DERWENT LONDON

Derwent London plc
Report & Accounts 2019

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DERWENT LONDON PLC THE LARGEST LONDON-FOCUSED REIT

Our portfolio
We own a distinctive 5.6 million sq ft portfolio of mainly commercial real estate in 13 'villages' across central London.

Our purpose
Our purpose is 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, environmental and economic benefits to all our stakeholders.

By setting an open and progressive corporate culture and 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 not only help our occupiers attract talent but also revitalise neighbourhoods and benefit local communities. Our approach contributes to workforce wellbeing and will help to maintain London's place as a leading global business hub.

Our property strategy
Our portfolio contains three main categories of property: the first consists of income-producing properties with potential to add further value through regeneration. The second are the on-site schemes, while the third are those buildings that have already been improved and which are held primarily for income but where our asset management skills can continue to grow value and income.

Underlying the business is a strong balance sheet with modest leverage and close relationships with our lenders.

Our responsibility strategy
We believe it is essential to balance our environmental, social and governance responsibilities with our aim of providing above average long-term returns for our shareholders.

In the extended Responsibility section within this report we explain our strategy to be net zero carbon by 2030. This is an important step in helping us meet our responsibilities in relation to climate change and reducing our carbon impact.

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

Cover image: 80 Charlotte Street W1

Soho Place W1

Construction of the 285,000 sq ft Soho Place is expected to complete in the first half of 2022. This very complicated development project includes a theatre and the site lies over the Tottenham Court Road Elizabeth line station. The construction schedule remains on target with excavation, piling and ground floor works completed on both Site A (offices and retail) and Site B (theatre and offices). Site B is further advanced with the steel frame nearing completion and the theatre's auditorium box in place. At the end of 2019 most of the office space and the theatre had been pre-let, so that the development was 79% pre-let overall.

STRATEGIC REPORT

CGI images: Soho Place W1

2019 SUMMARY

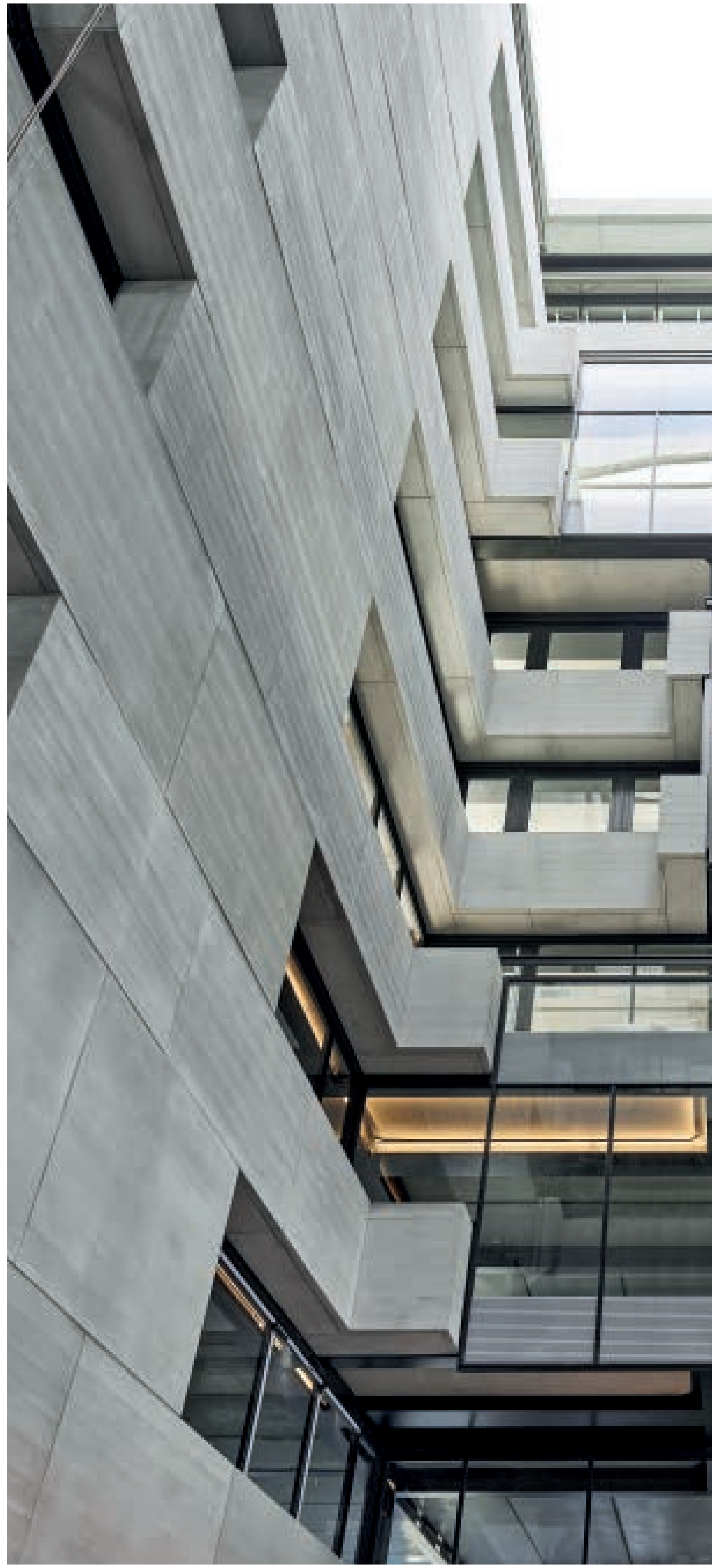
The Group had another year of strong operational performance, significantly outperforming its property return benchmark while also progressing with a refreshed responsibility policy and strategy.

OPERATING HIGHLIGHTS

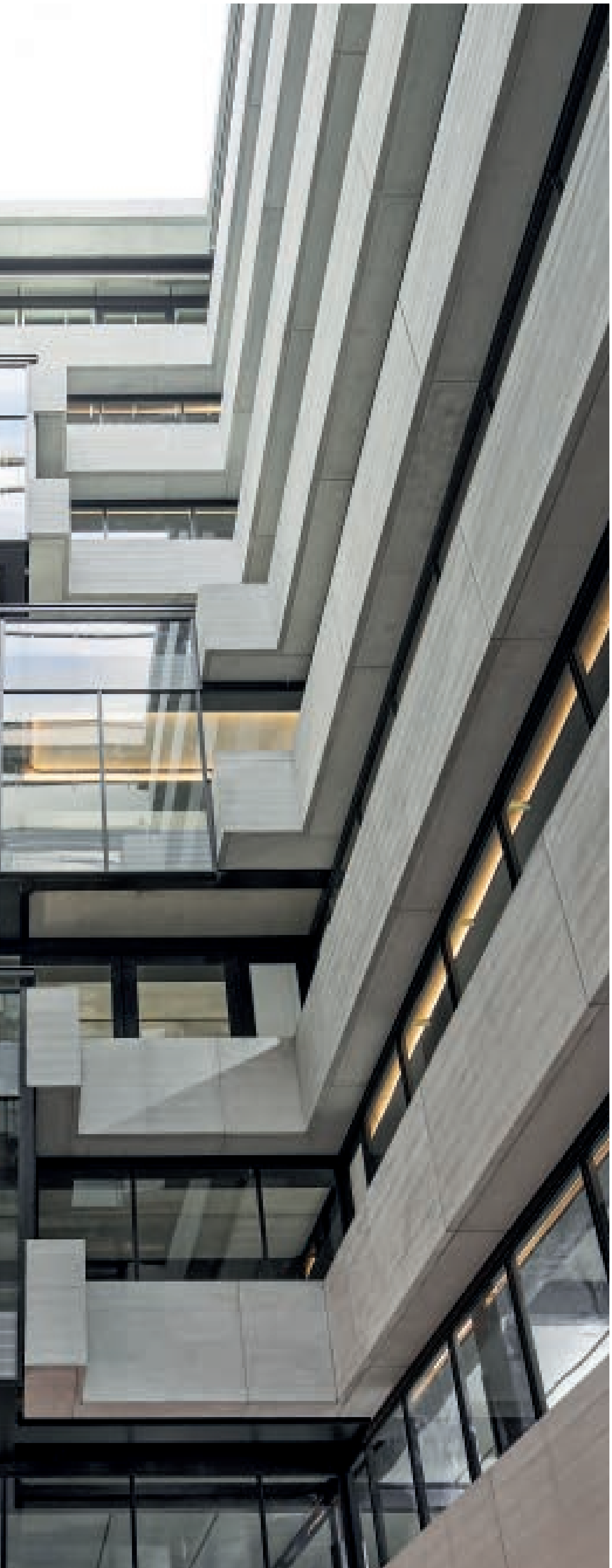
- New lettings of £34.0m, 6.9% above ERV
- Brunel Building showed 60% profit on cost
- 790,000 sq ft on-site development programme, 72% pre-let
- Rent reviews and renewals on 545,000 sq ft, raising existing rents 24.1%
- Gross proceeds of £181.7m from four property disposals
- Total property return 7.4% vs MSCI IPD benchmark of 4.1%
- EPRA vacancy rate fell to 0.8%
- Repurchased £150m convertible bonds 2019 with concurrent issue of £175m convertible bonds 2025
- Extended the £450m revolving credit facility including an innovative £300m 'green' tranche

STAKEHOLDERS AND RESPONSIBILITY

- Net zero carbon target brought forward to 2030 from 2050
- 10% reduction in like-for-like carbon intensity
- Signed the Better Building Partnership's climate change commitment
- Staff survey reported 92.5% satisfaction
- Average supplier payment terms 25 days



80 Charlotte Street W1 – Atrium view



REASONS TO INVEST

London - an attractive and established global office centre
With employment rising, London's vacancy rates have fallen. In addition, investment yields are relatively attractive compared to most major European markets

6.1m
Jobs in London

Experienced and collaborative team
The Group has established a brand through regeneration projects with a focus on innovative design and occupier needs

1.7m sq ft
Project pipeline

Derwent London's product is in demand
Pre-lettings at our 790,000 sq ft under development will contribute £40.9m to rental income and our EPRA vacancy rate is only 0.8%

72%
Proportion of on-site developments pre-let

Growing earnings and dividends
Strong asset and financial management help ensure balanced capital and income growth, supporting a progressive dividend policy

10.4%
Annual compound dividend growth since 2009

Strong balance sheet
A policy of low financial leverage and active financial management gives the Group resources to deliver its current projects as well as take on new opportunities

16.9%
Loan-to-value ratio

A responsible business
The Group behaves responsibly with all its stakeholders and in 2020 set a target to be net zero carbon by 2030

44%
Reduction in carbon intensity since 2013

2019 SUMMARY CONTINUED

FINANCIAL HIGHLIGHTS

Total return
2018: 5.3%

+24.5% 6.6%

EPRA NAV per share
2018: 3,776p

+4.8% 3,958p

Profit for the year
2018: £218.9m

+27.0% £278.1m

Net rental income
2018: £161.1m

+10.5% £178.0m

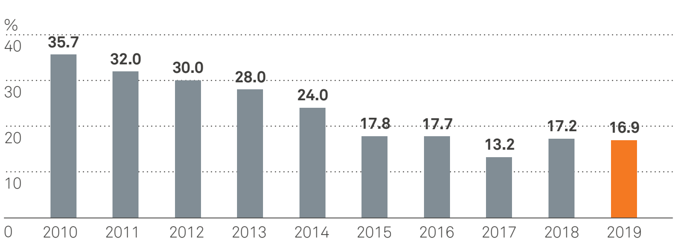
EPRA and underlying earnings per share (EPS)
2018 EPRA EPS: 113.1p
2018 underlying EPS[1]: 99.1p

-8.8% EPRA +4.0% underlying 103.1p

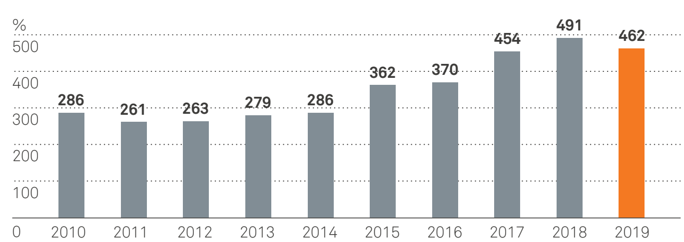
Dividend per share
2018: 65.9p

+10.0% 72.5p

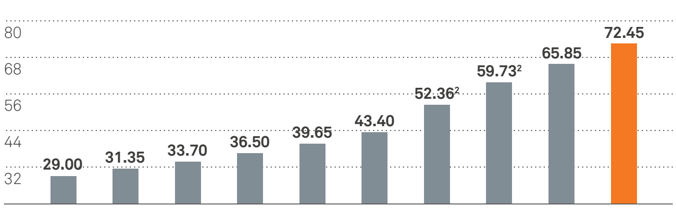
Loan-to-value ratio



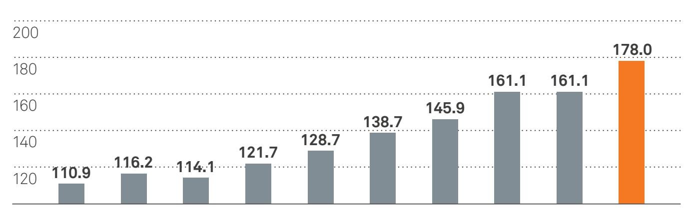
Net Interest cover ratio



Ordinary dividend (p)



Net rental income (£m)



1 Excludes 14p per share of access rights income in 2018 from EPRA earnings per share
2 Excludes special dividends of 52p and 75p per share relating to 2016 and 2017, respectively

NON-FINANCIAL HIGHLIGHTS

New lettings
Pre-lettings represented 79% of the total, including most of 1 Soho Place W1 and the remaining space at Brunel Building W2

£34m

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

92.5%

Vacancy rate
Our EPRA vacancy rate fell during the year from 1.8% to 0.8%

0.8%

Climate resilience
Like-for-like carbon intensity reduced by 10% (tCO_2e/m^2) in the year and by 44% since 2013

10%

Total property return
Total property return of 7.4%, substantially above benchmark MSCI IPD Central London Offices Index of 4.1%

7.4%

Net zero carbon
Targeting our existing portfolio to be net zero carbon by 2030, 20 years earlier than the previous target of 2050 (see pages 80 and 81)

2030

PERFORMANCE IN 2019

IFRS earnings

£283.4m

Increased by 27.5%

Dividend raised

10.0%

Excluding special dividend paid in 2018

Loan-to-value ratio

16.9%

CHAIRMAN'S STATEMENT

In the last year, the Group has made considerable progress. In particular, we have enjoyed significant pre-letting success, moved ahead on our most active development programme to date and recycled capital through property disposals above book value. We refinanced our convertible bonds and our main corporate revolving credit facility, extending the longevity of our debt and introducing an innovative 'green' tranche within. On top of all this activity, we also implemented our Board succession plans.

These positive moves were reflected in a total return for the Group of 6.6%. The main contribution came from the revaluation surplus of £156.4m representing an increase of 3.9% on the underlying portfolio. As a result, IFRS earnings rose 27.5% to £283.4m and our EPRA NAV per share rose 4.8% to 3,958p. On an underlying basis, earnings increased by 4.3% to 103.1p per share or £115.1m. In the prior year EPRA earnings benefitted from non-recurring premiums of £15.6m for access rights. Derwent London's share price increased sharply in the second half and the discount to the year end NAV reversed to a modest premium, which led to a total shareholder return for 2019 of 43.6%.

With the rise in underlying earnings and the de-risking of a significant proportion of the on-site development programme, we are proposing to raise the final dividend by 10.1% to 51.45p per share to be paid on 5 June 2020 to shareholders on the register of members at 1 May 2020. This takes the 2019 full year's dividend to 72.45p, an increase of 10.0%. We propose reintroducing a scrip alternative for the 2019 final dividend.

Derwent London has long recognised the advantages that come from working with our many stakeholders, and we take our environmental impact very seriously. Since the beginning of 2020, we have brought forward our net zero carbon target to 2030 from 2050. We set out our strategy to achieve this under 'Net zero carbon' on page 10.

Over the years, the Group has established a team of people who behave responsibly, work hard and are motivated by what they do. This team is a major part of the Derwent London brand's success. We invested further in our 'Fit for the Future' programme and recently conducted our biennial staff survey. I am pleased to report the latter continues to show high levels of satisfaction, with 96% of respondents saying they are proud to work for the Group. Although our numbers have grown, the team remains compact so each individual's performance counts, and I would like to thank them all for another year of major progress. I would also like to give a special mention to Robbie Rayne, my predecessor as Chairman until May 2019, and Paul Williams, our new Chief Executive, who have helped ensure the Board succession has run smoothly and effectively.

Prolonged low interest rates have helped render this office cycle different to previous ones so that, although valuation yields remain close to historical lows, they are above mid-2016 levels and are relatively attractive compared to other European cities and other asset classes. Global economic growth remains subdued, but London continues to attract businesses looking to expand and office vacancy rates have fallen. Investor confidence has improved noticeably since the 2019 General Election result leading to increased activity and, in the absence of major global disruption, we expect to see a stronger office market in 2020.

John Burns
Chairman

Total return

6.6%

EPRA/underlying earnings

£115.1m

103.1p per share

Employee survey

96%

Proud to work for Derwent London

CHIEF EXECUTIVE'S STATEMENT

Derwent London has continued its leadership of the central London office sector in 2019, underpinned by another strong performance. With a focus on design and quality, we are delivering our objectives of extending our pipeline for longer-term growth, maintaining our customer focus and building added resilience into the business. Finding ways to respond to climate change has become more urgent than ever before and we are setting out today our target and our route to achieve a net zero carbon portfolio by 2030.

Another successful year

The Group's talented team delivered many significant achievements. These included new lettings on 498,500 sq ft of £34.0m, 6.9% ahead of ERV, mostly on 12-15 year leases and taking the 790,000 sq ft under development to 72% pre-let. Asset management increased headline rents by £5.2m and, £181.7m of property was disposed, 6.1% above book value. We completed several refinancings that extended the longevity of our debt to 7.8 years and included an innovative £300m 'green' tranche which is independently assured and is aligned to the LMA Green Loan Principles. We ended the year with a loan-to-value ratio of 16.9%.

Capturing and extending our income growth

At the beginning of 2019 we added to our on-site developments by signing the construction contracts at Soho Place W1 and The Featherstone Building EC1. These projects added £31.1m or 11% to our portfolio's ERV, with the future income expected to start flowing in 2022. At 31 December 2019 the portfolio's reversion to ERV was estimated at £133.9m, with 49% already contracted and accounted for in our earnings. The remaining £68.2m will contribute to our future income growth, of which 60% is pre-let with the remaining £27.3m still to be captured.

In response to our continuing pre-letting success and more positive market outlook, we aim to bring forward our next major development project at 19-35 Baker Street W1. This property is currently held in a joint venture with the freeholder, The Portman Estate. Following a conditional agreement signed in 2019, the current joint venture will unwind upon commencement of the scheme and Derwent London's 55% interest will convert into a wholly owned long leasehold interest. This would add another 293,000 sq ft to our development programme as early as 2021. We are pursuing other initiatives in the portfolio which could add more than another 300,000 sq ft of development starts in 2021. Beyond this another fifth of the portfolio is earmarked for regeneration.

Maintaining our customer focus

Strong customer relations are a fundamental part of our business. We offer good quality space on a wide range of lease terms. In the face of ever increasing occupier demands from a wider range of industries, our buildings provide a wide array of amenities. These range from outstanding reception areas, cafés, roof terraces and, even in one case, a rooftop running track. Today's businesses expect the best quality space and services to attract and retain the best talent, something that Derwent London has been providing for many years. On some of our smaller spaces, we provide furnished and flexible space. These have proved very successful but remain a relatively small part of our business.

Net zero carbon

It is clear that our industry must respond to the challenges of climate change. Derwent London has long recognised this. Our Angel Building EC1 was completed in 2010 and uses biomass boilers, while our innovative White Collar Factory EC1, completed in 2017, incorporated many recycled elements reducing its embodied carbon and, through the use of concrete core cooling, is designed to operate with a lower carbon footprint than a standard project. Brunel Building W2, completed in 2019, uses an aquifer energy storage system.

The Derwent London business model has regeneration at its heart. Our 'long-life loose-fit' buildings reduce future potential obsolescence, reinforce our brand and attract a wider range of occupiers, as demonstrated by our recent successful pre-letting activities.

In 2017 we adopted independently verified science-based targets and published our progress towards a net zero carbon portfolio. In 2019 we issued a new revolving credit facility which contained a 'green' tranche, signed the Better Building Partnership's climate change commitment and became one of the Mayor of London's 11 Business Climate Leaders[1].

We have now taken another important step to bring forward the net zero carbon target on our current portfolio by two decades to 2030. Our science-based targets are being realigned accordingly, bringing Derwent London's activities in line with COP21's more challenging 1.5°C climate scenario.

Our initial route to a net zero carbon portfolio will focus on three elements:

1. **Green developments**
   The three on-site developments (13% of the portfolio by value) will be net zero carbon buildings. On completion they will be operated using renewable energy and we will off-set any embodied carbon produced in the development process. 80 Charlotte Street W1, which should complete shortly, will be our first 'all-electric' building. In addition to financial appraisals, our future schemes will be subject to carbon appraisals.
2. **Green investment portfolio**
   The balance of the current portfolio will be operated on a net zero carbon basis by 2030. The aim is to achieve this through reducing energy consumption by working with our occupiers and using renewable sources of energy. Some older buildings will need retrofitting to bring their specifications up to the best standards. This target will also require more focused property management in this area and increased collaboration with our occupiers. We will offset any residual carbon.
3. **Green energy**
   Sourcing utilities: all the electricity used by the managed portfolio, c.68% of our buildings by value, already comes from renewable sources and shortly its gas consumption will also come from green suppliers. We are pursuing various options to increase and safeguard our supply of renewable energy.

We believe that more energy efficient buildings will command higher rents and values in due course, but these improvements are likely to come at a financial cost: a mixture of additional operational costs and capital expenditure as well as management time. We will provide more information in due course as we continue to develop our detailed plans. Furthermore, acquiring less carbon-efficient buildings is always likely to be part of the Group's strategy. It is these 'brown' buildings that provide the raw material that we can regenerate into the 'green' buildings of the future. Our strategy will evolve along with the science, planning policies and regulations.

A responsible business must work alongside its communities. We have two Community Funds serving our portfolio providing support for local groups, the homeless, and wellbeing. We have nominated two charities for our support: Chickenshed, a pioneering and inclusive theatre company, and Teenage Cancer Trust. In addition, our Sponsorship and Donations Committee ensures that we are reaching out to a wide range of other groups.

Team

Over many years the Group has built up a culture which is so important to us. Our results and our ability to adapt to an ever-evolving London office market are testament to the Derwent London team. The year saw some changes in roles and responsibilities and we have made key hires including new heads of asset management and property management, and additional roles in our sustainability team.

I would like to thank the Board and all our team for their support and the hard work they continue to do. It would be remiss of me not to give John Burns, our Chairman, a special mention. He remains a source of inspiration. I look forward to the work the Derwent London team can achieve in the year ahead.

Outlook

We begin 2020 with a more confident outlook following the decisive 2019 General Election result. Uncertainties remain with the global economic outlook subdued by the increasing impact of the Coronavirus and the UK's future relationship with the EU and the rest of the world yet to be determined. Despite these risks, the central London office market is well-positioned, with occupiers struggling to find the space they want and there is increased investment appetite. In relation to our own portfolio in 2020 we expect to see higher ERV growth of 1% to 4% and property investment yields tighten. This is a stronger forecast than in the past three years which, together with our development pre-lets, is encouraging us to bring forward further projects. This pipeline is well-supported by our financial base and puts Derwent London in a good position to benefit from potential further market upside.

Paul Williams
Chief Executive

[1] London Business Climate Change Leaders are working with the Mayor of London to translate global commitments on reducing emissions into local actions.

LONDON'S STRENGTH AND VERSATILITY

London is a truly global city with critical mass and a diverse multicultural population. The UK's departure from the EU will create challenges and opportunities depending on how the UK's international relationships are affected. London's economy has proved adaptable in the past and its wide range of businesses and open-minded approach should continue to serve it well in the future.

