high standards in terms of design and environmental responsibility builds flexibility, longevity and climate resilience into our portfolio, not just in our new developments but also in the properties we manage.

To meet our target of becoming a net zero carbon business by 2030 (see page 48 for more details), we must develop buildings that are even more energy efficient, powered by renewable energy and have very low embodied carbon footprints. Likewise, we must reduce our managed properties' reliance on natural gas and further improve their energy consumption.

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

Our approach to becoming net zero carbon is set out in further detail in our Responsibility section on pages 48 and 49, together with a summary of our TCFD (Task Force on Climate-related Financial Disclosures).

We work with our stakeholder groups to ensure we are meeting their expectations and standards, as well as acting responsibly. This can range from engaging with the local communities in and around our buildings, through using the best designers and contractors, to ensure our buildings meet the standards we set (see page 26 for more information on stakeholder engagement).

22%	23%
Reduction in managed portfolio carbon intensity (tCO_2e/m^2)	Reduction in managed portfolio energy use (kWh)

In 2020 we committed to net zero carbon emissions by 2030.

NET **ZERO**

p.28 Our pathway to net zero carbon

Members of Property and Sustainability teams

Szilvia Allen-Kovacs, Jessica Bubb, Simon Cain, Helen Joscelyne, Oliver Martin, Gurcharan Sahota, Justyna Tobolska, Laura Townsend and Keith Walshe

80 Charlotte Street W1

5. To maintain strong and flexible financing

We finance our business using equity and a conservative level of debt. We are relationship driven and, though we look to be progressive and innovative, adopt policies which have been consistent and well-proven over many years.

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

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

Derwent London's financing model is based on the following principles:

- conservative financial leverage to balance the business's relatively high operational leverage;
- a strong focus on interest cover to support our credit rating (Fitch issuer default rating of A- but with a negative outlook);
- borrowing from a diverse group of relationship lenders, both banks and institutions, who understand and support our business model;
- managing the cost of debt but also looking to have significant protection against possible interest rate rises and long average debt maturities;
- keeping structures and covenants simple and understandable and thinking ahead; and
- ensuring the Group's financing strategy supports and is consistent with our overall business goals.

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

Our unsecured debt facilities have similar financial covenants and we value long-term relationships with our lenders, preferring the stability and mutual understanding that this creates over an approach that seeks the very lowest funding cost. In recent years, we have brought in new non-bank debt that has extended the Group's maturity profile and, in 2019, published our Green Finance Framework to support the 'green' tranche of our principal revolving credit facility.

Relationships with all our funders – key stakeholders in our business – are of great importance to us and we communicate with them all frequently.

Members of the Finance team

Evon Allison, Anna Conversano, Karlie Forsythe, Jay Joshi, Chris Pool and Jennifer Whybrow

Our REIT status

Derwent London plc has been a Real Estate Investment Trust (REIT) since July 2007. The REIT regime (see page 250) was launched to provide a structure which closely mirrors the tax position of an investor holding property directly and removes tax inequalities between different real estate investors. REITs are principally property investors with tax-exempt property rental businesses, but remain subject to corporation tax on non-exempt income and gains. In addition, we are required to deduct withholding tax from certain shareholders on property income distributions and in 2020, £8.2m was paid to HMRC.

> "In 2020, we refinanced and increased the amounts available under our revolving credit facilities in difficult market conditions, retaining and enhancing the highly valued lender relationships that we have built up over many years."
>
> Damian Wisniewski, CFO

Measuring our performance

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

Covid-19 has had a significant impact on the business and we have seen an overall fall in property values in 2020, though our recent and on-site developments have performed relatively well. Impairments have also been recognised against some receivable balances which has reduced net rental income and earnings. Despite this, the business has remained resilient but some of our KPIs below have been affected.

KPIs

Financial

Operational measures
Total return
Total property return
Total shareholder return
EPRA earnings per share

Gearing measures
Gearing and available resources
Interest cover ratio

Non-financial

Operational measures
Reversionary percentage
Development potential
Tenant retention
Void management

Responsibility measures
BREEAM ratings
EPC
Carbon intensity
Staff satisfaction

Financial KPIs

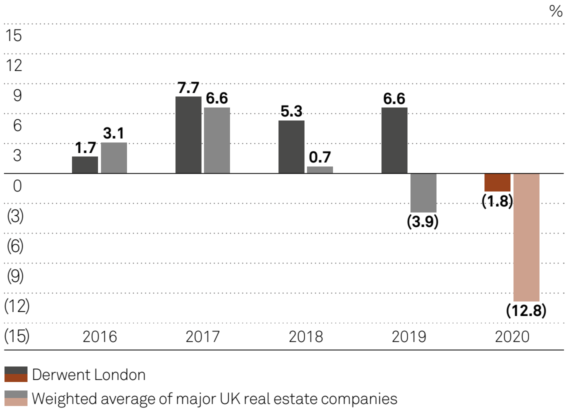
Our performance

Total return

1. 2. 3. 4. 5. Ⓡ

Total return equates to the combination of NAV growth (measured using the EPRA NTA metric) plus dividends paid during the year. We aim to exceed our benchmark, which is the average of other major real estate companies.

Our total return in 2020 was -1.8%, against a benchmark of -12.8%, as the performance of several of our peers was negatively impacted by their exposure to the retail sector. Derwent London's average annual return of 3.8% over the past five years against a benchmark of -1.5% demonstrates the ability of our business model to generate above average long-term returns.



Key

Strategic objectives

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

Other

Ⓡ Remuneration

Financial KPIs

Our performance

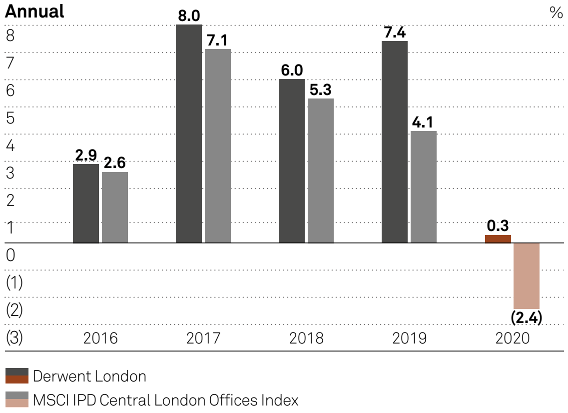
Total property return

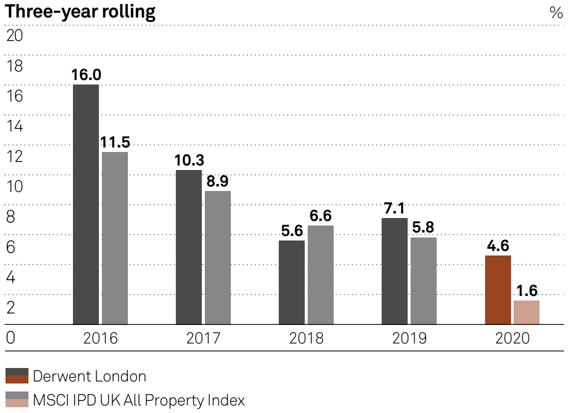
1. 2. 3. 4. 5. R

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

While the rest of the portfolio saw a modest fall in value, our developments allowed us to outperform the MSCI IPD's Central London Offices Index by 2.7% during 2020, with a 5.3% valuation uplift across our three major schemes in the year – 80 Charlotte Street W1, Soho Place W1 and The Featherstone Building EC1 – due to good progress on delivery and pre-letting.

The three-year rolling average of 4.6% p.a. demonstrates our ability to generate returns against a background of relatively stable rents and yields. This was 3.0% p.a. higher than MSCI IPD's UK All Property Index.



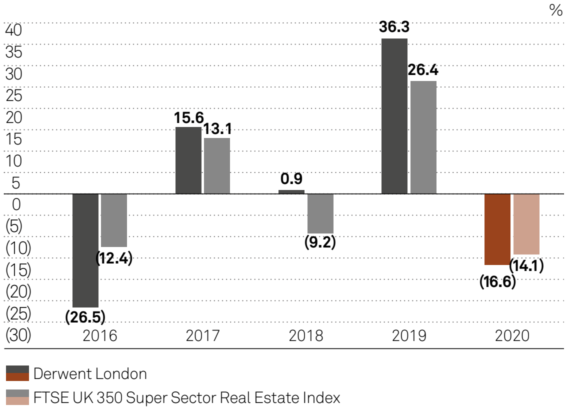


Total shareholder return (TSR)

1. 2. 3. 4. 5. R

To measure the Group's success in providing above average long-term returns to its shareholders, we compare our performance against the FTSE UK 350 Super Sector Real Estate Index, using a 30-day average of the returns in accordance with industry best practice.

The fall in the share price during the year has meant that the Group slightly underperformed its benchmark index in 2020. However, our ability to deliver above average long-term returns is demonstrated by the fact that £100 invested in Derwent London at the start of 2011 was worth £252 at the end of 2020, compared with £194 for the benchmark index.

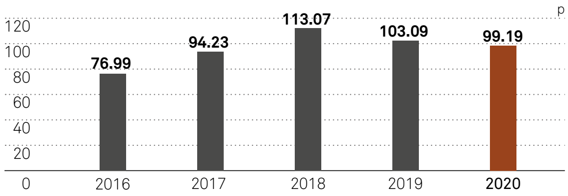


EPRA earnings per share (EPS)

1. 2. 3. 4. 5.

EPRA EPS is the principal measure used to assess the Group's operating performance and a key determinant of the annual dividend. A reconciliation of this figure back to the IFRS profit can be found in note 39.

EPS on an EPRA basis fell 3.8% to 99.19p per share in 2020. This follows 9p per share of write-off/impairment of receivable balances in the year to reflect the weakened financial position of some of our tenants, particularly in the retail and hospitality sectors. Note that the 2018 EPS included a one-off receipt of 14p per share.



Measuring our performance continued

Financial KPIs **Our performance**

Gearing and available resources

1. 2. 3. 4. 5.

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

Cash and undrawn facilities fell in the year due to net investment in our portfolio of £61.1m. The fall in property values in the year has given rise to a small increase in the NAV gearing and LTV ratios, but both remain at low levels.

In January 2021, we completed on the sale of Johnson Building, which increased cash and available facilities to over £640m on a proforma basis.

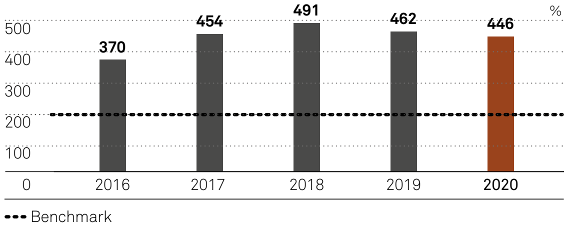
	2019	2020
LTV ratio	16.9%	**18.4%**
NAV gearing	21.9%	**24.3%**
Cash and undrawn facilities	£511m	**£476m**
Uncharged properties	£4,423m	**£4,329m**

Interest cover ratio (ICR)

1. 2. 3. 4. 5.

We aim for our interest payable to be covered at least two times by net rents. The basis of calculation is the same as the covenant included in the loan documentation for our unsecured bank facilities. Please see note 41 for the calculation of this measure.

The net interest cover ratio (ICR) decreased a little in 2020 due to the write-off/impairment of the receivables balance which is included in net property income. Despite this, rental income would need to fall by a further 68% before the main ICR covenant of 145% was breached.



Non-financial KPIs **Our performance**

Reversionary percentage

1. 2. 3. 4. 5.

This is the percentage by which the cash flow from rental income would grow were the passing rent to be increased to the estimated rental value (ERV) and assuming the on-site schemes are completed and let. It is used to monitor the potential future income growth of the Group.

As a result of a subdued leasing market and income lost from disposals in the year, the Group's ERV decreased by £11.8m during 2020 to £291.2m. This included potential reversion of £102.0m, 54% of the net passing rent of £189.2m, of which 57% is contracted.

	2016	2017	2018	2019	2020
%	89	69	72	79	**54**

Development potential

1. 2. 3. 4. 5. R

We monitor the proportion of our portfolio with the potential for refurbishment or redevelopment to ensure that there are sufficient opportunities for future value creation in the portfolio.

With on-site developments and refurbishments representing 8% of the portfolio at the end of 2020, and a further 35% identified as potential schemes, there are considerable opportunities to add value through regeneration. We continue to seek acquisitions to move the balance between core income and development potential closer to 50/50.

	2016	2017	2018	2019	2020
%	43	44	41	43	**43**

Tenant retention

1. 2. 3. 4. 5.

Maximising tenant retention upon lease breaks or expiries when we do not have redevelopment plans minimises void periods and contributes towards net rental income.

Our retention and re-let rate was 87% in 2020 and is broadly in line with our average of 90% over the past five years, demonstrating the strong relationships we have with our tenants and the appeal of our mid-market product.

	2016	2017	2018	2019	2020
Exposure (£m pa)	11.0	8.5	14.9	13.5	**16.1**
Retention (%)	63	57	76	83	**65**
Re-let (%)	26	35	14	7	**22**
Total (%)	89	92	90	90	**87**

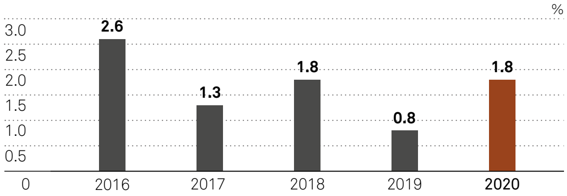
Non-financial KPIs **Our performance**

Void management

1. 2. 3. 4. 5. R

To optimise our rental income we plan to minimise the space immediately available for letting. We aim that this should not exceed 10% of the portfolio's estimated rental value.

Our ability to retain tenants and let space, particularly at our on-site developments, has kept the vacancy rate low. At the end of 2020, our EPRA vacancy rate was under 2%, a result of successfully letting most of the office space at 80 Charlotte Street prior to completion in June. Additionally, our asset managers have focused on tenant retention and the regearing of leases where possible across the rest of the portfolio.



BREEAM ratings

1. 2. 3. **4.** 5. R

BREEAM is an environmental impact assessment method for commercial buildings. Performance is measured across a series of ratings: 'Pass', 'Good', 'Very good', 'Excellent' and 'Outstanding'. We target minimum BREEAM ratings of 'Excellent' for major developments and 'Very good' for major refurbishments.

80 Charlotte Street, which completed in June 2020, is expected to receive a final rating of 'Excellent' having received this rating at Design Stage. Our two developments currently on-site were rated BREEAM 'Outstanding' at Design Stage.

Following the completion of Brunel Building in 2019, it received a final BREEAM rating of 'Excellent' in 2020.

	Completion	Rating
80 Charlotte Street W1	H1 2020	Excellent[2]
Soho Place W1	H1 2022[1]	Outstanding[2]
The Featherstone Building EC1	H1 2022[1]	Outstanding[2]

[1] Targeted

[2] Certified at Design Stage

Energy performance certificates (EPC)

1. 2. 3. **4.** 5.

EPCs indicate the energy efficiency of a building by assigning a rating from 'A' (very efficient) to 'G' (inefficient). Since 2017, we have targeted a minimum certification of 'A' for major new-build schemes and 'B' for major refurbishments.

80 Charlotte Street is targeting an EPC rating of 'B' post-completion. Our other two on-site developments, Soho Place and The Featherstone Building, are targeting a certification of 'B' and 'A', respectively.

	Completion	Rating
80 Charlotte Street W1	H1 2020	B[1]
Soho Place W1	H1 2022[1]	B[1]
The Featherstone Building EC1	H1 2022[1]	A[1]

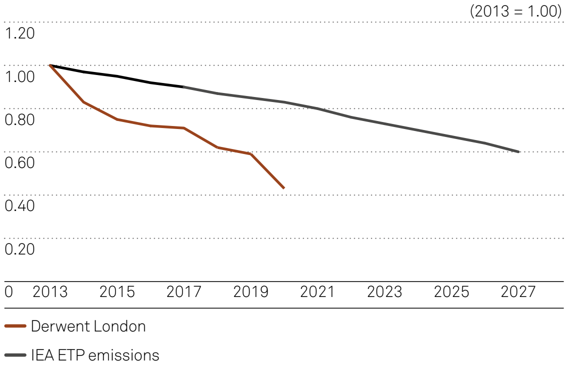
[1] Targeted

Carbon intensity

1. 2. 3. **4.** 5. R

This is measured by emissions intensity per metre squared of landlord-controlled floor area across our managed like-for-like portfolio. Our target is an annual decrease of between 2% and 4% per annum.

In 2020, landlord (Scope 1 & 2) emissions intensity in the like-for-like portfolio decreased by 27%. This was helped substantially by the low occupation of our portfolio during the year as a result of Covid-19. The 57% reduction achieved since our base year of 2013 means we are on course to meet our emissions target by 2027. During 2021 we will be reviewing our targets to ensure they are in line with our net zero carbon pathway.



Staff satisfaction

1. 2. **3.** 4. 5. R

The satisfaction of our employees is assessed through a number of questions in a staff survey. We aim to keep the satisfaction rate above 80%.

Despite a year of significant challenges for individuals and the business, staff satisfaction in 2020 remained very high at 96%. We believe these figures reflect our collaborative and supportive corporate culture and the pride our staff feel in working for Derwent London.

	2016	2017	2018	2019	**2020**
%	96.0	96.0	90.4	92.5	**96.3**

Responsibility

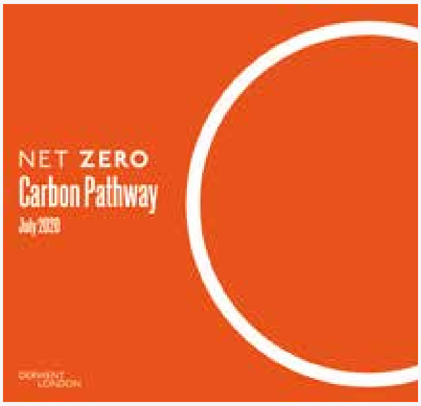
To operate responsibly requires a clear understanding of the environmental, social and governance (ESG) issues relevant to our business. It is important we balance and manage these effectively so we can create long-term value for all our stakeholders.

ESG reporting structure and 2020 highlights

Environmental

p.48 to p.49

- Climate resilience
- Net zero carbon



NET ZERO
Carbon Pathway
July 2020

DERWENT LONDON

In 2020 we announced our ambitious target to become net zero carbon by 2030 and launched our pathway setting out the detail to achieve that. In this report, we feature our work on climate risk analysis which is an important part of understanding how and where to prioritise our actions.

23%

Reduction in managed portfolio energy use

27%

Reduction in like-for-like carbon intensity

Social

p.50 to p.55

- Our people
- Community
- Health and safety

2020 has been a year like no other where the health, wellbeing, safety and support of people has never been greater. We have made particular efforts over the year to prioritise the needs of our employees, communities, occupiers, contractors and suppliers. Our Community Fund has continued apace with many projects transferring online.

> "A wonderful project harnessing the power of music to heal and enhance wellbeing."
>
> Music and deep healing by The Spitz Charitable Trust for Bridgeside Lodge care home

Governance

p.56 to p.57

- Climate change governance
- Tax governance
- Human rights

For Derwent London, governance is not an exercise in compliance but an evolving core discipline which generates value for our stakeholders and underpins our success. The oversight of ESG matters is critical, allowing the Board to fully understand the impact of its decisions on key stakeholders as well as emerging risks.

Commissioned an independent climate risk analysis for 2020

p.49 Climate risk analysis

What ESG means to us

We believe that operating a strong, successful business can only be possible if there is clear recognition, understanding and management of the environmental, social and governance (ESG) issues that are important to both our stakeholders and our business.

For us this means incorporating ESG aspects into our business strategy (see page 32), decision-making and management approach to ensure we continue to operate a successful long-term business. This forward thinking, more holistic perspective enables better long-term thinking, reduces risk and maximises value for our stakeholders.

ESG reporting

Robust performance monitoring and reporting underpins our approach to managing ESG risks and opportunities. It is vital that we are capable of accurately measuring our performance and that our data is detailed, relevant and transparently reported. Our environmental, green finance, and health and safety data is all subject to 'reasonable assurance' verification by Deloitte LLP, as determined by the ISAE 3000 (revised). The assurance statements are published in our latest Responsibility Report, which is available to download on our website.

The Group reports under several frameworks to provide a complete picture of our responsibility progress and activities (see page 149) and to allow comparison with our peers and other companies. An overview of our ESG data and reporting outputs is available on pages 58 to 62.

p.58 Non-financial reporting

Our latest Responsibility Report is available to download on our website:
www.derwentlondon.com/responsibility

2020 Ratings

- GRESB (Global Real Estate Sustainability Benchmark) 2020 – score of 80, Greenstar status
- CDP 2020 – B rating
- ISS Oekom – Prime status
- MSCI – A rating
- EPRA Sustainability Reporting Awards 2020 – Gold award

Our 7 ESG priorities

Our Responsibility Policy and Strategy (available on our website) set out what being a responsible business means to us, coupled with clear guiding principles and seven long-term priorities which are fundamental to our business and the needs of our stakeholders, these being:

1 Designing and delivering buildings responsibly

2 Managing our assets responsibly

3 Creating value in the community and for our wider stakeholders

4 Setting the highest standards of health and safety

5 Engaging and developing our employees

6 Protecting human rights

7 Setting the highest standards of corporate governance

Responsibility continued

Environment

We ensure our investment portfolio and development pipeline incorporate the right environmental management and resilience measures to mitigate any potential negative impacts of climate change.

Climate resilience

What it means to us

Ensuring our investment portfolio and development pipeline incorporate the right resilience measures to mitigate any potential negative impacts of climate change is important to us. It is a material risk for our business, and we invest significant management time and effort into ensuring we are managing the risks it presents appropriately.

Our commitment

As part of our net zero carbon ambition, we are committed to understanding the climate-related risks associated with our business. This means analysing how our portfolio could be affected by shifting climate conditions and ensuring we are prepared for the move towards a new low-carbon economy.

We adopt the use of the Task Force for Climate-related Financial Disclosures (TCFD) recommendations and reporting framework, to describe our approach to managing climate-related risks and our plans to deal with them (see pages 60 and 61).

To complement our extensive work in this area, during 2020, we commissioned Willis Towers Watson to perform a detailed business-wide climate risk analysis (looking at both physical and transition risks). By assessing various scenarios, and the potential impacts, we can ensure our management and business strategy is relevant, robust and effective (see page 49).

NET ZERO

During 2020, we set our ambition to become a net zero carbon business by 2030 – 20 years earlier than our previous target date of 2050. We were also the first UK property company to release a detailed pathway to net zero carbon, aligned to the Better Buildings Partnership (BBP) Net Zero Carbon Framework and in response to our signing of their Climate Change Commitment.

As part of this commitment, we are required to report on our annual progress and the steps we are taking along our pathway to achieve our net zero carbon ambition. We have set out below a brief outline of our progress during the year. A more detailed review, including disclosures on the energy performance of our portfolio, can be found in our latest Responsibility Report available on our website.

2020 Progress

Although we only released our pathway in July 2020, we have started to make good progress in implementing it across our business.

Developments

Commitment – New developments and major refurbishments are to be net zero carbon on completion. They will be designed to operate using renewable energy, the embodied carbon produced in the development process will be offset, and they will have in place appropriate energy reduction targets to reduce operational energy consumption.

Progress – 80 Charlotte Street W1, completed in June 2020, serves as an important blueprint for future schemes. It is our first all electric building, with the heating and cooling needs supplied by air source heat pumps. In addition, the building is powered by renewable REGO-backed electricity and the embodied carbon associated with its construction has been offset – see below for further details.

Investment portfolio

Commitment – Our investment portfolio comprising both managed and unmanaged properties will be operated on a net zero carbon basis by 2030. This will involve driving down our energy consumption significantly, upgrading and retrofitting some of our properties to remove gas use and improve efficiency, and proactive engagement and collaboration with our occupiers.

Progress – Our Net Zero Carbon Committee connects our various business departments around a comprehensive action plan. The interconnected nature of the plan requires multiple departments to work together on individual actions. A comprehensive review of our progress can be found in our latest Responsibility Report.

Corporate activities

Renewable energy

Commitment – Ultimately our ambition is to ensure that all the energy we procure is from renewable sources i.e. both electricity and gas.

Progress – We continue to procure 100% renewable, REGO-backed electricity. To date, 1% of our gas supplies are from green gas sources and we are reviewing how this could be increased. We continue to investigate renewable energy generation opportunities that are available to us on our Scottish estate to reduce our market-based dependency.

Offsetting

Commitment – Where we are unable to manage out or eliminate carbon from our business activities, these emissions will be offset using robust, verified schemes.

Progress – During 2020 we reviewed the offsetting market and appointed Natural Capital Partners (specialists in climate finance and carbon neutrality) as our provider. We have offset the embodied carbon associated with our 80 Charlotte Street development. This totalled 19,790 tCO_2e (cradle to completed construction, A1-A5). We purchased offsets from a community reforestation project in East Africa which is validated under VCS (Verified Carbon Standard) and CCB (Climate, Community and Biodiversity) standards.

For a more detailed breakdown of our progress, see our Responsibility Report on our website

Climate risk analysis

During 2020 we engaged Willis Towers Watson to assist us with investigating the climate-related transition and physical risks which might impact on our business, and to help us to ensure we are focusing our management efforts in the right areas to remain resilient.

The analysis looked at risks in different climate scenarios, in this instance a 2°C and 4°C scenario i.e. a best case and worst case, respectively. This ensured we were stress testing our business appropriately.

The scenarios used were:

1. **Intergovernmental Panel on Climate Change (IPCC) Representative Concentration Pathway (RCP) 2.6** – this assumes a high likelihood that global temperatures will not generally exceed 2°C over pre-industrial levels by the end of this century.
2. **IPCC RCP 8.5** – this assumes that the climate will increase in temperature by up to 4°C by 2100.

Through a series of risk workshops and extensive modelling, the results of the assessments showed the following:

2°C scenario transition risks

There were a range of transition risks identified across three principal areas:

Policy and legal
- Pricing of GHG emissions
- Energy Performance Certificate (EPC) rating requirements
- Emissions offset
- Planning approval changes
- Climate change litigation
- Enhanced emissions reporting obligations

Market
- Change in customer demands
- Cost of debt
- Increased cost of raw materials

Reputation
- Investment risk

Although these pose a clear risk to our business, after applying the mitigation measures already captured within the scope of our Net Zero Carbon Pathway, very few of these risks showed a residual impact. The transition risks which did, included:

- **EPC rating requirements** – tougher minimum energy efficiency standards are likely to be introduced by 2030 which could demand additional investment upgrades in our portfolio to ensure compliance.
- **Cost of raw materials** – climate change could affect the input costs to produce traditional development related materials or building services e.g. energy or water. Utilising more innovative low carbon materials could allow us to mitigate some of the potential impacts this risk might pose.
- **Emissions offset** – the cost of high quality carbon offsetting is likely to continue to rise due to supply constraints. Through the combination of our energy/carbon reduction efforts and investment in our portfolio, we should be able to reduce our reliance on offsetting and our subsequent exposure to adverse costs.

2°C scenario physical risks

The physical risks were identified across two types:

Chronic
- Heat stress
- Subsidence
- Coastal flooding and sea level rise

Acute
- Flooding
- Storms
- Infrastructure

Assessing these risks within a 2°C scenario showed overall that our physical climate risk was deemed not to be significant. However, in this scenario, one risk was assessed as still having residual significance:

- **Storms** – many of our buildings could be exposed to windstorm damage especially during the winter season. This will mean we need to ensure we have the right protection features in place to protect our building facades.

Whilst storms showed the most residual risk, heat stress, subsidence and infrastructure also had a level of 'possible risk' within this scenario but were restricted due to the lower temperature increases forecast in this scenario.

4°C scenario physical risks

Looking at the same risks under a 4°C scenario, the risk profile changed with one risk in particular presenting itself as high risk:

- **Heat stress** – hotter summers under a 4°C world (10-20 days of London being in a heatwave) will have an impact on our business, by increasing cooling demands and subsequently increasing energy consumption in our buildings and additional maintenance stress and costs.

Moreover, storms, flooding, subsidence and infrastructure also become significant risks.

We have not mapped the transition risk under a 4°C scenario as the business has chosen a transition pathway which is aligned to 1.5°C.

Whilst it is obvious that a warmer climate will have a greater impact on our business, we believe that our net zero carbon ambition will ensure we are identifying and acting on these appropriately and working towards becoming resilient to their effects.

Responsibility continued

Social

Our people

We aim to attract, inspire and engage a talented and diverse workforce, one that flourishes and is proud to work for Derwent London.

2020 Achievements

- Provided mental health awareness training for line managers and created mental health champions
- Promoted individual wellbeing within a respectful, inclusive and collaborative culture
- Launched second cohort of 'Fit for the Future' (FFTF) programme
- Steering group reviewed results of the 2019 employee survey

Attracting and optimising talent

We recognise that our employees are essential to the delivery of Derwent London's strategy and to our long-term performance. We aim to create a culture in which our talented and diverse workforce can thrive.

Of our employees, 51.3% have more than five years' service and 35.7% of external talent has joined over the past three years (see page 129). This provides the business with the right level of continuity and knowledge, balanced with fresh ideas, experience and skills.

We continue to invest significantly in our employees. There is a comprehensive learning and development programme catering to our employees' behavioural and technical needs at all levels. This programme includes our induction programme, a suite of core skills training, internal technical workshops, mandatory compliance training (see page 141), bespoke training for building managers, 360° feedback and the FFTF programme.

Derwent London has a continuous feedback approach and encourages regular performance conversations with line managers throughout the year, in addition to formal reviews.

It is important for us to have a strong talent pipeline. We have regular succession planning discussions, and these are supported by our FFTF programme. To date, 29 employees have benefited, with a further 26 employees enrolled for 2020/21. Each group is mentored by a dedicated executive coach and sponsored by two members of the Executive Committee. The latter are heavily involved in the design and content of the modules which include personal development, negotiation skills and collaboration. The modules are supplemented with one-to-one and group coaching sessions.

93%

Employee retention rate

52:48

Male:Female ratio

Diversity and inclusion

We are a respectful employer that welcomes diversity and promotes equality, tolerance and teamwork. It is important to us that we create an inclusive workplace in which our people can bring their whole selves to work, feel valued and able to make an impact. The Group's belief in 'diversity of thought' extends our conception of diversity beyond the traditional facets of gender, ethnicity, age and sexual orientation to include personality, communication and work styles. We recognise that diversity enriches our creativity and adds value for our stakeholders.

Derwent London has been working towards achieving the Hampton-Alexander Review gender diversity targets for female representation on its Board, Executive Committee and senior management teams. An overview of our progress since January 2018 is provided on page 127.

To enable us to achieve our overarching aim of becoming a truly inclusive company, we appointed a third employee to our Responsible Business Committee (see page 147), established a new Diversity and Inclusion Working Group, chaired by our CEO, and signed up to working towards achieving the National Equality Standard during 2021 (see page 149). Ongoing activities to advance diversity include:

- Mandatory unconscious bias training for all employees
- Nurturing a culture of transparency and openness which encourages people to raise any concerns and speak out about bias or discrimination
- Review of our family friendly policies
- Working with recruitment agencies to provide gender-balanced shortlists
- Continuing with Parental Transition Coaching for employees before, during and when returning from an extended period of leave
- Attracting women into our industry through work experience and mentoring opportunities

Diversity and Inclusion Working Group

Vasiliki Arvaniti, Victor Ezimogho, Helen Joscelyne, Jay Joshi, Katy Levine, Maruf Miah, Dupe Odunsi, Rosie Scott, Davina Stewart, Paul Williams and Vivian Wong

Employee engagement

An ‘open-door’ policy is part of our culture and encourages interaction between employees and management. This, together with a range of formal and informal communication channels (see pages 26 and 115), has helped create a highly engaged workforce.

A valuable method for us to gather feedback and assess engagement is via our formal biennial employee survey. The next survey is due to take place in October 2021. In the meantime, we conducted a short survey in November 2020 and were delighted to achieve a 100% response rate which we believe is a testament to the open culture we foster.

I am proud to work for Derwent London

Nov 2020	Oct 2019
↑ 98% Agreed	96% Agreed

I would recommend Derwent London as a great place to work

Nov 2020	Oct 2019
↑ 96% Agreed	89% Agreed

Overall satisfaction with working for Derwent London

Nov 2020	Oct 2019
↑ 96% Very Satisfied or Satisfied	92% Very Satisfied or Satisfied

> "The town halls have played a big part in keeping the business abreast of the Company’s performance, showcasing other departments whilst keeping it very personal."

> "A very supportive company that I am proud to be working for."

> "I believe Derwent has gone above and beyond to ensure the health and wellbeing of employees."

Wellbeing

Safeguarding and supporting the health and wellbeing of our employees is a core part of our HR strategy. We provide benefits, services and support mechanisms to maintain and improve physical and psychological wellbeing, whilst encouraging our employees to take a more active role in their own wellbeing.

Our commitment to wellbeing has been central to how we have supported employees through the pandemic. A Covid-19 Working Group was established which focused on clear communication, transparency and support. Our CEO has hosted fortnightly virtual town hall meetings to offer support, reassurance and answer questions from across the business, with presentations on our activities from different teams.

During the initial lockdown in June, we asked employees, via a questionnaire, how supported they felt whilst working from home. The response rate was 93% and we received constructive feedback on what was working well, any concerns and overall sentiment. All respondents agreed that the Group provided clear guidance in relation to its Covid-19 response and 95% agreed that their line manager had been accessible, in regular contact and provided the necessary support.

During periods when our employees were allowed to return to the office, we provided Covid-19 antibody testing and an online session to communicate the Covid-19 secure adaptations made to the office, to ensure peace of mind and alleviate any anxiety.

This year, activities focused on resilience and all aspects of positive wellbeing whether physical, psychological or financial, including:

- Mental health training for line managers, providing guidance in having open conversations and being able to spot ‘early warning signs’ in themselves and others
- Setting up a dedicated ‘lockdown link’ hub on our intranet providing information on our benefit providers, employee assistance programme, internal newsletters, seminars, health and fitness and guidance about homeworking and home schooling
- Bespoke virtual yoga, Pilates, bootcamp and mindfulness classes
- Working closely with our occupational health provider in relation to advice, referrals, pneumonia jabs and flu vouchers
- Social Committee events to build relationships in a fun, relaxed environment whilst at home, including a fortnightly lockdown quiz
- Launch of an Invest@Work scheme providing an opportunity for employees to save for their future
- Involvement with community projects and volunteering remotely (see page 52)

Our November survey indicated that 97% of respondents felt that we put appropriate, supportive protocols in place whilst working from home and in the office during the Covid-19 pandemic.

Health assessments

We were delighted that 97% of respondents to our June Pulse survey said that they agreed that health and wellbeing was a priority for the Group. Following the initial lockdown, we worked in partnership with a health and wellbeing specialist to offer all employees the opportunity of signing up to an on-site 1-1 employee health check. Of our employees, 80% signed up and received a same day health report with the aim of helping each person make positive lifestyle changes and identify areas of their health which could be improved.

p.39 Our strategy - To attract, retain and develop talented employees

Responsibility continued

Social

Community, occupiers and other stakeholders

We recognise our central role in ensuring our buildings are an integral part of the communities they sit within and that we must constantly strive to create value and opportunities wherever possible for local neighbourhoods.

2020 Highlights

- Established the first Derwent London architectural scholarship at The Bartlett, University College London
- Focused on supporting the NHS and key workers during lockdown
- Publication of socio-economic impact assessment of White Collar Factory (see page 149)
- Provided remote volunteering support throughout the year

> "We are so incredibly grateful for Derwent's support – especially through this particularly rough year. Your financial support, but also your kind voice at the end of emails, and your desire to go above and beyond in your support of our Senior Care, is such an encouragement and joy to us."
>
> Sarah Bennington, All Souls Clubhouse W1

Enabling thriving communities

Our community engagement has at its heart the goal of supporting local groups in the communities in which we operate and to ensure that our business recognises its role within this. There are many strands to our engagement to ensure maximum benefit to local communities.

Financial support through our corporate giving and Community Fund plays its part, however we place equal value on actively supporting and being part of communities so we can make a real impact. Employee volunteering, work experience opportunities and opening our buildings up to their local communities have all contributed to establishing and maintaining effective connections.

Over time, collaborative conversations with the organisations we work with refresh our focus and ensure we address the aspirations that communities have for everyone, increasing access to opportunities and supporting long-term ambitions towards empowering people.

p.13 Supporting communities

Audience member at a relaxed performance of the West End production Mamma Mia! (pre Covid-19) arranged by Mousetrap Theatre Projects. Derwent London's Community Fund provided core funding assistance during the 2020 lockdown.

Photo credit Alex Rumford

Creating value in the community

Themes	People	Outputs
Local prosperity	Neighbourhoods	Community Fund
Access to opportunities	Occupiers	Sponsorships and donations
Wellbeing	Building and property management teams	Planning contributions
Empowering communities	Employees	Volunteering/ pro bono contributions

Our Community Fund

Our Community Fund forms part of our ongoing sustainability programme and commitment to developing engagement with the local community, who we recognise as a key stakeholder. The fund's key priority is to support and create value in the community. We support grassroot projects with a focus on community events, environmental improvements, health and wellbeing activities, music and culture and ongoing help for disadvantaged groups. In 2020, the application guidelines were relaxed to allow a wider group to apply for critical financial assistance during the pandemic.

We remain steadfast to the original intention of the Community Fund, first established in 2013 in Fitzrovia and in 2016 in the Tech Belt: to help us engage effectively and to build strong relationships with local groups. Over the years both funds have enriched our knowledge of local areas and have opened up new avenues for us to explore when responding to the needs of community groups.

To date, over £750,000 has been given to over 110 projects. During 2020 a total of £97,715 was awarded to 18 projects across the two funds.

Corporate activities

Derwent London places great value on our relationships and the support we give to communities through a number of activities.

Over the last five years the Sponsorship and Donations Committee has approved over £1.03m of charitable donations to good causes, with a further £500,000 of sponsorships.

In 2020 we continued our particular focus on mental health and homelessness and funded the refurbishment of a counselling room within The Soup Kitchen in Fitzrovia; a collaborative effort alongside TTP on the build and AHMM as architects on a pro bono basis.

Some of our Building Management team took part in LandAid's annual sleepout in February, braving what turned out to be one of the coldest nights of the month to raise money towards LandAid's mission to end youth homelessness.

A team of building managers and property managers showed their support for frontline workers and raised money for the NHS Barts Charity by walking (virtually) from our London head office to Glasgow (our furthest office) and back, 690 miles.

We also marked Mental Health Awareness Week in May across the managed portfolio via positive daily Instagram posts and the circulation of information sheets promoting good mental health advice and signposting services to our occupiers.

↗ Responsibility Report on our website

Community expenditure 2020

Sponsorships and donations	£540,000
Community Fund	£97,715

18

Community Fund projects across Fitzrovia & West End and Tech Belt

69

Projects supported through the Sponsorships and Donations Committee

Collaboration with The Paddington Partnership

During lockdown many charities were faced with having to cancel their volunteering programmes for the safety of everyone. However, the need still remained for volunteers to ensure that communities were supported on the ground.

The Paddington Partnership, an organisation Derwent London has a long-standing relationship with, had also galvanised themselves in the early stages of the pandemic to address the urgent needs of the community and had worked tirelessly to match donations of food, clothing and toiletries from businesses to their community partners. Our employees were able to provide their time to assist with video conference training for a school in Paddington, marketing and website advice for a community centre, phone calls to the elderly to reduce isolation and virtual career talks to sixth form students.

Derwent London employees volunteering for The Great British September Clean at Paddington Basin

The Derwent London Bartlett Promise Scholarship

One of our major sponsorships starting in 2020 was a bursary for a new MSci Architecture course at UCL's Bartlett School of Architecture, condensing the usual seven years course into five. The Bartlett Promise scheme is aimed at under-represented students and those from disadvantaged backgrounds, which perfectly matches our desire to see greater diversity and inclusion in the built environment professions. UCL believe that it is the only initiative of its kind at an architecture school in the UK. Derwent London's contribution provides one student with a full fees and living costs scholarship. This ensures that the lack of access to funds is not an obstacle to accessing a university education.

'Business as usual' – still from a short film about climate change by Samuel Jackson, beneficiary of Derwent London's Bartlett Promise Scholarship 2020-2024 for their new MSci Architecture course

Responsibility continued

Social

Health and safety

Since the outbreak of the Covid-19 pandemic, we have been continually adjusting our health and safety operations as the situation unfolds, whilst continuing to manage and mitigate risk in these challenging times.

2020 Achievements

- Improved compliance reporting across all commercial and residential sites
- Completed enhanced third party slip testing programme across all sites
- Completed accessibility review across all sites
- Introduced online health and safety training
- Introduction and implementation of the 'Derwent Way', Accessibility Audits and our internal Inclusive Design Guide

Why it matters

Our primary focus is the health, safety and wellbeing of our people, tenants, residents, contractors and the public. The outbreak of the Covid-19 pandemic and the ever-changing restrictions raised many additional challenges. Our Health and Safety team has ensured the Group continues to meet its health and safety requirements, whilst continuing to manage and mitigate its risks. During 2020, we were also able to further develop the team by setting out its foundations and protocols for the future. These changes are now being promoted across the Group and with external stakeholders.

Derwent London has developed a robust set of due diligence policies and procedures, which are readily available and communicated to our customers.

p.101 Governance

The health, safety and wellbeing of our contractors is paramount – The Featherstone Building EC1

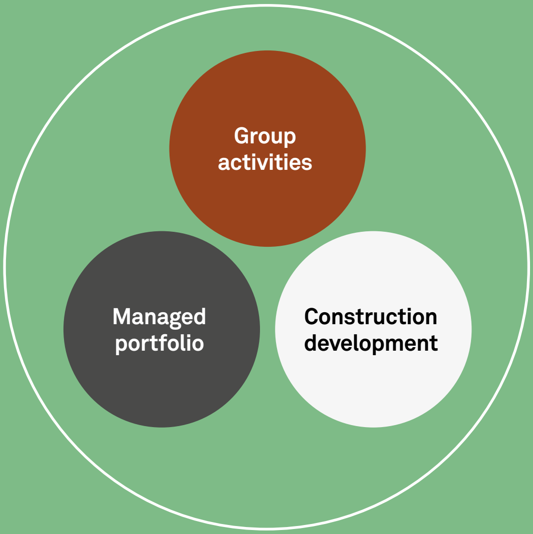
Our approach to health and safety

The Derwent Way

The Derwent Way represents our health and safety approach. It provides a suite of best practice procedures and explains our inclusive health and safety culture to internal and external stakeholders.

Our integrated approach to health, safety and wellbeing ensures that it is considered at every stage during the life cycle of our properties – from acquisition, through to development, management, leasing and disposal. This requires working collaboratively with our internal and external stakeholders to design, build, maintain and operate our buildings using robust working practices in order to ensure they are safe and healthy environments to occupy.

Inclusive health and safety



Mates in Mind

CLOCS Construction Logistics and Community Safety

Mates in Mind (MIM)

During 2020 Derwent London became a MIM supporter and developed the Derwent Way Health and Wellbeing Standard, which binds our contractors to the MIM mental health programme.

Why CLOCS?

Every year over 5,500 pedestrians, pedal cyclists and motorcyclists in Britain are killed or injured in collisions, with construction vehicles commonly involved. Derwent London are a CLOCS champion and committed to demonstrating our commitment to protection of vulnerable road users, from a client and contractor perspective.

Health

For many years there has been a greater emphasis on safety within the construction industry due to the immediacy of incidents and accidents. This has led to a significant reduction in the number of workplace incidents across the industry in general. Our approach is to give health, both physical and mental, the same prominence as safety so that occupational health-related matters are also considered.

Mental health has become a major focus of our team during the various lockdowns and there are currently 23 mental health first aiders and numerous Mates in Mind champions within our projects. This demonstrates the influence the Group can have on project health, safety and wellbeing. We will continue to drive this in 2021.

Fire Safety Management System

Throughout 2020 we have worked hard to develop our Fire Safety Management System in line with BS9997 and this is now ready for external certification with implementation planned for 2021.

Managed portfolio

Following health and safety inspections of our commercial properties within the managed portfolio in 2019, the Property Management team has extended the compliance platform to include residential properties. Further, as a part of a wider compliance review, external slip testing and accessibility surveys were carried out across our portfolio. The results of which are assisting our contractors to ensure the safety and accessibility of our buildings. We completed our workplace health and safety reviews in-house this year and the results will enable us to improve our standards further in 2021.

The Health and Safety team has supported the Property Management team throughout the year to ensure that our buildings and projects are being operated safely while minimising the risk of spreading Covid-19.

Development

The Construction Leadership Council (CLC) was quick to respond to the first lockdown and set up a Covid-19 Task Force, a panel of industry experts, which included our Head of Health and Safety. The outcome was the publication of Covid-19 Site Operating Procedures by the CLC which we have implemented across all of our construction sites, providing safe and healthy environments for our contractors. 2020 was another busy development year, with over 1m sq ft of projects either in concept, planning or construction stage. This was made even more challenging by the lockdowns and management issues caused by Covid-19. Our teams and the entire supply chain, together with contractors, proved they were up to the challenge. Throughout the year, we have maintained good performance standards in what has been a very difficult period (see page 62).

Between Derwent London, our contractors and external consultants we have delivered:

4,866 Inductions	721 Toolbox talks	224 Site inspections
187 Leadership safety tours	195 Health and safety briefings	30 Derwent Way briefings
104 Client monitoring site visits	50 Safe start meetings	76 External health and safety audits

Training

Ongoing training is important to ensure that we maintain the highest level of health and safety standards and that awareness is raised throughout the organisation. With Covid-19 restrictions in place during 2020, we had to change the format of our health and safety training and communication. Working with an external consultant, we developed a suite of online training modules relevant to our sector which have proven very popular and effective. We are proud to say the team have worked hard to make them as interactive as possible, which has produced excellent results. We also developed a new compliance-focused health and safety training matrix which has been rolled out to our Property Management and Development teams. In addition, we have continued to enrol our people on external courses, such as NEBOSH, IOSH and mental health first aid courses. Collectively, 162 workdays of training was completed during 2020.

Priorities for 2021

- We will continue to set the tone and push the boundaries for health and safety best practice
- Inspire visible leadership in health and safety
- Continue to raise awareness within our organisation and supply chain
- Deliver safe, healthy and secure developments without incident
- Provide safe, healthy and secure places for our people, customers and contractors to work, live, visit and relax
- Continue to emphasise the importance of physical and mental health

Health and safety on site

As a responsible developer we have set high principles for health and safety. Under the banner of the 'Derwent Way', we provide a suite of best practice standards for our contractors which covers topics such as working at height, asbestos, lead, fire, health and wellbeing and design. The relevant standards now form part of our contractual requirements. In line with our priority to ensure that health is treated with equal importance as safety, we became a Mates in Mind supporter in 2020.

Soho Place W1

Responsibility continued

Governance

At Derwent London, acting in a fair and responsible manner is a core element of our business practice.

2020 Highlights

- Responsible Business Committee approved the Net Zero Carbon Pathway which was published in July 2020 (see page 28)
- Deloitte performed an independent assurance assessment of our green financing arrangements
- Continued mandatory compliance training programme for all employees (including Directors) which covered topics such as fraud awareness, cyber security and competition law (see page 141)
- HMRC confirmed our 'low-risk' tax rating status until 2022

A responsible business

The oversight of ESG matters is critical. It not only allows the Board to understand more holistically the impact of its decisions on key stakeholders and the environment, but also ensures it is kept aware of any significant changes in the market. This includes the identification of emerging trends and risks, which in turn can be factored into its strategy discussions.

ESG is overseen principally by the Board, Responsible Business Committee and Sustainability Committee (see our ESG governance framework). Our Chief Executive, Paul Williams, is the designated Director with overall accountability for ESG matters. He oversees the review and performance of our responsibility work as chair of the Sustainability Committee and as a member of the Responsible Business Committee.

Additional governance disclosures

p.104 The section 172(1) statement
p.116 Whistleblowing
p.141 Compliance training
p.142 Anti-bribery and corruption
p.86 Tax risk

Our ESG governance framework

The Board

Overall responsibility for ESG matters

Risk Committee

Identifies and evaluates key ESG risks (principal and emerging) ensuring they are appropriately managed

p.138 Report

Responsible Business Committee

Monitors the Group's corporate responsibility, sustainability and stakeholder engagement activities

p.146 Report

Audit Committee

Monitors assurance and internal financial control arrangements

p.130 Report

Remuneration Committee

Ensures ESG factors are included in the executive remuneration framework

p.150 Report

Executive Committee

Responsible for overseeing the Group's ESG initiatives

Sustainability Committee

Responsible for implementing the Board's ESG strategy

Health and Safety Committee

Responsible for monitoring health and safety management and performance

Sponsorship and Donations Committee

Responsible for the Group's charitable activities and donations

Social Committee

Aims to encourage teamworking and collaboration between departments through social activities

Climate change governance

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

In July 2020, the Board published its pathway to becoming net zero carbon by 2030 (see pages 28 and 29). Our strategy and targets for energy consumption and carbon emissions are set and monitored by the Board. The Board and Executive Committee receive regular updates and presentations on environmental and sustainability performance from the Head of Sustainability.

Climate change governance

Sustainability Committee

Informs the Executive Committee and Responsible Business Committee on climate risk and appropriate management measures taken

Sustainability Team

Develops and implements appropriate management measures across the business and identifies climate risk to inform the risk management process

Climate change progress and accountability

The Board monitors the Group's progress through our science-based targets, which were independently validated and approved by the Science-Based Target initiative (SBTi) in 2019. In addition, performance is externally assured by Deloitte LLP and our 2020 Scope 1, 2 and 3 GHG emissions data, intensity ratio and energy data received 'Public Reasonable Assurance'. A risk analysis of climate change over the next 10 years was performed by Willis Towers Watson; the results of which will be presented to the Risk Committee in 2021 (see page 49).

We report under several frameworks to provide a complete picture of our progress and activities and to allow comparison with our peers and other companies (see pages 58 to 62 and 149). Our sustainability work has drawn external recognition. We maintain Greenstar status in the Global Real Estate Sustainability Benchmark (GRESB) index with a score of 80, we are listed in the FTSE4Good index and maintain our CDP rating of Management B.

p.62 SECR disclosure

Green finance governance

Our Green Finance Framework allows us to clearly link our financing to the environmental benefits our activities generate. Our Green Finance Framework received independent assurance from Deloitte that it is aligned with the Loan Market Association's Extended Green Loan Principles from December 2018 and the complete assurance statement is available on our website. Further information on our Green Finance Framework is on page 79.

Supply chain governance

It is important to us that our suppliers and construction partners operate ethically and share our ESG business principles. Our development projects can span several years and impact upon numerous stakeholders and the environment. It is therefore critical that we carefully chose and manage our development relationships.

Our supply chain governance procedures ensure our suppliers are aware of the standards we expect from them and the business practices which we will not tolerate. All suppliers with whom we spend more than £20,000 per annum are required to provide evidence of how they are complying with our Supply Chain Sustainability Standard (the Standard), which includes a minimum requirement that any form of corruption, bribery or anti-competitive behaviour or actions are not tolerated within our supply chain (see page 148 for further information).

Ensuring our payment practices are ethical is a key requirement in governing our supply chain. This was of particular importance during 2020 due to the Covid-19 pandemic and its impact on businesses.

p.135 Responsible payment practices

Protecting human rights

The protection of human rights and fundamental freedoms is one of our key ESG priorities which we manage from an internal (within our business) and external perspective (within our supply chain and our relationships with contractors) (see page 149).

Based on our ongoing risk assessment, we continue to believe the risk of any slavery or human trafficking in respect of our employees is low. The risk assessment of our supply chain indicated the potential greatest risk existed in the use of building contractors for our development schemes, as their work involves the use of subcontractors. This risk also exists in some of the companies that provide Derwent London with services such as cleaning and security. We ensure all of these suppliers are aware of the Modern Slavery Act 2015 and we require them to formally confirm they are in compliance with the legislation. We monitor and cross-check our supply chain, from procurement to delivery.

Tax governance

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

We have an open and transparent relationship with HMRC and seek to anticipate any tax risks at an early stage, including clarifying areas of uncertainty with HMRC as they become evident. We keep HMRC informed of how our business is structured and respond to all questions or requests promptly. Our Head of Tax also regularly engages with HMRC via his roles with the Chartered Institute of Tax and the British Property Federation to support consultations or to seek legislative clarification in areas that could potentially impact our business.

Responsibility continued

ESG data and reporting frameworks

New for this year, we have consolidated our ESG data and our disclosures with the wide range of reporting frameworks and indices which are important to our stakeholders.

To enable our stakeholders to get a rounded view of our ESG approach we align our reporting outputs with several recognised reporting frameworks, such as the EPRA Best Practice Reporting measures (both financial and sustainability), the United Nations Sustainable Development Goals (UNSDGs), and the Task Force on Climate-related Financial Disclosures (TCFD). In addition to the summaries presented here, we also provide detailed disclosures in our annual Responsibility Report.

Tea Building E1

Non-financial reporting

As we have fewer than 500 employees, the Non-Financial Reporting requirements contained in the Companies Act 2006 do not apply to us. However, due to our commitment to promoting transparency in our reporting and business practices, we have elected to provide further information in the table below.

	Our key policies and standards	Additional information
Environmental matters	• Responsibility Policy • Our target to be net zero carbon by 2030 • Science-based carbon targets • Task Force on Climate-related Financial Disclosures • Streamlined Energy and Carbon Reporting (SECR) disclosure	• Annual Responsibility Report (see our website) • Net zero carbon strategy (see page 28) • Climate change governance (see page 57) and risk management (see pages 96 and 97) • Executive Directors' annual bonus (see page 161)
Social and employee aspects	• Volunteering Policy • Equal Opportunities and Diversity Policy • Professional Development and Training • Shared Parental Leave • Flexible Working Policy	• Our Community Fund (see page 53) • Our people (see pages 50 and 51) • Diversity and inclusion (see pages 50 and 127)
Respect for human rights	• Individual Rights Policy • Health and Safety Policy Statement • Supply Chain Sustainability Standard • Modern Slavery Statement	• Health and safety (see page 54) • Human rights and modern slavery (see pages 57 and 149) • Supply Chain Sustainability Standard (see page 148)
Anti-corruption and bribery issues	• Anti-bribery Policy • Whistleblowing Policy • Expenses Policy • Money Laundering and Terrorist Financing Policy • Preventing facilitation of Tax Evasion Policy	• Audit Committee report (see pages 130 to 137) • Risk Committee report (see pages 138 to 145) • Our principal risks (see pages 84 to 99) • Compliance training (see page 141)

UNSDG disclosures

The United Nations Sustainable Development Goals (UNSDGs) are an international standard developed to support global change and sustainable growth. We believe that we have a part to play in supporting the UK in responding to this standard and helping to effect change in London – the primary focus of our business operations and a major international city.

We have reviewed the suite of 17 goals and have selected those goals which align most closely to our ESG priorities.

Additional disclosures

Set out in the table below is a summary of our progress against the goals which are particularly significant to our business.

Our ESG priority	UN Goal	Applicable target	Applicable indicator	Our efforts
Creating value in the community and for our wider stakeholders	4 QUALITY EDUCATION	4.4	4.4.1	Through our Community Fund we invest in and support youth and adult ICT education and skills training – both technical and vocational. Examples of this include working with The Young Coneys' School for Grown Ups and their project to upskill 7 to 13 year olds in interdisciplinary digital and creative skills. Likewise, our work with SoapBox Online and their Soundscapes project, which is a multimedia project co-produced by socially excluded young people, producing audio visual representations of young people's experience and impact of Covid-19.
		4.a	4.a.1	Through our Community Fund we invest in and support projects which look to upgrade and improve youth education facilities. A recent example of this is the St Mary Magdalene School library bus project, where we helped the school create a well needed library space for pupils and the community. The project involved refurbishing a 1970s double decker bus into a fun, creative, inspiring space where pupils can read and learn.
Protecting human rights, Engaging and developing our employees	5 GENDER EQUALITY	5.1	5.1.1	Beyond any legislative requirement, we are active in ensuring meaningful gender equality in our business. Whether that is making sure our business structure is representative or making sure our suppliers have the same policies and approaches in their businesses. Some of our recent work internally includes the formation of a new Diversity and Inclusion Working Group, unconscious bias training and starting our journey towards achieving the National Equality Standard.
		5.5	5.5.2	Within our business, 33% of women are in managerial roles/positions.
Designing and delivering buildings responsibly, Managing our assets responsibly	7 AFFORDABLE AND CLEAN ENERGY	7.2	7.2.1	We purchase 100% REGO-backed electricity which supplies our buildings, and as part of our net zero carbon programme we are looking at how we can procure renewable gas supplies and incorporate higher levels of on-site renewable energy generation.
		7.3	7.3.1	As part of our science-based targets we have a specific energy intensity target (see our latest Responsibility Report), designed to help us improve our energy intensity.
Creating value in the community and for our wider stakeholders	11 SUSTAINABLE CITIES AND COMMUNITIES	11.7	11.7.1	We actively promote the inclusion of public spaces in and around our buildings and ensure they are fully accessible to those with disabilities. In addition, we are part of the London Mayor's Business Climate Leaders Group which was set up to help London become a zero-carbon city by 2030.
Managing our assets responsibly	12 RESPONSIBLE CONSUMPTION AND PRODUCTION	12.5	12.5.1	We have established a portfolio wide minimum recycling target of 75% and a no waste to landfill policy.
		12.6	12.6.1	We integrate comprehensive sustainability reporting information into our company reporting cycles and public reporting.
Designing and delivering buildings responsibly and Managing our assets responsibly	13 CLIMATE ACTION	13.2	13.2.2	We have independently verified science-based carbon targets which are set to a 2°C reduction scenario. This means we are committed to reducing our carbon emissions and making sure our portfolio is climate resilient.

Responsibility continued

The Task Force on Climate-related Financial Disclosures (TCFD)

We have made disclosures in line with the TCFD recommendations since 2018 and have been continuously refining the quality of our reporting to give our stakeholders a holistic view of our approach to climate risk. To further integrate our reporting, we have linked the relevant section of our disclose to the relevant section of our report.

Governance

p.101

Describe the board's oversight of climate-related risks and opportunities.	The Board has overall responsibility for ESG matters, in which climate related aspects are included. The Responsible Business Committee, a principal committee of the main Board, monitors the management of our climate related risks and opportunities, which is in turn informed by our Sustainability Committee. Both CEO, Paul Williams, and Head of Sustainability, John Davies, provide regular updates to all of these committees on our climate related work and the associated risks and opportunities. Data and performance dashboards are provided to the committees to provide oversight.
Describe management's role in assessing and managing climate-related risks and opportunities.	Paul Williams, CEO, is the main Board member with overall accountability for sustainability. In addition, he is chairman of the Sustainability Committee and oversees the performance of our climate-related work. Data and performance dashboards are provided to the committees to provide oversight. The Sustainability team, led by John Davies, has day-to-day management responsibility of climate related issues.

Strategy

p.32

Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long-term.	Short-term (0-5 years) – market shift in terms of stricter legislation e.g. the introduction in the UK of the potential new minimum energy efficiency standards (MEES) for commercial and domestic property in response to the UK committing to becoming net zero carbon by 2050. Medium-term (5-10 years) – market demand from occupiers for buildings and spaces with higher levels of efficiency, climate resilience and lower carbon footprints. Long-term (15+ years) – changing climatic conditions in London, principally storm events and rising temperatures, and their impact on our buildings.
Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning.	As a central London focused real estate investment trust (REIT) we invest in, develop, and manage property in central London and, as such, climate-related issues affect the way we develop new buildings and how we manage existing ones. Recognising that climate change has an impact on our business and subsequently our stakeholders has led us to develop our Net Zero Carbon Pathway and announce our ambition to be a net zero carbon business by 2030 (aligned to a 1.5°C climate scenario) – to find out more please see our website. Our pathway covers the breadth of our business activities to ensure we are reducing our carbon footprint and exposure to risk, examples include: Developments – our Sustainability Framework for Developments ensures we are designing buildings to be resilient to physical risks such as changes in future weather patterns by making them long life, flexible and less reliant on mechanical cooling and free from fossil fuel use (i.e. all electric heating and cooling). Financial planning (capital expenditure and allocation) – we are looking to develop our approach to carbon accounting so that we can include the cost of carbon in our financial appraisals and forecasting, which will enable us to understand and capture the cost of carbon in our new schemes and business activities. Managing assets – our Sustainability Framework for Assets ensures we have Building Sustainability Plans in place for each asset which sets out how we will reduce energy consumption/carbon emissions effectively. Acquisitions – our business model is based on acquiring older buildings and improving them to add value. During the acquisition process, we look to assess the true carbon cost of a potential purchase and how we can transition it to a net zero carbon pathway, including the eventual adoption of carbon appraisals. Access to capital – our Green Finance Framework has been specifically developed to allow us to link our finances to our net zero carbon ambitions by setting out performance criteria and a governance framework which enable us to show the direct link between the use of our debt facilities and our development and refurbishment activities. For further details please see our website.
Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	As mentioned above we recognise that climate change does have an impact on our business, and part of our strategic evolution has been our commitment to becoming a net zero carbon business by 2030 so that we can transparently address the transitional and physical risks and opportunities which apply to our business. This is in addition to our existing science-based targets, which are already aligned to a 2°C scenario. Our pathway sets out a clear plan on how we will transition towards becoming a net zero carbon business by: • Reducing the energy consumption and improving the efficiency of our assets • Increasing renewable energy procurement e.g. green gas procurement, self-generated energy managing the future risk of higher energy costs • Adopting carbon accounting to enable us to anticipate the future cost of carbon so we can inform our decision-making • Reducing the embodied carbon associated with our development schemes • For those carbon emissions we cannot eliminate we will offset using verified schemes which remove carbon from the atmosphere For more detail on our Net Zero Carbon Pathway please see our website.

Risk management

p.84

Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.

Each year senior managers from the various business functions report their key risks (which includes sustainability/climate change related risks) to the Executive Committee. The risks are assessed by the Committee to understand their severity, likelihood and the optimal controls and/or mitigation required. For more detail on our risk management process please see pages 96 and 97 in this report.

During 2020 we engaged Willis Towers Watson to assist us with a deeper dive analysis of climate-related risk set across different climate scenarios – namely 2°C and 4°C scenarios. Further insight into the outputs from this work can be found on page 49 and in our annual Responsibility Report.

2°C scenario – aligned with the [1]IPCC's RCP 2.6
Transition risk and opportunities

- Stricter carbon legislation – tougher minimum energy efficiency standards are likely to be introduced which could require additional investment in our portfolio to ensure compliance.
- Change in occupier demands – by adopting our net zero carbon ambition we can demonstrate good competitive advantage and be able to capitalise on the demand for lower carbon assets which meet the changing market.
- Pricing of GHG emissions – while the cost of carbon is likely to continue to rise, without investment in our portfolio this could result in higher costs.
- Cost of raw materials – climate change could affect the input costs to produce traditional development related materials, but utilising more innovative low carbon materials could allow us to mitigate some of the potential impacts this risk might pose.

Physical risks

- Heat stress – whilst within this climate scenario, and coupled with our management approach, this is not a high risk to our business, we remain vigilant to any increase in temperature and the effect it could have e.g. increased cooling demands and subsequent increases in energy consumption.
- Subsidence – although not a significant risk to our business, in this scenario temperature increases in different climate scenarios, coupled with increased rainfall or flooding, could affect some of our older properties.
- Critical infrastructure – water and energy utilities together with road transportation could see increased demand due to the increased probability of hot spells and drier summers, which could cause disruption to our business.

4°C scenario – aligned with the [2]IPCC's RCP 8.5
Transition risk and opportunities
As a business we have chosen a transition pathway which is aligned to 1.5°C therefore we have not mapped the risks here for a 4°C scenario.

Physical risks

- Heat stress – hotter summers (10-20 days of London being in a heatwave) will have an impact on our business, by increasing cooling demands and subsequent increases in energy consumption in our buildings and maintenance costs.
- Flooding – in this climate scenario flood defences such as the Thames Barrier could be placed under increased stress which could lead to failures, albeit this would only possibly affect four of our properties. In addition, flash flood risk could increase.
- Subsidence/critical infrastructure – in this climate scenario instances of subsidence and critical infrastructure disruption are likely to be more probable over the 2°C scenario.

Metrics and targets

p.45

Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.

To enable our stakeholders to understand our impact and subsequent performance we report an extensive range of consumption and intensity metrics relating to energy, carbon, waste and water in our annual Responsibility Report.

Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.

We provide comprehensive disclosure of our Scope 1, 2 and 3 emissions in our Streamlined Energy and Carbon Reporting (SECR) on page 62 in addition to the detailed energy and carbon data reporting in our annual Responsibility Report.

Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.

We have developed a set of science-based targets which have been approved by the Science-Based Targets Initiative (SBTi). These targets align our carbon reduction programme with our business activities and minimise the effects of climate change on our managed portfolio. Please see our annual Responsibility Report for further details on our science-based targets.

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[1] Intergovernmental Panel on Climate Change (IPCC) Representative Concentration Pathway (RCP) 2.6 assumes a high likelihood that global temperatures will not generally exceed 2°C over pre-industrial levels by the end of this century.

[2] Intergovernmental Panel on Climate Change (IPCC) Representative Concentration Pathway (RCP) 8.5 assumes that the climate will increase in temperature by up to 4°C by 2100.

Responsibility continued

Streamlined Energy and Carbon Reporting (SECR) disclosure

In line with the SECR regulations, we present below our disclosure which is comprised of our carbon footprint presented across Scopes 1, 2 and 3, together with an appropriate intensity metric – tCO_2e/m^2, and our total energy use (kWh) from electricity, gas and biomass use.

Energy efficiency actions

Our focus on energy efficiency in 2020 was impacted by Covid-19 which required us to introduce different operating procedures for ventilation and air conditioning in our buildings. To ensure a safe working environment for our occupiers and building staff, we increased the amount of fresh air intake to 100%, with no recirculated air, and enhanced the air filtration to provide an added layer of protection. During the year we have been able to collaborate with our occupiers to deploy localised strategies, using our BMS systems to divert services to active/occupied zones only. As a result, we saw a significant reduction in energy consumption of over 23% in the period. Some of the innovations and optimisation measures includes:

- BMS heath checks and time clock re-sets
- Ongoing LED/PIR rollout
- Reducing plant run time to collaborate with building occupancy

GHG and energy data

	2020	2019	Difference
Total Scope 1 emissions (tCO_2e)	**3,326**	4,650	-28%
Total Scope 2 emissions (tCO_2e)	**1,947 (location-based)**	2,925 (location-based)	-33%
	0 (market-based)	0 (market-based)	
Total Scope 3 emissions (tCO_2e)	**7,749**	11,809	-34%
Carbon intensity ratio (tCO_2e/m^2)	**0.015**	0.019	-22%
Total energy use (kWh of electricity, gas and biomass use)	**26,468,508**	34,194,690	-23%

Data notes (reporting period 1 January to 31 December 2020)	
Reporting period	1 January to 31 December 2020
Boundary (consolidation approach)	Operational control, based on our corporate activities and managed property portfolio, all of which are located in central London (UK).
Alignment with financial reporting	The only variation is that our GHG emission/energy data presented does not account for single-let properties or properties for which we do not have management control. This is because we have no control or influence over the utility consumption in these buildings. However, the rental income of these properties is included in our consolidated financial statements.
Reporting method	We arrange our GHG emissions reporting in line with the Greenhouse Gas (GHG) Protocol Corporate Accounting and Reporting Standard. For further details on our data calculation methodology please visit the data section of our annual Responsibility Report.
Emissions factor source	DEFRA, 2020 - https:**//www.gov.uk/government/collections/government-conversion-factors-for-company-reporting** for all emissions factors apart from the Scope 2 market based factor which is based on the provenance of our electricity supplies which are from renewable sources.
Scope 3 emissions	We use the GHG Protocol Scope 3 Standard to collate and report on our relevant Scope 3 emissions. Our relevant emissions categories include fuel and energy related activities, waste generated in operations, business travel, water use and emissions from downstream leased assets (tenant emissions).
Independent assurance	Public reasonable assurance (using ISAE 3000) has been provided by Deloitte LLP over all Scope 1, 2 and 3 GHG emissions data, intensity ratio and energy data. Our assurance statement can be found in our annual Responsibility Report.

For more analysis of our GHG emissions, energy consumption and renewable energy generation, use and procurement please visit the data section of our annual Responsibility Report.

Health and safety statistics

The table below details our key health and safety statistics and accident frequency rate (AFR) for 2019 and 2020. In addition, we also present our AFR for our development projects, which has increased, for which there are a number of reasons. We brought the Client CDM monitoring role in-house to ensure full visibility of our construction activities. We also now require contractors to provide monthly reports capturing our data (for projects greater than four weeks). This data now allows us to identify trends and highlights where we should focus. A change in our health and safety strategy, processes and behaviours has helped us make improvements for contractors on site.

	Employees		Managed portfolio		Developments	
	2020	2019	**2020**	2019	**2020**	2019
Person hours worked	**n/a**	n/a	**n/a**	n/a	**2,204.499**	2,335.651
Minor accidents	**1**	7	**10**	48	**46**	34
RIDDORS	**0**	0	**0**	5	**6**	2
Dangerous occurrences	**0**	0	**0**	0	**0**	0
Fatalities	**0**	0	**0**	0	**0**	0
Improvement notices	**0**	0	**0**	0	**0**	0
Prohibition notices	**0**	0	**0**	0	**0**	0
RIDDOR (AFR)	**n/a**	n/a	**n/a**	n/a	**2.72**	0.08

Notes:

(i) Public reasonable assurance provided by Deloitte LLP over all minor accidents, RIDDORs, fatalities and improvement notices data. Our assurance statement can be found in our annual Responsibility Report. This does not include Covid-19 events as there is no evidence that this is work-related.

(ii) RIDDOR Accident Frequency Rate = 2.72 (6 RIDDORS / 2,204,499 man hours)*1,000,000

ESG focus areas for 2021

Leadership commitment

As a responsible business, we balance and manage our environmental, social and governance (ESG) risks and opportunities proactively, to add long-term sustainable value to our business model for the benefit of our stakeholders.

ESG is visible in our strategy, culture and the design and management of our buildings. Having issued our Net Zero Carbon Pathway, we believe we are playing an important role in improving the performance and resilience of London's building stock and supporting the UK in tackling the country's overall carbon footprint.

ESG will continue to rise in prominence, as the UK focuses on confronting climate change and as our stakeholders demand sustainable workspaces. We are confident that our early adoption and understanding of the ESG issues material to our business, provides us with a solid foundation to further improve the sustainability of our portfolio and continue to deliver long-term value.

Paul Williams
Chief Executive

Environmental

- Continue to deliver our Net Zero Carbon Pathway
- Develop, refine and embed our approach to carbon accounting
- Develop our net zero carbon tenant engagement plans
- Continue to research and assess the opportunities for renewable energy generation on our Scottish estate

Social

People

- Continue with and conclude our second FFTF programme
- Conduct our full 4th employee survey in October 2021
- Work towards achieving the UK National Equality Standard

Community

- Continue to support equal access to higher education with a bursary at Reading Real Estate Foundation
- Extend our Sponsorship and Donations commitment to prioritising mental health and homeless organisations
- Focus on empowering local groups to effect the change they want to see in their neighbourhoods through our Community Fund

Health and Safety

- Progress our Fire Safety Management System ready for third party accreditation
- Implement the requirements of the Fire Safety and Building Safety Bills and integrate across the business
- Procure and embed improved compliance and e-permit systems across the managed portfolio
- Focus on reducing RIDDORs across our development projects

Governance

- Review the results of the UK National Equality Standard assessment in Q1 2021
- Publish our 2021 Modern Slavery Statement and agree focus areas to further strengthen our processes
- Host the Group's first Stakeholder Day in 2021, subject to no Covid-19 restrictions in H2 2021 (see page 114)
- Review the results of the climate change risk analysis performed by Willis Towers Watson

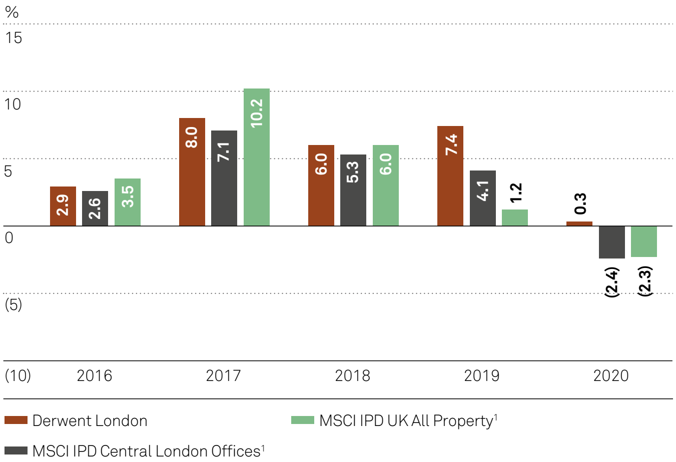
Property review

Valuation

The Group's investment portfolio was valued at £5.4bn as at 31 December 2020.

Nigel George
Executive Director

Total property return



[1] Quarterly Index

Left: 19-35 Baker Street W1 – CGI

There was a deficit for the year of £178.5m, which after accounting adjustments of £19.0m (see note 16), gives a reported deficit of £197.5m. Underlying values decreased 3.0%, compared to a 3.9% uplift in 2019. However, we significantly outperformed our benchmarks: the MSCI IPD Quarterly Index for Central London Offices and the wider All UK Property Index which were down 5.6% and 6.6% respectively. The Royal Institution of Chartered Surveyors relaxed the requirement to add uncertainty clauses to central London office valuations, an obligation at the half year.

By location, our central London properties, which represent 99% of the portfolio, dropped in value by 2.9% with the West End down 3.3% and City Borders down 2.1%. Our Scottish holdings, representing just 1% of the portfolio and principally retail, declined 11.2%.

Using EPRA metrics, our rental values declined 2.8%, as a subdued leasing market impacted rents. The relatively small retail and hospitality element, 9% by income, was most affected, down 18.3% as London was in lockdown for much of the year. The office portfolio was down a more modest 1.2%, with modern quality product generally holding up well but the lesser quality buildings, mainly those earmarked for redevelopment or major refurbishment, more negatively impacted. By location, City Borders' ERVs were down 1.8%, more resilient than the West End down 3.3%.

The portfolio's EPRA initial yield rose by 30bp to 3.7% which, after allowing for the expiry of rent-frees and contractual uplifts, goes to 4.8% on a 'topped-up' basis, a 10bp increase over the year. Looking at the true equivalent yield, this moved in marginally during the year by 3bp from 4.77% to 4.74%. This now includes 80 Charlotte Street following completion of the development in June. Given its quality, size (10% of the portfolio) and long-term income stream, it had a significant impact on the portfolio's yield. If excluded, the portfolio's equivalent yield would be 4.80%, a 3bp expansion over the year. This reflects weakening yields on the retail, shorter-term income and leaseholds.

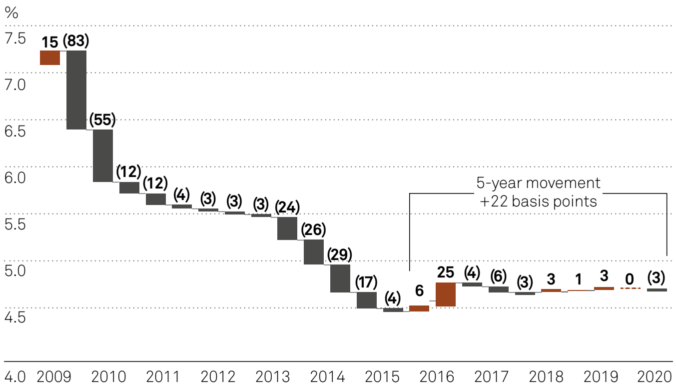
Our total property return of 0.3% compares favourably to the MSCI IPD Index which delivered negative returns of -2.4% for Central London Offices and -2.3% for UK All Property. This outperformance came from the release of development surpluses, the run-off of rent-free periods from earlier developments, such as Brunel Building, which completed in 2019, and strong asset management activity extending leases.

At the start of the year, we were on site with three major developments, 80 Charlotte Street W1, Soho Place W1 and The Featherstone Building EC1. These were valued at £848.3m in December 2020 and delivered a 5.3% uplift as they progressed and with further pre-let/forward sales commitments. Excluding these developments, the underlying portfolio movement was down 4.4%. In June, 80 Charlotte Street, our largest development to date, completed and was handed over to its occupiers, principally Arup and Boston Consulting Group. There is only a small element of space left to let and there has been good progress made on the disposal of the apartments in this mixed-use development. This project has delivered a profit on cost of 27%. The two developments currently on-site, valued at £306.0m, represent 6% of the portfolio. This year we will add our next major redevelopment project, 19-35 Baker Street W1, to this category and more detail on this and other projects can be found under 'Development & Refurbishment' on pages 71 to 73.

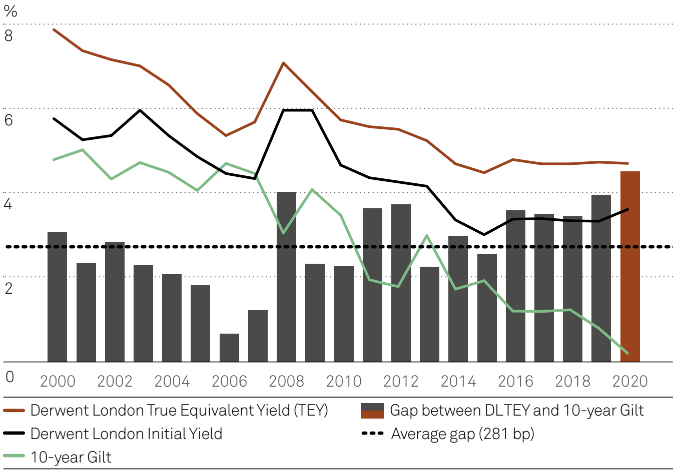
Valuation continued

Our contracted annualised cash rent at 31 December was £189.2m. It increased 5.3% over the year, reflecting contracted rental uplifts and development income from completions which more than offset the impact of vacancies and the income lost from disposals. The portfolio's ERV of £291.2m includes £102.0m of potential reversion. Looking at the increase in more detail, £58.0m is contracted through rent-free periods and fixed uplifts, which under IFRS accounting treatment is already mostly incorporated in the income statement. Our on-site developments and major refurbishments could add a further £33.2m to future income, of which £17.0m or 51% is already pre-let. Despite the difficult economic environment, our vacancy rate remains low at only 1.8% (2019: 0.8%), representing £5.0m of reversion. The £5.8m balance is from smaller refurbishments and future lease events.