Critical mass

London has a population of 8.9m people and 6.1m jobs. It has a strong global position in finance, law, technology and education backed by its time zone, language and the rule of law. It is renowned for its cultural and retail facilities, and benefits from being at the centre of UK government. It has a large office market and a broad occupier base focused on business, professional, financial and creative uses. Although London's economic growth has reduced to 1.5% pa[1], positive activity continues with c.300,000 new London jobs created since 2016 and the latest ONS projection predicting London's population will reach 9.5m people by 2026[2].

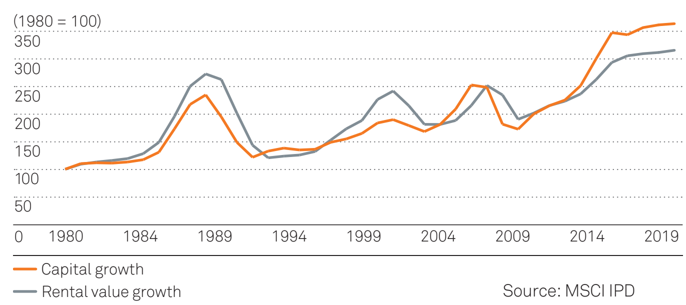
Responding to change

During its history London has had to respond to many challenges and it has proved adept in meeting them. The global financial crisis in 2009 stalled the strong growth in the financial sector and following this the London economy pivoted towards the fast-growing technology, media and creative industries. This trend is demonstrated by recent significant investments from Apple, Facebook, Google and many others in the broader 'tech' sector. London's strengths combine in the growing 'fintech' market which is estimated to employ 44,000 people, the largest single global concentration of expertise. In the first eight months of 2019, London's fintech investment was second only to San Francisco's, raising over $2bn. This was more than the next four European cities combined[3]. The tilt towards entrepreneurial businesses has accelerated changing patterns of office use and increased demand for flexible offices, as well as a willingness to locate outside the traditional prime office core.

What has happened to the traditional office cycle?

In recent decades the London office market has been cyclical, with strong growth followed by sharp economic downturns precipitated by rising interest rates coinciding with significant oversupply. The amplitude of these cycles has sometimes been reinforced when banks have held above average property loan exposure.

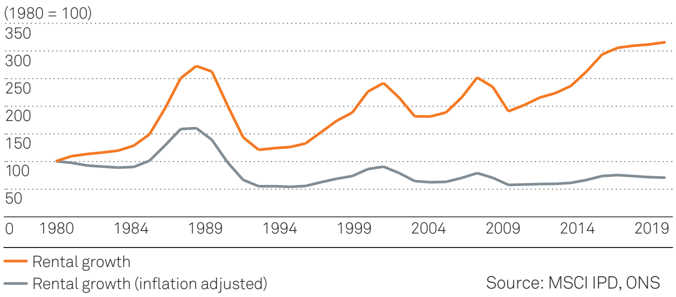
London office cycle – index



Source: MSCI IPD

However, as the chart above shows, London rents and values grew from 2009 to 2016 and have since plateaued recording 6.2% rental growth over the last three years. In real terms office rents have fallen 2.7% in the same period (see chart on page 13). This unusual trend reflects a different alignment of cyclical risks: interest rates and investment yields have remained close to historic lows, the economy has slowed (but has continued to grow) and vacancy rates and bank exposure to the sector have remained relatively low.

London's rental growth in real and nominal terms



The London economy needs to remain adaptable

UK economic growth is expected to remain subdued at around 1.0% to 1.5% in 2020 before rising to 1.5% to 2.0% in 2021. Historically London's growth has fared slightly better than the national average.

With improved business confidence following the recent clear General Election result and supply limited over the next three years, conditions have emerged whereby the London office market looks set to rally. However, London businesses continue to face several challenges to which they will need to remain alert. For example, one impact of the recent outbreak of the coronavirus may be to lower global economic growth expectations further.

Domestically, the new Conservative government has pledged to reduce the gap between London and the UK regions during its five-year term. In addition to shifting government spending patterns, it is working on plans to move more civil servants and some government departments out of the capital. The Mayor of London, Sadiq Khan, is currently expected to be re-elected in May 2020 for another four years. His priorities are likely to be on homes and transport with safety and environmental issues high up the agenda. With regards to the Elizabeth line, the section between Paddington and Abbey Wood is currently expected to open in summer 2021 with a full service operating in mid-2022.

The UK left the EU on 31 January 2020, and so the spotlight now shifts on to the UK's future relationships with the EU as well as other countries worldwide. Particular interest will focus on trade restrictions, regulation and immigration policies. The outcome of these talks will affect the direction of London's future economy.

Work patterns continually evolve with increasing use of agile working practices and artificial intelligence ('AI'). These trends are among the explanations for the strong growth of flexible office space in London. Their share of the office market has more than doubled to 6% since 2012 (see side panel). We believe flexible office space is here to stay and, though technological shifts have led to premature predictions of a structural fall in office demand in the past, they may prove more relevant this time. Our response has always been to create generous "long-life loose-fit" spaces capable of hosting multiple uses and technologies to reduce obsolescence risks.

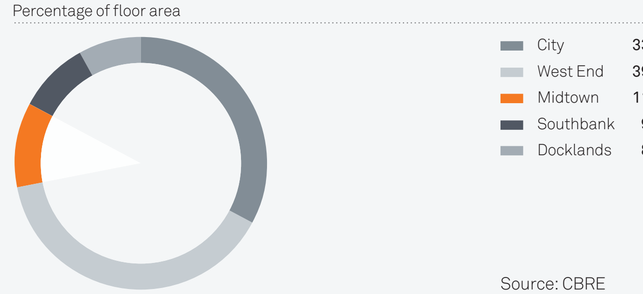
1 GLA Economics, December 2019
2 ONS Structural Populations Predictions for England, May 2018
3 London & Partners, Innovate/Finance, September 2019

Left: View from White Collar Factory EC1

Central London office stock

There is 229m sq ft of office space in central London, 72% concentrated in The City and the West End (see below). Our portfolio is principally in the West End and the Tech Belt. Our focus on a differentiated product means that we have only one property in the prime West End district of Mayfair & St. James's and no buildings in the core City market (see page 16).

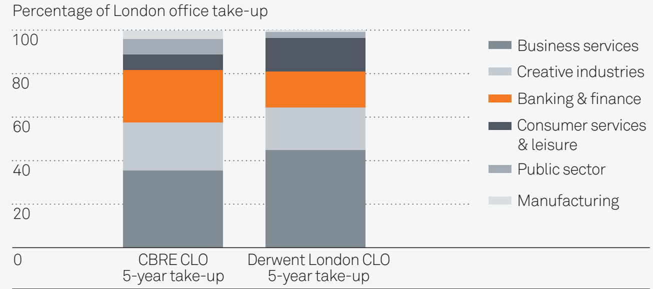
Central London office stock



Patterns of demand

The bar chart below shows the main sources of demand for the London office market and our own portfolio. It demonstrates the importance of the creative industries along with the traditional professional, business and financial markets. Derwent London's portfolio has few financial occupiers.

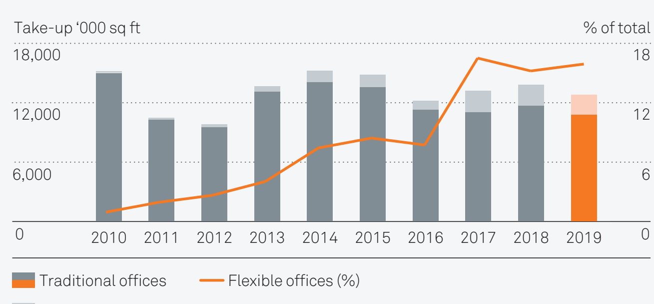
Central London offices (CLO) by business sector



Growth of flexible office space

The sharp rise in the amount of flexible office space, averaging 16% of take-up in the last three years (see chart below), has led some commentators to see it as another example of technological economic disruption. We see it as an important component of London's broad tenant offer which is vital to ensure London's competitiveness. Our own exposure, at 6%, is the same as the market and is principally held through tenants, such as The Office Group.

Central London office take-up – 'flex' vs traditional



CENTRAL LONDON OFFICE MARKET

Overall activity was lower in 2019 particularly in the investment market, but picked up significantly in Q4 following the UK election.

White Collar Factory EC1

The signs are that this confidence continued into 2020, supported by the latest business surveys. UK economic growth is expected to be low at c.1% to 1.5% in 2020 but this rate is still amongst the strongest growth rates expected from the larger EU economies. Letting conditions remain favourable based on the real estate metrics of vacancy and supply, particularly for those buildings that are able to match a broad range of occupier requirements.

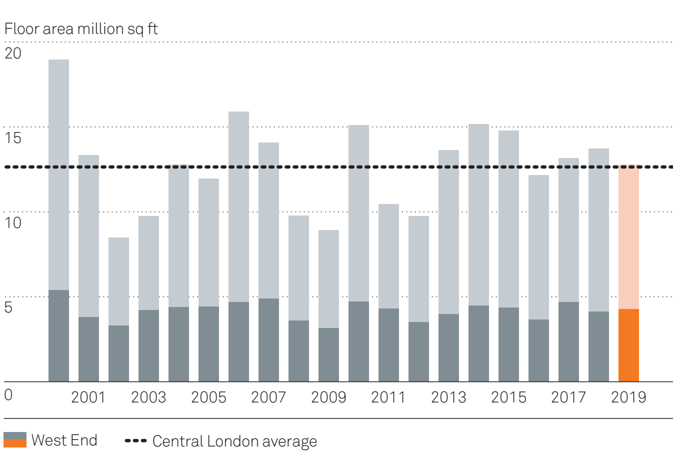
Occupier take-up started slowly in 2019 after a strong finish to 2018. CBRE reports take-up steadily built up throughout the year to total 12.8m sq ft, which was 7.0% below 2018 levels. The West End performed best with take-up slightly stronger than in 2018, and our activity alone represented c.8% of this submarket's total. As in previous years, Business & Professional Services dominated with 39% of take-up, but Banking & Finance and Creative Industries reversed their positions from 2018 with 24% and 19%, respectively. CBRE estimates that, on average, prime London office rents grew 3.6%, recording growth in 11 out of 13 London submarkets at rates ranging from 3% to 8%.

Flexible office providers comprised 16% of total take-up in 2019, a similar level to that seen over the previous two years. Following several years of significant expansion, this sector represents c.6% of London office stock and may prove less active in 2020.

Development completions totalled 4.9m sq ft in 2019, which once again was significantly below the level predicted at the start of the year. The net impact of 2019 take-up and supply meant the central London vacancy rate fell to 4.0%: its lowest level since December 2016. There is currently 12.3m sq ft under construction for delivery up to 2023, of which 57% is pre-let or under offer. This leaves 5.3m sq ft available in the next four years which is less than the 6.6m sq ft available in December 2018. JLL estimates that there was 9.1m sq ft of active demand at the end of 2019, 6% above the 10-year average.

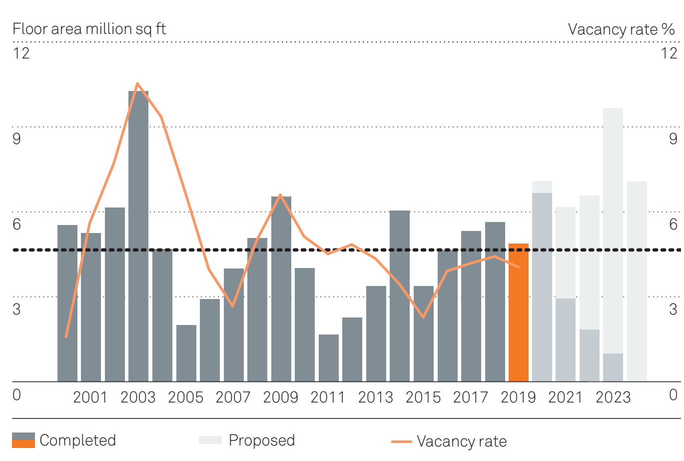
At the end of 2019 CBRE estimates that there was £33bn of equity targeting London office property which was 11 times the c.£3bn of stock that was available on the market at the same date. However, investment transactions in 2019 were 36% down on 2018 at £11.3bn which was attributed to less stock being available on the market and the general political and economic uncertainties. Sentiment improved in Q4 which saw an uptick to £4.9bn of transactions, representing 44% of the total activity for the year. 2019 saw increasing interest from UK investors which represented 48% of the purchasers, up from 25% in 2018 and just 19% in 2017.

Central London office take-up



Source: CBRE

Central London development pipeline



Source: CBRE

PORTFOLIO STATISTICS

£169.1m
Contracted net rental income
2018: £159.5m

3.4%
EPRA net initial yield
2018: 3.4%

5.8 years
Weighted average unexpired lease term (WAULT)
2018: 6.1 years

£303.0m
Estimated rental value[1]
2018: £274.4m

4.8%
True equivalent yield
2018: 4.7%

8.3 years
WAULT including rent-free and pre-lets
2018: 8.2 years

[1] After additional capex of £334m

Central London office rent

'Topped-up' income %

£0-£30 per sq ft	6
£30-£40 per sq ft	6
£40-£50 per sq ft	18
£50-£60 per sq ft	28
£60+ per sq ft	42

Ten largest tenants

% of rental income[2]

Government	5.7
Burberry	5.6
Expedia	4.1
Publicis Groupe	3.0
The Office Group	2.8
WPP Group	2.2
VCCP	2.0
Ticketmaster	1.7
Morningstar	1.5
Sony Pictures	1.4

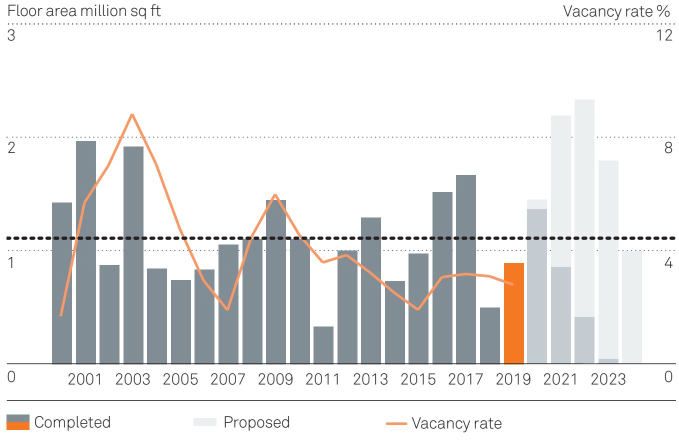
[2] Based upon contracted net rental income of £169.1m

Tenant diversity[3]

Media	29
Business services	13
Retail sales	10
Travel & leisure	9
Retail head office	8
Government & public administration	7
Technology	6
Flexible office providers	6
Financial	4
Fintech	3
Other	5

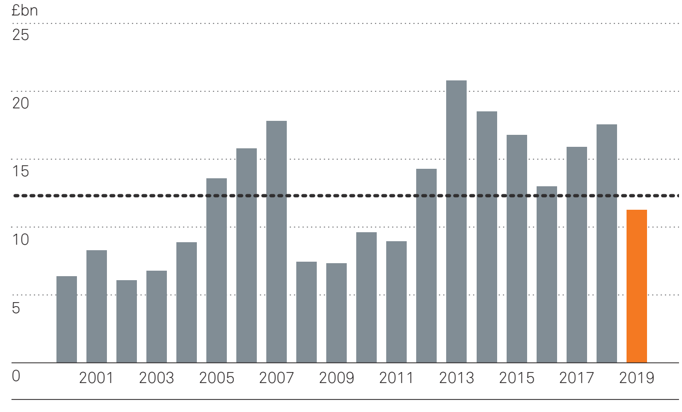
[3] Expressed as a percentage of annualised rental income of the whole portfolio

West End office development pipeline



Source: CBRE

Central London office investment transactions



Source: CBRE

A WELL PLACED PORTFOLIO

98% of our portfolio is located in central London, grouped in 13 ‘villages’, each with its own individual identity.

Baker Street/Marylebone

Most of our properties in these villages are held in a joint venture with The Portman Estate, in which the Group has a 55% interest. We have planning consent to develop 293,000 sq ft at 19-35 Baker Street and in 2019 we signed terms with our partner that, on commencement of the development, the joint venture would be unwound and we would become the sole long leaseholder.

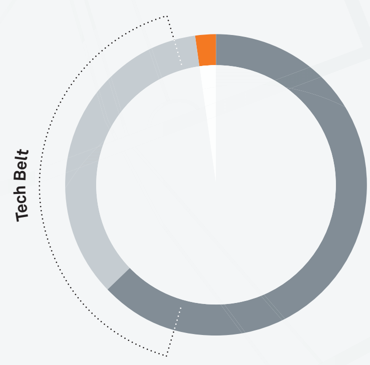
Fitzrovia/North of Oxford Street/Soho

Our largest concentration of property, representing 35% of the portfolio, is in these three villages. Our two largest on-site developments: 80 Charlotte Street and Soho Place, together totalling 665,000 sq ft, are also located here. The latter is built over the entrance to the Tottenham Court Road Elizabeth line station.

Our ‘villages’ [1]

Fitzrovia[2]	32%
Victoria	9%
Paddington	6%
Baker Street/Marylebone	3%
Soho/Covent Garden	3%
Mayfair	2%
Islington/Camden	8%
Clerkenwell	10%
Old Street	11%
Shoreditch/Whitechapel	8%
Holborn	4%
Holborn (non-Tech Belt)	2%
Provincial	2%

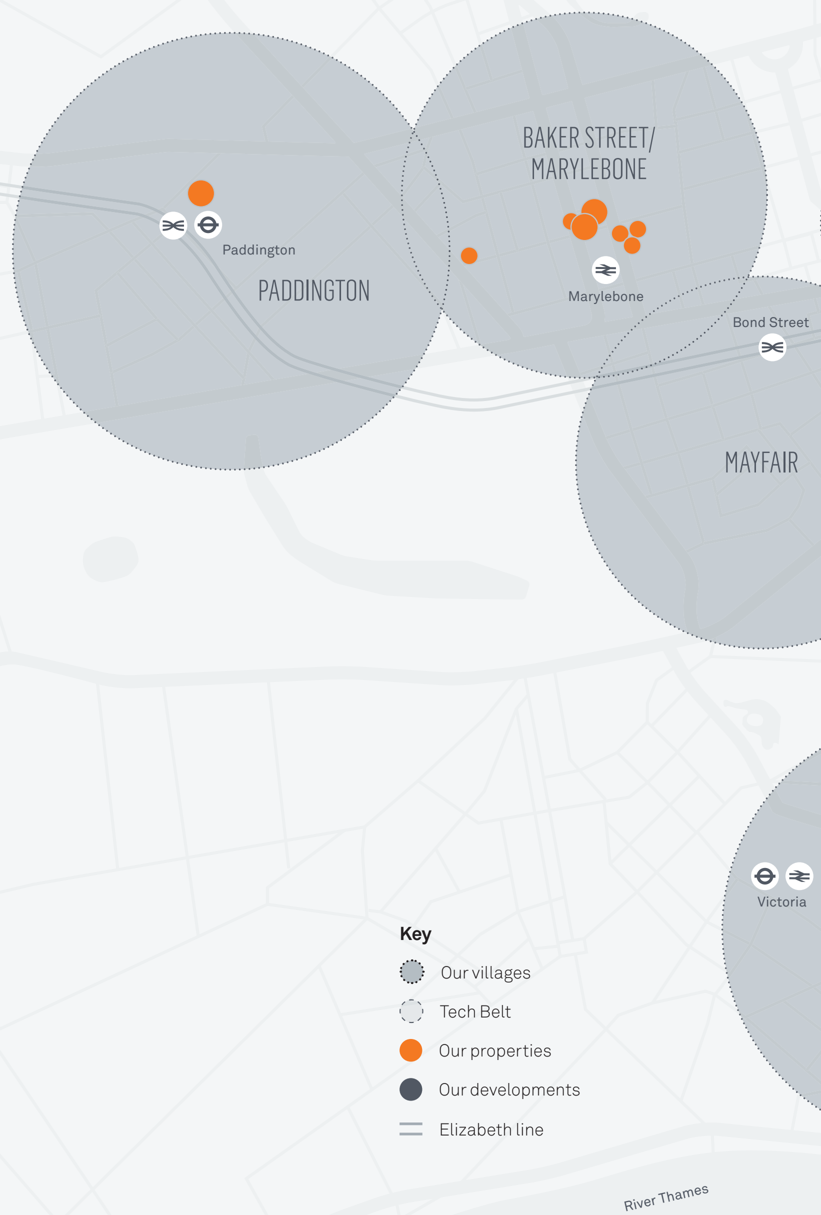
[1] By value [2] Includes North of Oxford Street



Portfolio weighting

West End	63%
City Borders	35%
Provincial	2%

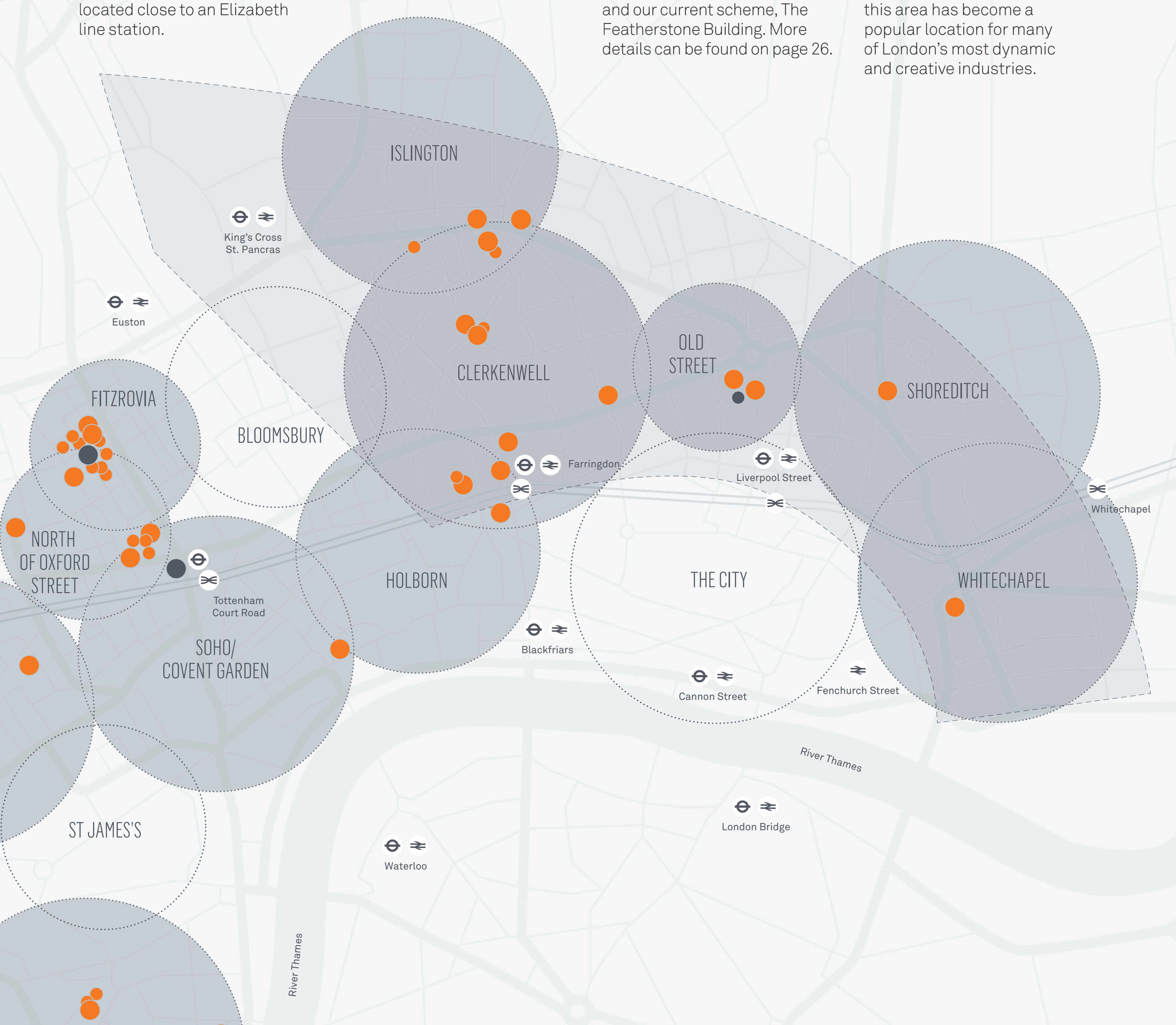
p.237 Principal properties



Elizabeth line (Crossrail)
Following delays, the Elizabeth line is currently expected to open between Paddington and Abbey Wood in 2021, with the rest of the line opening in 2022. We have 77% of our portfolio located close to an Elizabeth line station.

Old Street
We have an important cluster of three properties around Old Street, which represents 11% of our portfolio. These include White Collar Factory which completed in 2017 and our current scheme, The Featherstone Building. More details can be found on page 26.

Tech Belt
Approximately 41% of our portfolio is located in this arc stretching from King's Cross to Whitechapel, including most of our City Borders portfolio. In the past decade, this area has become a popular location for many of London's most dynamic and creative industries.



OUR PORTFOLIO IN NUMBERS

£5.5bn	5.6m sq ft	82	477
Valuation	Net area (includes 0.8m sq ft of on-site developments)	Buildings	Tenants

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.

We set out in the adjacent table our key stakeholder groups, their material issues and how we engage with them. Each stakeholder group requires a tailored engagement approach to foster effective and mutually beneficial relationships.

By understanding our stakeholders, we can factor into boardroom discussions the potential impact of our decisions on each stakeholder group and consider their needs and concerns. This in turn ensures we continue to provide office space that our occupiers desire, work effectively with our colleagues and contractors, make a positive contribution to local communities and achieve long-term sustainable returns for our investors. Acting in a fair and responsible manner is a core element of our business practice as seen in our Responsibility report on pages 76 to 91.

Our section 172(1) statement for the year ended 31 December 2019 is on page 95 and demonstrates how our stakeholders influenced some of the principal decisions taken by the Board in 2019.

Marylebone Boys School visit Brunel Building W2

	Their material issues
OCCUPIERS	
Our success is dependent on our ability to understand and respond to our occupiers' needs and aspirations. Many of our occupiers have moved within our portfolio as their businesses have grown, which is testament to our proactive approach	• Suitable lease terms • Well-designed and sustainable buildings • Wellbeing and talent attraction/retention • Amenities
EMPLOYEES	
We have an experienced, diverse and dedicated workforce which we recognise as a key asset of our business. Therefore, it is important that we continue to generate opportunities for individuals and teams to realise their full potential	• Opportunities for development and progression • Agile working practices • Opportunity to share ideas and make a difference • Diversity and inclusion
LOCAL COMMUNITIES	
We are committed to supporting the communities in which we operate, including local businesses, residents 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 with our suppliers, so we can enhance the efficiency of our business and create value	• 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
DEBT PROVIDERS	
Our debt providers play an important role in our business. 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	
Our shareholders play an important role in monitoring and safeguarding the governance of our Group	• Financial performance • Strategy and business model • Environmental, social and governance (ESG) performance • Dividend

How we engage	2019 outcomes and highlights	Further links
Via our dedicated leasing, asset and property management teams and close Director involvement, we communicate regularly with our existing occupier base to anticipate trends and preferences and incorporate them early into our designs. We do this through meetings, engagement events and forums. This active engagement ultimately ensures our high-quality, sustainable space meets their needs and helps them to attract and retain talent.	• £34.0m of lettings • 0.8% EPRA vacancy rate • 90% tenant retention/re-lets	p.42 KPIs – tenant retention and void management p.62 Asset management p.157 Executive annual bonus – void management target
We have an open, collaborative and inclusive management structure and engage regularly with our employees. We do this through an appraisal process, structured career conversations, employee surveys, our intranet site, company presentations, awaydays and our wellbeing programme. Employee engagement is frequently measured and we have a designated Non-Executive Director, Cilla Snowball, who chairs the Responsible Business Committee.	• 87% staff retention • 92.5% staff satisfaction • Two employees on the Responsible Business Committee (see page 139)	p.43 KPI – staff satisfaction p.104 Employee engagement p.109 Whistleblowing
We engage with the local community not only through the planning process but also through 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.	• Delivered 10 affordable housing units at 65 Whitfield Street to Origin as part of the 80 Charlotte Street development • 151 hours of staff volunteering • £386k of charitable and community donations (up 10.3% from 2018)	p.81 Net zero carbon strategy p.88 Our Community Strategy p.106 The Featherstone Building case study
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.	• £204m capital expenditure • 25 day average payment • Received confirmation that our key suppliers were compliant with our Sustainability Standard	p.52 Principal risk – contractor default p.138 Supply Chain Sustainability Standard p.138 Responsible payment terms
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.	• Delivered 10 affordable housing units at 65 Whitfield Street to Origin as part of the 80 Charlotte Street development • Progressing a theatre and public realm as part of the Soho Place development • Maintained our 'low-risk' tax rating	p.56 Principal risk – regulatory non-compliance p.91 Tax governance p.107 Soho Place case study
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.	• Issued £175m of convertible bonds due 2025 • Renewal of the Group's £450m Revolving Credit Facility with a £300m 'green' tranche • 16.9% loan-to-value ratio • Fitch corporate credit rating of A-	p.42 KPI – interest cover ratio p.72 Debt and financing arrangements p.73 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.	• 10.0% increase in dividend • 290+ investor meetings • We received votes from 87% of shareholders for the 2019 AGM	p.41 KPI – Total Shareholder return (TSR) p.105 Shareholder engagement p.166 Dividend

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 benefitting 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

The world we live in
The London office market and its wider context

p.12

Our assets and resources
Properties

p.16

Financial resources

p.68

People and relationships

p.84

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

p.18

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.62

DEVELOPMENT & REFURBISHMENT

Our focus on design, innovation and value for money creates sustainable and flexible ('long-life loose-fit') buildings characterised by generous volumes, good natural light and amenities

p.65

INVESTMENT ACTIVITY

We recycle capital, acquiring properties with future regeneration opportunities to build a pipeline of projects and disposing of those with limited future potential

p.62

Strong governance and risk management

p.93

Driven by our five strategic objectives

1. TO OPTIMISE RETURNS AND CREATE VALUE FROM A BALANCED PORTFOLIO p.34

2. TO GROW RECURRING EARNINGS AND CASH FLOW p.36

3. TO ATTRACT, RETAIN AND DEVELOP TALENTED EMPLOYEES p.37

4. TO DESIGN, DELIVER AND OPERATE OUR BUILDINGS RESPONSIBLY p.38

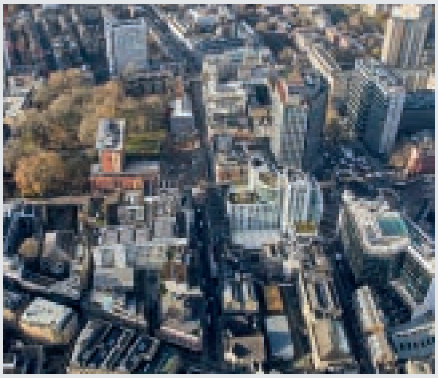
5. TO MAINTAIN STRONG AND FLEXIBLE FINANCING p.39

Responsible business

Adding value for stakeholders

Office space for today's businesses p.22

Delivering above average long-term returns p.25



Investing in neighbourhoods and communities p.26

Outcomes

498,500 sq ft
New lettings agreed in 2019, at a rent of £34.0m pa

790,000 sq ft
On-site developments, 72% pre-let

+10.4%
Average annual ordinary dividend growth over 10 years

+11.9%
Average annual total return over 10 years

£385,000
Awarded in 2019 by our Community Fund and Sponsorship and Donations Committee

Measured via our KPIs p.40

OFFICE SPACE FOR TODAY'S BUSINESSES

80 CHARLOTTE STREET, FITZROVIA W1

In the first half of 2020 we expect to deliver the next of our well-designed, sustainable and occupier-focused buildings. Totalling 380,000 sq ft, this is our largest single project to date. As well as adding 321,000 sq ft of first class offices to the area, we will be introducing 14,000 sq ft of retail and 45,000 sq ft of residential space which includes 16 affordable units (of which two are off-site). All of this is in the heart of our Fitzrovia 'cluster' which is set to benefit from the opening of the Elizabeth line in 2021.

Well-designed

The use of different façade materials softens the building's mass and aims to blend in with the neighbourhood, while providing large and flexible 40,000 sq ft floorplates. The design incorporates amenities available to all occupiers. Two entrances will link into an atrium with a reception and a ground floor café. There are numerous terraces for the occupiers' use, and we are creating a publicly accessible 'pocket park'.

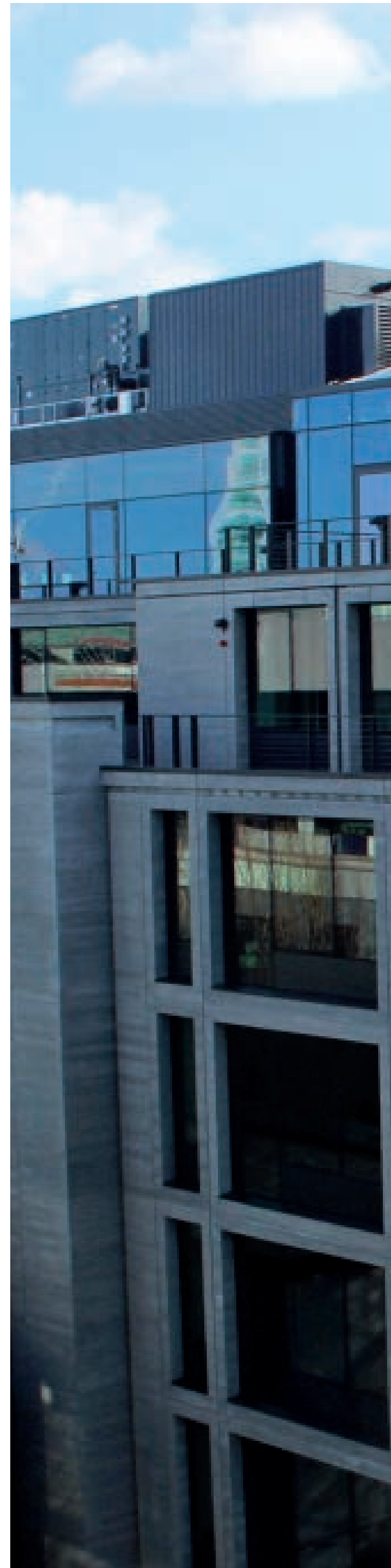
Sustainable

To enable that the energy used to operate this building is carbon neutral, it will be our first all-electric building. We will also be financing the completion of the project using the new 'green' tranche of our main bank facility. The development qualifies for this as it is expected to achieve BREEAM 'Excellent'.

Occupier-focused

As well as amenities incorporated in the design to ensure the building will help our tenants attract the best talent, we tailored the lease terms to match our occupiers' individual needs. Arup are one of our long-standing customers and have been based in the area for over 50 years. They wanted to upgrade their space and make a further long-term commitment to the area. As a result they signed a 20-year lease on 133,600 sq ft with us at £75 per sq ft which increases by 2.25% every year for the first 15 years. The Boston Consulting Group were also looking for more space, with the opportunity to expand further. In 2017 they signed a 15-year lease with a break at year 12 on 123,000 sq ft with an option on a further 43,000 sq ft. In the summer of 2019, they exercised their option to take 40,650 sq ft which means at least 96% of the office space has been pre-let prior to completion. Pre-let income on this development represents £24.3m of future rent.

Members of the 80 Charlotte Street team



DELIVERING ABOVE AVERAGE LONG-TERM RETURNS

BRUNEL BUILDING, PADDINGTON W2

Development is part of our brand
From early in its history, Derwent London has supplemented its property returns through its regeneration activities. This has become so engrained in our business model that the Group's focus on design-led solutions to improve our portfolio either through refurbishment or development has become a core part of the Derwent brand.

Developments have helped us outperform
Our four developments in 2019 (Brunel Building W2, 80 Charlotte Street W1, Soho Place W1 and The Featherstone Building EC1) produced a revaluation surplus for the year of 21.2%.

Since the EU referendum, these four properties, together with White Collar Factory EC1 that completed in 2017, have, in aggregate, produced £350m of revaluation gains against the background of a flat investment market. This has enabled the Group to outperform at a property level.

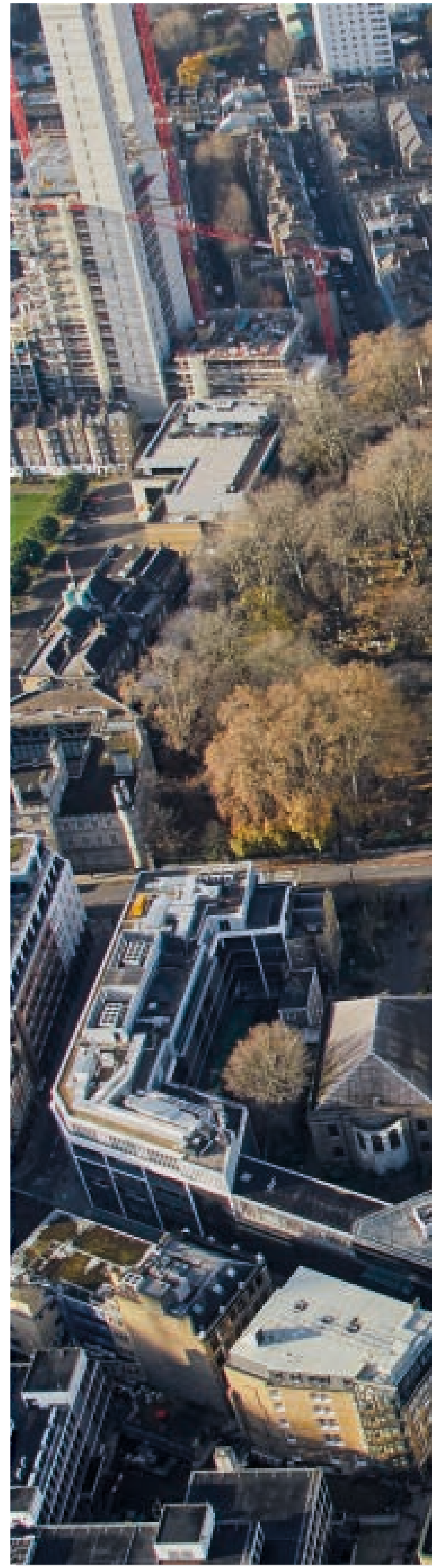
Spotlight on the impact of Brunel Building
Once a project is completed, we analyse the returns to discover what went right and what can be improved. Brunel Building completed in May 2019 and produced a 60% profit and over a 7% yield on cost. This return was significantly higher than our original appraisal of a c.18% profit on cost and a development yield of c.6%.

The overall cost of the development was below our original projections, as early lettings reduced financing and marketing costs. We also achieved a new level of rent for the Paddington submarket, which confirmed our belief that we have produced another outstanding product tailor-made for its market. The lower costs and the higher rents contributed c.60% to the revaluation surplus.

External events have also been positive, demonstrating that the project was well timed. The area has been boosted by considerable investment helping to attract a more diverse range of occupiers to our building. These improvements fuelled rental growth and led to an investment yield on completion c.50bps lower than that on our initial appraisal. The valuation yield shift on completion contributed to just under 40% of our profit on cost.

Members of the Brunel Building team

INVESTING IN NEIGHBOURHOODS & COMMUNITIES



OLD STREET EC1

Derwent London is committed to improving London's office stock and this is reflected in long-term investments in our property clusters and villages. We have three properties around Old Street, which together represent 604,000 sq ft or 11% of the portfolio by value. This whole area has seen significant improvement in recent years. Currently TfL is replacing the roundabout with a two-lane gyratory system, new entrances to the Underground station and new public open space. This work is due for completion in October 2020.

Long-term commitment

The first of our acquisitions was Companies House in 1994 (now known as Oliver's Yard), and our most recent was 19-23 Featherstone Street in 2014 (now part of The Featherstone Building). All three buildings were acquired as dated office properties reaching the end of their natural lives.

We have transformed the space. Oliver's Yard EC1 is now a thriving multi-let refurbished building with occupiers ranging from architects to financial data providers. White Collar Factory (previously a block of properties centred around Transworld House) proved to be one of our most innovative and profitable developments, and completed in 2017.

This project created new public realm at Old Street Yard. Now we are developing our third holding, The Featherstone Building, which is due for completion in 2022 and will incorporate many of White Collar Factory's innovative features.

Providing more sustainable space

Both White Collar Factory and The Featherstone Building are designed to produce maximum internal flexibility ('long-life loose-fit') and low carbon emissions. This is achieved through generous floor to ceiling heights, cooling embedded in the concrete ceiling slabs and openable windows. At White Collar Factory, this could potentially reduce annual carbon emissions by up to 25%.

Supporting local communities

We also support local initiatives through our Tech Belt Community Fund launched in 2016, which runs twice a year offering c.£25,000 to local causes. Its target area extends from King's Cross to Whitechapel, largely covering the EC1 and E1 postcodes. The fund aims to support grassroots projects that will bring benefits to the local community, in particular focusing on events, increasing and improving employment opportunities and digital skills for disadvantaged local people, health and wellbeing, small public space improvements, arts, culture and educational projects. To date our Tech Belt Fund has supported 50 projects and invested over £220,000 into local groups.

Members of the Old Street team


WHITE COLLAR FACTORY
THE FEATHERSTONE BUILDING
OLIVER'S YARD

OUR DEVELOPMENT PIPELINE

80 CHARLOTTE STREET W1
380,000 SQ FT

Our largest development to date is due for completion in the first half of 2020. The property is 90% pre-let. See page 22.

On-site developments
We have three on-site developments, 80 Charlotte Street W1, The Featherstone Building EC1 and Soho Place W1, which total 790,000 sq ft and are 72% pre-let.

p.65 Development and refurbishment

THE FEATHERSTONE BUILDING EC1
125,000 SQ FT

This building is located next to our White Collar Factory and is due for completion in the first half of 2022. See pages 26 and 106.

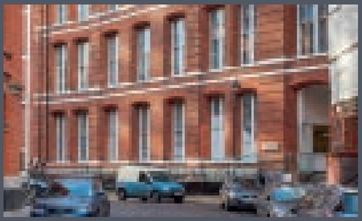
SOHO PLACE W1
285,000 SQ FT

This mixed-use development site over the Tottenham Court Road Elizabeth line station is due for completion in the first half of 2022, It is currently 79% pre-let. See page 107.

Significant refurbishments
We have two adjoining buildings in Victoria SW1 which, when combined, could support a major development of c.130,000 sq ft. We have opted for two separate refurbishments, 6-8 Greencoat Place, totalling 32,000 sq ft, commencing in 2020 and Francis House, comprising 40,000 sq ft, commencing in 2021. More details can be found on pages 65 and 170.

6-8 GREENCOAT PLACE SW1
32,000 SQ FT

FRANCIS HOUSE SW1
40,000 SQ FT



2020 2021 2022

FUTURE PROJECTS CONSENTED OR UNDER APPRAISAL EXISTING AREA 569,000 SQ FT, PROPOSED AREA 893,000 SQ FT

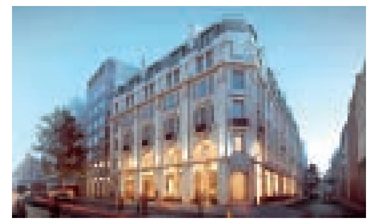
Consented developments
We have two schemes with planning consent: 19-35 Baker Street W1 and Holden House W1. The former is discussed in more detail on pages 10 and 65. The Group has consent for 150,000 sq ft of either mixed office and retail space or pure retail space at the latter. Together these represent a 90% uplift on the existing area.

19-35 BAKER STREET W1

E 143,000 sq ft **P** 293,000 sq ft

HOLDEN HOUSE W1

E 90,000 sq ft **P** 150,000 sq ft



Developments under appraisal
The Group is currently evaluating regeneration projects on three properties: Angel Square EC1, Bush House WC2 and Network Building W1, which currently comprise 298,000 sq ft. Subject to planning, we could start on site as early as 2021.

ANGEL SQUARE EC1

E 126,000 sq ft **P** 140,000 sq ft

BUSH HOUSE WC2

E 108,000 sq ft **P** 108,000 sq ft

NETWORK BUILDING W1

E 64,000 sq ft **P** 100,000 sq ft

LONGER-TERM POTENTIAL EXISTING AREA 1 MILLION SQ FT

Future appraisal
In addition, the Group owns another 1.0m sq ft of longer-term projects for future appraisal. Since the year end we have added to this pipeline with the acquisition of Blue Star House SW9, which currently comprises 53,750 sq ft.

BLUE STAR HOUSE SW9

E 53,750 sq ft

Key

- **E** Existing area
- **P** Proposed area
- — On-site developments and significant refurbishments
- — Proposed developments
- ···· Possible start date

2023

OUR STRATEGY

We have a clearly defined strategy to fulfil our purpose that creates value for, and brings benefits to, all our stakeholders.

Brunel Building W2 – completed in May 2019

This involves acquiring properties at low capital values in central London to which there is potential to add value through refurbishment or redevelopment. This regeneration is always design-led and focused on the needs of our potential customers. The returns generated by these schemes has helped us consistently outperform our benchmarks (principally the MSCI IPD Central London Offices Index).

Balancing the inherent risk of our development projects are our 'core income' properties, currently 57% of the portfolio. Here the focus is on growing 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 amenities, or creating a work environment for their employees that is conducive to productivity and wellbeing.

OUR 2020 PRIORITIES

- Seek acquisitions with development potential while ensuring a balance between income generation and development activity
- Realign our target to be net zero carbon by 2030
- Complete 80 Charlotte Street W1 and progress The Featherstone Building EC1 and Soho Place W1
- Advance regeneration opportunities within the portfolio
- Manage voids and extend income through renewals and regears
- Continue to promote diversity, inclusion and wellbeing initiatives

We take a long-term perspective, whether designing and delivering schemes, identifying risks to income or negotiating leases. An annual five-year plan is prepared to assess risks and opportunities, and ensure our product continues to appeal 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 1, these include focusing on creative design and ensuring sustainability and responsibility are embedded in everything we do. Management has fostered a culture that is progressive and hardworking, while building a team passionate about improving London's office space.

Our strategy is defined through five objectives, as shown on page 31, and each year we set a number of priorities that vary with the property cycle and changes in the general economic environment.

Our 2019 priorities

Brunel Building completed in May with the office space fully let, while good letting progress at our 790,000 sq ft on-site developments meant they finished the year 72% pre-let. This substantial de-risking had been one of our key priorities for 2019.

Our asset management activities achieved other key operating priorities, as we finished the year with a vacancy rate of just 0.8% and captured £5.2m of reversion through rent reviews and lease renewals across about one-tenth of the portfolio.

In terms of other priorities, we were developing climate change action plans for the managed portfolio, our first management training programme was concluded and there were various wellbeing initiatives. Finally, an active year of refinancing further strengthened our balance sheet. Further details are on page 32.

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.

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 33 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 (NAV) per share 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 a strong alignment between the interests of shareholders and our decision makers.