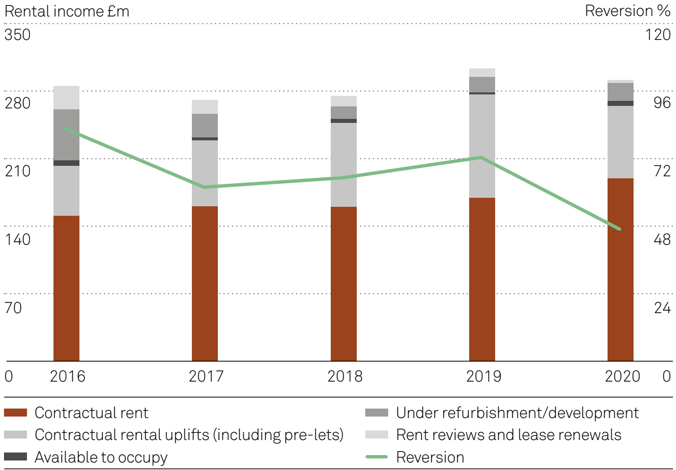
True equivalent yield



Valuation yields



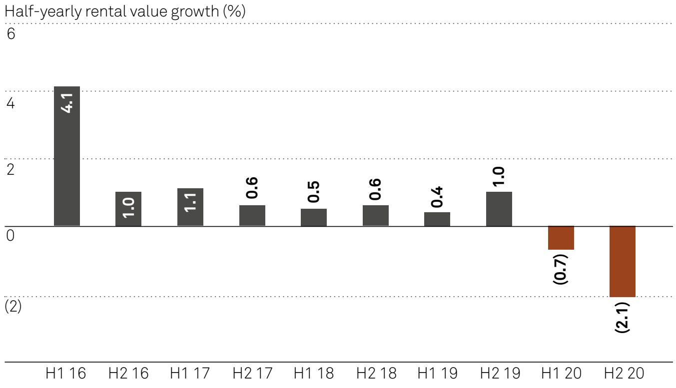
Portfolio income potential



Members of the Investment and Valuation teams

Jon Hall, Giles Sheehan, Vina Talwar, Lucy Taylor, Jonathan Theobald and Tom Wade

Rental value growth



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		3,013.6	56	(2.9)	2,553	51	48	106	2,758
Borders		475.4	9	(5.8)	546	8	0	0	554
		3,489.0	65	(3.3)	3,099	59	48	106	3,312
City									
Borders		1,789.8	34	(2.1)	1,668	106	6	125	1,905
Central London		5,278.8	99	(2.9)	4,767	165	54	231	5,217
Provincial		76.7	1	(11.2)	343	4	0	0	347
Total portfolio	**2020**	**5,355.5**	**100**	**(3.0)**	**5,110**	**169**	**54**	**231**	**5,564**
	2019	5,475.2	100	3.9	5,333	53	10	240	5,636

[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		189.2
Contractual rental increases across the portfolio	58.0	
Contractual rental from 249,000 sq ft pre-lets on developments	17.0	
Letting 169,000 sq ft available floor area	5.0	
Completion and letting 54,000 sq ft of refurbishments	2.7	
Completion and letting 231,000 sq ft of developments	16.2	
Anticipated rent review and lease renewal reversions	3.1	
Portfolio reversion		102.0
Potential portfolio rental value		**291.2**

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		86.3	34.09	13.1	62.0	161.4	7.0
Borders		23.1	42.38	0.2	4.1	27.4	7.0
		109.4	35.55	13.3	66.1	188.8	7.0
City							
Borders		75.1	45.74	10.5	12.0	97.6	5.2
Central London		184.5	39.12	23.8	78.1	286.4	6.3
Provincial		4.7	13.60	0.1	0.0	4.8	3.4
Total portfolio	2020	**189.2**	**37.40**	**23.9**	**78.1**	**291.2**	**6.2**[3]
	2019	169.1	32.11	18.3	115.6	303.0	5.8

[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] 7.9 years after adjusting for 'topped-up' rents and pre-lets

Asset management & investment activity

We value our long-term and positive relationships with our customers and this has been particularly important for the business over the last twelve months.

David Silverman
Executive Director

In the last few years we have invested in developing and upskilling our Asset Management and Property Management teams as a key point of contact with our customers. During 2020 they have been working with our occupiers and we are delighted with the results of this proactive engagement.

The initial focus has been very much on the health and safety at our buildings, of the people that use them and their surroundings. We assisted our occupiers returning to their offices in accordance with the relevant guidelines. We have seen exceptional levels of co-operation and collaboration which should further cement our longer-term relationships. To help support all our customers, we reduced our service charges by 25% for two quarters and we achieved additional cost savings. We deferred or waived rents for those most in need. The latter actions have been primarily focused on the retail and hospitality sectors, which help, in normal times, make the ground floors of our buildings such vibrant places.

We entered the year with limited space available and this, as well as market conditions, meant that our new letting activity was relatively low.

Letting activity 2020

	Let		Performance against Dec 19 ERV (%)	
	Area sq ft	Income £m pa	Open market	Overall[1]
H1	60,700	2.6	20.2	4.3
H2	74,700	4.1	0.0	(3.7)
2020	**135,400**	**6.7**	**6.0**	**(0.8)**

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

Our 2020 new letting activity totalled £6.7m which was 0.8% below December 2019 ERV but, excluding short lettings, was 6.0% above. The majority of the activity related to existing tenants demonstrating the importance of long-standing relationships. TransferWise was our most significant transaction, where as well as letting 17,250 sq ft we extended the existing lease on 31,700 sq ft so that their occupation has increased by 54%.

The bulk of last year's asset management work focused on rent reviews, renewals and regears. Our rent reviews saw a 9% uplift over the previous rent. Major reviews included space at 1-2 Stephen Street W1 and Turnmill EC1. At the beginning of the year, 10% of our cash rent was due to expire in 2020 with a further 26% in 2021. Many of these expiries related to potential developments, but we have since opted to defer a couple of these through extensions and re-lettings. This demonstrates the optionality within our portfolio. We have also removed some tenant breaks to extend our income.

Asset management 2020

	Area '000 sq ft	Previous rent £m pa	New rent £m pa	Uplift %	New rent vs Dec 19 ERV %
Rent reviews	192.0	11.2	12.2	9.3	(1.0)
Lease renewals	251.0	10.9	11.6	6.0	(11.7)
Lease regears	281.0	14.0	15.1	7.5	(0.9)
Total	**724.0**	**36.1**	**38.9**	**7.6**	**(4.4)**

Of the 2020 expiries, 22% related to developments, and of the remainder we retained or re-let 87%. This leaves 13% available which contributed to the rise in the EPRA vacancy rate from 0.8% to 1.8%. The other major contributor to the increase was at The White Chapel Building E1 where the lease with Fotografiska was surrendered.

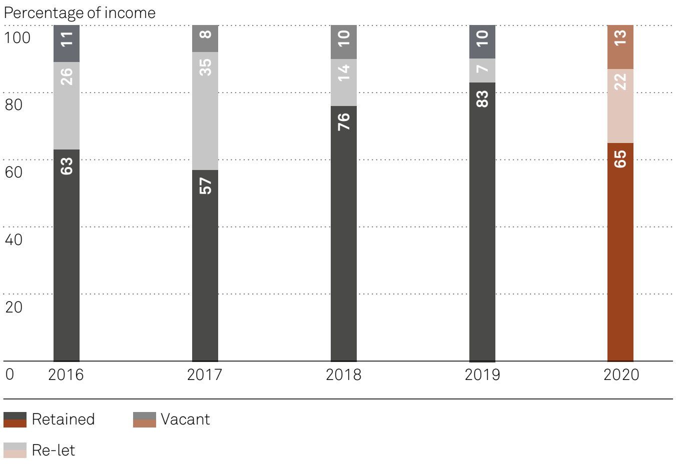
Principal lettings in 2020

Property	Tenant	Area sq ft	Office rent £ psf	Total annual rent £m	Lease term years	Lease break year	Rent-free equivalent months
Q1							
80 Charlotte Street W1	Lee & Thompson	13,100	70.00[1]	0.8	11	–	26
Angel Building EC1	Expedia	6,550	40.30[2]	0.3	12.5	5	9
Q2							
Tea Building E1	Buckley Gray Yeoman	4,800	70.00	0.3	5	–	9
Q3							
88-94 Tottenham Court Road W1	UCL	14,100	58.50	0.8	10	5	12, plus 6 if no break
Soho Place W1	Apollo	5,100	Confidential	Confidential	15	–	Confidential
Q4							
Tea Building E1	TransferWise	17,250	59.50	1.0	5	–	13
Tea Building E1	New Wave Capital	7,900	61.00	0.5	4	–	2
		68,750					

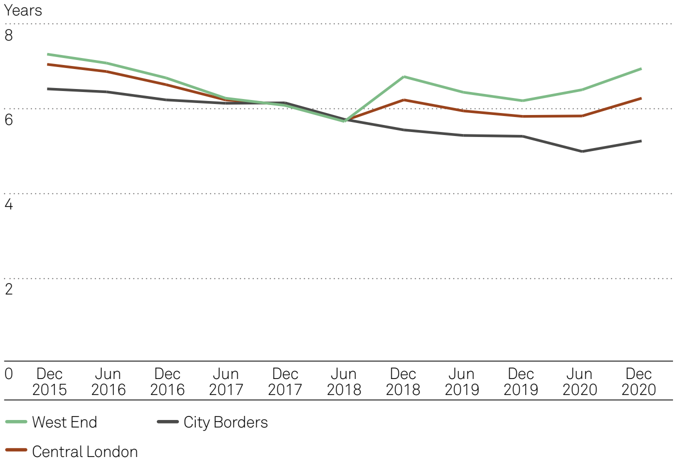
[1] £70 psf on ground, £47.50 psf on lower ground

[2] Reception area now rentalised as offices let entirely to Expedia

Retaining occupiers – Lease expiry and break analysis



Average unexpired lease length



Members of the Leasing team

Philippa Davies, Kane Lewis, Emma Lange and Clare Stewart

Members of the Asset Management team

Alice Basili, Rich Oliver, Lorna O’Neill, Elizabeth Preston, Charmaine Rees, Robert Selwyn, Lucy Shillingford and William Waples

Asset management & investment activity continued

Significant progress was also made on our 2021 expiries so that they fell from 26% of cash rent to 17% during the year ended 31 December 2020 and have since reduced further to 13%. This included short-term lease extensions where we are keeping buildings occupied prior to redevelopment such as 19-35 Baker Street W1 and Holden House W1. We also extended a number of leases so that 43% of our cash rent now expires after five years compared to 30% one year ago. The latter included UCL at 88-94 Tottenham Court Road W1, City University at 88 Rosebery Avenue EC1 and the Secretary of State at 401 St. John Street EC1.

We have made further progress in 2021 with Government Digital Services committing to a further five years on one floor at The White Chapel Building E1 and the completion of the disposal of Johnson Building EC1 which had a number of leases expiring in 2021. However, we do expect to see our vacancy rise in 2021 reflecting the continuing economic uncertainty.

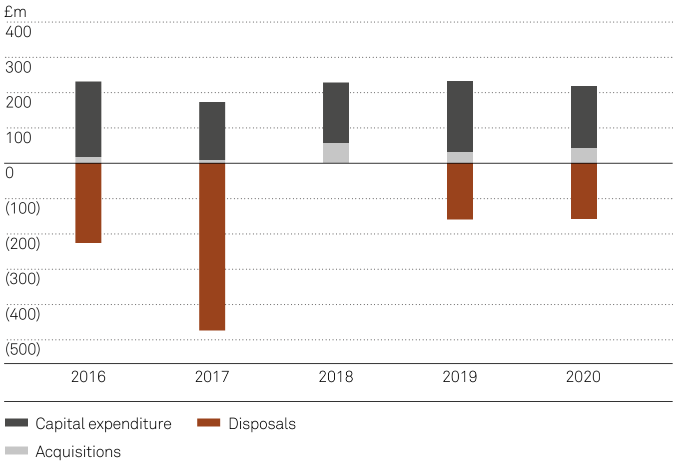
Investment activity

The Group's strategy is to look to recycle assets with lower growth potential while reinvesting the proceeds in our developments and new acquisitions. During the year we sold one major property and committed to sell two more. The disposal of 40 Chancery Lane WC2 was covered in last year's Report and Accounts and we give more detail of the disposal of 2 & 4 Soho Place W1 under 'Development & Refurbishment' on page 71. In December 2020 we exchanged contracts to dispose of Johnson Building EC1 for £170m, and that disposal completed in January 2021. Johnson Building was one of our first generation of refurbishments completed 15 years ago.

We completed one major acquisition in February 2020, Blue Star House in Brixton SW9 for £38.1m before costs, which was covered in the 2019 results.

Five-year vacancy trend

Net investment



Major disposals announced in 2020

Property	Date	Area sq ft[1]	Gross proceeds £m[1]	Gross proceeds £ psf	Net yield to purchaser %	Rent £m[1]
40 Chancery Lane WC2	Q1	103,700	121.3	1,170	4.25	5.5
80 Charlotte Street W1 – private residential	Multiple	16,050	29.7	1,850	–	–
80 Charlotte Street W1 – affordable housing	Q2	9,470	2.5	270	–	–
Total (Completed)		**129,220**	**153.5**	**1,190**	**–**	**5.5**
Exchanged						
2 & 4 Soho Place W1	Q3	18,400[1]	40.5	2,200	–	–
Johnson Building EC1	Q4	192,700	170.0	880	4.1[2]	7.3
Total (Exchanged)		**211,100**	**210.5**	**1,000**	**–**	**7.3**
Total		**340,320**	**364.0**	**1,070**	**–**	**12.8**

[1] Office space

[2] Net yield decreases to 2.5% after 40% of income expires in 2021

Major acquisition in 2020

Property	Date	Area sq ft[1]	Total cost £m	Total cost £ psf	Net yield %	Net rental income £m	Net rental income £ psf
Blue Star House SW9	Q1	53,750	38.1	710	1.9	0.8	14.50[1]

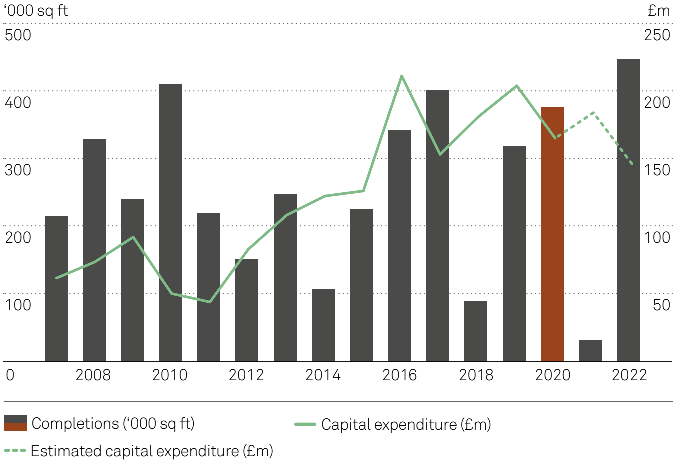
[1] Rent on occupied office floorspace

Development & refurbishment

We continue to create modern and adaptable spaces.

Simon Silver
Executive Director[1]

Completions and capital expenditure



Office users are going through a period of accelerated transformation and are increasingly aware of climate change. Covid-19 initially brought some delays, pushing completions out up to 3 months but our on-site projects are performing to the revised timetable.

In June 2020, we completed our first net zero carbon development at 80 Charlotte Street W1 totalling 377,000 sq ft. Our profit on cost for this project was 27%. The offices, 85% of the total space, are fully let with the tenants fitting out. The bulk of the building is let to Arup and the Boston Consulting Group for twenty years and at least twelve years, respectively. We have sold 17 of the 22 apartments available to sell at Asta House, and donated the use of 16 rental apartments at 80 Charlotte Street to the NHS for one year. We offset the 19,790 tonnes of residual embodied carbon produced by the project in line with our net zero carbon objectives. The offsets relate to a validated community reforestation project in East Africa.

The Group has two large developments under construction. Soho Place W1, comprising 285,000 sq ft, and The Featherstone Building EC1, totalling 125,000 sq ft. Both are due to be completed in the first half of 2022 and together are 61% pre-let or forward sold with capital expenditure to complete of £189m.

During 2021 Apollo exercised its option to take additional space at 1 Soho Place and we disposed of the long leasehold interest in 2 & 4 Soho Place, which comprises 18,400 sq ft of offices and a theatre pre-let to Nimax. This forward sale will raise £40.5m for the Group upon completion. As a result, the development is 87% pre-let or forward sold, with 36,000 sq ft of retail remaining to be let. While we are confident in the long-term attractions of this retail location sitting over the Elizabeth line station at the junction of Oxford Street and Charing Cross Road, we have lowered our retail rental expectations to £3.5m which is in line with the market. The overall profitability of the scheme has benefitted from the strong performance of the larger office element.

The Featherstone Building has an ERV of £8.1m and is our largest single letting exposure. This 'long-life loose-fit' space, next to our successful White Collar Factory, has adopted many of the features of its larger neighbour. These include concrete core cooling, opening windows and generous 3.1m floor to ceiling heights. The development will be net zero carbon, include 'smart' technology and wellness certified. Our main marketing campaign is scheduled for later in 2021, but there is early letting interest.

We are committed to commence the development of 19-35 Baker Street W1 in the second half of 2021. Contracts have been signed to convert our 55% joint venture interest with the freeholder, The Portman Estate, into a wholly owned 129-year lease on the commercial element, paying an initial ground rent of 2.5%. Our consideration for the enhanced interest is a mixture of property and cash, which includes pre-selling to them the retail and office space behind the new Baker Street building.

The scheme will comprise 217,000 sq ft offices, 28,000 sq ft retail and 52,000 sq ft residential. The total capital expenditure is estimated at £265m. As well as providing adaptable working spaces with generous 3.1m floor to ceiling heights and significant natural light, the office property will have all electric HVAC systems using air source heat pumps, openable windows, energy sensors and greywater harvesting. It will be our first NABERS UK certified scheme which will confirm that the building meets a specific level of energy performance in operation. In addition, we are creating new public realm, which will run through the centre of the site.

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[1] Retired 26 February 2021

Development & refurbishment continued

In late 2020 we applied for planning consent to redevelop Network Building W1. This project is targeting between 100-130,000 sq ft depending on whether it will be used for Life Sciences or office use. A decision is expected in H1 2021 and, if approved, work could start in 2022 for completion in 2025.

In addition to our large schemes, we are continually working on a number of smaller refurbishments. The two largest presently are: 6-8 Greencoat Place SW1 and Francis House SW1, both on site. Together they total 70,000 sq ft and form part of our 223,600 sq ft cluster of buildings. The refurbishment costs to complete are estimated at £19m and include replacing the old gas boilers with electric heating systems. This work will raise their EPC ratings from E and C, respectively to B.

We have a further 1.7 million sq ft or 30% of the portfolio earmarked for future development within our pipeline.

Major developments pipeline

Property	Area sq ft	Capex to complete £m[1]	Comment
Projects completed in 2020			
80 Charlotte Street W1	377,000	–	322,000 sq ft offices, 43,000 sq ft residential and 12,000 sq ft retail – 92% let/sold overall
On-site projects completing H1 2022			
Soho Place W1	285,000	152[3]	209,000 sq ft offices, 36,000 sq ft retail and 40,000 sq ft theatre – 87% pre-let/pre-sold
The Featherstone Building EC1	125,000	37	110,000 sq ft offices, 13,000 sq ft workspaces and 2,000 sq ft retail
	410,000	189	
Forthcoming projects completing 2025			
19-35 Baker Street W1	297,000[2]	265	Consented. 217,000 sq ft offices, 52,000 sq ft residential and 28,000 sq ft retail
Planning			
Holden House W1	150,000	–	Consented. Office and retail scheme
Network Building W1	130,000	–	Planning application submitted Potential to increase floorspace from 70,000 sq ft
	280,000	–	
Total (excluding completions)	987,000	454	

[1] As at 31 December 2020

[2] Total area – Derwent London currently has a 55% share of the joint venture

[3] Includes remaining site acquisition cost and profit share to Crossrail

Members of the Development team

Jo Benson, Tom French, Caroline Haines, Piers Harrop, Tim Hyman, Benjamin Lesser, Rebecca Lesser, Matt Massey, Rosie Scott and John Turner

Project summary – current projects

Property	Current net income £m pa	Pre scheme area '000 sq ft	Proposed area '000 sq ft	2021 capex £m	2022 capex £m	2023+ capex £m	Total capex to complete £m	Delivery date	Current office c.ERV psf
On-site projects									
Soho Place W1[1]	–	107	285	74	78	–	152	H1 2022	£92.50
The Featherstone Building EC1	–	69	125	32	5	–	37	H1 2022	£70.00
6-8 Greencoat Place SW1	–	32	32	5	–	–	5	H1 2021	£70.00
Francis House SW1	–	40	38	11	3	–	14	H1 2022	£65.00
	–	**248**	**480**	**122**	**86**	**–**	**208**		
2021 projects									
19-35 Baker Street W1[2]	3.4	143	297	16	43	206	265	H1 2025	£90.00
	3.4	**391**	**777**	**138**	**129**	**206**	**473**		
Planning and design	–	–	–	2	1	–	3		
Other	–	–	–	31	12	5	48		
	3.4	**391**	**777**	**171**	**142**	**211**	**524**		
Capitalised interest	–	–	–	13	4	15	32		
Total	**3.4**	**391**	**777**	**184**	**146**	**226**	**556**		

[1] Includes remaining site acquisition cost and profit share to Crossrail

[2] Includes 88-100 George Street, 30 Gloucester Place and 69-85 Blandford Street. Currently Derwent 55%, The Portman Estate 45%

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	90	150	2025	
	4.4	**90**	**150**		
Under appraisal[1]					
Angel Square EC1	5.0	126	140	2021	Refurbishment
Network Building W1	4.3	70	130	2022	Redevelopment
Bush House WC2	–	103	103	TBC	Refurbishment
Blue Star House SW9	0.7	54	110	2025	Redevelopment
Other	2.6	72	72		Principally 1 Oliver's Yard EC1
	12.6	**425**	**555**		
Consented and under appraisal	**17.0**	**515**	**705**		
On site and 2021 projects	3.4	391	777		Previous table
Total	**20.4**	**906**	**1,482**		

[1] Areas proposed are estimated from initial studies

6-8 Greencoat Place SW1 – CGI

Finance review

After a year of considerable hardship for many individuals, families, institutions and employers and during which our tenants have suffered from unprecedented business disruption, Derwent London has experienced its first negative annual total return in over a decade at -1.8% or -72p per share. However, our business has proved relatively resilient, our balance sheet and liquidity remain very strong and we have been able to provide financial and practical help to our stakeholder groups while paying an increased dividend.

Damian Wisniewski
Chief Financial Officer

Financial overview

The Covid-19 pandemic dominated the past year but 2020 was also notable for an ever-increasing global awareness of climate change, the long running trade negotiations between the UK and EU and, for our sector in particular, a spotlight on the nature of office occupation.

The occupational market for London offices was impacted by these factors with vacancy rates rising, ERVs under pressure and lease incentives increasing. We have also been rebalancing the portfolio with further disposals and a significant ongoing development pipeline. Furthermore, our focus has shifted over the past year to protecting income rather than capturing full reversion, and extending leases rather than seeking maximum rental levels. Against this background, the recent development completions at Brunel Building and 80 Charlotte Street produced an increase in gross rental income in the year. However, net rents and earnings were impacted by impairments, waivers and write-offs and this weaker occupational market has seen our property valuations decline. Though partly offset by development activity and continuing low yields, this has led to a 3.6% fall in total net assets.

The impact on operating cash flow in 2020 is also visible with £14.5m of rents deferred to 2021 under agreed payment plans as well as rent-free periods provided to those tenants most in need, particularly in the retail and hospitality sectors. So far, we have collected almost all these deferred amounts as they fall due and, with the prospect of an improving economic background in the UK through the rest of 2021, we anticipate that the operating cash flow for 2021 should be correspondingly stronger than usual. However, the property disposals made over the last year or so will have a short-term impact on earnings until we are able to replace the income with suitable new property acquisitions.

Strong relationships have also helped us extend, increase or refinance our two revolving credit facilities, together totalling £550m. Our leverage remains low and, though the impairments and waivers booked have caused irrecoverable property costs to rise, interest remains almost 4.5 times covered by net rents. As a result, the Group is particularly well placed to benefit from opportunities both within the existing portfolio and from potential acquisitions.

Each year, there is an increasing emphasis on environmental matters within Derwent London. We have taken further steps in 2020 to understand and mitigate the impact of what we do upon our environment now and in the future. As well as spending £103.2m of our Green Finance on projects which meet our climate change agenda, we have invested in carbon credits to support green projects around the world and to offset the embodied carbon in current and certain future projects. We have also published our pathway to net zero carbon which includes a commitment to carbon accounting.

Presentation of financial results

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). In common with usual and best practice in our sector, alternative performance measures have also been provided to supplement IFRS based on the recommendations of the European Public Real Estate Association (EPRA). EPRA Best Practices Recommendations (BPR) have been adopted widely throughout this report and are used within the business when considering our operational performance as well as matters such as dividend policy and elements of our Directors' remuneration. Full reconciliations between IFRS and EPRA figures are provided in note 39 and all the EPRA definitions are included on pages 248 and 249. For this year's report, we have used the three new EPRA net asset value measures and provided additional disclosures relating to capital expenditure.

The Brexit trade negotiations rumbled on through most of the year. An agreement was reached with the EU in December 2020 providing greater certainty in the future. We welcome this while recognising the increased burden of compliance on some businesses and the remaining areas still to be resolved such as financial services.

Financial highlights

	2020	2019
Total net asset	£4,315.1m	£4,476.9m
EPRA NTA per share	3,812p	3,957p
Property portfolio at fair value	£5,355.5m	£5,475.2m
Gross property and other income	£268.6m	£230.3m
Net rental income	£174.3m	£178.0m
IFRS (loss)/profit before tax	(£83.0m)	£280.6m
EPRA earnings per share (EPS)	99.19p	103.09p
Interim and final dividend per share	74.45p	72.45p
LTV ratio	18.4%	16.9%
NAV gearing	24.3%	21.9%
Net interest cover ratio	446%	462%

Property valuation decline reduces net asset value

Our business model is to drive income and create value through property regeneration predominantly within the central London office market. By creating modern and adaptable office space, we aim to achieve long-term growth in earnings and dividends with an important emphasis on our responsibilities as a business, particularly with regard to our stakeholders and to climate change. We believe that total return i.e. dividends paid plus net asset value growth per share measured using the new EPRA net tangible assets (NTA) measure, is the best single measure of our performance but we also focus on our property returns, recurring earnings, dividend cover and cash flow as well as a number of ESG metrics.

The main movements in EPRA NTA per share during the year compared to 2019 are summarised in the adjacent chart. Though earnings have been affected by additional irrecoverable costs and the IFRS 9 impairments booked against receivable balances (see page 76), the main feature of 2020 was the negative revaluation movement of 176p per share compared to the positive 139p per share in 2019:

	2020 p	2019 p
Opening EPRA NTA	3,957	3,775
Revaluation movement	(176)	139
Profit on disposals	5	14
EPRA earnings	99	103
Ordinary dividends paid	(73)	(68)
Redemption of 2019 convertible bonds	–	(8)
Issue of 2025 convertible bonds	–	7
Interest rate swap termination costs	(2)	(2)
Other	2	(3)
Closing EPRA NTA	**3,812**	**3,957**

This has given rise to a 145p or 3.7% decrease in EPRA NTA per share during the year. Adding back the dividends paid gave a total return of -72p per share or -1.8%. As noted already, this is the first time since 2009 that Derwent London's total return has been negative, reflecting the impact that the year's events have had on office occupation levels, vacancy rates and rental values. Retail and restaurants make up c.9% of our portfolio by ERV but the particular difficulties that these businesses have experienced have also helped drive a substantial fall in retail values around the portfolio.

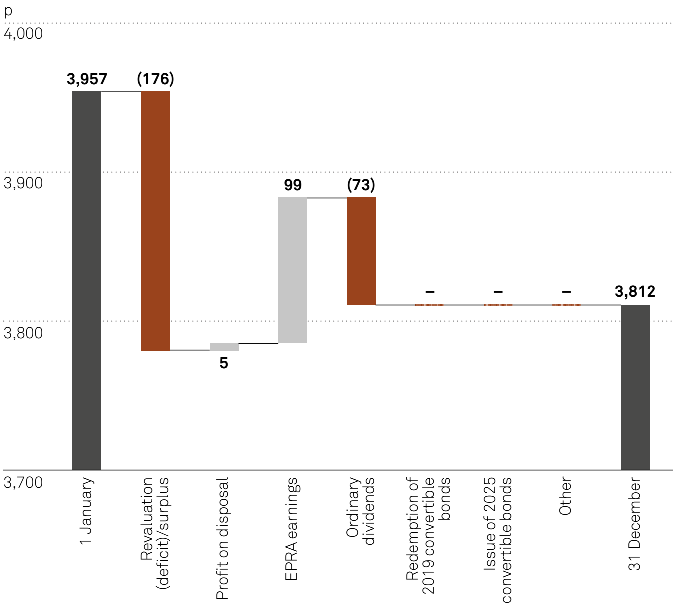
Property portfolio

Our property portfolio was independently valued at £5.4bn as at 31 December 2020 allocated across the balance sheet as follows:

	Dec 2020 £m	Dec 2019 £m
Investment property	5,029.1	5,174.3
Non-current asset held for sale	165.0	118.6
Owner-occupied property	45.6	45.3
Trading property	12.9	40.7
Property carrying value	5,252.6	5,378.9
Accrued income (non-current)	146.4	134.4
Accrued income (current)	19.6	18.7
Grossing up of headlease liabilities	(66.5)	(59.5)
Revaluation of trading property/other	3.4	2.7
Fair value of property portfolio	**5,355.0**	**5,475.2**

Total property additions during the year were £205.3m of which capital expenditure represented £161.8m. This was about 28% lower than anticipated a year ago, another impact of the lockdowns and other restrictions which have affected construction sites. This may partially reverse with higher capital expenditure in 2021 but we expect overall programme extensions on our major schemes of about one to three months. The principal acquisition was Blue Star House SW9 in Brixton and the main disposal was 40 Chancery Lane WC2, which completed in February 2020, plus 17 residential apartments at Asta House W1. The latter were held as trading properties and the success of the sales campaign is evidenced by the remaining December 2020 balance of only £12.9m against £40.7m a year earlier.

EPRA net tangible assets per share



2019	3,775	139	14	103	(68)	(8)	7	(5)	3,957

Finance review continued

As noted earlier, commercial valuations have declined in 2020 with a total revaluation deficit for the year of £195.7m after accounting adjustments, £196.1m relating to the investment property portfolio with a £0.4m surplus at our own offices at Savile Row. The latter figure is shown in the Group Statement of Comprehensive Income.

The balance of unamortised legal and letting fees plus the accrued income from the 'straight-lining' of rental income under IFRS 16 to spread the effect of incentives over the lease terms has increased to £166.0m (2019: £153.1m). This balance rises as income is recognised through incentive periods and falls gradually once the cash flows stabilise. This year, it also reflects £5.7m of impairments booked in 2020 against these balances. We have performed a thorough review of our top 83 tenants as well as analysing them on a sector-by-sector basis. The nature of impairment testing is judgemental and, with respect to long-term receivables under lease commitments, requires us to estimate what may happen over many years. It should be noted that future tenant failure has a potential impact upon the recoverability of these balances. Our approach to impairment testing is considered in more detail below.

The sale of Johnson Building EC1 had exchanged prior to the year end with completion in January 2021 and this property has therefore been reclassified as an 'asset held for sale'.

The Baker Street properties, currently owned with The Portman Estate, are consolidated within our investment property portfolio as we hold 55% and have day-to-day control, but with a non-controlling interest of £51.9m included within balance sheet 'equity'. Later in 2021, we expect to acquire the remaining interest in the development site at 19-35 Baker Street W1 while disposing of a number of the other Baker Street properties.

Rent collection and impairment of receivables

Over the last few years, the Group has typically collected over 99% of its rent and service charge receivables from tenants within two weeks of the due date, with negligible bad debts. This pattern changed dramatically in early 2020 with the pandemic and subsequent lockdown. The table below shows our rent collection statistics quarter by quarter and means that we have now collected 92% of rents demanded for the 2020 rental year, with 5% still to come on agreed deferred payment plans and 3% written off or granted a rent-free period. The office collection rates are higher at 94% collected plus 5% on agreed payment plans. However, the tables illustrate the particular difficulties faced by our retail, restaurant and leisure occupiers where we have provided considerable support through waiving or deferring rents. In addition, we granted a 25% service charge waiver across the entire portfolio for the March to June and June to September quarters in 2020 at a cost of £4.1m.

Because our rents are collected in advance, the impairment review process also includes amounts outstanding relating to the first quarter of 2021 but due on 25 December 2020. Rent collection for the first quarter of 2021 was as follows:

	Dec 20 quarter		
	Office	Retail/ Hospitality	Total
Rent received to date	93%	54%	91%
Due later in the quarter[1]	0%	2%	0%
Payment plans	5%	0%	5%
Outstanding	1%	17%	2%
Rent-free	1%	27%	2%
Total	**100%**	**100%**	**100%**
	£41.1m	**£3.0m**	**£44.1m**

[1] Principally monthly receipts

Our portfolio in Scotland operates on the Scottish quarter days and the figures are therefore not included in the tables above. The Scottish estate, which consists of mainly retail properties, has now collected 90% of 2020 rental income, with 3% deferred under payment plans, 1% granted rent-free waivers and 6% outstanding.

The higher risks now associated with rent collection have led to substantial impairments being booked against outstanding receivable balances in 2020. Impairment reviews of trade receivables and amounts due under the spreading of lease incentives have been carried out using the expected credit loss model in accordance with IFRS 9 for each of our 83 largest tenants, for others where we believe the risk is greatest (such as retail, hospitality and leisure operators) with the remaining balances considered according to their sector.

The result of this analysis, which has been carefully reviewed by our management team and Audit Committee due to its judgemental nature, was an impairment charge of £8.6m, split £2.9m for trade receivables and £5.7m for IFRS 16 lease incentive receivables. On top of that, receivables written off in 2020 were £1.2m and service charge provisions were £0.3m. The resulting total cost of impairments, write-offs and service charge waivers for 2020 was £14.2m which is taken as a charge against earnings to arrive at net rental income.

Note that, where rent-free periods have been granted under existing leases, the cost of this additional incentive is then required to be spread across the remaining lease term and therefore subject to impairment testing as described above. This reduced gross rental income in 2020 by £0.9m taking the total impact on net rents to £15.1m.

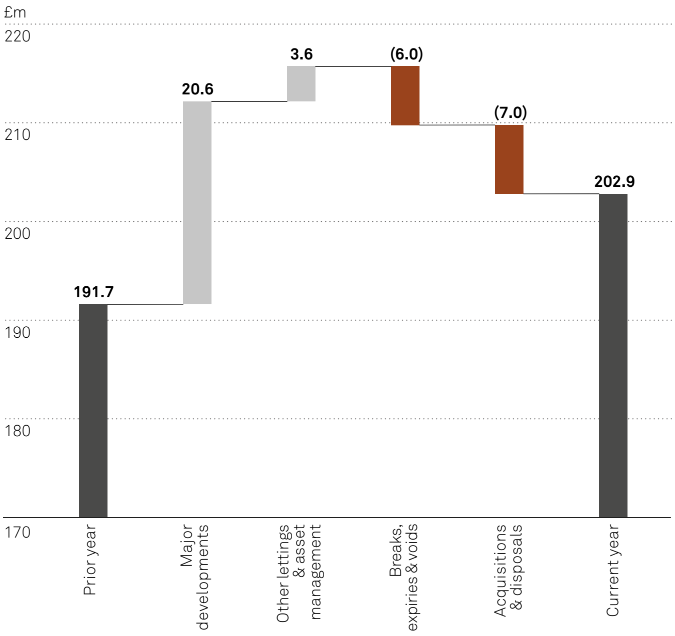
2020 Rent collection

	Dec 19 quarter		Mar 20 quarter		Jun 20 quarter		Sep 20 quarter	
	Office	Retail/ Hospitality	Office	Retail/ Hospitality	Office	Retail/ Hospitality	Office	Retail/ Hospitality
Rent received to date	100%	100%	92%	34%	91%	48%	94%	71%
Payment plans	0%	0%	6%	2%	8%	4%	5%	2%
Outstanding	0%	0%	0%	4%	0%	7%	0%	9%
Rent-free	0%	0%	2%	60%	1%	41%	1%	18%
Total	100%	100%	100%	100%	100%	100%	100%	100%
	£38.0m	£3.7m	£38.8m	£3.8m	£39.5m	£3.7m	£41.7m	£3.3m

Property income and earnings

Gross property and other income increased to £268.6m from £230.3m in 2019. This reflects a 5.8% increase in gross rental income to £202.9m but has also seen £32.3m of sales of trading properties from the apartments at Asta House included in 2020. Surrender premiums and rights of light receipts added a further £1.8m compared with £1.0m a year earlier. Much of the increase in gross rents came from the completion of 80 Charlotte Street in June 2020, adding £12.2m in 2020. Brunel Building, which completed in mid 2019, also added £8.4m of rental income in 2020. With recent lettings like this being subject to tenant incentives, the income accrued in advance of cash receipts was £24.0m in 2020, compared to £27.3m in 2019. Acquisitions added £0.7m but the increased rental income from lettings was partly offset by £7.7m of rent lost from property disposals in 2019 and 2020, additional void costs of £6.0m and £0.9m recognised in 2020 from additional rent-free periods provided to those tenants who needed support.

Gross rental income



However, it is net rental income that illustrates the real impact of Covid-19 on the business much more clearly. After booking £10.1m of impairments or waivers against receivables and deducting the £4.1m of service charge waivers referred to earlier, net rental income fell to £174.3m from £178.0m in 2019, a 2.1% fall. We estimate that, in the absence of Covid-19, net rental income would have grown by approximately 6%.

Administrative expenses increased by 2.2% to £37.8m against a 12% increase in headcount compared with 2019. The business has needed additional resource in such areas as corporate responsibility, sustainability, property management and health and safety and many of our people have worked considerably longer hours in 2020 than we would like. This is partly due to the inefficiencies of remote working for a collaborative business such as ours and partly due to the extra time and support given to occupiers this year. Our wellness programmes and other support for our staff have also had cost implications. As before, we do not capitalise any of our overheads.

The EPRA cost ratio reflects all the irrecoverable property costs, impairment amounts and overheads and has therefore increased substantially. Including direct vacancy costs, it rose to 30.5% from 23.9% in 2019. If the impairments and service charge waivers are excluded, the 2020 cost ratio would have been 23.4%.

Cost ratios

	2020 %	2019 %
EPRA cost ratio, incl. direct vacancy costs	**30.5**	23.9
EPRA cost ratio, excl. direct vacancy costs	**26.0**	22.5
EPRA cost ratio, incl. direct vacancy costs (without waivers and impairments)	**23.4**	23.9
EPRA cost ratio, excl. direct vacancy costs (without waivers and impairments)	**19.0**	22.5
Portfolio cost ratio, incl. direct vacancy costs	**1.1**	0.8

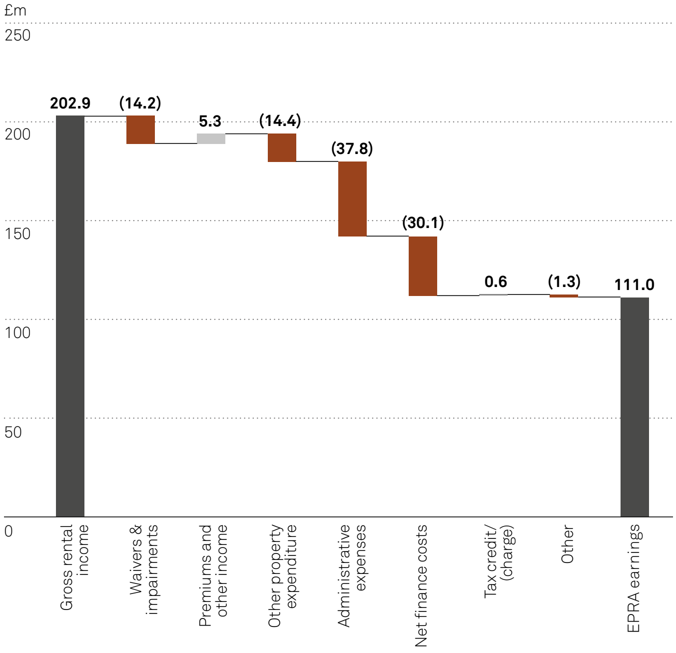
After accounting adjustments for the straight-lining of incentives, deferred legal and letting fees and grossing up of headlease liabilities, the investment portfolio revaluation deficit was £196.1m for the year compared with a surplus of £156.4m in 2019. The profit on disposal of investment properties was £1.7m relating mainly to 40 Chancery Lane WC2 which completed in February 2020.

Due mainly to a £3.1m reduction in capitalised interest, finance costs increased by £3.6m compared to 2019 to £30.3m. However, the prior year included a £7.7m charge for the redemption of convertible bonds so the total finance charges were £4.1m lower at £30.4m compared to £34.5m in 2019. Interest rates fell again in 2020 giving rise to an interest rate swap fair value deficit of £1.9m against £0.1m in 2019.

The resulting IFRS loss before tax for the year was £83.0m compared to a profit before tax of £280.6m in 2019 and the IFRS loss per share was 69.34p against earnings of 253.82p in 2019.

EPRA earnings, which exclude fair value movements and profits on disposals of investment properties, fell by 3.6% to £111.0m from £115.1m. EPRA earnings per share decreased by 3.8% to 99.2p from 103.1p in 2019. A table providing a reconciliation of the IFRS results to EPRA earnings per share is included in note 39.

EPRA earnings



2019	191.7	–	4.6	(13.7)	(37.0)	(26.5)	(2.0)	(2.0)	115.1

Finance review continued

EPRA like-for-like rental income

The EPRA like-for-like gross rental income fell by 0.9% mainly because of a slightly higher vacancy rate and our focus on extending income rather than maximising rental levels. The income from new lettings at 80 Charlotte Street is also excluded from these figures. After impairments and other costs, EPRA like-for-like net rental income fell by 9.8%.

EPRA like-for-like rental income

	2020 %	2019 %
(Decrease)/increase based on gross rental income	(0.9)	4.4
(Decrease)/increase based on net rental income	(9.8)	4.7
Decrease based on net property income	(8.9)	(7.2)

Taxation

The corporation tax charge for the year ended 31 December 2020 was £0.2m. Most of our portfolio is within the REIT regime but this charge relates to the Portman joint venture interests held outside the REIT.

The movement in deferred tax for the year was a credit of £0.7m, (2019: £0.6m credit); a £1.0m credit was taken through the income statement mainly due to the release of overage from a property previously disposed of, £0.4m was credited in respect of future defined benefit pension liabilities and £0.6m was credited through the income statement in relation to employee share schemes. In addition, £1.3m was charged through retained earnings in relation to future tax deductions for equity-settled share-based payments, effectively reversing out the 2019 gains.

As well as other taxation paid during the year, in accordance with our status as a REIT, £8.2m of tax was paid to HMRC relating to tax withheld from shareholders on property income distributions (PIDs).

Derwent London's principles of good governance extend to a responsible approach to tax. 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. We have also provided more information on our tax governance and risk management on pages 57 and 140, respectively.

Borrowings, net debt and cash flow

Net debt rose 7% over the year to £1.05bn at 31 December 2020 but remains at modest levels with a year end loan-to-value ratio (LTV) of 18.4%. The sale of Johnson Building in early January 2021 reduced this further to a pro forma level of c.15.8% LTV. Group borrowings at the 2020 year end were £1.03bn and, with leverage at this level, our balance sheet remains as strong as ever. As a result, we would be comfortable adding further debt to our capital structure if we can find suitable acquisition opportunities and are in a position to move quickly should we need to. Available cash and undrawn facilities totalled £476m at 31 December 2020 (£511m at 31 December 2019) and, again, increased further in January 2021 on the completion of the £166m Johnson Building sale.

Borrowings have been kept low due mainly due to £157.3m of cash from disposals, with capex spend of £175.2m impacted by lockdowns and acquisitions of only £43.8m in the year.

Operating cash flow and interest cover have both been noticeably affected by the lower rate of rent collections. Net cash from operating activities fell from £97.1m in 2019 to £85.4m, the reduction due to the rents waived or deferred to 2021 though also helped by additional cash rents at Brunel Building and 80 Charlotte Street. Assuming that the £14.5m of deferred rents are collected in 2021, much of this cash flow reduction may reverse over the next year. Interest cover for the year was 446% compared with 462% for 2019, both figures being a long way above our debt covenant of 145%.

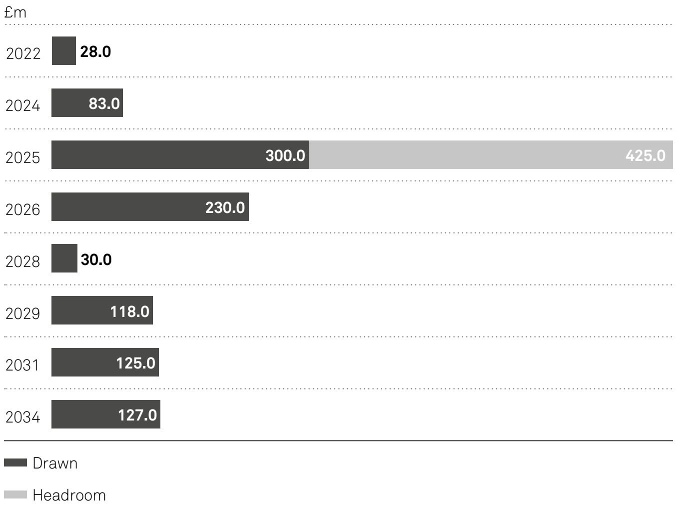
Debt and financing arrangements

After £875m of refinancing activity in 2019, including the publication of our Green Finance Framework and the £300m 'green' tranche in our £450m revolving credit facility (RCF), the past year was quieter but still significant. The strength of our banking relationships has been evidenced again with a new and enlarged five-year £100m RCF signed with Wells Fargo and the extension of our £450m RCF with HSBC, NatWest and Barclays. These four banks have been supporting us with their balance sheets and transactional advice for many years and we see them as key stakeholders in our business.

The new £100m Wells Fargo RCF was signed in November and replaces their £75m facility which was due to expire in July 2022. The new facility incorporates two possible one-year extensions beyond the current expiry date of November 2025 and includes an accordion option for another £25m. The facility helps extend our debt maturity profile at a margin only slightly higher than previously, increases our available facilities and has similar financial covenants to other unsecured Group borrowings.

In December 2020, we also signed a one-year extension to the £450m Group RCF provided by HSBC, NatWest and Barclays. This facility incorporates our 'green' finance and we provide a further update in this report on the progress made so far. This shows the amounts drawn and the expenditure incurred on green projects, all of which has been independently assured by Deloitte.

Maturity profile of debt facilities as at 31 December 2020

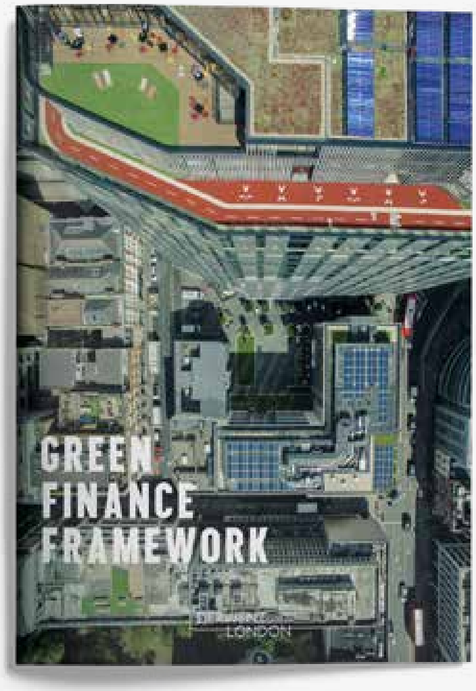


Reporting under the green tranche of our £450m RCF

In line with the principles set out in the LMA Green Loan Principles guidance document and in accordance with the reporting requirements set out in our Green Finance Framework (available on our website **www.derwentlondon.com**), we are disclosing the Eligible Green Projects (EGPs) that have benefitted from the green funding element of our £450m RCF and the allocation of drawn funds to each project.

The projects benefitting from the £300m green funding element of the RCF are as follows:

Green project	80 Charlotte Street W1	Soho Place W1	The Featherstone Building EC1
Expected completion date	Completed in 2020	2022	2022
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 (excludes Site B – Theatre)	Green building, criterion 1 of section 3.1 of the Framework
Impact reporting indicator	Building certification achieved (system and rating)	Building certification achieved (system and rating)	Building certification achieved (system and rating)
Green credentials	**Achieved:** BREEAM – Excellent (design stage) **Expected:** BREEAM – Excellent (post-construction), on target LEED – Gold, on target EPC – B, on target	**Site A** **Achieved:** BREEAM – Outstanding (design stage) **Expected:** BREEAM – Outstanding (post-construction), on target LEED – Gold, on target EPC – B, on target **Site B – Offices** **Achieved:** BREEAM – Excellent (design stage) **Expected:** BREEAM – Excellent (post-construction), on target EPC – B, on target	**Achieved:** BREEAM – Outstanding (design stage) **Expected:** BREEAM – Outstanding (post-construction), on target LEED – Platinum, on target EPC – A, on target



Green Finance Framework launched October 2019

Qualifying 'green' expenditure

The qualifying expenditure as at 31 December 2020 for each project is set out in the table below. This includes an element of 'look back' capital expenditure on live projects which had already been incurred as at the refinancing date (October 2019), including the 80 Charlotte Street scheme which commenced in 2015. Soho Place and The Featherstone Building both commenced on site in 2019. There have been no new EGPs elected in 2020.

Cumulative spend on each EGP as at the reporting date

	Look back spend	Subsequent spend		Cumulative spend
EGP	£m	Q4 2019 £m	2020 £m	£m
80 Charlotte Street W1	185.6	16.9	16.9	219.4
Soho Place W1	66.3	13.4	61.5	141.2
The Featherstone Building EC1	29.1	5.2	24.8	59.1
	281.0	**35.5**	**103.2**	**419.7**

The cumulative qualifying expenditure on EGPs was £419.7m, with £103.2m of this being incurred in 2020.

The drawn borrowings from Green Financing Transactions (GFTs) as at 31 December 2020 were £80m; therefore, there was £220m of available unallocated headroom within the £300m green tranche of the Group's £450m revolving credit facility as at 31 December 2020.

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 GFTs which, as shown above, has been met.

More information can be found in the Responsibility Report 2020.

Finance review continued

Our remaining bank facility is a £28m loan from HSBC secured on the Baker Street properties. This is due to expire in July 2022 but is likely to be repaid before then as the Baker Street arrangements with the Portman Estate are unwound. The £28m interest rate swap associated with this loan fell away in March 2020 and, with very low amounts of bank debt drawn, we currently have no active interest rate swaps in place. The other two swaps totalling £115m have forward start dates and we paid £1.7m in 2020 to defer them beyond the balance sheet date.

The Group's weighted average interest rate fell by 20bp over the year to 3.34% on a cash basis and 3.48% on an IFRS basis. The average interest rate that we pay is dependent on the amount of inexpensive floating rate bank debt that we have drawn. The weighted average maturity of our borrowings was 6.8 years at 31 December 2020 compared to 7.8 years at 31 December 2019.

LIBOR transition to SONIA

LIBOR, the London Inter Bank Offer Rate interest rate benchmark widely used for many financial products and contracts including all of Derwent London's bank loans and interest rate swaps, is expected to be discontinued after the end of 2021. In its place, a replacement 'risk free' rate, the Sterling Overnight Index Average (SONIA) will generally be used.

A comparison of LIBOR and SONIA

There are two fundamental differences between SONIA and LIBOR:

1. Term versus overnight rates

LIBOR is an annualised forward-looking term rate, with several different tenors available ranging from one day to 12 months but SONIA is only available as an overnight borrowing rate. LIBOR is fixed in advance for a given term, meaning the interest amount can be calculated at the beginning of the interest period while SONIA will be compounded in arrears and therefore will not be precisely known until the end of the period.

2. SONIA generally provides lower rates than LIBOR

LIBOR includes a banking sector risk or liquidity premium whereas SONIA does not. This means that SONIA typically prices 8-13 bp lower than LIBOR, a difference that will need to be built into the pricing structure through a credit adjustment spread.

Derwent London's exposure and approach

We have three bank facilities and two interest rate swaps that use LIBOR as the benchmark or reference rate. The documentation for the loan facilities contains provisions that cover the cessation of LIBOR with a replacement benchmark. However, as SONIA is not a direct substitute for LIBOR, the method of calculation will be adjusted to minimise any change to the total cost.

We are working with our relationship banks and advisers to prepare for a smooth transition in preparation for the cessation of LIBOR, and expect to complete this process before the end of 2021.

Dividend

We recognise the importance to our shareholders of a consistent and sustainable dividend policy. Dividends declared in relation to 2019 earnings were 1.4 times covered by EPRA earnings and therefore, though EPRA earnings have dropped by 3.6% this year, we have been able to recommend a 1p per share increase in the final dividend for 2020 to 52.45p. This will be paid in June 2021 with 35.00p as a PID and the balance of 17.45p as a conventional dividend. We will not be offering a scrip dividend alternative.

On top of the 1p per share increase in the 2020 interim dividend, this brings the total dividend for 2020 to 74.45p which is 1.33 times covered by EPRA earnings. Note that EPRA earnings in 2020 also exclude profits on the sale of investment and trading properties totalling £6.9m; if these are added back, the dividend cover was 1.4 times.

In arriving at our recommendation, we have also considered our pension fund obligations, which are not material, the enhanced amounts paid to charitable institutions and the fact that none of our employees were furloughed in 2020.

Members of the Finance team

Hardeep Babra, Val Brown, Lillian Morris, Nadia Naqvi, Heethen Patel and Steve Ross

The Featherstone Building EC1

Debt facilities and reconciliation to borrowings and net debt at 31 December 2020

	Drawn £m	Undrawn £m	**Total £m**	Maturity
6.5% secured bonds	175.0	–	**175.0**	March 2026
3.99% secured loan	83.0	–	**83.0**	October 2024
1.5% unsecured convertible bonds	175.0	–	**175.0**	June 2025
2.68% unsecured private placement notes	55.0	–	**55.0**	January 2026
3.46% unsecured private placement notes	30.0	–	**30.0**	May 2028
4.41% unsecured private placement notes	25.0	–	**25.0**	January 2029
2.87% unsecured private placement notes	93.0	–	**93.0**	January 2029
2.97% unsecured private placement notes	50.0	–	**50.0**	January 2031
3.57% unsecured private placement notes	75.0	–	**75.0**	May 2031
4.68% unsecured private placement notes	75.0	–	**75.0**	January 2034
3.09% unsecured private placement notes	52.0	–	**52.0**	January 2034
Non-bank debt	888.0	–	**888.0**	
Bilateral term – secured	28.0	–	**28.0**	July 2022
Bilateral revolving credit – unsecured	25.0	75.0	**100.0**	November 2025
Club revolving credit – unsecured	100.0	350.0	**450.0**	October 2025
Committed bank facilities	153.0	425.0	**578.0**	
Debt facilities	1,041.0	425.0	**1,466.0**	
Acquired fair value of secured bonds less amortisation	9.3			
Equity adjustment to convertible bonds less amortisation	(5.8)			
Unamortised issue and arrangement costs	(11.3)			
Borrowings	1,033.2			
Leasehold liabilities	66.6			
Cash and cash equivalents	(50.7)			
Net debt	**1,049.1**			

Debt: key stats

	2020	2019
Hedging profile (%)		
Fixed	**85**	90
Swaps	**0**	3
	85	93
Percentage of debt that is unsecured (%)	**73**	71
Percentage of non-bank debt (%)	**85**	90
Weighted average interest rate – cash basis (%)	**3.34**	3.54
Weighted average interest rate – IFRS basis (%)	**3.48**	3.68
Weighted average maturity of facilities (years)	**6.2**	6.8
Weighted average maturity of borrowings (years)	**6.8**	7.8
Undrawn facilities and cash	**476**	511
Uncharged properties	**4,329**	4,423

Viability statement

Viability statement

Based on the Board's assessment, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the five-year period to 31 December 2025.

Time period

In accordance with the 2018 UK Corporate Governance Code, the Directors and the senior management team have assessed the prospects of the Company over a longer period than the 12 months required by the 'Going Concern' provision.

The Directors challenge the time period over which to assess viability on an annual basis. The Directors determined that the five-year period to 31 December 2025 remains an appropriate period over which to assess its viability based on the following:

- for a major scheme, five years is a reasonable approximation of the time taken from obtaining planning permission for a typical development to letting the property; and
- most leases contain a five-year rent review pattern or break options. Therefore, five years allows for the forecasts to include the reversion arising from those reviews while also assessing the potential impact of income lost from breaks exercised.

Although the Board's viability review focused on a five-year period, it did consider a number of longer-term factors when considering the Group's future prospects, including:

- the weighted average lease length of 7.9 years (including rent-frees and pre-lets);
- after the refinancing completed during 2019 and 2020, the weighted average unexpired term of our borrowings was 6.8 years;
- the impact of Covid-19 pandemic on home working, the future of office space and our resilience;
- the nature of the property cycle and our expectations of how this impacts us (see page 18); and
- changes in technology and tenant expectations.

The assessment highlighted that the Group has:

- a proven business model which has allowed us to remain flexible and resilient during previous property cycles, periods of significant uncertainty and the recent Covid-19 pandemic;
- a high quality customer base of tenants, with none of our occupiers being responsible for more than 9.0% of total rental income and relatively low exposure to the retail and restaurant sectors;
- income visibility for the life of our leases which on average are 7.9 years (including rent-frees and pre-lets) with upward only or contracted rent reviews;
- good interest in our space with strong pre-let interest in our schemes;
- strong relationships with our debt providers. During 2020, a new five-year £100m unsecured Revolving Credit Facility (RCF) was signed with Wells Fargo and we extended our main £450m RCF with our UK banking partners for a further year to 2025; and
- a low loan-to-value ratio of 18.4%.

Assessment of risks

Principal risks

The Schedule of Principal Risks is routinely subject to a comprehensive review by the Executive Committee, Risk Committee and the Board. Consideration is given to the risk likelihood, impact and velocity (speed at which the risk could impact on the Group).

It was agreed that none of the changes in risk likelihood or probability during the year (see page 85) had a significant impact on the Group's viability. The Directors identified that, of the principal risks detailed on pages 88 to 99, the following are the most important to the assessment of the viability:

- Implications of Brexit: as a predominantly London-based Group, we are particularly sensitive to factors that impact upon central London's growth and demand for office space. London's economy, and its place as one of the world's leading financial centres, could be damaged if an adverse agreement is reached in respect of financial services. The Group will continue to monitor international trade negotiations, including the UK application to join the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP). Due to our contingency planning, the short-term impact of Brexit on Derwent London has been minimal.
- Income decline: the uncertainty and economic disruption caused by the pandemic has increased the risk of tenant defaults and could lead to a drop in occupier demand, and as such, has increased the risk of a fall in income. Based on our forecasts, our income would need to decline by 68% before we were at risk of breaching our financial covenants. In the scenarios tested, our net interest cover remained above 385% and our loan-to-value ratio below 40%, both of which are comfortably within our financial covenants.
- Our resilience to climate change: rising global temperatures are a major risk factor for our business and the planet, increasing the likelihood of heatwaves, flooding and property damage. Although climate change will lead to an increase in costs as we take action to combat its impact on our business (both in monetary terms and management time), it would be unlikely to affect the viability of the Group within the five-year review period. The Group has committed to being net zero carbon by 2030.

The Directors considered that none of the individual principal risks would in isolation compromise the Group's viability over the five-year period to 31 December 2025.

Emerging risks

The Group's emerging risks are disclosed on page 87. Emerging risks involve a high degree of uncertainty and are therefore factored into the Board's viability assessment. The methodology used to review and identify emerging risks is on page 140.

The Directors considered that none of the individual emerging risks would in isolation compromise the Group's viability over the five-year period to 31 December 2025.

Qualifications and assumptions

The key assumptions which underpin our strategic plan are:

- the Group's business model remains broadly unchanged and continues to focus on the central London office market;
- we continue to operate a progressive dividend policy whilst targeting dividend cover in or above the range of 125% to 150%;
- our portfolio remains approximately the same size, at 5.56m sq ft (2019: 5.64m sq ft); and
- we will recycle capital by selling buildings when we have maximised their potential, or it no longer meets our investment criteria, and purchasing buildings where there is a development opportunity to replenish our pipeline.

We have the ability to flex our business model to react to unforeseen circumstances or changes in the property cycle by either selling a property to generate additional cash flow, or commencing or stopping development projects to manage our capital expenditure. We aim to maintain an adequate level of cash and available financial facilities. Regular financial forecasting enables us to identify and plan for additional funding requirements in advance.

Assessment of viability

To assess the Group's viability, the business model and strategy were stress tested against various scenarios and other sensitivities.

Sensitivity analysis of our strategy

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

Strengthened financial position

After an active year of refinancing in 2019, and the signing of a new 5-year £100m unsecured Revolving Credit Facility signed with Wells Fargo during the year, the Group had £476m of undrawn facilities and cash at 31 December 2020 (2019: £511m) and a weighted average term of borrowings of 6.8 years (2019: 7.8 years).

Stress testing our risk resilience

The Directors stress tested our strategy against various scenarios to determine whether they were likely to have a significant impact on the Group's solvency and liquidity over the five-year review period. The Board reviewed the following scenarios:

- a 'base case' scenario which was management's best estimate of market and business changes;
- a 'downside' scenario which showed a more negative outlook on property values, longer void and rent-free periods and poorer rent collection rates; and
- a further four scenarios based on different business cases in respect to the sale and purchase of potential properties, future dividend payments and refinancing activities.

The modelling indicated that under all scenarios the Group would still be able to execute its strategic plan over the next five years without breaching any covenants or experiencing any liquidity concerns. As at 31 December 2020, the value of the portfolio could fall by 67% without breaching the gearing covenants and our property income could fall by 68% before breaching the interest cover covenant.

Covid-19 scenarios

The Directors' assessment considered the uncertainty surrounding the duration of the Covid-19 pandemic and its medium and longer-term impacts on the global economy, our business and stakeholders. This assessment took into account the adverse financial impact already experienced by the Group and the disruption caused to our occupiers and suppliers.

As part of our scenarios and forecasting, the Directors considered the cost of rent-free concessions offered to occupiers, its accounting implications and potential default and impairment provisions, as well as additional potential vacancies. The outcome of these scenarios indicated that the potential cost under both the 'base case' and 'downside scenario' would not prohibit the Group from continuing its operations. The Group continues to closely monitor cash collection rates and tenants at risk of experiencing financial difficulty with the impact of any material changes assessed in revised forecasts.

It was also noted that the availability of further government support was not a factor which impacted on the Group's viability, as to date we had not required governmental financial assistance, however it could be a significant factor for some of our occupiers and supply chain. Activities on our development sites continue with stringent social distancing and safety measures in place, and productivity is closely monitored to assess any potential programme delays.

Despite the uncertainty and disruption caused by Covid-19, the business has traded well. Further information on our response to Covid-19 and our business model resilience is on pages 6 to 13.

Our principal risks

These are extraordinary times with exceptional risks and heightened uncertainty. During the year, Derwent London responded to the Covid-19 outbreak through proactive risk identification and mitigation, and early and continual engagement with our stakeholders.

The risk profile of the Group

Covid-19 and the resulting economic and social disruption has brought unforeseen challenges to London and the wider global economy; it has impacted on our business and in general our overall risk profile is elevated. We provide information on the central London office market on pages 18 to 21.

As a predominantly London-based Group, we are particularly sensitive to factors that impact upon central London's growth and demand for office space. In the short-term, due to the impact of both Covid-19 and Brexit, we expect unemployment to rise and uncertainty to impact upon demand for office space and central London's growth. Any decline in the demand for London office space, or a significant increase in supply, could negatively impact upon:

- the value of our property portfolio;
- occupancy rates and, subsequently, our income; and
- availability of properties for acquisition and the ease of disposal and refinancing.

Demand for office buildings is becoming polarised. Well-designed, modern buildings with adaptable floor plans and good floor-to-ceiling heights are proving more desirable and easier to lease than older, less attractive buildings which may require refurbishment. This change in market demand will impact on our ability to lease certain properties in our portfolio without additional capital expenditure.

Despite our elevated risk profile during 2020, our strong financial position and proactive stakeholder-focused approach has helped us to weather the uncertainty. The future outlook for London is looking more promising: the Prime Minister has announced a roadmap to cautiously ease lockdown restrictions and, as at the date of signing this report, more than 22 million people in the UK have received at least one dose of a coronavirus vaccine.

p.6 Operating in challenging times

Effect of mitigation actions on our principal risks

p.88 to p.99 Risks

1	Failure to implement the Group's strategy
2	Implications of Brexit
3	Risk of tenants defaulting or tenant failure
4a	Income decline
4b	The potential impact on our business from the introduction of a new tax to replace or complement business rates
5a	Reduced development returns
5b	'On-site' risk
5c	Contractor/subcontractor default
6a	Cyber attack on our IT systems
6b	Cyber attack on our buildings
6c	Significant business interruption
7	Reputational damage
8	Our resilience to climate change
9a	Non-compliance with health and safety legislation
9b	Other regulatory non-compliance

Changes to our principal risks

The principal risks and uncertainties facing the Group in 2021 are set out on pages 88 to 99 together with the potential impact and the mitigating actions and controls in place. We define a principal risk as one that is currently impacting on the Group or could impact the Group over the next 12 months.

Our principal risks are not an exhaustive list of all risks facing the Group but are a snapshot of the Company's main risk profile as at 10 March 2021. During the year under review, there has been a number of changes to our principal risks:

New principal risks

- Due to the trading difficulties arising from the Covid-19 pandemic there is an increased risk of tenants defaulting or tenant failure, particularly in respect to the leisure/retail sectors. Retail and hospitality tenants currently account for c.9% of the Group's portfolio income. In the event one of our larger tenants went into default, we could incur write offs of IFRS 16 lease incentive balances which arise from the accounting requirement to spread any rent-free incentives given to a tenant over the lease term (see page 76).
- Due to the weakness of physical retail trading, the cost of supporting the economy during Covid-19 and the loss of tax revenues, the government has been reported as considering measures to increase tax revenues. The potential impact on our business from the introduction of a new tax to replace or complement business rates is now considered a risk for the Group (see page 90).

Changes to existing risks

- A significant business interruption was previously identified as a principal risk, however we have expanded this risk to include a pandemic in addition to a terrorism-related event or other business interruption (see page 94).
- A fall in property values has been widened to 'income decline'. In addition to the risk of property values falling, there are other risk factors which could led to income decline (see page 90).
- Adverse international trade negotiations following Brexit has been widened to 'implications of Brexit'. Despite the agreement of a UK-EU trade agreement, there remains uncertainty in respect of financial services, international trade negotiations and the longer term implications of Brexit on London's growth and appeal (see pages 6 and 88).

Risk management

Our risk management procedures are regularly reviewed and strengthened to ensure that all foreseeable and emerging risks are identified, understood and managed. Our risk management framework is on page 140 and further information on emerging risks is on page 87. We have set an overall low tolerance to risk, which alongside our culture, informs how our employees respond to risk. Further information on our risk tolerance is set out on page 141.

Brexit-related risks

During 2020, the Board monitored trade negotiations and discussed potential outcomes with external advisers, including the potential impact on our contractors/subcontractors and supply chain. We continued to implement our agreed contingency plans in respect of our developments (including early ordering and off-site holding facilities) and proactive supply chain management in collaboration with our contractors, including the use of UK-based logistic hubs. Due to our contingency planning, the short-term impact on Derwent London has been minimal.

The Board will continue to monitor the longer-term impact of Brexit on London's appeal and growth and will monitor the negotiations with the EU in respect of financial services.

Development risks

Our developments are large, high-value projects that can take over five years from concept to completion. The success of our development activities is reliant on taking managed and carefully considered risk, which aims to deliver the office space our occupiers desire when it is needed.

The Risk Committee receives reports from the Director of Development on the Group's major developments, which includes a detailed assessment of the risks and risk mitigation plans in place. Despite the disruption caused by Covid-19, our developments were not significantly impacted, with practical completion being achieved on 80 Charlotte Street in June 2020 and construction continuing at Soho Place and The Featherstone Building. We provide further commentary on the status of our three development-related principal risks on pages 92 and 93.

Overview of changes to our principal risks

Covid-19 has led to our overall risk profile being elevated. The table below provides an overview of how our principal risks have been impacted.

Principal risk		Movement during 2020
1	Failure to implement the Group's strategy	↗
2	Implications of Brexit (previously, 'Adverse international trade negotiations following Brexit')	→
3	Risk of tenants defaulting or tenant failure	New principal risk
4a	Income decline (previously, 'Fall in property values')	↗
4b	The potential impact on our business from the introduction of a new tax to replace or complement business rates	New principal risk
5a	Reduced development returns	↗
5b	'On-site' risk	↗
5c	Contractor/subcontractor default	↗
6a	Cyber attack on our IT systems	↗
6b	Cyber attack on our buildings	→
6c	Significant business interruption (for example, pandemic, terrorism-related event or other business interruption) (previously, 'Terrorism-related or other business interruption')	↗
7	Reputational damage	↘
8	Our resilience to climate change	→
9a	Non-compliance with health and safety legislation	→
9b	Other regulatory non-compliance	→

Our principal risks continued

Climate change risks

The major climate-related risk to our business is rising global temperatures, increasing the likelihood of storms, heatwaves and flooding, potentially leading to property damage, income disruption and increased investment in upgrading mechanical heating and cooling equipment (further information on page 28).

Climate change risks are identified and monitored as part of our wider risk management procedures and are overseen by the Board and Responsible Business Committee. When assessing climate change, the Board considers both the direct and indirect risk they pose (a summary of the key risks is shown in the table below).

Direct risks	Indirect risks
• Rising temperatures	• Rising prices of utilities
• More intense/unusual weather events	• Rising material costs
• Rising sea levels	• Additional regulatory and compliance requirements
• Rainfall and high winds delaying construction	• Reputational risks
• Electricity supply disruptions	• Lower property values

The risks posed by climate change, which are contained in the Group's risk register, are factored into the Board's viability assessment which spans a five-year period (see page 82).

During the year, Willis Towers Watson were engaged to assist in the identification, assessment and quantification of climate-related risks and opportunities under pre-defined climate scenarios. An overview of the review's findings is available on page 49. The main transition risk for Derwent London relates to Energy Performance Certificate (EPC) rating requirements: currently environmental regulation in the UK prevents leasing space with an EPC rating of worse than E. The government's latest energy white paper proposes that this requirement be increased to a rating of B by 2030.

80 Charlotte Street was our first all electric building and net zero carbon development. To reduce our exposure to the impacts of climate change, all of our current and future developments are being built to be net zero carbon (see page 29), including Soho Place W1, The Featherstone Building EC1 and 19-35 Baker Street W1. When managing our core income portfolio, we ensure our buildings operate as efficiently as possible, with significant focus on energy and carbon reduction (see page 29).

The main opportunities from climate change will arise from our ability to adapt and respond to the risks appropriately. Energy efficient 'green' buildings with better EPCs could let more quickly, command higher rents and enjoy lower tenant turnover. Investing in the overall energy efficiency of our buildings also improves asset value by reducing our maintenance costs and extends a building's life. Working closely with tenants to manage building efficiency should lead to closer landlord/tenant collaboration and relationships.

p.28 Our pathway to net zero carbon

p.57 Climate change governance

Financial risks

Derwent London has a low financial risk profile. Fitch reaffirmed our credit rating of A-, however, they have us 'under watch' and our outlook has been marked as negative rather than stable due to Covid-19, rent collections and concerns for the financial health of our occupiers. This approach is consistent across our sector.

Our financial position remains strong. Our loan-to-value ratio has risen slightly to 18.4% at 31 December 2020 based on year end property valuations, and our net asset value gearing was 24.3%. Interest cover is 446% and we have cash and undrawn facilities of £476m.

During 2020, we recalibrated our forecasts for various scenarios to take into account possible outcomes post-Covid-19 and they will continue to be updated as the situation develops.

p.141 Insurance

Tax risk

Our attitude towards tax risk is primarily governed by the Board's objectives to retain our REIT status and maintain our 'low-risk' rating from HMRC. The Board was pleased to have received a 'low-risk' rating from HMRC which is valid until 2022. Further information on tax governance is on pages 57 and 135.

The Group takes its responsibilities under the 'corporate offences of failure to prevent the facilitation of fraudulent tax evasion' legislation seriously and will not tolerate any facilitation of tax evasion by staff, subcontractors or any of its other associates. To address these risks, the Group has established procedures which are designed to prevent its associated persons from deliberately and fraudulently facilitating tax evasion. Ongoing training is provided to staff and a policy document is kept updated on the Company intranet.

Derwent London brand

The Derwent London brand is well-regarded and respected within our industry and we are recognised for innovation and developing design-led buildings.

We demonstrate our brand and values through our external memberships and associations. For example, we are founding supporters of Real Estate Balance (see page 127), members of the UK Green Building Council, Mayor of London's Business Climate Leaders and the Better Buildings Partnership. We are also signed up to RE100 to demonstrate our commitment to 100% renewable energy in our buildings.

In 2020, we were listed in Management Today's 'Britain's Most Admired Companies', a peer-review study of corporate reputation. We were delighted to come in 10th place overall and 1st for our industry sector.

The protection of our brand and reputation is important to the future success of the Group and is considered a principal risk. We detail on page 96 the actions we are taking to protect our reputation.

Emerging risks

We define an 'emerging risk' as a condition, situation or trend that could significantly impact the Group's financial strength, competitive position or reputation within the next five years. Emerging risks involve a high degree of uncertainty and are therefore factored into the Board's viability assessment. The methodology used to review and identify emerging risks is on page 140.

During the year under review, the Directors identified four further emerging risks (identified in the table below) and removed 'Reduced returns' as it is now considered a current risk and is therefore being monitored via the Group's Risk Register.

Emerging risk	Risk category	Potential impact	Our actions
Diminished development pipeline	Strategic	As we complete our development pipeline, and in the absence of any further acquisitions or disposals, the Group's portfolio balance could become more heavily weighted towards 'core income' and away from development opportunities.	We continue to focus on recycling capital, selling properties with limited future potential and acquiring properties with future regeneration opportunities in order to maintain a balanced portfolio. On 30 January 2020, we acquired Blue Star House SW9 for £38.1m before costs, which has future development potential.
The future of offices (new emerging risk)	Strategic	As the pandemic led to widespread home working, questions have been raised about office use and its role in business. There is a risk that if agile/home working continues at high levels, and is sustained in the long-term, it could lead to occupiers requiring less space, increased vacant space and reduced rental income.	Our view is that companies still need to bring their staff together, for the collaboration that social interaction brings, to build culture, to attract and retain talent and to have a physical embodiment of their brand. There is no substitute for building relationships with colleagues and clients in person. We will continue to design and deliver space that businesses want to occupy.
Long term implications of Covid-19 on our portfolio (new emerging risk)	Strategic	If the effects of Covid-19 are long-term, our existing portfolio could require significant investment to make it more adaptable to social distancing requirements and reduced occupational density. This investment would require capital expenditure which might not provide a financial return and could impact on the floor area efficiency of our existing portfolio.	As part of our planning and design of new developments, we are focused on 'long-life loose-fit' adaptable spaces and wellness factors that can enable people to meet together in larger common areas, with higher ceilings and better air quality and ventilation.
Political risk arising from government response to issues (new emerging risk)	Strategic	In order to protect the NHS and reduce Covid-19 transmission, action has been taken by government to lock down large parts of the UK economy. This has reduced access to education, increased government borrowing and reduced economic activity unevenly across the UK regions.	We monitor the situation to assess the likely impact on jobs in London and therefore the risk of a cyclical adjustment to rents. We are supporting those tenants most in need while extending leases where this can be agreed with a focus on minimising voids and protecting value.
Increasing importance of amenities	Operational	The provision of amenities and hospitality in buildings is becoming increasingly important to tenants. The Group needs to ensure it is adequately responding to these demands, so our product remains attractive to tenants, thereby retaining its competitive edge.	We continue to review opportunities within the portfolio to enhance our amenity offering. This risk is directly related to another emerging risk – the future of offices (see above).
Adoption of technology	Operational	With technology advancing at a rapid pace the Group needs to ensure it is sufficiently embracing these changes whilst making sure that the Group's strategy is driving which technology is adopted and not being driven by the technology itself.	During 2020, we have been developing our digital strategy and are currently testing both intelligent building technology and apps.
Environmental issues moving up the social agenda	Operational	Concerns around environmental issues, such as climate change, are becoming more important to our stakeholders and to the general public, and this is only likely to increase in the run up to COP26. Companies not giving sufficient priority to these issues will be unprepared for the risks posed by environmental issues which will, in turn, adversely impact on their business and reputation.	We are committed to being net zero carbon by 2030 and have published our Net Zero Carbon Pathway.
Impact on businesses arising from the UK's commitment to be carbon neutral by 2050 (new emerging risk)	Operational	Tighter regulation is being introduced which is orientated towards sustainable development and is instigating changes to the planning process and approval criteria which will have a material impact on our development pipeline and standing investment portfolio. As more of our tenants commit to becoming net zero carbon, tenants will increasingly demand environmentally friendly buildings to help them achieve these goals. Consequently our buildings that fail to reach these standards could be at risk of losing tenants, suffering a 'brown' discount and falling in value. Costs are also likely to increase in respect to carbon taxes on GHG emissions. Currently environmental regulation in the UK prevents leasing space with an EPC rating of worse than E and this is proposed, in the government's latest energy white paper, to increase to a rating of B by 2030, which will lead to increased capital expenditure requirements.	We commissioned a risk analysis of climate change-related risks to be performed by Willis Towers Watson. In December 2020, a working group of executives and senior managers met with Willis Towers Watson to discuss the key risks and our current mitigation. An overview of the review's findings is on page 49. A senior level working group will also be created, with input from technical experts, to explore the implications, practicalities, and possible management responses to the proposed legislation in the government's latest energy white paper.