OUR FIVE STRATEGIC OBJECTIVES

1. TO OPTIMISE RETURNS AND CREATE VALUE FROM A BALANCED PORTFOLIO

p.34

2. TO GROW RECURRING EARNINGS AND CASH FLOW

p.36

3. TO ATTRACT, RETAIN AND DEVELOP TALENTED EMPLOYEES

p.37

4. TO DESIGN, DELIVER AND OPERATE OUR BUILDINGS RESPONSIBLY

p.38

5. TO MAINTAIN STRONG AND FLEXIBLE FINANCING

p.39

PRIORITIES

Annual priorities are set for each strategic objective

p.32

RISKS

Risk management is integral to the delivery of our strategy

p.46

KPIS & REMUNERATION

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

p.40

VALUE CREATION FOR OUR STAKEHOLDERS

Above average long-term returns for our shareholders and benefits to all our stakeholders

OUR STRATEGY CONTINUED

2019 priorities	2019 progress
1. TO OPTIMISE RETURNS AND CREATE VALUE FROM A BALANCED PORTFOLIO	
Seek acquisitions and disposals that meet our criteria	Proceeds of £181.7m received from disposals in the year. 3-5 Rathbone Place W1 acquired for £21.0m
Maintain balance between income generation and development activity	43% of the portfolio is either under development or has potential for regeneration
Complete Brunel Building W2	Completed in May 2019 with office space fully let. Estimated 60% profit on cost
Progress 80 Charlotte Street W1, Soho Place W1 and The Featherstone Building EC1	80 Charlotte Street is on track for completion in H1 2020. Started on site at Soho Place and The Featherstone Building under fixed-price contracts; both currently on programme
De-risk the pipeline through further pre-lets	80 Charlotte Street, Soho Place and The Featherstone Building, 790,000 sq ft in total, were 72% pre-let at the end of 2019. The latter two are not due to complete until 2022
Advance regeneration opportunities within the portfolio	Several schemes advanced for possible 2021 starts, including 19-35 Baker Street W1, Angel Square EC1 and Network Building W1
2. TO GROW RECURRING EARNINGS AND CASH FLOW	
Continuously monitor portfolio for further asset management initiatives	Asset management activity covered 545,000 sq ft, increasing rent by £5.2m to £26.8m
Extend income through renewals and regears for properties not earmarked for regeneration	Our retention and re-let rate was 90% in 2019 Renewals increased income by 31.4% to £7.1m on 132,000 sq ft
Manage voids and maximise income from good asset management	The vacancy rate fell from 1.8% to 0.8% in 2019. Rent reviews across 413,000 sq ft increased income by 21.6% to £19.7m
Secure further pre-lets	308,950 sq ft of developments let during 2019, with a total income of £27.0m
3. TO ATTRACT, RETAIN AND DEVELOP TALENTED EMPLOYEES	
Continue the 'Fit for the Future' programme	29 employees completed 'Fit for the Future', which covered topics such as leadership, coaching and influencing
Continue to promote diversity, inclusion and wellbeing initiatives	All Directors and Line Managers attended a course on unconscious bias. All staff now receive medical and dental insurance. Wellbeing workshops held
Arrange a Company awayday that focuses on team building	Very positive feedback received from those who attended our awayday, which included team sports and Paul Williams sharing his vision for the Group
Conduct our next employee survey	Our third employee survey was carried out in October and received a 94% response rate
4. TO DESIGN, DELIVER AND OPERATE OUR BUILDINGS RESPONSIBLY	
Finalise and launch our corporate framework for health and wellbeing in developments	Our new health and wellbeing policy and framework was launched in June 2019
Develop COP21 action plans for properties in the managed portfolio	We continued to develop our climate change action plans for our managed portfolio, which are now being integrated into our new net zero carbon programme
Deliver the next rounds of our Community Funds	The 2019 rounds of our Community Funds were successfully launched with over £115,000 invested in a range of grassroots projects
5. TO MAINTAIN STRONG AND FLEXIBLE FINANCING	
Continue to review refinancing options for the £150m 1.125% 2019 convertible bonds	2019 convertible bonds repurchased/repaid and £175m 1.5% 2025 convertible bonds issued with an initial conversion price of £44.96
Maintain or strengthen available facilities	£250m of US Private Placement notes agreed in 2018 were drawn in January. The £450m club revolving credit facility was extended from 2022 to 2024 and now includes a £300m 'green' tranche
Maintain good interest cover	Interest cover remains strong at 462%; property income could fall by 69% before breaching the interest cover covenant

Key

- Achieved
- On target
- Not achieved

Priorities for 2020	Key performance measures	Risks
		p.34
• Seek acquisitions in improving areas of London with regeneration opportunities to move the balance between 'core income' and development potential closer to 50/50 • Complete 80 Charlotte Street in H1 2020 • Progress Soho Place and The Featherstone Building • Consider pre-lets at The Featherstone Building • Advance 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 • Adverse international trade negotiations following Brexit • Fall in property values • Reduced development returns • 'On-site' risk • Contractor/subcontractor default • Cyber attack on our IT systems • Cyber attack on our buildings • Terrorism-related or other business interruption • Reputational damage • Our resilience to climate change • Non-compliance with health and safety legislation
		p.36
• Continue to be 'landlord of choice' by meeting tenants' needs and providing quality product • Continuously monitor portfolio for further asset management initiatives • Extend income through renewals and regears for properties not earmarked for regeneration	• 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 • Adverse international trade negotiations following Brexit • Fall in property values • Reduced development returns • 'On-site' risk • Contractor/subcontractor default • Cyber attack on our IT systems • Cyber attack on our buildings • Terrorism-related or other business interruption • Reputational damage • Non-compliance with health and safety legislation
		p.37
• Start the next 12-month 'Fit for the Future' programme for 28 employees • Offer Unconscious Bias training, Core Skills sessions and Technical Workshops to all employees • Launch initiatives and run social events to enhance wellbeing and collaboration • Set up a steering group to assess the results of the 2019 staff survey	• Total return • Total shareholder return • Staff satisfaction	• Cyber attack on our IT systems • Cyber attack on our buildings • Terrorism-related or other business interruption • Reputational damage • Our resilience to climate change • Non-compliance with health and safety legislation • Other regulatory non-compliance
		p.38
• Publish our programme that targets net carbon zero by 2030 and realign our Science Based Targets accordingly • Deliver the next rounds of our Community Funds	• 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 • Terrorism-related or other business interruption • Reputational damage • Our resilience to climate change • Non-compliance with health and safety legislation • Other regulatory non-compliance
		p.39
• Maintain or strengthen available facilities • Maintain good interest cover • Manage the process of LIBOR discontinuation and the transition to SONIA	• Total return • Total shareholder return • Gearing and available resources • Interest cover ratio	• Failure to implement the Group's strategy • Adverse international trade negotiations following Brexit • Fall in property values • Reduced development returns • Cyber attack on our IT systems • Cyber attack on our buildings • Terrorism-related or other business interruption • Reputational damage • Non-compliance with health and safety legislation • Other regulatory non-compliance

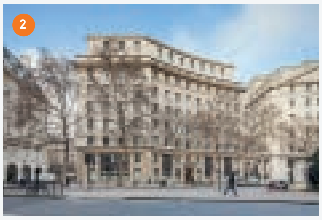
OUR STRATEGY CONTINUED

1.

TO OPTIMISE RETURNS AND CREATE VALUE FROM A BALANCED PORTFOLIO

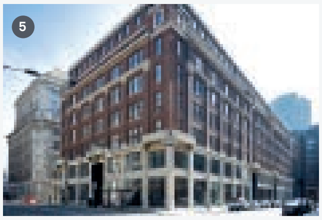
Under appraisal

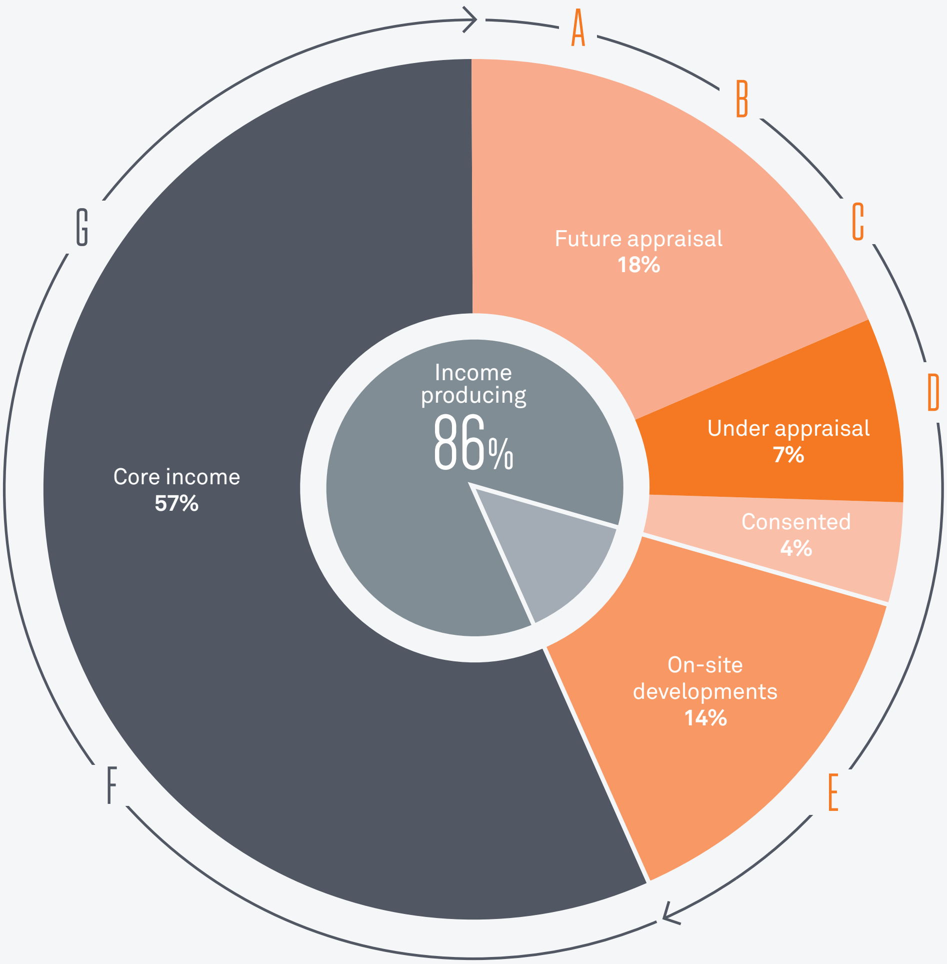
1. Network Building W1
2. Bush House WC2



Core income

3. Angel Building EC1
4. White Collar Factory EC1
5. Horseferry House SW1





On-site developments

6. 80 Charlotte Street W1
7. Soho Place W1
8. The Featherstone Building EC1

We often refer to the chart on the left as the 'Derwent doughnut'. It shows how we balance our 5.6m sq ft portfolio between properties with potential to add further 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

We start our property 'journey' with the acquisition of buildings with potential. 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. They may also 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'.

B

The importance of cash flow

The properties that we acquire are generally occupied and provide cash flow, so we have time to work out our plans while enjoying an income yield. This provides us with the necessary flexibility to get to 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 to achieve this but we try to retain cash flow until we are ready to commence a scheme. 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 local communities and other key stakeholders.

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 as well. 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 a framework driven by our responsibilities to stakeholders and the environment.

E

Pre-letting during construction

With our reputation for delivering well-designed and affordable buildings, we normally de-risk each project by agreeing pre-letting 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.

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 dark grey on the chart. Here, we focus more on portfolio management skills to satisfying our tenants' needs, growing our income, adding further value or improving other aspects, for example energy efficiency, where we see opportunities. This part of the portfolio is not 'dry' or without opportunity and remains the main focus of our Asset Management team (see page 62). Leases typically vary from very short to over 10 years, as shown in the table below.

Core income by unexpired lease length

Lease length	% of core income	% of portfolio
< 3 years	25%	14%
3 - 10 years	38%	22%
> 10 years	37%	21%
Total core income	100%	57%

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

The value of real estate assets is mainly determined by contracted and expected future cash flows.

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 first 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.

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.

What we do to capture reversion

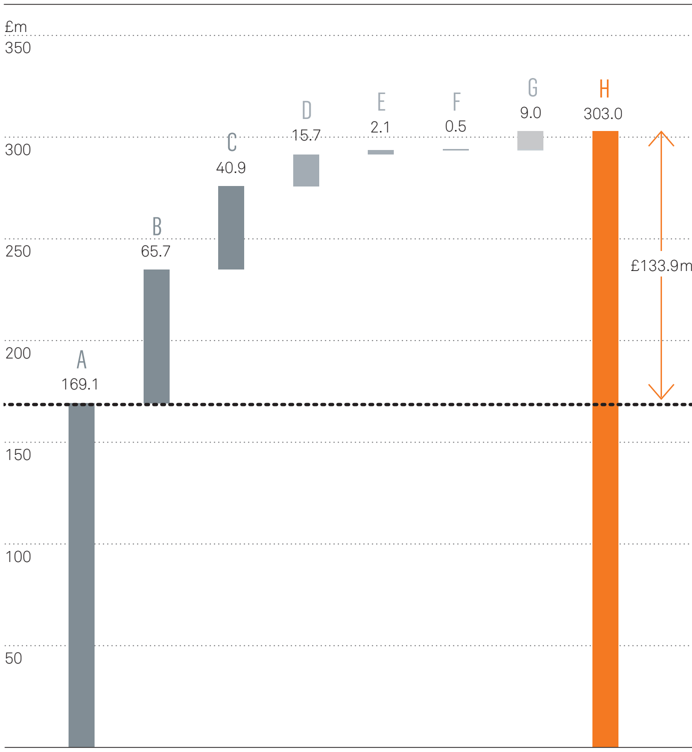
- we work with tenants and consultants to arrive at appropriate rent review uplifts;
- we negotiate to extend leases or remove break clauses;
- we arrange 'block dates' to gain access to buildings at an appropriate time;
- we review levels of 'grey' space, i.e. floor area that is let but which is not 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 flexibility. For many years, we have taken a flexible approach at many buildings 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 240) 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 considerable emphasis on growing EPRA earnings and returns to shareholders.

Our reversion

We measure and monitor the level of portfolio reversion as follows:



A – Contracted rent
Passing as at December 2019

B – Contracted rental uplifts
This comes from the 'burning off' of rent free or half rent periods, or through fixed or minimum future rental increases

C – Pre-let developments
Where the contracted income increases both on delivery of the scheme and again as rental incentives expire

D – On-site developments
This is the estimated rental value of current schemes which are not yet pre-let

E – Vacant space
When let at open market rents, this leads to increases in contracted income

F – Vacant space under refurbishment
This is the estimated rental value of current refurbishments which are not yet pre-let

G – Reviews and expiries
This is the pure 'reversion' inherent in the existing leases, taking their income to current estimated rental value

H – Estimated rental value (ERV)
Our valuers' estimate of the total rental value of our portfolio, including developments and refurbishments under construction

3.

TO ATTRACT, RETAIN AND DEVELOP TALENTED EMPLOYEES

Our employees are key to the successful delivery of Derwent London's strategy and to sustain 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 structured 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 & Safety Committees) which, together with the project teams, report into our Executive Committee (see page 97).

Derwent London has exceptional staff retention rates and satisfaction scores and is proud to say that 27% of employees have been with us for more than ten years.

We want our employees to feel valued and part of a happy and supportive team. As a result, diversity and wellbeing initiatives have been high on the agenda during 2019 and will continue into 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.84 Further information on employee engagement and development can be found in the responsibility section

94% Response rate to our staff survey

92% Staff satisfaction

87% Staff retention

Associates appointed in 2019 from left to right: Jonathan Theobald, Tom French, Charmaine Rees, Philippa Davies, Benjamin Lesser and Jay Joshi

OUR STRATEGY CONTINUED

4.

TO DESIGN, DELIVER AND OPERATE OUR BUILDINGS RESPONSIBLY

Delivering well-designed, efficient, 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 command better terms.

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 80 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 80 to 83, 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 working with the local communities in and around our buildings, through to designers and contractors, to ensure our buildings meet the standards we set (see page 18 for more on stakeholder engagement).

76%
Waste recycling rate in the like-for-like portfolio

10%
Reduction in like-for-like carbon intensity (tCO_2e/m^2)

NET **ZERO**

Brunel Building W2 – Alpha FX offices

5.

TO MAINTAIN STRONG AND FLEXIBLE FINANCING

We finance our business using a combination of equity and debt, applying policies which have been consistent and well-proven over many years, while also being innovative and forward-looking.

Our overriding principle is one of low financial leverage and we have also grown our level of interest cover significantly over the past few years. 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 needs.

By keeping adequate headroom, acquisitions can be funded without delay and there is visibility 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- with a stable 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 the same 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.

OUR REIT STATUS

Derwent London plc has been a Real Estate Investment Trust (REIT) since July 2007. The REIT regime (see page 241) 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 2019 £6.4m was paid to HMRC.

"Linking part of our financing to our projects' green credentials is an important step."

Damian Wisniewski
CFO

Members of the Finance team

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.

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

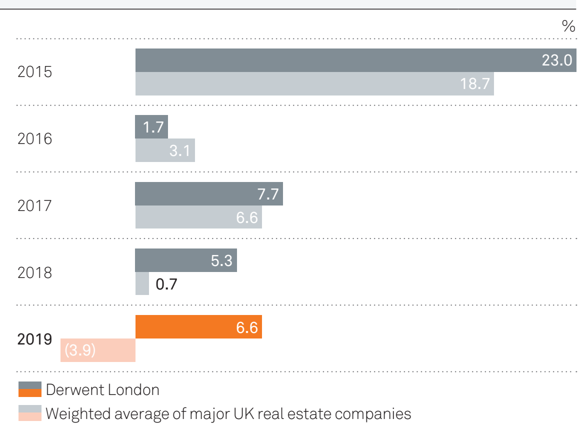
Financial KPIs	Our performance

TOTAL RETURN

1. 2. 3. 4. 5. R

Total return equates to the combination of NAV growth 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 2019 was 6.6%, against a benchmark of -3.9%, as the performance of several of our peers was negatively impacted by their holdings in the retail sector. Derwent London's average annual return of 8.6% over the past five years against a benchmark of 4.8% 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

R Remuneration

Financial KPIs	Our performance

TOTAL PROPERTY RETURN

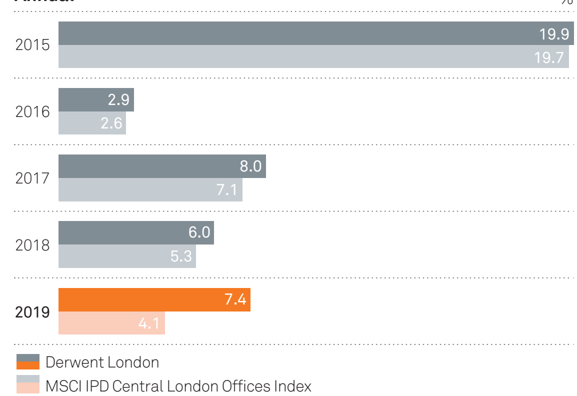
1. 2. 3. 4. 5. R

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.

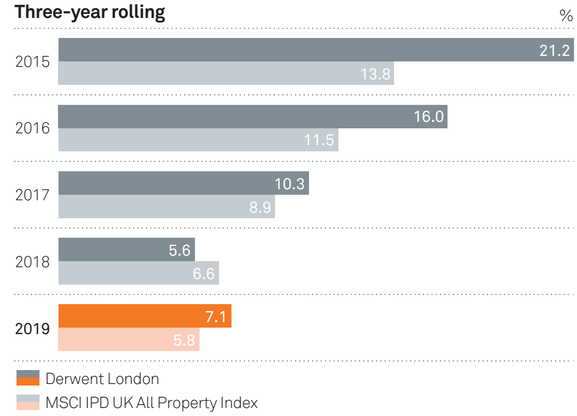
There was a 21.2% valuation uplift across our four major schemes in the year - 80 Charlotte Street W1, Brunel Building W2, Soho Place W1 and The Featherstone Building EC1 – due to good progress on delivery and pre-letting. These developments contributed 91% of the portfolio's revaluation surplus and were the main reason for a 3.3% outperformance of MSCI IPD's Central London Offices Index during 2019.

Our three-year rolling average of 7.1% pa demonstrates an ability to generate returns against a background of relatively stable rents and yields. This was 1.3% pa higher than MSCI IPD's UK All Property Index, which has been impacted by difficulties facing the retail sector.

Annual



Three-year rolling

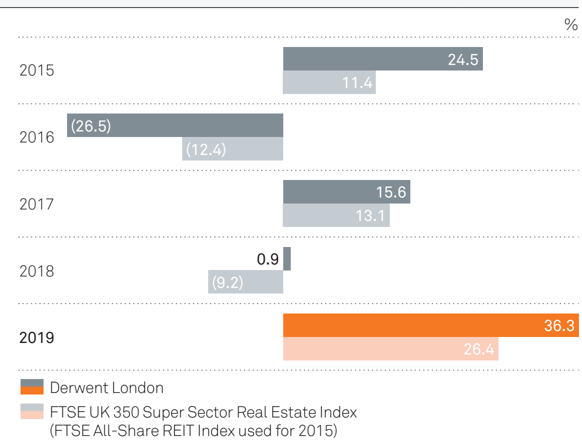


TOTAL SHAREHOLDER RETURN (TSR)

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.

Derwent London outperformed its benchmark index in 2019 by 9.9%. Our ability to deliver above average long-term returns is demonstrated by the fact that £100 invested in Derwent London at the start of 2010 was worth £373 at the end of 2019, compared with £249 for the benchmark index.

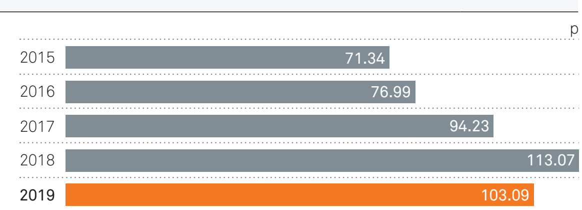


EPRA EARNINGS PER SHARE (EPS)

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 8.8% to 103.09p per share. After adjusting for a one-off receipt of 14p per share in 2018, as we did in the prior year, there was an increase in underlying earnings of 4.0% as income came through from the completed and fully-let Brunel Building, as well as from asset management initiatives.



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.

Both the NAV gearing and LTV ratio were at a similar level to 2018 as proceeds from disposals almost offset capital expenditure and acquisitions. Uncharged properties increased to £4.4bn, or 81% of the portfolio, and cash and undrawn facilities rose to £511m at the year end.

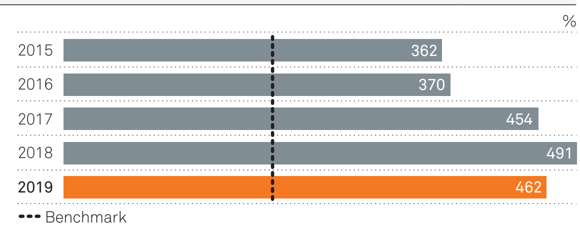
	2018	2019
LTV ratio	17.2%	**16.9%**
NAV gearing	22.4%	**21.9%**
Cash and undrawn facilities	£274m	**£511m**
Uncharged properties	£4,117m	**£4,423m**

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 similar to 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 decreased in 2019 due to interest incurred funding development costs. Despite this, rental income would need to fall by 69% before the main ICR covenant 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.

Despite disposals, the Group's ERV increased almost £30.0m during 2019 to £303.0m, helped by the commencement of schemes at Soho Place and The Featherstone Building. This included the reversion of £133.9m, 79% of the net passing rent of £169.1m, of which 80% is contracted.

	2015	2016	2017	2018	2019
%	103	89	69	72	**79**

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 representing 14% of the portfolio at the end of 2019, and a further 29% 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.

	2015	2016	2017	2018	2019
%	47	43	44	41	**43**

TENANT RETENTION

1. 2. 3. 4. 5.

Maximising tenant retention following tenant 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 90% in 2019 and has averaged that level over the past five years, evidence of the strong relationships we have with our tenants and the appeal of our product.

	2015	2016	2017	2018	2019
Exposure (£m pa)	17.0	11.0	8.5	14.9	**13.5**
Retention (%)	45	63	57	76	**83**
Re-let (%)	44	26	35	14	**7**
Total (%)	89	89	92	90	**90**

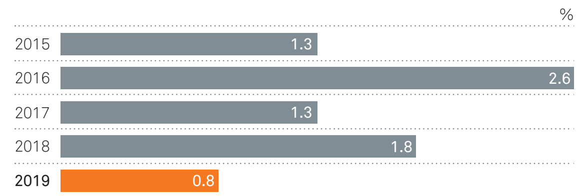
Non-financial KPIs | **Our performance**

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 vacancy rate was under 1% at the end of 2019, in part a result of successfully letting all the office space at Brunel Building prior to completion in May, as well as smaller refurbishments at 25 Savile Row W1 and Johnson Building EC1.