Our principal risks continued

Strategic

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

Risk

Our key controls

1. Failure to implement the Group's strategy

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

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

Movement during 2020: Increased

↗

Although the Covid-19 pandemic did not stop the Group implementing its strategy in 2020, the lockdown restrictions have marginally extended the project length for Soho Place and The Featherstone Building, and has caused significant economic disruption. Our strategy currently includes incorporating a retail element into our buildings to provide amenity to our tenants and the local community. As Covid-19 has only amplified the weaknesses within the retail market, this aspect of our strategy is being reviewed. The impact of a potential recession on our strategy, and other longer-term consequences of the Covid-19 pandemic, is being monitored by the Executive Committee and the Board.

Executive responsibility: Paul Williams

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

2. Implications of Brexit

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

Movement during 2020: Unchanged

→

Trade negotiations with the European Union continued during 2020 despite the Covid-19 pandemic, and resulted in the UK-EU Trade and Cooperation Agreement (TCA) being finalised on 24 December 2020. For London, further uncertainty remains until terms are agreed in respect of financial services. The financial services sector contributes approximately £130 billion to the UK economy, 1.1 million jobs and 40% of the sector's exports are to the EU. London's economy, and its place as one of the world's leading financial centres, could be damaged if an adverse agreement is reached in respect of financial services. The Group will continue to monitor international trade negotiations, including the UK application to join the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP).

Executive responsibility: Paul Williams

- Trade negotiations are being monitored and potential outcomes discussed with external advisers.
- The Group's strong financing and covenant headroom enables it to weather a downturn. In addition, the Group's diverse and high quality tenant base provides resilience against tenant default.
- Construction cost risk, with the exception of Government tariffs, sits with our main contractors. Early ordering and off-site holding facilities are in place for our development projects.
- The Group focuses on good value properties that are less susceptible to reductions in tenant demand. The Group's average 'topped-up' office rent is only £57.71 per sq ft.
- Income is maintained at future development sites for as long as possible. The Group develops properties in locations where there is good potential for future demand, such as near Crossrail stations.

Key

Strategic objectives

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

Movement during the year

↗ Risk increased
→ Risk unchanged
↘ Risk decreased

Potential impact	What we did in 2020	What we will be doing in 2021
Strategic objectives 1. 2. 4. 5. **Business model** Could potentially impact on all aspects of our business model **KPIs** • Total return • Total property return • Total shareholder return	• Examined opportunities for acquisitions to recycle capital. • Monitored our portfolio for further asset management activities and managed the vacancy rate. • Prepared three rolling forecasts and a budget for 2021. • Our credit rating of A- was renewed by Fitch in May 2020. • The Board considered the sensitivity of our KPIs to changes in underlying assumptions including interest rates, timing of projects, level of capital expenditure and the extent of capital recycling. • In respect to our de-risking strategy, we have pre-let 84% of Soho Place. • The Group's loan-to-value ratio remained low, its net interest cover ratio was 446% and the REIT ratios were comfortably met.	• The Board will hold its annual Strategy Away Day on 18 June 2021 to discuss the Group's five-year strategy. • Examine opportunities for acquisitions and disposals to recycle capital. • Continue to extend income through renewals and regears for properties not earmarked for regeneration.
Strategic objectives 1. 2. 5. **Business model** Could potentially impact on all aspects of our business model **KPIs** • Total return • Total property return • Total shareholder return	• Monitored the trade negotiations and discussed potential outcomes, including the potential impact on our contractors/ subcontractors and supply chain. • Received political and economic updates from external advisers throughout the year. • Monitored letting progress and demand for our buildings. • As at 31 December 2020, the Group has cash and undrawn facilities of £476m. • Laing O'Rourke and Skanska, the contractors of our two major on-site developments, conducted detailed supply chain reviews in conjunction with Derwent London and no major concerns were flagged in the event of a 'hard Brexit'. • Proactive supply chain management in collaboration with our contractors and use of UK-based logistic hubs.	• We will continue with our current controls and mitigating actions, including operating the business on a basis that balances risk and income generation.

Our principal risks continued

Financial

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

Risk

Our key controls

3. Risk of tenants defaulting or tenant failure

The risk that tenants become unable to pay their rents and/or their businesses fail. In the current environment, this risk has increased to be classified as a principal risk for the Group.

Movement during 2020: New principal risk

Due to the economic impact of Covid-19, and its potential long-term implications, occupiers could be facing increased financial difficulty. Retail and hospitality occupiers (who account for approximately 9% of our portfolio income) are of particular concern. Covid-19 has only amplified the weaknesses within the retail market and there is a strong likelihood that retail rents and values could fall even further. Our occupiers perceive the restaurant, retail and leisure aspects within our portfolio as amenities; hence we feel it is important that they are retained within our building offerings.

Executive responsibility: Paul Williams

- The Credit Committee perform detailed reviews of all prospective tenants.
- A "tenants at risk" register is maintained and regularly reviewed by the Executive Committee and the Board.
- Rent deposits are held where considered appropriate; the balance at 31 December 2020 was £18.8m.
- Active rent collection with regular reports to the Executive Committee.
- We maintain close and frequent contact with our tenants.
- Insurance for loss of rent is regularly considered.

4. Risks arising from changing macroeconomic factors

a. Income decline (previously, 'Fall in property values')

Due to the various risk factors, including:

- future demand for office space;
- rising 'grey' market vacancy in office space (i.e. tenant controlled vacant space);
- weaknesses in retail and hospitality businesses;
- depth of recession;
- Brexit uncertainty; and
- rising unemployment.

There is a risk that our income could decline which could lead to lower interest cover under our debt facility financial covenants. This could also have an adverse impact upon the property valuation and future dividend payments. In addition, depending on how prolonged the adverse impacts of Covid-19 are on businesses, and how our occupiers fare during this period, we could face additional risk of income impairment.

Movement during 2020: Increased

↗

In light of Covid-19, we have been monitoring the economic outlook, vacancy rates, financial health of our tenants and the condition of the wider property market. Given the ongoing uncertainty, it is difficult to forecast the impact on 2021 EPRA earnings or cash receipts. Future dividends will remain under review.

Executive responsibility: Paul Williams

- The Credit Committee receives detailed reviews of all prospective tenants.
- A "tenants at risk" register is maintained and regularly reviewed by the Executive Committee and the Board.
- Ongoing dialogue is held with tenants to understand their concerns and requirements.
- The Group's low loan-to-value ratio reduces the likelihood that falls in property values have a significant impact on our business continuity.

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

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

Movement during 2020: New principal risk

Executive responsibility: Damian Wisniewski

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

Key

Strategic objectives

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

Movement during the year

↗ Risk increased

→ Risk unchanged

↘ Risk decreased

Potential impact	What we did in 2020	What we will be doing in 2021
Strategic objectives 1. 2. 5. **Business model** Asset management **KPIs** • Total property return • EPRA earnings per share • Interest cover ratio • Tenant retention • Void management	• We have maintained proactive engagement with our tenants, dealing with their concerns on a case by case basis and supporting them as appropriate. • Ensured consistency in our approach to similar tenants and prioritised assistance to those most affected by Covid-19. • Reduced service charges by 25% for two quarters. • In respect of service charges, we agreed reductions in costs across our supply chain. In total, we achieved savings of c.£1m per quarter against the service charge budgets. • We have analysed the sectors which could perform well despite the current economic difficulties, so that we can better focus our marketing and leasing activities.	• Continue to support restaurants, retail and leisure amenities in our buildings. • We will continue with our current controls and mitigating actions.
Strategic objectives 1. 2. 5. **Business model** Could potentially impact on all aspects of our business model **KPIs** • Interest cover ratio • Total return • Total property return • Gearing and available resources	• During 2020, the Credit Committee performed a detailed analysis of our tenant base, the strength of financial covenants and its future outlook. • We maintained proactive engagement with our tenants, dealing with their concerns on a case by case basis and supporting them as appropriate. • In the light of the Covid-19 outbreak, the Board gave careful consideration to our obligations to all our stakeholders and agreed that it remained appropriate to pay the 2019 final dividend of 51.45p per share on 5 June 2020. • The Board considered the sensitivity of our KPIs to changes in underlying assumptions including interest rates, timing of projects, level of capital expenditure and the extent of capital recycling. • The Group produced a budget, strategic review and three rolling forecasts during the year which contain detailed sensitivity analyses including the effect of changes to yields. • Quarterly management accounts were provided to the Board.	• We will continue with our current controls and mitigating actions, including operating the business on a basis that balances risk and income generation.
Strategic objectives 1. 2. 5. **Business model** Could potentially impact on all aspects of our business model **KPIs** • Interest cover ratio • Total return • Total property return • Gearing and available resources	• The Board received political updates from external advisers and monitored the situation during 2020.	• We will continue with our current controls and mitigating actions. • In the event the government opens a consultation on tax-related policy, we would respond with our views.

Our principal risks continued

Operational

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

Risk

Our key controls

5. Risks arising from our development activities

a. Reduced development returns

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

- delay on site;
- increased construction costs; and
- adverse letting conditions.

Movement during 2020: Increased

↗

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

Executive responsibility: Nigel George

- Development appraisals, which include contingencies and inflationary cost increases, are prepared and sensitivity analysis is undertaken to judge whether an adequate return is made in all likely circumstances.
- The procurement process used by the Group includes the use of highly regarded firms of quantity surveyors and is designed to minimise uncertainty regarding costs.
- Development costs are benchmarked to ensure that the Group obtains competitive pricing and, where appropriate, fixed price contracts are negotiated.
- Procedures carried out before starting work on site, such as site investigations, historical research of the property and surveys conducted as part of the planning application, reduce the risk of unidentified issues causing delays once on site.
- The Group's pre-letting strategy reduces or removes the letting risk of the development as soon as possible.
- Detailed reviews are performed on construction projects to ensure that programme forecasts predicted by our contractors are aligned with our views.
- 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.

b. 'On-site' risk

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

Movement during 2020: Increased

↗

Due to restrictions introduced to prevent the spread of Covid-19, our on-site developments have been subject to minor delays. 80 Charlotte Street achieved practical completion in June 2020, and The Featherstone Building and Soho Place are still expected to be completed within their original budgets under the revised programme.

Sites are now operational but are not at full capacity due to social distancing measures. Despite strict Covid-19 protocols on-site, there is a risk of labour and resource shortages as UK cases rise, which could lead to productivity disruption and project delay.

Executive responsibility: Nigel George

- Strict Covid-19 protocols have been introduced at all of our on-site developments, in accordance with Site Operating Procedures (published by the Construction Leadership Council).
- Productivity is monitored on a monthly basis and our contractors have been incentivised to achieve the reset programmes post the Covid-19 site closures.
- Prior to construction beginning on site, we conduct site investigations including the building's history and various surveys to identify any potential issues.
- Regular monitoring of our contractors' cash flows.
- Off-site inspection of key components to ensure they have been completed to the requisite quality.
- Frequent meetings with key contractors and subcontractors to review their work programme.
- Monthly reviews of Brexit-related supply chain issues.

c. Contractor/subcontractor default

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

Movement during 2020: Increased

↗

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

Executive responsibility: Nigel George

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

Key

Strategic objectives

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

Movement during the year

↗ Risk increased
→ Risk unchanged
↘ Risk decreased

Potential impact	What we did in 2020	What we will be doing in 2021
Strategic objectives 1. 2. 5. **Business model** Could potentially impact on all aspects of our business model **KPIs** - Total return - Total property return - Total shareholder return	- We have a flexible development pipeline and, where appropriate, we deferred expenditure and decisions on future projects while keeping very close to our contractors, professional consultants and the project teams on site. - Agreed revised timeframes for achieving practical completion and the apportionment of cost with our Soho Place and The Featherstone Building contractors. - Monitored construction cost inflation in relation to future projects. - The Board and Executive Committee received regular updates on our principal developments including construction costs. - In respect to our de-risking strategy, we have pre-let 84% of Soho Place. - Both major on-site developments are progressing well. 100% of the costs for The Featherstone Building, and 99.7% of the costs for Soho Place, have been agreed and fixed.	- Continue with our current controls and mitigating actions with a major focus on project monitoring.
Strategic objectives 1. 2. 4. **Business model** Our core activities Adding value for stakeholders **KPIs** - Total return - Total property return - Total shareholder return	- Monitored and agreed the impact and risks of Covid-19 on our supply chain and other aspects of each project. - The Board and Executive Committee received regular updates on our principal developments. - 100% of the costs for The Featherstone Building, and 99.7% of the costs for Soho Place, have been agreed and fixed. - Quarterly cost reports provided an update on development progress from a cost, profitability and programme perspective.	- Continue with our current controls and mitigating actions.
Strategic objectives 1. 2. 4. **Business model** Our core activities Adding value for stakeholders **KPIs** - Total return - Total property return - Total shareholder return	- Engaged continuously with our contractors, subcontractors and supply chain during the Covid-19 pandemic. - Agreed the apportioning of risk and costs between Derwent London and the contractors. - Reduced retention from 3% to 2% against gross value certified to date to accelerate cash flow to our supply chain, and suppliers were paid on average within 20 days. - Accepted early ordering of materials ahead of their need on site to accelerate cash flow to our supply chain. - Worked alongside local authorities to extend permissible working hours on site. - The Board and Executive Committee received regular updates on our principal developments. - Quarterly cost reports provided an update on development progress from a cost, profitability and programme perspective.	- Continue with our current controls and mitigating actions.

Our principal risks continued

Operational continued

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

Risk

Our key controls

6. Risk of business interruption

a. Cyber attack on our IT systems

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

Movement during 2020: Increased

↗

During 2020, there has been an increase in cyber attacks being perpetrated as cyber criminals seek to exploit Covid-19. In response, we identified the key IT risks arising from home working and implemented additional controls.

Executive responsibility: Damian Wisniewski

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

b. Cyber attack on our buildings

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

Movement during 2020: Unchanged

→

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

Executive responsibility: David Silverman

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

c. Significant business interruption (for example, pandemic, terrorism-related event or other business interruption) (previously, 'Terrorism-related or other business interruption')

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

Movement during 2020: Increased

↗

Covid-19 has caused significant business interruption for some of our occupiers, particularly retail, travel, restaurants or other leisure services. During 2020, there has been limited business interruption for Derwent London; however, the lockdown has caused a delay to our development activities and reduction in cash flow due to deferment, concessions or non-payment of rent.

Executive responsibility: All Executive Directors

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

Key

Strategic objectives

1. To optimise returns and create value from a balanced portfolio
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4. To design, deliver and operate our buildings responsibly
5. To maintain strong and flexible financing

Movement during the year

↗ Risk increased

→ Risk unchanged

↘ Risk decreased

Potential impact	What we did in 2020	What we will be doing in 2021
Strategic objectives 1. 2. 3. 4. 5. **Business model** Could potentially impact on all aspects of our business model **KPIs** • Total shareholder return	• All employees who did not already have work laptops, were issued with fully encrypted and security hardened business-laptops to remove the need for personal computers. • Introduced a secure internet gateway to mitigate the risk of internet-borne threats during home working. • Migrated to a cloud managed anti-virus and security platform to enhance protection for remote workers. • Introduced OneDrive for business and Microsoft Teams to provide secure external file sharing and video conferencing capabilities. • Introduced Multi-Factor Authentication on all Office 365 accounts. • Provided additional employee security awareness training and guidance on remote working security best practices. • Introduced Data Leak Prevention to mitigate the risk of personal data breaches. • Conducted monthly vulnerability scans. • Conducted simulated 'phishing' exercises as part of the ongoing security awareness programme. • Configured secure VPN connections for remote workers. • Capgemini performed a cyber security audit during 2020. In addition, we implemented the RSM recommendations which arose from the 2019 internal audit review.	• Implement the recommendations arising from the Capgemini cyber security audit. • Further develop our IT governance framework and incident response plans. • Implement further security controls to enhance our layered defence model.
Strategic objectives 1. 2. 3. 4. 5. **Business model** Could potentially impact on all aspects of our business model **KPIs** • Total shareholder return	• Reviewed and updated our portfolio IT cyber security strategy. • Completed cyber gap analysis audits. • Contributed to security best practice documents as part of the Internet of Things Security Foundation (IoTSF) Smart Buildings Working Group with stakeholders from across the commercial real estate industry. • Conducted security reviews on network designs for any new buildings or refurbishments. • Completed 'smart school' training for key stakeholders to raise awareness of the IoTSF and the associated inherent cyber security risks. • Sent phishing simulation tests to Building Managers. • Completed mandatory security awareness training for all staff, including Building Managers.	• Further develop our IT governance framework and incident response plans. • Implement further security controls to enhance our layered defence model.
Strategic objectives 1. 2. 3. 4. 5. **Business model** Could potentially impact on all aspects of our business model **KPIs** • Could impact on any Group KPIs	• The Executive Committee monitored the Covid-19 outbreak and its potential implications since early-January 2020 with support from the Health & Safety Committee and a Covid-19 Working Group. • RSM performed an internal audit into our response to Covid-19. • Additional Board and Committee meetings were held during 2020 to respond to the Covid-19 pandemic. • Active engagement with tenants, our supply chain and employees. • Implemented detailed 'return to work' procedures for 25 Savile Row and our managed portfolio to ensure the safety of employees and occupiers. • Updated our incident management procedures for each of the buildings in the managed portfolio. • Provided training to our Building Managers on the management of major incidents. • Ensured that our employees have the right technology and resources to work as effectively as possible from home, and that our communications with all stakeholders are as transparent and informative as they can be.	• Review the results of the internal audit review into our response to Covid-19 and implement any arising recommendations. • Continue to work closely with, and support, our occupiers and supply chain. • Continue with our current controls and mitigating actions.

Our principal risks continued

Operational continued

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

Risk	Our key controls
7. Reputational damage	
The Group's reputation is damaged, for example through unauthorised and/or inaccurate media coverage or failure to comply with relevant legislation. We have invested significantly in developing a well-regarded and respected brand. Our strong culture, low overall risk tolerance and established procedures and policies mitigate against the risk of internal wrongdoing. **Movement during 2020:** Unchanged → How the Group responds to, and manages, the Covid-19 pandemic could either enhance or damage our reputation. Feedback on how we have responded, particularly in respect to our occupiers, suppliers, employees and Community Fund, has generally been positive. **Executive responsibility:** All 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 benefit from an induction programme and are issued with our Group staff handbook. • The Group employs a Head of Investor and Corporate Communications and retains services of an external PR agency, both of whom maintain regular contact with external media sources. • A Group whistleblowing system for staff is maintained to report wrongdoing anonymously. • Social media channels are monitored. • Ongoing engagement with local communities in areas where the Group operates. • Staff training and awareness programmes.
8. Our resilience to climate change	
The Group fails to respond appropriately, and sufficiently, to climate change risks or fails to benefit from the potential opportunities. This could lead to damage to our reputation, loss of income and/or property values and loss of our licence to operate. **Movement during 2020:** Unchanged → In July we published our Net Zero Carbon Pathway, which sets out in more detail how we will become a net zero carbon business by 2030. **Executive responsibility:** Paul Williams	• The Board and Executive Committee receive regular updates and presentations on environmental and sustainability performance and management matters as well as progress against our pathway to becoming net zero carbon by 2030. • The Sustainability Committee monitors our performance and management controls. • Strong team led by an experienced Head of Sustainability. • The Group monitors its ESG (environmental, social and governance) reporting against various industry benchmarks. • Production of an annual Responsibility Report with key data and performance points which are externally assured. • In 2017 we adopted independently verified science-based carbon targets which have been approved by the Science-Based Targets Initiative (SBTi).

Key

Strategic objectives

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4. To design, deliver and operate our buildings responsibly
5. To maintain strong and flexible financing

Movement during the year

↗	Risk increased
→	Risk unchanged
↘	Risk decreased

Potential impact	What we did in 2020	What we will be doing in 2021
Strategic objectives 1. 2. 3. 4. 5. **Business model** Could potentially impact on all aspects of our business model **KPIs** • Total return • Total property return • Total shareholder return Could indirectly impact on a number of our other KPIs	In order to support our community during Covid-19: • Ensured the market and our key stakeholders were kept updated on our response to Covid-19. • Followed a proactive and personalised response to our tenants facing difficulties due to Covid-19. • The Directors waived 20% of their base salaries or fees for a three month period, effective from 1 April 2020, which was used for charitable purposes. • We increased our charitable donations, sponsorships and community funding by 179% to £1.1m in 2020. • Worked with relevant agencies to provide accommodation and carparking to NHS staff in central London. • Continued to implement a mandatory compliance training programme for all employees (including Directors). • Monitored investor views and press comments while maintaining contact with other stakeholders. • Invested in a social media strategy, including providing some staff with additional social media training.	• Continue communicating to, and listening to, our stakeholders. • Continue to support those in need. • Continue to support our staff's training requirements. • Continue with our current controls and mitigating actions.
Strategic objectives 1. 3. 4. **Business model** Could potentially impact on all aspects of our business model **KPIs** • Total return • BREEAM rating • Science based carbon target performance • Total shareholder return A significant diversion of time could affect a wider range of KPIs	• Prepared and published our pathway to become net zero carbon by 2030. • Published our annual Responsibility Report in April 2020. • Started investigations into off-site renewable energy generation opportunities available to us to reduce our market-based dependency. • Willis Towers Watson were engaged to assist in the identification, assessment and quantification of climate related risks and opportunities under pre-defined climate scenarios (see page 49).	• We will look to align our SBTi targets to a more challenging 1.5°C climate scenario inline with our net zero carbon ambition. • A senior level working group will be created, with input from technical experts, to explore the implications, practicalities, and possible management responses to the proposed legislation in the government's latest energy white paper. • Continue with our current controls and mitigating actions.

Our principal risks continued

Operational continued

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

Risk | **Our key controls**

9. Non-compliance with regulation

a. Non-compliance with health and safety legislation

Risk

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

Movement during 2020: Unchanged

→

During 2020, the health and wellbeing of our employees, occupiers and other stakeholders has been a top priority. We have invested additional resources into health and safety (see page 54).

Executive responsibility: Paul Williams

Our key controls

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

b. Other regulatory non-compliance

Risk

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

Movement during 2020: Unchanged

→

During 2020, we followed the UK government's regulations in respect of social distancing and safe working practices. In accordance with disclosure requirements, we ensured our stakeholders and the wider investment market were kept appraised of Derwent London's response to Covid-19 and its impact on our business.

Executive responsibility: Damian Wisniewski

Our key controls

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

Key

Strategic objectives

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5. To maintain strong and flexible financing

Movement during the year

↗	Risk increased
→	Risk unchanged
↘	Risk decreased

Potential impact	What we did in 2020	What we will be doing in 2021
Strategic objectives 1. 2. 3. 4. 5. **Business model** Could potentially impact on all aspects of our business model **KPIs** • Total shareholder return A significant diversion of time could affect a wider range of KPIs	• Our Head of Health and Safety was part of the Construction Leadership Council (CLC) Covid-19 Task Force which recently published guidance for contractors on-site operating procedures. • Published a health and wellbeing guide for employees working from home. • Performed detailed health and safety risk assessments of 25 Savile Row and common areas within the managed portfolio and implemented initiatives aimed at preserving social distancing and protecting our employees and occupiers. • Performed a detailed health and safety audit of all residential properties and a property health check of all commercial properties in our managed portfolio. • Developed a health and safety knowledge library where all our procedures and standards are made available to both internal and external stakeholders. • Developed and implemented robust CDM procedures rolled out to our internal and external project managers and our managed portfolio. • Worked with our external fire consultants to become the first UK property company to implement a new Fire Safety Management System in line with BS9997 in preparation for the new Building Fire Safety Bill (see page 55). • The Health and Safety Committee received regular health and safety reports from the Director of Developments and Head of Health and Safety for each of our construction sites during the year. • Deloitte performed an assurance audit of our health and safety figures (see page 62).	• Continue with our current controls and mitigating actions.
Strategic objectives 3. 4. 5. **Business model** Could potentially impact on all aspects of our business model **KPIs** • Total shareholder return A significant diversion of time could affect a wider range of KPIs	• Despite home working, our employees continued to follow the Group's normal compliance procedures, including in respect of the signing of documentation and delegated authorities. • Our 2019 Annual Report and Responsibility Report was successfully published despite lockdown restrictions. • Our AGM arrangements were amended to be in accordance with UK government guidelines and was held on 15 May 2020. • Quarterly review of our anti-bribery and corruption procedures by the Risk Committee. • Continued to implement a compliance training programme, mandatory for all employees including the Board. • As part of our 2020 staff performance appraisals, all employees confirmed they have reviewed and understood Group policies.	• Continue with our current controls and mitigating actions.

Governance

> "BCG looks forward to making 80 Charlotte Street our new home in mid-2021. Now that construction has finished, we are excited to design the new office in line with our broader strategy to lower our carbon footprint, while bringing together our various business units in a dynamic and inspiring environment that maximises collaboration between our people and our clients."
>
> Andy Veitch, Managing Director & Partner at Boston Consulting Group

80 Charlotte Street W1

Introduction from the Chairman

John Burns
Chairman

2021 Focus areas

- Monitor the Group's response to the continuing impacts of Covid-19
- Induction of the new independent Non-Executive Chairman, Mark Breuer
- Review the Group's strategy and five-year plan
- Arrange our first Stakeholder Day, subject to no Covid-19 restrictions in H2 2021 (see page 114)
- Monitor the progress of our key development projects: Soho Place W1 and The Featherstone Building EC1

Dear Shareholder,
On behalf of the Board, I am pleased to introduce the Group's Corporate governance statement on pages 110 to 123.

Governance during Covid-19

2020 has been a turbulent year, with Covid-19 and uncertainty surrounding Brexit causing significant disruption. To ensure the Board was able to actively support the business as the Covid-19 pandemic developed, additional Board and Committee meetings were held to provide leadership and effective risk oversight.

Health, safety and wellbeing were key aspects of 2020. The Responsible Business Committee focused particularly on stakeholder engagement and the support being provided to our occupiers, local communities and employees. Employee and occupier pulse surveys were commissioned to provide valuable insights for the Board (see pages 51 and 103). In addition, the Non-Executive Directors joined a town hall meeting hosted by the CEO to answer anonymous questions raised by staff (see page 115).

To ensure the safety of employees and our shareholders, we were required to hold the 2020 AGM as a closed meeting. Despite the restrictions, the 2020 AGM did include a short business update and virtual Q&A session. Unfortunately, current UK government guidance does not permit us to physically welcome shareholders to our 2021 AGM so we are taking the necessary steps to facilitate a further closed meeting (see page 175).

Board changes

During 2021 there will be a number of changes to the composition of the Board, including Mark Breuer succeeding me as Chairman, the retirement of Simon Silver and the appointment of Emily Prideaux as an Executive Director. The impact of the aforementioned changes on the independence and diversity of the Board is discussed further on pages 119 and 127.

A focus for the first half of 2021 will be the handover of responsibility to my successor, Mark Breuer. I am sure that Mark will prove to be a valued and respected addition to the Board and a highly effective Chairman. I hand over with every confidence in Mark's future success and that of the Company.

I look forward to welcoming you virtually to our 2021 AGM on 14 May. This will be my last AGM as a Director. I have greatly enjoyed my roles at Derwent London and seeing the Company grow to the substantial business it is today. I would like to thank you for your support.

Compliance with the UK Corporate Governance Code

I am pleased to report that for the year under review, we have consistently applied the principles of good governance contained in the 2018 UK Corporate Governance Code (the Code). Until the 2021 AGM, we will be unable to comply with provision 9 and 19 of the Code, as I was not independent upon appointment and was previously CEO. We are also in the process of reducing Executive Director pension contributions and from 1 January 2022, we will be able to comply in full with provision 38 of the Code. Further information is available on page 155.

We were pleased that Derwent London continues to be externally recognised for our transparent reporting and high governance standards (see the inside back cover for a summary of our recent awards).

If you wish to discuss any aspect of our governance arrangements, please contact me via our Company Secretary, David Lawler (telephone: +44 (0)20 7659 3000 or email: company.secretary@derwentlondon.com).

John Burns
Chairman
10 March 2021

Governance at a glance

Our approach to corporate governance aims to preserve and strengthen stakeholder confidence in our business integrity, and provide a working foundation of accountability and flexibility.

UK Corporate Governance Code – 2020 compliance statement

The Board confirms that for the year ended 31 December 2020, the principles of good corporate governance contained in the 2018 UK Corporate Governance Code (the Code) have been consistently applied. Further information on the Code can be found on the Financial Reporting Council's website at: **www.frc.org.uk**

As our Non-Executive Chairman was not independent upon appointment, was previously our CEO and has served for more than nine years, we have been unable to comply with provisions 9 and 19 of the Code. We will remain non-compliant with these provisions until John Burns steps down and Mark Breuer succeeds as our independent Non-Executive Chairman at the 2021 AGM. The safeguards in place to ensure separation of leadership were detailed on page 116 of the 2019 Annual Report and operated effectively during the year.

Pension contribution rates for newly appointed Executive Directors is aligned with the workforce at 15% of base salary. The pension contribution rates for the current Executive Directors is transitioning and will be 15% from 1 January 2022 (see page 155). We will remain partially compliant with provision 38 of the Code until 1 January 2022, after which we will comply in full.

Stakeholder engagement

To assess how the Company was handling the Covid-19 pandemic, the Board commissioned pulse surveys to our employees and occupiers. A sample of the responses received is provided below.

Employees

100%

Agreed that Derwent London provided clear guidance to employees in relation to its Covid-19 response (75% strongly agreed)

97%

Agreed that it is clear that their health and wellbeing is a priority for Derwent London (78% strongly agreed)

Occupiers

99%

Agreed that they are satisfied that the measures taken during Covid-19 provided safety and comfort to them and their employees

95%

Agreed that overall they have found the Derwent London approach to Covid-19 and reoccupation positive: 48% 'very positive', 47% 'positive' and 5% 'neutral'

Board changes

We were delighted to announce the appointment of Mark Breuer as a Director, with effect from 1 February 2021. Mark will succeed John Burns as our independent Non-Executive Chairman following the conclusion of the 2021 AGM. In addition, with effect from 1 March 2021, Emily Prideaux joined the Board as an Executive Director.

Major Board activities

The major decisions taken by the Board and its Committees during 2020 included:

- The sale of the Johnson Building EC1 for £170.0m before costs
- The redevelopment of 19-35 Baker Street W1 (see page 117)
- The refurbishment of Francis House SW1 for £12.3m
- The Directors increased the budget for charitable donations, sponsorship and community funding by 179% to £1.1m
- Approved a £100m Revolving Credit Facility (RCF) with Wells Fargo and extended our main £450m RCF with our UK banking partners for a further year to 2025 (see page 78)

p.126 Chairman appointment
p.122 Key activities of the Board
p.104 The section 172(1) statement

The section 172(1) statement

The Board of Directors confirm that during the year under review, it has acted to promote the long-term success of the Company for the benefit of shareholders, whilst having due regard to the matters set out in section 172(1)(a) to (f) of the Companies Act 2006.

Issues, factors and stakeholders

The Board has direct engagement principally with our employees and shareholders but is also kept fully apprised of the material issues of other stakeholders through the Executive Directors, reports from senior management and external advisers. On pages 26 and 27 we outline the ways in which we have engaged with key stakeholders and the material issues that they have raised with us.

s172 factor	Relevant disclosures
(a) the likely consequences of any decision in the long-term	Company purpose (page 1) Operating in challenging times (page 6) Central London office market (page 18) Investing in our pipeline (page 24) Our business model (page 30) Our strategy (page 32)
(b) the interests of the Company's employees	Non-financial reporting (page 58) Our people (page 50) Diversity and inclusion (page 50) Employee engagement (page 115)
(c) the need to foster the Company's business relationships with suppliers, customers and others	Delivering value to customers (page 10) Supporting stakeholders in 2020 (page 12) Responsible payment practices (page 135) Anti-bribery and corruption (page 142) Human rights and modern slavery (pages 57 and 149) Supply Chain Sustainability Standard (page 148)
(d) the impact of the Company's operations on the community and the environment	Net Zero Carbon Pathway (page 28) Supporting communities in 2020 (page 13) TCFD disclosures (page 60) Our Community Fund (page 53) Corporate giving (page 53)
(e) the desirability of the Company maintaining a reputation for high standards of business conduct	Derwent London brand (page 86) Culture and values (page 111) Whistleblowing (page 116) Internal financial controls (page 134) Awards and recognition (see inside back cover)
(f) the need to act fairly between members of the Company	Shareholder engagement (page 114) Annual General Meeting (AGM) (page 175) Rights attached to shares (page 173) Voting rights (page 174)

Methods used by the Board

2020 was an unprecedented year. In addition to the main methods used by the Board (listed below), in response to the uncertainty and difficulties facing our stakeholders, the Board responded by:

- Holding additional meetings to ensure effective oversight of management decisions and policies, particularly in respect to:
  - financial support being offered to our occupiers;
  - our ability to safely operate our buildings;
  - supporting the local community and NHS; and
  - providing clear communications and support to our employees.
- Seeking independent verification that the business is responding proactively and effectively via:
  - RSM internal audit into our response to Covid-19 (page 136);
  - Occupier and employee pulse surveys (page 103); and
  - Capgemini cyber security audit in response to the increase in home working (page 144).

The main methods used by the Directors to perform their duties include:

- the Board sets the Group's purpose, values and strategy and ensures they are aligned with our culture (see page 111);
- the Responsible Business Committee monitors the Group's corporate responsibility, sustainability and stakeholder engagement activities and reports to the Main Board on its activities (see pages 146 to 149);
- the Board utilises a stakeholder impact analysis to assess the potential impact of significant capital expenditure decisions on our stakeholders (see page 116);
- the Board's risk management procedures identify the potential consequences of decisions in the short, medium and long-term so that mitigation plans can be put in place to prevent, reduce or eliminate risks to our business and wider stakeholders (see pages 138 and 145);
- strategy reviews which assess the long-term sustainable success of the Group and our impact on key stakeholders;
- direct and indirect stakeholder engagement (see pages 12 to 13 and 26 to 27);
- external assurance is received through audits, stakeholder surveys and reports from brokers and advisers; and
- specific training for our Directors and senior managers.

Public interest statement – 2020

As a business that designs and manages office space, we are aware of our wider obligations to be a responsible business partner to our occupiers and within the communities in which we operate. As our activities impact on multiple stakeholder groups (see page 26), our Board ensures that stakeholder matters are central to its decision-making alongside the long-term financial success of our business.

We extend our obligations beyond the statutory requirements to add value and build long-term mutually beneficial relationships. Our obligations are incorporated into our purpose, which strongly influences our values (see page 1). We have detailed on pages 12, 13, 26, 27 and 105 how we have acted in the public interest during 2020.

Principal decisions in 2020 and how we have met our public interest obligations

The key activities and principal decisions undertaken by the Board in 2020 are detailed on pages 122 and 123. We detail below how the Board factored stakeholders, and the information we received through engagement, into its decisions in 2020.

When making each decision, the Board carefully considered how it impacted on the success of the Group, its long-term (financial and non-financial) impact and had due regard to the other matters set out in section 172(1)(a) to (f) of the Companies Act 2006.

Stakeholder group	Engagement we received	Our response	Reference to further information
Occupiers	During this challenging time, occupiers were understandably monitoring their costs and sought reductions wherever possible, especially when they were unable to fully utilise the services. Due to the lockdown restrictions, where feasible, we scaled back services at our buildings to reduce the financial cost to our occupiers. Despite the reduction, there were still some costs to be incurred. Through proactive and direct engagement with our occupiers, via our Asset Management team, we received early indications of which occupiers were facing particular financial difficulty due to Covid-19.	The Board approved the reduction of service charges for the March and June quarters by 25%. This was at a cost to the Company, and subsequent saving to our occupiers, of £4.1m. Principles were agreed early in the pandemic in respect to rent concessions which allowed for fast and consistent actions. The Directors approved the delegation of authority for approving rent concessions to small occupiers to senior management allowing for quicker response times which is critical in times of uncertainty. In total, this was at a cost of £0.9m to the Company in 2020, with the remaining cost of these concessions spread over the tenants' remaining lease terms. Particular attention was given to occupiers perceived to be most at risk, including retail and hospitality occupiers. The Board's support for these occupiers not only assisted the businesses themselves but also helped to preserve the amenity for the buildings' other occupiers and the local community.	p.11
Suppliers	Through close collaboration with our principal contractors and main subcontractors we were kept apprised of their response to the pandemic and how it was impacting on their business, finances and staff. As a business, we utilise various third party services to assist in the management of our buildings, including cleaning and security services. The Directors were informed when our direct suppliers of services were required to furlough staff due to lack of work arising from the pandemic.	The Finance team worked hard to improve our average payment days from 25 days in 2019 to 20 days in 2020. This was despite the initial disruption to processes caused by home working. Improving our average payment days assisted our contractors with their cash flow and liquidity. To support furloughed third party service staff, the Directors agreed to 'top-up' wages by 20% so that there was no drop in income during the furlough period. The Board were mindful that a significant number of these workers were on relatively low wages and a 20% reduction under furlough would be significant.	p.12
Local community	Through our charitable connections, and close relationships with local community services, we were aware that they were facing increased demand due to Covid-19 and donations and assistance were required.	The Directors increased the budget for charitable donations, sponsorship and community funding by 179% to £1.1m. This included £186,000 paid for by waivers of 20% of base salaries/fees from each Director for a three month period, effective from 1 April 2020. The salary/fee waiver was a personal cost to the Directors.	p.13
Shareholders	The Covid-19 pandemic had a significant impact on the stock market and generally led to share prices falling and dividends being cancelled. There was considerable uncertainty surrounding whether dividend payments would be made to shareholders.	The Board considered the financial strength of the business and agreed to continue to pay the 2019 final dividend in June 2020 and to pay an interim 2020 dividend in October. This decision provided security to our shareholders who value the regular income received from our dividend payments.	p.8
Employees	The Covid-19 pandemic and its uncertainty, caused understandable concerns around job security, ability to successfully work from home and safeguarding their health when returning to the office. Direct feedback from employees was fed into the Covid-19 Working Group established in February 2020 and this, in turn, was shared with the Board and Executive Committee.	The CEO and other Directors provided clear communication to staff, via regular town hall meetings which were open to all employees, that the Group would not furlough employees nor would there be redundancies. Transparent and detailed policies were published on the procedures for working safely at home, ensuring their wellbeing and safeguarding their health when they reoccupy the office. Considerable effort was made to ensure our employees and office spaces were safe when reoccupation was possible.	p.12
NHS	Through community engagement, and our close relationship with University College Hospital, we were made aware that there was a lack of storage facilities for food and certain hospital staff were being housed in hotels as they were unable to stay with their families during the height of the pandemic.	The Directors responded by: • providing use of 16 furnished flats at Charlotte Apartments to NHS staff at University College Hospital free of charge for 12 months, which has an equivalent rental value of c.£462,000; • contributing to the UCL Medical Student Support Fund and the 1928 Project; and • donating £20,000 to fund the purchase of commercial fridges to store food for NHS workers.	p.13

Factoring our stakeholders into our decisions

We provide further examples on how our stakeholders impacted on the Board's discussions on the following pages:

p.10 Delivering value to our customers

p.12 Supporting our stakeholders in 2020

p.117 19-35 Baker Street W1

Board of Directors

John Burns

Non-Executive Chairman, 76

Appointed to the Board: 1984

A chartered surveyor and co-founder of Derwent Valley Holdings in 1984, John was Chief Executive from 1984 to 2019. In 2007 he orchestrated the Group's merger with London Merchant Securities establishing Derwent London as the largest London specialist REIT. He was appointed Non-Executive Chairman in 2019. John will retire as a Director of Derwent London plc following the conclusion of the 2021 Annual General Meeting.

Paul Williams

Chief Executive, 60

Appointed to the Board: 1998

Paul is a chartered surveyor who joined the Group in 1987. He was appointed Chief Executive in 2019. He has overall responsibility for Group strategy, business development, sustainability, health and safety and day-to-day operations.

Other public appointments: Director of Sadler's Wells Foundation and Chairman of the Westminster Property Association.

Committee: Responsible Business.

Damian Wisniewski

Chief Financial Officer, 59

Appointed to the Board: 2010

A chartered accountant who held senior finance roles at Chelsfield plc, Wood Wharf Limited Partnership and Treveria Asset Management. Damian has overall responsibility for financial strategy, treasury, taxation and financial reporting as well as strategic and operational responsibilities.

Other public appointments: Trustee and member of the governing body at the Royal Academy of Music and Non-Executive Director at the ABRSM.

Claudia Arney

Non-Executive Director, 50

Appointed to the Board: 2015

Claudia was Group Managing Director of Emap until 2010. Prior to that she held senior roles at HM Treasury, Goldman Sachs and the Financial Times.

Other public appointments: Non-Executive Director of the Premier League and Kingfisher plc. Chair of Deliveroo and Member of the Takeover Panel (Hearings Committee).

Committees: Remuneration (chair), Audit, Responsible Business, Nominations.

Lucinda Bell

Non-Executive Director, 56

Appointed to the Board: 2019

Lucinda is a chartered accountant and from 2011 to 2018 was CFO of The British Land Company plc (British Land). Prior to that, she held a range of finance and tax roles at British Land.

Other public appointments: Non-Executive Director of Crest Nicholson Holdings plc, Non-Executive Trustee at National Citizens Advice and Non-Executive Director at Man Group.

Committees: Audit (chair), Risk, Remuneration, Nominations.

Simon Fraser

Senior Independent Director, 57

Appointed to the Board: 2012

Simon began his career in the City in 1986. From 2004 until his retirement in 2011, Simon was Managing Director and co-head of corporate broking at Bank of America Merrill Lynch.

Other public appointments: Non-Executive Director of Lancashire Holdings Limited, Cathedral Underwriting Limited, Legal and General Investment Management Holdings and Trustee of Glyndebourne Estate.

Committees: Nominations (chair), Audit, Remuneration.

Simon Silver

Executive Director, 70

Appointed to the Board: 1986

Co-founder of Derwent Valley Holdings, Simon has overall responsibility for the Group's development and regeneration programme together with the commissioning of architects. He is also at the forefront of the Company's brand identity. He is an honorary fellow of the Royal Institute of British Architects. Simon retired as a Director of Derwent London plc on 26 February 2021.

Nigel George

Executive Director, 57

Appointed to the Board: 1998

Nigel is a chartered surveyor who joined the Group in 1988. His responsibilities include overseeing the development department, as well as acquisitions, disposals and investment analysis.

Other public appointments: Director of the Chancery Lane Association Limited.

David Silverman

Executive Director, 51

Appointed to the Board: 2008

David joined the Group in 2002 and is responsible for leading Derwent London's investment acquisitions and disposals. In addition, his responsibilities include overseeing the Group's Leasing, Asset and Property Management teams. David is a past Chairman of Westminster Property Association.

Other public appointments: Chairman of the Chickenshed Property Company and a Strategic Board member of New West End Company.

Richard Dakin

Non-Executive Director, 57

Appointed to the Board: 2013

Richard is the Managing Director of Capital Advisors Limited, part of CBRE, since 2014. Previously, he had been employed at Lloyds Bank since 1982 where he gained an extensive knowledge of property finance and the real estate sector. He is a Fellow of the Royal Institution of Chartered Surveyors and an Associate Member of Corporate Treasurers.

Committees: Risk (chair), Audit, Nominations.

Helen Gordon

Non-Executive Director, 61

Appointed to the Board: 2018

Helen is a chartered surveyor and is CEO of Grainger plc. Previously, she was Global Head of Real Estate Asset Management of Royal Bank of Scotland plc and has held senior property positions at Legal & General Investment Management, Railtrack and John Laing Developments.

Other public appointments: CEO of Grainger plc, Board member and Immediate Past President of the British Property Federation and Vice Chair and Board Member of EPRA.

Committees: Remuneration, Nominations.

Dame Cilla Snowball

Non-Executive Director, 62

Appointed to the Board: 2015

Cilla is the former Group Chairman and Group CEO at AMV BBDO, the UK's largest advertising agency.

Other public appointments: Director of Genome Research Limited, Non-Executive Director of the Wellcome Sanger Institute (Genomics Unit GRL) and The Wellcome Trust (Governor).

Committees: Responsible Business (chair), Nominations, Risk.

Senior management

Richard Baldwin ●

Director of Development

David Lawler ●

Company Secretary

Emily Prideaux ●

Director of Leasing

(Appointed to the Board as an Executive Director on 1 March 2021)

Lesley Bufton

Head of Property Marketing

Matt Cook

Head of Digital Innovation & Technology

John Davies

Head of Sustainability

Jay Joshi

Treasurer

Katy Levine

Head of HR

Umar Loane

Head of Property Accounts

Key

● Executive Committee

Jennifer Whybrow ●

Head of Financial Planning & Analysis

Vasiliki Arvaniti

Head of Asset Management

Victoria Steventon

Head of Property Management

Quentin Freeman

Head of Investor &
Corporate Communications

Clive Johnson

Head of Health & Safety

Nathan Johnstone

Head of Facilities Management

Heethen Patel

Financial Controller

Giles Sheehan

Head of Investment

David Westgate

Group Head of Tax

Corporate governance statement

Structure of the Governance section

The Governance section has been organised to follow the structure and principles (A to R) of the 2018 UK Corporate Governance Code (the Code) and illustrates how we have applied the Code principles and complied with the provisions. Further information on the Code and our compliance is on page 103.

Board leadership and Company purpose

Effective Board

Our Board is composed of highly skilled professionals who bring a range of skills, perspectives and corporate experience to our boardroom (see pages 106, 107 and 120). In accordance with the Code, the role of the Board is to promote the long-term sustainable success of the Company, generate value for shareholders and contribute to wider society.

To ensure sufficient time for discussion, the Board utilises its five principal committees to effectively manage its time (see page 113). At each Board meeting, the agenda ensures sufficient time for the committee chairs to report on the contents of discussions, any recommendations to the Board which require approval and the actions taken.

The Board conducts a detailed annual review of our strategy (including our purpose and strategic objectives). The next strategy review is scheduled for June 2021 and will include high-level exploratory discussions to challenge whether the strategy remains fit for purpose. In addition, as we generate value through the core activities identified in our business model, the flexibility of the business model will also be assessed by the Board to ensure it remains 'future ready'.

p.32 Our strategy
p.30 Our business model

Board members and attendance in 2020

	Attendance[i][ii]
Chairman	
John Burns [iii]	100%
Executive Directors	
Paul Williams, CEO	100%
Damian Wisniewski, CFO	100%
Simon Silver [iii]	100%
Nigel George	100%
David Silverman	100%
Independent Non-Executive Directors	
Claudia Arney	100%
Lucinda Bell	100%
Richard Dakin	100%
Simon Fraser	100%
Helen Gordon	100%
Dame Cilla Snowball	100%

Notes:

[i] Percentages based on the meetings entitled to attend for the 12 months ended 31 December 2020

[ii] Additional Board and committee meetings were held during the year in response to the Covid-19 pandemic

[iii] Simon Silver retired from the Board on 26 February 2021 and John Burns will retire following the conclusion of the 2021 AGM

[iv] Mark Breuer and Emily Prideaux were appointed to the Board with effect from 1 February 2021 and 1 March 2021, respectively

Board leadership during Covid-19

Early monitoring and preparation	Clear and proactive communication with stakeholders	Preparation for the future	Feedback and reflection
The coronavirus was identified in early-2020 as an impending risk with the potential to be a significant disruptor to the Group. The Board and Risk Committee reviewed contingency plans, established a Covid-19 Working Group which was chaired by the CEO, and arranged additional meetings as the crisis evolved in order to provide oversight and leadership (see page 112).	During times of uncertainty, clear and proactive communication is essential to provide support and relief. We detail on the following pages how the Group proactively engaged with stakeholders during 2020 (pages 12, 13, 26, 27, 51, 114 and 115).	Covid-19 has had a profound impact on businesses, economies and society. The Board has considered the long-term implications on our business, reassessed our development pipeline, emerging risks and the design and operation of our office spaces. Our resilience is discussed further on pages 8 and 9.	The Board sought independent feedback via: • employee and occupier pulse surveys (see page 103), which enabled management to receive feedback and identify areas for further action; and • RSM, who performed an independent internal audit into the Company's response to Covid-19 (see page 136).

Further information on how the Covid-19 pandemic impacted on our governance framework and processes is on page 112.

Purpose, values and culture

Our purpose, values and culture are disclosed on page 1.

Our purpose communicates the Group's strategic direction and intentions to our employees, occupiers and wider stakeholders. Due to its importance, it is reconfirmed on an annual basis to ensure it continues to reflect the Board's strategy, values and desired culture. Our progress towards achieving our purpose during 2020 can be reviewed on the following pages:

- How we have helped to improve and upgrade the stock of office space in central London (page 10).
- The above average long-term returns to our shareholders (page 164).
- The social, environmental and economic benefits brought to all our stakeholders (pages 46 to 63).

Our values articulate the qualities we embody and our underlying approach to doing business (responsibly, with integrity and openness). Our values are embedded in our operational practices through the policies approved by the Board (see page 116) and the direct oversight and involvement of the Executive Directors.

Our culture has developed from our values and is a key strength of our business. The benefits of a strong culture are seen in our employees' engagement, retention and productivity. As the cultural tone of a business comes from the boardroom, safeguarding our culture is a key factor in the development of Board succession plans.

The Board reinforces our culture and values through its decisions, strategy and conduct. Further information on how our Board factors stakeholders into its decisions is on pages 114 and 116 and in its section 172(1) statement on pages 104 and 105.

The Board monitors and assesses the culture of the Group via:

- Regularly meetings with management and inviting employees to present at Board and committee meetings.
- Reviewing the outcomes of employee surveys.
- Assessing cultural indicators such as:
  - management's attitude to risk;
  - compliance with the Group's policies and procedures; and
  - key performance indicators including staff retention and engagement.
- Feedback from our wider stakeholders, including occupier pulse surveys.
- Messages received via the Group's whistleblowing system.
- Health and safety data.
- Promptness of payments to suppliers.
- Training data and spend.
- Independent assurance is sought via the outsourced internal audit function and other advisers.

In addition to a question asking our employees to describe our culture, the employee survey also provides valuable insights into what is valued and seen as corporate norms. The Board was pleased to note that when our employees described the core characteristics of our culture in the 2019 employee survey, the top five responses were passionate, creative, professional, hard working and reputable. Further information on Board engagement with employees is on page 115.

The Executive Committee has been delegated responsibility for ensuring that policies and behaviours set at Board level are effectively communicated and implemented across the business. If the Board is concerned or dissatisfied with any behaviours or actions, it seeks assurance from the Executive Committee that corrective action is being taken. The Board has not needed to seek corrective action during 2020.

Corporate governance statement continued

Governance framework and Board resources

Corporate governance is essential to ensuring our business is run in the right way for the benefit of all of our stakeholders. Our governance framework (see page 113) was established to provide clear lines of accountability and responsibility. It also assists with the sharing of information and facilitates fast decision making and effective oversight.

Our governance arrangements support the development and delivery of strategy by:

- ensuring accountability and responsibility;
- facilitating the sharing of information to inform decisions;
- establishing engagement programmes with key stakeholders (see pages 26 and 27);
- maintaining a sound system of risk oversight, management and an effective suite of internal controls (see pages 84 to 99);
- providing independent insight and knowledge from the Non-Executive Directors; and
- facilitating the development and monitoring of key performance indicators (see pages 42 to 45).

If any Director has concerns about the running of the Group or a proposed course of action, they are encouraged to express those concerns which are then minuted. No such concerns were raised during 2020.

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.

Board approval is required for:	
Major property acquisitions or disposals	Valued above £20m
Major capital expenditure projects	Projected costs above £10m
Material occupier leases or contracts	Rental income greater than 7.5% of the Group's total rental income

Although the Board is formally required to authorise capital expenditure above this limit, the open nature of our organisation means that the Board is aware of all active projects within our portfolio. The Board review and approve the 'Schedule of matters reserved for the Board' on an annual basis.

The Directors utilise an electronic Board paper system which provides immediate and secure access to papers. The Chairman of the Board and the chairs of the committees set the agendas for upcoming meetings with support from the Company Secretary.

During 2020, due to the Covid-19 pandemic, the majority of Board and committee meetings were effectively held virtually using conference video and call facilities.

We aim to ensure that the information shared with our Board is of sufficient depth to facilitate debate and to fully understand the content without becoming unwieldy and unproductive. Papers are required to be clear and concise with any background material included as an appendix. We often invite the author of the paper/report to join the Board in their discussions, to enable our Directors to truly 'drill down' into the data supplied and question management directly.

All Directors have access to the services of the Company Secretary and any Director may instigate an agreed procedure whereby independent professional advice may be sought at the Company's expense. No such advice was sought by any Director during the year.

Impact of Covid-19 on the Group's governance systems

The Board's functioning	Risk oversight	Communications, reporting and disclosures	Remuneration
All Directors were able to offer additional availability for meetings, as required. Meetings were held virtually through secure conference video and call functionality. Due to the lockdown restrictions and the need to maintain social distancing, the Board hosted its 2020 Annual General Meeting as a closed meeting (see page 175).	In order to identify and manage the risks arising from Covid-19, the Board and Risk Committee held additional meetings during 2020 to ensure effective oversight and monitoring. Further information on the Board's risk management framework is on page 140. A case study on how we are protecting our occupiers is on page 143.	The Directors ensured that sufficient public disclosures were made about the actual and expected impacts of Covid-19 on our business and financial condition, which included quarterly rent collection updates. Our CFO, Damian Wisniewski, has addressed the FRC's five questions when reporting during uncertainty on page 135.	In response to the Covid-19 pandemic, Directors base salaries and fees were subject to a voluntary 20% waiver for the three-month period between 1 April 2020 and 30 June 2020 to support charitable initiatives. The impact of Covid-19 was also considered by the Remuneration Committee when finalising the annual bonus for 2020 (see page 151).

Governance framework

We pride ourselves on conducting our business in an open and transparent manner. Our well-established culture ensures that our governance framework remains flexible, allowing for fast decision making and effective oversight (further information on page 111).

The Board

The Board is primarily responsible for setting the Group's strategy for delivering long-term value to our shareholders and other stakeholders, providing effective challenge to management concerning the execution of the strategy and ensuring the Group maintains an effective risk management and internal control system.

p.32 Our strategy

p.84 Our principal risks

p.104 The section 172(1) statement

p.122 Key activities of the Board during 2020

The Board delegates certain matters to its five principal committees

Nominations Committee
Ensures the Board (and its committees) have the correct balance of skills, knowledge and experience and that adequate succession plans are in place.

p.124 Report

Audit Committee
Oversees the Group's financial reporting, maintains an appropriate relationship with the external Auditor and monitors the Group's internal controls.

p.130 Report

Risk Committee
Reviews and monitors the Group's principal and emerging risks and the effectiveness of the Group's risk management systems.

p.138 Report

Remuneration Committee
Establishes the Group's Remuneration Policy and ensures there is a clear link between performance and remuneration.

p.150 Report

Responsible Business Committee
Monitors the Group's corporate responsibility, sustainability and stakeholder engagement activities.

p.146 Report

The terms of reference of each Board committee are available on the Group's website at: **www.derwentlondon.com**

Executive Committee

The Board delegates the execution of the Company's strategy and the day-to-day management of the business to the Executive Committee.

p.16 Chief Executive's statement

p.42 Measuring our performance

p.64 Property review

p.108 Members

Supporting committees

The Executive Committee operates a number of supporting committees that provide oversight on key business activities and risks such as Credit, Cost, Health and Safety, IT Liaison and Sustainability Committees.

p.143 Credit Committee

p.54 Health and Safety Committee

p.56 Sustainability Committee

p.53 Sponsorship and Donations Committee

Shareholders and other stakeholders

Our shareholders and other key stakeholders play an important role in monitoring and safeguarding the governance of our Group. Further information on how we engage with our shareholders is on page 114, employees on pages 12, 51 and 115, and other key stakeholders on pages 12, 13, 26 and 27.

Corporate governance statement continued

Stakeholder engagement

We recognise the importance of clear communication and proactive engagement with all of our stakeholders. Our stakeholder engagement programmes are kept under routine review by the Board.

This was of particular importance during 2020 due to the uncertainty and economic difficulties caused by Covid-19. Some of our engagement methods required adjustment in response to the restriction imposed by the government to slow the spread of the virus, including the use of conference call facilities to hold our 2020 Annual General Meeting (see page 175) and the postponement of our 2020 Stakeholder Day. We are hoping to hold our first Stakeholder Day in 2021. Further information will be made available on our website in due course.

p.26 Our stakeholders
p.10 Delivering value to customers
p.12 Supporting our stakeholders during 2020
p.104 The section 172(1) statement

How do we engage with our shareholders?

Shareholders play a valuable role in safeguarding the Group's governance through, for example, the annual re-election of Directors, monitoring and rewarding their performance and engagement and constructive dialogue with the Board.

The Group aims to be as transparent as possible with the information it provides to investors and welcomes face to face interaction. Formally this can done at our AGM, and our Chairman aims to routinely meet with institutional investors and report their views to the Board. However, Covid-19 restrictions have curtailed much of this activity, replacing it with a significant increase in virtual meetings and conferences. We describe our main engagement methods in the table below.

Shareholder consultation	We will always seek to engage with shareholders when considering material changes to either our Board, strategy or remuneration policies. In 2019, the Remuneration Committee consulted with 20 of our largest shareholders, representing 67.99% of our issued share capital, on our revised Remuneration Policy, a summary of which is on pages 155 to 158.
Investor meetings	During 2020, the Group held over 470 investor meetings with 203 existing and potential investors. Of these, 90 were shareholders at the year end and their ownership represented c.60% of the shares in issue. Due to the pandemic the majority of these were virtual meetings. These meetings are predominantly attended by our CEO, CFO and at least one other senior executive. The meetings focused on the Group's portfolio, strategy, the future of offices, the impact of Brexit, Covid-19 and working from home. Where significant views were expressed, either during or following the meetings, these were recorded and circulated to all Directors.
Investor presentations and property tours	During 2020, we hosted in-person year end and virtual interim results presentations and four property tours. Property tours and roadshow activity were severely restricted by the pandemic.
Property conferences	Due to the Covid-19 pandemic, the majority of conferences moved to a virtual format. During 2020, we attended 14 virtual property conferences.
Annual General Meeting (AGM)	The AGM provides an opportunity for private shareholders, in particular, to question the Directors and the Chairs of each of the Board committees. It was necessary to hold the 2020 AGM virtually due to the UK government's lockdown restrictions, however proceedings included a Q&A session for any shareholder or interested stakeholder to ask questions of the Board. Information on the 2021 AGM is on page 175, including how we would engage with shareholders in the event of a significant vote against an AGM resolution. We ensure that the Notice of AGM is issued at least 20 working days in advance of the AGM date.
Annual Report	Our Annual Report is available to all shareholders. Through our electronic communication initiatives, we aim to make our Annual Report as accessible as possible. Shareholders can opt to receive a hard copy in the post or PDF copies via email or from our website. Additionally, if a shareholder holds their Derwent London shares via a nominee account and encounters difficulty receiving our Annual Report via their nominee provider, they are welcome to contact the Company Secretary to request a copy.
Corporate website	Our website, **www.derwentlondon.com**, has a dedicated investor section which includes our Annual Reports, results presentations (which are made to analysts and investors at the time of the interim and full year results) and our financial calendar for the upcoming year.
Development websites	We also create websites for specific developments which are used to explain the Group's current projects in greater detail. For example, you can find further information on Soho Place W1 and The Featherstone Building EC1 here: **www.1sohoplace.london** **www.thefeatherstonebuilding.london**
Senior Independent Director	If shareholders have any concerns, which the normal channels of communication to the CEO, CFO or Chairman have failed to resolve, or for which contact is inappropriate, then our Senior Independent Director, Simon Fraser, is available to address them. Simon Fraser's contact details are on page 124.
Other contacts	Contact details for our Investor Relations team, Company Secretary and Registrars are available on page 252.

How do we engage with our employees?

We have an experienced, diverse and dedicated workforce which is recognised as a key asset of our business. The Board and its Committees routinely invite members of the management team to join meetings to present on the matters being discussed, enabling their input into discussions. In order to reach all employees (including individuals engaged under contracts of service, agency workers, and remote workers), the Board utilises a combination of formal and informal engagement methods which are detailed below.

Non-Executive Director engagement with our employees

As the designated director for bringing the voice of employees into our boardroom, Dame Cilla Snowball suggested a two-way engagement event whereby the Non-Executive Directors (NEDs) would host a town hall meeting for all employees to attend. The NED town hall was initially intended to be a face-to-face event however due to Covid-19 it was conducted virtually on 12 October 2020.

The event opened with the NEDs introducing themselves, their role on the Board and their experiences. Employees were encouraged to submit questions, anonymously if they wished, via the three employee representatives of the Responsible Business Committee (Ally Clements, Davina Stewart and Jonathan Theobald). The questions were then answered live during the event by the NEDs and covered topics which included:

- The role of a Non-Executive Director and a Senior Independent Director.
- What attracted the NEDs to join the Board, what they enjoy about Derwent London and how we differ from other organisations.
- The main risks arising from, and following, the Covid-19 pandemic.
- Their views on working from home, its impact on creativity and mental health.
- The flexibility and resilience of Derwent London's business model and strategy.
- How their businesses are handling Covid-19 and its impact on mental wellbeing.
- The roles of the Board's principal committees and their key priorities during the year.

Dedicated Non-Executive Director

Dame Cilla Snowball is the dedicated Non-Executive Director for gathering the views of the workforce. As chair of the Responsible Business Committee, Cilla oversaw and received updates on our employee engagement methods. Further information on Cilla's role is on page 118.

Responsible Business Committee

The Responsible Business Committee has appointed three employee representatives as members. The Committee was established at the end of 2018 to strengthen the Board's oversight of environmental and social issues and monitor the Group's corporate responsibility, sustainability and stakeholder engagement activities (see pages 146 to 149).

Whistleblowing

Our whistleblowing system offers an anonymous reporting line for employees to raise any concerns directly with the Board. The whistleblowing system allows concerns to be raised either via telephone or online web-reporting. Further information on page 116.

Town hall meetings

The CEO hosted fortnightly virtual town hall meetings to ensure all employees were kept informed of business activity, reassured and engaged. Employees were encouraged to put questions forward in advance (anonymously if they wished), which were then answered during the sessions.

How do we engage with our employees?

Intranet

Our intranet is used as a popular platform for employees to access our policies and be kept fully informed of the latest Group news. In addition during the lockdown restrictions, the intranet was used to share links to useful information on social and wellbeing, culture and entertainment, health and safety, virtual quizzes and home schooling.

Awaydays

On 19 September 2019, the Executive Directors hosted an all employee awayday which focused on team work. Further information on the awayday was provided on page 85 of the 2019 Annual Report. The next awayday is provisionally scheduled for 2022.

Employee surveys

We gather feedback regularly from our employees to assess their levels of engagement. We conduct a formal biennial employee survey, designed and developed in conjunction with an independent provider and sponsored by the Executive Directors. We also conduct more informal pulse surveys on staff satisfaction (see page 51). In 2020, we conducted a Covid-19 pulse survey to determine how our employees felt they had been supported during the pandemic and to receive feedback on home working and our wellbeing initiatives.

Committees & Working Groups

The Group currently operates an Innovation Committee and Diversity & Inclusivity Working Group which are comprised of employees from across the business and chaired by our CEO. The ideas and comments raised are fed directly into the Board.

A working group is also established after each formal employee survey with the aim of making recommendations to the Executive Committee on matters raised or areas where changes could be made to further improve employee engagement and satisfaction.

Corporate governance statement continued

Workforce policies and practices

The Board and Executive Committee review and approve all key policies and practices which could impact on our workforce and drive their behaviours. All policies are checked to ensure they support the Group's purpose and reflect our values (see page 111).

Policies are published on the intranet and contained within the employee handbook. Our employees are required to confirm their understanding of these policies upon recruitment and on an annual basis.

To ensure policies are embedded in our business practices, we hold presentations to staff which highlight the key messages and notify them of any changes. We operate a mandatory training programme which aims to reinforce key compliance messages in areas such as anti-bribery, modern slavery, conflicts of interest, etc.

p.141 Compliance training

All employees (including the Board) are required to notify the Company as soon as they become aware of a situation that could give rise to a conflict or potential conflict of interest. The register of potential conflicts of interest is regularly reviewed to ensure it remains up to date. The Board is satisfied that potential conflicts have been effectively managed throughout the year (see page 119).

The Board approve the Remuneration Policy for the Executive Directors and, via the Remuneration Committee, has oversight of the wider workforce remuneration practices (further information on page 154). Our remuneration policies and practices are aligned with our pay principles, described on page 153, being:

- attract, retain and motivate;
- clarity and simplicity;
- alignment to strategy and culture;
- risk management;
- stewardship; and
- proportionality and fairness.

As a business, we seek to conduct ourselves with honesty and integrity and believe that it is our duty to take appropriate measures to identify and remedy any malpractice within or affecting the Company. Our employees embrace our high standards of conduct and are encouraged to speak out if they witness any wrongdoing which falls short of those standards.

Our whistleblowing procedures are included within our employee handbook, on our Group intranet and staff noticeboards. In addition to an independent telephone line and online portal for anonymous reporting of concerns, the Senior Independent Director acts as an independent point of contact for whistleblowing concerns. Following receipt of a whistleblowing message we have procedures in place to ensure an independent and proportionate investigation. Any significant issue relating to potential fraud is escalated to the Chair of the Audit Committee immediately. In addition, Dame Cilla Snowball (Chair of the Responsible Business Committee and designated Director for gathering the views of the workforce) will be advised of any significant concerns raised by our employees.

The Board receives updates from the Company Secretary on the operation of the whistleblowing system. During the year under review, we did not receive any whistleblowing messages (2019: no messages).

Stakeholder impact analysis

The Board's procedures require a stakeholder impact analysis to be completed for all material decisions requiring its approval that could impact on one or more of our stakeholder groups. The stakeholder impact analysis assists the Directors in performing their duties under s172 of the Companies Act 2006 and provides the Board with assurance that the potential impacts on our stakeholders are being carefully considered by management when developing plans for Board approval.

The stakeholder impact analysis identifies:

- potential benefits and areas of concern for each stakeholder group;
- the procedures and plans being implemented to mitigate against any areas of concern; and
- who is responsible for ensuring the mitigation plans are being effectively implemented.

Employees completing the stakeholder impact analysis are provided with a training memo on the Board's duty to shareholders and other stakeholders, so that they are mindful of the importance of the analysis to the Board's discussions and, subsequently, so they can ensure the analysis provides sufficient and relevant information.

By thoroughly understanding our key stakeholder groups, the Board can factor their needs and concerns into boardroom discussions.

p.104 The section 172(1) statement

p.26 Our stakeholders

19-35 Baker Street W1 – factoring our stakeholders into our decisions

The 19-35 Baker Street development is due to commence in H2 2021. This 297,000 sq ft project will consist of 217,000 sq ft of office space, 28,000 sq ft of retail space (20 units), and 52,000 sq ft of residential (51 units). The site will feature a new public passageway to a landscaped courtyard, providing retail and leisure amenity.

Our stakeholder impact analysis identified the following:

1. Key benefits to our stakeholders

- The creation of a new central London destination, providing a east-west pedestrian link between Baker Street and Gloucester Place, new amenities and increased employment opportunities for the local area.
- The public experience at street-level will be enhanced.
- The new Baker Street office building will provide adaptable workspace for the future.
- We will continue to assist in improving local infrastructure, through s.106 contributions, Mayoral and Westminster Community Infrastructure Levy and Crossrail Contributions. In addition, Derwent London made significant contributions towards the Baker Street Two Way Project and will be replacing the paving around the development to enhance the street scene and safety for pedestrians.
- Our Main Contractor will engage with the City of Westminster to develop a programme for training apprentices and set targets for local employment and the use of local enterprises on the scheme, wherever possible.
- 30 Gloucester Place is a listed building which will be subject to extensive reconfiguration and refurbishment to create ten intermediate affordable residential units and office space at ground and lower ground. We will restore the condition of the building’s exterior whilst improving its sustainability and connectivity.
- Sustainability has been integral to the project. Key features of the project are electric heating/cooling, air source heat pumps, smart building energy monitoring, water recycling bio-diverse roofs and verified carbon offset schemes. We are targeting certification of BREEAM ‘Excellent’ and LEED ‘Gold’. The all electric scheme ensures zero emissions on-site which benefits local air quality. In addition, we will be planting new trees, with an enhanced plant scape within the courtyard.

2. Mitigating our stakeholders key concerns

- Traffic: A traffic management risk assessment will be conducted. Traffic on-site will be planned and controlled carefully. The contractors and their supply chain will be signed up to the CLOCS standards for construction logistics. The site is well served by public transport links and main contractors will actively promote the TfL cyclist awareness Fleet Operators Recognition Scheme.
- The surrounding area and businesses: The project will be enrolled in the Considerate Constructors Scheme. A detailed construction logistics strategy will be developed to minimise the impact on the surrounding area by making the site as self-sufficient as possible. At all times, works will be carried out in a safe and considerate manner with due regard to the public, adjoining properties, businesses, and road users. A Site Environmental Management Plan will be prepared, incorporating relevant guidance identified within the City of Westminster Code of Construction Practice.
- Site waste: A site waste management plan will be followed with all contractors being required to investigate opportunities to eliminate/reduce waste at source. Of all waste materials, 98% will be diverted from landfill.
- Noise and dust: Noise and dust monitoring equipment will be positioned around the site to ensure that the site remains within the limits stipulated by Westminster City Council. The construction method used for each activity will be modelled in software in order to calculate noise levels. If the model exceeds trigger levels, adjustments will be made until the required noise levels are met. To limit dust, best practice measures will be implemented, including jet washing of vehicles, road sweepers etc.
- Vibration: A degree of vibration is likely due to the nature of the works, however this will be carefully controlled, if it cannot be eliminated. A vibration and movement monitoring strategy will be produced, which sets limits using British Standard 5228 and 7385.
- Community engagement: Throughout our planning process, we have maintained close engagement with local residents, via letters, public exhibitions and consultations. Condition Surveys and relevant Party Wall Awards will be completed prior to construction. During construction, the Main Contractor will engage with the local community via a Site Community Plan.

98%

of all materials will be diverted from landfill

19-35 Baker Street W1 – CGI of proposed scheme

Corporate governance statement continued

Division of responsibilities

Board roles

There is clear division between executive and non-executive responsibilities which ensure accountability and oversight. The roles of Chairman and Chief Executive are separately held and their responsibilities are well defined, set out in writing and regularly reviewed by the Board.

Chairman, John Burns
- Responsible for the effective running of the Board and ensuring it is appropriately balanced to deliver the Group's strategic objectives
- Promote a boardroom culture that is rooted in the principles of good governance and enables transparency, debate and challenge
- Ensure that the Board as a whole plays a full and constructive part in the development of strategy and that there is sufficient time for boardroom discussion
- Effective engagement between the Board, its shareholders and other key stakeholders

Senior Independent Director, Simon Fraser
- Provide a 'sounding board' for the Chairman in matters of governance or the performance of the Board
- Available to shareholders if they have concerns which have not been resolved through the normal channels of communication with the Company
- To at least annually lead a meeting of the Non-Executive Directors without the Chairman present to appraise the performance of the Chairman
- To act as an intermediary for Non-Executive Directors when necessary and act as Chairman if the Chairman is conflicted
- To act as an independent point of contact in the Group's whistleblowing procedures

Non-Executive Directors (NEDs)
- Provide constructive challenge to our executives, help to develop proposals on strategy and monitor performance against our KPIs
- Ensure that no individual or group dominates the Board's decision making
- Promote the highest standards of integrity and corporate governance throughout the Company and particularly at Board level
- Determine appropriate levels of remuneration for the senior executives
- Review the integrity of financial reporting and that financial controls and systems of risk management are robust

Designated NED for gathering the views of our workforce[i], Dame Cilla Snowball

Cilla Snowball has been designated the NED responsible for gathering the views of our workforce. This is achieved by:

- Attendance at key employee and business events, including property launches and the Summer Party
- Review messages received through the whistleblowing system from the Group's employees
- Monitor the effectiveness of engagement programmes established for employees
- Provide regular updates to the Board
- Monitor the outcome of employee surveys and provide input on their design

Chief Executive, Paul Williams
- To provide clear and visible leadership
- Execute the Group's strategy and commercial objectives together with implementing the decisions of the Board and its committees
- To keep the Chairman and Board appraised of important and strategic issues facing the Group
- To ensure that the Group's business is conducted with the highest standards of integrity, in keeping with our culture
- Manage the Group's risk profile and ensure actions are compliant with the Board's risk appetite
- Investor relation activities, including effective and ongoing communication with shareholders

Chief Financial Officer, Damian Wisniewski
- Support the CEO in developing and implementing strategy
- Provide financial leadership to the Group and align the Group's business and financial strategy
- Responsible for financial planning and analysis, treasury and tax functions
- Responsible for presenting and reporting accurate and timely historical financial information
- Manage the capital structure of the Group
- Investor relation activities, including communications with investors, alongside the CEO

Other Executive Directors
- Support the CEO in developing and implementing strategy
- Oversee the day-to-day activities of the Group
- Manage, motivate and develop staff
- Develop business plans in collaboration with the Board
- Ensure that the policies and practices set by the Board are adopted at all levels of the Group
- Investor relation activities, including communications with investors, alongside the CEO

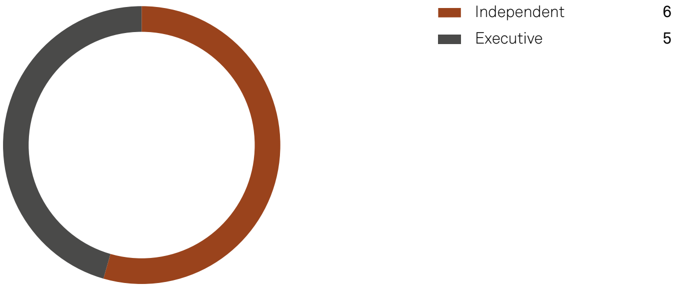
Company Secretary, David Lawler
- Secretary to the Board and its committees
- Develop Board and committee agendas and collate and distribute papers
- Ensure compliance with Board procedures
- Advise on regulatory compliance and corporate governance
- Facilitate induction programmes for Directors and assisting with their training and development, as required
- Responsible for communications with retail shareholders and the organisation of the Annual General Meeting
- Available to support all Directors

[i] Although Cilla Snowball is the designated Director for gathering the views of our workforce, the Chairman ensures that all Directors continue to remain engaged with our employees and challenge and contribute to discussions on workforce engagement.

Independence

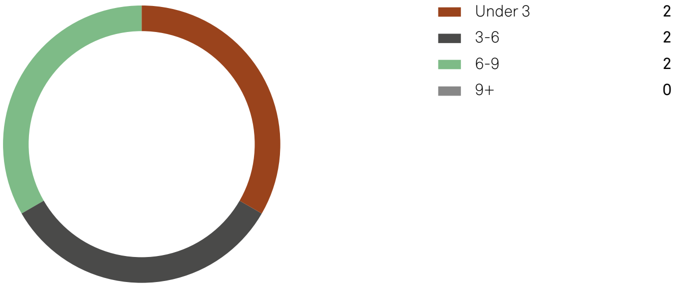
Independence of the Board
(excluding the Chairman)

Status



Tenure of the Non-Executive Directors

Years



The Board has identified on page 110 which Directors are considered to be independent. As at 31 December 2020, 54.5% of our Board (excluding the Chairman) are independent Non-Executive Directors.

The Board has reconfirmed that our Non-Executive Directors remain independent from executive management and free from any business or other relationship which could materially interfere with the exercise of their judgement.

The Non-Executive Directors play an important role in ensuring that no individual or group dominates the Board's decision making. It is therefore of paramount importance that their independence is maintained. To safeguard their independence, Non-Executive Directors are not permitted to serve more than three three-year terms unless in exceptional circumstances (see page 125).

The Chairman held a number of meetings with the Non-Executive Directors without executive management being present. These meetings are useful to safeguard the independence of our Non-Executive Directors by providing them with time to discuss their views in a more private environment.

John Burns, co-founder of Derwent London plc and the CEO for over 30 years, was appointed Non-Executive Chairman for a two-year term from the 2019 AGM. The appointment was considered by the Nominations Committee to be a natural transitional step to preserve our culture and ensure an orderly succession following Robbie Rayne's decision to retire. As our Chairman was not independent upon appointment, we will be unable to comply with provisions 9 and 19 of the Code until Mark Breuer succeeds John as independent Non-Executive Chairman following the conclusion of the 2021 AGM (see page 103).

The announced Board changes will not impact on the independence balance of the Board: it will remain at 54.5% (excluding the Chairman). If the Chairman is included, then following the conclusion of the 2021 AGM, the percentage of independent Directors will improve from 50% to 58% of the Board.

Other external appointments

The Board takes into account a Director's other external commitments when considering them for appointment to satisfy itself that the individual can discharge sufficient time to the Derwent London Board and assess any potential conflicts of interest.

Our Directors are required to notify the Chairman of any alterations to their external commitments that arise during the year with an indication of the time commitment involved. During the year under review, Lucinda Bell became a Non-Executive Director of Man Group plc (from 28 February 2020) and Claudia Arney became a member of The Takeover Panel (from 1 May) and Chair of Deliveroo (from 25 November). Both Lucinda and Claudia notified the Chairman in advance of their appointments, and the Board confirmed that it does not believe that these additional directorships will affect Lucinda's or Claudia's commitment to, or involvement with, the Derwent London Board nor will it give rise to a potential conflict of interest.

Executive Directors may accept a non-executive role at another company with the approval of the Board. Currently, none of our Executive Directors are directors of other listed companies. However, several of our Executive Directors are Trustees of charitable organisations or members of industry-related bodies.

When assessing additional directorships, the Board considers the number of public directorships held by the individual already and their expected time commitment for those roles (see biographies on pages 106 and 107). The Board takes into account guidance published by institutional investors and proxy advisers as to the maximum number of public appointments which can be managed efficiently.

All Directors have confirmed (as they are required to do annually) that they have been able to allocate sufficient time to discharge their responsibilities effectively (see table on page 110 for Board meeting attendance).

Conflicts of interest

As a Non-Executive Director's independence could be impacted where a Director has a conflict of interest, the Board operates a policy that restricts a Director from voting on any matter in which they might have a personal interest unless the Board unanimously decides otherwise. Prior to all major Board decisions, the Chairman requires the Directors to confirm that they do not have a potential personal conflict with the matter being discussed. If a conflict does arise, the Director is excluded from discussions.

An example of this policy in effect is in relation to Richard Dakin, who is the Managing Director of Capital Advisors Limited (a wholly-owned subsidiary of CBRE) who are the Group's external valuers. To mitigate against a potential conflict of interest, Richard does not take part in any discussions on the valuation of the Group's property portfolio at either Board or committee level. In addition, he has no involvement in any decisions regarding the appointment of CBRE or the fees paid to them. During the annual performance evaluation of the Board, its committees and individual Directors, the impact of this role on Richard's independence has been considered. The Board continue to conclude that Richard remains independent both in character and judgement.