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.

Brunel Building is expected to receive a rating of 'Excellent' post-completion having received this rating at Design Stage. Our three developments currently on site were rated either BREEAM 'Outstanding' or 'Excellent' at Design Stage.

	Completion	Rating
Brunel Building W2	H1 2019	Excellent[1]
80 Charlotte Street W1	H1 2020[1]	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.

Soho Place is targeting an EPC of 'B' and Brunel Building received one post-completion; this was the target rating for developments at the outset of these project. Our other two on-site developments are both targeting a certification of 'A'.

	Completion	Rating
Brunel Building W2	H1 2019	B
80 Charlotte Street W1	H1 2020[1]	A[1]
Soho Place W1	H1 2022[1]	B[1]
The Featherstone Building EC1	H1 2022[1]	A[1]

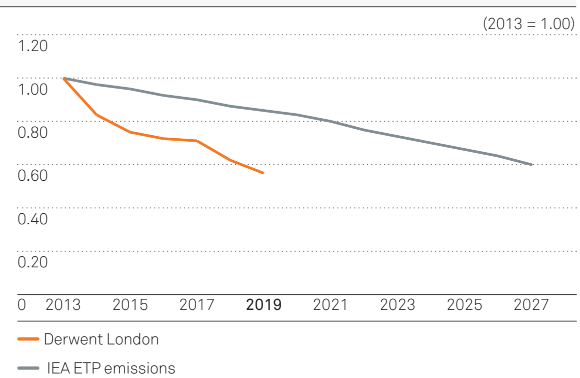
[1] Targeted

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 2019, we reduced our landlord (scope 1 & 2) emissions intensity in the like-for-like portfolio by 10%. A rebasing of the figures for 2018 meant a revised reduction for that year of 13% rather than 20%, which still exceeded our target range. The 44% reduction achieved since our base year of 2013 means we are on course to meet our emissions target by 2027 and consider the more stringent targets that will be adopted in 2020 to be achievable.



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 change for the business, staff satisfaction remained above 90% in 2019. This exceptional level is testament to our collaborative and supportive corporate culture and the pride our staff feel in working for Derwent.

	2015	2016	2017	2018	2019
%	96.0	96.0	96.0	90.4	92.5

VIABILITY STATEMENT

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.

Time period

The Directors have determined that the five-year period to 31 December 2024 is 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.

This time period is challenged annually to ensure it remains appropriate. 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 8.3 years (including rent-frees and pre-lets);
- after the refinancing completed during 2019, the weighted average unexpired term of our borrowings was 7.8 years (see page 72);
- the nature of the property cycle and our expectations of how this impacts us (see page 12); and
- changes in technology and tenant expectations (see page 13).

The assessment highlighted that the Group has:

- a proven business model which has allowed us to remain flexible and resilient during previous property cycles;
- a high-quality customer base of tenants, with none of our occupiers being responsible for more than 6.5% of total rental income and relatively low exposure to the retail and restaurant sectors, which are experiencing tenant failures and CVAs;
- income visibility for the life of our leases which on average are 8.3 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. In October 2019, we signed a new five-year £450m revolving credit facility with a £300m 'green' tranche (see page 72); and
- a low loan-to-value ratio of 16.9% and raised additional long-term debt via the placement of £175m 1.50% convertible bonds due 2025 (see page 72).

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 47) had a significant impact on the Group's viability. The Directors identified that, of the principal risks detailed on pages 46 to 57, the following are the most important to the assessment of the viability:

- adverse international trade negotiations following Brexit: as a predominantly London-based Group, we are particularly susceptible to changes which could adversely impact London's future prosperity (see page 49). Although adverse trade agreements would negatively impact our business, they would be unlikely to significantly affect the viability of the Group within the five-year review period;
- risk arising from our development activities: our current development pipeline is sizeable and its delivery remains a top priority. Despite developments being inherently risky, our pipeline is expected to be a significant driver of our earnings growth over the next five years. In addition, development uplifts should enhance valuation returns even in a flat or declining market; and
- 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 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 2024.

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 ensuring dividend cover remains in or above the range of 125% to 150%; and
- our portfolio remains approximately the same size.

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.

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 129.

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 2024.

Emerging risk	Risk category	Potential impact	Our actions
Diminished development pipeline	Strategic	The Group's portfolio balance could move towards 'core income' properties away from development opportunities following completion of our development pipeline and in the absence of any further acquisitions or disposals.	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 (see page 63).
Reduced returns	Strategic	A combination of smaller margins expected on future developments, the level of incentives required to capture reversion and the difficulty in acquiring assets at attractive prices is likely to reduce the Group's future returns.	We continue to seek opportunities where we can add value through development or asset management activities, being creative and challenging the conventional options where appropriate.
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.	A property by property assessment was undertaken during the five-year strategy review to understand opportunities within the portfolio where we could enhance our amenity offering to our tenants.
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 the Group chooses to adopt and not being driven by the technology itself.	We have established a Digital Committee (a supporting committee) and will be updating our digital strategy during 2020.
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, as shown by recent public demonstrations. 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 targeting to become 'net zero carbon' by 2030. We recognise this will present challenges, further information is on page 80.

Assessment of viability

To assess the Group's viability, the business model and strategy were stress tested against our principal risks (in isolation and combination), various Brexit 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 impact of the principal risks to the Group's ability to deliver its strategic objectives, which are set out on page 31, both individually and in unison.

Strengthened financial position

After an active year of refinancing, the Group had £511m of undrawn facilities and cash at 31 December 2019 (2018: £274m) and a weighted average term of borrowings of 7.8 years (2018: 5.9 years).

Stress testing our risk resilience

The Directors stress tested our strategy against a combination of principal and emerging risks which were likely to have a significant impact on the Group's solvency and liquidity over the five-year review period. A scenario was modelled that assumed a severe decrease in property values combined with significant letting delays at the Group's developments and a fall in rental income. As at 31 December 2019, the value of the portfolio could fall by 69% without breaching the gearing covenants and our property income could fall by 69% before breaching the interest cover covenant.

Brexit scenarios

In June 2019, the Board stress tested the potential impact of various Brexit scenarios on our risk resilience, by estimating their financial impact and overlaying this on the detailed financial forecasts included within the strategic plan and five-year forecasts for viability.

A range of Brexit scenarios of 'soft', 'hard' and 'disorderly' were modelled with various levels of impact on our property values and rental income. In all scenarios, our net interest cover remained above 400% and our loan-to-value ratio below 40%, both of which are comfortably within our financial covenants.

Despite Brexit occurring on 31 January 2020, trading relationships remain unclear and we believe that the Brexit scenarios tested in respect of adverse trade negotiations remain relevant.

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 2024.

OUR PRINCIPAL RISKS

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

The risk profile of the Group

As a predominantly London-based Group, we are particularly sensitive to factors that impact upon central London's growth and demand for office space. 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.

The London office market has proven to be cyclical and can be impacted by a number of external and internal factors (further information on page 12). For example, changes in political agendas or economic factors can impact upon:

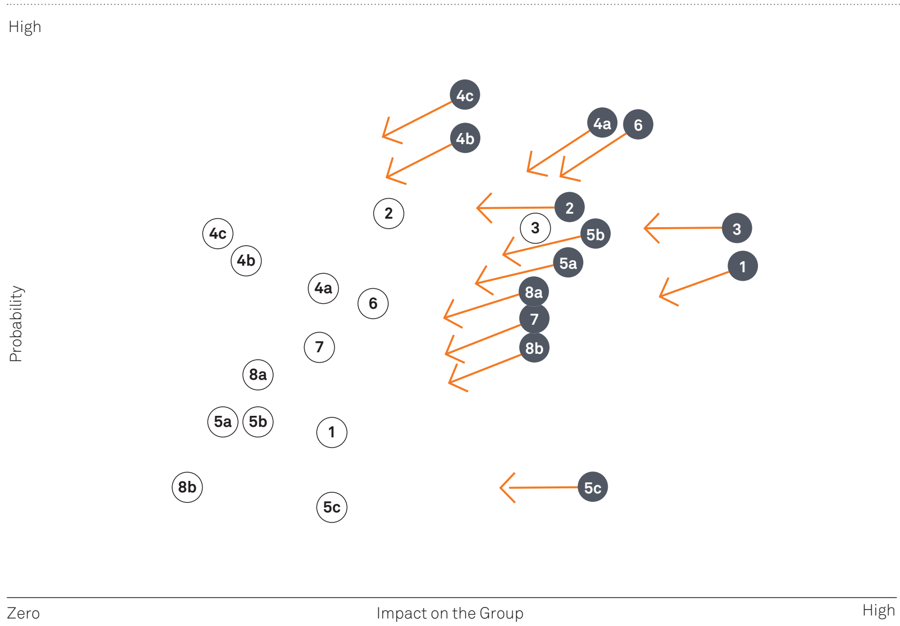
- the ease of gaining planning permission for new development projects;
- cost of acquisitions, e.g. stamp duty land tax; and
- value of our properties to overseas investors due to exchange rate fluctuations.

Risk management

Our risk management procedures are routinely reviewed and strengthened to ensure that all foreseeable and emerging risks are identified, understood and managed. Our risk management framework is on page 131 and further information on emerging risks is on pages 45 and 129. 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 132.

Effect of mitigation actions on our principal risks

p.50 to p.57 Risks



Gross risk basis
Net risk basis (post mitigation)

- **1** Failure to implement the Group's strategy
- **2** Adverse international trade negotiations
- **3** Fall in property values
- **4a** Reduced development returns
- **4b** 'On-site' risk
- **4c** Contractor/subcontractor default
- **5a** Cyber attack on our IT systems
- **5b** Cyber attack on our buildings
- **5c** Terrorism-related or other business interruption
- **6** Reputational damage
- **7** Our resilience to climate change
- **8a** Non-compliance with health and safety legislation
- **8b** Other regulatory non-compliance

Changes to our principal risks

The principal risks and uncertainties facing the Group in 2020 are set out on pages 50 to 57 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 25 February 2020. During the year under review, there has been a number of changes to our principal risks:

New principal risks

(i) Due to the rise in 'smart building' technology within our portfolio, and the associated cyber-related risks, we have separated our reporting on cyber risks between those that pose a risk to our IT systems and those that could impact on our 'smart buildings' (see page 54).

(ii) Adverse international trade negotiations following Brexit: Following the UK leaving the EU on 31 January 2020, the focus is now on the UK's ability to negotiate international trade agreements during the transition period. We set out on page 49 how the trade negotiations could impact on London and our business.

Increasing risk

(iii) Climate change is both a principal and emerging risk for our business. Companies not giving sufficient priority to climate change issues will be unprepared for the risks it poses. In response, we have accelerated our ambition to become net zero carbon by 20 years, with our new target being 2030 (our net zero carbon strategy is on page 81).

Decreasing risks

(iv) The possibility that property values would fall increased during 2019, predominantly due to the political and economic uncertainty of Brexit and the length of the current property cycle. Following the Conservative majority win in December 2019, political uncertainty reduced which has led to an increase in market confidence. It is now more likely that property values will rise in the short term, rather than fall.

(v) 'On-site' risk has decreased during the year as Brunel Building was completed in May 2019 and 80 Charlotte Street has made excellent progress with practical completion expected to be achieved in the first half of 2020. The ground work at Soho Place has been successfully completed, see page 130 for a case study on piling risk.

(vi) 'Management of succession' was elevated to a principal risk for 2019 following the announcement in November 2018 of the Board's succession plans for the role of Chairman and CEO. The transition period during 2019 has been well managed (see page 116) and the Board deems the risk of losing senior management and/or retaining the Group's culture, to have significantly reduced. It has therefore been removed as a principal risk for 2020 but remains on the Group's risk register.

Development risks

Our developments are large, high-value projects with life cycles that can be up to five years. 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.

During 2019, the Risk Committee received reports from the Director of Development on each major development, which included a detailed assessment of the risks and risk mitigation plans in place. In 2020, the Risk Committee will visit The Featherstone Building development to see first-hand how construction and health and safety risks are managed (see page 132).

From January 2021, UK businesses will need to adapt and adjust to the end of free movement, and the introduction of a points-based immigration system. The Migration Advisory Committee (MAC) report, published on 28 January 2020, noted that the construction industry would be among the sectors impacted by its proposed thresholds potentially resulting in an employment drop in the construction sector.

We will be working alongside our principal contractors and subcontractors to assess the potential impact on our development pipeline. Current indications are the impact will be low, as our skilled construction labour typically earn above the threshold limits.

Climate change risks

The major climate-related risk to our business is rising global temperatures, increasing the likelihood of heatwaves and flooding, potentially leading to property damage, income disruption and increased investment in upgrading mechanical heating and cooling equipment (further information on page 56).

Climate change risks are identified and monitored as part of our wider risk management procedures (see pages 90 and 131) 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

- Rising temperatures
- More intense/unusual weather events
- Rising sea levels
- Rainfall and high winds delaying construction
- Electricity supply disruptions

Indirect risks

- Rising prices of utilities
- Rising material costs
- Additional regulatory and compliance requirements
- Reputational risks
- 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 44). During 2020, the Group will be conducting a detailed physical risk assessment on the portfolio.

To reduce our exposure to the impacts of climate change, our developments are being built to be net zero carbon (see page 80). Our development pipeline has already taken significant steps, with 80 Charlotte Street becoming our first all-electric building and net zero carbon development. 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 82).

The main opportunities from climate change will arise from our ability to adapt and respond to the risks appropriately. Energy efficient 'green' buildings with high Energy Performance Certificates (EPCs), will let more quickly, could 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.80 Climate resilience

p.90 Climate change governance

OUR PRINCIPAL RISKS CONTINUED

Financial risks

The Derwent London Group has a low financial risk profile (see page 50) which has been further reduced over the past year due to:

- the repurchase of the £150m 1.125% convertible bonds due 2019 with concurrent issue of £175m convertible bonds 2025 (see page 72);
- approved extension of our main revolving banking facilities for five years with two one-year extension options;
- we have linked our £450m revolving credit facility with the Company's well-established 'green' agenda of improving the social and environmental impact of our portfolio on our various stakeholders (see page 72);
- credit rating of A- was reconfirmed;
- low financial gearing with an LTV ratio of 16.9% and strong interest cover of 462%;
- headroom under facilities and cash of over £500m; and
- low vacancy rate of 0.8% with low tenant arrears and defaults.

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. Further information of tax governance is on page 91.

From 1 October 2019, HMRC is using a new approach to evaluate the tax risk profile of large businesses. Large businesses will be reviewed and assigned one of four risk ratings (Low, Moderate, Moderate-High or High) with a separate risk rating applied to each tax regime, e.g. corporate tax, indirect taxes and employment taxes. The Board has been advised of the new approach by the Head of Tax and the Chief Financial Officer and has asked to be kept informed of progress.

The Company 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 Company 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. In addition, all staff completed a compulsory online training module on the prevention of tax evasion during 2019 (further information on training is on page 134).

Pension risks

During the past year the Group's pension-related risks have reduced as we moved from a defined contribution trust-based scheme to a Master Trust arrangement. The risks arising from overseeing investment performance and compliance with regulatory duties was transferred from the Company's Trustees to the Master Trust board. As part of the transfer process, we signed a pre-funding agreement with the Master Trust whereby they would purchase units for our transferring members on the same date they were sold. This removed the potential market risk for our members.

In addition to reducing our pension-related risks, the Master Trust provides robust independent governance, an updated range of investment choices for members, increased retirement flexibility and 24-hour access to online services and educational support. Further information on pensions and employee benefits are on page 151.

Covid-19

Covid-19 is a new strain of coronavirus, first identified in China, which could have a considerable impact on the global economy. The World Health Organization has declared the Covid-19 virus a public health emergency of international concern. As such, the UK has currently raised the risk level from low to moderate. The ramifications of the outbreak could be far-reaching, across all sectors, and could affect our business as well as our suppliers and occupiers.

The Covid-19 virus has been discussed by the Board, Health & Safety Committee and the Executive Committee. In response, we have issued guidance to our staff on the symptoms and how to protect themselves and others. The Board is monitoring the impact on London, our business and supply chain. The outbreak is not currently classified as a principal risk to our business, but could be were it to become an epidemic in the UK.

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 119), are members of the Better Buildings Partnership and recently signed up to RE100 to demonstrate our commitment to 100% renewable energy in our buildings.

In 2019, 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 9th place overall and 1st for our industry.

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 54, the actions we are taking to protect our reputation.

CYBER SECURITY: SIMULATING SOCIAL ENGINEERING ATTACKS

Pen Test Partners LLP (PTP) were engaged by Derwent London to perform a series of social engineering attacks which aimed to gain sensitive data or information which could be useful to mount a further attack. The attacks were predominantly carried out using the telephone or SMS and were tailored to be realistic and included a variety of scenarios.

In all cases, the PTP consultant was unsuccessful. The feedback to Derwent London was that 'staff were polite and helpful but did not waiver from the Group's policies and procedures. The level of resilience to social engineering indicates a high level of security awareness from employees, whatever training they are receiving is very successful'. The Board was pleased with the results arising from the staged attacks and similar simulations will be conducted during 2020. Information on our compliance training programme is on page 134.

THE IMPACT OF ADVERSE INTERNATIONAL TRADE NEGOTIATIONS

The UK left the EU on 31 January 2020 and the focus is now on the UK's ability to negotiate international trade deals during the agreed transition period, which is currently due to expire on 31 December 2020.

Unfavourable international trade agreements could diminish London's global appeal and/or lead to increased import costs, both of which would have a negative impact on our business. In respect of the trade negotiations, the greatest impact on Derwent London will be the final trade deal agreed between the UK and EU. Although we only operate in the UK, we predominantly import materials for our developments from the EU.

In the event a trade agreement is not reached, and the transition period expires without extension, trade will default to the WTO (World Trade Organisation) rules and associated tariffs. We have detailed below the potential impacts on our business if we leave the transition period without formal trade agreements or if the agreed trade deals are unfavourable.

Our developments

The highest potential impact on Derwent London will be in respect to our future developments. In the event a trade agreement is not finalised with the EU before our exit from the transition period, the cost and timeline of our developments could be impacted where we are importing building materials or components from Europe, as they may be subject to tariffs and border delays. In addition, development costs are likely to increase due to devaluation of the pound leading to price inflation for imported materials on contracts that are not at fixed prices.

There could also be a heightened risk of contractor or subcontractor default due to the increased costs arising from the risks stated above. We will work closely with our contractors to mitigate this issue.

All of our current live projects, 80 Charlotte Street, Soho Place and The Featherstone Building have been procured on the basis that labour, exchange rate fluctuations and material costs are included within fixed price contracts with Multiplex, Laing O'Rourke and Skanska (respectively). Statutory changes, including the introduction of tariffs, are not included within the fixed price contracts but are covered by contingency plans.

We have been working with our principal contractors during 2019 to determine the likely effect of an adverse Brexit on our development pipeline. As a contingency measure, our contractors will pre-order materials and store them in advance of use, where required. Any increase in handling or storage costs of materials will be a contractual cost for our contractors.

The ability to secure sufficient skilled labour has been a long-standing issue for the construction industry, and is a risk which lies with our principal contractors. The exodus of foreign labour predicted at the time of the referendum vote has not materialised although there has been a gradual reduction in the availability of foreign labour.

Our core income

We do not have any buildings in the City core and only 4% of our portfolio has occupants from the financial industry. Our EPRA vacancy rate is low at 0.8% and the majority of recent rent reviews have been above ERV. To date we have not seen, nor are we forecasting in our base case, any significant impact on our operating performance. We continue to sell properties above book value having let over £117m by rent and sold £1.1bn of property since the EU referendum in June 2016.

We do not expect a significant short-term change in supply within the central London property market and rents are likely to remain stable. In the event adverse trade agreements lead to the importance of London as a global centre being diminished, demand for space could decline over time which would likely see an increase in void periods and risk of lower rents on new lettings or lease renewals. However, our focus on good value, well-designed, 'long-life loose-fit' properties means we are less susceptible to reductions in tenant demand.

Value of our buildings

Since the decision to leave the EU, the underlying valuation of our portfolio has continued to grow, albeit more slowly: 2019: +3.9%, 2018: +2.2%, 2017: +3.9%. If there is a significant reduction in demand for central London properties, the value of our buildings may decrease. Our external valuers, CBRE, might add market uncertainty clauses into their valuation (as they did in the 2008 financial crisis).

Although a decrease in property values will not have a direct impact on our business model, it will reduce the headroom on our covenants. Our internal modelling indicates that, as at 31 December 2019, the value of the portfolio could fall by 69% without breaching the gearing covenants.

A fall in property values could present the Group with opportunities to add to the portfolio. However, in 2016, immediately after the referendum decision, the devaluation of the pound saw increased demand for London property from overseas buyers, so property values were supported.

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

Movement during 2019: Risk unchanged

During 2019, the Group continued to benefit from a resilient central London office market despite continuing economic and political uncertainty. The Board considers this risk to have remained broadly the same.

Executive responsibility: Paul Williams

- The Group conducts an annual five-year strategic review and prepares a budget and three rolling forecasts covering the next two years.
- The Board considers the sensitivity of the Group's KPIs to changes in the assumptions underlying our forecasts in light of anticipated economic conditions. If considered necessary, modifications are made.
- 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 our income through lease renewals and regearing.
- The Group aims to de-risk the development programme through pre-lets during the construction phase.
- The Group maintains sufficient headroom in all the Group's key ratios and financial covenants with a focus on interest cover.

2. ADVERSE INTERNATIONAL TRADE NEGOTIATIONS FOLLOWING BREXIT

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

Movement during 2019: New principal risk

Following the UK leaving the EU on 31 January 2020, the focus is now on the UK's ability to negotiate international trade agreements during the transition period (see page 49).

Executive responsibility: Paul Williams

- The Group's strong financing and covenant headroom enables it to weather a downturn.
- The Group's diverse and high-quality tenant base provides resilience against tenant default.
- 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 £57.47 per sq ft (2018: £53.25 per sq ft).
- The Group develops properties in locations where there is good potential for future demand, such as near Crossrail stations.
- Income is maintained at future development sites for as long as possible.
- Brexit negotiations are being monitored and potential outcomes discussed with external advisers.

FINANCIAL

Significant steps have been taken in recent years to reduce or mitigate the Group's financial risks such that only one is now considered to be a principal risk of the Group. 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.

3. RISKS ARISING FROM CHANGING MACROECONOMIC FACTORS

a. Fall in property values

Increasing property yields, which may be a consequence of rising interest rates, could potentially cause property values to fall. Interest rates have remained low for an extended period and could rise gradually over the next few years. Though there is no direct relationship, this may cause property yields to increase.

The underlying value of our investment portfolio has remained resilient, increasing by 3.9% in 2019, despite the continuing economic uncertainties.

Movement during 2019: Reduced

Following the Conservative majority win in December 2019, political uncertainty reduced which led to an increase in market confidence. It is now considered more likely that property values will rise in the short term, rather than fall.