Corporate governance statement continued

Composition, succession and evaluation

Appointments to the Board

At Derwent London, we ensure that appointments to our Board are made solely on merit with the overriding objective of ensuring that the Board maintains the correct balance of skills, length of service and knowledge of the Group to successfully determine the Group's strategy.

Appointments are made based on the recommendation of the Nominations Committee with due consideration given to the benefits of diversity in its widest sense, including gender, social and ethnic backgrounds and personal strengths. The Nominations Committee report on pages 124 to 129 provides further information on:

- Board composition and Non-Executive Director tenure;
- Board appointments and induction;
- succession planning; and
- diversity.

Board skills, experience and knowledge

An effective Board requires the right mix of skills and experience. Our Board is a diverse and effective team focused on promoting the long-term success of the Group for the benefit of all stakeholders. The Directors' biographies are available on pages 106 and 107. The chart below provides an overview of the skills and experience of our Directors as at 31 December 2020.

Training

With the ever-changing environment in which Derwent London operates, it is important for our Executive and Non-Executive Directors to remain aware of recent, and upcoming, developments. We require all Directors to keep their knowledge and skills up to date and include training discussions with the Chairman in their annual performance reviews.

As required, we invite professional advisers to provide in-depth updates. Updates and training are not solely reserved for legislative developments but aim to cover a range of issues including, but not limited to, market trends, the economic and political environment, environmental, technological and social considerations.

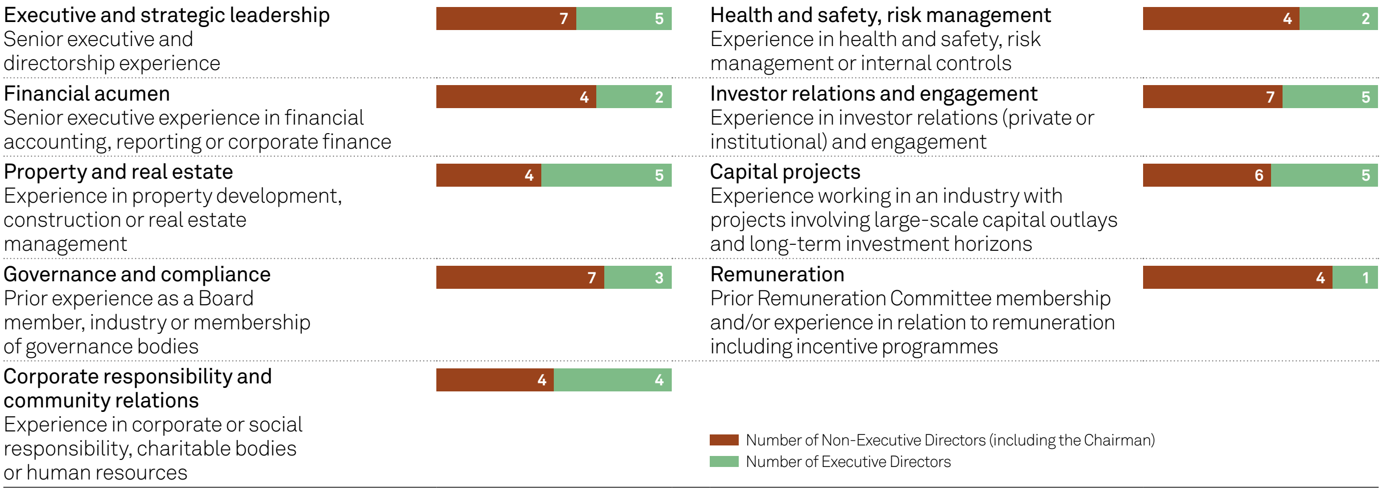
Our Company Secretary provides regular updates to the Board and its committees on regulatory and corporate governance matters. In addition, we invite our Directors to attend courses hosted by the Deloitte Academy and PwC.

Our Directors receive training on their duties under section 172(1) of the Companies Act 2006 as part of their induction process from the Group's corporate lawyers, Slaughter & May LLP. The training is uploaded to the Board's paper portal for easy reference. In addition, at each meeting, the Board's pack of documents includes the codification of its duties alongside the meeting agenda to ensure it is at the forefront of discussions.

During 2020:

- All Directors participated in online compliance training courses on a range of topics including competition law, fraud awareness and cyber security (further information on page 141).
- The Board received regular market and leasing updates.
- External independent advisers frequently presented to the Board on the political and economic environment.
- The Executive Committee received a diversity and inclusion presentation from Albert Williamson-Taylor, a founding partner of AKT and their Design Director, to learn from his personal experience as a senior leader from a BAME background.
- The Responsible Business Committee received a presentation from EY on the UK National Equality Standard (see page 149).
- The Audit Committee received training on the valuation of the Group's portfolio and a year end/market environment update which covered the following:
    - — the basis of valuing properties and areas to consider in the current market environment;
    - — impairment work and the effect on the valuation; and
    - — how various scenarios could affect year end.
- The Risk Committee received a legal update from Slaughter & May LLP in November.
- All Directors attended regular external briefing sessions from the major accountancy firms.

Skills and experience



Annual Board evaluation

On an annual basis, an evaluation process is undertaken which considers the effectiveness of the Board, its principal committees and individual Directors. This review identifies areas for improvement, informs training plans for our Directors and identifies areas of knowledge, expertise or diversity which should be considered in our succession plans. The Board follows a formal three-year cycle which was developed to enable reviews to be led from a fresh perspective, each year.

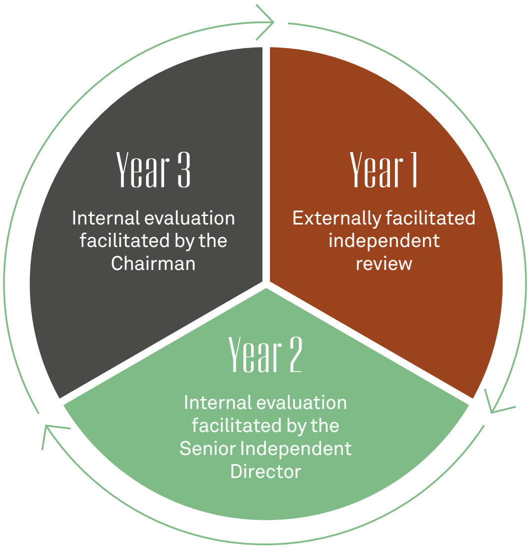
The evaluation for the year ended 31 December 2019

Last year's evaluation was described in the 2019 Annual Report on pages 112 and 113 and was externally facilitated by The Effective Board LLP. The evaluation identified a number of focus areas which the Board and its committees addressed during 2020:

Board or committee	Recommendation	Status
Main Board	Continue to perform annual reviews on the Group's culture and adherence to the Board's values and include specific questions in the employee appraisal process or biennial employee survey.	Culture was assessed as part of the 2020 Board evaluation. Specific questions will be included in the next employee survey in 2021.
	In light of the change of Chairman and Chief Executive, it was recommended that the Board considers having an investor audit to gain a comprehensive view of their perceptions of this change.	To be reviewed with the new Non-Executive Chairman, Mark Breuer, following his induction in H2 2021.
Risk Committee	The Committee should review how the risk management system and framework has worked when an existing risk or emerging risk has emerged and impacted on the Company.	Covid-19 has impacted on the Group's risk profile and risk management systems (see pages 84 and 138). RSM performed an internal audit into our Covid-19 response (see page 136).
	The next employee survey should try to assess the risk culture within the Company.	The next employee survey is due to be conducted in 2021.
Nominations Committee	Despite continuing diversity improvements, it was agreed that this will remain a focus area for the Committee during 2020.	Diversity and inclusion was a focus area for the Board and Nominations Committee during 2020 (see pages 127 and 128).
	Continue to focus on Executive Committee succession planning.	Further information on Executive Committee succession planning is on page 126.
Responsible Business Committee	A minor amendment suggested to the Committee's terms of reference.	This recommendation has been actioned and the updated terms of reference are available to download from our corporate website.

Note:

[i] There were no recommendations for the Audit or Remuneration Committee



The evaluation for the year ended 31 December 2020

The 2020 performance evaluation was internally facilitated by Simon Fraser and was informed by the recommendations arising from the 2019 evaluation. The process covered the following areas:

- The Group's strategy and its effectiveness.
- The management of the business, and stakeholder engagement, during the Covid-19 pandemic.
- The significant challenges that Derwent London is likely to face over the next 12 months.
- The composition of the Board and its principal committees.
- Each Director's contribution to the Board's discussions.
- Whether there are any issues concerning the Board's procedures, processes, including information provided to the members, and the resources made available to the Board.
- The effectiveness of the Chairman recruitment process and Board's succession planning.

The responses were collated and provided on an anonymous basis to the Chairman of the Board and the Chairs of each committee. As a result of this evaluation, the Board is satisfied that its structure, balance of skills and operation continues to be satisfactory and appropriate for the Group. Although the feedback received was extremely positive from all Board members, the Board identified a number of areas which it wishes to focus upon during 2021:

- The induction of Mark Breuer as Chairman Designate, and handover of responsibility from John Burns.
- Ensuring the Group's strategy remains appropriate in the current economic environment.
- Board diversity which will be factored into the Board's recruitment processes.

Re-election of Directors

In accordance with the Code, all the Directors will be putting themselves forward for re-election at the 2021 AGM, except Simon Silver who retired on 26 February 2021 and John Burns who will retire following the conclusion of the AGM. Mark Breuer and Emily Prideaux will be seeking election as Directors following their appointments to the Board on 1 February and 1 March 2021, respectively.

Following the formal performance evaluation (detailed above) and taking into account the Directors' skills and experience (set out on pages 106, 107 and 120), the Board believes that the (re-)election of each Director is in the best interests of the Company.

Corporate governance statement continued

Key activities of the Board during 2020

Overview

The Board met nine times during the year (including the Annual General Meeting). Additional meetings are arranged if necessary for the Board to properly discharge its duties. An overview of our Board's key activities is provided below.

Property portfolio

- Approved the acquisition of:
  - Blue Star House, Brixton SW9 for £38.1m before costs
- Approved the disposal of:
  - The long leasehold interest of 2 & 4 Soho Place W1 for £40.5m before costs
  - Sale of the Johnson Building EC1 for £170.0m before costs
- Approved the:
  - redevelopment of 19-35 Baker Street W1
  - Francis House SW1 refurbishment
  - submission of planning permission for Network House W1
- Reviewed the Post Completion report for the Brunel Building W2
- Received regular updates on the key construction projects including reviewing quarterly project cost reports
- Reviewed and approved the half-yearly independent valuations of the Group's property portfolio

Link to strategic objectives:

1. 2. 4.

Strategy and financing

- Reviewed the short and long-term implications of Covid-19 on the Group, our developments and occupiers
- Ongoing updates from the Executive Committee on the implementation of strategy throughout the year
- Regularly reviewed the Group's financial structure and position, including:
  - Approved a £100m Revolving Credit Facility (RCF) with Wells Fargo
  - Extended our main £450m RCF with our UK banking partners for a further year to 2025
  - Received an update on our Green Finance initiatives
- Regularly considered the impact of Brexit and political uncertainty on our business and strategy
- Reviewed the capital expenditure pipeline for the next five years
- Provided with regular updates on asset management, leasing and investment activities from the senior management team

Link to strategic objectives:

1. 4. 5.

Risk management and internal control

- Reviewed the Group's principal risks and considered emerging risks which could impact on the five-year plan
- Received a presentation from Capgemini on the cyber security audit performed during 2020
- Verbal updates from the Risk and Audit Committee chairs on the key areas discussed
- Updates on the assurance audits performed by RSM and the priority actions arising
- Received regular reports on health and safety matters, including the protocols introduced to ensure our buildings are safe for reoccupation (see page 143)
- Approved the 2020/21 mandatory compliance training programme
- Reviewed the tenant at risk register

Link to strategic objectives:

2. 3. 4.

	January	February	March	April	May
Board and Committee meetings		Audit Committee Main Board Executive Committee Valuers Committee	Main Board Remuneration Committee Risk Committee	Main Board Executive Committee	Main Board Risk Committee Responsible Business Committee Executive Committee
Key announcements	Acquisition of Blue Star House, Brixton SW9	Derwent London 2019 results	Message from CEO, Paul Williams, on Derwent London's response to the Covid-19 outbreak	Q1 business, AGM and Covid-19 update Bondholders meeting	Information on the 2020 AGM Result of AGM

Key

Strategic objectives

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

Corporate reporting and performance monitoring

- Reviewed the rolling forecasts and approved the 2021 budget
- Received updates from the chair of the Remuneration Committee on the key areas discussed
- Conducted a review of the Company's viability over the next five-year period
- Approved the year end and interim results
- Approved the Q1 and Q3 business updates
- Reviewed the 2020 Annual Report to ensure it is fair, balanced and understandable
- Published rent collection statistics as at 30 June and 30 September 2020

Link to strategic objectives:

1. 2. 5.

Stakeholder engagement

- Virtually hosted the Annual General Meeting (AGM) on 15 May 2020
- Approved the Net Zero Carbon Pathway (see page 28)
- Received updates from the chair of the Responsible Business Committee on the Group's sustainability initiatives and Covid-19 engagement response to local communities and tenants
- Received updates on our investor engagement programmes and regular investor relations reports
- Reviewed the results of employee and occupier pulse surveys on the Group's Covid-19 response
- Received progress updates on our diversity targets and focus areas (see pages 127 to 129)

Link to strategic objectives:

3. 4.

Governance

- Chairman succession (which led to the appointment of Mark Breuer as a Non-Executive Director and Chairman Designate on 1 February 2021)
- Approved the appointment of Emily Prideaux as an Executive Director effective from 1 March 2021
- Performed an internally facilitated evaluation of the Board, its Committees and all Directors led by the Senior Independent Director (see page 121)
- Performed an annual review of the Committees' membership (see page 125)
- Received regular governance updates from the Company Secretary
- Routinely considered the Board's conflict of interests
- Agreed that the Group would be assessed by EY under the UK National Equality Standard (see page 149)

Link to strategic objectives:

1. 3.

June	July	August	September	October	November	December
• Main Board • Remuneration Committee	• Executive Committee	• Audit Committee • Main Board • Risk Committee • Valuers Committee	• Executive Committee	• Executive Committee • Responsible Business Committee	• Audit Committee • Executive Committee • Main Board • Remuneration Committee • Nominations Committee • Risk Committee	• Main Board • Nominations Committee
• Completion of 80 Charlotte Street W1	• June 2020 rent collection • Release of Net Zero Carbon Pathway • Disposal of 2 & 4 Soho Place W1	• Interim results • Board change (Simon Silver's future retirement)		• September 2020 rent collection	• Q3 business update	• Board change (Future appointment of Emily Prideaux)

Nominations Committee report

Simon Fraser
Chair of the Nominations Committee

2021 Focus areas

- Ensure a smooth handover of responsibility as Mark Breuer succeeds John Burns as Non-Executive Chairman
- Review the composition of the Board in order to agree the specifications for future Non-Executive Director appointments
- Continue to monitor diversity initiatives, in particular those which respond to the Parker Review recommendations (see page 127)
- Monitor succession planning and our talent pipeline at Board and Executive Committee level

Dear Shareholder,
I am pleased to present to you the report of the work of the Nominations Committee for 2020.

Chair succession

A key focus area for the Committee in 2020 was to find a successor to John Burns. On 26 January 2021, we were delighted to announce the appointment of Mark Breuer as a Director with effect from 1 February 2021. Mark will succeed John Burns as our independent Non-Executive Chairman following conclusion of the 2021 AGM.

Mark worked in investment banking for thirty years and, in 2017, retired from a 20-year career at JP Morgan in London, where he held the position of Vice Chairman Global M&A and was a member of the Global Strategic Advisory Council. During his career, Mark served in numerous client facing and management roles advising on strategy, finance and corporate development. Mark is a Fellow of the Institute of Chartered Accountants of England and Wales and currently serves as a Non-Executive Director on the Board of DCC plc and Arix Bioscience plc. We have provided an overview of our succession activities and Mark's induction on page 126.

The Committee would like to take this opportunity to thank John Burns for his remarkable achievements in founding and leading Derwent London for so many years, and for his excellent chairmanship over the past two years.

Board appointments

Simon Silver retired from the Board on 26 February 2021 and Emily Prideaux was appointed an Executive Director from 1 March 2021. This internal appointment demonstrates the importance of creating a strong talent pipeline.

A focus area for the next 18 months will be Non-Executive Director recruitment, as Richard Dakin and I approach the ninth anniversary of our appointments. The recruitment process will be led by Mark Breuer, as Non-Executive Chairman, and will be supported by the Nominations Committee.

Diversity

As a business we have put various initiatives into practice to address gender diversity, which has resulted in us exceeding two of the Hampton-Alexander Review targets in advance of the 31 December 2020 deadline, see page 127. Despite the gender balance of the Executive Committee remaining an area for further improvement, we are pleased with the great strides we have made in respect to gender diversity, particularly at Board level and within the Group's talent pipeline.

The Board are mindful that ethnic diversity remains a challenge. As at 1 January 2021, 23% of our workforce and 16% of the direct reports to the Executive Committee identified as non-white however, none of the leadership team or Board are from an ethnic minority background. To further harness the benefits of a diversified Board, the Committee is aiming to achieve the Parker Review recommendation that at least one Director is of colour by 31 December 2024. We also intend to continue to support and develop our talent pipeline in respect to cultural and ethnic diversity.

Further engagement

If you wish to discuss any aspect of the Committee's activities, I will be attending the forthcoming AGM on 14 May 2021 and would welcome your questions. I am also available via our Company Secretary, David Lawler (telephone: +44 (0)20 7659 3000 or email: company.secretary@derwentlondon.com).

Simon Fraser
Chair of the Nominations Committee
10 March 2021

Committee composition

Our Committee consists of six independent Non-Executive Directors (biographies are available on pages 106 to 107). At the request of the Committee, members of the Executive Committee, senior management team and external advisers may be invited to attend all or part of any meeting, as and when appropriate.

	Independent	Number of meetings	Attendance
Simon Fraser, Chair	Yes	7	100%
Claudia Arney	Yes	7	100%
Lucinda Bell	Yes	7	100%
Richard Dakin	Yes	7	100%
Helen Gordon	Yes	7	100%
Dame Cilla Snowball	Yes	7	100%

Note:

(i) Mark Breuer became a member of the Committee following his appointment on 1 February 2021.

The Committee's role and responsibilities are set out in the terms of reference, which were last updated in November 2020 and are on the Company's website at: **www.derwentlondon.com/investors/governance/board-committees**.

Meetings of the Committee

During the year under review, the Committee held seven formal meetings (2019: three meetings).

Committee performance evaluation

The 2020 evaluation of the Board, its committees and individual Directors was internally facilitated by Simon Fraser, the Senior Independent Director, in accordance with our three-year cycle of evaluations (see page 121). There were no significant matters raised.

Board and committee composition

On an annual basis, the Nominations Committee considers the composition of the Board and its committees in terms of its balance of skills, experience, length of service, knowledge of the Group and wider diversity considerations. The Committee's review aims to ensure each committee is appropriately composed to be effective and is conducted alongside discussions on Board succession and Non-Executive Director tenure.

The table below provides an overview of the composition of the Board's five principal committees as at 31 December 2020. Further information on the Board's diversity is on pages 119 and 127.

	Audit Committee	Risk Committee	Remuneration Committee	Nominations Committee	Responsible Business Committee
Simon Fraser	✓		✓	Chair	
Richard Dakin	✓	Chair		✓	
Claudia Arney	✓		Chair	✓	✓
Cilla Snowball		✓		✓	Chair
Helen Gordon			✓	✓	
Lucinda Bell	Chair	✓	✓	✓	
Number of independent NEDs	4	3	4	6	2
Number of Executive Directors	–	–	–	–	1
Number of employee representatives	–	–	–	–	3
Total membership	**4**	**3**	**4**	**6**	**6**

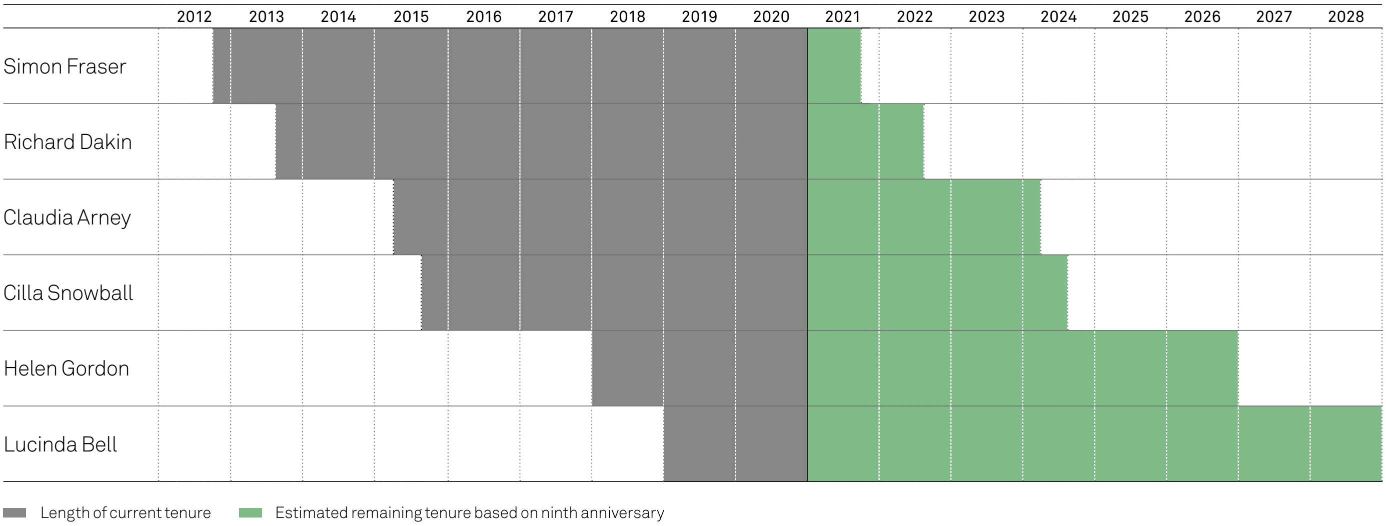
Note:

(i) During the year, a further employee (Davina Stewart) was appointed to become a member of the Responsible Business Committee (see page 147).

Following the Committee's review, it was confirmed that the membership of the five principal committees continues to be appropriate, effective and in accordance with the 2018 UK Corporate Governance Code.

Non-Executive Directors' tenure

The Committee monitors a schedule of the Non-Executive Directors' tenure and reviews potential departure dates assuming the relevant Directors are not permitted to serve more than three three-year terms (nine years) from their appointment date, unless in exceptional circumstances (see the chart below).



The Committee's focus for 2020 was on the appointment of an independent Non-Executive Chairman to succeed John Burns. During 2021, the Committee will begin searching for an additional Non-Executive Director, as Richard Dakin and Simon Fraser approach the ninth anniversary of their appointments. Further information on succession planning is on page 126.

Nominations Committee report continued

Chairman appointment

The Committee led the selection and appointment process for a new Chairman to succeed John Burns with assistance from Spencer Stuart, an executive search consultancy. Spencer Stuart has no other connection to the Company or individual Directors.

At the forefront of the Committee's discussions was the need to ensure an orderly succession and preservation of the Group's culture, which remains a valuable core strength of the business. A gender-balanced shortlist of candidates were interviewed by the Nominations Committee in December 2020, following which Mark Breuer was identified as the preferred candidate. Following satisfactory conclusion of a thorough due diligence and referencing process, the Committee recommended his appointment to the Board.

Mark joined Derwent London as a Director on 1 February 2021 to begin his induction process and it is scheduled to be completed well in advance of the 2021 AGM.

Induction

The Company provides new Directors with a comprehensive and tailored induction process which includes visiting a number of the Group's properties, meetings with the Group's audit partner and corporate lawyer, together with meetings with the Executive Directors, Executive Committee and senior management.

Induction programmes are developed by the Group's company secretarial department and approved by the Chair of the Committee. If considered appropriate, new Directors are also provided with external training that addresses their role and duties as a Director of a quoted public company.

We aim to limit the amount of information provided as reading material during an induction process. All new Directors are provided with access to our electronic Board paper system and the Group intranet which provides easy and immediate access to the following key documents:

- Our latest budget and five-year plan.
- Recent broker reports and feedback from our stakeholder engagement programmes.
- Information on our sustainability initiatives, including our Net Zero Carbon Pathway.
- The Group's risk register, Schedule of Principal Risks and emerging risks.
- Recent Board evaluation reports, including the report from the latest externally facilitated review.
- Recent reports from the external Auditor, PwC.
- Organisation and legal charts, overview of the committee's membership and Non-Executive Director tenure.
- Matters reserved for the Board and the committees terms of reference.

During the year under review, the Company did not need to conduct an induction process.

Succession planning

As Directors we have a duty to ensure the long-term success of the Company, which includes ensuring that we have a steady supply of talent for executive positions and established succession plans for Board changes. The Committee considers the Group's succession planning on a regular basis to ensure that changes to the Board are proactively planned and coordinated.

Over the past couple of years, the Committee has led the succession plans relating to the retirement of Robbie Rayne, John Burns and Simon Silver and the appointment of Paul Williams as CEO, Mark Breuer as Chairman Designate and Emily Prideaux as an Executive Director. Following this period of heightened activity, the Committee's activities will primarily focus on Non-Executive Director and Executive Committee succession.

Non-Executive Director succession

The Board have two Non-Executive Directors, Simon Fraser and Richard Dakin, nearing the ninth anniversary of their appointments (see page 125). The Committee intends to prepare a specification for the appointment of a new Non-Executive Director following completion of a detailed composition review of the Board, including of its skills, experience and diversity.

p.127 Board's diversity policy

Executive Committee succession

The Committee monitors the development of the executive team below the Board to ensure that there is a diverse supply of senior executives and potential future Board members with appropriate skills and experience.

During 2020 and early 2021, the Executive Committee composition was altered due to natural succession changes which included Rick Meakin departing the business in October 2020 and Simon Silver retiring from 26 February 2021. As at 1 March 2021, the Executive Committee consists of five Executive Directors and three senior managers, with a diversity balance of 25% female.

The Executive Committee considers the adequacy of the Group's succession plans below the Board as part of the five-year strategy review and provides updates to the Committee. Further information on the role of the Executive Committee is on page 113.

The Group's talent pipeline has been strengthened through a number of external appointments and internal promotions, including:

- the recruitment of Vasiliki Arvaniti (Head of Asset Management), Nathan Johnstone (Head of Facilities Management) and Victoria Steventon (Head of Property Management); and
- the internal promotion of Matt Cook (Head of Digital Innovation & Technology), Jay Joshi (Treasurer) and Heethen Patel (Financial Controller).

Information on the gender diversity of the Executive Committee and its direct reports is on page 127. There were 10 internal promotions across the Group during 2020, 40% of which were female and 40% ethnic minorities.

p.128 Diversity focus areas

Diversity and inclusion

Having a diverse, highly talented and skilled group of people at all levels at Derwent London is fundamental to our business success. Diversity and inclusion bring new ideas and fresh perspectives which fuel innovation and creativity. This is why we actively work to attract, retain and develop employees to improve our talent pipeline (further information on pages 50 and 51).

We are founding supporters of Real Estate Balance and we are members of the City Women Network (CWN) which provides membership to all our senior female employees.

In 2020, we established a new Diversity & Inclusion Working Group chaired by our CEO and during 2021 the Group will work towards receiving accreditation for the UK National Equality Standard.

p.149 UK National Equality Standard

p.50 Our people

Board diversity

A diversified Board brings constructive challenge and fresh perspectives to discussions. We consider diversity, in its widest sense (and not limited to gender), during our Board composition reviews and the development of recruitment specifications. The Board's diversity policy requires that, where possible, each time a Director is recruited at least one of the shortlist candidates is female, and wherever possible, at least one of the candidates is non-white.

Whilst we have identified areas where we could further improve our diversity balance, principally our ethnic diversity, we do not positively discriminate during the recruitment process and are conscious that altering the diversity of the Board can only be done in conjunction with the underlying Board refreshment programme.

The Board's gender balance is in accordance with the Hampton-Alexander Review recommendations and will further improve following the announced Board changes to be 42% female following conclusion of the 2021 AGM. The Board, with assistance from the Nominations Committee, has committed to implement the Parker Review recommendations, including that the Board should have at least one Director of colour by 2024.

Hampton-Alexander Review: gender diversity targets

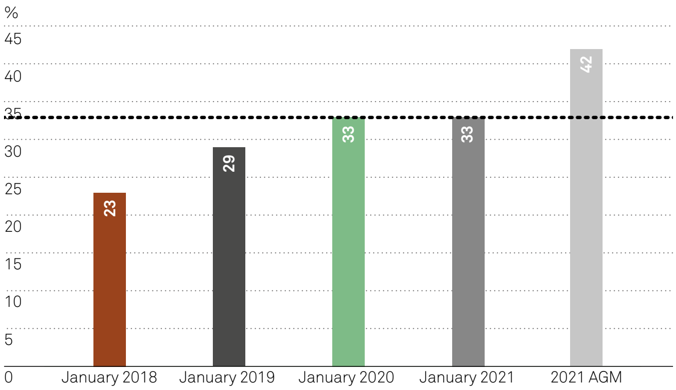
The Company has been working towards achieving the recommendations of the Hampton-Alexander Review and have 33% female representation on its Board, Executive Committee and senior management teams (direct reports to the Executive Committee) by 31 December 2020.

The target for boardroom diversity and direct reports to the Executive Committee had been achieved well in advance of the deadline, however, the gender balance of the Executive Committee remains a challenge. Following natural succession changes, the gender diversity of the Executive Committee improved to 25% as at 1 March 2021. The gender balance of the Executive Committee will continue to remain an area of focus during 2021.

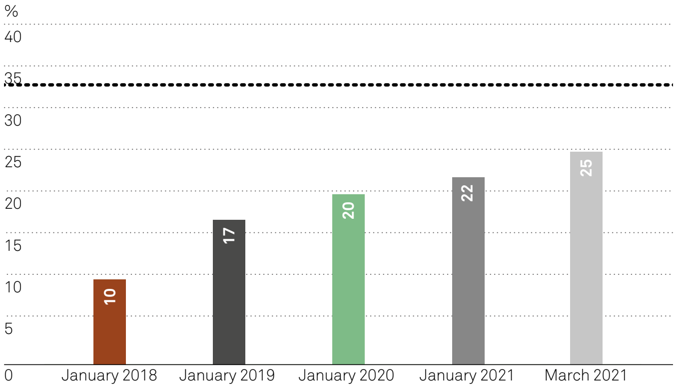
An overview of our progress against the Hampton-Alexander recommendations since January 2018 is provided to the right.

Hampton-Alexander Review: our progress

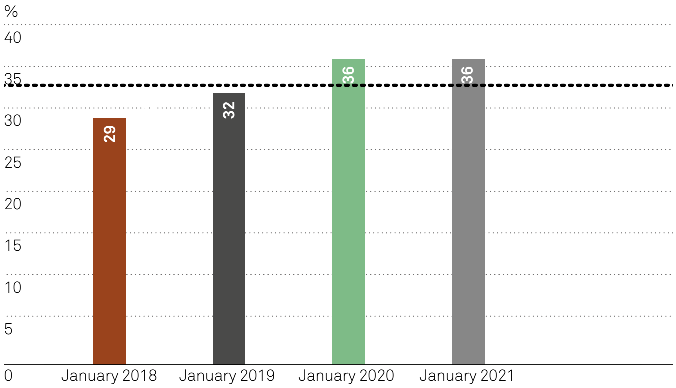
Board



Executive Committee



Direct reports



--- Target of 33% women

Notes:

(i) The Executive Committee is composed of five Executive Directors and three senior managers (see pages 108 and 109).

(ii) The combined diversity balance of the Executive Committee and its direct reports (excluding administrative and support staff) is 34.1% women as at 1 January 2021.

(iii) Direct reports to the Executive Committee, excluding administrative and support staff, is 36.4% women. Direct reports to the Executive Committee, including administrative and support staff, is 50.0% women.

Nominations Committee report continued

Diversity focus areas

The Board has established clear focus areas which aim to promote the importance of diversity at all stages from attracting diverse and talented employees through to retention and promotion. The key focus areas have been widened to ensure sufficient attention is being given to ethnic diversity in addition to other diversity considerations.

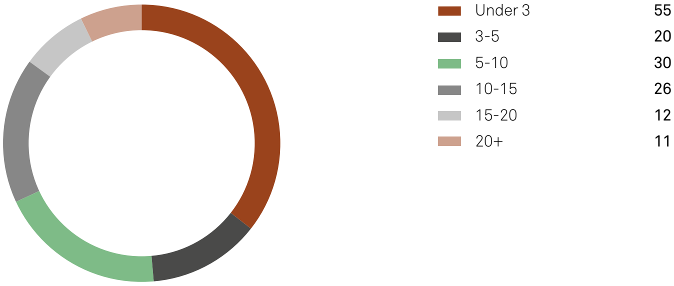
Focus	Actions taken during 2020	Further actions required in 2021
Attracting diverse, highly skilled and talented employees • Tackle unconscious bias • Candidate shortlists to have gender balance • All recruiters are signatories to the Standard Voluntary Code of Practice • Recruit from a wide pool of talent (including women returning to work)	• We intended to roll out the unconscious bias training undertaken by Directors and senior managers in 2019 to all employees. Unfortunately, these sessions had to be put on hold due to the Covid-19 pandemic as the sessions are more effective when undertaken in a face to face format • A guest speaker from a BAME background presented to the Executive Committee and to all employees via a town hall meeting to share their life/work experiences in the property industry • All current recruitment agencies are signatories to the Code of Practice • During the year under review: — 43.3% of new recruits have been female and 23.3% of new recruits were non-white — 69.2% of new female recruits were for 'professional' roles and 55.5% of the professional female recruits were non-white • We continued with current initiatives, which included ensuring all shortlists had gender balance where possible	• Recommence unconscious bias training for all employees • Continue with current initiatives including our social responsibility messaging, communicating our culture and inclusive values to the market • Relaunch our recruitment guidelines booklet
Retaining the best talent • Focus on women returning to work • Promote the importance of work/life balance • Equal opportunities for all	• Continued with parental transition coaching for those returning from a period of extended leave • Focus on work/life balance and wellbeing during the pandemic (especially during school closures) • Conducted short pulse survey in June 2020 to measure communication, support and guidance from the senior management team and health and wellbeing support • Set up new Diversity & Inclusion Working Group, chaired by our CEO • A further 26 employees commenced the 'Fit for the Future' programme • Core Skills sessions and technical workshops continued virtually	• Working towards achieving the UK National Equality Standard accreditation (see page 149) • Continue with the Fit for the Future programme which is due for completion in summer 2021 • 4th employee survey to be rolled out during 2021
Promoting diversity • Gender balance within our internships and work experience placements • Aim to encourage more girls to be interested in the construction and property industry and challenge harmful gender stereotyping • Heads of Department demonstrate that we are an inclusive employer	• Internship programmes and work experience placements put on hold during 2020 due to Covid-19 • Our fortnightly town hall meetings, hosted by our CEO focused on diversity and inclusion on a regular basis • Increased the number of employee representatives on our Responsible Business Committee to three (including a BAME representative) • Our monthly employee newsletters and intranet newsfeed focused on diversity and inclusion e.g. recognising and celebrating Black History Month • Signed up to the #10,000 Black Interns programme which offers paid work experience, training, mentorship and development opportunities for the Black community	• Participate in careers and volunteering events during 2021 • Seek to have gender and ethnic balance within our internships and work placements • Identify ways in which we can support 'Pathways to Property' • Host three interns in 2021 under the #10,000 Black Interns programme

The Group's composition and diversity

We have an experienced, diverse and dedicated workforce. The charts below provide a breakdown of our diversity as at 1 January 2021. The Board's composition as at 1 January 2021 is shown on pages 119 and 127.

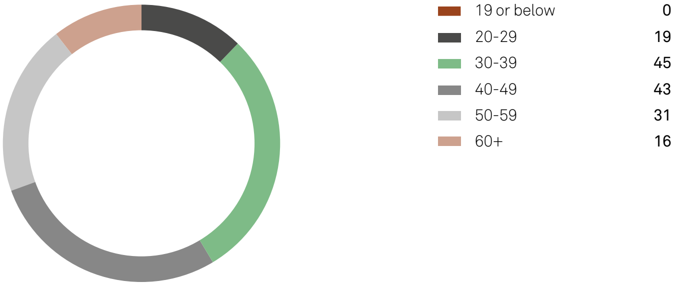
Length of service

Years

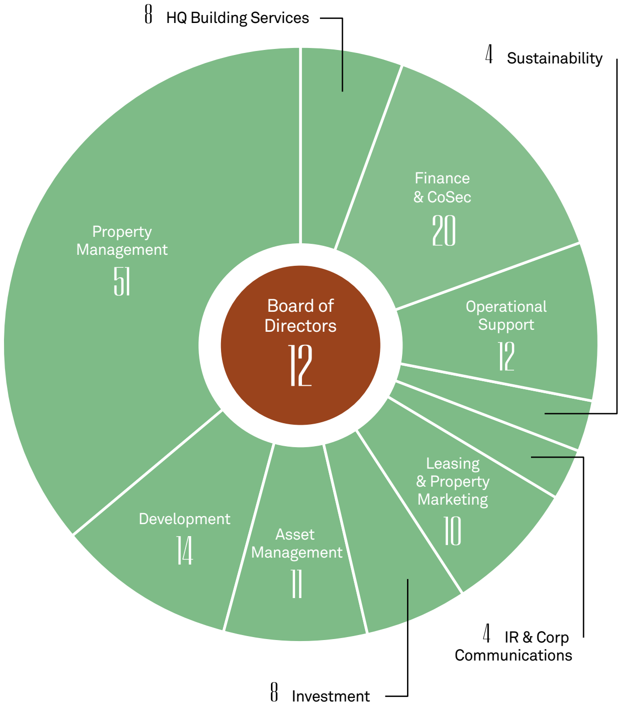


Employees by age

Years



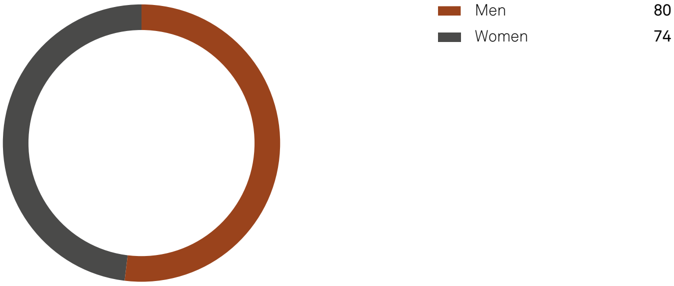
Headcount by department



Gender diversity

(including Board of Directors)

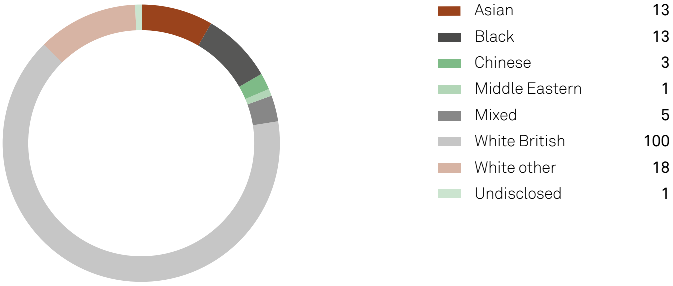
Number



p.127 Gender diversity of the Board and Executive Committee

Ethnic origin

Number



Audit Committee report

Lucinda Bell
Chair of the Audit Committee

2021 Focus areas

- Prepare an Audit & Assurance Policy to provide shareholders with additional confidence in the way the Group is governed and the quality of information which is being reported
- Monitor audit reform best practice and consider if any further improvements are required to our internal financial controls
- Review our Valuation Policy in light of the findings from the benchmarking exercise being conducted during 2021 and the RICS valuation review being performed by Peter Pereira Grey (see page 133)

Dear Shareholder,
I am pleased to provide you with an overview of the Committee's main activities and areas of focus during the year.

The Covid-19 pandemic has caused significant disruption and has required adjustment to the way we work and provide oversight. Despite the disruption caused by Covid-19, the Committee has been pleased with the work and commitment shown by the Derwent London Finance team, the external Auditor and independent valuers.

Portfolio valuation

The Committee considers the valuation of the Group's property portfolio to be a major area of judgement in determining the accuracy of the financial statements (see page 132). A benchmarking exercise of the Group's valuation as at 31 March 2021 has been commissioned and we will review the results during the first half of 2021. The Committee will also monitor the RICS valuation review and will consider its findings and recommendations once published.

Climate change

Climate change and its impact on reporting was discussed at the Committee's meeting in November. The Group has been voluntarily disclosing under the TCFD since 2019 (see page 60). In addition, the Committee received an update on the Group's green financing initiatives (see page 80). The Group is committed to being net zero carbon by 2030, so it is important that all aspects of the business, including its financing, contribute towards this goal.

Audit and financial reporting governance reform

The Committee will continue to monitor audit and financial reporting governance reform recommendations and the Group's response. In particular, during 2021, the Committee will monitor the preparation of an Audit & Assurance Policy.

Auditors

John Waters stepped down as PwC audit partner following the 2019 year end audit and was succeeded by Sandra Dowling. Sandra has led the half-year review and the 2020 year end audit and the Committee is satisfied with the transition of responsibility.

During 2020, the Committee performed a formal review of RSM's effectiveness (our outsourced internal auditors) and received an update on how RSM complies with the Internal Audit Code of Practice (see page 136). Overall, the Committee has been satisfied with the work performed by RSM and with the additional assurance received from their reviews. Management has actively embraced any recommendations raised and has acted swiftly to implement the limited number of recommendations identified.

Further engagement

I welcome questions from shareholders on the Committee's activities. If you wish to discuss any aspect of this report, please contact me via our Company Secretary, David Lawler (telephone: +44 (0)20 7659 3000 or email: company.secretary@derwentlondon.com).

Lucinda Bell
Chair of the Audit Committee
10 March 2021

Committee composition

During the year under review, the Committee was composed of independent Non-Executive Directors with a wide range of experience, including real estate and finance (biographies are available on pages 106 and 107). The Chair, Lucinda Bell, is a Chartered Accountant and has an appropriate level of recent and relevant financial experience to discharge her duties as Chair of the Committee.

	Independent	Number of meetings	Attendance
Lucinda Bell, Chair	Yes	3	100%
Simon Fraser	Yes	3	100%
Richard Dakin	Yes	3	100%
Claudia Arney	Yes	3	100%

The Committee's role and responsibilities are set out in the terms of reference, which were last updated in March 2021 and are available on the Company's website at: **www.derwentlondon.com/investors/governance/board-committees**

Meetings of the Committee

During the year under review, the Committee met three times, in February, August and November (2019: four meetings). Two additional subcommittee meetings are held each year with the Group's external property valuers to consider the valuation of our property portfolio.

In addition to the Committee members, meetings are attended by the internal and external Auditors and members of the Group's senior management team, at the request of the Committee Chair. To further facilitate open dialogue and assurance, the Committee holds private sessions with the Auditors without members of management being present.

Committee performance evaluation

The 2020 evaluation of the Board, its committees and individual Directors was internally facilitated by Simon Fraser, the Senior Independent Director, in accordance with our three-year cycle of evaluations (see page 121). There were no significant matters raised.

Financial reporting

One of the Committee's principal responsibilities is to review and report to the Board on the clarity and accuracy of the Group's financial statements, including the Annual Report and interim statement. During 2020, this included a detailed review of the accounting implications of rent waivers as a result of Covid-19, as well as the process for impairing receivables.

When conducting its reviews, the Committee considers the overall requirement that the financial statements present a 'true and fair view' and the following:

- the accounting policies and practices applied (see note 42 on pages 238 to 241);
- the effectiveness and application of internal financial controls (see page 134);
- material accounting assumptions and estimates made by management (see note 3 on pages 193 and 194);
- significant judgements or key audit matters identified by the external Auditor (see pages 181 and 183); and
- compliance with relevant accounting standards and other regulatory financial reporting requirements including the UK Corporate Governance Code.

In order to assess the financial statements, the Committee regularly reviews reports from members of the Finance team and the external Auditor who are invited to attend the Committee's meetings. Through face-to-face discussions and detailed written reports, the Committee members are able to understand the business rationale for transactions and how they are being recorded and disclosed in the financial statements.

Viability statement

The Committee reviewed the process and assessment of the Company's prospects and viability made by management for the next five years which formed the basis for the viability statement. This year's assessment included factoring in the potential long-term implications of Covid-19 on London's office market and our strategy.

p.82 Viability statement

Review of the 2020 Annual Report

At the request of the Board, the Committee was asked to review the Group's Annual Report and to consider whether, taken as a whole, it was fair, balanced and understandable. In carrying out its review, the Committee had regard to the following:

Fairness and balance

- Is the report open and honest, are we reporting on our weaknesses, difficulties and challenges alongside our successes and opportunities?
- Do we provide clear explanations of our KPIs and is there strong linkage between our KPIs and our strategy?
- Do we show our progress over time and is there consistency in our metrics and measurements?

Understandable

- Do we explain our business model, strategy and accounting policies simply, using precise and clear language?
- Do we break up lengthy narrative with quotes, tables, case studies and graphics?
- Do we have a consistent tone across the Annual Report?
- Are we clearly 'signposting' to where additional information can be found?

Specific considerations for the 2020 Annual Report:

- Whether we clearly explain the actual and anticipated impact of Covid-19 on our business and performance.
- New sections relating to:
  - Operating in challenging times (pages 6 and 7);
  - A resilient business (pages 8 and 9);
  - Delivering value to our customers (pages 10 and 11);
  - Supporting our stakeholders in 2020 (pages 12 and 13); and
  - Our pathway to net zero carbon (pages 28 and 29).
- The section 172(1) statement has been expanded to include case studies and a public interest statement.
- Whether we have adequately responded to the five questions which the FRC Financial Reporting Lab believe investors will seek information on from reports in times of uncertainty (see page 135).

The Committee paid particular attention to these changes to ensure they did not impact on the balance and clarity of the Annual Report. Following its review, the Committee confirmed to the Board that the 2020 Annual Report is fair, balanced and provides sufficient clarity for shareholders to understand our business model, strategy, position and performance.

Audit Committee report continued

Significant financial judgements, key assumptions and estimates

Any key accounting issues or judgements made by management are monitored and discussed with the Committee throughout the year. The table below provides information on the key issues discussed with the Committee in 2020 and the judgements adopted.

Issue	Assumptions or estimates	Judgement
Valuation of the Group's property portfolio		
Due to its size and nature and the direct impact upon the Group's net asset value, the Committee considers this to be the primary area of judgement in determining the accuracy of the financial statements	The valuation considers a range of assumptions including future rental income, investment yields, anticipated outgoings and maintenance costs, future development expenditure and appropriate discount rates. The external valuers also make reference to market evidence of transaction prices for similar properties (see note 16 on pages 204 to 207).	The valuation is performed twice yearly by CBRE Limited and Savills (UK) Limited (the 'external valuers') and, due to its significance, is also reviewed by the external Auditor. The Committee reviewed the underlying assumptions used in the valuation and the external valuers' independence and methodology. These procedures enabled the Committee to be satisfied with the assumptions and estimates used in the valuation of the Group's property portfolio.
Impairment review		
Covid-19 and the resulting lockdowns and other restrictions have impacted the businesses of many of our occupiers, particularly those in the retail and hospitality sectors. Rent collection has been affected and we have provided support to those most in need, leading to higher outstanding receivable balances and probabilities of default in some cases	Impairment testing of trade receivables and accrued income recognised in advance of receipt has been carried out in accordance with IFRS 9 using the expected credit loss model. This has required judgements to be made in relation to recoverability and estimated probability of default across our whole portfolio.	The probability of default was considered using a risk-based approach. In particular, our top 50 tenants, those in administration or CVA or in high risk sectors, such as retail and hospitality, were looked at in detail with the remaining balances classified by sector. The review was carried out by the Finance team in conjunction with the Credit Committee and a detailed paper was reviewed by the Audit Committee on 1 March 2021 and was subject to significant discussion.
Taxation and REIT compliance		
Should the Group not comply with UK REIT regulations, it could incur tax penalties or ultimately be expelled from the REIT regime, which would have a significant effect on the financial statements	As a REIT, the Group benefits from tax advantages. Income and chargeable gains on the qualifying property rental business are exempt from corporation tax. Income that does not qualify as property income within the REIT rules is subject to corporation tax in the normal way. There are a number of tests that are applied annually, and in relation to forecasts, to ensure the Group remains well within the limits allowed within those tests.	The Group employs a qualified and experienced Head of Tax whom the Committee meets at least annually. The Committee noted the frequency with which compliance with the tests and regulations was reported to the Board and considered the margin by which the Group complied. Based on this and the level of headroom shown in the latest Group forecasts the Committee agreed that, once again, no further action was required.
Borrowings and derivatives		
The calculation of fair values for the Group's financial instruments, such as the USPP notes, 2025 convertible bonds and interest rate swaps, is a technical and complex area and the amounts involved are significant	The fair values of the Group's borrowings and interest rate swaps are provided by an independent third party based on information provided to them by the Group. This includes the terms of each of the financial instruments and data available in the financial markets (see note 24 on page 213).	The Committee noted that the valuations were carried out by an independent third party which had valued the instruments in previous years and that the external Auditor used its own treasury specialists to re-perform the valuation and to assess the reasonableness thereof. The external Auditor subsequently confirmed that no issues had arisen relating to the valuations. The Committee was satisfied with the level of assurance gained from these procedures.

Portfolio valuation

Our property portfolio is valued by the external valuers for our interim and year end results. As at 31 December 2020, it was valued at £5.356bn (2019: £5.475bn) and principally consists of 83 properties.

The valuation of the portfolio is a major component of net asset value. Movements in that valuation are a significant part of how we measure our progress and a key determinant of the Group's total return (a KPI and a performance measure for our Executive Directors' variable remuneration – see pages 161 and 162). Due to its significance, the Committee monitors the objectivity and independence of the external valuers' work and hosts the valuation meetings. The valuation meetings typically occur in February and July prior to Audit Committee meetings.

Due to his position as Managing Director of Capital Advisors Limited (a wholly-owned subsidiary of CBRE Limited), Richard Dakin does not take part in discussions regarding the valuation of the Group's property portfolio (see page 119).

Key matters discussed during the meetings include:

- London office demand, investment volumes and vacancy rates;
- the assumptions underlying the valuation and the quality of data;
- valuation methodology and whether it was adversely impacted by Covid-19;
- any valuation which required a greater level of judgement than normal, for example development properties; and
- any valuation movements that were not broadly in line with that of the MSCI Investment Property Databank (IPD) benchmark.

The assumptions underlying the valuation are discussed with the external Auditor and an update on the matters discussed at the meetings is provided to the Board. A material valuation uncertainty clause on Derwent London's valuation was applied as at 30 June 2020 due to Covid-19. This was to inform the reader of market uncertainty due to limited evidence.

Although this was lifted for valuations to central London offices on 7 July 2020, this clause was still applicable to Derwent London's valuation as at 30 June 2020. A material valuation uncertainty clause was not required for our 31 December 2020 valuation.

In November 2020, the Committee received training on the valuation process and current market environment. The training focused on:

- The basis of valuing properties and areas to consider in the current market environment.
- The impact of incentives and how property fair values are allocated in the balance sheet.
- Consideration of the impairment analysis relating to receivables and the effect on the valuation.

During 2021, the Committee will monitor the RICS valuation review being led by Peter Pereira Grey. It is anticipated that the review's recommendations will be finalised in September 2021. In light of the review's recommendations and key findings, the Committee will assess the Group's valuation policy.

p.22 Our property portfolio

Effectiveness of the Group's valuers

A review into the effectiveness of the external valuers is performed after the year end and interim valuations, with assistance from Nigel George, Executive Director. Due to the impact of Covid-19, the valuation process was required to be undertaken remotely. The effectiveness review for 2020 was conducted in February and August and considered the following:

- experience and qualification of the valuation team;
- independence and objectivity;
- quality of presentation and data; and
- robustness of the valuation.

At both meetings it was concluded that the external valuers performed to a high independent standard and, whilst it was not ideal having the process performed remotely, it was conducted well and the timetable for delivery was achieved.

Valuation benchmarking

The Committee has commissioned a benchmarking exercise in relation to the property valuation, to be performed during H1 2021. The purpose of the exercise is to assure the Committee that the valuation of our portfolio is aligned against other well-regarded firms.

The benchmarking exercise will entail:

- A sample of the portfolio's valuations being benchmarked by three external central London valuers.
- The sample will include approximately five properties, representing 10% of the portfolio and a combined value of c.£500m. The same properties will be valued by the three valuers to allow for comparison.
- There will be a diverse range of assets selected including those in development and well-let long-dated assets.
- Tenancy sheets, typical leases and tenure information will be provided.
- Inspections will be arranged and the valuers will have access to our Asset Managers.

Due to the subjective nature of property valuation, we would expect there to be a range in the benchmark valuations. We will refer to the RICS guidance on the accepted tolerance of Fair Value. The results of the benchmarking exercise will be presented to the Committee.

Audit Committee report continued

Internal financial controls

On an ongoing basis, the Audit Committee reviews the adequacy and effectiveness of the Group's system of internal financial controls which are described briefly in the table below. Further information on risk management and internal control is available on pages 138 to 145 of the Risk Committee report.

The Committee received detailed reports on the operation and effectiveness of the internal financial controls from members of the senior management team. The outcome of the external audit at year end and the half-year review are considered in respect to our internal controls. The Committee also receives updates on the policies and procedures in place and how these are being communicated to and complied with by our staff.

During 2020, the following changes were made to our system of internal financial controls:

- Updated the Group's Expenses Policy, which provides guidance to employees on what they can claim for and the details that need to be provided for a claim to be valid. To improve processes further, we have identified an electronic expense software which will be rolled out during 2021.
- Performed a detailed analysis of the Group's financial and tax fraud risk. The results, alongside confirmation on how the risks were being mitigated, was presented to the Audit Committee in November 2020.

While Derwent London is a large business in terms of the size of its balance sheet and market capitalisation, we are relatively small when considering the number of people working directly in the business. Our Group structure is organised to be simple and transparent (i.e. relatively few subsidiaries) and our internal control procedures and policies are well established, reviewed annually and subject to external verification.

Although the Committee remains satisfied that the review of internal financial controls did not reveal any significant weaknesses or failures and they continue to operate effectively, it was agreed that the documentation and evidence of assurance would be a focus area for 2021. Information on the Risk Committee's review of non-financial internal controls and risk management is available on pages 138 to 145.

Overview of internal financial controls

Governance framework	Our governance framework (see page 113) supports effective internal control through an approved schedule of matters reserved for decision by the Board and the Executive Committee, supported by defined responsibilities, levels of authority and supporting committees.
Financial reviews and internal procedures	Comprehensive systems of financial reporting and forecasting which are conducted frequently and include both sensitivity and variance analysis. An annual budgeting exercise is carried out with three rolling forecasts prepared. A five-year strategic review is prepared annually. Breakeven and sensitivity analyses are included in both the five-year strategic review and the rolling forecasts.
Treasury and tax procedures	Treasury is controlled by the Chief Financial Officer and Treasurer. All transactions are checked and monitored. All complex or large transactions are discussed in advance with the Board and Executive Directors and are externally reviewed by our advisers. Taxation is a complex area and is subject to frequent external review. Corporate tax returns are prepared by the Tax Assistant and reviewed by the Group Head of Tax and, on a sample basis, by RSM. Other higher risk areas like PAYE and CIS (the Construction Industry Scheme which requires us to deduct tax at source from the labour element of a subcontractor's invoice unless they are properly authorised by HMRC) is subject to thorough examination and testing. We maintain an open relationship with HMRC and have a 'low risk' tax status. Further information on tax risk and tax governance is on pages 57, 86 and 135.
Risk identification and monitoring	The Risk Committee regularly reviews the Group's risk register, the schedule of key controls and key risk indicators. The schedule of key controls provides evidence of how the controls are being operated and their effectiveness. Our risk management procedures are robust and include initiatives such as a 'tenant at risk' register and a back-up IT facility. The Risk Committee's report is on pages 138 to 145.
Training and staff awareness	Staff compliance with internal policies is routinely confirmed to the Committee. Staff are aware of the delegated authority limits set by the Board and confirm their understanding of our internal policies which are contained on our Group intranet and in our employee handbook. Staff have six-monthly performance reviews with any training requirements identified and fulfilled within six months. The Group operates a whistleblowing policy which includes access to an independent helpline for anonymous reporting of concerns (see page 116).
External verification	During the year, no significant deficiencies had been raised by PwC as a result of their controls testing undertaken as part of the annual audit. The outsourced internal auditors, RSM, perform various assurance reviews as part of the annual Internal Audit Plan. During the year, none of these reviews revealed any significant areas of concern (see page 136). The Group's VAT procedures are subject to ongoing periodic review by external advisers. Comprehensive reviews of the Group's financial controls have also been undertaken with assistance from external advisers. Regular annual credit ratings, including risk assessments, are conducted. Each year, at renewal, a comprehensive review of the Group's insurance cover is prepared by its independent insurance adviser.

Responsible payment practices

Derwent London is a signatory to the Chartered Institute of Credit Management (CICM) Prompt Payment Code which confirms our commitment to best practice payment practices and the fair and equal treatment of suppliers.

We are clear about our payment practices. Unless otherwise stated, we aim to pay our suppliers within 30 days or otherwise will do so in accordance with specified contract conditions. We expect our suppliers to adopt similar practices throughout their supply chains to ensure fair and prompt treatment of all creditors (see our Supply Chain Sustainability Standard on page 148).

In 2018 we disclosed an average payment term of 28 days, which improved to 25 days in 2019. Despite the challenges of lockdowns and home working, we further reduced our average payment days to 20 days in 2020.

On 19 January 2021, the Prompt Payment Reforms were announced which require 95% of invoices from small businesses (defined as those with fewer than 50 employees) to be paid within 30 days. The reforms become applicable from 1 July 2021. Although we currently pay all invoices on average within 30 days of receipt, we will be considering during 2021 how we can identify small businesses and record their specific payment days.

Year	Average payment term
2018	28 days
2019	25 days
2020	**20 days**

Tax governance

The Group's Senior Accounting Officer (SAO) is our Chief Financial Officer, Damian Wisniewski, and we employ an experienced Head of Tax, David Westgate, who has dealt with our tax and REIT compliance since 2008. Together, they report to the Board, Audit and Risk Committee on the implementation of the Group's tax strategy and compliance. They also report on key changes in relevant tax legislation and practice. When appropriate, the tax consequences of all significant commercial transactions are reviewed by the Board as part of its 'due diligence' considerations.

To maintain our REIT status, we are required to comply with the REIT regulations. The Board receives frequent reports on our compliance with the regulations, and the Audit Committee meets with the Head of Tax at least annually. Regular oversight of tax governance is provided by the Audit Committee and, where appropriate, the Risk Committee.

Day-to-day tax administration is delegated to suitably trained members of the Finance team, with the input of qualified external tax advisers where necessary. An overview of our internal controls for taxation, including how we seek external assurance from third parties, is on page 134.

The Group has an open and transparent relationship with HMRC and seek to anticipate any tax risks at an early stage, including clarifying areas of uncertainty with HMRC as they become evident. We were delighted that HMRC reaffirmed our 'low-risk' tax status until 2022.

FRC: reporting during times of uncertainty

The Financial Reporting Lab released an infographic alongside a joint regulatory statement from the FRC, Prudential Regulation Authority and Financial Conduct Authority on the information which investors sought to understand in times of uncertainty. The infographic raised five questions based on:

- Resources: including the availability of cash
- Actions: to manage short-term expenditure and ensure viability
- The future: how the decisions taken now ensure the sustainability of the company and impact customers, suppliers and employees

Our CFO, Damian Wisniewski, has addressed these five questions below.

1. How much cash does the Company have?

   The Company held cash of £50.7m at 31 December 2020, plus undrawn available facilities of £425m.

2. What cash and liquidity could the Company obtain in the short-term?

   Following completion of the sale of the Johnson Building for £166.4m on 8 January 2021, the Group had cash and available facilities of over £625m. With relatively low gearing and £4.3bn of uncharged assets at the year end, additional funding could be arranged in the short-term if necessary.

3. What can the Company do to manage expenditure in the short-term?

   Our fixed overheads (before variable pay, such as bonuses) are comprised mainly of staff and establishment costs, running at approximately £2.2m per month. Capital expenditure on our projects is much more substantial at between £10m to £20m per month, with committed capital expenditure of £233.5m at year end. If necessary, we could decide to stop or delay these projects though there are no plans to do so.

4. What other actions can the Company take to ensure its viability?

   Through 2020 and into 2021, we have focused on tenant retention and the removal of tenant breaks or expiries. By extending leases, even if this means accepting rental levels below ERV, we can help with continuity of income. With a strong investment market for good quality commercial properties, we could also sell investment properties if required.

5. How is the Company protecting its key assets and value drivers?

   By providing and operating modern, adaptable and well-designed commercial offices that our occupiers need, we protect our asset values and optimise our income potential.

For further information on our response to Covid-19 and our plans for the future, see the following pages:

- Operating in challenging times (page 6)
- A resilient business (page 8)
- Supporting our stakeholders in 2020 (page 12)
- Chief Executive's statement (page 16)

Audit Committee report continued

Internal audit

RSM were appointed as the Group's outsourced internal audit function in December 2018 following a competitive tender process and are considered by the Committee to be independent. In addition to performing an internal audit function, another team from RSM also review our year end tax returns.

The Internal Audit Plan for 2020 was approved jointly by the Risk and Audit Committees and included a combination of risk-based audits and projects. During 2020, RSM performed six audits:

- charity and sponsorship;
- due diligence on acquisition of property;
- Covid-19 response;
- core financial controls;
- service charge management; and
- health and safety compliance.

During 2020, the Internal Audit Plan was flexed in response to the changing risk environment to include an audit into Derwent London's response to the Covid-19 pandemic in relation to crisis management, including IT, people, finance, operations, tax compliance and strategy. The Executive Directors also commissioned independent surveys for staff and tenants in order that their responses could be included within the internal audit review.

The outcome of the audits performed were presented to the Risk and Audit Committees and reported to the Board. The Committees were pleased with the level of assurance received from the audits. In addition, in August 2020, the Committee received an update on RSM's compliance with The Institute of Internal Auditors' Internal Audit Code of Practice.

The Committee receives a report on internal audit activity at each meeting and monitors the status of internal audit recommendations and management's responsiveness to their implementation. The other Board committees are kept updated on the outcome of any reviews which fall within their areas of responsibility.

The Internal Audit Plan for 2021 was approved by the Audit and Risk Committees in November 2020 and will include audits on the following:

- procurement and contract management;
- digitisation;
- lease management;
- management of HR data;
- tax compliance; and
- financial and IT controls.

Effectiveness review of the internal auditors

A formal review of the effectiveness of the internal auditor and the internal audit process was conducted in February 2020 and considered the following:

- the qualification and expertise of RSM's internal audit team;
- the relationship established and the extent to which RSM have built an understanding of our business and systems;
- depth and breadth of internal audits;
- quality of reporting, including in respect to the regular Internal Audit Progress Reports provided to the Audit and Risk Committee; and
- quality of planning and ability to meet deadlines.

The Committee concluded that the internal audit process had been conducted effectively and that the quality of audit and reporting was rated highly.

Internal auditor key performance indicators (KPIs)	2020
Delivery KPIs	
Audits commenced in line with original timescales	Yes
Draft reports issued within 10 days of debrief meeting	100%
Management responses received within 10 days of draft report	100%
Final report issued within 5 days of management response	100%
Quality KPIs	
Conformance with IIA Standards[i]	Yes
Liaison with external audit to allow, where appropriate and required, the external Auditor to place reliance on the work of internal audit	Yes
Two working day response time for all general enquiries for assistance	100%
One working day response time for emergencies and potential fraud	N/A in 2020

Note:
[i] IIA International Standards for the Professional Practice of Internal Auditing from the Chartered Institute of Internal Auditors

External Auditor

The Committee has primary responsibility for managing the relationship with the external Auditor, including assessing their performance, effectiveness and independence annually and recommending to the Board their reappointment or removal.

Following a comprehensive tender in 2014, PricewaterhouseCoopers LLP (PwC) were appointed as the Group's Auditor. The Committee's current intention is to conduct its next competitive tender for the 2024 year end audit, in accordance with current regulation that requires a tender every 10 years. The Company has chosen this timetable due to the recent change in audit partner who will serve for four years prior to the tender in order to provide continuity over the next three year end audits. This timetable is subject to annual assessment of the Auditor's effectiveness and independence (see page 137).

There are no contractual obligations which restrict the Committee's choice of Auditor or a minimum appointment period. The Company has complied with the provisions of the Competition and Markets Authority's Order for the financial year under review in respect to audit tendering and the provision of non-audit services.

Annual review of the external Auditor

Following the year end audit, the Committee assessed the effectiveness of the external Auditor. This effectiveness review is performed on an annual basis and aims to ensure a robust audit is performed, auditor performance is optimised and encourages candid feedback and communication between the Auditor and the Committee. The assessment followed the same approach as disclosed in our 2019 Annual Report on page 125.

An important aspect of managing the external Auditor relationship is ensuring there are adequate safeguards to protect Auditor objectivity and independence. In assessing this matter, the Committee considered the following:

- the Auditor's independence letter which annually confirms their independence and compliance with the Financial Reporting Council's (FRC) Ethical Standard;
- the operation, and compliance with, the Group's policy on non-audit work being performed by the Auditor;
- how the Auditor demonstrated professional scepticism and challenged management's assumptions where necessary;
- the tenure of the external Auditor and the lead audit partner;
- how the Auditor identified risks to audit quality and how these were addressed, including the network level controls the Auditor relied upon; and
- the outcome of the FRC's inspection of PwC's audit quality.

In assessing how the Auditor demonstrated professional scepticism and challenged management's assumptions, the Committee considered the depth of discussions held with the Auditor, particularly in respect to challenging the Group's approach to its significant judgements and estimates (see page 132). The Committee has been pleased with the challenge raised by the new audit partner and her team during the year.

After taking all of these matters into account, the Committee concluded that PwC had performed their audit effectively, efficiently and to a high quality. Accordingly, the Committee has recommended to the Board that PwC be reappointed as Auditor to the Group for the year ending 31 December 2021, subject to reappointment at the 2021 AGM. Any feedback arising from the annual assessment will be discussed with the external Auditor for implementation into the audit plan for the next year end audit.

Non-audit services

The objective of maintaining the Non-Audit Services Policy is to ensure the independence of the external Auditor is not compromised and that the provision of such services do not impair the external Auditor's objectivity. The Non-Audit Services Policy was subject to review in August 2020 and an updated policy was approved in November 2020. During 2020, the only non-audit service provided by PwC was in respect of the interim results review.

	2020		2019	
	£'000	%	£'000	%
Audit of Derwent London plc and subsidiaries	415	90	387	90
Review of interim results	44	10	42	10
Other non-audit services	–	–	–	–
Total fees	459	100	429	100

Overview of our Non-Audit Services Policy

Under the policy, all services provided by the external Auditor (other than the audit itself) are regarded as non-audit services. Our policy draws a distinction between permissible services (which could be provided subject to conditions set by the Committee) and prohibited services (which may not be provided by the external Auditor except in exceptional circumstances when the Auditor has been provided with approval by the Financial Conduct Authority). The type of non-audit services deemed to be permissible include: review of the half-year results and assurance work on non-financial data.

In accordance with audit legislation, the total fees for non-audit services provided by the external Auditor to the Group shall be limited to no more than 70% of the average of the statutory audit fee for the Company paid to the Auditor in the last three consecutive financial years.

The Committee has provided pre-approval limits which allow management to appoint the external Auditor to conduct permissible non-audit services if they fall below an amount it deems as trivial. The approval limits for non-audit services is provided below and is subject to annual review:

Value	Approval required prior to engagement
Up to £25,000	Chief Financial Officer
£25,000 to £100,000	At least two members of the Audit Committee (including the Committee Chair)
£100,001 and above	Board of Directors

When reviewing requests for permitted non-audit services, the Audit Committee will assess:

- whether the provision of such services impairs the Auditor's independence or objectivity and any safeguards in place to eliminate or reduce such threats;
- the nature of the non-audit services;
- whether the skills and experience make the Auditor the most suitable supplier of the non-audit service;
- the fee to be incurred for non-audit services, both for individual non-audit services and in aggregate, relative to the Group audit fee; and
- the criteria which govern the compensation of the individuals performing the audit.

In accordance with the FRC Ethical Standard, the Audit Committee would also assess whether it is probable that an objective, reasonable and informed third party would conclude independence is not compromised.

Risk Committee report

Richard Dakin
Chair of the Risk Committee

2021 Focus areas

- Continue to monitor the Group's principal and emerging risks
- Ensure health and safety risks are being effectively managed across the Group (see page 54)
- Review results of a climate change risk analysis performed by Willis Towers Watson (see page 49)
- Assess and manage the risks arising from the UK leaving the European Union
- Continue to monitor the management of Covid-19-related risks in respect to its impact on London, our business, occupiers and supply chain
- Review the risks arising at our key developments: The Featherstone Building EC1 and Soho Place W1

Dear Shareholder,
I am pleased to present our Risk Committee report for 2020 which describes our activities and areas of focus during the year.

Risk profile of the Group

Since the signing of our 2019 Annual Report, Covid-19 was declared a pandemic and has caused significant societal and economic disruption, leading to the Group's overall risk profile being elevated. The restrictions introduced to limit the spread of the virus has had a significant impact on the UK (and global) economy and has accelerated existing office trends.

Due to the Group's proactive response to the pandemic and its strong financial position, the initial risks arising from Covid-19 have been carefully managed. This was confirmed via an independent review of Derwent London's response to Covid-19, performed by the Group's internal audit provider, RSM (see page 136).

Despite the elevated risk profile, the Group has demonstrated its resilience and values: relationships with key stakeholders have been enhanced and support offered where required most. Looking ahead, the Committee will continue to assess and monitor the risks arising from the pandemic, and the implications of Brexit, in the short, medium and long-term.

Key activities of the Committee during 2020

A significant proportion of the Committee's time this year was spent on overseeing the management of risks arising from the Covid-19 pandemic and the identification of emerging risks within the context of the Group's changing risk profile.

During 2020, additional meetings were arranged for the Board and Risk Committee in March. The additional meetings enabled the Committee to satisfy itself that risks were being proactively identified and managed, and to provide assurance to the Board that the risk management framework was operating effectively.

I would like to thank the executive team and management for their diligence in quickly identifying arising and emerging risks so that sufficient mitigation could be implemented. The Committee was pleased with how management and our risk management systems responded as the pandemic developed.

In addition to reviewing the Group's risk register and Covid-19 risk management procedures, the Committee's main areas of focus during 2020 related to health and safety, Brexit contingency planning, development-related risks and cyber security. Further information on how the Committee and the Group responded to the cyber security risks arising from Covid-19 and home working is provided on page 144 of this report.

Further engagement

The forthcoming AGM is on 14 May 2021 and I will be available to answer any questions on the Committee's activities that you may have. If you wish to contact me, I am available via our Company Secretary, David Lawler (telephone: +44 (0)20 7659 3000 or email: company.secretary@derwentlondon.com)

Richard Dakin
Chair of the Risk Committee
10 March 2021

Committee composition

The Committee's membership for the year under review is detailed in the table below. In addition to the Committee members, the Board Chairman, other Directors, senior management and the internal or external Auditors, may be invited to attend all or part of any meeting as and when appropriate and necessary.

	Independent	Number of meetings	Attendance
Richard Dakin, Chair	Yes	4	100%
Dame Cilla Snowball	Yes	4	100%
Lucinda Bell	Yes	4	100%

The Committee's role and responsibilities are set out in the terms of reference, which were last updated in November 2020, and are available on the Company's website at: **www.derwentlondon.com/investors/governance/board-committees**

Meetings of the Committee

During the year under review, the Risk Committee met four times, in March, May, August and November (2019: three meetings).

The Committee arranged an additional meeting in March to provide guidance and risk management oversight as the Covid-19 pandemic developed. The meetings in August and November included a joint session with the Audit Committee to review the outcome of the internal auditor's reviews (further information on page 136).

Committee performance evaluation

The 2020 evaluation of the Board, its committees and individual Directors was internally facilitated by Simon Fraser, the Senior Independent Director, in accordance with our three-year cycle of evaluations (see page 121). There were no significant matters raised.

Risk management

At Derwent London, the management of risk is treated as a critical and core aspect of our business activities. Although the Board has ultimate responsibility for ensuring the Group has robust risk identification and management procedures in place, certain risk management activities are delegated to the level that is most capable of overseeing and managing the risks (see chart 1).

In order to gain a comprehensive understanding of the risks facing the business and the management thereof, the Risk Committee periodically receives presentations from senior managers and external advisers.

A robust assessment of the principal risks facing the Group is regularly performed by the Directors, which takes into account the risks that could threaten our business model, future performance, solvency or liquidity, as well as the Group's strategic objectives over the coming 12 months. Our principal risks are documented in a schedule which includes a comprehensive overview of the key controls in place to mitigate the risk and the potential impact on our strategic objectives, KPIs and business model. Due to its importance, changes to the Schedule of Principal Risks can only be made with approval from the Risk Committee or Board (changes to the principal risks during the year under review are on page 85).

Risks not deemed to be principal to the Group are documented within the Group's risk register which is maintained by the Executive Committee. The Board reviews and approves the Group's risk register on an annual basis and it is reviewed by the Risk Committee at each of its meetings. In addition, risks deemed to be key indicators of changes in the Group's risk profile, or deviation from the Board's risk tolerance, are singled out and reported upon at each Risk Committee meeting.

During the annual strategic review and approval of the five-year plan, the Board assesses the emerging risks, being those that could impact on the business in the medium to long-term (see page 87). Emerging risks are identified through roundtable discussions and horizon scanning. Emerging risks are discussed by the Committee at each meeting and are included within the 'on watch' section of the Group risk register.

Following the Risk Committee's reviews, the Committee confirmed to the Board that it is satisfied that the Group's internal control and risk management procedures:

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

Chart 1: Our risk management structure

Board

- Overall responsibility for risk management and internal control
- Sets strategic objectives and risk appetite
- Sets delegation of authority limits for senior management

Risk Committee

- Monitors and reviews the Group's risk register
- Identifies and evaluates key risks (principal and emerging), ensuring they are appropriately managed
- Works alongside the Board to set the risk tolerance levels for the Group

Audit Committee

- Monitors assurance and internal financial control arrangements
- Manages the external audit process and reviews the Auditors' reports

Executive Committee

- Maintains the Group's risk register
- Manages the Group's risk management procedures
- Reviews the operation and effectiveness of key controls
- Provides guidance and advice to staff on risk identification and mitigation plans

Senior management

- Engages with the Executive Committee to identify risks
- Allocated risk managers and oversee their risk response

Risk Committee report continued

Risk management framework

Identify	Assess	Monitor	Respond
Top down Board considers future scenarios and identifies principal and emerging risks **Bottom up** Risks identified through workshop debates	Detailed assessment by the Executive Committee Emerging risks are kept under review and reassessed annually	Risk owner assigned and Executive Committee and Risk Committee conduct monitoring exercises	Introduce controls and procedures to reduce risk exposure and understand how risks relate and impact upon each other

How do we identify risks?

- Top down approach to identify the principal risks that could threaten the delivery of our strategy: at the Board's strategy reviews, scenarios for the future are considered which assist with the identification of principal and emerging risks and how they could impact on our strategy. The continuous review of strategy and our environment ensures that we do not become complacent and that we respond in a timely manner to any changes.

- Bottom up approach at a departmental and functional level: risks are identified through workshop debates between the Executive Committee and members of senior management, analysis, independent reviews and use of historical data and experience. Risk registers are maintained at a departmental/functional level to ensure detailed monitoring of risks. During 2020, the Digital Innovation & Technology (DIT) department maintained an additional risk register in respect to home working and Covid-19-related IT risks (see page 144). Risks contained on the departmental registers are fed into the main Group risk register depending on the individual risk probability and potential impact.

- Independent assurance: RSM, as the Group's independent internal auditors, perform reviews of the Group's departments and key activities which provide assurance to the Board and Committee that risks are being identified and effectively managed. In addition, these reviews highlight any recommendations for further action.

How do we assess risk?

Following the identification of a potential risk, the Executive Committee undertakes a detailed assessment process to:

- gain sufficient understanding of the risk to allow an effective and efficient mitigation strategy to be determined;
- allow the root cause of the risk to be identified;
- estimate the probability of the risk occurring and the potential quantitative and qualitative impacts; and
- understand the Group's current exposure to the risk and the 'target risk profile' (in accordance with the Board's risk appetite) which will be achieved following the completion of mitigation plans.

Where necessary, external assistance is sought to assess potential risks and advise on mitigation strategies. Emerging risks are kept under review via the 'on watch' register and reassessed during the annual strategy reviews.

How do we monitor risks?

Once a risk has been identified and assessed, a risk owner is assigned who is considered to be in the best position to influence and monitor the outcome of the risk. As part of our risk management procedures, the Executive Committee and Risk Committee routinely conduct monitoring exercises to ensure that risk management activities are being consistently applied across the Group, that they remain sufficiently robust and to identify any weaknesses or enhancements which could be made to the procedures.

Monitoring activities include:

- the regular review and updating of the Schedule of Principal Risks, the Group's risk register and 'on watch' register;
- independent third party reviews of the risk management process to provide further assurance of its effectiveness;
- alerting the Board to new emerging risks and changes to existing risks;
- monitoring how the risk profile is changing for the Group; and
- providing assurance that risks are being managed effectively and where any assurance gaps exist, identifiable action plans are being implemented.

How do we respond to risk?

We implement controls and procedures in response to identified risks with the aim of reducing our risk exposure, so that it is aligned or below our risk appetite. The successful management of risk cannot be done in isolation without understanding how risks relate and impact upon each other. At Derwent London, we consider the interconnectivity between risks which allows us to prioritise areas that require increased oversight and remedial action. The mitigation plans in place for our principal risks are described in greater detail on pages 88 to 99.

Insurance

We use insurance to transfer risks which we cannot fully mitigate. Our comprehensive insurance programme covers all of our assets and insurable risks. We are advised by our insurance brokers, Marsh, who report to the Risk Committee on an annual basis. We have a long-standing relationship with our insurers, RSA, who perform regular reviews of our properties that aim to identify risk improvement areas.