Executive responsibility: Nigel George

- The impact of yield changes is considered when potential projects are appraised.
- The impact of yield changes on the Group's financial covenants and performance are monitored regularly and are subject to sensitivity analysis to ensure that adequate headroom is preserved.
- The Group's mainly unsecured financing makes the management of our financial covenants straightforward.
- The Group's low loan-to-value ratio reduces the likelihood that falls in property values have a significant operational impact on our business

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 2019	What we will be doing in 2020
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	• The annual strategic review was undertaken by the Executive Committee and reviewed at the Board's strategy meeting on 21 June 2019 (see page 102). • Three rolling forecasts and a budget for 2020 were prepared. • 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 let or pre-let: – 100% of Brunel Building; – 90% of 80 Charlotte Street; and – 79% of Soho Place. • The Group's loan-to-value ratio remained low, its net interest cover ratio was 462% and the REIT ratios were comfortably met. • Our credit rating of A- was renewed by Fitch in June 2019.	• The Board will hold its annual Strategy Awayday on 19 June 2020 to discuss the Group's five-year strategy. • Market The Featherstone Building to de-risk the development. • Monitor our portfolio for further asset management activities and manage the vacancy rate. • Extend income through renewals and regears for properties not earmarked for regeneration. • Examine opportunities for acquisitions and disposals to recycle capital. • Review the potential impact of Covid-19 on the Group's strategy.
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	• A detailed review of our construction contracts was performed. • Put in place contingency plans with our principal contractors and suppliers. • Monitored letting progress and demand for our buildings. • Repurchased the £150m convertible bond due 2019 and issued a new £175m 1.5% convertible bond due 2025. • Renewed our revolving credit facility (see page 72). • As at 31 December 2019, the Group had cash and undrawn facilities of £511m.	• Monitor the trade negotiations and discuss potential outcomes with external advisers. • 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** • Our assets and resources • Adding value for stakeholders **KPIs** • Interest cover ratio • Total return • Total property return • Gearing and available resources	• The Group produced a budget, five-year strategic review and three rolling forecasts during the year which contain detailed sensitivity analyses, including the effect of changes to yields. • Quarterly management accounts were provided to the Board and included the Group's performance against the financial covenants. • Disposed of The Buckley Building, Premier House, 9 and 16 Prescot Street and continue to examine opportunities for further disposals.	• Market The Featherstone Building to de-risk the development. • Continue with our current controls and mitigating actions.

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
4. 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 • adverse letting conditions Movement during 2019: Risk unchanged Due to our significant development pipeline, with a number of key projects currently under construction including 80 Charlotte Street, Soho Place and The Featherstone Building, the risk of delays to our projects and/or cost overruns remain a principal risk. In respect of future projects, there is an increased risk that construction cost inflation could occur, particularly if certain skills or trades are in short supply. Executive responsibility: Nigel George	• Investment 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 forecasts are aligned with our contractors. • 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 at 80 Charlotte Street and Soho Place means we could face a loss of rental income and penalties if the project is delayed. Movement during 2019: Reduced There has been good progress at our major development projects, 80 Charlotte Street, Soho Place and The Featherstone Building during 2019 and 80 Charlotte Street is expected to complete in spring 2020. In 2020, we will be monitoring the progress of the Immigration Bill and the introduction of a points-based system and how this could impact on our development projects. Executive responsibility: Nigel George	• 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 prior to delivery to ensure they are of the requisite quality. • Frequent meetings with key contractors and subcontractors to review their work programme.
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 well-publicised issues for a number of major contractors, including the insolvency of Carillion and the funding problems of other major contractors. Although the insolvency of Carillion did not significantly impact our contractors or subcontractors, it did highlight the ongoing issues within the construction industry and the level of risk and narrow profit margins being accepted by contractors. We regularly monitor our contractors for any trading concerns. Movement during 2019: Risk unchanged The Board considers this risk to have remained broadly the same during the year. Executive responsibility: Paul Williams	• 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. • Key construction packages are acquired early in the project's life to reduce the risks associated with later default. • Regular on-site supervision by a dedicated project manager who monitors contractor performance and identifies problems at an early stage, thereby enabling remedial action to be taken. • Payments to contractors to incentivise them to achieve agreed project timescale and damages agreed in the event of delays/cost overruns. • Performance bonds are sought if considered necessary. • Our main contractors are responsible, and assume the immediate risk, for subcontractor default. • We use known contractors and subcontractors with whom we have established long-term working relationships. • Contractors are paid promptly and are encouraged to pay subcontractors promptly.

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 2019	What we will be doing in 2020
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	• Demand for our developments is evidenced by the significant pre-letting activity. • The Board and Executive Committee received regular updates on our principal developments. • In respect to our de-risking strategy, we have let or pre-let: – 100% of Brunel Building; – 90% of 80 Charlotte Street; and – 79% of Soho Place. • The Featherstone Building development is on site and progressing well. • 99% of the costs for The Featherstone Building and all of the costs for Soho Place have been fixed.	• Achieving practical completion at 80 Charlotte Street and handing the building over for tenant fit-out. • 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	• The Board and Executive Committee received regular updates on our principal developments. • 99% of the costs for The Featherstone Building and all of the costs for Soho Place have been fixed. • Quarterly cost reports provided an update on development progress from a cost, profitability and programme perspective. • Seek to provide the tenants with early access to 80 Charlotte Street to avoid penalties if practical completion is delayed.	• Preparation work on future schemes including 19-35 Baker Street. • Consider the impact of Covid-19 on our supply chain and other aspects of each project. • 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	• 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. • To mitigate risk at Soho Place, we conducted a two-stage procurement process which allowed us to assess and have input into the selection of subcontractors. • Maintained regular contact with our contractors and major subcontractors. • Suppliers were paid on average within 25 days.	• Monitor international trade negotiations and the potential impact on our contractors/subcontractors 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

5. 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 2019: Risk unchanged

→

The Board considers this risk to have remained broadly the same during the year.

Executive responsibility: Damian Wisniewski

Our key controls:

- 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.
- Multifactor authentication exists for remote access to our systems.
- Incident response and remediation policies are in place.
- The Group's data is regularly backed up and replicated and our IT systems are protected by anti-virus software and firewalls that are frequently updated.
- Annual staff awareness and training programmes.
- Security measures are regularly reviewed by the IT department.
- The Group has recently 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 'smarter', with an increase in internet enabled devices broadening the cyber security threat landscape.

Movement during 2019: New principal risk

Due to the rise in 'smart building' technology within our portfolio, and the associated cyber-related risks, we have separated our reporting on cyber risks between those that pose a risk to our IT systems and those that could impact on our 'smart buildings' (see page 47).

Executive responsibility: David Silverman

Our key controls:

- Each building has incident management procedures which are regularly reviewed and tested.
- Physical segregation between the building's core IT infrastructure and tenant's corporate IT networks.
- Physical segregation of IT infrastructure between buildings across the portfolio.

c. Terrorism-related or other business interruption

The risk that an act of terrorism interrupts the Group's operations is considered a principal risk due to ongoing terrorist activity from time to time in European cities.

Movement during 2019: Risk unchanged

→

The Board considers this risk to have remained broadly the same during the year.

Executive responsibility: All Executive Directors

Our key controls:

- 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.
- 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.

6. 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 2019: Risk unchanged

→

The Board considers this risk to have remained broadly the same during the year.

Executive responsibility: All Executive Directors

Our key controls:

- 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 employee handbook.
- The Group employs a Head of Investor and Corporate Communications and retains services of an external PR agency, through whom we 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.

Key

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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 2019	What we will be doing in 2020
Strategic objectives 1. 2. 3. 4. 5. **Business model** Could potentially impact on all aspects of our business model **KPIs** • Total shareholder return	• Independent internal and external 'penetration' tests were conducted to assess the effectiveness of the Group's security. • Independent benchmarking review of the Group's cyber security was carried out in November by RSM (see page 134). • Achieved the government-backed Cyber Essentials accreditation (see page 134). • Conducted 'social engineering' and simulated phishing exercises as part of the ongoing security awareness programme (see page 48). • Completed mandatory security awareness training for all staff (see page 134).	• Respond to the recommendations raised by RSM following their independent review. • 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	• Completed 'smart school' training for key stakeholders to raise awareness of the Internet of Things (IoT) 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.	• Finalise a 'smart' buildings brief which incorporates information security risk mitigation. • Develop an Information security risk register for each building. • Review supply chain risks.
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	• 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.	• Contingency planning in case of escalation of Covid-19. • Continue with our current controls and mitigating actions.
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	• Developed a mandatory compliance training programme in 2019 for all employees (including Directors). • Monitored investor views and press comments while maintaining contact with other stakeholders. • Investment in a social media strategy, including providing some staff with additional social media training.	• 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. OUR RESILIENCE TO CLIMATE CHANGE	
The Group fails to respond appropriately, and sufficiently, to climate change risks or adapt 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 2019: Increased ↗ Although climate change risks remain unchanged for the Group, the impacts of climate change can already be seen and will become more severe and widespread as global temperatures rise. In response, we have accelerated our ambition to become 'net zero carbon' to 2030 (see page 80). Executive responsibility: Paul Williams	• The Board and Executive Committee receive regular updates and presentations on environmental and sustainability performance and management matters. • The Sustainability Committee monitors our performance and management controls. • Employment of a qualified team led by an experienced Head of Sustainability. • The Group benchmarks its ESG (environmental, social and governance) reporting against various industry benchmarks. • The Group has set long-term, science-based carbon targets and actively monitors portfolio performance against these. • Production of an Annual Responsibility Report, the key data points and performance of which are externally assured.
8. NON-COMPLIANCE WITH REGULATION a. Non-compliance with health and safety legislation	
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. Following independent review of our health and safety procedures, the Group has gained a better understanding of health and safety risks. Movement during 2019: Risk unchanged → The Board considers this risk to have remained broadly the same during the year. Executive responsibility: Nigel George	• All our properties have health, safety and fire management procedures in place which are reviewed annually. • External project managers review health and safety on each construction site on a monthly basis. • The Group has a qualified health and safety team whose performance is monitored and managed by the Health & Safety Committee. • External advisers (ORSA) appointed to advise on construction health and safety. • The Board and Executive Committee receive regular updates and presentations on key health and safety matters.
b. Other regulatory non-compliance	
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 2019: Risk unchanged → The Board considers this risk to have remained broadly the same during the year. Executive responsibility: Damian Wisniewski	• 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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Movement during the year

- Risk increased
- Risk unchanged
- Risk decreased

Potential impact	What we did in 2019	What we will be doing in 2020
Strategic objectives 1. 3. 4. **Business model** Could potentially impact on all aspects of our business model **KPIs** • Total return • BREEAM rating • Science-based target performance • Total shareholder return A significant diversion of time could affect a wider range of KPIs	• Agreed a revised target that the Group would be net zero carbon by 2030 and approved our strategy to achieve this target (see page 80). • Established the Responsible Business Committee to strengthen the Board's oversight of ESG matters (report on pages 136 to 139). • Agreed with our principal bankers a revolving credit facility, with a £300m 'green' tranche, which provides a lower rate of interest to finance our green initiatives (see page 72). • Project approval forms updated to ensure any capital expenditure will not adversely affect our carbon target performance or the EPC rating of the property. • The Group continued to set sustainability targets that were monitored during the year. • Reviewed and updated our sustainability policy and strategy. • Implementation of a new carbon measurement tool to help the Group track its performance against the new science-based targets.	• Implement our strategy to be net zero carbon by 2030 (see page 81). • Investigate off-site renewable energy generation opportunities available to us to reduce our market-based dependency. • Continue with our current controls and mitigating actions.
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	• Deloitte performed an independent review of construction health and safety and our health and safety indicators during the year. • Performed a detailed health and safety audit of all residential properties. • ORSA reported to the Risk Committee and the Health and Safety Committee on construction health and safety matters. • The Risk Committee received updates on the Group's fire protection and water risk management procedures. • The Health and Safety Committee received regular reports from each external Project Manager on health and safety at each of our construction sites during the year. • Further strengthened our health and safety resource with the recruitment of new health and safety team members. • Deloitte performed an assurance audit of our health and safety figures, further information on page 87.	• 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	• Reviewed our governance procedures to ensure compliance with the 2018 UK Corporate Governance Code. • Quarterly review of our anti-bribery and corruption procedures by the Risk Committee. • Implemented a compliance training programme, mandatory for all employees including the Board (see page 134). • Board and Risk Committee received updates on General Data Protection Regulations (GDPR). • As part of our 2019 staff performance appraisals, all employees confirmed they have reviewed and understood Group policies.	• Continue with our current controls and mitigating actions.

PROPERTY REVIEW

The Featherstone Building EC1 – CGI of entrance lobby

VALUATION

The Group's investment property portfolio was valued at £5.5bn as at 31 December 2019.

Nigel George
Executive Director

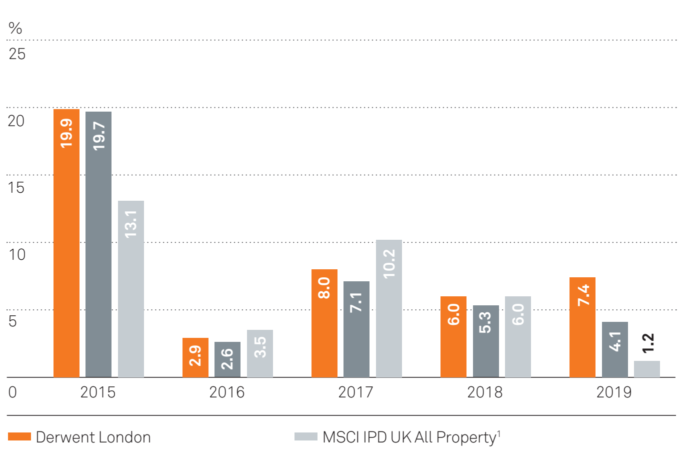
The valuation surplus for the year was £188.5m, which after accounting adjustments of £33.9m (see note 16), gives a reported surplus of £154.6m. There was an underlying valuation increase of 3.9% which was stronger than the 2.2% reported in 2018. This growth outperformed our capital value benchmarks: the MSCI IPD Quarterly Index for central London offices, up 0.6%, and the wider UK All Property Index which was down 3.3%. By location, our central London properties, which represent 98% of the portfolio, increased in value by 4.1% with the West End up 4.8% and City Borders up 2.9%. Our Scottish holdings, under 2% of the portfolio, declined 8.9%.

Based on the EPRA portfolio, our rental values rose by 1.4% over the year which was above the 1.1% recorded in the previous year. Rents in the City Borders were up 2.7%, with the West End up 0.4%. The portfolio's initial yield was unchanged at 3.4% but, after allowing for the expiry of rent frees and contractual uplifts, rises to 4.7% on a 'topped-up' basis. The true equivalent yield moved out marginally during the year, by 4bp to 4.77%. Office yields were generally flat, with the yield expansion coming from the small retail element within our portfolio.

The Group's total property return was 7.4%, which compares to the MSCI IPD Index of 4.1% for central London offices and 1.2% for UK All Property. The wide disparity in performance reflects the relative impact of our development programme compared to the former index, and our limited retail exposure compared to the latter.

At the start of 2019 we were on site with two major developments, 80 Charlotte Street W1 and Brunel Building W2 and we added Soho Place W1 and The Featherstone Building EC1 in the first half. These four schemes were valued at £1.05bn in December 2019 and delivered a significant 21.2% valuation uplift as good progress was made on delivery and pre-letting. These developments represented 91% of the portfolio's total annual valuation uplift. When excluded, the underlying portfolio rose 0.4%. Brunel Building, which completed in May, is fully let and has been a particularly successful development, delivering a profit on cost of 60%. The three developments still on site were valued at £708.6m, representing 13% of the portfolio and look set to produce further surpluses estimated in December 2019 at £104m as they progress. There is more detail on these under 'Development' on pages 65 to 67.

Total property return



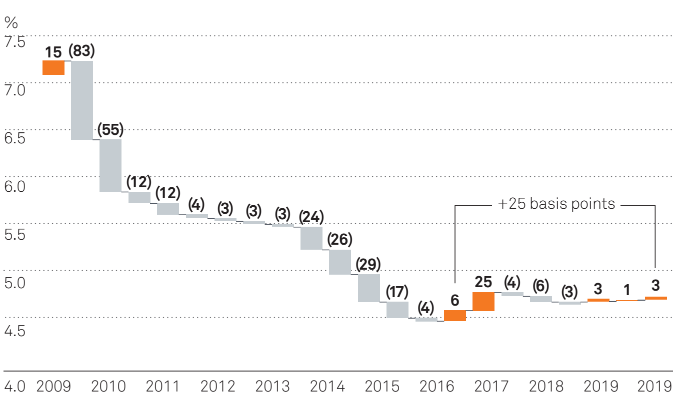
[1] Quarterly Index

VALUATION CONTINUED

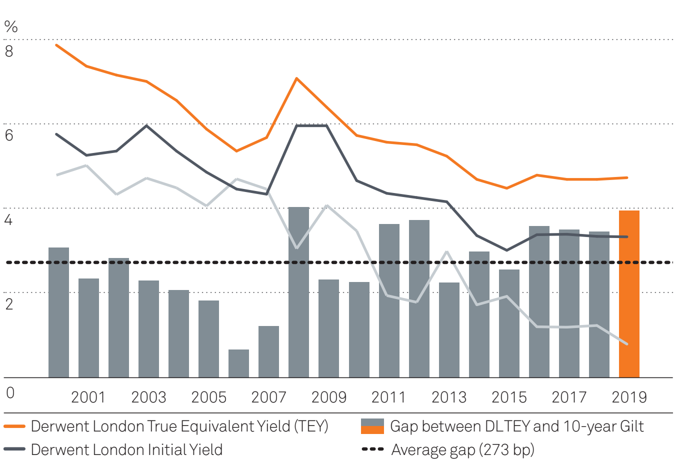
Our contracted annualised cash rent in December was £169.1m. This was 6.0% higher over the year, reflecting development and asset management activities, offsetting the loss of income from disposals. The portfolio's ERV of £303.0m includes £133.9m of potential reversion. Looking at this in more detail, £65.7m is contracted through rent-frees and fixed uplifts, which under IFRS accounting treatment is already mostly incorporated in the income statement. Our on-site developments could add £56.6m to rents, of which £40.9m or 72% is already pre-let. Our EPRA vacancy rate is low at only 0.8%, so this element of the reversion only adds £2.6m. The £9.0m balance of potential reversion comes from future reviews and expiries.

Members of the Investment, Valuation & Research teams

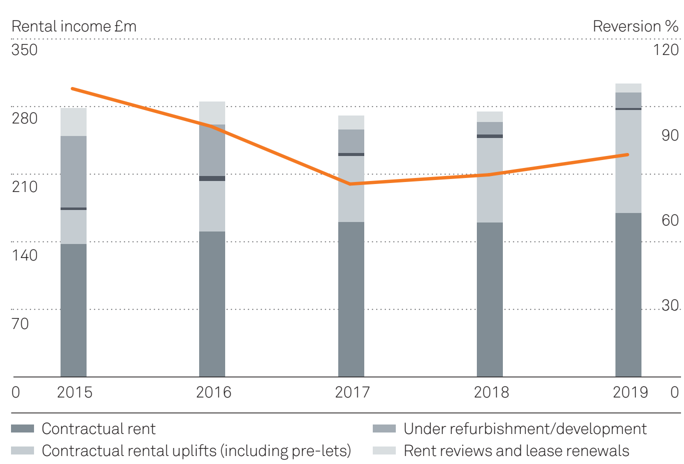
True equivalent yield



Valuation yields



Portfolio income potential



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		3,004.6	55	5.5	2,638	26	8	115	2,787
Borders		464.2	8	0.3	492	3	0	0	495
		3,468.8	63	4.8	3,130	29	8	115	3,282
City									
Borders		1,920.5	35	2.9	1,863	17	2	125	2,007
Central London		5,389.3	98	4.1	4,993	46	10	240	5,289
Provincial		85.9	2	(8.9)	340	7	0	0	347
Total portfolio	**2019**	**5,475.2**	**100**	**3.9**	**5,333**	**53**	**10**	**240**	**5,636**
	2018	5,217.6	100	2.2	5,072	107	31	200	5,410

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		169.1
Contractual rental increases across the portfolio	65.7	
Contractual rental from 550,000 sq ft pre-lets on developments	40.9	
Letting 53,000 sq ft available floor area	2.1	
Completion and letting 10,000 sq ft of refurbishments	0.5	
Completion and letting 240,000 sq ft of developments	15.7	
Anticipated rent review and lease renewal reversions	9.0	
Portfolio reversion		133.9
Potential portfolio rental value		**303.0**

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[1] per annum £m	Portfolio estimated rental value per annum £m	Average unexpired lease length[2] Years
West End							
Central		80.9	30.91	9.5	76.3	166.7	6.1
Borders		12.7	25.85	0.1	13.3	26.1	6.6
		93.6	30.12	9.6	89.6	192.8	6.2
City							
Borders		70.7	38.75	8.7	25.6	105.0	5.4
Central London		164.3	33.34	18.3	115.2	297.8	5.8
Provincial		4.8	14.03	0.0	0.4	5.2	3.1
Total portfolio	**2019**	**169.1**	**32.11**	**18.3**	**115.6**	**303.0**	**5.8**[3]
	2018	159.5	31.90	16.6	98.3	274.4	6.1

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 8.3 years after adjusting for 'topped-up' rents and pre-lets

ASSET MANAGEMENT & INVESTMENT ACTIVITY

In 2019 we achieved £34.0m of new lettings across 498,500 sq ft, on average 6.9% above December 2018 ERV.

David Silverman
Executive Director

Open market lettings represented 99% of the total and achieved 7.6% above ERV. The average growth was lowered by a short-term letting at 19-35 Baker Street W1 prior to the building's expected redevelopment commencing in 2021.

Letting activity 2019

	Let		Performance against Dec 18 ERV (%)	
	Area sq ft	Income £m pa	Open market	Overall[1]
H1	272,200	18.1	8.7	7.5
H2	226,300	15.9	6.3	6.3
2019	**498,500**	**34.0**	**7.6**	**6.9**

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

By value most of the transactions relate to the pre-lets at 1 Soho Place, Brunel Building and 80 Charlotte Street. On the investment portfolio other lettings of note were the remaining refurbished elements of the Johnson Building EC1, achieving a record rent of £65 per sq ft on Tea Building E1 and the lower ground floor at White Collar Factory EC1. More details can be seen in the table opposite.

The Group was involved in 545,000 sq ft of rent reviews and lease events or c.12% of the investment portfolio (excluding current developments). Overall these transactions were in line with ERV and raised our annual rents by £5.2m to £26.8m, as can be seen in the following table. Both by area and value we carried out twice as many rent reviews as in 2018. Our most significant reviews were at 1 Page Street SW1, 19 Charterhouse Street EC1 and 88 Rosebery Avenue EC1. Renewal activity was lower, but saw the strongest uplift and growth over ERV. The principal assets here were 1 Oliver's Yard EC1 and Charlotte Building W1. In addition, we regeared leases on 369,000 sq ft, a similar level to 2018. This included regearing some of the leases along with rent reviews at The Buckley Building EC1 prior to its disposal in September 2019. At the year end the EPRA vacancy rate had fallen to 0.8% from 1.8% in December 2018. The low vacancy rate reflects occupier demand and our asset managers' work. During 2019 we retained or re-let 90% of all tenant breaks and lease expiries.