During 2020, the insurance market hardened with insurers reducing the amount of capacity they are willing to allocate to any one risk. This resulted in an overall capacity contraction, conservative underwriting and a significant rise in premiums. The largest insurance risk for Derwent London relates to construction and Directors' & Officers' insurance as both current policies expire in 2021 and we are expecting to see premiums increase due to current market conditions.

In respect to Property Owners insurance, we were pleased to arrange a new Long Term Agreement in March 2020, which means that both Derwent London, and our occupiers, will not suffer any significant premium increases during 2021.

Compliance training

Since May 2019, the Risk Committee has operated a training programme which provides refresher training on a range of risk and compliance topics (including anti-bribery and corruption, data protection and modern slavery) to all employees and members of the Board.

At the launch of each training topic, an introductory email is sent to participants advising them of why the training is important and links to further information (including Company policies and guidance notes). The training is accessed via an online portal and each topic takes approximately 30 to 60 minutes to complete.

The topics covered during 2020 included:

- anti-money laundering;
- competition law;
- fraud awareness; and
- cyber security.

The Committee were pleased with the level of engagement from employees for the new compliance programme with on average 95% of all participants (inclusive of the Board) completing each training module.

p.120 Board training in 2020

Risk tolerance

Like any business, we face a number of risks and uncertainties. An overview of the Group's risk profile is available on pages 84 to 99. The Group's risk tolerance is set by the Board and is the level of risk we are willing to accept to achieve our strategic objectives. During 2020, the Board added climate change resilience to its Risk Appetite Statement and set its risk tolerance as low.

Our overall risk tolerance is low and is contained in our Risk Appetite Statement (see the table below for an overview of this statement). This tolerance, alongside our culture, informs how our staff respond to risk. Due to our open and collaborative working style, any potential problem, risk or issue is identified quickly so appropriate action can be taken.

Category	Risk tolerance		
Operational	Operational risks include health and safety risks, continuity of the IT system and retention of the senior management team.	Health and safety	Zero
		IT continuity	Low
		Staff retention	Medium
		Climate change resilience	Low
		Other operational risks	Medium
Financial	Other than market-driven movements that are beyond the Group's immediate control, the Group will not generally accept risks where it is probable that: • Asset values decline by more than £100m from the Group's annual budget. • EPRA profit before tax deviates by more than £5m from the Group's annual budget. • Cost overruns occur on capital projects of more than 5% of the approved capex budget. • The Group's interest cover ratio will fall to within 20% of the level set in the Group's borrowing covenants. It is recognised that inherent market risk may result in these financial tolerances, in particular the assets limit, being exceeded. The Board accepts this market risk but seeks to manage and mitigate its impact where possible.	REIT status	Low
		Credit rating	Low
		Decrease in asset value (>£100m)	Medium
		Profits (£5m)	Medium
		Cost overruns (>5%)	Medium
		Interest cover (<20%)	Medium
Reputational	The Group has a low tolerance for risk in connection with reputational risk. In particular, this level of risk tolerance relates to any action that could adversely affect the Derwent London brand.	Brand value	Low
Regulatory	The Group's tolerance for regulatory risk arising from statute or the UK Corporate Governance Code and from adherence to 'best practice' guides.	Statutory	Zero
		Governance	Low

Zero:	The Board has a zero tolerance to risk-taking
Low:	The Board is not willing to take any significant risks
Medium:	The Board is willing to take measured risks if they are identified, assessed and controlled
High:	The Board is willing to take significant risks

Risk Committee report continued

Development risks

The Risk Committee's role is to gain assurance that risks are being identified, effectively managed and where possible mitigated. At each meeting during 2020, the Risk Committee met with the Director of Development, Richard Baldwin, and members of the Development team to discuss the Group's largest development projects and the management of risks.

We have classified three development-related risks as principal to the Group – reduced development returns, 'on-site' risk and contractor/subcontractor default – these are discussed in further detail on pages 92 and 93.

p.92 Risks arising from our development activities

Brexit

The Committee's responsibility during 2020 was to ensure that management was proactively planning for the risks and challenges which could arise from the Brexit transition negotiations and the eventual outcome.

At each annual strategic review since the referendum decision, the Board as a whole considered potential Brexit scenarios on the Group's five-year strategic plan and long-term viability.

In 2021, the Committee will continue to monitor international trade negotiations, including the UK application to join the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP) and the agreement of terms with the EU in respect of the financial services sector (see pages 88 and 89).

p.85 Brexit-related risks

Anti-bribery and corruption

We are committed to the highest standards of ethical conduct and integrity in our business practices and adopt a zero-tolerance approach to bribery and corruption. An overview of our policies and procedures in this area is contained in the table below.

Test	Purpose
Corporate hospitality	Hospitality must be reasonable in value, appropriate to the occasion and provided openly and transparently. It must not compromise, nor appear to compromise, the Group nor the business judgement of our staff.
Business gifts	Generally, gifts should not be accepted unless valued less than £50, are not cash or a cash equivalent (e.g. gift certificate), are appropriate to the circumstances and are not given with the intention of compromising or influencing the party to whom it is being given.
Hospitality and Gift Returns	All staff are required to complete quarterly Hospitality and Gift Returns which document all instances of third-party hospitality or gifts (given or received) over that three-month period if the value is in excess of £50 for hospitality and £10 for gifts. The Hospitality and Gift Returns are subject to review by the Risk Committee.
Political donations	The Company strictly prohibits any political donations being made on its behalf.
Charitable donations	Charitable donations are handled by the Sponsorships and Donations Committee. 'Know your client' procedures are applied to charitable organisations to ensure we are dealing with a valid body acting in good faith and with charitable objectives.
Contractors and suppliers	Our zero-tolerance approach is communicated to all suppliers, contractors and business partners. Due diligence procedures determine if a third party has previous convictions under the Bribery Act. All contracts with suppliers or contractors prohibit the payment of bribes or engaging in any corrupt practice. The Company has the right to terminate agreements in the event a bribe is paid or other corrupt practice undertaken.
Supply Chain Sustainability Standard	Contains the minimum standards we expect from our major suppliers (further information on page 148).
Payments	All payments made must be warranted, transparent and proper. All payments must be accurately recorded through the normal accounting and financial procedures without any deception or disguise as to the recipient's identity or the purpose of the payment in question. No one approves their own expense claim. All expense claims must be approved by a Director or senior manager.
Facilitation payments	Facilitation payments are bribes and are strictly prohibited.
Conflicts of interest	All conflicts of interest or potential conflicts of interest must be notified to the Company Secretary and a register of such notifications is maintained. The Corporate governance statement on page 119 explains our process for managing potential conflicts.
Training	We provide our employees with guidance notes and regular training on anti-bribery, corruption, ethical standards and the prevention of the facilitation of tax evasion.
Whistleblowing procedures	A confidential helpline is available for staff to report concerns anonymously. Further information on page 116.

Credit Committee

The Credit Committee is a supporting committee within the Group's governance framework which typically meets on a weekly basis to assess and monitor the financial strength of potential and existing tenants. The Credit Committee is chaired by the CEO and its members include David Silverman (Executive Director) and senior members of the Finance, Leasing, Property and Asset Management teams.

During 2020, due to the difficulties being faced by our current and prospective tenants, the Credit Committee met on a more frequent basis and the meetings were additionally attended by our CFO, Damian Wisniewski. The 'tenants at risk' register was regularly reviewed to carefully monitor the financial performance of existing tenants. As at 31 December 2020, the 57 tenants included on the 'tenants at risk' register represented 8% of the Group's contracted net rental income, and mainly consists of businesses operating in retail and hospitality sectors.

The Credit Committee's remit of responsibilities includes the assessment of:

- lettings to new tenants;
- additional space for existing tenants;
- renewals/regears;
- rent concessions;
- an existing tenant moving within the portfolio; and
- assignments/subleases.

We are aware that during times of heightened uncertainty, receiving a swift response to queries is important. The Credit Committee delegated authority to the Asset Management team and Head of Asset Management to quickly help and assist our smaller occupiers during the Covid-19 lockdowns in respect to rent concessions.

The Risk Committee and Audit Committee were updated on the work of the Credit Committee during the year under review, to ensure it was in agreement with the accounting principles being applied and the management of risk. The Risk Committee confirms that it is satisfied with the extensive due diligence process being undertaken by the Credit Committee.

Health and safety

Due to the Covid-19 pandemic and the restrictions imposed during the year, the Health and Safety team was required to adjust how it operates to meet our business health and safety needs. The Group's primary concern was the health, safety and wellbeing of our people, tenants, residents, contractors and the public (see pages 54 and 55).

At each Committee meeting, a detailed update is provided on health and safety matters on both the managed portfolio and the development pipeline. During 2020, the Committee were kept apprised of the following:

- the development of the 'return to the office' plan and procedures for employees and occupiers returning to our buildings following the easing of lockdown restrictions;
- the Fire Safety Bill and Building Safety Bill and Derwent London's compliance;
- the latest operating procedures for development sites; and
- induction and health and safety training.

p.54 Health and safety

Covid-19: protecting our occupiers

Protecting our occupiers and stopping the spread of the virus in our buildings was a priority as our tenants returned to their office spaces following the first lockdown. To ensure their health and safety we implemented the following measures:

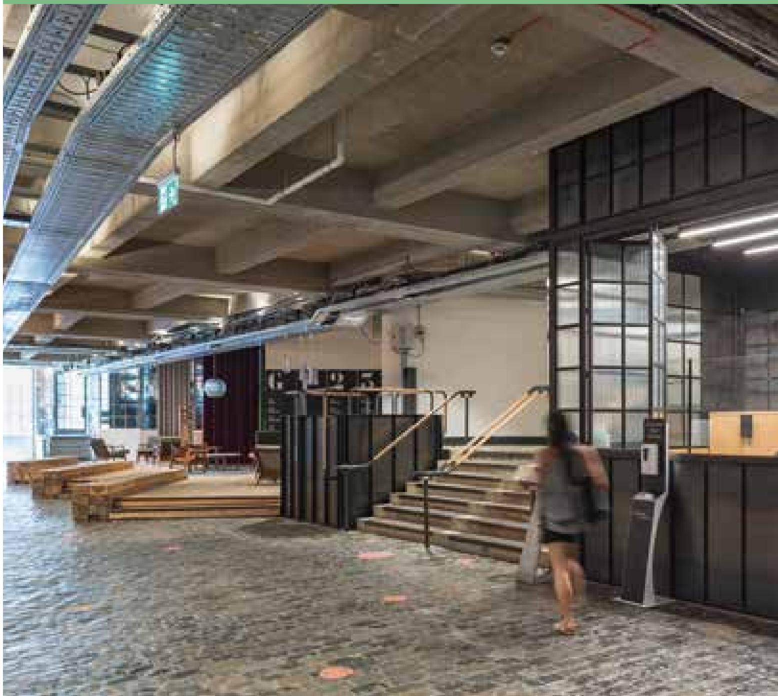
- Social distancing and one-way traffic flow systems with clear signage
- Readily available hand sanitiser units
- Restrictions on numbers using lifts and WCs
- Fresh air ventilation
- Enhanced cleaning regimes and upon notification of a confirmed case, an electrostatic clean was undertaken automatically
- Temperature checks on entry on agreement with occupiers
- Encouraging the use of face masks within the common areas
- Random Covid-19 testing of our air-conditioning filters

During the year, we also tracked the confirmed cases of Covid-19 throughout our managed portfolio. As at 31 December 2020, there had been a total of 76 confirmed cases from our occupiers, with unfortunately one death reported. There have been 17 confirmed cases to date for Derwent London employees (Building Managers, Security Officers or Reception teams) across the managed portfolio. Of the total 93 cases, 52 of these occurred in November and December 2020.

The data of confirmed cases clearly showed that, where there were several incidents, these were concentrated to a tenant's area and not more widely spread throughout the building. This provided our occupiers, and the Board, with comfort that our measures were proving effective in minimising the spread of the virus.

We maintain weekly dialogue with all occupiers to understand their changing occupancy plans and adapt our building specific plans in response. In addition, to support our occupiers, we have stopped non-essential services as far as possible and for March and June quarters we reduced our service charges by 25%.

Tea Building E1



Risk Committee report continued

Cyber security

Our cyber security procedures have been strengthened considerably in recent years in response to the increasing threat this poses to businesses, and it remains an area that we keep under continuous review.

The Committee reviews a dashboard of key risk indicators at each meeting which includes information security and cyber risk-related KPIs. During 2020, there were 109,735 (2019: 201,532) attempted attacks on our systems, none of which resulted in a serious security breach and 99.96% (2019: 99.98%) of the attempts were stopped before they reached the intended targets – this highlights the robustness of our cyber security posture.

Due to the Covid-19 pandemic and the change in the way we were required to work during the lockdown restrictions, a Home Working & Covid-19 Cyber Risk Register was produced which identified the key IT risks arising and the additional controls put into place for risk mitigation. The Risk Committee reviewed this register at each meeting during 2020 and received regular updates on the implementation and effectiveness of the additional controls, which included:

- Multi-Factor Authentication (MFA) on all Office 365 accounts;
- additional employee awareness training and guidance on remote working security; and
- ensured that all business-critical IT systems, such as financial packages, are securely accessible remotely.

Our Digital Innovation & Technology (DIT) team tested the effectiveness of our ongoing security awareness programme in 2020 by sending fake phishing emails to staff in May and monitoring their response. Any staff member who clicked on the links contained in the test emails, or entered their credentials was provided with further training on the dangers and tips on how to identify phishing emails.

All staff participate in mandatory information security workshops each year which focus on our policies and procedures, cyber and personal security. Our Group intranet also includes a 'tips and tricks' section for our staff with guidance on issues such as cyber security, social media and general security awareness. During 2021, all employees and Directors will complete social media awareness and IT security training as part of our compliance training programme (see page 141).

During 2020, we requested that Capgemini conduct a Cyber Risk Review. Capgemini utilised the Information Security Forum (ISF) benchmark tool combined with a 427 question Security Health-check Questionnaire to review our security control environment. Derwent London's cyber risk landscape was classified as low to medium based on our current operations, however, it was noted that this is trending upwards as we develop our Intelligent Building and Digital strategies.

In November, the Committee reviewed the outcome of the audit and were pleased that Capgemini had noted the improvements made since the prior audit in 2018 and that this was reflected in the overall improvement in benchmarking scores. The Committee agreed the responses and timeframes for implementing the audit recommendations. Management will be required to provide the Committee with a status update on the implementation of the recommendations during 2021.

Cyber Essentials accreditation

As part of our ongoing commitment to cyber security, on 3 April 2020 our Cyber Essentials accreditation was renewed, having passed an external security scan of all internet-facing services and an assessment of technical and operational controls. Cyber Essentials is a government-backed, industry-supported scheme which helps guard against the most common cyber threats and demonstrates to stakeholders our commitment to cyber security.

On 22 October 2020, the Group's Information Security Manager was awarded the CISM (Certified Information Security Manager) qualification by ISACA (Information Systems Audit and Control Association). CISM is a globally accepted and recognised standard of achievement among information security professionals that is aimed at improving alignment between information security programmes and broader business objectives.

CYBER
ESSENTIALS

Information security

To safeguard the security and privacy of information entrusted to us, we have robust procedures and a layered defence model in place.

This ensures that we:

- maintain the confidentiality, integrity and availability of data and safeguard the privacy of our customers and employees, to ensure that the business retains their trust and confidence;
- protect the Group's intellectual property rights, financial interests and competitive edge;
- maintain our reputation and brand value; and
- comply with applicable legal and regulatory requirements.

During 2021, all employees will undertake refresher training on protecting personal data.

Business continuity and disaster recovery

Due to the Covid-19 pandemic and lockdown restrictions in 2020, we were required to close our London office for several months. During this period, all staff received full pay (no furlough) and the vast majority were capable of working effectively remotely. To facilitate home working, additional systems and security controls were rapidly rolled out and employees were provided with secure devices to access their work files safely alongside remote IT support.

Capgemini, in its Cyber Risk Review report to the Risk Committee, commented that "The speed at which Derwent London was able to roll out these changes highlights the excellent Business Continuity capability that the organisation has developed and has helped it adapt extremely quickly with minimal disruption".

Disaster recovery procedures

Derwent London has formal procedures for use in the event of an emergency that disrupts our normal business operations which consist of:

Business Continuity Plan (BCP)

The BCP serves as the centralised repository for the information, tasks and procedures that would be necessary to facilitate Derwent London's decision-making process and its timely response to any disruption or prolonged interruption to our normal activities. The aim of the BCP is to enable the recovery of prioritised business operations as soon as practicable.

→

Crisis Management Team (CMT)

The CMT is composed of key personnel deemed necessary to assist with the recovery of the business. The BCP empowers the CMT to make strategic and effective decisions to support the recovery of the business until we are able to return to normal working.

→

Off-site disaster recovery suite

An off-site disaster recovery suite is available in the event of an emergency, to provide IT and data facilities to our staff who either work on-site at the suite or via our 'agile' working capabilities.

→

Testing and review

The strength of our business continuity and disaster recovery plans are regularly tested to ensure they are continually refined and to reduce the potential for failure. An overview of the disaster recovery tests due to take place during 2021 are provided in the table below.

The Covid-19 pandemic had a considerable impact on how our business operated, particularly during the lockdown restrictions, which required us to implement some aspects of our Business Continuity Plan. All our major systems have been tested whilst at home, including invoicing, arrears collection, payroll, document signing, supplier payments and half-year reporting. During the process we have learnt further lessons to strengthen our plans.

Although our DIT department performed technical tests to ensure our off-site disaster recovery suite is fully operational, our IT failover mechanism to the off-site suite has not been fully tested in 2020. Our priority for 2021 is to test the closure of IT systems at 25 Savile Row and their failover to the off-site disaster recovery suite. In addition, during 2021, our Business Continuity Plan will be subject to an independent review.

The last full business continuity test was performed in September 2018, which was staged as a complete loss of power at our head office building at 25 Savile Row. The test was overseen by independent verifiers, IT Governance Limited, who assessed our procedures and efficiency. The entire process from the loss of primary power, transfer to our disaster recovery suite and roll back to Savile Row took 6 hours and 45 minutes (a 3 hour and 20-minute improvement on our previous full test completed in October 2016).

Business continuity tests planned for 2021

Test	Purpose	Date
Business Continuity Plan review	The CMT team to meet regularly to review and update the business continuity plan and cascade list, review current threat levels and agree on any action points.	Ongoing during 2021
IT component test	A technical test of the individual components required to carry out a failover of IT services to our disaster recovery suite.	Q1 2021
Full IT disaster recovery test	A full IT systems failover from our offices to our disaster recovery suite and testing that all IT functions and business-related activities can be adequately performed.	Q2 2021
Desktop review	A desktop exercise which uses a series of scenarios to rehearse decision making and familiarise the CMT members with their roles.	H2 2021

Responsible Business Committee report

Dame Cilla Snowball
Chair of the Responsible Business Committee

2021 Focus areas

- Review the findings of the UK National Equality Standard assessment being independently conducted by EY
- Ensure adherence to the Group's Net Zero Carbon Pathway
- Review and approve the structure and contents of the 2021 employee survey
- Monitor the Group's community, charitable and sponsorship initiatives

Dear Shareholder,
I am pleased to present to you the report of the work of the Responsible Business Committee for 2020. I would suggest that this report is read alongside the Responsibility section on pages 46 to 63 which provides further information on Derwent London's ESG activities.

Supporting our stakeholders

In these unprecedented times, our responsibility to our stakeholders and the wider community is of paramount importance. At each meeting during 2020, the Committee received detailed updates on how the business was proactively responding and offering support to our key stakeholders, including our employees, local communities, occupiers and supply chain.

During the year, the Group's commitment to charitable donations, sponsorships and community funding was increased by 179% to £1.1m (see pages 52 and 53). This included the donation of 16 furnished flats at Charlotte Apartments to University College Hospital, to use free of charge, for 12 months (see page 13).

Derwent London supported employees throughout the pandemic by ensuring job security (no redundancy or furlough), clear communication and a strong focus on physical health and mental wellbeing (see pages 12, 51 and 115). The Committee's employee representatives also prepared monthly newsletters which shared news and welcomed new starters.

Diversity and inclusion

The Group is committed to being an inclusive and respectful employer that welcomes diversity and promotes equality, acceptance and teamwork. In response to the Black Lives Matter movement, the Committee reviewed our anti-racism and ethnic diversity initiatives. These discussions received input from our employee representatives, Ally, Davina and Jonathan.

One outcome of the discussions was agreement that the Group would be independently assessed by Ernst & Young (EY) under the UK National Equality Standard (NES). The NES assessment will provide Derwent London with an independent, comprehensive quality review of our equality, diversity and inclusion policies and practices, identifying areas for improvement and a detailed roadmap with recommendations (see page 149).

Net zero carbon

The Group's Net Zero Carbon Pathway was published in July 2020 and details the steps the Group will take in order to be net zero carbon by 2030. The Committee reviewed and approved the pathway prior to its release and will continually monitor progress to ensure the business remains on track.

Employee members

The benefits of employees on the Committee has been evident and the Board agreed that a further employee would be appointed during the year. We were delighted to welcome Davina Stewart to the Committee from October 2020 (see page 147). During 2020, all employee-members of the Committee have been fully engaged in the Committee's activities and have strengthened the employee voice in our boardroom.

If you wish to discuss any aspect of the Committee's activities, I will be available at the 2021 AGM on 14 May and would welcome your questions. I am also available via our Company Secretary, David Lawler (telephone: +44 (0)20 7659 3000 or email: company.secretary@derwentlondon.com).

Dame Cilla Snowball
Chair of the Responsible Business Committee
10 March 2021

Committee composition

Our Committee consists of two independent Non-Executive Directors, the Chief Executive and three employee-members. At the request of the Committee, members of the Executive Committee, senior management team and external advisers may be invited to attend all or part of any meeting, as and when appropriate.

	Independent	Number of meetings	Attendance[i]
Dame Cilla Snowball, Chair	Yes	2	100%
Claudia Arney	Yes	2	100%
Paul Williams	No	2	100%
Ally Clements	Employee	2	100%
Jonathan Theobald	Employee	2	100%
Davina Stewart	Employee	1	100%[ii]

[i] Percentages are based on the meetings entitled to attend for the 12 months ended 31 December 2020.

[ii] Davina Stewart was appointed as an employee-member of the Committee on 8 October 2020.

The Committee's role and responsibilities are set out in the terms of reference, which were last updated in December 2019 and are available on the Company's website at: **www.derwentlondon.com/investors/governance/board-committees**

Meetings of the Committee

During the year under review, the Committee held two formal meetings (in May and October) (2019: two meetings). In addition to the formal meetings, the Committee holds ad hoc informal meetings, and the Committee chair meets privately with the employee-members.

Committee performance evaluation

The 2020 evaluation of the Board, its committees and individual Directors was internally facilitated by Simon Fraser, the Senior Independent Director, in accordance with our three-year cycle of evaluations (see page 121). There were no significant matters raised.

Key activities of the Committee during 2020

The main focus areas for the Committee during 2020 was monitoring how the Group was supporting its key stakeholders during the Covid-19 pandemic and approving the Group's pathway to becoming net zero carbon by 2030. In addition, the Committee:

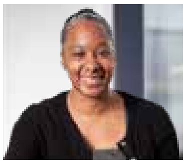
- Stakeholder engagement:
  - Reviewed the results of the Covid-19 employee and occupier pulse surveys.
  - Received a presentation on wellbeing and health initiatives available to employees (including, mental health) during the home working period.
  - Reviewed the suggestions and actions arising from the 2020 Employee Survey Working Group.
- Diversity and inclusion:
  - Received a presentation from EY on the UK National Equality Standard and agreed that an independent assessment of the Group would be undertaken in the first half of 2021 (see page 149).
- Net zero carbon:
  - Received updates on our progress to net zero carbon by 2030.
  - Received an update on feedback received following the publication of our Net Zero Carbon Pathway.
- Responsible business:
  - Reviewed the socio-economic impact assessment for White Collar Factory EC1.
  - Agreed the Modern Slavery focus areas for 2020.

Employees on the Responsible Business Committee

Ally Clements

Senior Property Marketing Co-ordinator

Joined Derwent London: March 2013
Appointed to the Committee:
January 2019



Davina Stewart

Property Accounts Manager

Joined Derwent London: June 2015
Appointed to the Committee:
October 2020

Jonathan Theobald

Associate, Investment

Joined Derwent London: December 2012
Appointed to the Committee:
December 2019

Employee engagement

During 2020, the Company engaged actively with employees and communities to ensure these two key stakeholder groups were fully supported (see pages 12 and 13). The employee members of the Committee assisted by organising monthly staff newsletters which aims to promote the wellbeing and connectivity of staff, being available for fellow employees to voice any concerns as well as raising questions that can then be discussed in the Company town hall meetings. Ally, Davina and Jonathan also hosted the Employee Survey Working Group meetings and joined discussions with the Directors on diversity and inclusion matters.

p.50 Our people
p.115 Employee engagement
p.12 Supporting our stakeholders in 2020
p.52 Community support

DERWENT NEWSLETTER

2020: AN EXTRAORDINARY YEAR!

DERWENT LONDON... WHAT'S COMING UP!

STORY OF CHRISTMAS

A WEEK IN THE LIFE OF INVESTMENT

Monthly staff newsletter

Responsible Business Committee report continued

Supply Chain Sustainability Standard

All suppliers with whom we spend more than £20,000 per annum are required to comply with, and provide evidence of how, they are implementing our Supply Chain Sustainability Standard (the Standard), which includes a minimum requirement that any form of corruption, bribery or anti-competitive behaviour or actions are not tolerated within our supply chain.

A summary of the Standard is below. The complete Standard is available to download on our website.

Aspect	Standards expected from our suppliers
Anti-bribery and corruption	• Operate an ethical business policy which sets out how they govern their business and supply chains. • We will not tolerate any form of corruption, bribery or anti-competitive behaviour in our supply chain.
Employment and labour practices	• Fair pay and working time practices which ensure compliance with the National Minimum Wage and the London Living Wage together with working time legislation. • No use of exclusive 'zero hours' contracts. • No illegal, forced or child labour. • Suppliers to have appropriate equality and diversity policies to ensure the active promotion of employment diversity.
Health and safety	• Adequate health and safety policies and management systems appropriate to the nature and scale of their business and service provision. • To comply with Derwent London's health and safety standards and procedures.
Community	• Support us in the successful delivery of our Community Strategy. • Development contractors on our larger schemes have to achieve a minimum target score (currently 38) in the Considerate Constructors Scheme, and to undertake at least one community day every year during the life of a project. • Offer full and fair opportunity for local suppliers to actively participate in our supply chains. • Offer local employment and apprenticeship opportunities.
Environmental	• Suppliers are to have robust environmental management policies and procedures in place. • To comply with the Derwent London Sustainability Framework for Developments and/or Assets. • We expect our main contractors to have a certified environmental management system (EMS) in place, accredited to ISO14001 or EMAS (Eco-Management and Audit Scheme).
Payment practices	• Unless otherwise stated, we aim to pay our suppliers within 30 days or otherwise will do so in accordance with specified contract conditions. • We are signatories of the Prompt Payment Code. Suppliers are required to adopt similar payment practices throughout their supply chains to ensure fair and prompt payment.

During 2019, we requested evidence that our major suppliers were compliant with the Supply Chain Sustainability Standard. This involved completion of a questionnaire and providing copies of key policies and procedures. Overall, we received an excellent response rate of 98%. Due to the Covid-19 pandemic, it has been agreed that we will engage with our suppliers on the Standard during the second half of 2021.

p.12 How we supported our suppliers in 2020

p.57 Supply chain governance

1 Oliver's Yard EC1

UK National Equality Standard

In order to assess the Group's strengths and key areas for improvement in respect to equality, diversity and inclusion, the Committee agreed that Derwent London would be independently assessed under the UK National Equality Standard. The UK National Equality Standard is supported by the Home Office and the Confederation of British Industry (CBI) and the Equality and Human Rights Commission (EHRC) was involved in its development and launch.

The assessment will be completed during the first half of 2021 and will focus on 35 competencies which are broken into five categories. The assessment process will include stakeholder interviews and document review, alongside employee interviews and focus groups.

Human rights and modern slavery

The protection of human rights and fundamental freedoms is one of our key ESG priorities which we manage from an internal (within our business) and external perspective (within our supply chain and our relationships with contractors).

Internally, the Board monitors our culture to ensure we maintain our values and high standards of transparency and integrity. Our Human Resources team ensures that we have the right systems and processes in place to strengthen and sustain our culture. Further information on the development of our employees can be found on page 50. The Board's role in managing the Group's culture can be found on page 111.

Externally, we are active in ensuring our ESG standards are clearly communicated to our supply chains, principally via our Supply Chain Sustainability Standard. In addition, we are clear on our zero-tolerance position with regards to slavery and human trafficking as set out in our Modern Slavery Statement, which can be found at: **www.derwentlondon.com/investors/governance/modern-slavery-act**

During 2020, we continued to identify and implement ways to strengthen our policies and procedures in respect of the protection of human rights and prevention of modern slavery. The Committee receive annual updates on progress from our designated "champion", who is a senior manager responsible for ensuring the Board's policies on modern slavery are implemented. In addition, the Committee reviewed in detail the answers provided by suppliers in respect to modern slavery following the supplier audit performed in 2019 on the Supply Chain Sustainability Standard (see page 148). We also continued to monitor and cross-check our supply chain, from procurement to delivery.

Reporting frameworks

The Group reports under several frameworks to provide a complete picture of our responsibility progress and activities and to allow comparison with our peers and other companies. Our reporting aims to show not only a property sector specific perspective (EPRA Best Practice Reporting measures) but also a broader international perspective (the Global Reporting Index and the United Nations Sustainable Development Goals). For further details on our EPRA measures, please see pages 243 to 245, and for our Global Reporting Index disclosures and United Nations Sustainable Development Goals alignment, see our annual Responsibility Report.

Socio-economic impact assessment of White Collar Factory EC1

White Collar Factory is a 291,000 sq ft development, completed in H1 2017, which contains offices, retail, residential units and a public square.

Since 2013 one of Derwent London's objectives has been to carry out a socio-economic survey on its major developments once they have been occupied for more than one year. We believe it is important to understand our developments' impacts on their neighbourhoods. At White Collar Factory we also measured the building's impact on occupiers' wellbeing.

The assessment was compiled before the Covid-19 pandemic and included three phases. A desktop research stage which involved a site visit, stakeholder mapping and interviews. This was followed by a period of on-site research which included street surveys with local businesses and with occupiers. Finally, an analysis of the data and production of a report which was reviewed by the Committee in October 2020.

A broad range of stakeholders were covered as part of the assessment:

- Building occupiers
- Building staff
- Local businesses
- Local residents
- Local workers
- Local Authority (London Borough of Islington)

On-street responses revealed good knowledge of the building and how it fits within the locality, with positive comments on the green space, open areas, safety aspects, cleanliness and architecture.

We believe it is important for our occupiers to enjoy the local area and, as a direct result, boost the local economy. Results of the assessment showed that the development is having a positive impact on local footfall and revenue. Local businesses estimated that there has been a 7% increase in footfall with a total occupier spend of £6.6m per annum with local businesses.

The impact assessment also provided recommendations to maintain and improve the positive impact of White Collar Factory on its occupiers and the wider community. The Committee discussed these in detail with management.

SOCIO-ECONOMIC
IMPACT ASSESSMENT OF
WHITE COLLAR FACTORY
AND OLD STREET YARD

Socio-economic impact assessment of White Collar Factory

Remuneration Committee report

Claudia Arney
Chair of the Remuneration Committee

2021 Focus areas

- Operation of the 2021 annual bonus and grant of 2021 Performance Share Plan (PSP) awards to ensure they remain appropriate given the difficult trading environment resulting from the pandemic
- Continue to keep under review the effectiveness and relevance of performance conditions and comparator groups for variable remuneration
- Continue to keep wider workforce remuneration arrangements under review, taking these into account when considering remuneration arrangements for Executive Directors

Annual statement

Dear Shareholder,
As chair of the Remuneration Committee and on behalf of the Board, I am pleased to present our report on Directors' remuneration for 2020. The Annual report on remuneration, describing how the Remuneration Policy has been applied for the year ended 31 December 2020 and how we intend to implement policy for 2021, is provided on pages 153 to 170.

Our Remuneration Policy was approved by shareholders at the 2020 AGM and received 95.5% of votes cast in favour. Rather than reproduce the policy in full, we have provided a summary on pages 155 to 158. A copy of the complete Remuneration Policy can be found on our website at: **www.derwentlondon.com/investors/governance/board-committees**

Linking Executive Directors' remuneration with our purpose and strategy

Our Remuneration Policy is designed to be simple and transparent and to promote effective stewardship that is vital to the delivery of the Group's purpose – to help improve and upgrade the stock of our office space in central London, providing above average long-term returns to our shareholders while bringing social and economic benefits to all our stakeholders.

Success against our strategic objectives is measured using our KPIs, which are largely embedded within the executive remuneration framework as illustrated by the chart on page 152.

Derwent London values openness and transparency. To this end the Committee strives to provide clarity on how pay and performance is reported at Derwent London and how decisions made by the Committee support our purpose and the strategic direction of the Group.

Performance outcomes in 2020

2020 has been a challenging year with Covid-19 having a significant impact on our occupiers and the Group, as well as on the wider economy and society. As a business, Derwent London's resilience has been evident and, as outlined in the Strategic report, we have continued to perform well relative to our REIT peer group.

The Group has delivered sustained and strong long-term returns to shareholders, despite continued economic uncertainty. As noted on page 164, a £100 investment in Derwent London shares at the start of 2011 would have generated a return (including reinvestment of dividends) of £252 in 10 years compared to the FTSE 350 Supersector Real Estate Index with a return of £194.

When determining the annual bonus and PSP outcomes based on 2020 performance, the Committee considered performance against financial and strategic targets, as well as broader perspectives including: underlying business performance and affordability; the experience of shareholders; and the experience of employees and other stakeholders. The following was noted:

- The final 2019 dividend of 51.45 pence per share was paid in full.
- The Group raised the 2020 interim dividend by 4.8% to 22.00 pence per share and the proposed 2020 final dividend has been increased by 1.9% to 52.45 pence per share.
- TSR performance for the years 2018 to 2020 was 16.7% compared to the median of the FTSE 350 Supersector Real Estate Index of (0.5)%. While our TSR for the financial year has declined, reflecting the impact of Covid-19 on the business, our performance has exceeded the median of the FTSE 350 Supersector Real Estate Index.
- No employees were furloughed or made redundant during 2020. The Company did not receive government support or loans.

- The average 2020 salary increase for the wider workforce was 4.7% and, from 1 January 2021, all employees received at least a 2% increase.
- All eligible employees received a bonus for 2020.
- The Group increased its 2020 commitment to charitable donations, sponsorships and community funding by 179% to £1.1m. The increase was partly funded by Directors waiving 20% of their second quarter salaries and fees.
- We supported our tenants during the pandemic, providing contributions to service rate charges and relief on rent.

The Committee approved the following incentive outcome for 2020:

- An annual bonus vesting of 66.3% of the maximum opportunity (equivalent to 99.5% of base salary). The Committee exercised its discretion to reduce the annual bonus payout by 30.0% from 96.3% of the maximum opportunity, which was the bonus outturn based on actual performance (see page 161). The Committee recognised that whilst the Group has performed well relative to our REIT peer group and management had performed well in difficult circumstances, shareholders have been impacted by the Group's absolute financial and share price performance during the year, due to the disruption caused by Covid-19 on the business and real estate sector. The 2020 bonuses earned by the executives were therefore 31.6% lower than the bonuses paid for 2019. For reference, the 2020 bonuses earned by employees were on average 21.0% less compared to 2019.
- A PSP award vesting of 81.6% of maximum opportunity (see page 162). Given the strong returns delivered for shareholders over the past three years, the Committee considered that this outcome was appropriate.

Management changes

Simon Silver's retirement and treatment of outstanding incentives

As announced on 11 August 2020, Simon Silver retired as an Executive Director on 26 February 2021. There was no payment for loss of office on Simon ceasing to be a Director. Simon continued to receive his salary, benefits and pension until his retirement date. The table below provides information on the treatment of his annual bonus and PSP arrangements.

Annual bonus	Annual bonus for the year ended 31 December 2020 will be paid in March 2021 based on performance against targets and is detailed on page 162. Eligible to earn a pro rata bonus for the period to 26 February 2021. This will remain subject to performance for the year ending 31 December 2021.
PSP awards	Simon Silver is not eligible to receive a PSP grant in 2021 or thereafter. In respect of his outstanding PSP awards, they will: • Vest in accordance to their normal vesting timetable subject to the achievement of the relevant performance conditions; • Be subject to the normal post-vesting holding period of two years; and • Will be subject to a pro rata reduction for the period 26 February 2021 to the end of the performance period.

For the period 1 March 2021 to 31 December 2022, Simon will be employed as an adviser reporting to Paul Williams and will be paid a salary of £150,000 per annum for this role.

Emily Prideaux' remuneration as an Executive Director

Emily Prideaux was appointed to the Board from 1 March 2021 in the role of Executive Director. With effect from 1 March 2021, Emily will receive a base salary of £410,000 per annum. Emily's salary has been positioned below that of the other Executive Directors' salaries to reflect that Emily is stepping up into the role of Executive Director. This reflects shareholder guidance and best practice where an Executive Director is new in the role. The Committee intends to align Emily's salary with the other Executive Directors over the next three years as her role and experience develops.

It is currently intended that Emily's salary will be increased to £450,000 per annum with effect from 1 January 2022 and then aligned with the other Executive Directors' salaries (currently £489,600) from 1 January 2023. These salary increases will remain subject to continued good Group performance and Emily's personal performance in her role. In accordance with our Remuneration Policy, as a newly appointed Executive Director, Emily's pension contribution will be aligned with the wider workforce at 15% of salary. All other aspects of Emily's remuneration package will be aligned with the other Executive Directors.

John Burns' retirement and appointment of Mark Breuer as Non-Executive Chairman

As announced on 26 January 2021, John Burns will retire as Non-Executive Chairman on 14 May 2021 and will be succeeded by Mark Breuer. There will be no payment for loss of office on John Burns ceasing to be a Director. Mark was appointed a Non-Executive Director on 1 February 2021 and will commence as Non-Executive Chairman following conclusion of the 2021 AGM. Mark will receive a fee of £250,000 per annum as Non-Executive Chairman. The Committee believes this is an appropriate fee in the context of recruiting a high calibre and experienced individual and taking into account the size and complexity of the Group. It is also in line with the fee received by John Burns as Non-Executive Chairman.

Implementation in 2021

The Committee reviewed the performance and development of our Executive Directors during the year and decided to increase Executive Directors' salaries by 2% from 1 January 2021. This increase is in line with the general cost of living increases across the Group. Simon Silver's salary remained unchanged for the period 1 January 2021 to his retirement.

The annual bonus and PSP opportunities and financial performance measures remain largely unchanged for 2021. The exceptions being:

- The constituents of the total return comparator group have been updated to ensure that the comparator group remains appropriate in terms of number of constituents, financial size of constituents and balance of portfolio as regards to asset type and geographical location (see page 155).
- Some changes have been made to strategic targets which make up 25% of the bonus to reflect our evolving strategic priorities. These changes include the reintroduction of tenant retention as a target and the addition of two new ESG-linked measures (energy intensity and accident incident rate). When assessing staff satisfaction scores, the Committee will also consider any variance between genders (see page 157).

The Committee reviewed the Group's share price performance prior to determining award levels for 2021 PSP awards. As the current share price was broadly similar, compared to the share price at the time the 2020 PSP awards were granted (£33.14), the Committee considered it appropriate to award a maximum opportunity of 200% of salary to Executive Directors (in line with the maximum opportunity under the Remuneration Policy). The Committee will take into account any potential windfall gains when determining the vesting outcome.

Further engagement

I look forward to receiving your support at our 2021 AGM, where I will be available to respond to any questions shareholders may have on this report or in relation to any of the Committee activities. In the meantime, if you would like to discuss any aspect of our Remuneration Policy, please feel free to contact me through the Company Secretary, David Lawler (telephone: +44 (0)20 7659 3000 or email: company.secretary@derwentlondon.com)

Claudia Arney
Chair of the Remuneration Committee
10 March 2021

Remuneration at a glance

To incentivise our employees to achieve our strategy, we provide market competitive remuneration which is both transparent and aligned with our culture.

Wider employee and stakeholder considerations

The Committee considers pay policies and practices for employees across the Group, and the stakeholder experience, when making remuneration decisions for Executive Directors.

179%

increase in 2020 donations and community funding (£1.1m). Partly funded by Directors waiving 20% of their Q2 salaries and fees

25%

contribution to tenants' service charges for the March and June quarters

16

flats donated for use by University College Hospital free of charge for 12 months (see page 13)

100%

of employees below the Board received their full salaries and benefits during 2020. None were furloughed.

Remuneration Policy and structure summary

Component	Key features
Base salary and benefits	Attract and retain high calibre executives
Pension	17.5% of salary from 1 January 2021 Reduce to 15% of salary by 1 January 2022 (in line with wider workforce levels)
Annual bonus • 37.5% Relative TR • 37.5% Relative TPR • 25% Strategic	Maximum opportunity of 150% of salary Linked to key financial and strategic KPIs Any bonus earned in excess of 100% of salary is deferred into shares over three years
LTIP • 50% Relative TSR • 50% Relative TPR	Maximum opportunity of 200% of salary Linked to key financial KPIs Three-year performance period plus two-year holding period
Shareholding guidelines	200% of salary for all executives Guideline is met by all executives[iii] Post-employment guidelines apply

Notes:

[i] Strong link between performance against strategy and KPIs and reward.

[ii] Supports long-term stewardship and takes into account risk management.

[iii] Excluding Emily Prideaux who was appointed an Executive Director on 1 March 2021. Emily will work towards achieving the shareholding guideline.

Reward linked to performance

Annual bonus earned by Executive Directors

Measure		Threshold	Maximum	Actual	Bonus earned (% max)
Relative TR	37.5%	-20.3%	-1.8%	-1.8%	37.5
Relative TPR	37.5%	-2.4%	-0.4%	0.3%	37.5
Strategic	25.0%				21.3
Total					**96.3**
After discretion					**66.3**

The Committee exercised its discretion to reduce the annual bonus payout from 96.3% to 66.3% of maximum opportunity (see page 161).

PSP earned by Executive Directors

Measure		Threshold	Maximum	Actual	PSP earned (% max)
Relative TSR	50%	(0.5)%	41.7%	16.7%	32.8
Relative TPR	50%	1.6%	4.6%	4.5%	48.8
Total					**81.6**

The Committee considers that these outcomes are fair in the context of our underlying performance and the experience of our shareholders and stakeholders.

How our KPIs are embedded within the executive remuneration framework

Financial KPIs

Operational measures	
Total return	TR
Total property return	TPR
Total shareholder return	TSR
EPRA earnings per share	

Gearing measures
Gearing and available resources
Interest cover ratio

Performance measures

Annual bonus	
Relative total return (37.5%)	TR
Relative total property return (37.5%)	TPR
Strategic (25%)	S

PSP	
Relative total property return (50%)	TPR
Relative TSR (50%)	TSR

Performance against all KPIs is taken into account when assessing underlying business performance

Non-financial KPIs

Operational measures	
Reversionary percentage	
Development potential	S
Tenant retention	
Void management	S

Responsibility measures	
BREEAM	
EPC	
Carbon intensity	S
Staff satisfaction	S

Annual report on remuneration

This part of the Directors' remuneration report explains how we have implemented our Remuneration Policy during 2020. The Remuneration Policy in place for the year was approved by shareholders at the 2020 AGM. We have provided a summary of our Remuneration Policy on pages 155 to 158. Our full Remuneration Policy can be found on our website at: **www.derwentlondon.com/investors/governance/board-committees**

This Annual report on remuneration will be subject to an advisory vote at our 2021 AGM on 14 May 2021.

Role of the Remuneration Committee

The role of the Committee is to determine and recommend to the Board the Remuneration Policy for Executive Directors, and set the remuneration for the Chair, Executive Directors and senior management (including the Company Secretary). In doing so, the Committee ensures that the Remuneration Policy is aligned with the Company's key remuneration principles as well as taking into account the principles of clarity, simplicity, risk, predictability, proportionality and alignment to culture set out in the 2018 UK Corporate Governance Code.

Attract, retain and motivate	Support an effective pay for performance culture which enables the Company to attract, retain and motivate Executive Directors who have the skills and experience necessary to deliver the Group's purpose of helping to improve and upgrade the stock of office space in central London, providing above average long-term returns to our shareholders while bringing social and economic benefits to all our stakeholders. External market practice is considered when determining the Directors' Remuneration Policy.
Clarity and simplicity	Ensure that remuneration arrangements are simple and transparent to key stakeholders and take account of pay policies for the wider workforce. Details of the potential values that may be earned through the remuneration arrangements are set out in the Remuneration Policy.
Alignment to strategy and culture	Align remuneration with the Group's objectives and long-term strategy and reflect our culture through a balanced mix of short- and long-term performance-related pay and ensure that performance metrics remain effectively aligned with strategy.
Risk management	Promote long-term sustainable performance through sufficiently stretching performance targets, whilst ensuring that the incentive framework does not encourage Executive Directors to operate outside the Group's risk appetite (see page 141). Malus and clawback provisions apply to annual bonus and PSP awards, and the Committee has the means to apply discretion and judgement to vesting outcomes.
Stewardship	Promote long-term shareholdings by Executive Directors that support alignment with long-term shareholder interests. Executive Directors are subject to within-employment and post-employment shareholding guidelines. Once PSP awards have vested there is a two-year holding period during which Executive Directors are not able to sell their shares to support sustainable decision making.
Proportionality and fairness	Total remuneration should fairly reflect the performance delivered by the Executive Directors and the Group. The Committee takes into account underlying business performance and the experience of shareholders and other stakeholders when determining vesting outcomes, ensuring that poor performance is not rewarded. The Committee considers the approach to wider workforce pay and policies when determining the Directors' Remuneration Policy to ensure that it is appropriate in this context.

The terms of reference for the Committee can be found on the Company's website at: **www.derwentlondon.com/investors/governance/board-committees** and were last updated in March 2021.

Committee composition

None of the members who have served on the Committee during the year had any personal interest in the matters decided by the Committee and are all considered to be independent. The Company Secretary acted as Secretary to the Committee.

	Independent	Number of meetings	Attendance
Claudia Arney, Chair	Yes	3	100%
Simon Fraser	Yes	3	100%
Helen Gordon	Yes	2	67%(i)
Lucinda Bell	Yes	3	100%

Note:

(i) Helen Gordon was unable to attend the March 2020 meeting due to a prior business commitment. Helen read the papers in advance of the meeting and provided her comments to the Committee chair.

Committee performance evaluation

The 2020 evaluation of the Board, its committees and individual Directors was internally facilitated by Simon Fraser, the Senior Independent Director, in accordance with our three-year cycle of evaluations (see page 121). No significant issues were identified.

Advisers to the Committee

The Committee has authority to obtain the advice of external independent remuneration consultants. Deloitte LLP have been retained as the Committee's principal consultants since July 2018, following a competitive tender process. Deloitte is one of the founding members of the Remuneration Consulting Group. The Committee has been fully briefed on Deloitte's compliance with the voluntary code of conduct in respect of the provision of remuneration consulting services.

Remuneration Committee report continued

During the year under review, Deloitte provided independent assistance to the Committee in respect of, among other things, the following matters:

- Performance assessment against annual bonus and PSP targets.
- Review of the Directors' Remuneration Policy.
- Market practice and corporate governance update.

The fees paid to Deloitte for their services to the Committee during the year, based on time and expenses, amounted to £53,640.

A separate team at Deloitte LLP also provided sustainability and health and safety audit assurance consultancy, corporate tax consultancy and employment tax consultancy services to the Group. The Committee took this work into account and, due to the nature and extent of the work performed, concluded that it did not impair Deloitte's ability to advise the Committee objectively and free from influence. It is the view of the Committee that the Deloitte engagement team that provide remuneration advice to the Committee do not have connections with Derwent London or its Directors that may impair their independence. The Committee therefore deem Deloitte capable of providing appropriate, objective and independent advice.

Shareholder voting and engagement

The Committee's resolutions at the Company's 2020 AGM in respect of the Remuneration Policy and the Annual report on remuneration, received the following votes from shareholders:

	Annual report on remuneration		Remuneration Policy	
Votes cast in favour	88.6m	98.9%	85.6m	95.5%
Votes cast against	1.0m	1.1%	4.0m	4.5%
Votes withheld	0.0m	–	0.0m	–
Total votes cast	89.6m	–	89.6m	–

The Committee was extremely pleased with the level of shareholder support at the 2020 AGM (c.80% of our issued share capital voted); further information on page 175.

The Committee encourages ongoing, open and constructive dialogue with shareholders and their representative bodies. The Committee consulted with major shareholders prior to the 2020 AGM on changes to the Remuneration Policy and total property return performance targets. In response to specific shareholder feedback, the Committee, with the executives agreement, committed to align the level of pensions for the incumbent Executive Directors' with the wider workforce by 1 January 2022. The Committee is very appreciative of the time taken by shareholders to provide their feedback which was taken into account.

Wider workforce considerations

When making remuneration decisions for Executive Directors, the Committee considers pay policies and practices across the wider workforce.

We value and appreciate our employees and aim to provide market competitive remuneration and benefit packages in order to continue to be seen as an employer of choice. The remuneration structure for our wider workforce is similar to that of our Executive Directors and contains both fixed and performance-based elements. Base salaries are reviewed annually and any increases become effective from 1 January. The Committee is kept informed of salary increases for the wider workforce, as well as any significant changes in practice or policy.

During 2020, despite the Covid-19 pandemic, all of our employees below the Board continued to receive their full salaries and benefits and none were furloughed. Further information on how we supported the health and wellbeing of our employees is on page 51.

We enrol all of our employees into an annual discretionary bonus scheme. Our approach is to reward our employees based on their individual performance and their contribution to the performance of the Group. In 2020, 100% of our workforce below Board level (not subject to probation) received an annual bonus (2019: 100%).

All employees are eligible to participate in our non-contributory occupational pension scheme operated as a Master Trust with Fidelity. Fidelity offer all employees who are members of the pension scheme ongoing support and training opportunities in respect of their pension and investments. Since 1 January 2020, all employees are eligible to receive an employer pension contribution equal to 15% of salary per annum.

In addition, all employees receive private medical insurance, dental care and are invited into a non-contractual healthcare cash plan which offers an affordable way to help with everyday healthcare costs.

In order to align the interests of our employees and those of our shareholders, we operate an Employee Share Option Plan (ESOP). Employees, excluding the Directors, are eligible to join the ESOP subject to performance. The ESOP grants options which are exercisable after three years at a pre-agreed option price. In 2020, we granted 174,300 options to 79% of our employees below the Board and Executive Committee (2019: 142,900 options to 72% of our employees). Further information is on page 199.

In addition, to encourage Group-wide share ownership, the Company operates a HMRC tax efficient Sharesave Plan which was approved by shareholders at the 2018 AGM. The second grant under the Sharesave Plan was made on 9 April 2020 with a take-up rate of 69% of eligible employees saving on average £195.85 per month. This is an increase on the 2019 grant in terms of the number of employees and the average savings amount. The Committee has been pleased with the level of take-up, especially within the context of ongoing uncertainty caused by Brexit and the Covid-19 pandemic. Further information on the Sharesave Plan is on page 168.

We have an open, collaborative and inclusive management structure and engage regularly with our employees on a range of issues including the Group's approach to remuneration. We do this through an appraisal process, structured career conversations, employee surveys, our intranet site, Company presentations, awaydays and our wellbeing programme (see pages 51 and 115). Employee engagement is frequently measured and we have a designated Non-Executive Director, Dame Cilla Snowball, who chairs the Responsible Business Committee.

While during the year we have not specifically consulted with employees regarding executive remuneration arrangements, the Committee feels that there is sufficient channels by which employee feedback on a range of matters can be fed into the Board and would take relevant feedback into account as appropriate.

Summary of remuneration policy

We have provided a summary of the key elements of the Remuneration Policy for Executive Directors and Non-Executive Directors approved by shareholders at the 2020 AGM on pages 155 to 158. In addition, we have set out how the Remuneration Policy will be implemented in 2021. Our full Remuneration Policy can be found on our website at: **www.derwentlondon.com/investors/governance/board-committees**

<table>
<tr><th>Element</th><th>How operated</th><th>Maximum opportunity</th><th>Implementation for 2021</th></tr>
<tr>
<td>Base salary</td>
<td>Normally reviewed annually.
Factors taken into account include:
the role, experience and performance of the individual and the Company;
economic conditions;
pay and conditions throughout the business; and
practice in companies with similar business characteristics.</td>
<td>No maximum but increases will normally be consistent with the policy applied to the workforce generally (in percentage of salary terms).</td>
<td>With effect from 1 January 2021, Executive Directors' salaries (excluding Simon Silver's) were increased by 2% which is consistent with the increase received across the wider workforce.
<table>
<tr><th>Executive Director</th><th>2021 salary (£'000)</th><th>2020 salary (£'000)</th></tr>
<tr><td>Paul Williams, CEO</td><td>612.0</td><td>600.0</td></tr>
<tr><td>Damian Wisniewski, CFO</td><td>489.6</td><td>480.0</td></tr>
<tr><td>Simon Silver</td><td>581.0</td><td>581.0</td></tr>
<tr><td>Nigel George</td><td>489.6</td><td>480.0</td></tr>
<tr><td>David Silverman</td><td>489.6</td><td>480.0</td></tr>
</table>
Emily Prideaux was appointed to the Board on 1 March 2021 and will receive a base salary of £410,000 per annum.</td>
</tr>
<tr>
<td>Benefits</td>
<td>Include, but are not limited to, private medical insurance, car and fuel allowance and life assurance.
Executive Directors may participate in the Sharesave Plan and any other all-employee plans on the same basis as other employees up to HMRC approved limits.</td>
<td>Set at a level which the Committee considers to be appropriate taking into account the overall cost to the Company in securing the benefits, individual circumstances, benefits provided to the wider workforce and market practice.</td>
<td>Benefits will continue to include a fully expensed car or car allowance, private medical insurance and life assurance.</td>
</tr>
<tr>
<td>Pension</td>
<td>Executive Directors participate in the Company's defined contribution pension scheme or may receive cash payments in lieu of contributions (e.g. where contributions would exceed either the lifetime or annual contribution limits).</td>
<td>Maximum Company contribution or cash supplement (or a mix of both) for current Executive Directors will be aligned with the contribution available to the wider workforce as follows:
From 1 January 2020, 20% of salary;
From 1 January 2021, 17.5% of salary; and
From 1 January 2022, 15% of salary.
The maximum Company contribution (or cash payment in lieu) for a newly appointed Executive Director will be aligned with the contribution available to wider workforce (currently 15% of salary).</td>
<td>Pension contribution for the current Executive Directors (Paul Williams, Damian Wisniewski, Nigel George and David Silverman) was reduced to 17.5% of salary from 1 January 2021.
Emily Prideaux was appointed to the Board on 1 March 2021. Emily's pension contribution is 15% of base salary. For any new Executive Directors appointed to the Board, pension allowance will be limited to a maximum of 15% of salary which is in line with the pension opportunity received across a significant proportion of the wider workforce.</td>
</tr>
<tr>
<td>Annual bonus</td>
<td>Bonuses up to 100% of salary are paid as cash. Amounts in excess of 100% are deferred into shares for three years subject to continued employment.
Dividend equivalents may accrue on deferred shares. Such amounts will normally be paid in shares.
Malus and clawback provisions apply (see note 1 on page 156).
The Committee has discretion to adjust the payment outcome if it is not deemed to reflect the underlying financial or non- financial performance of the business, the performance of the individual or the experience of shareholders or other stakeholders over the performance period.</td>
<td>Maximum opportunity of up to 150% of salary may be awarded in respect of a financial year.</td>
<td>Maximum opportunity: 150% of salary for all Executive Directors.
Performance metrics and weightings (as a percentage of maximum opportunity):
Total return versus a comparator group of real estate companies (37.5%)
Total property return versus the MSCI IPD Central London Offices (CLO) Index (37.5%)
Strategic objectives (25%)
The total return and total property return targets are set out below.
<table>
<tr><th>Total return vs real estate comparator group</th><th>Vesting (% of total return award)</th></tr>
<tr><td>Below median</td><td>0%</td></tr>
<tr><td>Median</td><td>22.5%</td></tr>
<tr><td>Upper quartile</td><td>100%</td></tr>
<tr><td>Straight-line vesting occurs between these points</td><td></td></tr>
</table>
The comparator group comprises of Big Yellow Group plc, The British Land Company plc, Capital & Counties Properties plc, CLS Holdings plc, Great Portland Estates plc, Hammerson plc, Helical plc, Landsec plc, LondonMetric Property plc, Segro plc, Shaftesbury plc, UK Commercial Property, Unite Group plc and Workspace Group plc. The Committee reviewed the comparator group during the year to ensure that it remained of an appropriate size following the delisting of Intu Properties. The Committee decided that it was appropriate to add LondonMetric Property plc, UK Commercial Property, CLS Holdings plc and Unite Group plc to the comparator group.
<table>
<tr><th>TPR vs the MSCI IPD CLO Index</th><th>Vesting (% of total return award)</th></tr>
<tr><td>Below Index</td><td>0%</td></tr>
<tr><td>Index</td><td>22.5%</td></tr>
<tr><td>Index + 2%</td><td>100%</td></tr>
<tr><td>Straight-line vesting occurs between these points</td><td></td></tr>
</table>
The strategic targets, ranges and weightings for the 2021 annual bonus are disclosed in note 2 on page 157.</td>
</tr>
</table>

Remuneration Committee report continued

<table>
<tr><th>Element</th><th>How operated</th><th>Maximum opportunity</th><th>Implementation for 2021</th></tr>
<tr><td>Long-term incentives</td><td>Award of performance shares which vest after three years subject to performance measures set by the Committee and continued employment.
Awards will be subject to a two-year post-vesting holding period.
Dividend equivalents may accrue on performance shares. Such amounts will normally be paid in shares.
Malus and clawback provisions apply (see note 1 below).
The Committee has discretion to adjust the vesting outcome if it is not deemed to reflect appropriately the underlying financial or non-financial performance of the business, the performance of the individual or the experience of shareholders or other stakeholders over the performance period.</td><td>Maximum opportunity of up to 200% of salary may be awarded in respect of a financial year.</td><td>Maximum opportunity: 200% of salary for all Executive Directors.
Performance metrics and weightings (as a percentage of maximum opportunity):
• Total shareholder return versus the constituents of the FTSE 350 Super Sector Real Estate Index (50%).
• Total property return versus the MSCI IPD UK All Property Index (50%).
The total return and total property return targets are set out below.
<table>
<tr><th>TSR vs FTSE 350 Super Sector Real Estate Index</th><th>Vesting (% of total return award)</th></tr>
<tr><td>Below median</td><td>0%</td></tr>
<tr><td>Median</td><td>22.5%</td></tr>
<tr><td>Upper quartile</td><td>100%</td></tr>
<tr><td colspan="2">Straight-line vesting occurs between these points</td></tr>
</table>
<table>
<tr><th>Annualised TPR vs the MSCI IPD UK All Property Index</th><th>Vesting (% of total return award)</th></tr>
<tr><td>Below Index</td><td>0%</td></tr>
<tr><td>Index</td><td>22.5%</td></tr>
<tr><td>Index + 2%</td><td>100%</td></tr>
<tr><td colspan="2">Straight-line vesting occurs between these points</td></tr>
</table></td></tr>
<tr><td>Share ownership guidelines</td><td>Within-employment: Executive Directors are expected to build up and retain a shareholding equal to 200% of salary. Until the shareholding guideline is met, 50% of any deferred bonus awards or PSP awards vesting (net of tax) normally must be retained.
Post-employment: Executive Directors who step down from the Board are required to retain a holding in ‘guideline shares’ equal to:
• 200% of salary (or their actual shareholding at the point of departure if lower) for the first 12 months following stepping down as an Executive Director.
• 100% of salary (or their actual shareholding at the point of departure if lower) for the subsequent 12 months.
‘Guideline shares’ do not include shares that the Executive Director has purchased or which have been acquired pursuant to deferred share awards or PSP awards which vested before 1 January 2020.</td><td>n/a</td><td>As at 10 March 2021, all of our Executive Directors have achieved the within-employment guideline (see page 168) except Emily Prideaux who was appointed an Executive Director on 1 March 2021. Emily will work towards achieving the shareholding guideline.</td></tr>
</table>

Note 1: Malus and clawback

Malus and clawback provisions apply to annual bonus, deferred bonus and performance shares over the following time periods:

	Malus	Clawback
Annual bonus	To such time as payment is made.	Up to two years following payment.
Deferred bonus	To such time as the award vests.	No clawback provisions apply (as malus provisions apply for three years from the date of award).
Performance shares	To such time as the award vests.	Up to two years following vesting.

Malus and clawback may apply in the following circumstances:

1. Material misstatement of financial results.
2. An error in assessing performance conditions which has led to an overpayment.
3. Dismissal due to gross misconduct.
4. Serious reputational damage (for bonuses and PSP awards granted in 2020 onwards).
5. Corporate failure (for bonuses and PSP awards granted in 2020 onwards).

Note 2: Strategic targets for the 2021 annual bonus

The strategic targets for the 2021 annual bonus will be broadly the same as those used for the 2020 annual bonus (see page 161). For the 2021 annual bonus we have reintroduced tenant retention as a target and added two new ESG-linked measures (energy intensity and accident incident rate). When assessing staff satisfaction scores, the Committee will consider any variance between genders.

Performance measure	Target range(ii)	Maximum award
Void management This is measured by the Group's average EPRA vacancy rate over the year.	8% to 2%	5.0%
Tenant retention This is measured by the percentage of tenants that remain in their space when their lease expires.	50% to 75%	5.0%
Staff satisfaction Staff surveys are used to assess this measure. In assessing this target the Committee will consider any variance in staff satisfaction scores between genders.	80% to >95% of staff to be satisfied or better	2.5%
Accident incident rate This is calculated based on the number of RIDDOR injuries during the year multiplied by 100,000 and divided by the number of site workers.	>0% to 5% reduction	2.5%
Portfolio development potential This is measured by the percentage of the Group's portfolio by area, where a potential development scheme has been identified.	35% to 50%	2.5%
Net Zero Carbon Pathway targets These measures have been set to be consistent with our ambition to be net zero carbon by 2030.		
Carbon intensity This is measured by emissions intensity per m^2 of landlord-controlled floor area across our managed like-for-like portfolio.	-5% to -10%	5.0%
Energy intensity This is measured by energy consumption (kWh) per m^2 of landlord-controlled floor area across our managed like-for-like portfolio.	-2% to -4%	2.5%
		25%

Notes:

(i) The references above show the link between our strategic objectives and our annual bonus targets (our five strategic objectives can be found on pages 34 to 41).

(ii) Payout accrues on a straight-line basis, between threshold and maximum performance.

Outside appointments for Executive Directors

Executive Directors may accept a non-executive role at another company with the approval of the Board. The Executive Director is entitled to retain any fees paid for these services. During 2020, our Executive Directors did not receive fees for their external appointments. Further information on our Executive Directors' external appointments is provided on pages 106 and 107.

Payments to past Directors and for loss of office

No payments were made to past Directors or in respect of loss of office during 2020. The impact of Simon Silver's retirement on his remuneration (i.e. treatment of outstanding PSP awards) is disclosed on page 151.

Service contracts and letters of appointment

Executive Directors

Executive Directors' service contracts do not have a fixed expiry date, however, they are terminable either by the Company providing 12 months' notice or by the executive providing six months' notice.

	Date of service contract	Notice period	Service contract expiry date
Paul Williams, CEO	22 November 2018	12 months' notice to the Executive Director and 6 months' notice from the Executive Director	Rolling service contract with no fixed contract end date
Damian Wisniewski, CFO	10 July 2019		
Nigel George	10 July 2019		
Emily Prideaux	26 February 2021		
David Silverman	14 August 2019		

Non-Executive Directors

Non-Executive Directors are appointed for initial three-year terms which thereafter may be extended, subject to re-election at each AGM.

	Appointment date to the Board	Current tenure as at 1 January 2021	Date of latest appointment letter	Appointment letter expiry date
John Burns(i)	25 May 1984	36 years, 7 months	17 May 2019	14 May 2021
Mark Breuer(i)	1 February 2021	n/a	25 January 2021	1 February 2024
Simon Fraser(i)	1 September 2012	8 years, 4 months	8 August 2018	1 September 2021
Richard Dakin(i)	6 August 2013	7 years, 5 months	6 August 2019	6 August 2022
Claudia Arney	18 May 2015	5 years, 7 months	8 August 2018	31 May 2021
Dame Cilla Snowball	1 September 2015	5 years, 4 months	8 August 2018	31 August 2021
Helen Gordon	1 January 2018	3 years	4 November 2020	31 December 2023
Lucinda Bell	1 January 2019	2 years	8 August 2018	1 January 2022

Note:

(i) Further information on Chairman and Non-Executive Director succession is on pages 124 and 126.

Remuneration Committee report continued

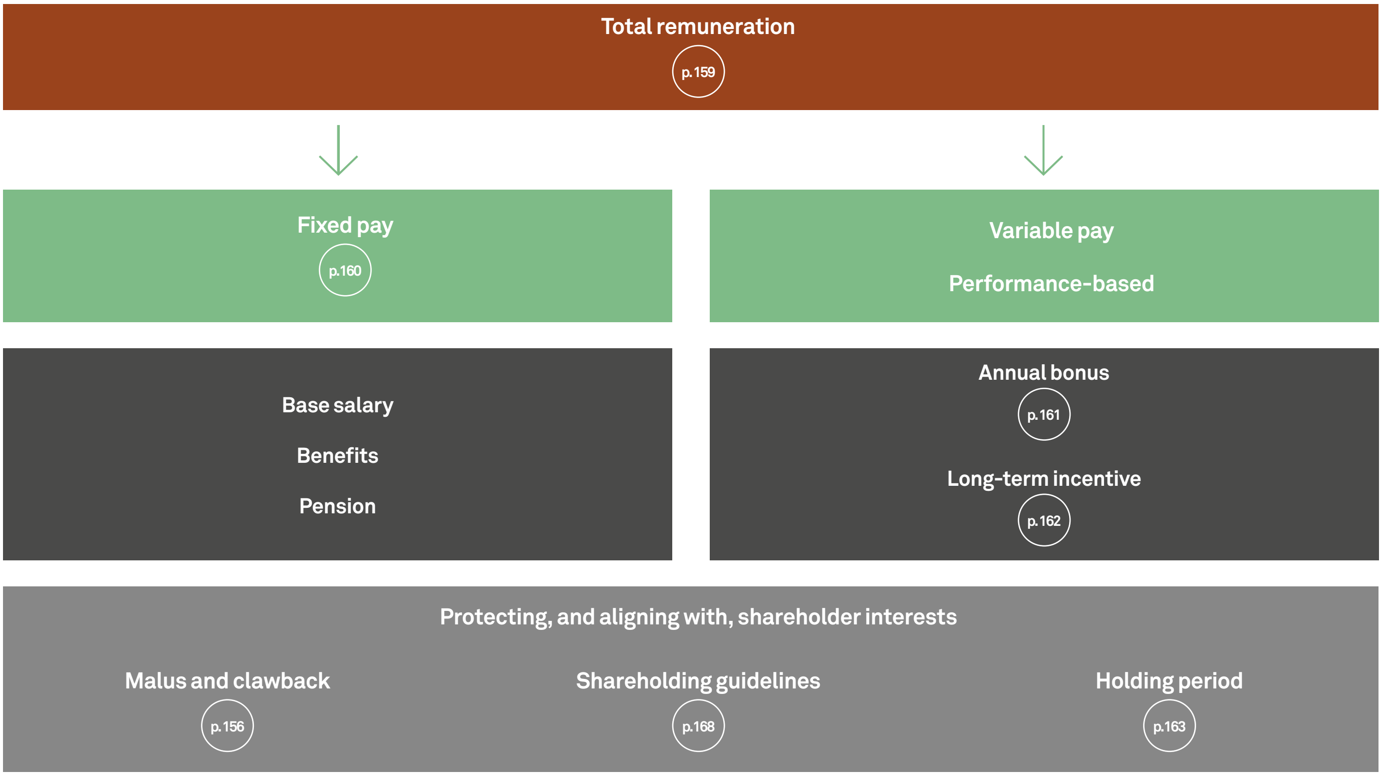
Summary table for the Chairman and Non-Executive Directors

	Operation	Implementation for 2021
Chairman	The remuneration of the Chairman is set by the Board (excluding the Chairman). The Chairman receives an annual fee and benefits limited to the use of a driver, a secretarial provision and office costs. Non-significant benefits may be provided if considered appropriate. The Chairman does not receive pension or participate in incentive arrangements.	John Burns will continue to receive a Chairman fee of £250,000 per annum until his retirement from the Board on 14 May 2021. With effect from 14 May 2021, Mark Breuer will take over the role of Non-Executive Chairman. His inclusive Chairman fee from this date will be £250,000 per annum. Mark will not receive the use of a driver or contributions to his office costs.
Non-Executive Directors	The remuneration for Non-Executive Directors is set by the Executive Directors. Non-Executive Directors receive a base fee plus additional fees for Committee chairmanship, Committee membership and for the Senior Independent Director. Non-Executive Directors may be eligible to receive benefits including, but not limited to, secretarial provision and travel costs. Non-Executive Directors do not receive pension contributions or participate in incentive arrangements.	The base fee for Non-Executive Directors remains unchanged from 2020. The last increase made to Non-Executive Director fees was with effect from 1 January 2019. In addition to their chairmanship fee, a Committee chair also receives the Committee membership fee.

Non-Executive Director fees	2021 fee (£'000)
Base fee	47.5
Committee chair	7.5
Senior Independent Director	10.0
Committee membership fee	4.0

Executive Directors' remuneration in 2020

Remuneration for Executive Directors comprises the following elements:



Total remuneration
p.159

Fixed pay
p.160

Variable pay

Performance-based

Base salary

Benefits

Pension

Annual bonus
p.161

Long-term incentive
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Protecting, and aligning with, shareholder interests

Malus and clawback
p.156

Shareholding guidelines
p.168

Holding period
p.163

Total remuneration in 2020 (audited)

The table below sets out the remuneration paid to each Director for the financial years ended 31 December 2020 and 31 December 2019 as a single figure. A full breakdown of fixed pay and pay for performance in 2020 can be found on pages 160 to 164.

Executive Directors

	Fixed pay				Pay for performance					
					Bonus(x)					
(£'000)	Salary(i)	Taxable benefits	Pension and life assurance(ii)	Subtotal	Cash	Deferred	Performance LTIPs(iii)(iv)(v)	Subtotal	Other items in the nature of remuneration(vi)	Total remuneration
2020										
Paul Williams, CEO	600	23	135	758	597	–	772	1,369	3	2,130
Damian Wisniewski, CFO	480	23	107	610	478	–	772	1,250	1	1,861
Simon Silver	581	51	146	778	578	–	1,015	1,593	–	2,371
Nigel George	480	22	107	609	478	–	772	1,250	3	1,862
David Silverman	480	21	106	607	478	–	772	1,250	3	1,860
Former Executive Director										
John Burns	–	–	–	–	–	–	472	472	–	472
2019										
Paul Williams, CEO	543	24	123	690	543	247	618	1,408	2	**2,100**
Damian Wisniewski, CFO	463	23	102	588	463	210	618	1,291	2	**1,881**
Simon Silver	581	52	154	787	581	264	813	1,658	–	**2,445**
Nigel George	463	23	105	591	463	210	618	1,291	2	**1,884**
David Silverman	463	22	103	588	463	210	618	1,291	2	**1,881**
Former Executive Director										
John Burns(vii)	260	21	59	340	260	118	681	1,059	–	**1,399**

Non-Executive Directors

	2020			2019		
(£'000)	Fees	Taxable benefits	Total	Fees	Taxable benefits	Total
John Burns(viii)	250	–	250	158	–	158
Simon Fraser	77	–	77	77	–	77
Richard Dakin	67	–	67	67	–	67
Claudia Arney	71	–	71	71	–	71
Dame Cilla Snowball	67	–	67	67	–	67
Helen Gordon	56	–	56	56	–	56
Lucinda Bell(ix)	71	–	71	67	–	67

Notes:

(i) In response to the Covid-19 pandemic, Directors base salaries and fees were subject to a voluntary 20% waiver for the three month period between 1 April 2020 and 30 June 2020 (see page 160). The waived remuneration was used for charitable donations and sponsorships, further information on pages 52 and 53. The salaries and fees disclosed for 2020 are before the voluntary 20% waiver.

(ii) 2020 pension contributions were calculated based on salaries before the voluntary 20% waiver.

(iii) Performance LTIPs for 2020 relate to the 2018 PSP awards which will vest on 6 March 2021 and for which the performance conditions related to the year ended 31 December 2020. The value is based on an estimate of expected vesting of 81.6% and the average share price over the last three months of the financial year ended 31 December 2020 of £29.80. This amount includes the value of additional shares awarded in respect of dividend equivalents. For details of the amount attributable to share price appreciation see page 162.

(iv) In the 2019 Annual Report, the potential value of 2017 PSP awards vesting for which the performance conditions related to the year ended 31 December 2019 was calculated using the average share price for the three months ended 31 December 2019, being £36.22. The 2019 Performance LTIP figures in the table above, have been restated to reflect the actual number of 2017 PSP awards which vested on 20 March 2020 using the share price on the day of vesting (being, £27.61). The restated value provides a difference of (£8.61) per vested share in comparison to the estimates contained in the 2019 Annual Report on page 154. Further details of vesting is provided on page 169.

(v) The 2017 PSP awards which vested on 20 March 2020 were granted on 20 March 2017 when the share price was £27.00. Between grant and the vesting date, the share price had slightly increased to £27.61 which equated to an increase in value of each vesting share equivalent to £0.61. The proportion of the value disclosed in the single figure attributable to share price growth is therefore 2.3%. The Remuneration Committee did not exercise discretion in respect of the share price appreciation.

(vi) Included in the column for 'other items in the nature of remuneration' is the grant under the Derwent London Sharesave Plan made on 9 April 2020. These have been calculated based on the middle market share price on the date of grant being £36.14 minus the value of the awards at the option price which was £27.53. Further information on the Derwent London Sharesave Plan is on page 168.

(vii) For the period 1 January 2019 to 17 May 2019, John Burns received a pro rata base salary as Chief Executive equivalent to £677,000 per annum. John Burns' annual bonus and LTIP vesting for 2019 were both subject to a pro rata reduction, further information is provided on pages 157 and 158 of the 2019 Annual Report.

(viii) For the period 18 May 2019 to 31 December 2019, John Burns' fees as Non-Executive Chair were £250,000 per annum subject to a pro rata reduction. In order to undertake his duties, John Burns is also provided with a driver and secretary, together with a contribution to his office running costs.

(ix) Lucinda Bell was appointed to the Board on 1 January 2019. From 17 May 2019, Lucinda Bell became Chair of the Audit Committee and a member of the Remuneration Committee following Stephen Young's retirement from the Board.

(x) The Committee exercised its discretion to reduce the 2020 annual bonus payout from 96.3% to 66.3% of maximum opportunity (see page 160).

Remuneration Committee report continued

Fixed pay in 2020

Base salaries and fees

In light of the changes to salaries made during 2019, which are outlined on page 155 of the 2019 Annual Report, the Executive Directors did not receive a salary increase on 1 January 2020 (the wider workforce increase was 4.7%). In response to the Covid-19 pandemic, Directors base salaries and fees were subject to a voluntary 20% waiver for the three month period between 1 April 2020 and 30 June 2020.

	2020 base salary/fee	20% waiver	Actual 2020 base salary/fee
Executive Directors			
Paul Williams, CEO	600,000	30,000	570,000
Damian Wisniewski, CFO	480,000	24,000	456,000
Simon Silver	581,000	29,050	551,950
Nigel George	480,000	24,000	456,000
David Silverman	480,000	24,000	456,000
Non-Executive Directors			
John Burns	250,000	12,500	237,500
Simon Fraser	77,000	3,850	73,150
Richard Dakin	67,000	3,350	63,650
Claudia Arney	71,000	3,550	67,450
Dame Cilla Snowball	67,000	3,350	63,650
Helen Gordon	55,500	2,775	52,725
Lucinda Bell	71,000	3,550	67,450

Benefits

Executive Directors are entitled to a car and fuel allowance, private medical insurance and life assurance. Further details of the taxable benefits paid in 2020 can be found in the table below.

	Car and fuel allowance	Private medical insurance	Total 2020 taxable benefits
Executive Directors			
Paul Williams, CEO	£16,000	£7,534	£23,534
Damian Wisniewski, CFO	£16,000	£6,837	£22,837
Simon Silver	£39,232	£12,289	£51,521
Nigel George	£16,000	£6,161	£22,161
David Silverman	£16,000	£4,990	£20,990

Pension and life assurance

In addition to life assurance, Executive Directors (except David Silverman) received a cash supplement of up to 20% of salary (calculated based on the salary before the voluntary 20% waiver). David Silverman received £5,500 paid into the Group's Fidelity Master Trust pension scheme with the remainder of his entitlement paid as a cash supplement. As noted on page 155, Executive Director pension provision will be aligned with the contribution available to the wider workforce as follows: 17.5% of salary from 1 January 2021; and 15% of salary from 1 January 2022.

There was no change in the life assurance received by the Executive Directors in 2020. The change in the annual cost of these benefits is due to increases in life assurance premiums.

Pay for performance

Determination of 2020 annual bonus outcome

The performance measures set for the year under review were a combination of financial-based metrics (worth 75% of the bonus potential) and strategic targets (worth 25% of the bonus potential). The maximum bonus potential for Executive Directors is 150% of salary. Based on actual 2020 performance, the annual bonus payout for Executive Directors was 96.3% of the maximum potential (2019: 97%; 2018: 68.5%).

The Committee considered the formulaic performance outcome alongside broader perspectives including: underlying business performance and affordability; the experience of shareholders; and the experience of employees and other stakeholders. Points specifically considered are set out in the Chair's Annual statement on page 151.

The Committee recognised that whilst the Group has performed well relative to our REIT peer group, shareholders have been impacted by the Group's absolute financial and share price performance during the year, due to the disruption caused by Covid-19 on the business and real estate sector. With this in mind, the Committee exercised its discretion to reduce the annual bonus payout from 96.3% to 66.3% of maximum opportunity (30.0% reduction). The Committee considers that this outcome is fair in the context of our underlying performance and the experience of our shareholders and stakeholders.

2020 annual bonus outcome

Bonus payable for financial-based performance	75.0%
Bonus payable for strategic target performance	21.3%
Total bonus payable based on performance	**96.3%**
Discretion applied by the Committee	**(30.0)%**
Total bonus payable for 2020 (% of the maximum)	**66.3%**

Financial-based metrics

Performance measure	Weighting % of bonus	Basis of calculation	Threshold(ii) %	Maximum(iii) %	Actual %	Payable %
Total return	37.5	Total return versus other major real estate companies(i)	-20.3	-1.8	-1.8	37.5
Total property return (TPR)	37.5	Versus the MSCI IPD Quarterly Central London Offices Total Return Index	-2.4	-0.4	0.3	37.5
Bonus payable for financial-based performance						75.0

Notes:

(i) The major real estate companies contained in the comparator group for the 2020 annual bonus are: Big Yellow Group plc, The British Land Company plc, Capital & Counties Properties plc, Great Portland Estates plc, Hammerson plc, Helical plc, Intu Properties plc, Landsec plc, Segro plc, Shaftesbury plc and Workspace Group plc.

(ii) For achieving the threshold performance target, i.e. at the MSCI IPD Index or median total return against our sector peers, 22.5% of the maximum bonus opportunity will become payable.

(iii) Total return payout accrues on a straight-line basis between the threshold level for median performance and maximum payment for upper quartile performance or better. For TPR, the payout accrues on a straight-line basis between the threshold level for Index performance and maximum payment for Index +2%.

Strategic targets

Performance measure(ii)	Link to strategic objectives(i)	Target range(ii)	Maximum award	2020 achievement	Proportion awarded for 2020
Void management This is measured by the Group's average EPRA vacancy rate over the year.	1. 2.	7% to 1%	5.0%	1.8%	4.3%
Portfolio development potential This is measured by the percentage of the Group's portfolio by area, where a potential development scheme has been identified.	1.	35% to 50%	2.5%	43%	1.3%
Unexpired lease term This is measured by the 'topped-up' weighted average unexpired lease term of the Group's portfolio, including pre-let developments.	1. 2.	6 to 9 years	5.0%	7.9 years	3.2%
Carbon intensity (iii) This is measured by emissions intensity per m² of landlord-controlled floor area across our managed like-for-like portfolio.	4.	-5 to -10	5.0%	-27	5.0%
Staff satisfaction Staff surveys are used to assess this measure.	3.	80% to >95% of staff to be satisfied or better	2.5%	96.3%	2.5%
Route map to net zero carbon Subject to external verification that it meets the Better Buildings Partnership Climate Change Commitment and best practice guidance.	4.	Published during 2020	5.0%	Published on 28 July 2020. See page 28	5.0%
			25%		**21.3%**

Notes:

(i) Success against our strategic objectives is measured using our KPIs (see pages 42 to 45) and rewarded through our incentive schemes and annual bonus. The references above show the link between our strategic objectives and our annual bonus targets (further information on our five strategic objectives can be found on pages 34 to 41).

(ii) Payout accrues on a straight-line basis, between threshold and maximum performance.

(iii) Achievement of the carbon intensity target could potentially have been affected by the Covid-19 pandemic. This was taken into account in the downward discretion applied by the Committee (see page 151).

(iv) The strategic targets for the 2021 annual bonus are available in note 2 on page 157.

Key

Strategic objectives

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

Remuneration Committee report continued

The total bonus for each executive is therefore:

	Bonus payable		Cash bonus payable £'000	Deferred bonus	
	% of maximum	% of salary		£'000	% of salary
Executive Directors					
Paul Williams, CEO	66.3	99.5	597	–	–
Damian Wisniewski, CFO	66.3	99.5	478	–	–
Simon Silver	66.3	99.5	578	–	–
Other Executive Directors[i]	66.3	99.5	478	–	–

Note:

[i] Other Executive Directors are Nigel George and David Silverman whose base salary and subsequently, annual bonus payout, will be identical.

In accordance with our Remuneration Policy, bonuses of up to 100% of base salary are paid as cash. Amounts in excess of 100% are deferred into shares and released after three years.

Performance Share Plan (PSP) vesting of awards

As shown in the table below, the PSP awards granted in 2018 will vest on 8 March 2021 at 81.6% of maximum opportunity.

Performance measure	Weighting % of award	Basis of calculation	Threshold[ii] %	Maximum[iii] %	Actual %	% vesting/ estimated vesting
Total property return (TPR)	50	MSCI IPD Quarterly UK All Property Total Return Index	1.6	4.6	4.5	48.8
Total shareholder return (TSR)	50	FTSE 350 Super Sector Real Estate Index[i]	(0.5)	41.7	16.7	32.8
						81.6

Notes:

[i] The constituents of the FTSE 350 Super Sector Real Estate Index as at the start of the Performance Period (i.e. 1 January 2018).

[ii] For achieving the threshold performance target, i.e. at the MSCI IPD Index or median TSR against our sector peers, 22.5% of the maximum award will vest.

[iii] For TSR (which is calculated based on a three-month weekday average Return Index excluding UK public holidays ended on: (1) the day before the performance period start date; and (2) the performance period end date) vesting accrues on a straight-line basis between the threshold level for median performance and maximum level for upper quartile performance or better. For TPR, vesting accrues on a straight-line basis between the threshold level for Index performance and maximum level for Index +3%.

Given the strong returns delivered for shareholders over the past three years, and taking into account the discretion applied to reduce the vesting outcome of the 2020 annual bonus, the Committee considered that the PSP vesting outcome was appropriate. Therefore, the vesting for each executive will be:

	Number of awards granted	Number of shares vesting based on performance (81.6%)	Dividend equivalents[i] (number of shares)	Total number of shares vesting	Total estimated value of award on vesting
Executive Directors					
Paul Williams, CEO	29,104	23,749	2,164	25,913	772,208
Damian Wisniewski, CFO	29,104	23,749	2,164	25,913	772,208
Simon Silver	38,263	31,223	2,845	34,068	1,015,227
Other Executive Directors[ii]	29,104	23,749	2,164	25,913	772,208
Former Executive Director					
John Burns[iii]	44,586	14,506	1,322	15,828	471,675

Notes:

[i] In accordance with the PSP rules, the Remuneration Committee has discretion to allow PSP participants to receive the benefit of any dividends paid on vesting shares between the grant date and the vesting date in the form of additional vesting shares.

[ii] Other Executive Directors are Nigel George and David Silverman, who were granted an identical number of awards under the PSP grant in 2018.

[iii] John Burns' award was subject to a pro rata reduction for the period 17 May 2019 to the end of the performance period and is subject to the normal holding period of two years.

The value of the vesting awards is based on the average share price over the last three months of the financial year ended 31 December 2020 being £29.80. The estimated value of the vesting awards has been included within the 'single figure' total remuneration table on page 159.

The Company's share price rose by £0.32 between the grant date (6 March 2018) and the end of the performance period (31 December 2020) from £29.48 to £29.80. The proportion of the value disclosed in the single figure attributable to share price growth is therefore 1.1%. The Remuneration Committee did not consider that it was necessary to exercise discretion in respect of share price fluctuations since grant.

Holding period

In accordance with the PSP rules, vested awards are subject to a two-year holding period whereby at least the after-tax number of vested shares must be retained by the executive for a minimum of two years from the point of vesting. An overview of the holding periods for awards granted since 2016 has been provided below.

Grant	Grant date	Performance period	Vesting date	Holding period	Holding period ceases
2016 Grant	4 April 2016	1 January 2016 to 31 December 2018	4 April 2019	Two years	4 April 2021
2017 Grant	20 March 2017	1 January 2017 to 31 December 2019	20 March 2020	Two years	20 March 2022
2018 Grant	6 March 2018	1 January 2018 to 31 December 2020	8 March 2021	Two years	8 March 2023
2019 Grants	12 March 2019 14 August 2019	1 January 2019 to 31 December 2021	12 March 2022 14 August 2022	Two years	12 March 2024 14 August 2024
2020 Grant	13 March 2020	1 January 2020 to 31 December 2022	13 March 2023	Two years	13 March 2025

Overall, the Committee considers that the Remuneration Policy has operated as it intended during 2020 and that the pay outcomes are aligned with the experience of shareholders and other stakeholders.

Grant of PSP awards

On 13 March 2020, the Committee made an award under the Group's 2014 PSP to Executive Directors on the following basis:

	Number of shares awarded	Face value of award £
Paul Williams, CEO	36,210	1,199,999
Damian Wisniewski, CFO	28,968	960,000
Simon Silver	35,063	1,161,988
Other Executive Directors(i)	28,968	960,000

Note:

(i) Other Executive Directors are Nigel George and David Silverman, who were granted identical number of awards under the PSP grant in March 2020.

Awards were granted as nil-cost options and equivalent to 200% of base salary, with 22.5% of the award vesting at threshold performance. The share price used to determine the level of the awards was the closing share price on the day immediately preceding the grant date of £33.14 (note: a share price of £32.53 was used to determine the level of PSP awards granted in March 2019). The performance period will run over three financial years and, dependent upon the achievement of the performance conditions, the awards will vest on 13 March 2023 and will be subject to a two-year holding period as outlined in the table above.

50% of the award vests according to the Group's relative TSR performance versus the constituents of the FTSE 350 Super Sector Real Estate Index with the following vesting profile:

TSR performance of the Company relative to the TSR of the constituents of the FTSE 350 Super Sector Real Estate Index tested over three-year performance period ending 31 December 2022	Vesting (% of TSR part of award)
Below Median	0%
Median	22.5%
Upper quartile and above	100%
Straight-line vesting occurs between these points	

50% of the award vests according to the Group's TPR versus the MSCI IPD Quarterly UK All Property Total Return Index with the following vesting profile:

Annualised TPR versus the MSCI IPD Quarterly UK All Property Index tested over three years	Vesting (% of TSR part of award)
Below Index	0%
At Index	22.5%
Index + 2%	100%
Straight-line vesting occurs between these points	

The Committee has discretion to reduce the extent of vesting in the event that it considers that performance against either measure is inconsistent with underlying financial performance and/or the experience of key stakeholders. At least the after-tax number of vested shares must be retained for a minimum holding period of two years. To the extent that awards vest, the Committee has discretion to allow the Executive Directors to receive the benefit of any dividends paid over the vesting period in the form of additional vesting shares.

Remuneration Committee report continued

Grant of Sharesave Plan options

On 9 April 2020, the Company granted options under the Derwent London Sharesave Plan. The three-year contract for the options started on 1 June 2020. These options are exercisable at a price of £27.53 per share from 1 June 2023 and are not subject to any performance conditions.

Executive Directors	Monthly saving amount	Number of shares under option	Option price	Market price at grant	Value of award[i]
Paul Williams, CEO	£250	326	£27.53	36.14	£2,806.86
Damian Wisniewski, CFO	£125	163	£27.53	36.14	£1,403.43
Other Executive Directors[ii]	£250	326	£27.53	36.14	£2,806.86

Notes:

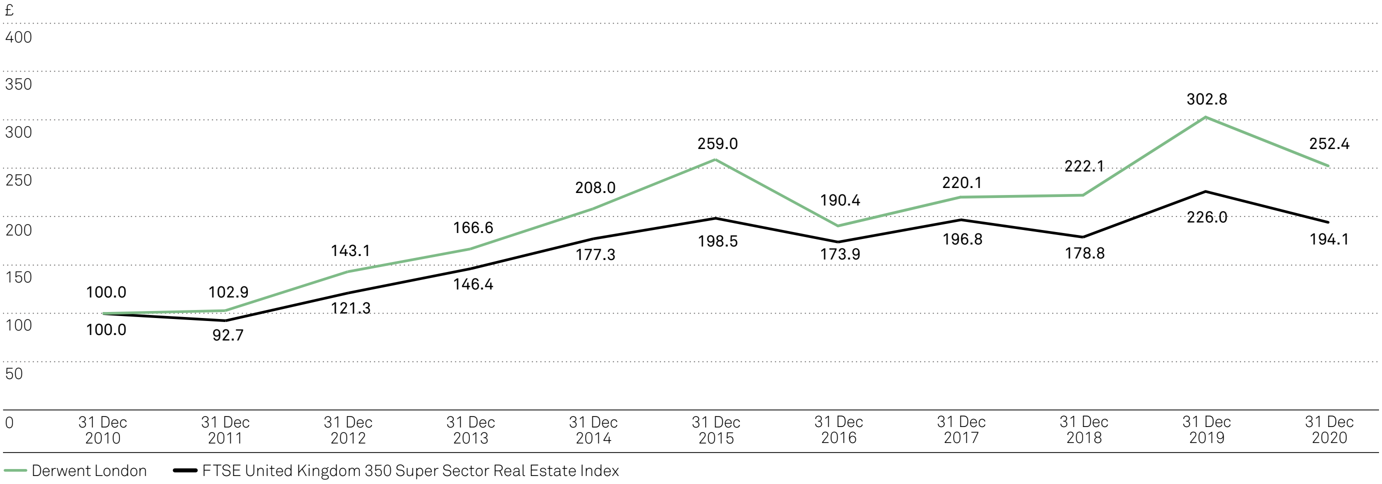
[i] The value of the award is based on the middle market share price on the grant date minus the option price. Further information on the Derwent London Sharesave Plan is on pages 154 and 168.

[ii] Other Executive Directors are Nigel George and David Silverman.

Pay for performance comparison

The graph below shows the value on 31 December 2020 of £100 invested in Derwent London on 31 December 2010 compared to that of £100 invested in the FTSE 350 Super Sector Real Estate Index. The other points plotted are the values at intervening financial year ends. This index has been chosen by the Committee as it is considered the most appropriate benchmark against which to assess the relative performance of the Company for this purpose.

Total Shareholder Return (TSR)



Source: Datastream (Thomson Reuters)

Note: The TSR chart data is based on the 30-day average over the period 2 December to 31 December for each year.

Remuneration of the Chief Executive

Financial year ending	31/12/2011	31/12/2012	31/12/2013	31/12/2014	31/12/2015	31/12/2016	31/12/2017	31/12/2018	**31/12/2019[i][ii][iii]**		**31/12/2020**
Chief Executive	John Burns	John Burns	John Burns	John Burns	John Burns	John Burns	John Burns	John Burns	**John Burns**	**Paul Williams**	Paul Williams
Total remuneration (single figure) (£'000)	2,387	2,721	2,478	2,648	2,529	1,403	1,681	2,219	**1,399**	**2,100**	**2,130**
Annual bonus (% of maximum)	90.0	85.4	95.0	92.6	74.2	23.3	53.6	68.5	**97.0**		**66.3**
Long-term variable pay (% of maximum)	50.0	83.8	55.2	50.0	65.7	24.9	26.5	46.0	**65.75**		**81.6**

Notes:

[i] Total remuneration for 2019 has been restated to reflect the actual number of 2017 PSP awards which vested on 20 March 2020 using the share price on the day of vesting (being, £27.61). The restated value provides a difference of (£8.61) per vested share in comparison to the estimates contained in the 2019 Annual Report which were based on the average three month share price for the year ended 31 December 2019 which was £36.22. Further details of total remuneration is provided on page 159.

[ii] The annual bonus (% of maximum) and long-term variable pay (% of maximum) for John Burns in 2019 is based on remuneration in the role of Chief Executive.

[iii] Paul Williams' 2019 total remuneration is in respect of his tenure as Chief Executive from 17 May 2019. His salary, bonus and PSP has been subject to a pro rata time reduction.

Managing shareholder dilution

The table below sets out the available dilution capacity for the Company's employee share plans based on the limits set out in the rules of those plans that relate to issuing new shares.

	2020
Total issued share capital as at 31 December 2020	111.9 m
Investment Association share limits (in any consecutive 10-year period):	
Current dilution for all share plans	2.2%
Headroom relative to 10% limit	7.8%
5% for executive plans – current dilution for discretionary (executive) plans	1.2%
Headroom relative to 5% limit	3.8%

Chief Executive pay ratio

As Derwent London has less than 250 employees, we are not required to disclose the CEO pay ratio. However, given our commitment to high standards of transparency and corporate governance, the Committee considers it appropriate to disclose the CEO pay ratio voluntarily.

For the years ended 31 December 2018 to 31 December 2020, the Chief Executive's total remuneration as a ratio against the full-time equivalent remuneration of UK employees is detailed in the table below:

	Base salary	Total remuneration	CEO pay ratio
Year ended 31 December 2020			
25th percentile	**£47,000**	**£62,499**	**34:1**
50th percentile	**£64,000**	**£86,463**	**25:1**
75th percentile	**£95,266**	**£137,452**	**15:1**
Year ended 31 December 2019			
25th percentile	£40,993	£63,211	40:1
50th percentile	£68,462	£89,274	28:1
75th percentile	£67,500	£153,828	17:1
Year ended 31 December 2018			
25th percentile	£45,057	£58,237	38:1
50th percentile	£59,250	£76,842	29:1
75th percentile	£75,000	£148,867	15:1

Notes:

(i) Total remuneration includes one-off employee gains received through the exercise of options granted under the Employee Share Option Plan (see pages 154 and 199).

(ii) Chief Executive remuneration for the year ended 31 December 2020 is Paul Williams' 2020 'single figure' (see page 159), before the voluntary 20% salary waiver.

(iii) Chief Executive remuneration for the year ended 31 December 2019 is based on the aggregated total remuneration earned by John Burns and Paul Williams in respect of their tenures as Chief Executive during 2019. Their total remuneration figures have been restated to reflect the actual number of 2017 PSP awards which vested on 20 March 2020 using the share price on the day of vesting (see page 169). The impact of the restatement on the CEO pay ratio for the year ended 31 December 2019 was that it reduced from 44:1 for the 25th percentile, from 31:1 for the 50th percentile, and from 18:1 for the 75th percentile. The restated CEO pay ratio, based on the actual total remuneration received by John Burns and Paul Williams in 2019, is included within the above table.

(iv) The workforce comparison is based on the payroll data for the period 1 January to 31 December for all employees (including the Chief Executive but excluding the Non-Executive Directors) and includes employer pension contributions, life assurance and the healthcare cash plan.

(v) The CEO pay ratio has been rounded to the nearest whole number.

For each year, the Company has calculated the ratio in line with the reporting regulations using 'Method A' (determine total full-time equivalent remuneration for all UK employees for the relevant financial year; rank the data and identify employees whose remuneration places them at the 25th, 50th and 75th percentile).

Due to the uncertainty and difficulties arising from Covid-19, there has been a general decrease in incentive remuneration payout for all employees, including the Executive Directors. The Remuneration Committee also exercised its discretion to reduce the 2020 annual bonus payout (see page 151). As a significant proportion of executive remuneration is dependent upon performance and incentive payouts, this has decreased the CEO pay comparator for 2020. The Board have confirmed that the ratio is consistent with the Company's wider policies on employee pay, reward and progression.

Remuneration Committee report continued

Relative importance of the spend on pay

In order to give shareholders an understanding of how total expenditure on remuneration (for all employees) compares to certain core financial dispersals of the Company, the table below demonstrates the relative importance of the Company's spend on employee pay for the period 2019 to 2020.

£m	2020	2019	% change
Staff costs[i]	**29.2**	27.8	4.9%
Distributions to shareholders	**82.2**	75.6	8.7%
Net asset value attributable to equity shareholders[ii]	**4,263**	4,421	(3.6)%

Notes:

[i] Staff costs includes salaries, employer pension contributions, social security costs and share-based payment expenses relating to equity-settled schemes.

[ii] Net asset value attributable to equity shareholders was chosen as it is a key determinate of the Group's total return and is used by management to measure our progress. We base our total return calculation on EPRA net tangible assets (NTA). Further information, including how this figure is calculated, is on page 75.

Percentage increase in remuneration

The table below shows the percentage change in the salary or fees, benefits and annual bonus from 2019 to 2020 for each of the Directors who served during 2020 compared to that for an average employee.

	2019 to 2020		
% change	Salary/Fees	Benefits[iii]	Bonus
Average employee[i]	+4.7%	(6.2)%	(21.0)%
Executive Directors[ii]			
Paul Williams, CEO	+10.5%	+0.1%	(24.4)%
Damian Wisniewski, CFO	+3.7%	(1.4)%	(29.0)%
Simon Silver	–	(1.7)%	(31.6)%
Nigel George	+3.7%	(3.9)%	(29.0)%
David Silverman	+3.7%	(1.7)%	(29.0)%
Non-Executive Directors			
John Burns	(40)%	(100)%	(100)%
Simon Fraser	0%	–	–
Richard Dakin	0%	–	–
Claudia Arney	0%	–	–
Dame Cilla Snowball	0%	–	–
Helen Gordon	0%	–	–
Lucinda Bell	+6%	–	–

Notes:

[i] The annual percentage change of the average remuneration of the Company's employees, calculated on a full-time equivalent basis.

[ii] The Directors remuneration used to calculate the percentage change is taken from the 'single figure' table on page 159.

[iii] Benefits includes all taxable benefits (including car allowance, private medical and dental etc).

Salary/fees

- The average employee salary increased by 4.7% in comparison to 3.7% for most of the Executive Directors, except Paul Williams. Paul Williams' salary was increased from £442,000 to £600,000 effective from his appointment as CEO on 17 May 2019.
- The 3.7% rise in base salaries for Nigel George, David Silverman and Damian Wisniewski relates to the increase received due to the restructuring of the executive team and the increase in responsibilities, effective from 17 June 2019. None of the Executive Directors received a salary increase effective from 1 January 2020.

Benefits

- There was no change in the benefits received by the average employee or the Executive Directors in 2020. The change in the annual cost is due to the cost of purchasing private medical and life insurance.

Bonus

- The 2020 bonus for the average employee and Executive Directors was lower than 2019 due to the current economic situation. Despite achieving the pre-set performance measures at 96.3%, the Committee exercised its discretion to reduce the 2020 annual bonus for Executive Directors to 66.3%, a 30.0% reduction. The average employee bonus from 2019 to 2020, reduced by 21.0%.

Non-Executive Directors

- John Burns stepped down as Chief Executive on 17 May 2019, following which he has served as Non-Executive Chairman. The percentage change in fees for John Burns therefore incorporates both his salary received as Chief Executive and fees received as Non-Executive Chairman in 2019.
- Lucinda Bell became Audit Committee Chair from 17 May 2019 following Stephen Young stepping down from the Board.

Schedule to the annual report on remuneration

(unaudited unless otherwise indicated)

Directors' interests (audited)

Directors' interests in shares

Details of the Directors' interests in shares are provided in the table below.

	Number at 31 December 2020					Number at 31 December 2019				
	Beneficially held	Deferred shares	Conditional shares	Share options	Total	Beneficially held	Deferred shares	Conditional shares	Share options	Total
Executive Directors										
Paul Williams, CEO(i)	**72,576**	**7,655**	**99,201**	**674**	**180,106**	60,632	363	93,841	348	155,184
Damian Wisniewski, CFO(ii)	**51,952**	**6,545**	**85,246**	**511**	**144,254**	40,105	363	87,128	348	127,944
Simon Silver(iii)	**121,518**	**8,234**	**109,046**	**–**	**238,798**	132,767	476	114,533	–	247,776
Nigel George(i)	**75,416**	**6,545**	**85,246**	**674**	**167,881**	63,472	363	87,128	348	151,311
David Silverman(i)	**48,664**	**6,545**	**85,246**	**674**	**141,129**	36,720	363	87,128	348	124,559
Total	**370,126**	**35,524**	**463,985**	**2,533**	**872,168**	333,696	1,928	469,758	1,392	806,774
Non-Executive										
John Burns(iv)	**271,549**	**3,850**	**44,586**	**–**	**319,985**	432,595	556	91,836	–	524,987
Simon Fraser	**2,000**	**–**	**–**	**–**	**2,000**	2,000	–	–	–	2,000
Richard Dakin	**–**	**–**	**–**	**–**	**–**	–	–	–	–	–
Claudia Arney	**2,500**	**–**	**–**	**–**	**2,500**	2,500	–	–	–	2,500
Dame Cilla Snowball	**–**	**–**	**–**	**–**	**–**	–	–	–	–	–
Helen Gordon(v)	**918**	**–**	**–**	**–**	**918**	906	–	–	–	906
Lucinda Bell	**1,000**	**–**	**–**	**–**	**1,000**	1,000	–	–	–	1,000
Total	**277,967**	**3,850**	**44,586**	**–**	**326,403**	438,987	556	91,836	–	531,379

There have been no other changes to the above interests between 31 December 2020 and 10 March 2021.

Notes:

(i) Paul Williams, Nigel George and David Silverman each acquired 22,394 shares from the PSP 2017 grant which vested on 20 March 2020. The vesting shares included dividend equivalents in the form of 2,111 additional shares. To satisfy the tax liability arising, they each sold 10,547 shares immediately upon vesting at an average share price of £27.61 per share. On 20 March 2020, Paul Williams, Nigel George and David Silverman each acquired 185 shares under the Company's deferred bonus scheme when they were released from the 2019 deferral. To satisfy the tax liability arising, they each sold 88 shares immediately upon their release at an average share price of £27.61 per share. On 9 April 2020, they were each granted 326 share options under the Derwent London Sharesave Plan, further information on page 168.

(ii) Damian Wisniewski acquired 22,394 shares from the PSP 2017 grant which vested on 20 March 2020. The vesting shares included dividend equivalents in the form of 2,111 additional shares. To satisfy the tax liability arising, Damian sold 10,547 shares immediately upon vesting at an average share price of £27.61 per share. Damian Wisniewski acquired and immediately sold 185 shares under the Company's deferred bonus scheme when they were released from the 2019 deferral on 20 March 2020. These shares were sold at an average price of £27.61 per share. On 9 April 2020, Damian was granted 163 share options under the Derwent London Sharesave Plan, further information on page 168.

(iii) Simon Silver acquired 29,436 shares from the PSP 2017 grant which vested on 20 March 2020. The vesting shares included dividend equivalents in the form of 2,775 additional shares. To satisfy the tax liability arising, Simon sold 13,273 shares immediately upon vesting at an average share price of £27.61 per share. Simon Silver acquired and immediately sold 243 shares under the Company's deferred bonus scheme when they were released from the 2019 deferral on 20 March 2020. These shares were sold at an average price of £27.61 per share. On 17 December 2019, Simon transferred 18,742 shares to a UK registered charity for nil consideration. On 16 March 2020, Simon purchased 3,500 shares at an average share price of £29.32. On 23 November 2020, Simon sold 12,170 shares at an average sale price of £31.82.

(iv) John Burns acquired 24,662 shares from the PSP 2017 grant which vested on 20 March 2020. The vesting shares included dividend equivalents in the form of 2,326 additional shares. To satisfy the tax liability arising, John sold 11,121 shares immediately upon vesting at an average share price of £27.61 per share. On 20 March 2020, John Burns acquired 284 shares under the Company's deferred bonus scheme when they were released from the 2019 deferral. To satisfy the tax liability arising, John sold 129 shares immediately upon their release at an average share price of £27.61 per share. On 17 December 2019, John transferred 11,742 shares to a UK registered charity for nil consideration. On 16 November 2020, John sold 163,000 shares at an average sale price of £32.89.

(v) During 2020, Helen Gordon reinvested her dividend to purchase an additional 12 shares.

Remuneration Committee report continued

Directors' shareholding guideline

Executive Directors are subject to within-employment and post-employment shareholding guidelines (see page 156). The within-employment shareholding guideline for the year ended 31 December 2020 expects all Executive Directors to work towards holding shares in Derwent London plc equivalent to 200% of base salary. As at 31 December 2020, all Executive Directors have exceeded the within-employment shareholding guideline.

			Within-employment shareholding guideline		
Executive Director	Beneficially held shares	2020 salary(i)	Target (% of base salary)	Achieved	Value of beneficially held shares(ii)
Paul Williams, CEO	72,576	£600,000	200%	374%	£2,246,953
Damian Wisniewski, CFO	51,952	£480,000	200%	335%	£1,608,434
Simon Silver	121,518	£581,000	200%	648%	£3,762,197
Nigel George	75,416	£480,000	200%	486%	£2,334,879
David Silverman	48,664	£480,000	200%	314%	£1,506,637

Notes:

(i) The base salaries shown in the table above are as at 31 December 2020. Further information on fixed pay during 2020 is provided on page 160.

(ii) The value of the Executive Directors' beneficially held shares has been calculated using the average closing share price during the year ended 31 December 2020 of £30.96.

All Executive Committee members granted PSP awards are expected to work towards holding shares in Derwent London plc equivalent to 50% of base salary. There is no shareholding guideline for Non-Executive Directors. The share ownership guidelines for Executive Directors and Executive Committee members requires them to retain at least half of any deferred bonus shares or performance shares which vest (net of tax) until the guideline is met. Only wholly-owned shares will count towards the guideline.

Due to the relatively large shareholdings of our Executive Directors, a small change in our share price would have a material impact on their wealth. For example, a 5% drop in our share price would result in a loss of value for our Chief Executive, Paul Williams, equivalent to approximately 19% of his base salary.

Sharesave Plan (audited)

To encourage Group-wide share ownership, the Company operates a HMRC tax efficient Sharesave Plan which was approved by shareholders at the 2018 AGM (further information on page 154). The first grant under the Sharesave Plan was in 2019. The outstanding Sharesave options held by Directors are set out in the table below:

	At grant		During the year							
	Date of grant	Option price	1 January 2020 (number)	Granted(i) (number)	Exercised (number)	Lapsed (number)	31 December 2020 (number)	Market price at date of exercise (£)	Value at exercise £'000	Maturity date
Executive Directors										
Paul Williams, CEO	30/04/2019	25.80	348	–	–	–	348			01/06/2022
	09/04/2020	27.53	–	326	–	–	326			01/06/2023
			348	**326**	**–**	**–**	**674**			
Damian Wisniewski, CFO	30/04/2019	25.80	348	–	–	–	348			01/06/2022
	09/04/2020	27.53	–	163	–	–	163			01/06/2023
			348	**163**	**–**	**–**	**511**			
Nigel George	30/04/2019	25.80	348	–	–	–	348			01/06/2022
	09/04/2020	27.53	–	326	–	–	326			01/06/2023
			348	**326**	**–**	**–**	**674**			
David Silverman	30/04/2019	25.80	348	–	–	–	348			01/06/2022
	09/04/2020	27.53	–	326	–	–	326			01/06/2023
			348	**326**	**–**	**–**	**674**			
Other employees										
Other employees	30/04/2019	25.80	18,814	–	–	(744)	18,070			01/06/2022
	09/04/2020	27.53	–	21,589	–	(326)	21,263			01/06/2023
			18,814	**21,589**	**–**	**(1,070)**	**39,333**			
Total			**20,206**	**22,730**	**–**	**(1,070)**	**41,866**			

Note:

(i) On 9 April 2020, the Company granted options over 22,730 shares under the Derwent London Sharesave Plan. The three-year contract for the Options started on 1 June 2020. These Options are exercisable at a price of £27.53 per share from 1 June 2023 and are not subject to any performance conditions.

Long-term incentive plans (audited)

Performance Share Plan (PSP)

The outstanding PSP awards held by Directors are set out in the table below:

	At grant		During the year							
	Date of grant	Market price at date of grant (£)	1 January 2020 (number)	Granted(iii) (number)	Vested(i)(ii) (number)	Lapsed (number)	31 December 2020 (number)	Market price at date of vesting (£)	Value vested £'000	Earliest vesting date
Executive Directors										
Paul Williams, CEO	20/03/2017	27.00	30,850	–	(22,394)	(8,456)	–	27.61	618	20/03/2020
	06/03/2018	29.48	29,104	–	–	–	29,104			08/03/2021
	12/03/2019	32.53	27,174	–	–	–	27,174			12/03/2022
	14/08/2019	29.42	6,713	–	–	–	6,713			14/08/2022
	13/03/2020	33.14	–	36,210	–	–	36,210			13/03/2023
			93,841	**36,210**	**(22,394)**	**(8,456)**	**99,201**			
Damian Wisniewski, CFO	20/03/2017	27.00	30,850	–	(22,394)	(8,456)	–	27.61	618	20/03/2020
	06/03/2018	29.48	29,104	–	–	–	29,104			08/03/2021
	12/03/2019	32.53	27,174	–	–	–	27,174			12/03/2022
	13/03/2020	33.14	–	28,968	–	–	28,968			13/03/2023
			87,128	**28,968**	**(22,394)**	**(8,456)**	**85,246**			
Simon Silver	20/03/2017	27.00	40,550	–	(29,436)	(11,114)	–	27.61	813	20/03/2020
	06/03/2018	29.48	38,263	–	–	–	38,263			08/03/2021
	12/03/2019	32.53	35,720	–	–	–	35,720			12/03/2022
	13/03/2020	33.14	–	35,063	–	–	35,063			13/03/2023
			114,533	**35,063**	**(29,436)**	**(11,114)**	**109,046**			
Nigel George	20/03/2017	27.00	30,850	–	(22,394)	(8,456)	–	27.61	618	20/03/2020
	06/03/2018	29.48	29,104	–	–	–	29,104			08/03/2021
	12/03/2019	32.53	27,174	–	–	–	27,174			12/03/2022
	13/03/2020	33.14	–	28,968	–	–	28,968			13/03/2023
			87,128	**28,968**	**(22,394)**	**(8,456)**	**85,246**			
David Silverman	20/03/2017	27.00	30,850	–	(22,394)	(8,456)	–	27.61	618	20/03/2020
	06/03/2018	29.48	29,104	–	–	–	29,104			08/03/2021
	12/03/2019	32.53	27,174	–	–	–	27,174			12/03/2022
	13/03/2020	33.14	–	28,968	–	–	28,968			13/03/2023
			87,128	**28,968**	**(22,394)**	**(8,456)**	**85,246**			
Former Executive Directors										
John Burns	20/03/2017	27.00	47,250	–	(24,662)	(22,588)	–	27.61	681	20/03/2020
	06/03/2018	29.48	44,586	–	–	–	44,586			08/03/2021
			91,836	**–**	**(24,662)**	**(22,588)**	**44,586**			
Other employees										
Other employees	21/03/2017	27.00	42,640	–	(21,690)	(20,950)	–	27.61	542	20/03/2020
	06/03/2018	29.48	42,484	–	–	–	42,484			08/03/2021
	12/03/2019	32.53	40,407	–	–	–	40,407			12/03/2022
	13/03/2020	33.14	–	43,895	–	–	43,895			13/03/2023
			125,531	**43,895**	**(21,690)**	**(20,950)**	**126,786**			
Total			**687,125**	**202,072**	**(165,364)**	**(88,476)**	**635,357**		**4,508**	

Notes:

(i) The PSP award granted on 20 March 2017 vested on 20 March 2020 at a vesting level of 65.75%. The value of the vesting awards was based on the middle market share price on the vesting date and is inclusive of dividend equivalents in the form of additional vesting shares (see note ii for further details).

(ii) In accordance with the PSP rules, the Remuneration Committee has discretion to allow PSP participants to receive dividend equivalents upon the vesting of their awards, which is equivalent to the value of any dividends paid on those shares between the grant date and the vesting date. For the 2017 PSP grant, dividend equivalents were in the form of additional vesting shares and equated to dividends paid between March 2017 and March 2020. The dividend equivalent shares have been included in the table above, within the number of vesting awards, and equates to 2,326 shares for John Burns, 2,775 shares for Simon Silver and 2,111 shares each for the other Executive Directors.

(iii) The PSP awards granted on 13 March 2020 will vest on 13 March 2023. The performance targets attached to these awards are detailed on page 162.

	31/12/2020	31/12/2019	01/01/2019
Weighted average exercise price of PSP awards	**–**	–	–
Weighted average remaining contracted life of PSP awards	**1.19 years**	1.20 years	1.22 years

At each year end, none of the outstanding awards were exercisable. The weighted average exercise price of awards that either vested or lapsed in 2020 was £nil (2019: £nil). The weighted average market price of awards vesting in 2020 was £27.65 (2019: £32.18).

Remuneration Committee report continued

Deferred Bonus Plan

Details of the deferred bonus shares held by the Directors are set out in the table below:

	At grant			During the year						
	Date of grant	Market price at date of grant (£)	Original Grant (number)	1 January 2020 (number)	Deferred[iii] (number)	Released[i][ii] (number)	31 December 2020 (number)	Market price at date of release (£)	Value at release £'000	Release dates
Executive Directors										
Paul Williams, CEO	20/03/2019	32.50	363	363	–	(182)	181	27.61	5.0	22/03/2021
	13/03/2020	33.03	7,474	–	7,474	–	7,474			15/03/2021 & 14/03/2022
			7,837	**363**	**7,474**	**(182)**	**7,655**			
Damian Wisniewski, CFO	20/03/2019	32.50	363	363	–	(182)	181	27.61	5.0	22/03/2021
	13/03/2020	33.03	6,364	–	6,364	–	6,364			15/03/2021 & 14/03/2022
			6,727	**363**	**6,364**	**(182)**	**6,545**			
Simon Silver	20/03/2019	32.50	476	476	–	(238)	238	27.61	6.7	22/03/2021
	13/03/2020	33.03	7,996	–	7,996	–	7,996			15/03/2021 & 14/03/2022
			8,472	**476**	**7,996**	**(238)**	**8,234**			
Nigel George	20/03/2019	32.50	363	363	–	(182)	181	27.61	5.0	22/03/2021
	13/03/2020	33.03	6,364	–	6,364	–	6,364			15/03/2021 & 14/03/2022
			6,727	**363**	**6,364**	**(182)**	**6,545**			
David Silverman	20/03/2019	32.50	363	363	–	(182)	181	27.61	5.0	22/03/2021
	13/03/2020	33.03	6,364	–	6,364	–	6,364			15/03/2021 & 14/03/2022
			6,727	**363**	**6,364**	**(182)**	**6,545**			
Former Executive Directors										
John Burns	20/03/2019	32.50	556	556	–	(278)	278	27.61	7.8	22/03/2021
	13/03/2020	33.03	3,572	–	3,572	–	3,572			15/03/2021 & 14/03/2022
			4,128	**556**	**3,572**	**(278)**	**3,850**			
Other employees										
Other employees	13/03/2020	33.03	1,834	–	1,834	–	1,834			15/03/2021 & 14/03/2022
			1,834	**–**	**1,834**	**–**	**1,834**			
Total			**42,452**	**2,484**	**39,968**	**(1,244)**	**41,208**		34.5	

Notes:

[i] The 2018 annual bonus in excess of 100% of salary was deferred on 20 March 2019 and will be released in two tranches; 50% of the award was released 12 months after deferral (on 20 March 2020) and the remaining balance will be released after 24 months (on 22 March 2021). See note ii for information on the release of shares on 20 March 2020.

[ii] In accordance with the Annual Bonus Plan rules, the Remuneration Committee has discretion to allow participants to receive dividend equivalents upon the release of their deferred bonus shares, which is equivalent to the value of any dividends paid on those shares between the deferral date and the release date. The dividend equivalents are in the form of additional shares. The dividend equivalent shares added to the released shares on 20 March 2020 are excluded from the above table, but equated to 6 shares for John Burns, 5 shares for Simon Silver and 4 shares each for the other Executive Directors.

[iii] The 2019 annual bonus in excess of 100% of salary was deferred on 13 March 2020 and will be released in two tranches; 50% of the award will be released 12 months after deferral (on 15 March 2021) and the remaining balance after 24 months (on 14 March 2022).

Right: 6-8 Greencoat Place SW1 – CGI of proposed refurbishment to front elevation

Directors' report

David Lawler
Company Secretary

The Directors' report for the financial year ended 31 December 2020 is set out on pages 172 to 175. Additional information, which is incorporated into this Directors' report by reference, including information required in accordance with the Companies Act 2006 and Listing Rule 9.8.4R of the Financial Conduct Authority's Listing Rules, can be located by page reference in the body of this Directors' report and on the following pages:

p.3	Future business developments (throughout the Strategic report)
p.26	Stakeholder engagement
p.82	Viability statement
p.104	The section 172(1) statement
p.50	Diversity and inclusion
p.134	Internal financial control
p.140	Risk management and internal controls
p.169	Long-term incentive schemes
p.175	Significant agreements
p.197	Interest capitalised
p.213	Financial instruments
p.219	Financial risk management
p.220	Credit, market and liquidity risks
p.230	Related party disclosure
p.53	Charitable donations
p.131	Review of the 2020 Annual Report

The Directors present their Annual Report and audited financial statements for the year ended 31 December 2020.

This Annual Report contains certain forward-looking statements. By their nature, any statements about the future outlook involve risk and uncertainty because they relate to events and depend on circumstances that may or may not occur in the future. Actual results, performance or outcomes may differ materially from any results, performance or outcomes expressed or implied by such forward-looking statements. Each forward-looking statement speaks only as of the date of that particular statement.

No representation or warranty is given in relation to any forward-looking statements made by Derwent London, including as to their completeness or accuracy. Nothing in this report and accounts should be construed as a profit forecast.

Both the Strategic report and the Directors' report have been drawn up and presented in accordance with and in reliance upon applicable English company law, and the liabilities of the Directors in connection with that report shall be subject to the limitations and restrictions provided by such law.

Corporate governance arrangements

During the year ended 31 December 2020, we have applied the principles of good governance contained in the UK Corporate Governance Code 2018 (the 'Code'). Our Compliance Statement for 2020 is on page 103. Further details on how we have applied the Code can be found in the Governance section on pages 101 to 175. The Code can be found in the Corporate Governance section of the Financial Reporting Council's website: **www.frc.org.uk**

Company status and branches

Derwent London plc is a Real Estate Investment Trust (REIT) and the holding company of the Derwent London group of companies which includes no branches. It is listed on the London Stock Exchange main market with a premium listing, and is registered and domiciled in England and Wales (company number 01819699).

Results and dividends

The financial statements set out the results of the Group for the financial year ended 31 December 2020 and are shown on page 187. The Directors recommend a final dividend of 52.45 pence per ordinary share for the year ended 31 December 2020. When taken together with the interim dividend of 22.00 pence per ordinary share paid in October 2020, this results in a total dividend for the year of 74.45 pence (2019: 72.45 pence) per ordinary share. Subject to approval by shareholders of the recommended final dividend, the dividend to shareholders for 2020 will total £58.7m. If approved, the Company will pay the final dividend on 4 June 2021 to shareholders on the register of members at 30 April 2021.

PID and non-PID dividends

As a REIT, Derwent London must distribute at least 90% of the Group's income profits from its tax-exempt property rental business by way of a dividend, which is known as a Property Income Distribution (PID). These distributions can be subject to withholding tax at 20%. Dividends from profits of the Group's taxable residual business are non-PID and will be taxed as an ordinary dividend.

Key stakeholders

The long-term success of the Group is dependent on its relationships with its key stakeholders. On pages 26 and 27 we outline the ways in which we have engaged with key stakeholders, the material issues that they have raised with us, and how these issues have been taken into account in the Board's decision-making processes.

Substantial shareholders

The table below shows the holdings in the Company's issued share capital which had been notified to the Company pursuant to the Financial Conduct Authority's Disclosure Guidance and Transparency Rules. The information below was correct at the date of notification. It should be noted that these holdings may have changed since the Company was notified. However, notification of any change is not required until the next notifiable threshold is crossed.

	31 December 2020			10 March 2021		
	Direct/indirect	Number of shares (m)	%	Direct/indirect	Number of shares (m)	%
PGGM Vermogensbeheer B.V.	Direct	9.4	8.37	Direct	8.9	7.94
Norges Bank	Direct	10.1	9.00	Direct	10.1	9.00
BlackRock Investment Management (UK) Ltd	Indirect	6.0	5.39	Indirect	6.0	5.39
T. Rowe Price Associates, Inc	Indirect	5.6	5.03	Indirect	11.2	10.01
Ameriprise Financial Inc (Columbia Threadneedle)	Indirect	4.8	4.75	Indirect	4.8	4.75
Lady Jane Rayne	Direct	3.6	3.56	Direct	3.6	3.56

Employees

The Board recognises the importance of attracting, developing and retaining the right people. In accordance with best practice, we have employment policies in place which provide equal opportunities for all employees, irrespective of sex, race, colour, disability, sexual orientation, religious beliefs or marital status. Dame Cilla Snowball is the designated Director responsible for gathering the views of the workforce. Further information on the Board's methods for engaging with the workforce are on pages 50, 51 and 115. During the year, an additional employee joined the Responsible Business Committee as a member (see page 147).

Directors

The Directors of the Company who were in office during the year under review are set out on pages 106 and 107. Between 31 December 2020 to the date the financial statements were signed, Simon Silver retired as a Director on 26 February 2021 and Mark Breuer and Emily Prideaux were appointed Directors on 1 February and 1 March 2021, respectively.

The Board is required to consist of no fewer than two Directors and not more than 15. Shareholders may vary the minimum and/or maximum number of Directors by passing an ordinary resolution. Copies of the Executive Directors' service contracts are available to shareholders for inspection at the Company's registered office and at the Annual General Meeting (AGM). Details of the Directors' remuneration and service contracts and their interests in the shares of the Company are set out on pages 150 to 170.

Appointment and replacement of Directors

Directors may be appointed by ordinary resolution of the shareholders, or by the Board. Appointment of a Director from outside the Group is on the recommendation of the Nominations Committee, whilst internal promotion is a matter decided by the Board unless it is considered appropriate for a recommendation to be requested from the Nominations Committee.

At every AGM of the Company, any of the Directors who have been appointed by the Board since the last AGM shall seek election by the members. Mark Breuer and Emily Prideaux will therefore be seeking election as Directors following their appointment to the Board on 1 February and 1 March 2021, respectively.

Notwithstanding provisions in the Company's Articles of Association, the Board has agreed, in accordance with the Code and in line with previous years, that all of the Directors wishing to continue will retire and, being eligible, offer themselves for re-election by the shareholders at the 2021 AGM. All Directors who held office during the financial year under review, will be putting themselves forward for re-election at the AGM on 14 May 2021, except Simon Silver who retired on 26 February 2021 and John Burns who will retire following the conclusion of the AGM.

Directors' indemnity

The Company maintains appropriate Directors' and Officers' liability insurance cover in respect of any potential legal action brought against its Directors. The Company has also indemnified each Director to the extent permitted by law against any liability incurred in relation to acts or omissions arising in the ordinary course of their duties. The indemnity arrangements are qualifying indemnity provisions under the Companies Act 2006 and were in force throughout the year.

Powers of the Directors

Subject to the Company's Articles of Association, the Companies Act and any directions given by special resolution, the business of the Company is managed by the Board, who may exercise all the powers of the Company, whether relating to the management of the business of the Company or not. In particular, the Board may exercise all the powers of the Company to borrow money, to guarantee, to indemnify, to mortgage or charge any of its undertakings, property, assets (present and future) and uncalled capital and to issue debentures and other securities and to give security for any debt, liability or obligation of the Company or of any third party.

Directors' training and development

Details of the training that has been provided to the Executive and Non-Executive Directors during the year can be found on page 120.

Share capital

As at 10 March 2021, the Company's issued share capital comprised a single class of 5p ordinary shares and equalled an amount of £5,598,070 divided into 111,961,411 ordinary shares.

The market price of the 5p ordinary shares at 31 December 2020 was £30.96 (2019: £40.10). During the year, they traded in a range between £23.34 and £43.62 (2019: £27.85 and £40.82).

Details of the ordinary share capital and shares issued during the year can be found in note 28 to the financial statements.

Rights and restrictions attaching to shares

Subject to the Articles of Association, the Companies Act and other shareholders' rights, shares in the Company may be issued with such rights and restrictions as the shareholders may by ordinary resolution decide, or if there is no such resolution, as the Board may decide provided it does not conflict with any resolution passed by the shareholders.

These rights and restrictions will apply to the relevant shares as if they were set out in the Articles of Association. Subject to the Articles of Association, the Companies Act and other shareholders' rights, unissued shares are at the disposal of the Board.

Directors' report continued

Variation of rights

The rights attached to any class of shares can be amended if approved, either by 75% of shareholders holding the issued shares in that class by amount, or by special resolution passed at a separate meeting of the holders of the relevant class of shares.

Every member and every duly appointed proxy present at a general meeting or class meeting has, upon a show of hands, one vote and every member present in person or by proxy has, upon a poll, one vote for every share held by him or her. No person holds securities in the Company carrying special rights with regard to control of the Company.

Derwent London shares held by the Group

As at 31 December 2020, the Group holds 41,185 Derwent London shares in order to deliver the deferred bonus shares to the Directors and other senior executives when the deferral periods expire (see page 170). Movements on the holding of these shares are detailed below.

	Year ended 31 December 2020				Year ended 31 December 2019			
	As at 1 January 2020	Acquired	Disposal	As at 31 December 2020	As at 1 January 2019	Acquired	Disposal	As at 31 December 2019
Number of 5p ordinary shares	2,484	39,968	1,267	41,185	–	2,484	–	2,484
Price		£33.03				£32.50		
Percentage of issued share capital				0%				0%

Restrictions on transfer of securities in the Company

There are no specific restrictions on the transfer of securities in the Company, which is governed by its Articles of Association and prevailing legislation. The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities.

Powers in relation to the Company issuing or buying back its own shares

At the 2020 AGM, shareholders authorised the Company to allot relevant securities:

(i) up to a nominal amount of £1,862,702; and
(ii) up to a nominal amount of £3,725,962, after deducting from such limit any relevant securities allotted under (i), in connection with an offer by way of a rights issue.

This authority is renewable annually. An ordinary resolution will be proposed at the 2021 AGM to grant a similar authority to allot:

(i) up to a nominal amount of £1,865,837 (being one-third of the issued share capital of the Company); and
(ii) up to a nominal amount of £3,732,234, after deducting from such limit any relevant securities allotted under (i), in connection with an offer by way of a rights issue (being two-thirds of the issued share capital).

At the 2021 AGM, similar to previous years, authority will be sought via a special resolution to enable the Directors to allot securities and/or sell any treasury shares for cash on a non-pre-emptive basis up to a nominal amount of £279,904 (representing 5% of the issued share capital). In addition, authority will be sought via a special resolution to enable the Directors to allot securities and/or sell treasury shares for cash on a non-pre-emptive basis for the purposes of financing (or refinancing, if the authority is to be used within six months after the original transaction) an acquisition or other capital investment. The allotment of equity securities or sale of treasury shares under such authority will also be limited to a nominal amount of £279,904 (representing a further 5% of the issued share capital).

A further special resolution will be proposed to renew the Directors' authority to repurchase the Company's ordinary shares in the market. The authority will be limited to a maximum of 11,196,141 ordinary shares and the resolution sets the minimum and maximum prices which may be paid. The Directors will only purchase the Company's shares in the market if they believe it is in the best interests of shareholders generally.

Voting

Shareholders will be entitled to vote at a general meeting whether on a show of hands or a poll, as provided in the Companies Act.

Where a proxy is given discretion as to how to vote on a show of hands this will be treated as an instruction by the relevant shareholder to vote in the way in which the proxy decides to exercise that discretion. This is subject to any special rights or restrictions as to voting which are given to any shares or upon which any shares may be held at the relevant time and to the Articles of Association.

If more than one joint holder votes (including voting by proxy), the only vote which will count is the vote of the person whose name is listed first on the register for the share.

Restrictions on voting

Unless the Directors decide otherwise, a shareholder cannot attend or vote shares at any general meeting of the Company or upon a poll or exercise any other right conferred by membership in relation to general meetings or polls if they have not paid all amounts relating to those shares which are due at the time of the meeting, or if they have been served with a restriction notice (as defined in the Articles of Association) after failure to provide the Company with information concerning interests in those shares required to be provided under the Companies Act.

The Company is not aware of any agreements between shareholders that may result in restrictions on voting rights.

Significant agreements

There are no agreements between the Company and its Directors or employees providing for compensation for loss of office or employment that occurs because of a takeover bid, except that, under the rules of the Group's share-based remuneration schemes some awards may vest following a change of control.

Some of the Group's banking arrangements are terminable upon a change of control of the Company.

As a REIT, a tax charge may be levied on the Company if it makes a distribution to another Company which is beneficially entitled to 10% or more of the shares or dividends in the Company or controls 10% or more of the voting rights in the Company (a substantial shareholder), unless the Company has taken reasonable steps to avoid such a distribution being made. The Company's Articles of Association give the Directors power to take such steps, including the power to:

- identify a substantial shareholder;
- withhold the payment of dividends to a substantial shareholder; and
- require the disposal of shares forming part of a substantial shareholding.

There is no person with whom the Group has a contractual or other arrangement that is essential to the business of the Company.

Amendment of Articles of Association

Unless expressly specified to the contrary in the Company's Articles of Association (the Articles), the Articles may be amended by a special resolution of the Company's shareholders.

During 2020, the Board reviewed the Articles to ensure that they reflected updates to legislation, the UK Corporate Governance Code 2018 and included procedural mechanics governing how the Company may hold general meetings (including through a combination of a physical meeting and the use by shareholders of an electronic facility). The Directors will be seeking shareholder approval at the 2021 AGM to alter the Articles with a full summary of the proposed changes being disclosed in the Notice of Meeting.

Fixed assets

The Group's portfolio was professionally revalued at 31 December 2020, resulting in a deficit of £178.5m, before accounting adjustments of £19.0m. The portfolio is included in the Group balance sheet at a carrying value of £5,253m. Further details are given in note 16 of the financial statements.

Post-balance sheet events

Details of post-balance sheet events are given in note 36 of the financial statements.

Political donations

There were no political donations during 2020 (2019: nil).

Auditors

PricewaterhouseCoopers LLP, which was appointed in 2014 following a competitive tender process, has expressed its willingness to continue in office as the Group's Auditor and, accordingly, resolutions to reappoint it and to authorise the Audit Committee, for and on behalf of the Directors, to determine its remuneration will be proposed at the AGM. These are resolutions 16 and 17 set out in the Notice of Meeting.

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's Auditor is unaware and that each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and ensure that the Auditor is aware of such information.

Greenhouse gas emissions

In line with our commitment to transparent and best practice reporting, we have included our streamlined energy and carbon reporting (SECR) disclosures on page 62 of the Responsibility section, which includes our annual GHG (greenhouse gas) emissions footprint and an intensity ratio appropriate for our business, which fulfil the requirements of the Companies Act 2006 (Strategic and Directors' Report) Regulations 2013. We are committed to becoming a net zero carbon business by 2030 and our Net Zero Carbon Pathway to achieving this was published on 28 July 2020. For further analysis and detail on our GHG emissions, please see our annual Responsibility Report, which can be found at: **www.derwentlondon.com/responsibility**

Going concern

Under provision 30 of the Code, the Board is required to report whether the business is a going concern. In considering this requirement, the Directors have taken into account the following:

- the Group's latest rolling forecast for the next two years, in particular the cash flows, borrowings and undrawn facilities. Sensitivity analysis is included within these forecasts;
- the headroom under the Group's financial covenants; and
- the risks included on the Group's risk register that could impact on the Group's liquidity and solvency over the next 12 months.

Having due regard to these matters, and after making appropriate enquiries, the Directors have a reasonable expectation that the Group and Company have adequate resources to continue in operational existence until at least March 2022. Therefore, the Board continues to adopt the going concern basis in preparing the financial statements.

Annual General Meeting (AGM)

In response to the Covid-19 pandemic, and in line with the related public health guidance and legislation issued by the UK government, the 2020 AGM was held on 15 May as a closed meeting. Shareholders and other stakeholders were able to participate in the AGM, and ask questions of the Board remotely, via conference call facilities. We were delighted to receive in excess of 90% votes in favour of all resolutions. In total, 80.10% of our shareholders (voting capital) voted at the 2020 AGM.

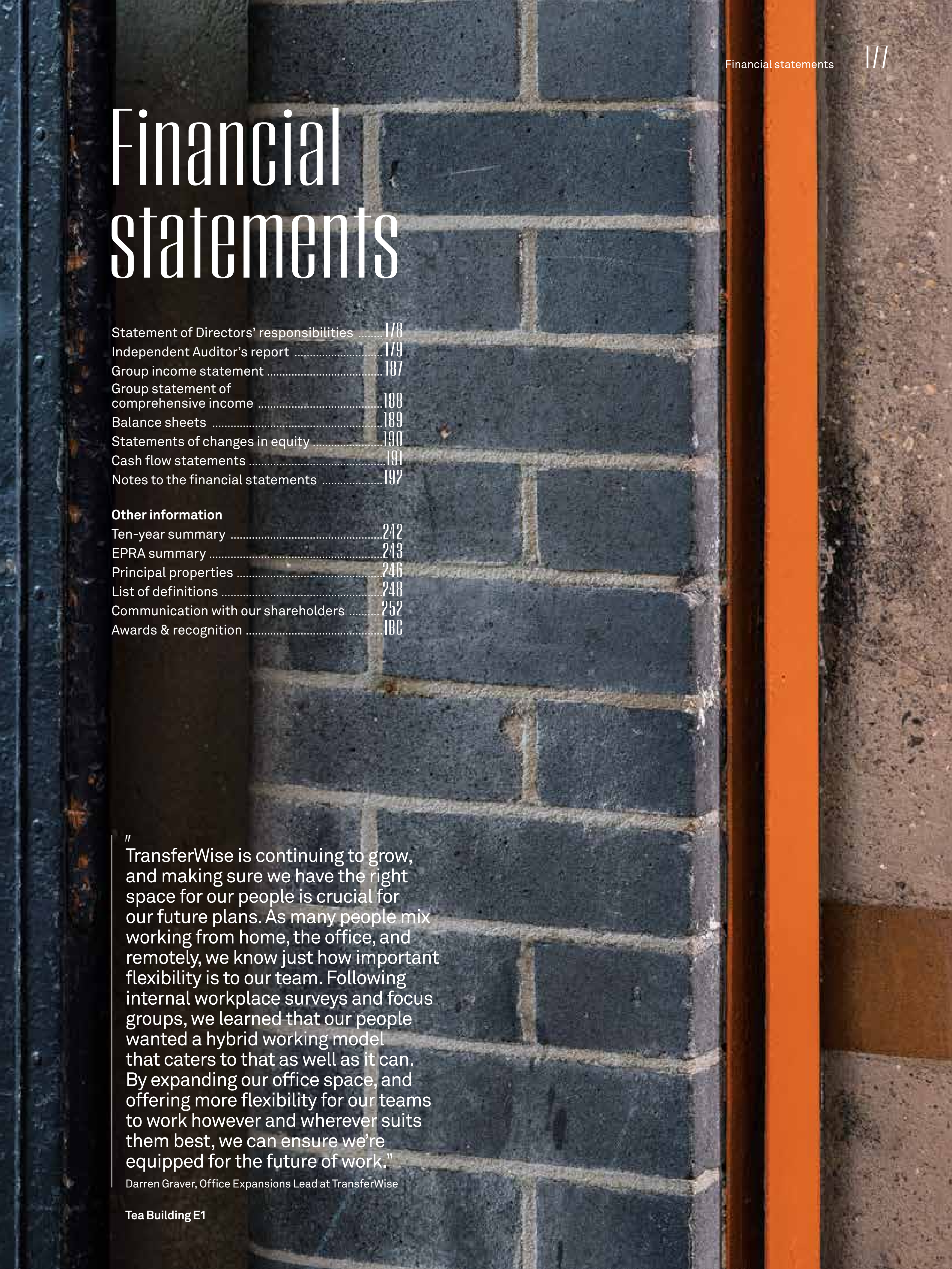
Unfortunately, current government guidance does not permit us to physically welcome shareholders to our 2021 AGM. Derwent London plc's 2021 AGM will be held at 25 Savile Row, London W1S 2ER on 14 May at 10.30 am. The AGM will be run as a closed meeting. Shareholders will not be able to attend in person, however they will be able to participate via conference call facilities.

The Notice of Meeting together with explanatory notes is contained the circular to shareholders that accompanies the Report and Accounts.

In the event we receive 20% or more votes against a recommended resolution at a general meeting, we would announce the actions we intend to take to engage with our shareholders to understand the result in accordance with the Code. We would follow this announcement with a further update within six months of the meeting, with an overview of our shareholders' views on the resolutions and the remedial actions we have taken. To date, the Board has not been required to follow these procedures due to the high level of support received from shareholders.

The Strategic report and Directors' report have been approved by the Board of Directors and signed by order of the Board by:

David Lawler
Company Secretary
10 March 2021



Financial statements

> "TransferWise is continuing to grow, and making sure we have the right space for our people is crucial for our future plans. As many people mix working from home, the office, and remotely, we know just how important flexibility is to our team. Following internal workplace surveys and focus groups, we learned that our people wanted a hybrid working model that caters to that as well as it can. By expanding our office space, and offering more flexibility for our teams to work however and wherever suits them best, we can ensure we're equipped for the future of work."
>
> Darren Graver, Office Expansions Lead at TransferWise

Tea Building E1

Statement of Directors' responsibilities
in respect of the financial statements

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 Company financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. Additionally, the Financial Conduct Authority's Disclosure Guidance and Transparency Rules require the Directors to prepare the Group financial statements in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

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, for the Group and Company, international accounting standards in conformity with the requirements of the Companies Act 2006 and, for the Group, international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union 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 also 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 responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' confirmations

The Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's and Company's position and performance, business model and strategy.

Each of the Directors, whose names and functions are listed in pages 106 and 107 confirm that, to the best of their knowledge:

- the Group and Company financial statements, which have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, give a true and fair view of the assets, liabilities, financial position and loss of the Group and profit of the Company; and
- the Strategic report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that it faces.

The financial statements on pages 187 to 241 were approved by the Board of Directors and signed on its behalf by:

Paul Williams
Chief Executive

Damian Wisniewski
Chief Financial Officer

10 March 2021

Independent Auditor's report

to the members of Derwent London plc

Report on the audit of the financial statements

Opinion

In our opinion, Derwent London plc's Group financial statements and Company financial statements (the "financial statements"):

- give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2020 and of the Group's loss and the Group's and Company's cash flows for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Report and Accounts 2020 (the "Annual Report"), which comprise: the Balance sheets as at 31 December 2020; the Group income statement and Group statement of comprehensive income, the Cash flow statements, and the Statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Separate opinion in relation to international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union

As explained in note 1 to the Group financial statements, the Group, in addition to applying international accounting standards in conformity with the requirements of the Companies Act 2006, has also applied international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

In our opinion, the Group financial statements have been properly prepared in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group.

Other than those disclosed in note 10 to the financial statements, we have provided no non-audit services to the Group in the period under audit.

Our audit approach

Overview

Audit scope

- We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the Group, the accounting processes and controls, and the industry in which the Group operates.
- The Group's properties are spread across 51 statutory entities with the Group financial statements being a consolidation of these entities, the Company and the Group's joint ventures. All work was carried out by the Group audit team with additional procedures performed on the consolidation to ensure sufficient coverage for our opinion on the Group financial statements as a whole.

Key audit matters

- Valuation of investment properties (Group)
- Compliance with REIT guidelines (Group)
- Covid-19 (Group and Company)
- Accounting for the expected credit loss provision (Group)
- Revenue recognition (Group)

Materiality

- Overall Group materiality: £55.3million (2019: £56.2million) based on 1% of Total Assets.
- Specific materiality of £7.1million (2019: £4.0million) applied to property and other income, administrative expenses, provisions and working capital balances.
- Overall Company materiality: £33.7million (2019: £48.7million) based on 1% of Total Assets.
- Performance materiality: £41.4million (Group) and £25.3million (Company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Independent Auditor's report continued

Capability of the audit in detecting irregularities, including fraud
Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined in the Auditors' responsibilities for the audit of the financial statements section, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to non-compliance with health and safety or environmental and sustainability legislation and breaches of the Real Estate Investment Trust (REIT) status section 1158 of the Corporation Tax Act 2010, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue or reduce expenditure, and management bias in accounting estimates and judgemental areas of the financial statements such as the valuation of investment properties. Audit procedures performed by the engagement team included:

- Discussions with management, including the Company Secretary, over their consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Understanding and evaluating management's controls designed to prevent and detect irregularities;
- Discussion with and review of the reports made by internal audit;
- Assessment of matters reported on the Group's whistleblowing helpline and the results of management's investigation of such matters where relevant;
- Review of tax compliance with the involvement of our tax specialists in the audit;
- Procedures relating to the valuation of investment properties described in the related key audit matter below;
- Reviewing relevant meeting minutes, including those of the Board of Directors, Risk Committee and the Audit Committee; and
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations or posted by senior management.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters
Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

Accounting for the expected credit loss provision, Covid-19 and Revenue recognition are new key audit matters this year. Accounting for borrowings and derivatives, which was a key audit matter last year, is no longer included because of the lower level of new financing activity in comparison to the prior year. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Valuation of investment properties **Group** Refer to the Audit Committee report (Significant financial judgements, key assumptions and estimates) and note 16 (Property portfolio) to the financial statements. The Group's property portfolio principally consists of offices and commercial space within central London. The remainder of the portfolio represents a retail park, cottages and strategic land in Scotland. Valuations are carried out by third party valuers in accordance with the RICS Valuation – Professional Standards, IAS 40 and IFRS 13. There are significant judgements and estimates to be made in relation to the valuation of the Group's investment properties. Where available, the valuations take into account evidence of market transactions for properties and locations comparable to those of the Group. The central London investment property portfolio mainly features office accommodation and includes: Standing investments: These are existing properties that are currently let. They are valued using the income capitalisation method. Development projects: These are properties currently under development or identified for future development. They have a different risk and investment profile to the standing investments. These are valued using the residual appraisal method (i.e. by estimating the fair value of the completed project using the income capitalisation method less estimated costs to completion and a risk premium). The most significant estimates affecting the valuation included yields and estimated rental value ("ERV") growth (as described in note 16 of the financial statements). For development projects, other assumptions including costs to completion and risk premium assumptions are also factored into the valuation. The deficit on revaluation is primarily driven by the impact of the Covid-19 pandemic on the retail element of the property portfolio. Excluding the retail element, relatively flat ERVs have been maintained in the central London property market and the development properties have increased in value. The existence of significant estimation uncertainty particularly during the current pandemic, coupled with the fact that only a small percentage difference in individual property valuations when aggregated could result in material misstatement, is why we have given specific audit focus and attention to this area.	The valuers used by the Group are CBRE Limited for the central London portfolio and Savills for the majority of the remaining investment property portfolio in Scotland. They are well-known firms, with sufficient experience of the Group's market. We assessed the competence and capabilities of the firms and verified their qualifications by discussing the scope of their work and reviewing the terms of their engagements for unusual terms or fee arrangements. Based on this work, we are satisfied that the firms remain objective and competent and that the scope of their work was appropriate. We tested the data inputs underpinning the investment property valuation for a sample of properties, including rental income, acquisitions and capital expenditure, by agreeing them to the underlying property records held by the Group to assess the reliability, completeness and accuracy of the underlying data. The underlying property records were assessed for reliability by reviewing signed and approved lease contracts or sale/purchase contracts and by reviewing approved third party invoices. For the properties currently under development, we traced the costs to date included within development appraisals to quantity surveyor reports. We met with the external valuers independently of management and obtained the valuation reports to discuss and challenge the valuation methodology and assumptions. We involved our internal valuation specialists to compare the valuations of each property with our independently formed market expectations and challenged any differences. In doing this we used evidence of comparable market transactions and focused in particular on properties where the growth in capital values was higher or lower than our expectations based on market indices. We identified the following categories of assets for further testing: standing investments where the valuation fell outside the expected range; ongoing and planned development projects; high value assets over £100million; and acquisitions. In relation to these assets, we found that yield rates and ERVs were predominantly consistent with comparable information for central London offices and assumptions appropriately reflected comparable market information. Where assumptions did not fall within our expected range, we assessed whether additional evidence presented in arriving at the final valuations was appropriate. Variances were largely due to property specific factors such as movements in ERV or yield to reflect market transactions in close proximity, exposure to retail or the derisking of development projects nearing completion. We verified the movements to supporting documentation including evidence of comparable market transactions where appropriate. We challenged the Directors on the movements in the valuations and found that they were able to provide explanations and refer to appropriate supporting evidence.
Compliance with REIT guidelines **Group** Refer to the Audit Committee report (Significant financial judgements, key assumptions and estimates) and note 3 (Significant judgements, key assumptions and estimates). The UK REIT regime grants companies tax exempt status provided they meet the rules within the regime. The rules are complex and the tax exempt status has a significant impact on the financial statements. The complexity of the rules creates a risk of an inadvertent breach and the Group's profit becoming subject to tax.	We confirmed our understanding of management's approach to ensuring compliance with the REIT regime rules. We obtained management's calculations and supporting documentation, checking their accuracy by verifying the inputs and calculation. We involved our internal taxation specialists to verify the accuracy of the application of the rules. We found that the assessment prepared was free from material error and consistent with the UK REIT guidelines.

Independent Auditor's report continued

Key audit matter	How our audit addressed the key audit matter
Covid-19 **Group and Company** Refer to the Strategic report – "Our principal risks", the Viability statement, the Audit Committee report, and note 3 (Significant judgements, key assumptions and estimates). The Covid-19 pandemic has had an impact on the performance of the Group during 2020. As a result, the pandemic has brought increased estimation uncertainty to certain areas of the financial statements. In order to assess the impact of Covid-19 on the business, management has updated their risk assessment and prepared an analysis of the potential impact on the revenues, profits, cash flows, operations and liquidity position of the Group for the next 12 months. The analysis and related assumptions have been used by management in its assessment of the level of provisions required against several balance sheet items, as well as underpinning the Group's going concern and viability analysis. The key areas of the financial statements most impacted by the increased estimation uncertainty are described below: i) Valuation of investment properties, in particular in respect of properties dependent on the retail or hospitality sectors; ii) Accounting for the expected credit loss provision; and iii) Going concern forecasts. The Directors have carefully considered the appropriateness of the going concern basis of preparation, including assessing the impact on the Group's working capital and projected covenant compliance using their experience of the impacts of the pandemic during 2020.	In response to the key areas identified as being significantly impacted by Covid-19, we performed the following procedures: We evaluated the Group's updated risk assessment and analysis and considered whether it addresses the relevant potential risks posed by Covid-19. We specifically considered the areas identified as most impacted by the increased estimation uncertainty: i) Refer to our key audit matter above for details of how we considered the impact of Covid-19 on our audit procedures over the valuation of investment properties; ii) Refer to our key audit matter below for details of how we considered the impact of Covid-19 on the accounting for the expected credit loss provision; and iii) In respect of going concern, we assessed the Directors' going concern analysis in light of Covid-19 and obtained evidence to support the key assumptions used in preparing the going concern model, including assessing covenant headroom within the base and downside case scenarios. The key assumptions included: • Tenant covenant assumptions • Void and rent-free period assumptions • Cash collection assumptions. We challenged these assumptions and the reasonableness of the mitigating actions assumed in preparing the analysis with reference to actual results during 2020. We obtained and reperformed the Group's forecast covenant compliance calculations, including sensitising the profits and cash flows as applicable for each covenant to assess the potential impact of our downside sensitivities on covenant compliance. We considered whether changes to working practices brought about by Covid-19 had an adverse impact on the effectiveness of management's business process, and we are satisfied in this regard. Further detail of our audit procedures performed in respect of going concern and our conclusions on going concern are set out in the "Conclusions relating to going concern" section of our report below. We reviewed the disclosures presented in the Annual Report in relation to Covid-19 and going concern and assessed their consistency with the financial statements and the evidence we obtained in our audit. No issues were identified in our testing.

Key audit matter	How our audit addressed the key audit matter
Accounting for the expected credit loss provision **Group** Refer to the Audit Committee report (Significant financial judgements, key assumptions and estimates), note 3 (Significant judgements, key assumptions and estimates) and note 20 (Trade and other receivables) to the financial statements. IFRS 9 requires that credit losses on financial assets are measured and recognised using the "expected credit loss" (ECL) approach. The Group has applied the simplified approach to trade receivables and lease incentive debtors. Covid-19 and the resulting economic and social disruption brought unforeseen challenges to London and the wider global economy; impacting the Group and in general the overall risk profile. Due to the restrictions arising from the Covid-19 pandemic there is an increased risk of tenants defaulting or tenant failure, particularly in respect to the leisure, retail and hospitality sectors. The impact of Covid-19 has therefore given rise to higher estimated probabilities of default for specific tenants. The estimation uncertainty in the ECL calculation has been increased by the uncertainties around collection of receivables as well as the recoverability of lease incentive debtors caused by Covid-19. During the year an ECL provision of £9.2million (2019: £0.4million) has been recorded. In arriving at the Group's estimate, management has considered the probability of default for tenants at higher risk, particularly in the retail or hospitality sectors, those in administration or company voluntary arrangements (CVA) and the top 83 tenants by size. Management has also considered the remaining balances classified by sector risk. Due to the subjectivity of the assumptions used therein, we have considered this an area of audit focus.	We obtained and examined the calculations of the ECL provision. We evaluated the basis for determining the categorisation of tenants by risk and the associated probability of default percentages applied to each category. We tested a sample of tenant rent concessions and deferrals granted in response to Covid-19 to underlying agreements or communication with the tenants. We tested the treatment of concessions to ensure that they have been correctly accounted for as lease modifications in line with IFRS 16. We also ensured these have been appropriately included within the ECL calculation. We reviewed the risk committee meeting minutes and compared these against the ECL model to ensure that the tenant specific discussions were reflected in the provision calculation. We obtained an ageing report of trade receivables and tested the accuracy by checking the ageing of selected invoices on a sample basis. We performed independent research over a sample of tenants in order to assess any contradictory evidence and how this had been incorporated into the forward-looking probability of default assigned to the tenant. We evaluated the key judgements and estimates relating to the application of the probability of default. We also reviewed the disclosures made in relation to the ECL provision and the sensitivity of the provision to the underlying probability of default applied. No issues were identified in our testing.
Revenue recognition **Group** Refer to the Strategic report – "Our principal risks" and note 5 (Property and other income) to the financial statements. Revenue for the Group consists primarily of rental income. Rental income is based on tenancy agreements where there is a standard process in place for recording revenue. There are certain transactions within revenue that warrant additional audit focus because of an increased inherent risk of error due to their non-standard nature. These include spreading of tenant incentives, guaranteed rent increases and rental concessions given to tenants as a result of Covid-19. These balances require adjustments made to rental income to ensure revenue is recorded on a straight-line basis over the course of the lease.	We carried out tests of controls over the input of data into the tenancy management system and the automatic calculation of rental demands. We performed substantive testing procedures over rental income and lease incentives to ensure the recording of revenue is accurate. For rental income balances, we tested a sample of balances to invoices and traced receipts to bank statements and ensured that rental income had been appropriately recorded. We also performed a recalculation of a sample of rental income based on the information in the tenancy management system to gain comfort over the completeness of revenue recognised. We performed sample testing over the lease data recorded in the tenancy management system to supporting lease agreements, to gain comfort over the accuracy of the data in the tenancy management system. We tested a sample of lease incentive debtor balances back to supporting documentation agreeing the inputs to the lease incentive calculations and assessed the appropriateness of the calculations in line with IFRS 16 (Leases). We recalculated a sample of lease incentive adjustments posted to revenue in the year to ensure that lease incentive debtors are being accrued for and subsequently amortised in line with IFRS 16 (Leases). We used substantive testing procedures to ensure that a sample of rental concessions and deferrals offered to tenants as a result of Covid-19 had been correctly accounted for within the requirements of IFRS 16 (Leases). We assessed the recoverability of trade and lease incentive debtors, refer to our key audit matter above which addresses the accounting for the expected credit loss provision under the requirements of IFRS 9 (Financial Instruments). No issues were identified in our testing.

Independent Auditor's report continued

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

The Group's properties are spread across 51 statutory entities with the Group financial statements being a consolidation of these entities, the Company and the Group's joint ventures. All work was carried out by the Group audit team with additional procedures performed on the consolidation to ensure sufficient coverage and appropriate audit evidence for our opinion on the Group financial statements as a whole.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Financial statements – Group	Financial statements – Company
Overall materiality	£55.3million (2019 : £56.2million).	£33.7million (2019: £48.7million).
How we determined it	1% of Total Assets	1% of Total Assets
Rationale for benchmark applied	The key driver of the business and determinant of the Group's value is direct property investments. Due to this, the key area of focus in the audit is the valuation of investment properties. On this basis, we set an overall Group materiality level based on total assets.	The key driver of the business and determinant of the Company's value is investments in subsidiaries. Due to this, the key area of focus in the audit is the valuation of investments in subsidiaries. On this basis, we set an overall Company materiality level based on total assets.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £41.4million for the Group financial statements and £25.3million for the Company financial statements.

In addition, we set a specific materiality level of £7.1million (2019: £4.0million) for property and other income, administrative expenses, provisions and working capital balances. This equates to 5% of loss before tax adjusted for capital and other items.

In determining the performance materiality, we considered a number of factors – the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls – and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £2.7 million (for items audited using overall materiality) and £0.7 million (for items audited using specific materiality) (2019: £2.7 million and £0.4 million) (Group audit) and £1.7 million (2019: £2.4 million) (Company audit) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the Directors' assessment of the Group's and the Company's ability to continue to adopt the going concern basis of accounting included:

- Audited the integrity of the underlying formulas and calculations within the going concern model;
- Considered management's forecasting accuracy by comparing how the forecasts made at the half year compare to the actual performance in the second half of the year;
- Performed further sensitivity analysis on the downside going concern scenario to model the impact of the top tenants defaulting on rent due from September and December 2020. Sufficient liquidity and covenant headroom exists to accommodate this under the stress tested downside scenario;
- Tested a sample of cash receipts from the September and December 2020 quarters to assess if the collection rates assumed within the going concern base case and downside reflect actual experience during the pandemic;
- Tested a sample of rent waivers and deferrals and compared these to the assumptions under the base case and downside going concern assessment to consider the reasonableness of the assumptions; and
- Reverse stress tested the downside going concern assessment by assessing the total fall in investment property required in order to breach banking covenants.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Group's and the Company's ability to continue as a going concern.

In relation to the Company's reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our Auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

Directors' Remuneration

In our opinion, the part of the Remuneration Committee report to be audited has been properly prepared in accordance with the Companies Act 2006.

Corporate governance statement

The Listing Rules require us to review the Directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The Directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The Directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the Group's and Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The Directors' explanation as to their assessment of the Group's and Company's prospects, the period this assessment covers and why the period is appropriate; and
- The Directors' statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the Directors' statement regarding the longer-term viability of the Group was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the Group and Company and their environment obtained in the course of the audit.

Independent Auditor's report continued

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The Directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Company's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the Audit Committee.

We have nothing to report in respect of our responsibility to report when the Directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditors.

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: **www.frc.org.uk/auditorsresponsibilities**. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- the Company financial statements and the part of the Remuneration Committee report to be audited are not in agreement with the accounting records and returns.; or

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the Directors on 14 May 2014 to audit the financial statements for the year ended 31 December 2014 and subsequent financial periods. The period of total uninterrupted engagement is seven years, covering the years ended 31 December 2014 to 31 December 2020.