Asset management 2019

	Area '000 sq ft	Previous rent £m pa	New rent £m pa	Uplift %	New rent vs Dec 18 ERV %
Rent reviews	413	16.2	19.7	21.6	(0.8)
Lease renewals	132	5.4	7.1	31.4	2.9
Total	**545**	**21.6**	**26.8**	**24.1**	**0.1**

Principal lettings 2019

Property	Tenant	Area sq ft	Office rent £ psf	Total annual rent £m	Lease term years	Lease break year	Rent free equivalent months
H1							
1 Soho Place W1	G-Research	102,600	94.70	9.7	15	–	32
Brunel Building W2	Splunk	49,600	75.00	3.7	12	–	20
Brunel Building W2	Paymentsense	33,000	77.50	2.6	15	10	20, plus 6 if no break
H2							
1 Soho Place W1	Apollo	83,100	Confidential	Confidential	15	–	Confidential
80 Charlotte Street W1	BCG	40,650	82.50	3.4	15	12	Confidential
Johnson Building EC1	Oktra	18,300	47.50	0.9	10	5	10, plus 8 if no break
Johnson Building EC1	Access Intelligence	17,800	45.00	0.8	10	5	15, plus 12 if no break
Tea Building E1	LoopUp	6,925	65.00	0.5	10	5	10.5, plus 10.5 if no break
White Collar Factory EC1	AHMM	10,600	40.00[1]	0.4	8.5	4.5	14, plus 6 if no break
		362,575	78.70[2]	22.0[2]			

1 Lower ground floor space
2 Excludes Apollo letting

Major disposals in 2019

Property	Date	Area sq ft[1]	Gross proceeds £m[1]	Gross proceeds £ psf	Net yield to purchaser %	Rent £m[1]
Premier House SW1	Q1	60,700	50.0	820	–	–
9 Prescot Street E1 (50% interest)	Q2	48,500	26.9	560	4.5	1.3
16 Prescot Street E1 (50% interest)	Q3	4,400	1.8	400	2.6	0.05
The Buckley Building EC1	Q3	85,100	103.0	1,210	4.4	4.9
Total		198,700	181.7	910	–	6.25

1 Derwent London share

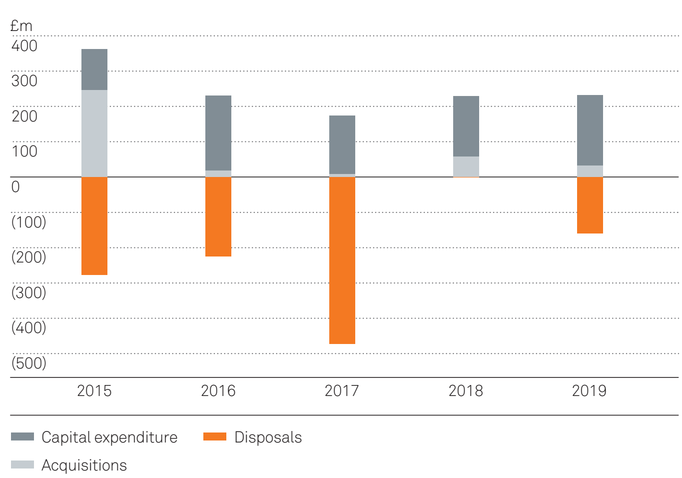
Investment activity

During 2019, we completed £181.7m of disposals. We announced these transactions at the time of our half year results in August 2019. Premier House SW1 was sold vacant, 9 and 16 Prescot Street E1 were relatively small and held in a joint venture, and The Buckley Building EC1 was sold following the completion of its first rent review cycle. In addition, we announced in December 2019 that we had exchanged on the sale of 40 Chancery Lane WC2 for £121.3m before costs. This disposal completed in February 2020.

We acquired 3-5 Rathbone Street W1 for £21.0m including costs in June 2019. The property totals 17,800 sq ft of offices, retail and leisure and forms part of our cluster of 450,000 sq ft of property extending from Rathbone Place to Tottenham Court Road, just north of Oxford Street.

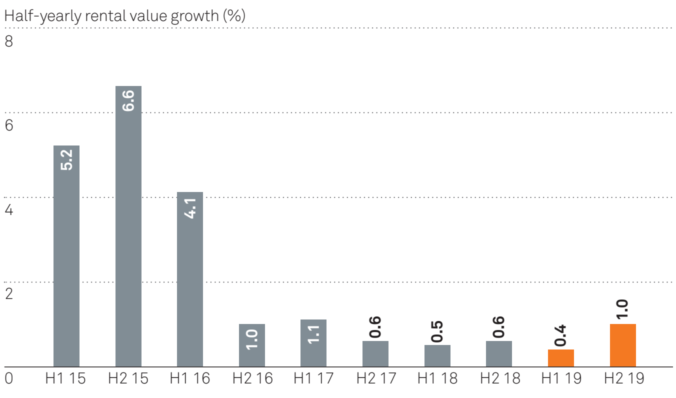
Since the year end the Group has acquired the freehold of Blue Star House, 234-244 Stockwell Road SW9. This is Derwent London's first acquisition in Brixton, a relatively underdeveloped London office market. The property totals 41,600 sq ft offices and 12,150 sq ft restaurant and leisure. The rent is £0.8m equating to £14.50 per sq ft on the occupied office space, with 8,260 sq ft of the offices vacant. We believe that there is an opportunity to raise the income both in the short and medium-term and, subject to planning permission, we expect to regenerate the building better utilising the 0.7 acre site.

Net investment

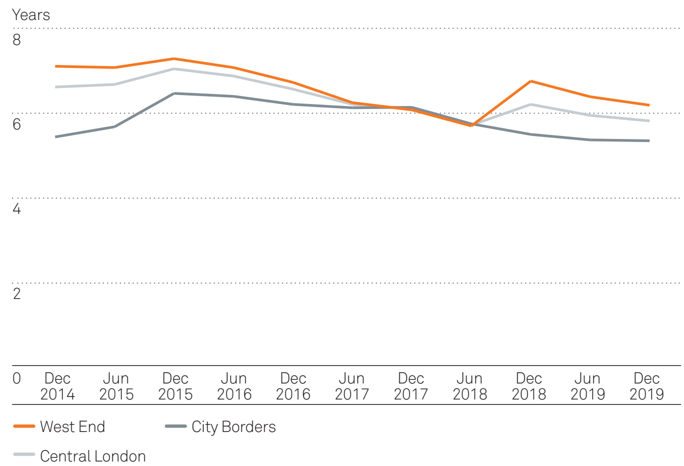


ASSET MANAGEMENT & INVESTMENT ACTIVITY CONTINUED

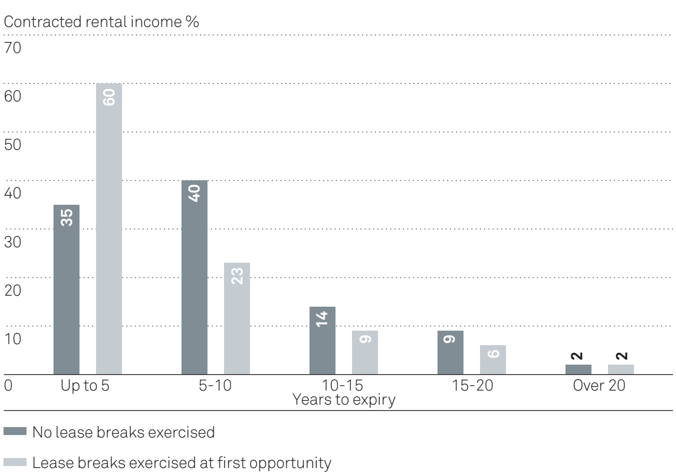
Rental value growth



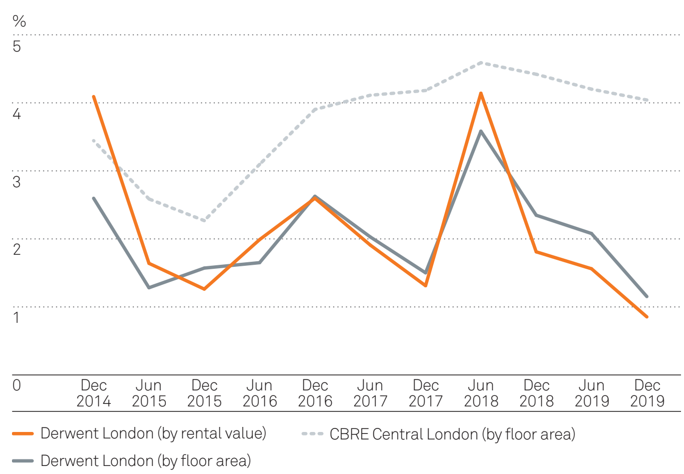
Average unexpired lease length



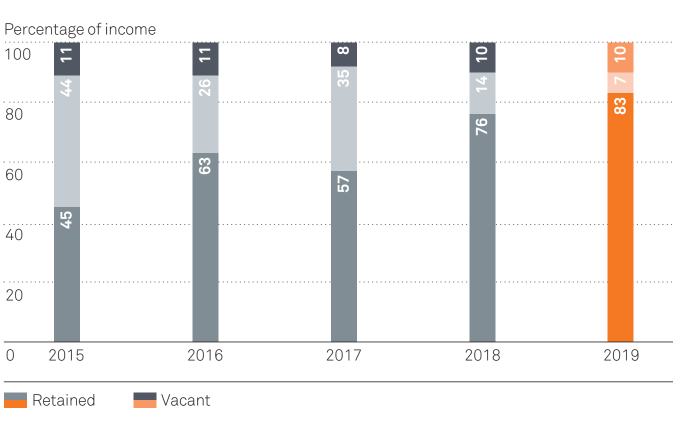
Profile of rental income expiry



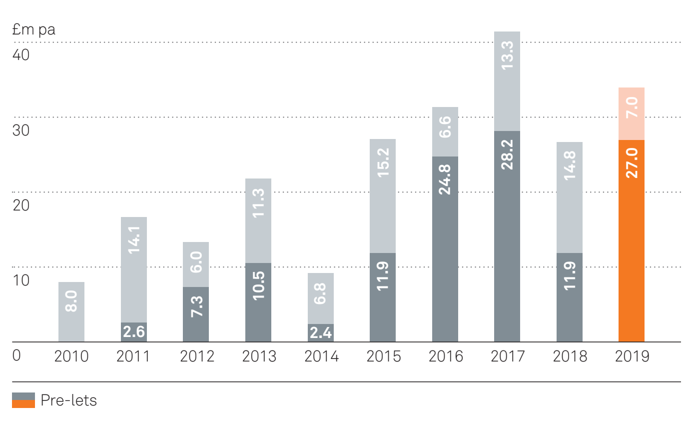
Five-year vacancy trend



Retaining occupiers – Lease expiry and break analysis



Letting activity by rental income



DEVELOPMENT & REFURBISHMENT

In May 2019, we completed the 243,200 sq ft Brunel Building W2, which has proved highly successful. On completion we estimate that the project showed a 60% profit on cost with a running yield of over 7%. It contributed just under one third of our valuation surplus in 2019, most of which came in the first half.

Simon Silver
Executive Director

We currently have three projects on-site totalling 790,000 sq ft of which 72% by area has been pre-let.

80 Charlotte Street W1 is expected to be handed over to the tenants for fit out shortly. All of the 321,000 sq ft office space is let so the vacancy is concentrated in the 14,000 sq ft of retail and the residential space. The residential vacancy divides into 19 units which will be available to let once the island site is complete and 9 units remaining to be sold at the adjoining Asta House.

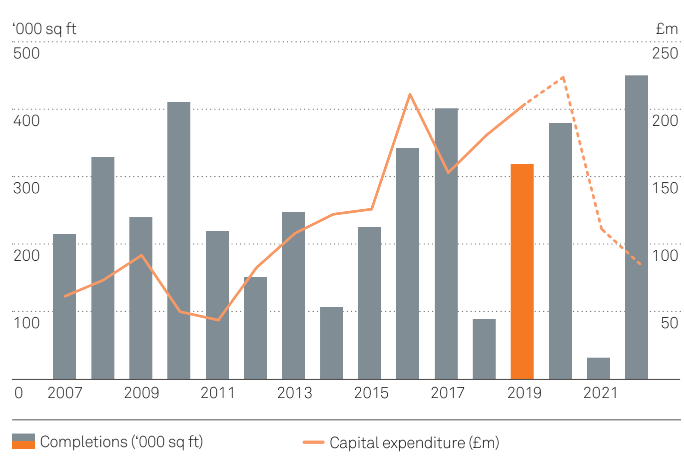
As well as pre-letting 89% of the office space at Soho Place W1, we have completed the groundworks across the site. The southern element is further advanced with the theatre auditorium box already in situ and the steelwork progressing. At The Featherstone Building EC1, we have completed piling and are now constructing the basement. Both the latter two schemes are on course for handover in the first half of 2022.

Our strong letting progress and positive outlook has led the Group to bring forward several schemes which could start in 2021. In 2019 we signed a conditional development agreement with our freeholder and joint venture partner on 19-35 Baker Street W1, where we have planning for 293,000 sq ft of offices, retail and residential. In addition, we are looking at further schemes that could more than double this amount but are still subject to planning. These include Network Building W1 and Angel Square EC1.

In Victoria we have two adjoining properties that could form the basis of a significant scheme. However, we have decided to defer the larger project and instead focus on two major refurbishments. These comprise 32,000 sq ft at 6-8 Greencoat Place SW1, which is expected to start in 2020, and 40,000 sq ft at Francis House SW1 which we aim to start one year later. These refurbishments will each take about 12 months to complete.

Beyond these projects we have another one million sq ft of existing space earmarked for future development. In January 2020 we added to this potential with our Brixton acquisition (see Asset management and investment activity).

Completions and capital expenditure



DEVELOPMENT & REFURBISHMENT CONTINUED

Project summary – current projects

Property	Current net income £m pa	Pre scheme area '000 sq ft	Proposed area '000 sq ft	2020 capex £m	2021 capex £m	2022+ capex £m	Total capex to complete £m	Delivery date	Current office c.ERV psf
On site									
80 Charlotte Street W1	–	234	380	40	–	–	40	H1 2020	£80.00
Soho Place W1	–	107	285	111	48	74	233[1]	H1 2022	£92.50
The Featherstone Building EC1	–	69	125	34	26	1	61	H1 2022	£70.00
	–	**410**	**790**	**185**	**74**	**75**	**334**		
Planning and design	–	–	–	11	3	–	14		
Other[2]	–	–	–	17	20	9	46		
Total	**–**	**410**	**790**	**213**	**97**	**84**	**394**		
Capitalised interest	–	–	–	11	14	1	26		
Total including interest	**–**	**410**	**790**	**224**	**111**	**85**	**420**		

1 Includes remaining site acquisition cost and 16% profit share payaway to freeholder Crossrail
2 Includes 6-8 Greencoat Place and Francis House projects

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					
19-35 Baker Street W1[1]	4.5	143	293	2021	Currently Derwent 55%, The Portman Estate 45%
Holden House W1	6.6	90	150	2021	Eastern end of Oxford Street
	11.1	**233**	**443**		
Adjustment for JV	(2.0)	(64)	–		19-35 Baker Street W1
	9.1	**169**	**443**		
Under appraisal[2]					
Angel Square EC1	4.7	126	140	2021	
Network Building W1	4.1	64	100	2021	
Bush House WC2	0.0	108	108	TBC	
Francis House SW1	1.0	40	40	2021	Refurbishment
6-8 Greencoat Place SW1	1.0	32	32	2020	Refurbishment
Other	0.4	30	30		
	11.2	**400**	**450**		
Consented and under appraisal	**20.3**	**569**	**893**		
On site	–	410	790		Previous table
Pipeline	**20.3**	**979**	**1,683**		

1 Includes 88-100 George Street, 30 Gloucester Place and 69-85 Blandford Street
2 Areas proposed are estimated from initial studies

Members of the Soho Place team

Major developments pipeline

Property	Area sq ft	Capex to complete £m[1]	Comment
Completed projects in H1 2019			
Brunel Building, 2 Canalside Walk W2	243,200	–	Offices and retail – 100% let
On-site projects			
80 Charlotte Street W1	380,000	40	321,000 sq ft offices, 45,000 sq ft residential and 14,000 sq ft retail – 90% pre-let / pre-sold overall
Soho Place W1	285,000	233[3]	209,000 sq ft offices, 36,000 sq ft retail and 40,000 sq ft theatre – 76% commercial space pre-let[4]
The Featherstone Building EC1	125,000	61	110,000 sq ft offices, 13,000 sq ft workspaces and 2,000 sq ft retail
	790,000	334	
Major planning consents			
19-35 Baker Street W1	293,000[2]		206,000 sq ft offices, 52,000 sq ft residential and 35,000 sq ft retail
Holden House W1	150,000		Retail flagship or retail and office scheme
	443,000		
Total (excluding completions)	**1,233,000**		

1 As at 31 Dec 2019
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
4 In addition the 40,000 sq ft theatre is pre-let

Soho Place site

FINANCE REVIEW

Derwent London delivered another strong financial performance in 2019, generating a total return of 6.6% or 250p per share and raising underlying rental income, allowing us to increase the 2019 final dividend by 10%. These results illustrate the benefits of our business model, balancing long-term income growth with value creation.

Damian Wisniewski
Chief Financial Officer

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 235 to 236. EPRA has recently introduced three new net asset value (NAV) measures to replace NAV and NNNAV from 2020 onwards and we have also shown these in note 39.

Financial overview

Rental income and cash rents collected both increased as recent developments provided higher earnings contributions and further reversion was captured from the core portfolio. The increased recurring income came despite significant disposals during the year, all of which were above book values. In our most active year of regeneration projects to date, we invested another £204m of capital expenditure but the disposals kept debt levels low.

Four major refinancing transactions through the year, including a £300m 'green' tranche for our newly extended £450m Revolving Credit Facility (RCF), have also increased our available resources for future acquisitions and developments, as well as linking part of our financing to our projects' green credentials. This is an example of our response to the environmental challenges and responsibilities facing us all. We have also invested more in our people, particularly in areas such as responsibility, sustainability, property management, health and safety and 'smarter' technology, and focussed on more engagement with our many stakeholders.

All of this took place against an uncertain political and economic background. Some of that uncertainty reduced with the result of the UK general election in December but the economic growth outlook is constrained with unclear future trading relationships and interest rates have remained very low. After the modest fall in inflation-adjusted property values for London offices since the Brexit vote in 2016, conditions appear to be re-emerging in our markets that should support some rental growth and London yields look attractive on a comparative basis. These factors were not missed by equity markets and our shares returned to a premium over net asset value in late 2019 after almost three and a half years at varying levels of discount. This provided a very strong shareholder return of 43.6% for 2019.

Financial highlights

	2019	2018
IFRS NAV	£4,476.9m	£4,263.4m
EPRA NAV per share	3,958p	3,776p
Property portfolio at fair value	£5,475.2m	£5,190.7m
Net rental income	£178.0m	£161.1m
Profit before tax	£280.6m	£221.6m
EPRA earnings per share (EPS)	103.09p	113.07p
Underlying EPS	103.09p	99.08p
Interim and final dividend per share	72.45p	65.85p
LTV ratio	16.9%	17.2%
NAV gearing	21.9%	22.4%
Net interest cover ratio	462%	491%

Further net asset value growth

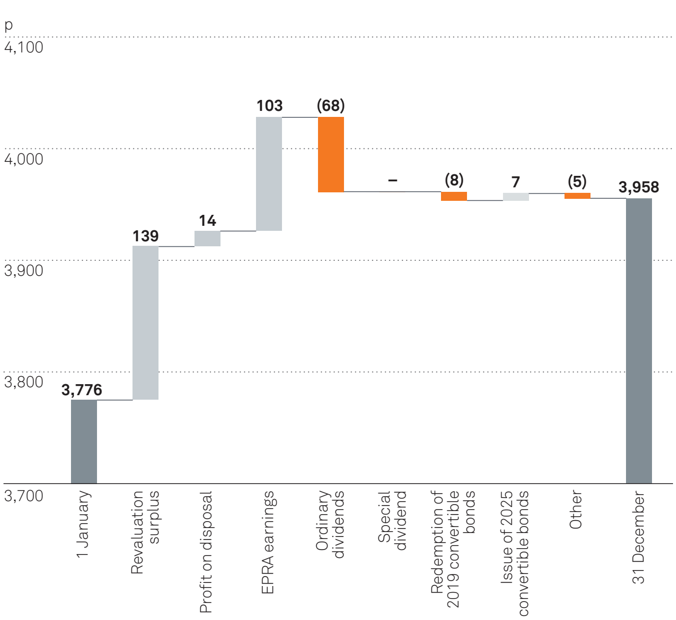
Our main financial pillars are the creation of value through property regeneration and growth in earnings by driving rental income, built on a lowly geared balance sheet. Total return (i.e. dividends paid plus EPRA net asset value growth per share) is the best single measure of our performance but we also focus on recurring earnings growth and dividend cover to support the distributions we pay our shareholders.

The total return in 2019 was 6.6% or 250p per share compared with 5.3% and 197p, respectively, in 2018. In the three full calendar years since the Brexit vote, a period during which central London office rents showed almost no underlying growth and only a 6bp tightening in our property investment yield, we have been able to provide a total return of 719p per share or just over 20% based on December 2016 EPRA net asset value. We are also recommending another 10% increase in the final dividend to 51.45p per share, while the total dividend for the year of 72.45p was 1.4 times covered by EPRA earnings per share (EPS). EPRA EPS are explained in more detail below.

The main movements in EPRA NAV per share during the year compared to 2018 are summarised in the chart below. Revaluation gains generated 139p per share with 80 Charlotte Street and Brunel Building contributing 112p.

	2019 p	2018 p
Opening EPRA NAV	3,776	3,716
Revaluation movement	139	75
Profit on disposals	14	5
EPRA earnings	103	113
Ordinary dividends paid	(68)	(62)
Special dividend	–	(75)
Redemption of 2019 convertible bonds	(8)	–
Issue of 2025 convertible bonds	7	–
Interest rate swap termination costs	(2)	(3)
Other	(3)	7
Closing EPRA NAV	**3,958**	**3,776**

EPRA net asset value per share



2018	3,716	75	5	113	(62)	(75)	–	–	4	3,776

Property portfolio

The fair value of our property portfolio was independently valued at £5.5bn as at 31 December 2019, following acquisitions and capital expenditure during the year of £236.2m and disposals (at book value) totalling £136.8m. A new leasing standard, IFRS 16, replaced SIC-15 and IAS 17 during 2019 and, as before, requires us to spread any incentives such as rent-free periods over the expected life of the occupational leases and to 'gross-up' leasehold liabilities by recognising both an asset and liability in our balance sheet. The asset balances that this gives rise to do not increase the overall carrying value but are an apportionment of part of the fair value. As a result, the balance sheet allocation of the property fair values was as follows at 31 December 2019 and 2018:

	Dec 2019 £m	Dec 2018 £m
Investment property	5,174.3	5,028.2
Non-current asset held for sale	118.6	–
Owner-occupied property	45.3	47.0
Trading property	40.7	36.3
Property carrying value	5,378.9	5,111.5
Accrued income (non-current)	134.4	123.1
Accrued income (current)	18.7	15.8
Grossing up of headlease liabilities	(59.5)	(60.7)
Revaluation of trading property/other	2.7	1.0
Fair value of property portfolio	**5,475.2**	**5,190.7**

The revaluation uplift on our investment property portfolio increased to £156.4m in 2019 (2018: £83.4m) while a deficit of £1.8m (2018: surplus of £0.7m) was recognised on the owner-occupied property at 25 Savile Row W1. A surplus of £171.3m came from our developments with the rest of the portfolio showing a small overall deficit.

As the sale of 40 Chancery Lane WC2 had exchanged prior to the year end, this property has been shown as an 'asset held for sale'. Completion occurred in February 2020.

Accrued income from the 'straight-lining' of rental income under IFRS 16 increased to £153.1m (2018: £138.9m) of which £134.4m (2018: £123.1m) was non-current, i.e. due to reverse in more than 12 months from the balance sheet date. With several of our large recently completed developments and regears remaining within tenant incentive periods, rental income accrued in advance of cash receipts during 2019 grew to £27.3m (2018: £13.4m) but the sale of 40 Chancery Lane has reduced the year-end balance by £14.7m.

The properties at 9 and 16 Prescot Street E1, held in a 50% joint venture, were sold during the year. The Group's share of the profit on disposal was £1.7m with the excess funds dealt with via a dividend and the repayment of most of the partners' loans. As a result, we currently hold no properties within unconsolidated joint ventures and the net carrying value of joint venture investments at 31 December 2019 fell to £1.3m (2018: £29.1m). The Baker Street properties, currently owned with The Portman Estate, are included within our investment property portfolio as we hold 55% and have day-to-day control.