Sandra Dowling (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
10 March 2021

Group income statement

for the year ended 31 December 2020

	Note	2020 £m	2019 £m
Gross property and other income	5	**268.6**	230.3
Net property and other income[1]	5	**183.0**	182.6
Administrative expenses		**(37.8)**	(37.0)
Revaluation (deficit)/surplus	16	**(196.1)**	156.4
Profit on disposal	6	**1.7**	13.8
(Loss)/profit from operations		**(49.2)**	315.8
Finance income	7	**0.2**	0.2
Finance costs	7	**(30.3)**	(26.7)
Bond redemption premium	7	**–**	(7.7)
Loan arrangement costs written off	7	**(0.1)**	(0.1)
Movement in fair value of derivative financial instruments		**(1.9)**	(0.1)
Financial derivative termination costs	8	**(1.7)**	(2.7)
Share of results of joint ventures	9	**–**	1.9
(Loss)/profit before tax	10	**(83.0)**	280.6
Tax credit/(charge)	15	**1.6**	(2.5)
(Loss)/profit for the year		**(81.4)**	278.1
Attributable to:			
Equity shareholders	30	**(77.6)**	283.4
Non-controlling interest		**(3.8)**	(5.3)
		(81.4)	278.1
Basic (loss)/earnings per share	39	**(69.34p)**	253.82p
Diluted (loss)/earnings per share	39	**(69.34p)**	253.11p

[1] Net property and other income in 2020 include write-off/impairment of receivables of £10.1m and service charge waiver of £4.1m. See note 3 for additional information.

The notes on pages 192 to 241 form part of these financial statements.

Group statement of comprehensive income

for the year ended 31 December 2020

	Note	2020 £m	2019 £m
(Loss)/profit for the year		**(81.4)**	278.1
Actuarial losses on defined benefit pension scheme	14	**(4.1)**	(0.6)
Deferred tax credit on pension	27	**0.4**	–
Revaluation surplus/(deficit) of owner-occupied property	16	**0.4**	(1.8)
Deferred tax (charge)/credit on revaluation	27	**(0.2)**	0.1
Other comprehensive expense that will not be reclassified to profit or loss		**(3.5)**	(2.3)
Total comprehensive (expense)/income relating to the year		**(84.9)**	275.8
Attributable to:			
Equity shareholders		**(81.1)**	281.1
Non-controlling interest		**(3.8)**	(5.3)
		(84.9)	275.8

The notes on pages 192 to 241 form part of these financial statements.

Balance sheets

as at 31 December 2020

Registered No. 1819699

	Note	Group 2020 £m	2019 £m	Company 2020 £m	2019 £m
Non-current assets					
Investment property	16	**5,029.1**	5,174.3	**–**	–
Property, plant and equipment	17	**50.2**	50.2	**23.7**	25.2
Investments	18	**0.9**	1.3	**1,615.9**	1,550.2
Deferred tax	27	**–**	–	**3.1**	3.2
Pension scheme surplus	14	**–**	0.5	**–**	0.5
Other receivables	19	**146.4**	134.4	**–**	–
		5,226.6	5,360.7	**1,642.7**	1,579.1
Current assets					
Trading property	16	**12.9**	40.7	**–**	–
Trade and other receivables	20	**76.2**	58.6	**1,682.3**	1,676.6
Corporation tax asset		**–**	–	**0.4**	0.4
Cash and cash equivalents	32	**50.7**	54.5	**50.1**	54.0
		139.8	153.8	**1,732.8**	1,731.0
Non-current assets held for sale	21	**165.0**	118.6	**–**	–
Total assets		**5,531.4**	5,633.1	**3,375.5**	3,310.1
Current liabilities					
Leasehold liabilities	24	**–**	–	**1.2**	1.1
Trade and other payables	22	**106.7**	112.5	**1,072.9**	988.0
Corporation tax liability		**0.5**	0.3	**–**	–
Provisions	23	**0.6**	0.9	**0.6**	0.9
		107.8	113.7	**1,074.7**	990.0
Non-current liabilities					
Borrowings	24	**1,033.2**	976.6	**821.7**	764.0
Derivative financial instruments	24	**5.6**	3.7	**5.6**	3.7
Leasehold liabilities	24	**66.6**	59.5	**24.1**	25.3
Provisions	23	**0.4**	1.5	**0.4**	1.5
Pension scheme deficit	14	**2.2**	–	**2.2**	–
Deferred tax	27	**0.5**	1.2	**–**	–
		1,108.5	1,042.5	**854.0**	794.5
Total liabilities		**1,216.3**	1,156.2	**1,928.7**	1,784.5
Total net assets		**4,315.1**	4,476.9	**1,446.8**	1,525.6
Equity					
Share capital	28	**5.6**	5.6	**5.6**	5.6
Share premium	29	**193.7**	193.0	**193.7**	193.0
Other reserves	29	**939.4**	936.2	**926.3**	923.3
Retained earnings[1]	29	**3,124.5**	3,286.4	**321.2**	403.7
Equity shareholders' funds		**4,263.2**	4,421.2	**1,446.8**	1,525.6
Non-controlling interest		**51.9**	55.7	**–**	–
Total equity		**4,315.1**	4,476.9	**1,446.8**	1,525.6

[1] Retained earnings for the Company include profit for the year of £1.8m (2019: £49.7m).

The financial statements were approved by the Board of Directors and authorised for issue on 10 March 2021.

Paul Williams
Chief Executive

Damian Wisniewski
Chief Financial Officer

The notes on pages 192 to 241 form part of these financial statements.

Statements of changes in equity

for the year ended 31 December 2020

	Share capital £m	Share premium £m	Other reserves[1] £m	Retained earnings £m	Equity shareholders' funds £m	Non-controlling interest £m	Total equity £m
Group							
At 1 January 2020	5.6	193.0	936.2	3,286.4	4,421.2	55.7	4,476.9
Loss for the year	–	–	–	(77.6)	(77.6)	(3.8)	(81.4)
Other comprehensive income/(expense)	–	–	0.2	(3.7)	(3.5)	–	(3.5)
Share-based payments	–	0.7	3.0	1.6	5.3	–	5.3
Dividends paid	–	–	–	(82.2)	(82.2)	–	(82.2)
At 31 December 2020	**5.6**	**193.7**	**939.4**	**3,124.5**	**4,263.2**	**51.9**	**4,315.1**
At 1 January 2019	5.6	189.6	943.5	3,063.2	4,201.9	61.5	4,263.4
Profit/(loss) for the year	–	–	–	283.4	283.4	(5.3)	278.1
Other comprehensive expense	–	–	(1.7)	(0.6)	(2.3)	–	(2.3)
Share-based payments	–	3.4	(0.8)	4.6	7.2	–	7.2
Bond redemption	–	–	(12.3)	11.4	(0.9)	–	(0.9)
Bond issue	–	–	7.5	–	7.5	–	7.5
Dividends paid	–	–	–	(75.6)	(75.6)	(0.5)	(76.1)
At 31 December 2019	5.6	193.0	936.2	3,286.4	4,421.2	55.7	4,476.9
Company							
At 1 January 2020	5.6	193.0	923.3	403.7	1,525.6	–	1,525.6
Profit for the year	–	–	–	1.8	1.8	–	1.8
Other comprehensive expense	–	–	–	(3.7)	(3.7)	–	(3.7)
Share-based payments	–	0.7	3.0	1.6	5.3	–	5.3
Dividends paid	–	–	–	(82.2)	(82.2)	–	(82.2)
At 31 December 2020	**5.6**	**193.7**	**926.3**	**321.2**	**1,446.8**	**–**	**1,446.8**
At 1 January 2019	5.6	189.6	928.9	414.7	1,538.8	–	1,538.8
Profit for the year	–	–	–	49.7	49.7	–	49.7
Other comprehensive expense	–	–	–	(0.6)	(0.6)	–	(0.6)
Bond redemption	–	–	(12.3)	11.4	(0.9)	–	(0.9)
Bond issue	–	–	7.5	–	7.5	–	7.5
Share-based payments	–	3.4	(0.8)	4.6	7.2	–	7.2
Dividends paid	–	–	–	(75.6)	(75.6)	–	(75.6)
IFRS 16 adjustment	–	–	–	(0.5)	(0.5)	–	(0.5)
At 31 December 2019	5.6	193.0	923.3	403.7	1,525.6	–	1,525.6

[1] See note 29.

The notes on pages 192 to 241 form part of these financial statements.

Cash flow statements

for the year ended 31 December 2020

	Note	Group 2020 £m	2019 £m	Company 2020 £m	2019 £m
Operating activities					
Rents received		**161.9**	171.0	**–**	–
Surrender premiums and other property income		**2.7**	0.5	**–**	–
Property expenses		**(19.1)**	(18.6)	**–**	–
Cash paid to and on behalf of employees		**(27.5)**	(24.4)	**(27.3)**	(24.2)
Other administrative expenses		**(8.0)**	(9.9)	**(7.6)**	(9.5)
Interest received	7	**0.2**	0.2	**0.2**	–
Interest paid	7	**(25.4)**	(18.8)	**(20.5)**	(16.8)
Other finance costs	7	**(2.9)**	(3.0)	**(2.0)**	(2.9)
Other income		**3.5**	3.6	**3.1**	3.3
Tax paid in respect of operating activities		**–**	(3.5)	**–**	–
Net cash from/(used in) operating activities		**85.4**	97.1	**(54.1)**	(50.1)
Investing activities					
Acquisition of properties		**(43.8)**	(31.6)	**–**	–
Capital expenditure on the property portfolio	7	**(175.2)**	(204.0)	**–**	–
Reimbursement of capital expenditure		**0.6**	3.5	**–**	–
Disposal of investment properties		**125.6**	159.3	**–**	–
Disposal of trading properties		**31.7**	–	**–**	–
Investment in joint ventures		**–**	(0.6)	**–**	–
Receipts from joint ventures		**0.4**	30.3	**–**	–
Purchase of property, plant and equipment		**(0.4)**	(0.3)	**(0.4)**	(0.2)
Disposal of property, plant and equipment		**–**	1.3	**–**	0.1
VAT paid		**(0.9)**	(2.2)	**–**	–
Net cash used in investing activities		**(62.0)**	(44.3)	**(0.4)**	(0.1)
Financing activities					
Net proceeds of bond issue		**–**	171.0	**–**	–
Net movement in intercompany loans		**–**	–	**77.7**	115.5
Repayment of revolving bank loan	26	**(6.5)**	–	**(6.5)**	–
Drawdown of new revolving bank loan	26	**24.2**	–	**24.2**	–
Net movement in revolving bank loans	26	**38.0**	(203.1)	**38.0**	(203.1)
Bond redemption		**–**	(150.0)	**–**	–
Bond redemption premium		**–**	(8.5)	**–**	–
Drawdown of private placement notes		**–**	248.8	**–**	248.8
Financial derivative termination costs	8	**(1.7)**	(2.7)	**(1.6)**	(2.7)
Net proceeds of share issues	28	**0.6**	3.5	**0.6**	3.5
Dividends paid to non-controlling interest holder		**–**	(0.5)	**–**	–
Dividends paid	31	**(81.8)**	(75.1)	**(81.8)**	(75.1)
Net cash (used in)/from financing activities		**(27.2)**	(16.6)	**50.6**	86.9
(Decrease)/increase in cash and cash equivalents in the year		**(3.8)**	36.2	**(3.9)**	36.7
Cash and cash equivalents at the beginning of the year		**54.5**	18.3	**54.0**	17.3
Cash and cash equivalents at the end of the year	32	**50.7**	54.5	**50.1**	54.0

The notes on pages 192 to 241 form part of these financial statements.

Notes to the financial statements

for the year ended 31 December 2020

1 Basis of preparation

The financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 ('IFRS') and the applicable legal requirements of the Companies Act 2006. In addition to complying with international accounting standards in conformity with the requirements of the Companies Act 2006, the consolidated financial statements also comply with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. The financial statements have been prepared under the historical cost convention as modified by the revaluation of investment properties, property, plant and equipment, and financial assets and liabilities held at fair value or amortised cost.

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.
- 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 2020 of 18.4%, the interest cover ratio of 446%, the £476m total of undrawn facilities and cash and the fact that the average maturity of borrowings was 6.8 years at 31 December 2020. They have also considered the impact of the Covid-19 pandemic and lockdown on the Group's business and occupiers. There is a risk that income could decline further with an increased risk of tenant defaults and drop in demand for office and retail space due to the economic outlook. Based on our forecasts, rental income would need to decline by 68% and property values would need to fall by 67% before breaching our financial covenants. In the scenarios tested, our net interest cover remained above 385% and our loan-to-value ratio below 40%, both of which are comfortably within our financial covenants. Further information is provided in the Group's viability statement on page 82.

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 principal accounting policies are described in note 42 and are consistent with those applied in the Group's financial statements for the year to 31 December 2019, 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 endorsed by the EU were effective for the first time for the Group's current accounting period and had no material impact on the financial statements.

References to Conceptual Framework in IFRSs (amended);
IAS 1 and IAS 8 (amended) – Definition of Material;
IFRS 3 (amended) – Definition of a Business;
IFRS 16 (amended) – Covid-19-Related Rent Concessions.

Standards in issue but not yet effective

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

IFRS 17 – Insurance Contracts;
IAS 1 (amended) – Classification of liabilities as current or non-current;
IFRS 10 and IAS 28 (amended) – Sale or Contribution of Assets between an investor and its Associate or Joint Venture;
IFRS 3 (amended) – Reference to the Conceptual Framework;
IAS 16 (amended) – Property, Plant and Equipment: Proceeds before Intended Use.

3 Significant judgements, key assumptions and estimates

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates and judgements. It also requires management to exercise judgement in the process of applying the Group's accounting policies. The Group's significant accounting policies are stated in note 42. Not all of these accounting policies require management to make difficult, subjective or complex judgements or estimates. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may differ from those estimates. The following is intended to provide an understanding of the policies that management consider critical because of the level of complexity, judgement or estimation involved in their application and their impact on the consolidated financial statements.

Key sources of estimation uncertainty

Property portfolio valuation

The Group uses the valuation carried out by external valuers as the fair value of its property portfolio. The valuation considers a range of assumptions including future rental income, investment yields, anticipated outgoings and maintenance costs, future development expenditure and appropriate discount rates. The external valuers also make reference to market evidence of transaction prices for similar properties. Against the backdrop of the Covid-19 pandemic, the valuers have also considered the impact of additional rent-free periods granted on the valuation, as well as the impact of occupiers from sectors deemed highest risk. For example, deductions equal to the rent-free granted have been made to the valuations, being predominantly for retail units, restaurants and fitness clubs. More information is provided in note 16.

Impairment testing of trade receivables and other financial assets

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

Impairment calculations have been carried out using the forward-looking, simplified approach to the expected credit loss model within IFRS 9. Covid-19 and the resulting economic and social disruption has brought unforeseen challenges to London, the UK and the wider global economy; it has impacted on our business and in general our overall risk profile is elevated. Due to the restrictions arising from the Covid-19 pandemic there is an increased risk of certain tenants defaulting or failing, particularly in respect to the leisure/retail/hospitality sectors. The impact of Covid-19 has given rise to higher estimated probabilities of default for some of our occupiers, so the impairment provisions calculated as at 31 December 2020 are higher than in previous periods (see note 20). In arriving at our estimates, we have considered the tenants at higher risk, particularly in the retail or hospitality sectors, those in administration or CVA, the top 83 tenants by size and have also considered the remaining balances classified by sector. The impairment provisions are included within 'Other receivables (non-current)' (see note 19) and 'Trade and other receivables' (see note 20) as shown below:

	Other receivables (non-current) £m	Trade and other receivables £m	Total £m
Lease incentive receivables before impairment	137.3	18.9	**156.2**
Impairment of lease incentive receivables	(4.6)	(1.1)	**(5.7)**
Write-off	(0.4)	(0.4)	**(0.8)**
Net lease incentive included within accrued income	132.3	17.4	**149.7**
Trade receivables before impairment	–	31.1	**31.1**
Impairment of trade receivables	–	(3.2)	**(3.2)**
Service charge provision	–	(0.3)	**(0.3)**
Bad debt provision released	–	0.3	**0.3**
Write-off	–	(0.4)	**(0.4)**
Net trade receivables	–	27.5	**27.5**
Impairment	(4.6)	(4.3)	**(8.9)**
Write-off	(0.4)	(0.8)	**(1.2)**
Write-off/impairment of receivables	(5.0)	(5.1)	**(10.1)**

The assessment considered the risk of tenant failures and defaults using information on tenants' payment history, deposits held, the latest known financial position together with forecast information where available, ongoing dialogue with tenants as well as other information such as the sector in which they operate. Following this, tenants were classified as either low, medium or high risk and the table below provides further information. The impairment against the lease incentive receivable balance was £5.7m and £3.2m against the trade receivables balance.

Notes to the financial statements continued

3 Significant judgements, key assumptions and estimates (continued)

	Lease incentive receivables (non-current) £m	Lease incentive receivables (current) £m	Total £m
Balance before impairment			
Low risk	101.8	10.4	**112.2**
Medium risk	27.5	6.0	**33.5**
High risk	7.6	2.1	**9.7**
	136.9	18.5	**155.4**
Impairment			
Low risk	–	–	**–**
Medium risk	(1.6)	(0.3)	**(1.9)**
High risk	(3.0)	(0.8)	**(3.8)**
	(4.6)	(1.1)	**(5.7)**
Net lease incentive included within accrued income	132.3	17.4	**149.7**

	Trade receivables £m
Balance before impairment	
Low risk	14.2
Medium risk	7.5
High risk	9.0
	30.7
Impairment	
Low risk	–
Medium risk	(0.3)
High risk	(2.9)
	(3.2)
Net trade receivables	27.5

All amounts included within trade receivables are current.

Borrowings and derivatives

The fair values of the Group's borrowings and interest rate swaps are provided by an independent third party based on information provided to them by the Group. This includes the terms of each of the financial instruments and data available in the financial markets. More information is provided in note 24.

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 2020 with a substantial margin 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.

The Group has maintained its low risk rating with HMRC following 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 maker (which in the Group's case is the Executive Committee comprising the five executive Directors and four senior managers) in order to allocate resources to the segments and to assess their performance.

The internal financial reports received by the Group's Executive Committee contain financial information at a Group level as a whole and there are no reconciling items between the results contained in these reports and the amounts reported in the financial statements. These internal financial reports include the IFRS figures but also report the non-IFRS figures for the EPRA earnings and net tangible assets. Reconciliations of each of these figures to their statutory equivalents are detailed in note 39. 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 reportable segment in that its performance is monitored individually.

The Group's property portfolio includes investment property, owner-occupied property and trading property and comprised 98% office buildings[1] by value at 31 December 2020 (2019: 97%). The Directors consider that these individual properties have similar economic characteristics and therefore have been aggregated into a single reportable segment. The remaining 2% (2019: 3%) represented a mixture of retail, residential and light industrial properties, as well as land, each of which is de minimis in its own right and below the quantitative threshold in aggregate. Therefore, in the view of the Directors, there is one reportable segment under the provisions of IFRS 8.

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

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

Gross property income

	2020			2019		
	Office buildings £m	Other £m	Total £m	Office buildings £m	Other £m	Total £m
West End central	104.3	0.1	104.4	87.3	0.1	87.4
West End borders/other	20.4	–	20.4	19.3	–	19.3
City borders	74.9	0.5	75.4	81.1	0.5	81.6
Provincial	–	4.5	4.5	–	4.4	4.4
	199.6	5.1	204.7	187.7	5.0	192.7

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

Property portfolio

	2020			2019		
	Office buildings £m	Other £m	Total £m	Office buildings £m	Other £m	Total £m
Carrying value						
West End central	2,936.7	45.9	2,982.6	2,933.6	58.0	2,991.6
West End borders/other	447.9	–	447.9	434.8	–	434.8
City borders	1,738.2	8.0	1,746.2	1,860.2	7.7	1,867.9
Provincial	–	75.9	75.9	–	84.6	84.6
	5,122.8	129.8	5,252.6	5,228.6	150.3	5,378.9
Fair value						
West End central	2,966.2	47.4	3,013.6	2,944.1	60.5	3,004.6
West End borders/other	475.4	–	475.4	464.2	–	464.2
City borders	1,781.7	8.1	1,789.8	1,912.8	7.7	1,920.5
Provincial	–	76.7	76.7	–	85.9	85.9
	5,223.3	132.2	5,355.5	5,321.1	154.1	5,475.2

A reconciliation between the fair value and carrying value of the portfolio is set out in note 16.

Notes to the financial statements continued

5 Property and other income

	2020 £m	2019 £m
Gross rental income	**202.9**	191.7
Surrender premiums received	**0.9**	1.0
Other property income	**0.9**	–
Gross property income	**204.7**	192.7
Trading property sales proceeds[1]	**32.3**	–
Service charge income[1]	**28.1**	34.0
Other income[1]	**3.5**	3.6
Gross property and other income	**268.6**	230.3
Gross rental income	**202.9**	191.7
Write–off/impairment of receivables	**(10.1)**	–
Service charge waiver	**(4.1)**	–
Service charge income[1]	**28.1**	34.0
Service charge expenses	**(30.9)**	(36.1)
	(2.8)	(2.1)
Property costs	**(11.6)**	(11.6)
Net rental income	**174.3**	178.0
Trading property sales proceeds[1]	**32.3**	–
Trading property cost of sales	**(27.1)**	–
Profit on trading property disposals	**5.2**	–
Other property income	**0.9**	–
Other income[1]	**3.5**	3.6
Surrender premiums received	**0.9**	1.0
Write–down of trading property	**(1.8)**	–
Net property and other income	**183.0**	182.6

[1] In line with IFRS 15 Revenue from Contracts with Customers, the Group recognised a total £63.9m (2019: £37.6m) of other income, trading property sales proceeds and service charge income, which relates to expenditure that is directly recoverable from tenants, within gross property and other income.

Gross rental income includes £24.0m (2019: £27.3m) 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.

The write-off/impairment of receivables in the year ended 31 December 2020 of £10.1m includes £1.2m of receivable balances written off, a £0.3m service charge provision and an impairment charge of £8.6m, £2.9m of which relates to trade receivables and £5.7m to lease incentive receivables. The impairment has been carried out using the expected credit loss model within IFRS 9 Financial Instruments (see note 3 for additional information). Included in this provision is a charge of £1.1m against trade receivables relating to rental income for the 25 December 2020 quarter day. Most of this income is deferred and has not yet been recognised in the income statement. A 10% increase/decrease to the absolute probability rates of tenant default in the year would result in a £4.4m increase and £3.3m decrease respectively, in the Group's loss for the year. This sensitivity has been performed on the medium to high risk tenants as the significant estimation uncertainty is wholly related to these (see note 3).

In response to Covid-19, a 25% waiver of two quarters' service charge was given to support occupiers across the whole portfolio at a cost of £4.1m to the Group in the year to 31 December 2020.

6 Profit on disposal

	2020 £m	2019 £m
Investment property		
Gross disposal proceeds	120.9	155.2
Costs of disposal	(0.6)	(1.9)
Net disposal proceeds	120.3	153.3
Carrying value	(118.6)	(136.8)
Adjustment for lease costs and rents recognised in advance	–	(3.3)
Profit on disposal of investment property	1.7	13.2
Artwork		
Gross disposal proceeds	–	1.2
Carrying value	–	(0.6)
Profit on disposal of artwork	–	0.6
Profit on disposal	1.7	13.8

In February 2020, the Group completed the disposal of the long leasehold interest in 40 Chancery Lane WC2 for £120.1m after rental top-ups. In 2019, gross disposal proceeds included £150.7m after rental top-ups from the disposal of Premier House SW1 and The Buckley Building EC1.

7 Finance income and total finance costs

	2020 £m	2019 £m
Finance income		
Bank interest receivable	0.2	–
Other	–	0.2
Finance income	0.2	0.2
Finance costs		
Bank loans	2.3	2.1
Non-utilisation fees	1.7	2.1
Unsecured convertible bonds	3.9	3.9
Secured bonds	11.4	11.4
Unsecured private placement notes	15.6	15.0
Secured loan	3.3	3.3
Amortisation of issue and arrangement costs	2.2	2.2
Amortisation of the fair value of the secured bonds	(1.3)	(1.2)
Obligations under headleases	0.9	0.7
Other	0.2	0.2
Gross interest costs	40.2	39.7
Less: interest capitalised	(9.9)	(13.0)
Finance costs	30.3	26.7
Loan arrangement costs written off	0.1	0.1
Bond redemption premium	–	7.7
Total finance costs	30.4	34.5

Finance costs of £9.9m (2019: £13.0m) 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 2020 were £38.2m (2019: £34.8m) of which £9.9m (2019: £13.0m) was included in capital expenditure on the property portfolio in the Group cash flow statement under investing activities.

8 Financial derivative termination costs

The Group incurred costs of £1.7m in the year to 31 December 2020 (2019: £2.7m) deferring or terminating interest rate swaps.

Notes to the financial statements continued

9 Share of results of joint ventures

	2020 £m	2019 £m
Profit on disposal of investment property	–	1.7
Other profit from operations after tax	–	0.2
	–	1.9

See note 18 for further details of the Group's joint ventures.

10 (Loss)/profit before tax

	2020 £m	2019 £m
This is arrived at after charging:		
Depreciation	0.7	0.7
Contingent rent payable under headleases	1.1	1.5
Auditor's remuneration		
Audit – Group	0.4	0.4
Audit – subsidiaries	0.1	0.1

In 2020, audit fees for the Group were £329,634 (2019: £310,708) and for the subsidiaries £77,500 (2019: £63,500). Fees for non-audit services, relating to the half year review, were £43,705 (2019: £42,432).

Details of the Auditor's independence are included on pages 136 to 137.

11 Directors' emoluments

	2020 £m	2019 £m
Remuneration for management services	5.2	6.2
Share based payments	3.3	2.9
Post-employment benefits	0.6	0.7
	9.1	9.8
National insurance contributions	1.3	1.4
	10.4	11.2

An amount of £4.2m (2019: £2.8m) relating to the Directors is included within the £5.8m (2019: £4.6m) for Share-based payments expense relating to equity-settled schemes in note 12. This is in accordance with IFRS 2 Share-based Payment.

Details of the Directors' remuneration awards under the long-term incentive plan and options held by the Directors under the Group share option schemes are given in the report of the Remuneration Committee on pages 150 to 170. The only key management personnel are the Directors.

12 Employees

	Group 2020 £m	2019 £m	Company 2020 £m	2019 £m
Staff costs, including those of Directors:				
Wages and salaries	18.5	18.5	18.5	18.4
Social security costs	2.7	2.6	2.6	2.5
Other pension costs	2.2	2.1	2.1	2.1
Share-based payments expense relating to equity-settled schemes	5.8	4.6	5.7	4.5
	29.2	27.8	28.9	27.5

The monthly average number of employees in the Group during the year, excluding Directors, was 132 (2019: 116). The monthly average number of employees in the Company during the year, excluding Directors, was 114 (2019: 104). All were employed in administrative or support roles. Of the Group's employees, there were 17 (2019: 13) whose costs were recharged or partially recharged to tenants via service charges.

13 Share-based payments

Details of the options held by Directors under the Performance Share Plan (PSP) are given in the report of the Remuneration Committee on pages 162 to 163.

Group and Company – equity-settled option scheme

The Employee Share Option Plan (ESOP) is designed to incentivise and retain eligible employees. The ESOP is separate to the PSP disclosed in the report of the Remuneration Committee. The Directors are not entitled to any awards under the ESOP.

Year of grant	Exercise price £	Adjusted exercise price[1] £	Outstanding at 1 January	Movement in options Granted	Movement in options Exercised	Movement in options Lapsed	Outstanding at 31 December
For the year to 31 December 2020							
2013	17.19	16.49	4,158	–	–	–	4,158
2014	21.99	21.09	20,234	–	(1,584)	–	18,650
2015	27.39	26.27	44,214	–	(740)	–	43,474
2016	34.65	33.23	47,154	–	(8,757)	–	38,397
2017	31.20	29.93	113,986	–	(11,680)	(2,860)	99,446
2018	28.93	27.75	118,176	–	–	(3,942)	114,234
2019	30.29	29.57	135,850	–	–	(6,275)	129,575
2020	32.43	32.43	–	174,300	–	(1,825)	172,475
			483,772	**174,300**	**(22,761)**	**(14,902)**	**620,409**
For the year to 31 December 2019							
2011	16.60	16.60	200	–	(200)	–	–
2012	17.19	16.49	13,455	–	(13,455)	–	–
2013	21.99	21.09	37,422	–	(33,264)	–	4,158
2014	27.39	26.27	53,739	–	(33,505)	–	20,234
2015	34.65	33.23	63,975	–	(13,519)	(6,242)	44,214
2016	31.20	29.93	88,591	–	(39,377)	(2,060)	47,154
2017	28.93	27.75	124,584	–	–	(10,598)	113,986
2018	30.29	29.57	132,978	–	–	(14,802)	118,176
2019	32.43	32.43	–	142,900	–	(7,050)	135,850
			514,944	142,900	(133,320)	(40,752)	483,772

	31 December 2020	31 December 2019	1 January 2019
Number of shares:			
Exercisable	**204,125**	115,760	168,791
Non-exercisable	**416,284**	368,012	346,153
Weighted average exercise price of share options:			
Exercisable	**£29.23**	£30.39	£27.14
Non-exercisable	**£30.66**	£30.14	£29.15
Weighted average remaining contracted life of share options:			
Exercisable	**5.29 years**	5.41 years	5.26 years
Non-exercisable	**8.36 years**	8.30 years	8.38 years
Weighted average exercise price of share options that lapsed:			
Exercisable	**£27.81**	£32.54	£33.26
Non-exercisable	**£31.14**	£29.74	£28.85

[1] In 2018, following the payment of the special dividend of 75 pence per share, the Remuneration Committee exercised their discretion and adjusted the number of outstanding unapproved 'B' options and their option price, to ensure participants were not disadvantaged by the payment to shareholders of the special dividend.

The weighted average share price at which options were exercised during 2020 was £34.82 (2019: £36.08).

The weighted average fair value of options granted during 2020 was £6.27 (2019: £6.87).

Notes to the financial statements continued

13 Share-based payments (continued)

The following information is relevant in the determination of the fair value of the options granted during 2020 and 2019 under the equity-settled employee share plan operated by the Group.

	2020	2019
Option pricing model used	Binomial lattice	Binomial lattice
Risk free interest rate	0.2%	0.9%
Volatility	26.0%	24.0%
Dividend yield	2.4%	2.0%

For both the 2020 and 2019 grants, additional assumptions have been made that there is no employee turnover and 50% of employees exercise early when the share options are 20% in the money and 50% of employees exercise early when the share options are 100% in the money.

The volatility assumption, measured as the standard deviation of expected share price returns, is based on a statistical analysis of daily prices over the last four years.

Group and Company – Save As You Earn scheme

The Save As You Earn (SAYE) scheme is designed to allow employees (including Directors) to purchase shares in the Company in a tax efficient manner. The SAYE plan is an HMRC approved scheme. Employees can participate on an annual basis and save up to £250 per month per grant. Further details are given in the report of the Remuneration Committee on pages 162 and 163.

14 Pension costs

The Group and Company operate both a defined contribution scheme and a defined benefit scheme. The latter was acquired as part of the acquisition of London Merchant Securities plc in 2007 and is closed to new members. All new employees are entitled to join the defined contribution scheme. The assets of the pension schemes are held separately from those of the Group companies.

Defined contribution plan

The total expense relating to this plan in the current year was £2.0m (2019: £1.9m).

Defined benefit plan

The Company sponsors the Scheme which is a funded defined benefit arrangement. This is a separate trustee-administered fund holding the pension scheme assets to meet long-term pension liabilities for past employees. The Scheme closed to future benefit accrual on 31 July 2019. The level of retirement benefit is principally based on basic salary at the last scheme anniversary of employment prior to leaving active service and increases at 5% pa in deferment.

The trustees of the Scheme are required to act in the best interest of the Scheme's beneficiaries. The appointment of the trustees is determined by the Scheme's trust documentation. It is policy that one third of all trustees should be nominated by the members.

A full actuarial valuation was carried out as at 31 October 2019 in accordance with the Scheme funding requirements of the Pensions Act 2004 and the funding of the Scheme is agreed between the Company and the trustees in line with those requirements. These in particular require the surplus/deficit to be calculated using prudent, as opposed to best estimate, actuarial assumptions.

This actuarial valuation showed a deficit of £7.3m. The Company agreed with the trustees that it will aim to eliminate the deficit over a period of 5 years and 2 months from 31 October 2019 by the payment of a contribution of £0.9m by 31 December 2019, followed by annual contributions of £1.4m payable by each 31 December from 31 December 2020 to 31 December 2024 inclusive. In addition, the Company has agreed with the trustees that the Company will meet expenses of running the Scheme and levies to the Pension Protection Fund separately. The estimated amount of total employer contributions expected to be paid to the Scheme during the year to 31 December 2021 is £1.4m (31 December 2020 actual: £1.4m).

For the purposes of IAS 19 the actuarial valuation as at 31 October 2019, which was carried out by a qualified independent actuary, has been updated on an approximate basis to 31 December 2020.

Amounts included in the balance sheet

	2020 £m	2019 £m	2018 £m
Fair value of plan assets	66.6	53.9	49.1
Present value of defined benefit obligation	(68.8)	(53.4)	(48.8)
Net (liability)/asset	(2.2)	0.5	0.3

The present value of the Scheme liabilities is measured by discounting the best estimate of future cash flows to be paid out by the Scheme. The value calculated in this way is reflected in the net (liability)/asset in the balance sheet as shown above.

All actuarial gains and losses are recognised in the year in which they occur in the Group Statement of Comprehensive income.

Reconciliation of the impact of the asset ceiling

We have considered the application of IFRIC 14 and deemed it to have no material effect on the IAS 19 figures.

Reconciliation of the opening and closing present value of the defined benefit obligation

	2020 £m	2019 £m
At 1 January	53.4	48.8
Current service cost	–	0.1
Interest cost	1.1	1.4
Actuarial losses due to scheme experience	6.4	–
Actuarial losses/(gains) due to changes in demographic assumptions	1.6	(0.6)
Actuarial losses due to changes in financial assumptions	8.9	6.2
Benefits paid, death in service premiums and expenses	(2.6)	(2.5)
At 31 December	68.8	53.4

There have been no scheme amendments, curtailments or settlements in the year.

Reconciliation of opening and closing values of the fair value of plan assets

	2020 £m	2019 £m
At 1 January	53.9	49.1
Interest income	1.1	1.4
Return on plan assets (excluding amounts included in interest income)	12.8	5.0
Contributions by the Group	1.4	0.9
Benefits paid, death in service premiums and expenses	(2.6)	(2.5)
At 31 December	66.6	53.9

The actual return on the plan assets over the year was a gain of £13.9m (2019: gain of £6.4m).

Defined benefit costs recognised in the income statement

	2020 £m	2019 £m
Current service cost	–	0.1

Amounts recognised in other comprehensive income

	2020 £m	2019 £m
Gain on plan assets (excluding amounts recognised in net interest cost)	12.8	5.0
Experience losses arising on the defined benefit obligation	(6.4)	–
(Loss)/gain from changes in the demographic assumptions underlying the present value of the defined benefit obligation	(1.6)	0.6
Loss from changes in the financial assumptions underlying the present value of the defined benefit obligation	(8.9)	(6.2)
Total loss recognised in other comprehensive income	(4.1)	(0.6)

Fair value of plan assets

	2020 £m	2019 £m	2018 £m
UK equities	0.5	0.5	0.4
Overseas equities	0.5	0.5	0.4
Government bonds	4.8	3.0	2.7
Cash	0.2	0.5	–
Other	15.1	14.0	11.5
Insured assets	45.5	35.4	34.1
Total assets	66.6	53.9	49.1

Notes to the financial statements continued

14 Pension costs (continued)

The £15.1m (2019: £14.0m) in the ‘other’ asset class is made up of holdings of £9.6m (2019: £9.0m) in equity-linked gilt funds and £5.5m (2019: £5.0m) in absolute return funds.

The Scheme’s assets are held exclusively within instruments with quoted market prices in an active market with the exception of the holdings in insurance policies and the trustee’s bank account. The insured assets have been set equal to the value of the insured liabilities but before allowance has been made for the impact of equalising benefits for the different effects of GMP for males and females.

The Scheme does not invest directly in property occupied by the Group or in financial securities issued by the Group.

It is the policy of the trustees and the Group to review the investment strategy at the time of each funding valuation. The trustees’ investment objectives and the processes undertaken to measure and manage the risks inherent in the plan investment strategy are illustrated by the asset allocation at 31 December 2020.

There are no asset-liability matching strategies currently being used by the plan.

Significant actuarial assumptions

	2020 %	2019 %	2018 %
Discount rate	**1.2**	2.1	2.9
Inflation (RPI)	**n/a**	n/a	3.2
Salary increases	**n/a**	n/a	4.7
Allowance for commutation of pension for cash at retirement	**75% of Post A Day Pension**	75% of Post A Day Pension	75% of Post A Day Pension

The mortality assumptions adopted at 31 December 2020 are 85% of the standard tables S3NXA_L, year of birth, no age rating for males and females, projected using CMI 2019 converging to 1.25% p.a. These imply the following life expectancies:

Life expectancy at age 65

	Years
Male retiring in 2020	24.8
Female retiring in 2020	26.4
Male retiring in 2040	26.1
Female retiring in 2040	27.7

Analysis of the sensitivity to the principal assumptions of the present value of the defined benefit obligation

	Change in assumption	Change in liabilities
Discount rate	Decrease of 0.25% p.a.	Increase by 4.0%
Rate of mortality	Increase in life expectancy of one year	Increase by 6.0%

The sensitivities shown above are approximate. Each sensitivity considers one change in isolation. The average duration of the defined benefit obligation at the year ended 31 December 2020 is 16 years for the Scheme as a whole or 26 years when only considering non-insured members.

The Scheme typically exposes the Group to actuarial risks such as investment risk, interest rate risk, salary growth risk, mortality risk and longevity risk. A decrease in corporate bond yields, a rise in inflation or an increase in life expectancy would result in an increase to the Scheme’s liabilities. This would detrimentally impact the balance sheet position and may give rise to increased charges in the income statement. This effect would be partially offset by an increase in the value of the Scheme’s bond holdings.

The best estimate of contributions to be paid by the Group to the plan for the year commencing 1 January 2021 is £1.4m.

15 Tax (credit)/charge

	2020 £m	2019 £m
Corporation tax		
UK corporation tax and income tax in respect of results for the year	0.8	1.0
Other adjustments in respect of prior years' tax	(0.6)	0.7
Corporation tax charge	0.2	1.7
Deferred tax		
Origination and reversal of temporary differences	(2.0)	0.8
Adjustment for changes in estimates	0.2	–
Deferred tax (credit)/charge	(1.8)	0.8
Tax (credit)/charge	(1.6)	2.5

In addition to the tax credit of £1.6m (2019: charge of £2.5m) that passed through the Group income statement, a deferred tax charge of charge of £0.2m (2019: credit of £0.1m) was recognised in the Group statement of comprehensive income relating to the revaluation of the owner-occupied property at 25 Savile Row W1.

The effective rate of tax for 2020 is lower (2019: lower) than the standard rate of corporation tax in the UK. The differences are explained below:

	2020 £m	2019 £m
(Loss)/profit before tax	(83.0)	280.6
Expected tax (credit)/charge based on the standard rate of corporation tax in the UK of 19.00% (2019: 19.00%)[1]	(15.8)	53.3
Difference between tax and accounting profit on disposals	1.2	(2.6)
REIT exempt income	(14.7)	(11.2)
Revaluation deficit/(surplus) attributable to REIT properties	36.6	(29.2)
Expenses and fair value adjustments not allowable for tax purposes	(1.3)	(4.4)
Capital allowances	(5.3)	(5.5)
Other differences	(1.7)	1.4
Tax (credit)/charge in respect of (loss)/profit for the year	(1.0)	1.8
Adjustments in respect of prior years' tax	(0.6)	0.7
Tax (credit)/charge	(1.6)	2.5

[1] Changes to the UK corporation tax rates were substantively enacted as part of the Finance Bill 2015 (on 26 October 2015) and include reducing the main rate to 19%. The reduction to 17% from 1 April 2020 enacted as part of the Finance Bill 2016 has been cancelled as announced in the Budget on 11 March 2020, maintaining the rate of corporation tax at 19%. Deferred taxes at the balance sheet date have been measured using the expected enacted tax rate and this is reflected in these financial statements.

Notes to the financial statements continued

16 Property portfolio

	Freehold £m	Leasehold £m	Total investment property £m	Owner-occupied property £m	Assets held for sale £m	Trading property £m	Total property portfolio £m
Group							
Carrying value							
At 1 January 2020	4,121.2	1,053.1	5,174.3	45.3	118.6	40.7	5,378.9
Acquisitions	43.5	–	43.5	–	–	–	43.5
Capital expenditure	64.1	87.8	151.9	(0.1)	–	0.1	151.9
Interest capitalisation	4.6	5.1	9.7	–	–	0.2	9.9
Additions	112.2	92.9	205.1	(0.1)	–	0.3	205.3
Disposals	–	–	–	–	(118.6)	(26.3)	(144.9)
Transfers	(161.2)	–	(161.2)	–	161.2	–	–
Revaluation	(178.7)	(17.4)	(196.1)	0.4	–	–	(195.7)
Write-down of trading property	–	–	–	–	–	(1.8)	(1.8)
Transfer from prepayments and accrued income	–	–	–	–	3.8	–	3.8
Movement in grossing up of headlease liabilities	–	7.0	7.0	–	–	–	7.0
At 31 December 2020	**3,893.5**	**1,135.6**	**5,029.1**	**45.6**	**165.0**	**12.9**	**5,252.6**
At 1 January 2019	4,034.1	994.1	5,028.2	47.0	–	36.3	5,111.5
Acquisitions	21.0	11.0	32.0	–	–	–	32.0
Capital expenditure	110.7	76.8	187.5	0.1	–	3.6	191.2
Interest capitalisation	7.7	4.5	12.2	–	–	0.8	13.0
Additions	139.4	92.3	231.7	0.1	–	4.4	236.2
Disposals	(137.1)	0.3	(136.8)	–	–	–	(136.8)
Transfers	–	(107.0)	(107.0)	–	107.0	–	–
Revaluation	84.8	71.6	156.4	(1.8)	–	–	154.6
Transfer from prepayments and accrued income	–	–	–	–	14.6	–	14.6
Movement in grossing up of headlease liabilities	–	1.8	1.8	–	(3.0)	–	(1.2)
At 31 December 2019	4,121.2	1,053.1	5,174.3	45.3	118.6	40.7	5,378.9
Adjustments from fair value to carrying value							
At 31 December 2020							
Fair value	**4,037.0**	**1,091.6**	**5,128.6**	**45.6**	**167.0**	**14.3**	**5,355.5**
Selling costs relating to assets held for sale	–	–	–	–	(2.0)	–	(2.0)
Revaluation of trading property	–	–	–	–	–	(1.4)	(1.4)
Lease incentives and costs included in receivables	(143.5)	(22.5)	(166.0)	–	–	–	(166.0)
Grossing up of headlease liabilities	–	66.5	66.5	–	–	–	66.5
Carrying value	**3,893.5**	**1,135.6**	**5,029.1**	**45.6**	**165.0**	**12.9**	**5,252.6**
At 31 December 2019							
Fair value	4,257.7	1,010.2	5,267.9	45.3	119.0	43.0	5,475.2
Selling costs relating to assets held for sale	–	–	–	–	(0.4)	–	(0.4)
Revaluation of trading property	–	–	–	–	–	(2.3)	(2.3)
Lease incentives and costs included in receivables	(136.5)	(16.6)	(153.1)	–	–	–	(153.1)
Grossing up of headlease liabilities	–	59.5	59.5	–	–	–	59.5
Carrying value	4,121.2	1,053.1	5,174.3	45.3	118.6	40.7	5,378.9

The property portfolio is subject to semi-annual external valuations and was revalued at 31 December 2020 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.

CBRE Limited valued properties at £5,324.5m (2019: £5,443.0m) and other valuers at £31.0m (2019: £32.2m), giving a combined value of £5,355.5m (2019: £5,475.2m). Of the properties revalued by CBRE, £45.6m (2019: £45.3m) relating to owner-occupied property was included within property, plant and equipment and £14.3m (2019: £43.0m) was in relation to trading property.

The total fees, including the fee for this assignment, earned by CBRE (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.

The Group published its pathway to net zero carbon in July 2020 and has set 2030 as its target date to achieve this. £103.2m of capital expenditure was incurred in 2020 on our major developments at 80 Charlotte Street W1, Soho Place W1 and The Featherstone Building EC1. As these have met the criteria to be eligible qualifying projects under our Green Finance Framework, we have utilised the green tranche of our £450m revolving credit facility (more information can be found on page 79). In addition, the Group has invested in carbon credits to support externally validated green projects to offset the embodied carbon in our developments.

Following exchange of contracts in December 2020 for the sale of its freehold interest in Johnson Building EC1, the Group transferred £161.2m from investment property to assets held for sale. This subsequently completed in January 2021. A revaluation deficit of £9.5m relating to the asset held for sale is included within the revaluation deficit of £196.1m.

Reconciliation of revaluation (deficit)/surplus

	2020 £m	2019 £m
Total revaluation (deficit)/surplus	(178.5)	188.5
Less:		
Lease incentives and costs	(16.7)	(32.2)
Assets held for sale selling costs	(2.0)	(0.4)
Trading property revaluation surplus	(0.3)	(1.3)
IFRS revaluation (deficit)/surplus	(197.5)	154.6
Reported in the:		
Revaluation (deficit)/surplus	(196.1)	156.4
Write-down of trading property	(1.8)	–
Group income statement	(197.9)	156.4
Group statement of comprehensive income	0.4	(1.8)
	(197.5)	154.6

Valuation process

The valuation reports produced by the external valuers are based on information provided by the Group such as current rents, terms and conditions of lease agreements, service charges and capital expenditure. This information is derived from the Group's financial and property management systems and is subject to the Group's overall control environment. In addition, the valuation reports are based on assumptions and valuation models used by the external valuers. The assumptions are typically market related, such as yields and discount rates, and are based on their professional judgement and market observation. Each property is considered a separate asset class based on the unique nature, characteristics and risks of the property.

Members of the Group's investments team, who report to the Executive Director responsible for the valuation process, verify all major inputs to the external valuation reports, assess the individual property valuation changes from the prior year valuation report and hold discussions with the external valuers. When this process is complete, the valuation report is recommended to the Audit Committee, which considers it as part of its overall responsibilities.

Notes to the financial statements continued

16 Property portfolio (continued)

Valuation techniques

The fair value of the property portfolio has been determined using an income capitalisation technique, whereby contracted and market rental values are capitalised with a market capitalisation rate. The resulting valuations are cross-checked against the equivalent yields and the fair market values per square foot derived from comparable recent market transactions on arm's length terms.

For properties under construction, the fair value is calculated by estimating the fair value of the completed property using the income capitalisation technique less estimated costs to completion and a risk premium.

These techniques are consistent with the principles in IFRS 13 Fair Value Measurement and use significant unobservable inputs such that the fair value measurement of each property within the portfolio has been classified as Level 3 in the fair value hierarchy.

There were no transfers between Levels 1 and 2 or between Levels 2 and 3 in the fair value hierarchy during either 2020 or 2019.

Gains and losses recorded in profit or loss for recurring fair value measurements categorised within Level 3 of the fair value hierarchy amount to a deficit of £196.1m (2019: gain of £156.4m) and are presented in the Group income statement in the line item 'revaluation (deficit)/surplus'. The revaluation surplus for the owner-occupied property of £0.4m (2019: deficit of £1.8m) was included within the Group statement of comprehensive income.

All gains and losses recorded in profit or loss in 2020 and 2019 for recurring fair value measurements categorised within Level 3 of the fair value hierarchy are attributable to changes in unrealised gains or losses relating to investment property held at 31 December 2020 and 31 December 2019, respectively.

Quantitative information about fair value measurement using unobservable inputs (Level 3)

	West End central	West End borders/other	City borders	Provincial commercial	Provincial land	Total
Valuation technique	Income capitalisation	Income capitalisation	Income capitalisation	Income capitalisation	Income capitalisation	
Fair value (£m)	3,013.6	475.4	1,789.8	45.1	31.6	5,355.5
Area ('000 sq ft)	2,758	554	1,905	347	–	5,564
Range of unobservable inputs[1]:						
Gross ERV (per sq ft pa)						
Minimum	£19	£43	£32	£4	n/a[2]	
Maximum	£134	£59	£63	£13	n/a[2]	
Weighted average	£59	£49	£52	£14	n/a[2]	
Net initial yield						
Minimum	0.0%	1.9%	1.9%	8.6%	0.0%	
Maximum	6.5%	6.3%	4.9%	22.1%	10.0%	
Weighted average	2.7%	4.6%	3.9%	8.8%	2.4%	
Reversionary yield						
Minimum	2.6%	3.4%	3.4%	8.3%	0.0%	
Maximum	10.9%	8.5%	5.8%	22.1%	9.4%	
Weighted average	4.8%	5.4%	5.0%	9.2%	1.4%	
True equivalent yield (EPRA basis)						
Minimum	1.5%	3.3%	3.6%	8.6%	9.7%	
Maximum	5.5%	5.3%	5.2%	20.2%	11.0%	
Weighted average	4.6%	5.0%	4.8%	8.8%	10.5%	

[1] Costs to complete are not deemed a significant unobservable input by virtue of the high percentage that is already fixed.

[2] There is no calculation of gross ERV per sq ft pa. The land totals 5,500 acres.

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

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

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

Against the increased economic uncertainty of the pandemic, a sensitivity analysis has been performed to ascertain the impact of a 25 basis point shift in true equivalent yield and a £2.50 per sq ft shift in ERV on the property valuations. The Group believes this captures the range of variations in these key valuation assumptions. The results are shown in the tables below:

	West End central	West End borders/other	City borders	Provincial commercial	Provincial land	Total
True equivalent yield						
+25bp	(5.2%)	(4.8%)	(5.0%)	(2.8%)	(2.3%)	(5.1%)
-25bp	5.7%	5.3%	5.5%	2.9%	2.4%	5.6%
ERV						
+£2.50 psf	4.2%	5.1%	4.8%	17.9%	–	4.7%
-£2.50 psf	(4.2%)	(5.1%)	(4.8%)	(17.9%)	–	(4.7%)

Historical cost

	2020 £m	2019 £m
Investment property	3,149.2	3,009.7
Owner-occupied property	19.6	19.7
Assets held for sale	65.7	76.2
Trading property	22.6	48.6
Total property portfolio	3,257.1	3,154.2

Notes to the financial statements continued

17 Property, plant and equipment

	Owner-occupied property £m	Right-of-use asset £m	Artwork £m	Other £m	Total £m
Group					
At 1 January 2020	45.3	–	1.0	3.9	50.2
Additions	(0.1)	–	–	0.4	0.3
Depreciation	–	–	–	(0.7)	(0.7)
Revaluation	0.4	–	–	–	0.4
At 31 December 2020	**45.6**	**–**	**1.0**	**3.6**	**50.2**
At 1 January 2019	47.0	–	1.6	4.5	53.1
Additions	0.1	–	–	0.2	0.3
Disposals	–	–	(0.6)	(0.1)	(0.7)
Depreciation	–	–	–	(0.7)	(0.7)
Revaluation	(1.8)	–	–	–	(1.8)
At 31 December 2019	45.3	–	1.0	3.9	50.2
Net book value					
Cost or valuation	45.6	–	1.0	7.3	53.9
Accumulated depreciation	–	–	–	(3.7)	(3.7)
At 31 December 2020	**45.6**	**–**	**1.0**	**3.6**	**50.2**
Net book value					
Cost or valuation	45.3	–	1.0	6.9	53.2
Accumulated depreciation	–	–	–	(3.0)	(3.0)
At 31 December 2019	45.3	–	1.0	3.9	50.2
Company					
At 1 January 2020	–	20.4	1.0	3.8	25.2
Additions	–	–	–	0.4	0.4
Depreciation	–	(1.2)	–	(0.7)	(1.9)
At 31 December 2020	**–**	**19.2**	**1.0**	**3.5**	**23.7**
At 1 January 2019	–	–	1.0	4.4	5.4
Adjustment on transition to IFRS 16	–	21.6	–	–	21.6
Additions	–	–	–	0.2	0.2
Depreciation	–	(1.2)	–	(0.8)	(2.0)
At 31 December 2019	–	20.4	1.0	3.8	25.2
Net book value					
Cost or valuation	–	21.6	1.0	7.3	29.9
Accumulated depreciation	–	(2.4)	–	(3.8)	(6.2)
At 31 December 2020	**–**	**19.2**	**1.0**	**3.5**	**23.7**
Net book value					
Cost or valuation	–	21.6	1.0	6.9	29.5
Accumulated depreciation	–	(1.2)	–	(3.1)	(4.3)
At 31 December 2019	–	20.4	1.0	3.8	25.2

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 May 2018 and, after allowing for the artwork disposal in 2019, the Directors consider that there have been no material valuation movements since that date. In accordance with IFRS 13 Fair Value Measurement, the artwork is deemed to be classified as Level 3.

The historical cost of the artwork in the Group at 31 December 2020 was £1.0m (2019: £1.0m) and £1.0m (2019: £1.0m) in the Company. See note 16 for the historical cost of owner-occupied property and IFRS 13 Fair Value Measurement disclosures.

18 Investments

Group

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

	2020 £m	2019 £m
At 1 January	1.3	29.1
Share of results of joint ventures (see note 9)	–	1.9
Additions	–	0.6
Repayment of shareholder loan	–	(21.3)
Distributions received	(0.4)	(9.0)
At 31 December	0.9	1.3

The Group's share of its investments in joint ventures is represented by the following amounts in the underlying joint venture entities.

	2020		2019	
	Joint ventures £m	Group share £m	Joint ventures £m	Group share £m
Current assets	1.2	0.6	2.1	1.1
Current liabilities	(0.7)	(0.3)	(0.7)	(0.4)
Net assets	0.5	0.3	1.4	0.7
Loans provided to joint ventures		0.6		0.6
Total investment in joint ventures		0.9		1.3
Income	–	–	3.9	1.9
Expenses	–	–	(0.1)	–
Profit for the year	–	–	3.8	1.9

Company

	Subsidiaries £m	Joint ventures £m	Total £m
At 1 January 2019	1,226.4	–	1,226.4
Additions	323.8	–	323.8
At 31 December 2019	1,550.2	–	1,550.2
Additions	113.0	–	113.0
Impairment	(47.3)	–	(47.3)
At 31 December 2020	1,615.9	–	1,615.9

At 31 December 2020, the carrying values of the investment in wholly owned subsidiaries and joint ventures were reviewed in accordance with IAS 36 Impairment of Assets on both value in use and fair value less costs to sell bases. The Company's accounting policy is to carry investments in subsidiary undertakings and joint ventures at the lower of cost and recoverable amount and recognise any impairment, or reversal thereof, in the income statement.

Notes to the financial statements continued

19 Other receivables (non-current)

	Group 2020 £m	2019 £m	Company 2020 £m	2019 £m
Prepayments and accrued income	146.4	134.4	–	–

Prepayments and accrued income include £132.3m (2019: £119.7m) after impairments (see note 3) relating to rents recognised in advance as a result of spreading tenant lease incentives over the expected terms of their respective leases. This includes rent-free and reduced rent periods, capital contributions in lieu of rent-free periods and contracted rent uplifts. In addition, £14.1m (2019: £14.7m) relates to the spreading effect of the initial direct costs of letting over the same term. Together with £19.6m (2019: £18.7m), which was included as accrued income within trade and other receivables (see note 20), these amounts totalled £166.0m at 31 December 2020 (2019: £153.1m).

The total movement in tenant lease incentives is shown below:

	2020 £m	2019 £m
At 1 January	135.9	123.5
Amounts taken to income statement	23.0	27.3
Capital incentives granted	0.5	1.8
Lease incentive impairment	(5.7)	–
Adjustment for non-current asset held for sale	(3.2)	(13.9)
Disposal of investment properties	–	(2.8)
Write off to bad debt	(0.8)	–
	149.7	135.9
Amounts included in trade and other receivables (see note 20)	(17.4)	(16.2)
At 31 December	132.3	119.7

20 Trade and other receivables

	Group 2020 £m	2019 £m	Company 2020 £m	2019 £m
Trade receivables	27.5	7.9	–	–
Amounts owed by subsidiaries	–	–	1,659.4	1,651.7
Other receivables	4.1	4.4	0.8	1.3
Prepayments	22.6	20.6	22.0	23.0
Other taxes	–	–	–	0.5
Accrued income	22.0	25.7	0.1	0.1
	76.2	58.6	1,682.3	1,676.6

	2020 £m	2019 £m
Group trade receivables are split as follows:		
less than three months due	17.4	7.8
between three and six months due	3.5	0.1
between six and twelve months due	6.6	–
	27.5	7.9

Group trade receivables at 31 December 2020 increased due to a delay in tenant rent payments resulting from the impact of Covid-19. As a result, the expected credit loss assessment under IFRS 9 (see note 3) resulted in a higher impairment provision.

Amounts owed by subsidiaries are unsecured, have no fixed date of repayment and are repayable on demand. These balances have been considered as part of the full expected credit loss assessment under IFRS 9. In light of the subsidiaries' financial position the impairments are deemed immaterial.

The Group has £9.3m of provision for bad debts as shown below. £3.6m are included in trade receivables, £1.1m in accrued income and £4.6m in prepayments and accrued income within other receivables (non-current) (note 19).

	2020 £m	2019 £m
Provision for bad debts		
At 1 January	**0.4**	0.3
Trade receivables provision	**3.2**	0.1
Lease incentive provision	**5.7**	–
Service charge provision	**0.3**	–
Released	**(0.3)**	–
At 31 December	**9.3**	0.4
The provision for bad debts are split as follows:		
less than three months due	**3.2**	0.4
between three and six months due	**0.5**	–
between six and twelve months due	**1.0**	–
greater than twelve months due	**4.6**	–
	9.3	0.4

21 Non-current assets held for sale

	2020 £m	2019 £m
Transferred from investment properties (see note 16)	**161.2**	107.0
Transferred from prepayments and accrued income	**3.8**	14.6
Movement in grossing up of headlease liabilities	**–**	(3.0)
	165.0	118.6

In December 2020, the Group exchanged contracts for the sale of its freehold interest in Johnson Building EC1. The property was valued at £167.0m at 31 December 2020. In accordance with IFRS 5 Non-current Assets Held for Sale, this property was recognised as a non-current asset held for sale and, after deducting selling costs of £2.0m, the carrying value was £165.0m (see note 16).

22 Trade and other payables

	Group 2020 £m	2019 £m	Company 2020 £m	2019 £m
Trade payables	**2.5**	7.2	**0.2**	0.2
Amounts owed to subsidiaries	**–**	–	**1,055.3**	972.6
Other payables	**21.2**	19.8	**0.3**	0.4
Other taxes	**4.0**	2.1	**0.8**	–
Accruals	**32.0**	38.6	**16.2**	14.6
Deferred income	**47.0**	44.8	**0.1**	0.2
	106.7	112.5	**1,072.9**	988.0

Deferred income primarily relates to rents received in advance.

Notes to the financial statements continued

23 Provisions

	Group £m	Company £m
At 1 January 2020	2.4	2.4
Provided in the income statement	0.2	0.2
Utilised in year	(1.6)	(1.6)
At 31 December 2020	**1.0**	**1.0**
Due within one year	0.6	0.6
Due after one year	0.4	0.4
	1.0	**1.0**
At 1 January 2019	0.6	0.6
Provided in the income statement	1.4	1.4
Provided in reserves	1.0	1.0
Utilised in year	(0.6)	(0.6)
At 31 December 2019	2.4	2.4
Due within one year	0.9	0.9
Due after one year	1.5	1.5
	2.4	2.4

The provisions in both the Group and the Company relate to national insurance that is payable on gains made by employees on the exercise of share options granted to them. The eventual liability to national insurance is dependent on:

- the market price of the Company's shares at the date of exercise;
- the number of equity share options that are exercised; and
- the prevailing rate of national insurance at the date of exercise.

In 2019, both the Group and the Company also included a provision for deferred shares in respect of the Directors' 2019 bonus that was granted in 2020.

24 Net debt and derivative financial instruments

	Group 2020 £m	2019 £m	Company 2020 £m	2019 £m
Non-current liabilities				
1.5% unsecured convertible bonds 2025	**166.4**	164.5	**–**	–
6.5% secured bonds 2026	**183.6**	184.8	**–**	–
2.68% unsecured private placement notes 2026	**54.8**	54.7	**54.8**	54.7
3.46% unsecured private placement notes 2028	**29.9**	29.9	**29.9**	29.9
4.41% unsecured private placement notes 2029	**24.9**	24.8	**24.9**	24.8
2.87% unsecured private placement notes 2029	**92.6**	92.5	**92.6**	92.5
2.97% unsecured private placement notes 2031	**49.8**	49.8	**49.8**	49.8
3.57% unsecured private placement notes 2031	**74.6**	74.6	**74.6**	74.6
3.09% unsecured private placement notes 2034	**51.8**	51.7	**51.8**	51.7
4.68% unsecured private placement notes 2034	**74.5**	74.4	**74.5**	74.4
3.99% secured loan 2024	**82.3**	82.1	**82.3**	82.1
Unsecured bank loans	**120.1**	65.0	**120.1**	65.0
Secured bank loan	**27.9**	27.8	**–**	–
Intercompany loan	**–**	–	**166.4**	164.5
Borrowings	**1,033.2**	976.6	**821.7**	764.0
Leasehold liabilities	**66.6**	59.5	**25.3**	26.4
Derivative financial instruments expiring in greater than one year	**5.6**	3.7	**5.6**	3.7
Gross debt	**1,105.4**	1,039.8	**852.6**	794.1
Reconciliation to net debt:				
Gross debt	**1,105.4**	1,039.8	**852.6**	794.1
Derivative financial instruments	**(5.6)**	(3.7)	**(5.6)**	(3.7)
Cash and cash equivalents	**(50.7)**	(54.5)	**(50.1)**	(54.0)
Net debt	**1,049.1**	981.6	**796.9**	736.4

1.125% unsecured convertible bonds 2019

In July 2013 the Group issued £150m of convertible bonds. The unsecured instruments paid a coupon of 1.125%, had a conversion price of £31.43 and maturity date of July 2019. In June 2019, the Group redeemed £147.7m of the bonds at a premium of £8.5m and the outstanding £2.3m of bonds were repaid to the bondholders on maturity.

1.5% unsecured convertible bonds 2025

In June 2019 the Group issued £175m of convertible bonds. The unsecured instruments pay a coupon of 1.5% until June 2025 or the conversion date, if earlier. The initial conversion price was set at £44.96 per share. In accordance with IAS 32, the equity and debt components of the bonds are accounted for separately and the fair value of the debt component has been determined using the market interest rate for an equivalent non-convertible bond, deemed to be 2.3%. As a result, £167.3m was recognised as a liability in the balance sheet on issue and the remainder of the proceeds, £7.7m, which represents the equity component, was credited to reserves. The difference between the fair value of the liability and the principal value is being amortised through the income statement from the date of issue. Issue costs of £4.0m were allocated between equity and debt and the element relating to the debt component is being amortised over the life of the bonds. The issue costs apportioned to equity of £0.2m have not been amortised. The fair value was determined by the ask-price of £102.90 per £100 as at 31 December 2020 (2019: £109.10 per £100). The carrying value at 31 December 2020 was £166.4m (2019: £164.5m).

Reconciliation of nominal value to carrying value:

	£m
Nominal value	175.0
Fair value adjustment on issue allocated to equity	(7.7)
Debt component on issue	167.3
Unamortised issue costs	(2.8)
Amortisation of fair value adjustment	1.9
Carrying amount included in borrowings	**166.4**

Notes to the financial statements continued

24 Net debt and derivative financial instruments (continued)

6.5% secured bonds 2026

As a result of the acquisition of London Merchant Securities plc in 2007, the secured bonds 2026 were included at fair value less unamortised issue costs. This difference between fair value at acquisition and principal value is being amortised through the income statement. The fair value at 31 December 2020 was determined by the ask-price of £125.90 per £100 (2019: £127.30 per £100). The carrying value at 31 December 2020 was £183.6m (2019: £184.8m).

2.68% unsecured private placement notes 2026, 2.87% unsecured private placement notes 2029, 2.97% unsecured private placement notes 2031 and 3.09% unsecured private placement notes 2034

In October 2018, the Group arranged unsecured private placement notes, comprising £55m for 7 years, £93m for 10 years, £50m for 12 years and £52m for 15 years. The funds were drawn on 31 January 2019. The fair values were determined by comparing the discounted future cash flows using the contracted yields with those of reference gilts plus implied margins. The references were a 2% 2025 gilt, 1.625% 2028 gilt, 4.75% 2030 gilt and a 4.25% 2032 gilt all with an implied margin which is unchanged since the date of fixing. The carrying values at 31 December 2020 were £54.8m (2019: £54.7m), £92.6m (2019: £92.5m), £49.8m (2019: £49.8m) and £51.8m (2019: £51.7m), respectively.

3.46% unsecured private placement notes 2028 and 3.57% unsecured private placement notes 2031

In February 2016, the Group arranged unsecured private placement notes, comprising £30m for 12 years and £75m for 15 years. The funds were drawn on 4 May 2016. The fair values were determined by comparing the discounted future cash flows using the contracted yields with those of reference gilts plus implied margins. The references were a 6% 2028 gilt and a 4.75% 2030 gilt both with an implied margin which is unchanged since the date of fixing. The carrying values at 31 December 2020 were £29.9m (2019: £29.9m) and £74.6m (2019: £74.6m), respectively.

4.41% unsecured private placement notes 2029 and 4.68% unsecured private placement notes 2034

In November 2013, the Group arranged unsecured private placement notes, comprising £25m for 15 years and £75m for 20 years. The funds were drawn on 8 January 2014. The fair values were determined by comparing the discounted future cash flows using the contracted yields with those of reference gilts plus implied margins. The references were a 6% 2028 gilt and a 4.25% 2032 gilt both with an implied margin which is unchanged since the date of fixing. The carrying values at 31 December 2020 were £24.9m (2019: £24.8m) and £74.5m (2019: £74.4m), respectively.

3.99% secured loan 2024

In July 2012, the Group arranged a 12¼-year secured fixed rate loan. The loan was drawn on 1 August 2012. The fair value was determined by comparing the discounted future cash flows using the contracted yield with those of the reference gilt plus an implied margin. The reference was a 5% 2025 gilt with an implied margin which is unchanged since the date of fixing. The carrying value at 31 December 2020 was £82.3m (2019: £82.1m).

Bank borrowings

In November 2020, a new fully revolving £100m minimum five-year unsecured loan facility was completed. An existing £75m facility from the same lender was cancelled at the same time.

In October 2019, the main corporate £450m revolving credit facility was amended to include a £300m 'green tranche' and extended out to 2024. In 2020, the maturity of this facility was extended by one year to 2025.

As all main corporate facilities were refinanced or amended in 2019 and 2020, the fair values of the Group's bank loans are deemed to be approximately the same as their carrying amount, after adjusting for the unamortised arrangement fees.

Undrawn committed bank facilities – maturity profile

	< 1 year £m	1 to 2 years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	> 5 years £m	Total £m
Group							
At 31 December 2020	**–**	**–**	**–**	**–**	**425.0**	**–**	**425.0**
At 31 December 2019	–	–	68.5	–	388.0	–	456.5
Company							
At 31 December 2020	**–**	**–**	**–**	**–**	**425.0**	**–**	**425.0**
At 31 December 2019	–	–	68.5	–	388.0	–	456.5

Intercompany loans

The terms of the intercompany loan in the Company mirror those of the unsecured convertible bonds 2025. As with the bonds, debt and equity components of the intercompany loan have been accounted for separately, and the fair value of the debt components is identical to that of the bonds. The carrying value at 31 December 2020 was £166.4m (2019: £164.5m).

Derivative financial instruments

The derivative financial instruments consist of interest rate swaps, the fair values of which represent the net present value of the difference between the contracted fixed rates and the fixed rates payable if the swaps were to be replaced on 31 December 2020 for the period to the contracted expiry dates.

The Group has a £40m forward starting interest rate swap effective from 15 January 2021, and a £75m forward starting interest rate swap effective from 4 January 2021. These swaps are not included in the 31 December 2020 figures in the table below, but the financial impact from the effective dates onwards is included in the relevant tables in this note.

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

	Group			Company		
	Principal £m	Weighted average interest rate %	Average life Years	Principal £m	Weighted average interest rate %	Average life Years
At 31 December 2020						
Interest rate swaps	–	–	–	–	–	–
At 31 December 2019						
Interest rate swaps	28.0	0.88	0.2	–	–	–

Secured and unsecured debt

	Group 2020 £m	2019 £m	Company 2020 £m	2019 £m
Secured				
6.5% secured bonds 2026	**183.6**	184.8	**–**	–
3.99% secured loan 2024	**82.3**	82.1	**82.3**	82.1
Secured bank loans	**27.9**	27.8	**–**	–
	293.8	294.7	**82.3**	82.1
Unsecured				
1.5% unsecured convertible bonds 2025	**166.4**	164.5	**–**	–
Unsecured private placement notes 2026 – 2034	**452.9**	452.4	**452.9**	452.4
Unsecured bank loans	**120.1**	65.0	**120.1**	65.0
Intercompany loans	**–**	–	**166.4**	164.5
	739.4	681.9	**739.4**	681.9
Borrowings	**1,033.2**	976.6	**821.7**	764.0

At 31 December 2020, the Group's secured bank loan and the 3.99% secured loan 2024 were secured by a fixed charge over £105.2m (2019: £105.7m) and £304.5m (2019: £311.6m), respectively, of the Group's properties. In addition, the secured bonds 2026 were secured by a floating charge over a number of the Group's subsidiary companies which contained £616.5m (2019: £634.5m) of the Group's properties.

At 31 December 2020, the Company's 3.99% secured loan 2024 was secured by a fixed charge over £304.5m (2019: £311.6m) of the Group's properties.

Fixed interest rate and hedged debt

At 31 December 2020, the Group's fixed rate and hedged debt included the unsecured convertible bonds, the secured bonds, a secured loan and the unsecured private placement notes. Additionally, at 31 December 2019, this also included hedged bank debt.

At 31 December 2020 and 2019, the Company's fixed rate debt comprised a secured loan, the unsecured private placement notes and the intercompany loans.

Notes to the financial statements continued

24 Net debt and derivative financial instruments (continued)

Interest rate exposure

After taking into account the various interest rate hedging instruments entered into by the Group and the Company, the interest rate exposure of the Group's and Company's borrowings were:

	Floating rate £m	Hedged £m	Fixed rate £m	Borrowings £m	Weighted average interest rate[1] %	Weighted average life Years
Group						
At 31 December 2020						
1.5% unsecured convertible bonds 2025	–	–	166.4	166.4	2.30	4.5
6.5% secured bonds 2026	–	–	183.6	183.6	6.50	5.2
Unsecured private placement notes 2026 – 2034	–	–	452.9	452.9	3.42	9.7
3.99% secured loan 2024	–	–	82.3	82.3	3.99	3.8
Unsecured bank loans	120.1	–	–	120.1	1.11	4.8
Secured bank loan	27.9	–	–	27.9	1.84	1.6
	148.0	**–**	**885.2**	**1,033.2**	**3.48**	**6.8**
At 31 December 2019						
1.125% unsecured convertible bonds 2019	–	–	–	–	2.67	0.6
1.5% unsecured convertible bonds 2025	–	–	164.5	164.5	2.30	5.5
6.5% secured bonds 2026	–	–	184.8	184.8	6.50	6.2
Unsecured private placement notes 2026 – 2034	–	–	452.4	452.4	3.42	10.7
3.99% secured loan 2024	–	–	82.1	82.1	3.99	4.8
Unsecured bank loans	65.0	–	–	65.0	1.76	4.6
Secured bank loans	–	27.8	–	27.8	2.70	2.6
	65.0	27.8	883.8	976.6	3.68	7.8
Company						
At 31 December 2020						
Unsecured private placement notes 2026 – 2034	–	–	452.9	452.9	3.42	9.7
3.99% secured loan 2024	–	–	82.3	82.3	3.99	3.8
Unsecured bank loans	120.1	–	–	120.1	1.11	4.8
Intercompany loans	–	–	166.4	166.4	2.30	4.4
	120.1	**–**	**701.6**	**821.7**	**2.90**	**7.3**
At 31 December 2019						
Unsecured private placement notes 2026 – 2034	–	–	452.4	452.4	3.42	10.7
3.99% secured loan 2024	–	–	82.1	82.1	3.99	4.8
Unsecured bank loans	65.0	–	–	65.0	1.76	4.6
Intercompany loans	–	–	164.5	164.5	2.30	5.5
	65.0	–	699.0	764.0	3.08	8.4

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[1] The weighted average interest rates are based on the nominal amounts of the debt facilities.

Contractual undiscounted cash outflows

IFRS 7 Financial Instruments: Disclosure, requires disclosure of the maturity of the Group's and Company's remaining contractual financial liabilities. The tables below show the contractual undiscounted cash outflows arising from the Group's gross debt.

	< 1 year £m	1 to 2 years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	> 5 years £m	Total £m
Group							
At 31 December 2020							
1.5% unsecured convertible bonds 2025	–	–	–	–	175.0	–	175.0
6.5% secured bonds 2026	–	–	–	–	–	175.0	175.0
Unsecured private placement notes 2026 – 2034	–	–	–	–	–	455.0	455.0
3.99% secured loan 2024	–	–	–	83.0	–	–	83.0
Unsecured bank loans	–	–	–	–	125.0	–	125.0
Secured bank loans	–	28.0	–	–	–	–	28.0
Total on maturity	–	28.0	–	83.0	300.0	630.0	1,041.0
Leasehold liabilities	0.7	52.2	0.7	0.7	0.7	180.0	235.0
Interest on borrowings	34.6	34.6	34.3	34.5	29.6	88.6	256.2
Effect of interest rate swaps	1.6	1.8	0.9	0.9	0.4	–	5.6
Gross loan commitments	**36.9**	**116.6**	**35.9**	**119.1**	**330.7**	**898.6**	**1,537.8**
At 31 December 2019							
1.5% unsecured convertible bonds 2025	–	–	–	–	–	175.0	175.0
6.5% secured bonds 2026	–	–	–	–	–	175.0	175.0
Unsecured private placement notes 2026 – 2034	–	–	–	–	–	455.0	455.0
3.99% secured loan 2024	–	–	–	–	83.0	–	83.0
Unsecured bank loans	–	–	6.5	–	62.0	–	68.5
Secured bank loans	–	–	28.0	–	–	–	28.0
Total on maturity	–	–	34.5	–	145.0	805.0	984.5
Leasehold liabilities	0.7	0.7	52.2	0.7	0.7	176.5	231.5
Interest on borrowings	34.8	34.8	34.7	34.1	33.9	116.9	289.2
Effect of interest rate swaps	1.0	1.1	0.9	0.3	0.3	0.1	3.7
Gross loan commitments	36.5	36.6	122.3	35.1	179.9	1,098.5	1,508.9

Reconciliation to borrowings:

		Adjustments				
	Gross loan commitments £m	Interest on gross debt £m	Effect of interest rate swaps £m	Leasehold liabilities £m	Non-cash amortisation £m	Borrowings £m
Group						
At 31 December 2020						
Maturing in:						
< 1 year	36.9	(34.6)	(1.6)	(0.7)	–	–
1 to 2 years	116.6	(34.6)	(1.8)	(52.2)	(0.1)	27.9
2 to 3 years	35.9	(34.3)	(0.9)	(0.7)	–	–
3 to 4 years	119.1	(34.5)	(0.9)	(0.7)	(0.7)	82.3
4 to 5 years	330.7	(29.6)	(0.4)	(0.7)	(4.8)	295.2
> 5 years	898.6	(88.6)	–	(180.0)	(2.2)	627.8
	1,537.8	**(256.2)**	**(5.6)**	**(235.0)**	**(7.8)**	**1,033.2**
At 31 December 2019						
Maturing in:						
< 1 year	36.5	(34.8)	(1.0)	(0.7)	–	–
1 to 2 years	36.6	(34.8)	(1.1)	(0.7)	–	–
2 to 3 years	122.3	(34.7)	(0.9)	(52.2)	(0.4)	34.1
3 to 4 years	35.1	(34.1)	(0.3)	(0.7)	–	–
4 to 5 years	179.9	(33.9)	(0.3)	(0.7)	(4.3)	140.7
> 5 years	1,098.5	(116.9)	(0.1)	(176.5)	(3.2)	801.8
	1,508.9	(289.2)	(3.7)	(231.5)	(7.9)	976.6

Notes to the financial statements continued

24 Net debt and derivative financial instruments (continued)

	< 1 year £m	1 to 2 years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	> 5 years £m	Total £m
Company							
At 31 December 2020							
Unsecured private placement notes 2026 – 2034	–	–	–	–	–	455.0	455.0
3.99% secured loan 2024	–	–	–	83.0	–	–	83.0
Unsecured bank loans	–	–	–	–	125.0	–	125.0
Intercompany loans	–	–	–	–	175.0	–	175.0
Total on maturity	–	–	–	83.0	300.0	455.0	838.0
Leasehold liability	2.1	2.1	2.1	2.1	2.1	23.0	33.5
Interest on debt	22.8	22.9	23.0	23.1	18.3	82.9	193.0
Effect of interest rate swaps	1.6	1.8	0.9	0.9	0.4	–	5.6
Gross loan commitments	**26.5**	**26.8**	**26.0**	**109.1**	**320.8**	**560.9**	**1,070.1**
At 31 December 2019							
Unsecured private placement notes 2026 – 2034	–	–	–	–	–	455.0	455.0
3.99% secured loan 2024	–	–	–	–	83.0	–	83.0
Unsecured bank loans	–	–	6.5	–	62.0	–	68.5
Intercompany loans	–	–	–	–	–	175.0	175.0
Total on maturity	–	–	6.5	–	145.0	630.0	781.5
Leasehold liability	2.1	2.1	2.1	2.1	2.1	25.1	35.6
Interest on debt	22.7	22.7	22.7	22.7	22.5	99.8	213.1
Effect of interest rate swaps	1.0	1.1	0.9	0.3	0.3	0.1	3.7
Gross loan commitments	25.8	25.9	32.2	25.1	169.9	755.0	1,033.9

Reconciliation to borrowings:

		Adjustments				
	Gross loan commitments £m	Interest on gross debt £m	Effect of interest rate swaps £m	Leasehold liabilities £m	Non-cash amortisation £m	Borrowings £m
Company						
At 31 December 2020						
Maturing in:						
< 1 year	26.5	(22.8)	(1.6)	(2.1)	–	–
1 to 2 years	26.8	(22.9)	(1.8)	(2.1)	–	–
2 to 3 years	26.0	(23.0)	(0.9)	(2.1)	–	–
3 to 4 years	109.1	(23.1)	(0.9)	(2.1)	(0.7)	82.3
4 to 5 years	320.8	(18.3)	(0.4)	(2.1)	(4.8)	295.2
> 5 years	560.9	(82.9)	–	(23.0)	(10.8)	444.2
	1,070.1	**(193.0)**	**(5.6)**	**(33.5)**	**(16.3)**	**821.7**
At 31 December 2019						
Maturing in:						
< 1 year	25.8	(22.7)	(1.0)	(2.1)	–	–
1 to 2 years	25.9	(22.7)	(1.1)	(2.1)	–	–
2 to 3 years	32.2	(22.7)	(0.9)	(2.1)	(0.2)	6.3
3 to 4 years	25.1	(22.7)	(0.3)	(2.1)	–	–
4 to 5 years	169.9	(22.5)	(0.3)	(2.1)	(4.3)	140.7
> 5 years	755.0	(99.8)	(0.1)	(25.1)	(13.0)	617.0
	1,033.9	(213.1)	(3.7)	(35.6)	(17.5)	764.0

Derivative financial instruments cash flows

The following table provides an analysis of the anticipated contractual cash flows for the derivative financial instruments using undiscounted cash flows. These amounts represent the gross cash flows of the derivative financial instruments and are settled as either a net payment or receipt.

	2020 Receivable £m	2020 Payable £m	2019 Receivable £m	2019 Payable £m
Group				
Maturing in:				
< 1 year	–	(1.6)	0.6	(1.6)
1 to 2 years	–	(1.8)	0.9	(2.0)
2 to 3 years	0.1	(1.0)	0.9	(1.8)
3 to 4 years	0.1	(1.0)	0.7	(1.0)
4 to 5 years	0.1	(0.5)	0.7	(1.0)
> 5 years	–	–	0.4	(0.5)
Gross contractual cash flows	0.3	(5.9)	4.2	(7.9)
Company				
Maturing in:				
< 1 year	–	(1.6)	0.6	(1.6)
1 to 2 years	–	(1.8)	0.9	(2.0)
2 to 3 years	0.1	(1.0)	0.9	(1.8)
3 to 4 years	0.1	(1.0)	0.7	(1.0)
4 to 5 years	0.1	(0.5)	0.7	(1.0)
> 5 years	–	–	0.4	(0.5)
Gross contractual cash flows	0.3	(5.9)	4.2	(7.9)

Financial instruments – risk management

The Group is exposed through its operations to the following financial risks:

- credit risk;
- market risk; and
- liquidity risk.

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. The following describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements. Further information on risk as required by IFRS 7 is given on pages 84 to 99.

There have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous years.

Principal financial instruments

The principal financial instruments used by the Group, from which financial instrument risk arises, are trade receivables, accrued income arising from the spreading of lease incentives, cash at bank, trade and other payables, floating rate bank loans, fixed rate loans and private placement notes, secured and unsecured bonds and interest rate swaps.

General objectives, policies and processes

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority to executive management for designing and operating processes that ensure the effective implementation of the objectives and policies.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's flexibility and its ability to maximise returns. Further details regarding these policies are set out below:

Notes to the financial statements continued

24 Net debt and derivative financial instruments (continued)

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group is mainly exposed to credit risk from lease contracts in relation to its property portfolio. It is Group policy to assess the credit risk of new tenants before entering into such contracts. The Board has a Credit Committee which assesses each new tenant before a new lease is signed. The review includes the latest sets of financial statements, external ratings when available and, in some cases, forecast information and bank or trade references. The covenant strength of each tenant is determined based on this review and, if appropriate, a deposit or a guarantee is obtained. The Committee also reviews existing tenant covenants from time to time.

The impact of Covid-19 has given rise to higher estimated probabilities of default for some of the Group's occupiers. As a result, impairment calculations have been carried out on trade receivables and accrued income arising as a result of the spreading of lease incentives using the forward-looking, simplified approach to the expected credit loss model within IFRS 9. In addition, the Credit Committee has reviewed its register of tenants at higher risk, particularly in the retail or hospitality sectors, those in administration or CVA and the top 83 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 £0.8m (2019: £0.3m) or a decrease of £0.7m (2019: £0.3m).

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 2020, the proportion of fixed debt held by the Group was within this range at 85% (2019: 93%). During both 2020 and 2019, the Group's borrowings at variable rate were denominated in sterling.

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

Liquidity risk

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

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

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

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

Capital disclosures

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

The Group's objectives when maintaining capital are:

- to safeguard the entity's ability to continue as a going concern so that it can continue to provide above average long-term returns for shareholders; and
- 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 2020, the Group's strategy, which was unchanged from 2019, was to maintain the NAV gearing below 80% in normal circumstances. These two gearing ratios, as well as the net interest cover ratio, are defined in the list of definitions on pages 249 to 250 and are derived in note 41.

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 £4.3bn (2019: £4.4bn) of uncharged property as at 31 December 2020.

25 Financial assets and liabilities and fair values

Categories of financial assets and liabilities

	Fair value through profit and loss £m	Financial assets held at amortised cost £m	Financial liabilities held at amortised cost £m	Total carrying value £m
Group				
Financial assets				
Cash and cash equivalents	–	50.7	–	50.7
Other assets – current[1]	–	34.0	–	34.0
	–	84.7	–	84.7
Financial liabilities				
1.5% unsecured convertible bonds 2025	–	–	(166.4)	(166.4)
6.5% secured bonds 2026	–	–	(183.6)	(183.6)
Unsecured private placement notes 2026 – 2034	–	–	(452.9)	(452.9)
3.99% secured loan 2024	–	–	(82.3)	(82.3)
Bank borrowings due after one year	–	–	(148.0)	(148.0)
Leasehold liabilities	–	–	(66.6)	(66.6)
Derivative financial instruments	(5.6)	–	–	(5.6)
Other liabilities – current[2]	–	–	(55.7)	(55.7)
	(5.6)	–	(1,155.5)	(1,161.1)
At 31 December 2020	**(5.6)**	**84.7**	**(1,155.5)**	**(1,076.4)**
Financial assets				
Cash and cash equivalents	–	54.5	–	54.5
Other assets – current[1]	–	19.3	–	19.3
	–	73.8	–	73.8
Financial liabilities				
1.5% unsecured convertible bonds 2025	–	–	(164.5)	(164.5)
6.5% secured bonds 2026	–	–	(184.8)	(184.8)
Unsecured private placement notes 2026 – 2034	–	–	(452.4)	(452.4)
3.99% secured loan 2024	–	–	(82.1)	(82.1)
Bank borrowings due after one year	–	–	(92.8)	(92.8)
Leasehold liabilities	–	–	(59.5)	(59.5)
Derivative financial instruments	(3.7)	–	–	(3.7)
Other liabilities – current[2]	–	–	(65.6)	(65.6)
	(3.7)	–	(1,101.7)	(1,105.4)
At 31 December 2019	(3.7)	73.8	(1,101.7)	(1,031.6)

[1] In 2020, other assets includes all amounts shown as trade and other receivables in note 20 except lease incentives and costs; sales and social security taxes; and prepayments of £42.2m (2019: £39.3m) for the Group and £22.0m (2019: £23.5m) for the Company. All amounts are non-interest bearing and are receivable within one year.

[2] In 2020, other liabilities include all amounts shown as trade and other payables in note 22 except deferred income and sales and social security taxes of £51.0m (2019: £46.9m) for the Group and £0.9m (2019: £0.2m) for the Company. All amounts are non-interest bearing and are due within one year.

Notes to the financial statements continued

25 Financial assets and liabilities and fair values (continued)

	Fair value through profit and loss £m	Financial assets held at amortised cost £m	Financial liabilities held at amortised cost £m	Total carrying value £m
Company				
Financial assets				
Cash and cash equivalents	–	50.1	–	50.1
Other assets – current[1]	–	1,660.3	–	1,660.3
	–	1,710.4	–	1,710.4
Financial liabilities				
Unsecured private placement notes 2026 – 2034	–	–	(452.9)	(452.9)
3.99% secured loan 2024	–	–	(82.3)	(82.3)
Bank borrowings due after one year	–	–	(120.1)	(120.1)
Intercompany loan	–	–	(166.4)	(166.4)
Leasehold liabilities	–	–	(25.3)	(25.3)
Derivative financial instruments	(5.6)	–	–	(5.6)
Other liabilities – current[2]	–	(1,055.3)	(16.7)	(1,072.0)
	(5.6)	(1,055.3)	(863.7)	(1,924.6)
At 31 December 2020	**(5.6)**	**655.1**	**(863.7)**	**(214.2)**
Financial assets				
Cash and cash equivalents	–	54.0	–	54.0
Other assets – current[1]	–	1,653.1	–	1,653.1
	–	1,707.1	–	1,707.1
Financial liabilities				
Unsecured private placement notes 2026 – 2034	–	–	(452.4)	(452.4)
3.99% secured loan 2024	–	–	(82.1)	(82.1)
Bank borrowings due after one year	–	–	(65.0)	(65.0)
Intercompany loan	–	–	(164.5)	(164.5)
Leasehold liabilities	–	–	(26.4)	(26.4)
Derivative financial instruments	(3.7)	–	–	(3.7)
Other liabilities – current[2]	–	(972.6)	(41.6)	(1,014.2)
	(3.7)	(972.6)	(832.0)	(1,808.3)
At 31 December 2019	(3.7)	734.5	(832.0)	(101.2)

[1] In 2020, other assets includes all amounts shown as trade and other receivables in note 20 except lease incentives and costs; sales and social security taxes; and prepayments of £42.2m (2019: £39.3m) for the Group and £22.0m (2019: £23.5m) for the Company. All amounts are non-interest bearing and are receivable within one year.

[2] In 2020, other liabilities include all amounts shown as trade and other payables in note 22 except deferred income and sales and social security taxes of £51.0m (2019: £46.9m) for the Group and £0.9m (2019: £0.2m) for the Company. All amounts are non-interest bearing and are due within one year.

Reconciliation of net financial assets and liabilities to gross debt:

	Group 2020 £m	2019 £m	Company 2020 £m	2019 £m
Net financial assets and liabilities	**(1,076.4)**	(1,031.6)	**(214.2)**	(101.2)
Other assets – current	**(34.0)**	(19.3)	**(1,660.3)**	(1,653.1)
Other liabilities – current	**55.7**	65.6	**1,072.0**	1,014.2
Cash and cash equivalents	**(50.7)**	(54.5)	**(50.1)**	(54.0)
Gross debt	**(1,105.4)**	(1,039.8)	**(852.6)**	(794.1)

Fair value measurement

The table below shows the fair values, where applicable, of borrowings and derivative financial instruments held by the Group, together with a reconciliation to net financial assets and liabilities. Details of inputs and valuation methods used to derive the fair values are shown in note 24.

	Group		Company		
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m	Fair value hierarchy
At 31 December 2020					
1.5% unsecured convertible bonds 2025	(166.4)	(174.2)	–	–	Level 1
6.5% secured bonds 2026	(183.6)	(220.3)	–	–	Level 1
Unsecured private placement notes 2026 – 2034	(452.9)	(526.4)	(452.9)	(526.4)	Level 2
3.99% secured loan 2024	(82.3)	(89.1)	(82.3)	(89.1)	Level 2
Bank borrowings due after one year	(148.0)	(153.0)	(120.1)	(125.0)	Level 2
Intercompany loan	–	–	(166.4)	(174.2)	Level 2
Derivative financial instruments	(5.6)	(5.6)	(5.6)	(5.6)	Level 2
	(1,038.8)	(1,168.6)	(827.3)	(920.3)	
Amounts not fair valued:					
Cash and cash equivalents	50.7		50.1		
Other assets – current	34.0		1,660.3		
Leasehold liabilities	(66.6)		(25.3)		
Other liabilities – current	(55.7)		(1,072.0)		
Net financial assets and liabilities	**(1,076.4)**		**(214.2)**		
At 31 December 2019					
1.5% unsecured convertible bonds 2025	(164.5)	(183.9)	–	–	Level 1
6.5% secured bonds 2026	(184.8)	(222.8)	–	–	Level 1
Unsecured private placement notes 2026 – 2034	(452.4)	(493.7)	(452.4)	(493.7)	Level 2
3.99% secured loan 2024	(82.1)	(87.8)	(82.1)	(87.8)	Level 2
Bank borrowings due after one year	(92.8)	(96.5)	(65.0)	(68.5)	Level 2
Intercompany loan	–	–	(164.5)	(183.9)	Level 2
Derivative financial instruments	(3.7)	(3.7)	(3.7)	(3.7)	Level 2
	(980.3)	(1,088.4)	(767.7)	(837.6)	
Amounts not fair valued:					
Cash and cash equivalents	54.5		54.0		
Other assets – current	19.3		1,653.1		
Leasehold liabilities	(59.5)		(26.4)		
Other liabilities – current	(65.6)		(1,014.2)		
Net financial assets and liabilities	(1,031.6)		(101.2)		

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 2020 or 2019.

Notes to the financial statements continued

26 Cash flow information

Net debt reconciliation

			Non-cash changes				
	2019 £m	Cash flows £m	Impact of issue and arrangement costs £m	Fair value adjustments £m	Acquisitions £m	Unwind of discount £m	2020 £m
Group							
Borrowings	976.6	55.7	1.0	(0.1)	–	–	**1,033.2**
Leasehold liabilities	59.5	–	–	–	5.3	1.8	**66.6**
Total liabilities from financing activities	1,036.1	55.7	1.0	(0.1)	5.3	1.8	**1,099.8**
Cash and cash equivalents	(54.5)	3.8	–	–	–	–	**(50.7)**
Net debt	981.6	59.5	1.0	(0.1)	5.3	1.8	**1,049.1**
Company							
Borrowings	764.0	55.7	0.8	1.2	–	–	**821.7**
Leasehold liabilities	26.4	–	–	–	–	(1.1)	**25.3**
Total liabilities from financing activities	790.4	55.7	0.8	1.2	–	(1.1)	**847.0**
Cash and cash equivalents	(54.0)	3.9	–	–	–	–	**(50.1)**
Net debt	736.4	59.6	0.8	1.2	–	(1.1)	**796.9**

27 Deferred tax

	Revaluation deficit/(surplus) £m	Other £m	Total £m
Group			
At 1 January 2020	3.3	(2.1)	1.2
Credited to the income statement	(0.3)	(1.7)	(2.0)
Change in tax rates in the income statement	0.3	(0.1)	0.2
Charged/(credited) to other comprehensive income	0.1	(0.4)	(0.3)
Charged to equity	–	1.3	1.3
Change in tax rates in other comprehensive income	0.1	–	0.1
At 31 December 2020	**3.5**	**(3.0)**	**0.5**
At 1 January 2019	3.6	(1.8)	1.8
(Credited)/charged to the income statement	(0.2)	1.0	0.8
Credited to other comprehensive income	(0.1)	–	(0.1)
Credited to equity	–	(1.3)	(1.3)
At 31 December 2019	3.3	(2.1)	1.2
Company			
At 1 January 2020	–	(3.2)	(3.2)
Credited to the income statement	–	(1.0)	(1.0)
Charged to equity	–	1.3	1.3
Change in tax rates in the income statement	–	(0.2)	(0.2)
At 31 December 2020	**–**	**(3.1)**	**(3.1)**
At 1 January 2019	–	(2.1)	(2.1)
Credited to the income statement	–	(1.1)	(1.1)
At 31 December 2019	–	(3.2)	(3.2)

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

In 2019, £1.3m was credited to equity relating to equity settled share-based payments and represented the amount by which the total expected tax deduction exceeded the cumulative IFRS 2 expense. In 2020, the £1.3m charge reverses this to a nil balance.

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

28 Share capital

The movement in the number of 5p ordinary shares in issue is shown in the table below:

Number of shares in issue

	Number
At 1 January 2019	111,539,937
Issued as a result of awards vesting under the Group's Performance Share Plan	100,029
Issued as a result of the exercise of share options[1]	133,320
At 31 December 2019	111,773,286
Issued as a result of awards vesting under the Group's Performance Share Plan	165,364
Issued as a result of the exercise of share options[1]	22,761
At 31 December 2020	**111,961,411**

[1] Proceeds from these issues were £0.6m (2019: £3.5m).

The number of outstanding share options and other share awards granted are disclosed in the report of the Remuneration Committee and note 13.

Notes to the financial statements continued

29 Reserves

The following describes the nature and purpose of each reserve within shareholders' equity:

Reserve	Description and purpose
Share premium	Amount subscribed for share capital in excess of nominal value less directly attributable issue costs.
Other reserves:	
Merger	Premium on the issue of shares as equity consideration for the acquisition of London Merchant Securities plc (LMS).
Revaluation	Revaluation of the owner-occupied property and the associated deferred tax.
Other	Equity portion of the convertible bonds for the Group and intercompany loans for the Company. Fair value of equity instruments granted but not yet exercised under share-based payments.
Retained earnings	Cumulative net gains and losses recognised in the Group income statement together with other items such as dividends.

Other reserves

	Group 2020 £m	2019 £m	Company 2020 £m	2019 £m
Merger reserve	**910.5**	910.5	**910.5**	910.5
Revaluation reserve	**13.1**	12.9	**–**	–
Equity portion of the convertible bonds	**7.5**	7.5	**–**	–
Equity portion of long-term intercompany loan	**–**	–	**7.5**	7.5
Fair value of equity instruments under share-based payments	**8.3**	5.3	**8.3**	5.3
	939.4	936.2	**926.3**	923.3

30 (Loss)/profit for the year attributable to members of Derwent London plc

(Loss)/profit for the year in the Group income statement includes a profit of £1.8m (2019: £49.7m) generated by the Company. The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own income statement in these financial statements.

31 Dividend

	Payment date	Dividend per share PID p	Non-PID p	Total p	2020 £m	2019 £m
Current year						
2020 final dividend[1]	4 June 2021	35.00	17.45	52.45	**–**	–
2020 interim dividend	16 October 2020	22.00	–	22.00	**24.6**	–
		57.00	17.45	74.45	**24.6**	–
Prior year						
2019 final dividend	5 June 2020	34.45	17.00	51.45	**57.6**	–
2019 interim dividend	18 October 2019	21.00	–	21.00	**–**	23.4
		55.45	17.00	72.45	**57.6**	23.4
2018 final dividend	7 June 2019	30.00	16.75	46.75	**–**	52.2
Dividends as reported in the Group statement of changes in equity					**82.2**	75.6
2020 interim dividend withholding tax	14 January 2021				**(3.2)**	–
2019 interim dividend withholding tax	14 January 2020				**2.8**	(2.8)
2018 interim dividend withholding tax	14 January 2019				**–**	2.3
Dividends paid as reported in the Group cash flow statement					**81.8**	75.1

[1] Subject to shareholder approval at the AGM on 14 May 2021.

32 Cash and cash equivalents

	Group 2020 £m	2019 £m	Company 2020 £m	2019 £m
Cash at bank	**50.7**	54.5	**50.1**	54.0

33 Capital commitments

Contracts for capital expenditure entered into by the Group at 31 December 2020 and not provided for in the accounts relating to the construction, development or enhancement of the Group's investment properties amounted to £233.1m (2019: £317.4m), whilst that relating to the Group's trading properties amounted to £0.4m (2019: £0.5m). At 31 December 2020 and 31 December 2019, there were no material obligations for the purchase, repair or maintenance of investment or trading properties.

34 Contingent liabilities

The Company and its subsidiaries are party to cross guarantees securing certain bank loans. At 31 December 2020 and 31 December 2019, there was no liability that could arise for the Company from the cross guarantees.

Where the Company enters into financial guarantee contracts and guarantees the indebtedness of other companies within the Group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time that it becomes probable that the Company will be required to make a payment under the guarantee.

35 Leases

	2020 £m	2019 £m
Operating lease receipts		
Minimum lease receipts under non-cancellable operating leases to be received:		
not later than one year	**199.2**	192.2
later than one year and not later than five years	**607.5**	577.6
later than five years	**918.7**	723.1
	1,725.4	1,492.9

	Group 2020 £m	2019 £m	Company 2020 £m	2019 £m
Headlease obligations				
Minimum lease payments under headleases that fall due:				
not later than one year	**0.7**	0.7	**2.1**	2.1
later than one year and not later than five years	**54.3**	54.3	**8.4**	8.4
later than five years	**180.0**	176.5	**23.0**	25.1
	235.0	231.5	**33.5**	35.6
Future contingent rent payable on headleases	**(1.7)**	(23.1)	**–**	–
Future finance charges on headleases	**(166.7)**	(148.9)	**(8.2)**	(9.2)
Present value of headlease liabilities	**66.6**	59.5	**25.3**	26.4
Present value of minimum headlease obligations:				
not later than one year	**–**	–	**1.2**	1.1
later than one year and not later than five years	**49.6**	47.7	**5.1**	5.0
later than five years	**17.0**	11.8	**19.0**	20.3
	66.6	59.5	**25.3**	26.4

The Group has approximately 798 leases granted to its tenants. These vary dependent on the individual tenant and the respective property and demise but typically are let for a term of five to 20 years, at a market rent with provisions to review to market rent every five years. Standard lease provisions include service charge payments and recovery of other direct costs. The weighted average lease length of the leases commencing during 2020 was 14.7 years (2019: 11.2 years). Of these leases, on a weighted average basis, 97% (2019: 95%) included a rent-free or half rent period.

Notes to the financial statements continued

36 Post balance sheet events

In January 2021, the Group completed the disposal of its freehold interest in Johnson Building EC1 for £167.6m.

37 List of subsidiaries and joint ventures

A full list of subsidiaries and joint ventures as at 31 December 2020 is set out below:

	Ownership[2]	Principal activity
Subsidiaries		
Asta Commercial Limited	100%	Property investment
Bargate Quarter Limited	65%	Investment company
BBR (Commercial) Limited	100%	Property investment
BBR Property Limited[1]	100%	Property trading
Caledonian Properties Limited	100%	Property investment
Caledonian Property Estates Limited	100%	Property investment
Caledonian Property Investments Limited	100%	Property investment
Carlton Construction & Development Company Limited	100%	Dormant
Central London Commercial Estates Limited	100%	Property investment
Charlotte Apartments Limited	100%	Property investment
80 Charlotte Street Limited[1]	100%	Property investment
Derwent Asset Management Limited[1]	100%	Property management
Derwent Central Cross Limited[1]	100%	Property investment
Derwent Henry Wood Limited[1]	100%	Property investment
Derwent London No.1 Limited	55%	Dormant
Derwent London Angel Square Limited[1]	100%	Property investment
Derwent London Asta Limited	100%	Property investment
Derwent London Asta Residential Limited	100%	Property trading
Derwent London Brixton Limited[1]	100%	Property investment
Derwent London Capital No. 3 (Jersey) Limited[1]	100%	Finance company
Derwent London Charlotte Street (Commercial) Limited	100%	Property investment
Derwent London Charlotte Street Limited[1]	100%	Property trading
Derwent London Copyright House Limited[1]	100%	Property investment
Derwent London Development Services Limited[1]	100%	Development services
Derwent London Farringdon Limited[1]	100%	Property investment
Derwent London Featherstone Limited[1]	100%	Property investment
Derwent London Gallery Limited[1]	100%	Property investment
Derwent London Grafton Limited[1]	100%	Property investment
Derwent London Green Energy Limited[1]	100%	Energy production
Derwent London Holden House Limited[1]	100%	Property investment
Derwent London Howland Limited[1]	100%	Property investment
Derwent London KSW Limited[1]	100%	Property investment
Derwent London Oliver's Yard Limited[1]	100%	Property investment
Derwent London Page Street (Nominee) Limited	100%	Dormant
Derwent London Page Street Limited[1]	100%	Property investment
Derwent London Savile Row Limited[1]	100%	Property investment
Derwent London Whitfield Street Limited[1]	100%	Property investment
Derwent Valley Central Limited[1]	100%	Property investment
Derwent Valley Employee Trust Limited[1]	100%	Employee trust
Derwent Valley Finance Limited	100%	Finance company
Derwent Valley Limited	100%	Holding company
Derwent Valley London Limited[1]	100%	Property investment
Derwent Valley Property Developments Limited[1]	100%	Property investment
Derwent Valley Property Investments Limited[1]	100%	Property investment
Derwent Valley Property Trading Limited[1]	100%	Property trading
Derwent Valley Railway Company[1]	100%	Dormant

	Ownership[2]	Principal activity
Derwent Valley West End Limited[1]	100%	Property investment
Kensington Commercial Property Investments Limited	100%	Property investment
22 Kingsway Limited[1]	100%	Dormant
LMS (City Road) Limited	100%	Property investment
LMS Finance Limited	100%	Investment holding
LMS Offices Limited	100%	Property investment
London Merchant Securities Limited[1]	100%	Holding company
Portman Investments (Baker Street) Limited	55%	Property investment
The New River Company Limited	100%	Property investment
Urbanfirst Limited	100%	Investment holding
West London & Suburban Property Investments Limited	100%	Property investment
Joint ventures		
Dorrington Derwent Holdings Limited	50%	Holding company
Dorrington Derwent Investments Limited	50%	Investment company
Prescot Street GP Limited	50%	Management company
Prescot Street Nominees Limited	50%	Dormant
Primister Limited	50%	Property investment

[1] Indicates subsidiary undertakings held directly.

[2] All holdings are of ordinary shares.

The Company controls 50% of the voting rights of its joint ventures, which are accounted for and disclosed in accordance with IFRS 11 Joint Arrangements.

The Company's interest in Portman Investments (Baker Street) Limited and Derwent London No.1 Limited are accounted for and disclosed in accordance with IAS 27 Consolidated and Separate Financial Statements. This gives rise to a non-controlling interest within equity in the Group balance sheet and the separate disclosure of the non-controlling interest's share of the Group's (loss)/profit for the year in the Group income statement and Group statement of comprehensive income.

All of the entities above are incorporated and domiciled in England and Wales, with the exception of 22 Kingsway Limited and Derwent London Capital No. 3 (Jersey) Limited, which are incorporated and domiciled in Jersey. In addition, all the entities are registered at 25 Savile Row, London, W1S 2ER, with the exception of:

- 22 Kingsway Limited and Derwent London Capital No. 3 (Jersey) Limited, which are registered at 47 Esplanade, St Helier, JE1 0BD, Channel Islands;
- Dorrington Derwent Holdings Limited and Dorrington Derwent Investments Limited, which are registered at 16 Hans Road, London, SW3 1RT;
- Primister Limited, which is registered at Quadrant House, Floor 6, 4 Thomas More Square, London, E1W 1YW.

Notes to the financial statements continued

38 Related party disclosure

Details of Directors' remuneration are given in the report of the Remuneration Committee on pages 150 to 170 and note 11. A full list of subsidiaries and joint ventures is given in note 37. Other related party transactions are as follows:

Group

During the year, the Group contributed £0.1m (2019: £0.1m) to the running costs of Buxton Jones Consultants Limited, a company of which John Burns is a director.

At 31 December 2020, included within other receivables in note 20 is an amount owed by the Portman Estate, the non-controlling 45% owner of one of the Group's subsidiaries, of £2.0m (2019: £2.0m).

Company

The Company received interest from and paid interest to some of its subsidiaries during the year. These transactions are summarised below:

	Interest income/(expense)		Balance receivable/(payable)	
	2020 £m	2019 £m	**2020 £m**	2019 £m
Related party				
22 Kingsway Limited	–	–	(33.5)	(33.5)
80 Charlotte Street Limited	8.3	8.7	209.6	213.2
BBR (Commercial) Limited	(0.1)	(0.1)	–	(2.6)
BBR Property Limited	(0.3)	(0.2)	–	(6.1)
Derwent Asset Management Limited	–	–	(0.9)	(0.8)
Derwent Central Cross Limited	7.5	8.0	185.4	189.0
Derwent Henry Wood Limited	(0.1)	1.0	(3.1)	(1.0)
Derwent London Angel Square Limited	(0.3)	(0.1)	(7.2)	(4.5)
Derwent London Brixton Limited	1.5	–	41.9	–
Derwent London Capital No. 2 (Jersey) Limited	–	(1.8)	–	–
Derwent London Capital No. 3 (Jersey) Limited[1]	(3.9)	(2.1)	(166.3)	(164.4)
Derwent London Charlotte Street (Commercial) Limited	–	–	–	(1.1)
Derwent London Charlotte Street Limited	(0.1)	(0.1)	–	(1.8)
Derwent London Copyright House Limited	(0.1)	(0.1)	–	(3.3)
Derwent London Development Services Limited	1.2	0.3	42.7	14.3
Derwent London Farringdon Limited	(0.4)	(0.2)	(10.2)	(6.1)
Derwent London Featherstone Limited	0.9	1.7	21.9	40.8
Derwent London Gallery Limited	–	–	(0.5)	–
Derwent London Grafton Limited	(0.4)	(0.4)	–	(8.6)
Derwent London Green Energy Limited	–	–	(4.9)	–
Derwent London Holden House Limited	4.6	6.8	115.4	161.1
Derwent London Howland Limited	(0.3)	(0.3)	–	(7.7)
Derwent London KSW Limited	(4.0)	(1.3)	(102.7)	(98.7)
Derwent London Oliver's Yard Limited	5.0	5.3	125.9	126.6
Derwent London Page Street Limited	–	0.1	–	0.1
Derwent London Savile Row Limited	–	–	(0.5)	–
Derwent London Whitfield Street Limited	1.8	1.7	45.4	40.8
Derwent Valley Central Limited	2.9	(0.5)	81.4	41.1
Derwent Valley London Limited	8.1	12.4	182.3	310.7
Derwent Valley Property Developments Limited	(6.8)	(6.4)	(177.3)	(157.1)
Derwent Valley Property Investments Limited	(4.4)	(4.3)	(112.9)	(105.9)
Derwent Valley Property Trading Limited	0.2	0.3	5.8	8.0
Derwent Valley Railway Company[2]	–	–	(0.2)	(0.2)
Derwent Valley West End Limited	0.1	0.1	1.8	1.9
London Merchant Securities Limited[3]	(0.3)	(1.5)	(1.6)	(29.6)
	20.6	27.0	437.7	514.6

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[1] The payable balance at 31 December 2020 includes the intercompany loan of £166.4m (2019: £164.5m) included in note 24.

[2] Dormant company.

[3] Balance owed includes subsidiaries which form part of the LMS sub-group.

The Company has not made any provision for bad or doubtful debts in respect of related party debtors. Intercompany balances are repayable on demand except the loan from Derwent London Capital No. 3 (Jersey) Limited, the payment and repayment terms of which mirror those of the convertible bonds.

Interest is charged on the on-demand intercompany balances at an arm's length basis.

39 EPRA performance measures and core recommendations (unaudited)

Summary table of EPRA performance measures

	2020		2019	
		Pence per share p		Pence per share p
EPRA earnings	**£111.0m**	**99.19**	£115.1m	103.09
EPRA net tangible assets	**£4,280.9m**	**3,812**	£4,439.0m	3,957
EPRA net disposal value	**£4,134.8m**	**3,682**	£4,315.4m	3,847
EPRA net reinstatement value	**£4,646.5m**	**4,138**	£4,812.6m	4,290
EPRA cost ratio (including direct vacancy costs)	**30.5%**		23.9%	
EPRA net initial yield	**3.7%**		3.4%	
EPRA 'topped-up' net initial yield	**4.8%**		4.7%	
EPRA vacancy rate	**1.8%**		0.8%	

The definition of these measures can be found on pages 248 and 249.

	Earnings per share		Net asset value per share	
	Weighted average		At 31 December	
	2020 '000	2019 '000	**2020 '000**	2019 '000
For use in basic measures	**111,912**	111,652	**111,961**	111,773
Dilutive effect of share-based payments	**350**	315	**341**	400
For use in diluted measures	**112,262**	111,967	**112,302**	112,173

The £175m unsecured convertible bonds 2025 ('2025 bonds') have an initial conversion price set at £44.96. The £150m unsecured convertible bonds 2019 ('2019 bonds') were repurchased in 2019.

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 2019 and 2020, the Group did not recognise the dilutive impact of the conversion of the 2019 bonds or 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 and non-controlling interest.
B – Revaluation movement on investment property and in joint ventures, write-down of trading property and associated deferred tax and non-controlling interest.
C – Fair value movement and termination costs relating to derivative financial instruments, associated non-controlling interest, the fair value part of the bond redemption premium and loan arrangement costs written off.

Notes to the financial statements continued

39 EPRA performance measures and core recommendations (unaudited) (continued)

The Group has adopted the new set of EPRA NAV metrics effective for the period beginning 1 January 2020. A reconciliation between the new and the previous metrics for both the current and comparative accounting periods is presented below.

Earnings and earnings per share

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

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

Year ended 31 December 2019					
Net property and other income	182.6	–	–	–	182.6
Total administrative expenses	(37.0)	–	–	–	(37.0)
Revaluation surplus	156.4	–	(156.4)	–	–
Profit on disposal of investments	13.8	(13.8)	–	–	–
Net finance costs	(34.3)	–	–	7.8	(26.5)
Movement in fair value of derivative financial instruments	(0.1)	–	–	0.1	–
Financial derivative termination costs	(2.7)	–	–	2.7	–
Share of results of joint ventures	1.9	(1.7)	–	–	0.2
Profit before tax	280.6	(15.5)	(156.4)	10.6	119.3
Tax charge	(2.5)	0.7	(0.2)	–	(2.0)
Profit for the year	278.1	(14.8)	(156.6)	10.6	117.3
Non-controlling interest	5.3	–	(7.5)	–	(2.2)
Earnings attributable to equity shareholders	283.4	(14.8)	(164.1)	10.6	115.1
Earnings per share	253.82p				103.09p
Diluted earnings per share	253.11p				102.80p

EPRA net asset value metrics

	2020 £m	2019 £m
Net assets attributable to equity shareholders	4,263.2	4,421.2
Adjustment for:		
Revaluation of trading properties	1.4	2.3
Deferred tax on revaluation surplus[1]	1.8	1.6
Fair value of derivative financial instruments	5.6	3.7
Fair value adjustment to secured bonds	9.3	10.6
Non-controlling interest in respect of the above[1]	(0.4)	(0.4)
EPRA net tangible assets	**4,280.9**	4,439.0
Per share measure – diluted	**3,812p**	3,957p
Net assets attributable to equity shareholders	**4,263.2**	4,421.2
Adjustment for:		
Revaluation of trading properties	**1.4**	2.3
Fair value adjustment to secured bonds	**9.3**	10.6
Mark-to-market of fixed rate debt	**(127.8)**	(107.2)
Unamortised issue and arrangement costs	**(11.3)**	(11.5)
EPRA net disposal value	**4,134.8**	4,315.4
Per share measure – diluted	**3,682p**	3,847p
Net assets attributable to equity shareholders	**4,263.2**	4,421.2
Adjustment for:		
Revaluation of trading properties	**1.4**	2.3
Deferred tax on revaluation surplus	**3.5**	3.3
Fair value of derivative financial instruments	**5.6**	3.7
Fair value adjustment to secured bonds	**9.3**	10.6
Non-controlling interest in respect of the above	**(0.7)**	(0.8)
Purchasers' costs[2]	**364.2**	372.3
EPRA net reinstatement value	**4,646.5**	4,812.6
Per share measure – diluted	**4,138p**	4,290p

[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.

Notes to the financial statements continued

39 EPRA performance measures and core recommendations (unaudited) (continued)

Reconciliation of new EPRA net asset value metrics to previous metrics

	2020 £m	2019 £m
EPRA net tangible assets	4,280.9	4,439.0
Adjustment for:		
Deferred tax on revaluation surplus	1.8	1.7
Non-controlling interest in respect of the above	(0.4)	(0.4)
EPRA net asset value	**4,282.3**	**4,440.3**
Per share measure – diluted	**3,813p**	**3,958p**
EPRA net reinstatement value	4,646.5	4,812.6
Adjustment for:		
Purchasers' costs	(364.2)	(372.3)
EPRA net asset value	**4,282.3**	**4,440.3**
Per share measure – diluted	**3,813p**	**3,958p**

As the Group's EPRA net disposal value is the same as the EPRA triple net asset value, there are no reconciling items.

EPRA net disposal value	**4,134.8**	**4,315.4**
Per share measure – diluted	**3,682p**	**3,847p**

Cost ratio

	2020 £m	2019 £m
Administrative expenses	37.8	37.0
Write-off/impairment of receivables (A)	10.1	–
Service charge waiver (A)	4.1	–
Other property costs	10.5	10.1
Net service charge costs	2.8	2.1
Service charge costs recovered through rents but not separately invoiced	(0.4)	(0.5)
Management fees received less estimated profit element	(3.5)	(3.6)
Share of joint ventures' expenses	–	0.3
EPRA costs (including direct vacancy costs) (B)	61.4	45.4
Direct vacancy costs	(9.0)	(2.6)
EPRA costs (excluding direct vacancy costs) (C)	52.4	42.8
Gross rental income	202.9	191.7
Ground rent	(1.1)	(1.5)
Service charge components of rental income	(0.4)	(0.5)
Share of joint ventures' rental income less ground rent	–	0.5
Adjusted gross rental income (D)	201.4	190.2
EPRA cost ratio (including direct vacancy costs) (B/D)	30.5%	23.9%
EPRA cost ratio (excluding direct vacancy costs) (C/D)	26.0%	22.5%

Adjusted EPRA cost ratios[1]

	2020 £m	2019 £m
Adjusted EPRA cost ratio (including direct vacancy costs and excluding write-off/impairment of receivables) ((B-A)/D)	23.4%	23.9%
Adjusted EPRA cost ratio (excluding direct vacancy costs and excluding write-off/impairment of receivables) ((C-A)/D)	19.0%	22.5%

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 (E)	5,355.5	5,475.2
Portfolio cost ratio (B/E)	1.1%	0.8%

[1] In addition to the standard EPRA cost ratios (both including and excluding direct vacancy costs), adjusted versions of these ratios have also been presented which remove the impact of the write-off/impairment of receivables and service charge waiver.

The Group has not capitalised any overheads in either 2020 or 2019.

Net initial yield and 'topped-up' net initial yield

	2020 £m	2019 £m
Property portfolio – wholly owned	5,355.5	5,475.2
Less non-EPRA properties[1]	(574.4)	(846.2)
Completed property portfolio	4,781.1	4,629.0
Allowance for:		
Estimated purchasers' costs	325.1	314.8
EPRA property portfolio valuation (A)	5,106.2	4,943.8
Annualised contracted rental income, net of ground rents	189.2	169.1
Less non-EPRA properties[1]	(2.8)	(1.0)
Add outstanding rent reviews	2.6	0.4
Less estimate of non-recoverable expenses	(2.6)	(2.0)
	(2.8)	(2.6)
Current income net of non-recoverable expenses (B)	186.4	166.5
Contractual rental increases across the portfolio	58.0	65.0
Less non-EPRA properties[1]	(0.2)	(0.3)
Contractual rental increases across the EPRA portfolio	57.8	64.7
'Topped-up' net annualised rent (C)	244.2	231.2
EPRA net initial yield (B/A)	3.7%	3.4%
EPRA 'topped-up' net initial yield (C/A)	4.8%	4.7%

[1] In accordance with EPRA best practice guidelines, deductions are made for development properties, land and long-dated reversions.

Notes to the financial statements continued

39 EPRA performance measures and core recommendations (unaudited) (continued)

Vacancy rate

	2020 £m	2019 £m
Annualised estimated rental value of vacant premises	**4.7**	2.0
Portfolio estimated rental value	**291.2**	303.0
Less non-EPRA properties[1]	**(42.5)**	(60.5)
	248.7	242.5
EPRA vacancy rate	**1.8%**	0.8%

[1] In accordance with EPRA best practice guidelines, deductions are made for development properties, land and long-dated reversions.

Like-for-like rental growth

	Like-for-like portfolio £m	Development property £m	Acquisitions and disposals £m	Total £m
2020				
Gross rental income	**172.4**	**28.8**	**1.7**	**202.9**
Other property expenditure	(12.3)	(1.7)	(0.4)	(14.4)
Write-off/impairment of receivables	(9.5)	(0.4)	(0.2)	(10.1)
Impact of service charge waiver	(3.7)	(0.4)	–	(4.1)
Net rental income	**146.9**	**26.3**	**1.1**	**174.3**
Other	5.3	(1.7)	5.1	8.7
Net property and other income	**152.2**	**24.6**	**6.2**	**183.0**
2019				
Gross rental income	173.9	9.0	8.8	191.7
Property expenditure	(11.0)	(2.6)	(0.1)	(13.7)
Net rental income	162.9	6.4	8.7	178.0
Other	4.1	0.5	–	4.6
Net property and other income	167.0	6.9	8.7	182.6
Change based on:				
Gross rental income	(0.9%)			5.8%
Net rental income	(9.8%)			(2.1%)
Net property and other income	(8.9%)			0.2%

Property-related capital expenditure

	2020 £m	2019 £m
Acquisitions	**43.5**	32.0
Development	**134.1**	167.9
Investment properties		
Incremental lettable space	**–**	1.1
No incremental lettable space	**16.3**	16.0
No incremental lettable space – joint ventures	**–**	0.1
Tenant incentives	**1.5**	6.1
Capitalised interest	**9.9**	13.0
Total capital expenditure	**205.3**	236.2
Conversion from accrual to cash basis	**13.1**	(4.1)
Total capital expenditure on a cash basis	**218.4**	232.1

40 Total return

	2020 p	2019 p
EPRA net tangible assets on a diluted basis		
At end of year	**3,812**	3,957
At start of year	**(3,957)**	(3,775)
(Decrease)/increase	**(145)**	182
Dividend per share	**73**	68
(Decrease)/increase including dividend	**(72)**	250
Total return	**(1.8%)**	6.6%

41 Gearing and interest cover

NAV gearing

	2020 £m	2019 £m
Net debt	**1,049.1**	981.6
Net assets	**4,315.1**	4,476.9
NAV gearing	**24.3%**	21.9%

Loan-to-value ratio

	2020 £m	2019 £m
Net debt	**1,049.1**	981.6
Fair value adjustment of secured bonds	**(9.3)**	(10.6)
Unamortised issue and arrangement costs	**11.3**	11.5
Leasehold liabilities	**(66.6)**	(59.5)
Drawn debt net of cash	**984.5**	923.0
Fair value of property portfolio	**5,355.5**	5,475.2
Loan-to-value ratio	**18.4%**	16.9%

Net interest cover ratio

	2020 £m	2019 £m
Net property and other income	**183.0**	182.6
Adjustments for:		
Other income	**(3.5)**	(3.6)
Other property income	**(0.9)**	–
Surrender premiums received	**(0.9)**	(1.0)
Write-down of trading property	**1.8**	–
Profit on disposal of trading properties	**(5.2)**	–
Adjusted net property income	**174.3**	178.0
Finance income	**(0.2)**	(0.2)
Finance costs	**30.3**	26.7
	30.1	26.5
Adjustments for:		
Finance income	**0.2**	0.2
Other finance costs	**(0.2)**	(0.2)
Amortisation of fair value adjustment to secured bonds	**1.3**	1.2
Amortisation of issue and arrangement costs	**(2.2)**	(2.2)
Finance costs capitalised	**9.9**	13.0
Net interest payable	**39.1**	38.5
Net interest cover ratio	**446%**	462%

Notes to the financial statements continued

42 Significant accounting policies

Basis of consolidation

The Group financial statements incorporate the financial statements of Derwent London plc and all of its subsidiaries, together with the Group's share of the results of its joint ventures.

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are no longer consolidated from the date that control ceases.

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement. Interests in joint ventures are accounted for using the equity method of accounting as permitted by IFRS 11 Joint Arrangements, and following the procedures for this method set out in IAS 28 Investments in Associates and Joint Ventures. The equity method requires the Group's share of the joint venture's post-tax profit or loss for the year to be presented separately in the income statement and the Group's share of the joint venture's net assets to be presented separately in the balance sheet.

Intra-group balances and any unrealised gains and losses arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with joint ventures are eliminated to the extent of the Group's interest in the joint venture concerned. Unrealised losses are eliminated in the same way, but only to the extent that there is no evidence of impairment.

Gross property income

Gross property income arises from two main sources:

(i) **Rental income** – This arises from operating leases granted to tenants. An operating lease is a lease other than a finance lease. A finance lease is one whereby substantially all the risks and rewards of ownership are passed to the lessee.

Rental income is recognised in the Group income statement on a straight-line basis over the term of the lease in accordance with IFRS 16 Leases. This includes the effect of lease incentives given to tenants, which are normally in the form of rent-free or half rent periods or capital contributions in lieu of rent-free periods, and the effect of contracted rent uplifts and payments received from tenants on the grant of leases.

For income from property leased out under a finance lease, a lease receivable asset is recognised in the balance sheet at an amount equal to the net investment in the lease, as defined in IFRS 16 Leases. Minimum lease payments receivable, again defined in IFRS 16, are apportioned between finance income and the reduction of the outstanding lease receivable so as to produce a constant periodic rate of return on the remaining net investment in the lease. Contingent rents, being the difference between the rent currently receivable and the minimum lease payments when the net investment in the lease was originally calculated, are recognised in property income in the years in which they are receivable.

(ii) **Surrender premiums** – Payments received from tenants to surrender their lease obligations are recognised immediately in the Group income statement. In circumstances where surrender payments received relate to specific periods, they are deferred and recognised in those periods.

Other income

Other income consists of commissions and fees arising from the management of the Group's properties and is recognised in the Group income statement in accordance with the delivery of service.

Service charges

Service charge income relates to expenditure that is directly recoverable from tenants.

Expenses

(i) **Lease payments –** Where investment properties are held under operating leases, the leasehold interest is classified as if it were held under a finance lease, which is recognised at its fair value on the balance sheet, within the investment property carrying value. Upon initial recognition, a corresponding liability is included as a finance lease liability. Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability so as to produce a constant periodic rate of interest on the remaining finance lease liability. Contingent rents payable, being the difference between the rent currently payable and the minimum lease payments when the lease liability was originally calculated, are charged as expenses within property expenditure in the years in which they are payable.

(ii) **Dilapidations –** Dilapidations monies received from tenants in respect of their lease obligations are recognised immediately in the Group income statement, unless they relate to future capital expenditure. In the latter case, where the costs are considered to be recoverable they are capitalised as part of the carrying value of the property.

(iii) **Reverse surrender premiums –** Payments made to tenants to surrender their lease obligations are charged directly to the Group income statement unless the payment is to enable the probable redevelopment of a property. In the latter case, where the costs are considered to be recoverable, they are capitalised as part of the carrying value of the property.

(iv) **Other property expenditure –** Vacant property costs and other property costs are expensed in the year to which they relate, with the exception of the initial direct costs incurred in negotiating and arranging leases which are, in accordance with IFRS 16 Leases, added to the carrying value of the relevant property and recognised as an expense over the lease term on the same basis as the lease income.

Employee benefits

(i) Share-based remuneration

Equity settled – The Company operates a long-term incentive plan and share option scheme. The fair value of the conditional awards of shares granted under the long-term incentive plan and the options granted under the share option scheme are determined at the date of grant. This fair value is then expensed on a straight-line basis over the vesting period, based on an estimate of the number of shares that will eventually vest. At each reporting date, the non-market based performance criteria of the long-term incentive plan are reconsidered and the expense is revised as necessary. In respect of the share option scheme, the fair value of the options granted is calculated using a binomial lattice pricing model.

Under the transitional provisions of IFRS 1, no expense is recognised for options or conditional shares granted on or before 7 November 2002.

(ii) Pensions

(a) **Defined contribution plans –** Obligations for contributions to defined contribution pension plans are recognised as an expense in the Group income statement in the period to which they relate.

(b) **Defined benefit plans –** The Group's net obligation in respect of defined benefit post-employment plans, including pension plans, is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. The discount rate is the yield at the balance sheet date on AA credit rated bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method. Any actuarial gain or loss in the period is recognised in full in the Group statement of comprehensive income.

Business combinations

Business combinations are accounted for under the acquisition method. Any excess of the purchase price of business combinations over the fair value of the assets, liabilities and contingent liabilities acquired and resulting deferred tax thereon is recognised as goodwill. Any discount is credited to the Group income statement in the period of acquisition. Goodwill is recognised as an asset and reviewed for impairment. Any impairment is recognised immediately in the Group income statement and is not subsequently reversed. Any residual goodwill is reviewed annually for impairment.

Investment property

(i) **Valuation –** Investment properties are those that are held either to earn rental income or for capital appreciation or both, including those that are undergoing redevelopment. Investment properties are measured initially at cost, including related transaction costs. After initial recognition, they are carried in the Group balance sheet at fair value adjusted for the carrying value of leasehold interests and lease incentive and letting cost receivables. Fair value is the price that would be received to sell an investment property in an orderly transaction between market participants at the measurement date. The valuation is undertaken by independent valuers who hold recognised and relevant professional qualifications and have recent experience in the locations and categories of properties being valued.

Surpluses or deficits resulting from changes in the fair value of investment property are reported in the Group income statement in the year in which they arise.

The Group leases out investment properties under operating leases with rents generally payable monthly or quarterly. The Group is exposed to changes in the residual value of properties at the end of current lease agreements, and mitigates this risk by actively managing its tenant mix in order to maximise the weighted average lease term, minimise vacancies across the portfolio and maximise exposure to tenants with strong financial characteristics. The Group also grants lease incentives to encourage high quality tenants to remain in properties for longer lease terms.

Notes to the financial statements continued

42 Significant accounting policies (continued)

(ii) **Capital expenditure –** Capital expenditure, being costs directly attributable to the redevelopment or refurbishment of an investment property, up to the point of it being completed for its intended use, are capitalised in the carrying value of that property. In addition, in accordance with IAS 23 Borrowing Costs, finance costs that are directly attributable to such expenditure are capitalised using the Group's average cost of borrowings during each quarter.

(iii) **Disposal –** Properties are treated as disposed when the Group transfers the significant risks and rewards of ownership to the buyer. Generally this would occur on completion of contract. On disposal, any gain or loss is calculated as the difference between the net disposal proceeds and the carrying value at the last year end plus subsequent capitalised expenditure during the year. Where the net disposal proceeds have yet to be finalised at the balance sheet date, the proceeds recognised reflect the Directors' best estimate of the amounts expected to be received. Any contingent consideration is recognised at fair value at the balance sheet date. The fair value is calculated using future discounted cash flows based on expected outcomes with estimated probabilities taking account of the risk and uncertainty of each input.

(iv) **Development –** When the Group begins to redevelop an existing investment property for continued use as an investment property or acquires a property with the subsequent intention of developing as an investment property, the property is classified as an investment property and is accounted for as such. When the Group begins to redevelop an existing investment property with a view to sale, the property is transferred to trading properties and held as a current asset. The property is remeasured to fair value as at the date of transfer with any gain or loss being taken to the income statement. The remeasured amount becomes the deemed cost at which the property is then carried in trading properties.

Trading property

Trading property relate to property being developed for sale. In accordance with IAS 2 Inventories, they are held at the lower of cost and net realisable value.

Property, plant and equipment

(i) **Owner-occupied property –** Owner-occupied property is stated at its revalued amount, which is determined in the same manner as investment property. It is depreciated over its remaining useful life (40 years) with the depreciation included in administrative expenses. On revaluation, any accumulated depreciation is eliminated against the gross carrying amount of the property concerned, and the net amount restated to the revalued amount. Subsequent depreciation charges are adjusted based on the revalued amount for each property. Any difference between the depreciation charge on the revalued amount and that which would have been charged under historic cost is transferred, net of any related deferred tax, between the revaluation reserve and retained earnings as the property is utilised. Surpluses or deficits resulting from changes in the fair value are reported in the Group statement of comprehensive income. The land element of the property is not depreciated.

(ii) **Artwork –** Artwork is stated at revalued amounts on the basis of open market value.

(iii) **Other –** Plant and equipment is depreciated at a rate of between 10% and 25% per annum which is calculated to write off the cost, less estimated residual value of the individual assets, over their expected useful lives.

Investments

Investments in joint ventures, being those entities over whose activities the Group has joint control, as established by contractual agreement, are included in the Group's balance sheet at cost together with the Group's share of post-acquisition reserves, on a net equity basis. Investments in subsidiaries and joint ventures are included in the Company's balance sheet at the lower of cost and recoverable amount. Any impairment is recognised immediately in the income statement.

Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying value will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met if the sale is highly probable, the asset is available for immediate sale in its present condition, being actively marketed and management is committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets, including related liabilities, classified as held for sale are measured at the lower of carrying value and fair value less costs of disposal.

Financial assets

(i) **Cash and cash equivalents –** Cash comprises cash in hand and on-demand deposits. Cash equivalents comprise short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(ii) **Trade receivables –** Trade receivables are recognised and carried at the original transaction value. This balance is subject to impairment testing under IFRS 9 using the forward-looking, simplified approach to the expected credit loss model.

(iii) **Lease incentive receivables –** In accordance with IFRS 16, rental income is recognised in the Group income statement on a straight-line basis over the term of the lease. This includes the effect of lease incentives given to tenants (in the form of rent-free periods, half rent periods or capital contributions in lieu of rent-free periods) and any contracted rental uplifts granted at lease inception. The result is a receivable balance included within accrued income in the balance sheet. This balance is subject to impairment testing under IFRS 9 using the forward-looking, simplified approach to the expected credit loss model.

Financial liabilities

(i) **Bank loans and fixed rate loans –** Bank loans and fixed rate loans are included as financial liabilities on the balance sheets at the amounts drawn on the particular facilities. Interest payable is expensed as a finance cost in the year to which it relates.

(ii) **Non-convertible bonds –** These are included as a financial liability on the balance sheet net of the unamortised discount and costs on issue. The difference between this carrying value and the redemption value is recognised in the Group income statement over the life of the bond on an effective interest basis. Interest payable to bond holders is expensed in the year to which it relates.

(iii) **Convertible bonds –** The fair value of the liability component of a convertible bond is determined using the market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects and is not subsequently re-measured. Issue costs are apportioned between the liability and the equity components of the convertible bonds based on their carrying amounts at the date of issue. The portion relating to the equity component is charged directly against equity. The issue costs apportioned to the liability are amortised over the life of the bond. The issue costs apportioned to equity are not amortised.

(iv) **Finance lease liabilities –** Finance lease liabilities arise for those investment properties held under a leasehold interest and accounted for as investment property. The liability is initially calculated as the present value of the minimum lease payments, reducing in subsequent years by the apportionment of payments to the lessor, as described above under the heading for lease payments.

(v) **Interest rate derivatives –** The Group uses derivative financial instruments to manage the interest rate risk associated with the financing of the Group's business. No trading in financial instruments is undertaken.

At each reporting date, these interest rate derivatives are measured at fair value, being the estimated amount that the Group would receive or pay to terminate the agreement at the balance sheet date, taking into account current interest rates and the current credit rating of the counterparties. The gain or loss at each fair value remeasurement is recognised in the Group income statement because the Group does not apply hedge accounting.

(vi) **Trade payables –** Trade payables are recognised and carried at the original transaction value.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the tax computations, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. In respect of the deferred tax on the revaluation surplus, this is calculated on the basis of the chargeable gains that would crystallise on the sale of the investment portfolio as at the reporting date. The calculation takes account of available indexation on the historical cost of the properties.

Deferred tax is calculated at the tax rates that are expected to apply in the period, based on Acts substantially enacted at the year end, when the liability is settled or the asset is realised. Deferred tax is included in profit or loss for the period, except when it relates to items recognised in other comprehensive income or directly in equity.

Cash flow

Transactions in the cash flow statement under operating, investing and financing activities have been prepared net of value added tax in order to reflect the true cash inflows and outflows of the Group.

Dividends

Dividends payable on the ordinary share capital are recognised in the year in which they are declared.

Ten-year summary
(unaudited)

	2020 £m	2019 £m	2018 £m	2017 £m	2016 £m	2015 £m	2014 £m	2013 £m	2012 £m	2011 £m
Income statement										
Gross property income	**204.7**	192.7	196.0	172.2	156.0	152.0	138.4	131.6	124.8	125.5
Net property income and other income	**183.0**	182.6	185.9	164.8	149.2	148.6	136.1	124.3	117.0	117.7
Profit on disposal of properties and investments	**1.7**	13.8	5.2	50.3	7.5	40.2	30.2	53.5	10.8	36.1
(Loss)/profit before tax	**(83.0)**	280.6	221.6	314.8	54.5	779.5	753.7	467.9	228.1	233.0
Earnings and dividend per share										
EPRA earnings	**111.0**	115.1	126.1	105.0	85.7	78.7	58.6	55.1	51.3	52.3
EPRA earnings per share (p)	**99.19**	103.09	113.07	94.23	76.99	71.34	57.08	53.87	50.36	51.59
Dividend paid (p)	**73.45**	67.75	136.50	107.83	44.66	40.60	37.40	34.50	31.85	29.70
Interim/final dividend for the year (p)	**74.45**	72.45	65.85	59.73	52.36	43.40	39.65	36.50	33.70	31.35
Special dividend paid (p)	**–**	–	–	75.00	52.00	–	–	–	–	–
Net asset value										
Net assets	**4,315.1**	4,476.9	4,263.4	4,193.2	3,999.4	3,995.4	3,075.7	2,370.5	1,918.0	1,714.5
Net asset value per share (p) – undiluted	**3,808**	3,956	3,767	3,703	3,530	3,528	2,931	2,248	1,824	1,636
EPRA NTA per share (p) – diluted	**3,812**	3,957	3,775	3,714	3,550	3,532	2,906	2,262	1,884	1,697
EPRA NDV per share (p) – diluted	**3,682**	3,847	3,696	3,617	3,450	3,463	2,800	2,222	1,764	1,607
EPRA NRV per share (p) – diluted	**4,138**	4,290	4,092	4,011	3,852	3,825	3,163	2,470	2,076	1,877
Total return (%)	**(1.8)**	6.6	5.3	7.7	1.7	23.0	30.1	21.9	12.7	17.4
Property portfolio										
Property portfolio at fair value	**5,355.5**	5,475.2	5,190.7	4,850.3	4,942.7	4,954.5	4,168.1	3,353.1	2,859.6	2,646.5
Revaluation (deficit)/surplus	**(195.7)**	154.6	84.1	149.7	(42.6)	651.4	671.9	337.5	175.3	172.1
Cash flow statement										
Cash flow[1]	**(58.4)**	(22.3)	(245.9)	247.8	19.6	(43.6)	(57.3)	(65.9)	1.9	18.4
Net cash from operating activities	**85.4**	97.1	115.2	83.5	77.7	76.0	65.6	57.5	52.5	47.2
Acquisitions	**43.8**	31.6	57.3	8.5	18.0	246.2	92.4	130.1	99.8	91.6
Net capital expenditure on properties	**174.6**	200.5	171.6	165.0	213.5	116.4	113.2	108.4	78.6	42.6
Investment and trading property disposals	**157.3**	159.3	0.3	472.9	224.7	277.2	114.4	149.7	161.0	131.5
Gearing and debt										
Net debt	**1,049.1**	981.6	956.9	657.9	904.8	911.7	1,013.3	949.2	874.8	864.5
NAV gearing (%)	**24.3**	21.9	22.4	15.7	22.6	22.8	32.9	40.0	45.6	50.4
Loan-to-value ratio (%)	**18.4**	16.9	17.2	13.2	17.7	17.8	24.0	28.0	30.0	32.0
Net interest cover ratio (%)	**446**	462	491	454	370	362	286	279	263	261

[1] Cash flow is the net cash from operating and investing activities less the dividend paid.

A list of definitions is provided from page 248.

EPRA summary
(unaudited)

EPRA Measure	Definition	2020	2019
EPRA Performance Measures			
EPRA earnings	Earnings from operational activities	**£111.0m**	£115.1m
EPRA undiluted earnings per share	EPRA earnings divided by the weighted average number of ordinary shares in issue during the financial year	**99.19p**	103.09p
EPRA net tangible assets (NTA)	Assumes that entities buy and sell assets, thereby crystallising certain levels of unavoidable deferred tax	**£4,280.9m**	£4,439.0m
EPRA diluted NTA per share	EPRA NTA divided by the number of ordinary shares in issue at the financial year end adjusted to include the effects of potential dilutive shares issuable under the Group's share option schemes and the convertible bonds	**3,812p**	3,957p
EPRA net disposal value (NDV)	Represent the shareholders' value under a disposal scenario, where deferred tax, financial instruments and certain other adjustments are calculated to the full extent of their liability, net of any resulting tax	**£4,134.8m**	£4,315.4m
EPRA diluted NDV per share	EPRA NDV divided by the number of ordinary shares in issue at the financial year end adjusted to include the effects of potential dilutive shares issuable under the Group's share option schemes and the convertible bonds	**3,682p**	3,847p
EPRA net reinstatement value (NRV)	NAV adjusted to reflect the value required to rebuild the entity and assuming that entities never sell assets. Assets and liabilities, such as fair value movements on financial derivatives are not expected to crystallise in normal circumstances and deferred taxes on property valuation surpluses are excluded	**£4,646.5m**	£4,812.6m
EPRA diluted NRV per share	EPRA NRV divided by the number of ordinary shares in issue at the financial year end adjusted to include the effects of potential dilutive shares issuable under the Group's share option schemes and the convertible bonds	**4,138p**	4,290p
EPRA cost ratio (including direct vacancy costs)	Administrative & operating costs (including costs of direct vacancy) divided by gross rental income	**30.5%**	23.9%
EPRA net initial yield	Annualised rental income based on the cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the market value of the EPRA property portfolio, increased by estimated purchasers' costs	**3.7%**	3.4%
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)	**4.8%**	4.7%
EPRA vacancy rate	Estimated rental value (ERV) of immediately available space divided by the ERV of the EPRA portfolio	**1.8%**	0.8%

EPRA summary continued

EPRA Measure	Definition	2020	2019
EPRA Sustainability Performance Measures			
Environmental Sustainability Performance Measures			
Total electricity consumption	Energy use across our total managed portfolio (landlord/common areas) – annual kWh	**8,398,662**	11,510,515
Like-for-like total electricity consumption	Energy use across our like-for-like portfolio (landlord/common areas) – annual kWh	**8,021,003**	10,205,290[1]
Total fuel consumption	Energy use across our total managed portfolio (landlord/common areas); a total of gas, oil and biomass consumption – annual kWh	**18,069,846**	22,684,175
Like-for-like total fuel consumption	Energy use across our like-for-like portfolio (landlord/common areas); a total of gas, oil and biomass consumption – annual kWh	**15,135,365**	19,878,966[1]
Building energy intensity	Energy use across our total managed portfolio (landlord/common areas) – kWh per m^2	**72.47**	84.65
Total direct greenhouse gas (GHG) emissions	Total managed portfolio emissions (landlord influenced portfolio emissions); a total of Scope 1 emissions – annual metric tonnes CO_2e	**3,326**	4,650
Total indirect greenhouse gas (GHG) emissions	Total managed portfolio emissions (landlord influenced portfolio emissions); Scope 2 energy-use – annual metric tonnes CO_2e	**1,947**	2,925
Like-for-like total direct greenhouse gas (GHG) emissions	Like-for-like emissions (landlord influenced portfolio emissions, building related only); Scope 1 energy-use – annual metric tonnes CO_2e	**2,783**	3,694[1]
Like-for-like total indirect greenhouse gas (GHG) emissions	Like-for-like emissions (landlord influenced portfolio emissions, building related only); Scope 2 energy-use – annual metric tonnes CO_2e	**1,853**	2,595[1]
Greenhouse gas (GHG) intensity from building energy consumption	Intensity (Scopes 1 & 2) per m^2/£m turnover/fair market value (reported in tCO_2e/m^2) – kg CO_2e/m^2/year	**0.015**	0.019[1]
Total water consumption	Water use across our total managed portfolio (excluding retail consumption) – annual m^3	**95,719**	205,781
Like-for-like total water consumption	Water use across our like-for-like portfolio (excluding retail consumption) – annual m^3	**85,852**	181,086
Building water intensity	Water use across our total managed portfolio (excluding retail consumption) – m^3/m^2/year	**0.29**	0.50
Total weight of waste by disposal route	Waste generated across our total managed portfolio – annual metric tonnes and proportion by disposal route	**1,162**	3,202
Like-for-like total weight of waste by disposal route	Waste generated across our like-for-like portfolio – annual metric tonnes and proportion by disposal route	**874**	2,350[1]

[1] Prior year restated to reflect a change in methodology of the like-for-like portfolio. See the EPRA Reporting section in our 2020 Annual Responsibility Report for full explanation.

EPRA Measure	Definition	
Social Performance Measures		
Employee gender diversity	Percentage of male and female employees in the organisation's governance bodies (committee or boards responsible for the strategic guidance of the organisation)	See page 127
Gender pay ratio	Ratio of the basic salary and/or remuneration of men to women. As we have less than 250 employees we are not obliged by the Equality Act 2010 (Gender Pay Gap Information) Regulations 2017 to disclose our gender pay gap information	
New hires and turnover	Total number and rate of new employee hires and employee turnover during the reporting period	See page 50
Employee health and safety	Occupational health and safety performance with relation to direct employees	See pages 54, 55 and 62
Asset health and safety assessments	Proportion of assets controlled for which health and safety impacts have been reviewed or assessed for compliance or improvement	See pages 54, 55 and 62
Asset health and safety compliance	Any incidents of non-compliance with regulations and/or voluntary standards concerning the health and safety impacts of assets assessed during the reporting period	
Employees training and development	Average hours of training that the organisation's employees have undertaken in the reporting period	See the EPRA Reporting section in our 2020 annual Responsibility Report
Employee performance appraisals	Percentage of total employees who received regular performance and career development reviews during the reporting period	
Community engagement, impact assessments and development programmes	Percentage of assets under operational control that have implemented local community engagement, impact assessments and/or development programmes	
Governance Performance Measures		
Composition of the highest governance body	Number of executive board members, number of independent/non-executive board members, average tenure of the governance body and number of independent/non-executive board members with competencies relating to environmental and social topics	See pages 106, 107, 108, 110 and 120
Process for nominating and selecting the highest governance body	Nomination and selection process for the highest governance body and its members, and the criteria used to guide the nomination and selection process	See pages 124 to 129
Process for managing conflicts of interest	Process for the highest governance body to ensure conflicts of interest are avoided and managed	See page 119

Principal properties
(unaudited)

	Value banding £m	Offices (O), Retail/restaurant (R), Residential (Re), Industrial (I), Leisure (L)	Freehold (F), Leasehold (L)	BREEAM Rating	Approximate net area sq ft
West End: Central (56%)					
Fitzrovia[1] (32%)					
80 Charlotte Street W1	200+	O/R/Re	F	*Excellent	377,000
1-2 Stephen Street & Tottenham Court Walk W1	200+	O/R/L	F	Very Good	265,400
90 Whitfield Street W1	100-200	O/R/Re	F		108,900
Holden House, 54-68 Oxford Street W1	100-200	O/R	F		90,200
Henry Wood House, 3-7 Langham Place W1	50-100	O/R/L	L		79,900
Middlesex House, 34-42 Cleveland Street W1	50-100	O	F	Very Good	65,700
Network Building, 95-100 Tottenham Court Road W1	50-100	O/R	F		64,200
Charlotte Building, 17 Gresse Street W1	50-100	O	L		47,200
88-94 Tottenham Court Road W1	50-100	O/R	F		45,900
80-85 Tottenham Court Road W1	25-50	O/R	F		44,500
Rathbone Studios, 3-10 Rathbone Place W1	25-50	O/R/Re/L	L/F		42,700
60 Whitfield Street W1	50-100	O	F		36,200
43 and 45-51 Whitfield Street W1	25-50	O	F		30,900
1-5 Maple Place and 12-16 Fitzroy Street W1	0-25	O	F		20,300
76-78 Charlotte Street W1	0-25	O	F		10,400
50 Oxford Street W1[2]	0-25	O/R	F		6,100
Victoria (8%)					
Horseferry House, Horseferry Road SW1	100-200	O	F		162,700
Greencoat and Gordon House, Francis Street SW1	100-200	O	F		138,600
1 Page Street SW1	100-200	O	F	Excellent	127,800
Francis House, 11 Francis Street SW1	0-25	O	F		52,800
6-8 Greencoat Place SW1	25-50	O	F		32,200
Paddington (6%)					
Brunel Building, 2 Canalside Walk W2	200+	O/R	L	Excellent	243,400
Soho/Covent Garden (5%)					
Soho Place W1	200+	O/R/L	L	*Outstanding, *Excellent	285,000
Bush House, South West Wing, Strand WC2	25-50	O	F		103,000
Baker Street/Marylebone (3%)					
19-35 Baker Street W1	50-100	O/R	L		74,500
88-110 George Street W1	25-50	O/R/Re	L		44,800
30 Gloucester Place W1	0-25	O/Re	L		23,600
17-39 George Street W1	0-25	O/R/Re	L		21,500
16-20 Baker Street and 27-33 Robert Adam Street W1	0-25	O/R/Re	L		21,000
26-27 Castlereagh Street W1	0-25	O	L		8,100
Mayfair (2%)					
25 Savile Row W1	50-100	O/R	F	Very Good	43,000

	Value banding £m	Offices (O), Retail/restaurant (R), Residential (Re), Industrial (I), Leisure (L)	Freehold (F), Leasehold (L)	BREEAM Rating	Approximate net area sq ft
West End: Borders/other (9%)					
Islington/Camden (8%)					
Angel Building, 407 St. John Street EC1	200+	O/R	F	Excellent	268,300
Angel Square EC1	50-100	O	F		126,200
4 & 10 Pentonville Road N1	50-100	O	F	Very Good	53,400
401 St. John Street EC1	0-25	O	F		12,300
Brixton (1%)					
Blue Star House SW9	25-50	O/R	F		53,750
City: Borders (34%)					
Old Street (13%)					
White Collar Factory, Old Street Yard EC1	200+	O/R/Re	F	Outstanding, Excellent, Very Good	291,400
1 Oliver's Yard EC1	100-200	O/R	F		186,000
The Featherstone Building EC1	50-100	O/R	F	*Outstanding	125,000
Clerkenwell (10%)					
20 Farringdon Road EC1	100-200	O/R/L	L		166,300
88 Rosebery Avenue EC1	100-200	O	F		103,700
Morelands, 5-27 Old Street EC1	50-100	O/R	L	Outstanding	88,700
Turnmill, 63 Clerkenwell Road EC1	50-100	O/R	F	Excellent, Very Good	70,300
19 Charterhouse Street EC1	50-100	O	F		63,700
5-8 Hardwick Street and 161 Rosebery Avenue EC1	25-50	O	F		35,000
151 Rosebery Avenue EC1	0-25	O	F		24,000
3-4 Hardwick Street EC1	0-25	O	F		12,000
Shoreditch/Whitechapel (8%)					
Tea Building, 56 Shoreditch High Street E1	200+	O/R/L	F		270,900
The White Chapel Building E1	100-200	O/L	F		272,900
Holborn (3%)					
Johnson Building, 77 Hatton Garden EC1[3]	100-200	O/R	F		157,900
6-7 St. Cross Street EC1[3]	25-50	O	F		33,800
Provincial (1%)					
Scotland (1%)					
Strathkelvin Retail Park, Bishopbriggs, Glasgow	25-50	R/L	F		325,500
Land, Bishopbriggs, Glasgow	25-50	–	F		5,500 acres

[1] Includes North of Oxford Street

[2] Includes 36-38 and 42-44 Hanway Street W1

[3] Sold in January 2021

* On-track for Post-Completion target

( ) Percentages weighted by valuation

▨ Tech Belt (42%)

List of definitions
(unaudited)

Better Buildings Partnership (BBP)
The BBP is a collaboration of the UK's leading commercial property owners who are working together to improve the sustainability of existing commercial building stock.

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

CDP
The CDP is an organisation which works with shareholders and listed companies to facilitate the disclosure and reporting of climate change data and information.

Carbon emissions Scopes 1, 2 and 3
Scope 1 – direct emissions;
Scope 2 – indirect emissions; and
Scope 3 – other indirect emissions.

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

Department for Environment, Food and Rural Affairs (DEFRA)
The government department responsible for environmental protection, food production and standards, agriculture, fisheries and rural communities in the United Kingdom.

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

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

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

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

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

- EPRA earnings per share
  Earnings from operational activities.

- EPRA 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 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.

- EPRA 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.

Previous EPRA NAV metrics

- EPRA net asset value per share
  NAV adjusted to include trading properties and other investment interests at fair value and to exclude certain items not expected to crystallise in a long-term investment property business model.

- EPRA triple net asset value per share
  EPRA NAV adjusted to include the fair values of (i) financial instruments, (ii) debt and (iii) deferred taxes on revaluations, where applicable.

Fair value adjustment

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

Global 100 most sustainable companies

The Global 100 Index is a ranking of the world's most sustainable corporations. The list is compiled by Toronto-based media and investment advisory firm Corporate Knights. Each year, the latest iteration of the index is announced at the World Economic Forum in Davos, Switzerland.

Global Real Estate Sustainability Benchmark (GRESB)

The Global Real Estate Sustainability Benchmark is an initiative set up to assess the environmental and social performance of public and private real estate investments and allow investors to understand their performance.

Ground rent

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

Headroom

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

Interest rate swap

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

Key Performance Indicators (KPIs)

Activities and behaviours, aligned to both business objectives and individual goals, against which the performance of the Group is annually assessed. Performance measured against them is referenced in the Annual Report.

Leadership in Energy and Environmental Design (LEED)

LEED is a US based environmental impact assessment method for buildings. Performance is measured across a series of ratings – Certified, Silver, Gold and Platinum.

Lease incentives

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

Loan-to-value ratio (LTV)

Drawn debt net of cash divided by the fair value of the property portfolio. Drawn debt is equal to drawn facilities less 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.

List of definitions continued

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

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

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

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

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

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

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

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

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

Renewable Energy Guarantees of Origin (REGO)
The REGO scheme administered by Ofgem provides transparency to consumers about the proportion of electricity that supplier's source/provide from renewable generation.

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

Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDORs)
The regulations place a legal duty on employers to report work-related deaths, major injuries or over-three-day injuries, work-related diseases and dangerous occurrences (near miss accidents) to the Health and Safety Executive.

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

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

Streamlined energy and carbon reporting (SECR)
The SECR regulations were introduced in April 2019 and require companies incorporated in the UK to undertake enhanced disclosures of their energy and carbon emissions in their financial reporting.

Task Force on Climate-related Financial Disclosures (TCFD)
Set up by the Financial Stability Board (FSB) in response to the G20 Finance Ministers and Central Bank Governors request for greater levels of decision-useful, climate-related information; the TCFD was asked to develop climate-related disclosures that could promote more informed investment, credit (or lending), and insurance underwriting decisions. In turn, this would enable stakeholders to understand better the concentrations of carbon-related assets in the financial sector and the financial system's exposures to climate-related risks.

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

- Reversionary yield

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

- True equivalent yield

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

- Yield shift

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

Communication with our shareholders

Shareholder enquiries

Enquiries relating to shareholders, such as queries concerning notification of change of address, dividend payments and lost share certificates, should be made to the Company's registrars, Equiniti.

The Company has a share account, management and dealing facility for all shareholders via Equiniti Limited. This offers shareholders secure access to their account details held on the share register, to amend address information and payment instructions directly, as well as providing a simple and convenient way of buying and selling the Company's ordinary shares.
For internet services visit: **www.shareview.co.uk**

The Shareview Dealing service is also available by telephone on +44 (0) 3456 037 037 between 8.00 am and 4.30 pm, Monday to Friday (excluding public holidays in England and Wales).

The best way to ensure that dividends are received as quickly as possible is to instruct the Company's registrars to pay them directly into a bank or building society account; tax vouchers are then mailed to shareholders separately. This method also avoids the risk of dividend cheques being delayed or lost in the post. Dividend mandate forms are available from the registrars, either from their website at: **www.shareview.co.uk** or by telephone on the Equiniti general shareholder helpline number.

Advisers

Stockbrokers	JP Morgan Cazenove
	UBS
Solicitors	Slaughter & May LLP
Auditor	PricewaterhouseCoopers LLP
Registrars	Equiniti Limited

Financial and dividend calendar – 2021

Our forthcoming financial and dividend calendar for 2021 is provided below. These dates are provisional and subject to change. For up to date information, refer to the financial calendar on our corporate website at: **www.derwentlondon.com/investors/calendar**

Financial calendar

Final results announced	11 March
Q1 Business update	06 May
Annual General Meeting	14 May
Interim results announced	10 August
Q3 Business update	04 November

Dividend calendar

	Final dividend	Interim dividend
Ex-dividend date	29 April	09 September
Record date	30 April	10 September
Dividend paid	04 June	15 October

Website

Financial information about the Company, including annual reports, public announcements and share price data, is available from the Company's website at:
www.derwentlondon.com

Our Registrars

Equiniti (EQ)

Equiniti Limited
Aspect House
Lancing Business Park
Lancing
West Sussex BN99 6DA
United Kingdom

Equiniti general shareholder helpline:
Calling from the UK: 0371 384 2192
Calling from overseas: +44 (0) 121 415 0804
Lines are open 9.00am to 5.00pm, Monday to Friday (excluding public holidays in England and Wales)

Company secretarial

David Lawler
Company Secretary

Derwent London
25 Savile Row
London
W1S 2ER
United Kingdom

Telephone: +44 (0)20 7659 3000
Email: company.secretary@derwentlondon.com

Investor relations

Quentin Freeman
Head of Investor & Corporate Communications

Derwent London
25 Savile Row
London
W1S 2ER
United Kingdom

Telephone: +44 (0)20 7659 3000
Email: ir@derwentlondon.com

Awards and recognition

Derwent London won numerous awards for its achievements and buildings in 2020, a sample of which are shown below.

EPRA Gold for
Annual Report

Britain's Most Admired Companies –
sector winner and top 10 overall

FTSE4Good –
Member since 2003

EPRA Gold for
Annual Responsibility Report

GRESB 2020 – Global Real Estate
Sustainability Benchmark – 4 star

CDP - Management B rating

IR Society –
2020 Best Annual Report FTSE250

Gold award –
2020 Corporate & Financial Awards

Brunel Building –
2020 BCO Commercial workplace award

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Derwent London plc
Registered office: 25 Savile Row, London W1S 2ER
T +44 (0)20 7659 3000
www.derwentlondon.com
Registered No: 1819699