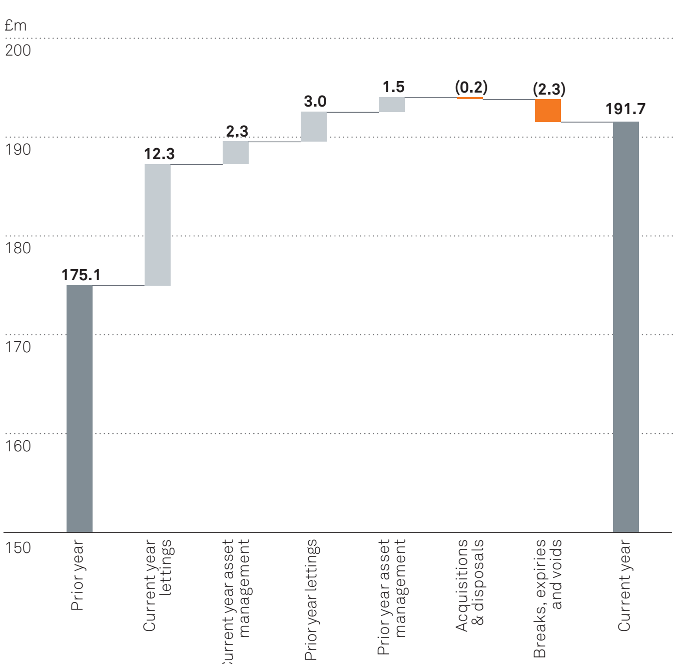
FINANCE REVIEW CONTINUED

Property income and earnings

Gross property and other income increased marginally to £230.3m from £228.0m in 2018 but the prior year was boosted by non-recurring net surrender and access rights premiums totalling £20.9m while premiums received in 2019 were only £1.0m. More representative of the underlying portfolio, gross rental income increased significantly reaching £191.7m for the year, a 9.5% increase from £175.1m in 2018. Net rental income was up by 10.5% to £178.0m from £161.1m a year earlier. This rental growth came mainly from new lettings of £15.3m (with £6.3m from Brunel Building which completed in May 2019) while reviews and regears provided a further £3.8m and acquisitions £1.6m. Disposals reduced rental income by £1.8m while breaks and lease expiries removed only £2.3m compared to the prior year as our asset managers' proactive approach ensured that most lease breaks or expiries resulted in a re-gear rather than a vacancy. Irrecoverable property costs and ground rents were £13.7m against £14.2m in 2018 and other income, mainly asset management and development management fees, rose 22% to £3.6m. With the substantially lower premiums referred to above and no dilapidations receipts in 2019, net property and other income fell slightly to £182.6m versus £185.9m in 2018.

Our approach in areas such as corporate responsibility, sustainability, property management and health and safety has seen headcount grow from 124 at the beginning of 2019 to 135 at year end, giving a £0.7m increase in salary costs. In addition, the Group's comparative performance was particularly strong when measured against our remuneration targets for 2019, such that variable rate pay for both staff and Directors showed a substantial increase being about £3m above the long-term average.

Gross rental income



Accordingly, administrative expenses for the year grew to £37.0m from £32.3m in 2018, with 79% of the increase coming from salaries, bonus payments and staff incentives. Note that, unlike many of our peers, we do not capitalise any of our administrative expenses.

	2019 (£m)	2018 (£m)	Increase (%)
Salaries	13.1	12.4	5.6
Bonuses, incentives and compensation	12.6	9.6	31.3
Pensions	2.1	2.2	(4.5)
Total staff costs	27.8	24.2	14.9
Other overheads	9.2	8.1	13.6
Total	37.0	32.3	14.6

As a result, our EPRA cost ratio including direct vacancy costs rose to 23.9% in 2019 from 23.3% in 2018 but, if a more typical level of variable rate pay had been expensed in 2019, the ratio would have been largely unchanged.

Cost ratios

	2019 %	2018 %
EPRA cost ratio, incl. direct vacancy costs	23.9	23.3
EPRA cost ratio, excl. direct vacancy costs	22.5	20.8
Portfolio cost ratio, incl. direct vacancy costs	0.8	0.8

The investment portfolio's revaluation surplus, after accounting adjustments, was £156.4m for the year (2018: £83.4m). A deficit of £1.8m (2018: surplus of £0.7m) arose in the comprehensive income statement in relation to the offices that we own and occupy. The profit on disposal of fixed assets increased from £5.2m in 2018 to £13.8m of which £13.2m related to property disposals with gross proceeds of £155.2m. This includes additional overage of £3.8m in relation to the residential site at Balmoral Grove N7 which we sold in 2016, taking the total to date to £5.8m. The balance related to the sale of artwork above book value.

With higher average borrowings, finance costs increased to £26.7m in 2019 compared to £23.5m in 2018 after capitalising £13.0m of interest (2018: £10.7m). In addition, £7.7m was taken to the income statement redeeming the Group's 2019 convertible bonds and writing off £0.1m of unamortised arrangement costs. Financial derivative termination and mark-to-market costs were £2.8m and our share of joint venture results for the year totalled £1.9m (2018: £2.1m), including a profit on disposal from the Prescot Street properties of £1.7m. These factors combined to bring the Group's IFRS profit before tax for the year to £280.6m compared with £221.6m in 2018.

EPRA earnings, which exclude fair value movements and profits on disposals of investment properties, fell by 8.7% to £115.1m from £126.1m in 2018. As noted last year, the comparative figure included the non-recurring £15.6m access rights receipt at Holden House net of fees. Stripping this out, 'underlying' earnings increased year on year by 4.2% to £115.1m from £110.5m in 2018. EPRA and underlying earnings per share (EPS) were 103.09p in 2019, showing a 4.0% increase over 2018 underlying EPS but a fall compared with 2018 EPRA EPS for the same reason. A table providing a reconciliation of the IFRS results to EPRA earnings per share is included in note 39.

EPRA like-for-like rental income

The unusually high level of premiums received in 2018 meant that EPRA like-for-like net property income fell 7.2% in the year but, more representative of the underlying position, the increase based on gross and net rental income was 4.4% and 4.7%, respectively. This demonstrates our continuing success in capturing reversion.

EPRA like-for-like rental income

	2019 %	2018 %
Increase based on gross rental income	4.4	1.9
Increase based on net rental income	4.7	0.6
Increase based on net property income	(7.2)	15.4

Taxation

The corporation tax charge for the year ended 31 December 2019 was £1.7m. This was made up of £0.5m in respect of joint venture interests outside the REIT regime with the balance from trading and other income.

The movement in deferred tax for the year was a credit of £0.6m, (2018: £0.5m credit); a £0.8m charge was taken through the income statement mainly due to the recognition of overage from a property previously disposed of and £0.1m was credited through other comprehensive income in relation to the owner-occupied property at Savile Row. In addition, £1.3m was credited through retained earnings in relation to future tax deductions for equity-settled share-based payments.

As well as other taxation paid during the year, in accordance with our status as a REIT, £6.4m of tax was paid to HMRC relating to tax withheld from shareholders on property income distributions (PIDs).

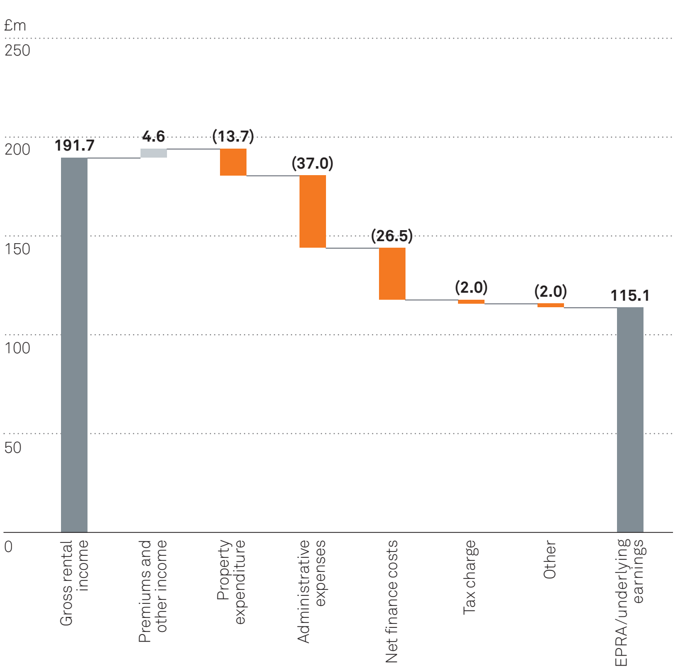
Derwent London's principles of good governance extend to a responsible approach to tax. Our statement of tax principles is available on our website www.derwentlondon.com/investors/governance/tax-principles and is approved by the Board in line with the Group's long-term values, culture and strategy. This year, we have also provided more information on our tax governance and risk management on pages 91 and 131, respectively.

Borrowings, net debt and cash flow

This has been a particularly active year for us in terms of both our large and smaller projects with £204.0m of cash invested in the portfolio plus cash paid on acquisitions of £31.6m. Offsetting this outflow were £159.3m of property disposal proceeds and £30.3m of dividends received and loans repaid from the joint venture that previously owned the Prescot Street properties. Net debt, which includes leasehold liabilities and takes account of the cash balance, increased by 2.6% to £981.6m at 31 December 2019 from £956.9m at 31 December 2018. While cash held at the year end increased by £36.2m to £54.5m, Group borrowings increased from £914.5m at 31 December 2018 to £976.6m at 31 December 2019. However, the upward property revaluation at year end brought the Group's loan-to-value ratio down marginally to 16.9% from 17.2% a year earlier. Interest cover for the year was 462% compared with 454% for the first half of 2019, but was a little lower than the 491% reported for 2018.

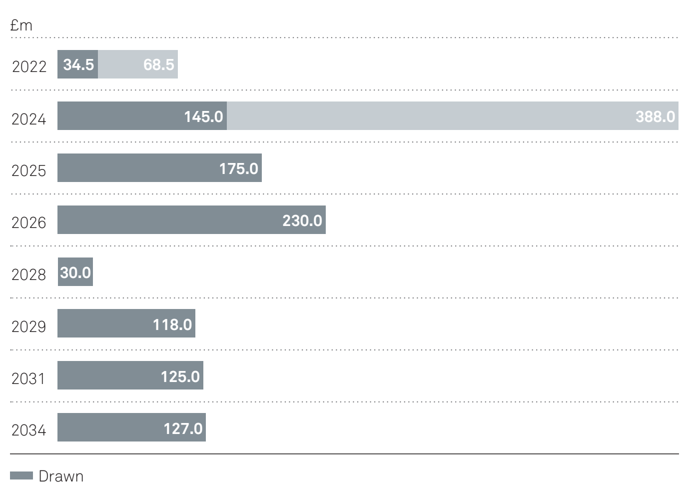
We continue to focus on growing recurring cash flow, though this is naturally affected by disposals and by the rent-free or half rent periods offered to incoming tenants as incentives. Cash from operating activities was £97.1m in 2019, considerably below the equivalent figure in 2018 when the exceptional cash premiums were received. If these are excluded, the annual trend was flat but operating cash flow was 16.3% higher than in 2017, largely due to the strong increase in property income received as cash.

EPRA and underlying earnings



2018	175.1	8.0	(12.6)	(32.3)	(23.5)	(3.1)	(1.1)	110.5
					Rights of access receipt			15.6
					EPRA earnings			126.1

Maturity profile of debt facilities as at 31 December 2019



FINANCE REVIEW CONTINUED

Debt and financing arrangements

The past year has seen a significant amount of refinancing activity, including the publication of our Green Finance Framework and an innovative £300m 'green' tranche in our newly extended main Group revolving credit facility (RCF).

The drawdown of £250m of senior unsecured US private placement (USPP) notes arranged in late 2018 was completed on 31 January 2019. This added significant borrowing headroom at attractive long-term fixed rates from 2.68% to 3.09% with maturities from seven to 15 years. We are very pleased to welcome six new valued USPP relationship lenders to join our four existing ones and we continue to see this market as one of our key sources of debt finance.

In order to minimise dilution risk in a year of volatile share prices, in mid-2019 we repurchased the £150m convertible bonds due to expire or convert in July 2019. This followed a tender offer and the announcement of a concurrent new issue of six-year convertible bonds. The repurchased bonds had a conversion price of £31.43 so that, over the life of the bonds and taking account of the interest paid to bondholders and the 5.7% premium paid at redemption, the annual interest rate equated to about 2.1% pa. The £175m of new 2025 convertible bonds will pay a cash coupon of 1.5% and have an initial conversion price of £44.96, the 37.5% conversion premium above the reference share price being the highest so far achieved by a UK REIT.

The new bonds have been bifurcated for accounting purposes and have an IFRS interest rate of 2.3%. The equity component of the bonds recognised at issue was £7.5m (or 7p per share), roughly equivalent to the £8.5m (or 8p per share) redemption premium paid to the 2019 bondholders to redeem their bonds.

The final refinancing in 2019 was the extension of our principal £450m Group RCF provided by HSBC, NatWest and Barclays. This provides a new five-year term with extension options out to seven years with attractive pricing and these important long-term banking relationships were key in delivering an important step towards our goal of embedding green principles within our financing model. We first published our Green Finance Framework in October 2019 which has been prepared to be compliant with the Loan Market Association ('LMA') 'Green Loan Principles'. In accordance with our commitments, we have reported the loan amounts that have been drawn and how the proceeds have been invested in qualifying 'green' projects. All the relevant data has been subject to 'reasonable assurance' reporting from our non-financial audit assurance provider, Deloitte. Further details can be found on page 74 and in our Annual Responsibility Report.

We only had one active interest rate swap outstanding at the year end; this was the £28m swap linked to the loan secured on the Baker Street properties and which terminates in March 2020. The other swaps all have forward start dates; we paid £2.7m in 2019 to defer them and to terminate the £70m 3.99% swap which also ran to March 2020.

Following the year's refinancing activities, undrawn facilities and cash increased to £511m at 31 December 2019. With low levels of drawn bank debt, the Group's weighted average interest rate rose marginally over the year to 3.54% on a cash basis but was unchanged on an IFRS basis at 3.68%. The weighted average maturity of our borrowings has risen from 5.9 years at 31 December 2018 to 7.8 years at 31 December 2019. Overall, this means that our financing position is even stronger now than it was a year ago.

Dividend

Our dividend cover remains strong and, with 80 Charlotte Street due to reach practical completion shortly, we have good visibility in relation to rental growth through 2020. We have also considered our capital expenditure commitments in the context of the increased level of available facilities as well as our obligations to other stakeholders; in particular, our pension fund liabilities are not material. Together with the earnings uplift seen in 2019, we have therefore been able to propose another increase of 10% in the final dividend per share, taking it to 51.45p. This will be paid in June 2020 with 34.45p to be paid as a PID and the balance of 17.00p as a conventional dividend. We will again be offering a scrip dividend alternative for those shareholders who wish to receive shares rather than cash.

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 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 16-20 bp lower than LIBOR, a difference that will need to be built into the pricing structure in another way.

Derwent London's exposure and approach

We have three bank facilities and three 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.

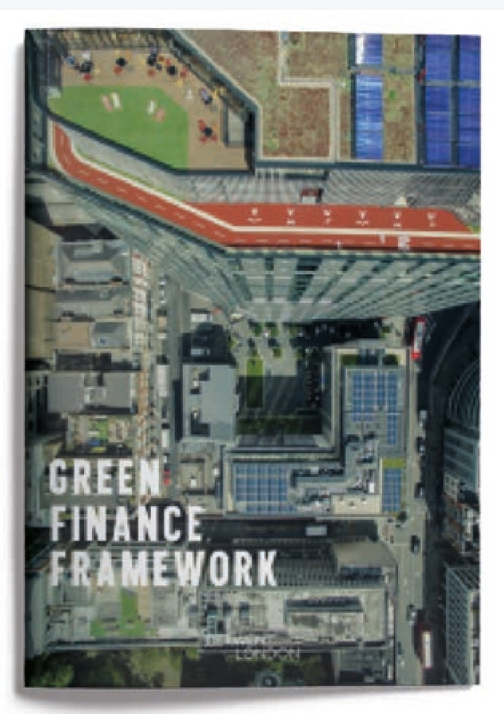
We are working with our relationship banks and advisers to prepare for a smooth transition in preparation for the cessation of LIBOR.

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 (first published in October 2019 and 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	2020	2022	2022
Category for eligibility	Green building, criterion 1 of section 3.1 of the Framework (excludes Asta House)	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 expenditure

The qualifying expenditure as at 31 December 2019 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, including the 80 Charlotte Street scheme which commenced in 2015. Soho Place and The Featherstone Building both commenced on site in 2019.

Cumulative spend on each EGP as at the reporting date

EGP	Look back spend £m	Subsequent spend £m	Cumulative spend £m
80 Charlotte Street W1	185.6	16.9	202.5
Soho Place W1	66.3	13.4	79.7
The Featherstone Building EC1	29.1	5.2	34.3
	281.0	**35.5**	**316.5**

The drawn borrowings from Green Financing Transactions (GFTs) as at 31 December 2019 were £62m; therefore, there was £238m of available unallocated headroom within the £300m green tranche of the Group’s £450m revolving credit facility as at 31 December 2019.

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 2019.

FINANCE REVIEW CONTINUED

Debt facilities and reconciliation to borrowings and net debt at 31 December 2019

	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	6.5	68.5	75.0	July 2022
Club revolving credit – unsecured	62.0	388.0	450.0	October 2024
Committed bank facilities	96.5	456.5	553.0	
Debt facilities	984.5	456.5	1,441.0	
Acquired fair value of secured bonds less amortisation	10.6			
Equity adjustment to convertible bonds less amortisation	(7.0)			
Unamortised issue and arrangement costs	(11.5)			
Borrowings	976.6			
Leasehold liabilities	59.5			
Cash and cash equivalents	(54.5)			
Net debt	**981.6**			

Debt: key stats

	2019	2018
Hedging profile (%)		
Fixed	90	67
Swaps	3	3
	93	70
Percentage of debt that is unsecured (%)	71	69
Percentage of non-bank debt (%)	90	67
Weighted average interest rate - cash basis (%)	3.54	3.43
Weighted average interest rate - IFRS basis (%)	3.68	3.68
Weighted average maturity of facilities (years)	6.8	5.3
Weighted average maturity of borrowings (years)	7.8	5.9
Undrawn facilities and cash	511	274
Uncharged properties	4,423	4,117

19-35 Baker Street W1 - CGI of consented scheme

RESPONSIBILITY

At Derwent London we believe it is essential that we understand and balance our environmental, social and governance impacts to clearly demonstrate our responsible business approach.

ESG REPORTING STRUCTURE IN THIS SECTION

Environmental p.80 to p.83

- UN SDG disclosures
- Net zero carbon
- Energy efficiency
- SECR disclosure
- TCFD summary

Social p.84 to p.89

- Employee engagement
- Wellbeing
- Diversity and inclusion
- Health and safety
- Our Community Strategy

Governance p.90 to p.91

- Climate change governance
- Supply chain governance
- Tax governance
- ESG governance framework
- Additional disclosures

2019 HIGHLIGHTS

Waste recycling rate in the like-for-like portfolio

76%

Employees that are proud to work for Derwent London in a recent survey

96%

Average payment days

25 days

Reduction in like-for-like carbon intensity (tCO_2e/m^2)

10%

Hours of health and safety training to 115 employees and contractors

1,700

Response rate to our Supply Chain Sustainability questionnaire

92%

Reduction in like-for-like energy intensity (kWh/m^2)

4%

Awarded via the Community Fund during 2019

£115k

Hours of compliance training completed during 2019

539

What does responsibility mean to us?

To operate a responsible business requires clear recognition of the environmental, social and governance (ESG) issues that are important to both our stakeholders and our business.

ESG matters are integrated into all aspects of our decision making and business practices, including our business model (see page 20) and strategy (see page 30). By understanding the long-term consequences of our decisions we are better able to manage risks and generate value.

During 2019, we performed a comprehensive review of our sustainability work, to develop it further and align it more clearly with our new 'responsibility' approach. The result of this review was the creation of a new responsibility policy and strategy, both of which are structured around our seven ESG priorities:

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

We have continued to make good progress in further developing our ESG initiatives, including the creation of our new Green Finance Framework and the extension of our main revolving credit facility which now includes an innovative 'green' tranche. Our Green Finance Framework allows us to clearly link our financing to the environmental benefits our activities generate (see page 73).

In October 2019, we became members of the Better Buildings Partnership (BBP) and signed their climate change commitment. As a signatory to the climate change commitment we pledged to publish in 2020 a detailed net zero carbon route map and to work alongside our fellow BBP members to improve the performance of our existing property portfolios.

We fully intend to honour these commitments and will publish our route map on our website during 2020. Our route map will be based on our net zero carbon strategy (see page 81).

We believe that it is important to be transparent and accurate with our data. Our environmental and health and safety data is all subject to 'reasonable assurance' verification by Deloitte LLP. We also report under both GRI and EPRA reporting frameworks. In 2019 we received EPRA's gold award for our Annual Sustainability Report, we scored 80 points in the GRESB Sustainability Benchmark and our CDP rating was 'Management B'. Full details can be found in our Annual Responsibility Report.

Members of the Sustainability and Company Secretarial teams

OUR ESG JOURNEY

2013
- Published our first full set of carbon accounts
- Launched our Community Fund in Fitzrovia

2014
- Launched our Sustainability Framework for Developments and Assets
- Achieved our first BREEAM Outstanding ratings

2015
- Undertook our first Company-wide staff survey – 'Developing our Future'
- Prepared our first GRI (Global Reporting Initiative) report

2016
- Published our science-based carbon targets
- Expanded our Community Fund coverage to include our Tech Belt portfolio

2017
- Achieved a SKA Gold rating for the refurbishment of our offices at 25 Savile Row
- Ranked 12th in the Corporate Knights Global 100 Index

2018
- Started our employee development programme – 'Fit for the Future'
- Worked with the Science-Based Target Initiative (SBTi) to validate our science-based targets

2019
- Joined the RE100, committing to procuring 100% renewable electricity
- Developed our Green Finance Framework and became the first UK REIT to launch a Revolving Credit Facility with a 'green' tranche

2020
- Developed and launched our net zero carbon strategy
- Undertake feasibility studies to:
  — Reduce the energy demand of our managed and unmanaged investment portfolio
  — Investigate opportunities for self-generated renewable energy
  — Reduce the embodied carbon of our new developments
  — Offset the residual carbon emissions we cannot eliminate

...2030
- Operating our business on a net zero carbon basis

NET ZERO

The Annual Responsibility Report can be downloaded from our website at: www.derwentlondon.com/responsibility

RESPONSIBILITY CONTINUED

UNITED NATIONS' SUSTAINABLE DEVELOPMENT GOALS (SDGS)

The United Nations' 17 SDGs are an international standard aimed at addressing global challenges including inequality, climate change and environmental degradation. As a responsible business, we recognise our role in supporting the UK in its response to this standard and helping to affect change in London and Scotland. The goals that are particularly significant to our business are shown below. For a more detailed review of our progress against the United Nations' SDGs, please refer to our Annual Responsibility Report. In addition, within our Green Finance Framework, we demonstrate how our 'green' finance eligibility criteria aligns with the United Nations' SDGs (further information on page 73).

SDGs that are significant to our business

4 QUALITY EDUCATION

Quality education
Through our Community Fund we invest in, and support, youth and adult education and skills training – both technical and vocational (see page 89).

5 GENDER EQUALITY

Gender equality
We are active in ensuring meaningful gender equality in our business. As at 31 December 2019, 48% of our workforce (including Directors) is female. We require our suppliers to have similar gender diversity policies in their businesses (see page 138).

7 AFFORDABLE AND CLEAN ENERGY

Affordable and clean energy
We purchase 100% Renewable Energy Guarantees of Origin (REGO) backed electricity for our buildings. As part of our net zero carbon strategy, we are reviewing renewable gas supplies and increasing the use of on-site renewable energy generation (see page 80).

11 SUSTAINABLE CITIES AND COMMUNITIES

Sustainable cities and communities
We actively promote the inclusion of public spaces in and around our buildings, and ensure they are fully accessible to those with disabilities. We are one of the Mayor of London's Business Climate Leaders, a group established to help London become a net zero carbon city by 2050.

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Responsible consumption and production
We set performance requirements in our development projects that focus on the efficient use of natural resources, life cycle efficiency and high levels of waste recycling. In the management of our buildings, we set recycling targets and require that no waste goes to landfill (see page 82).

13 CLIMATE ACTION

Climate action
We have independently verified science-based carbon targets which are set to a 2°C reduction scenario. We are committed to reducing our carbon emissions and making our portfolio climate resilient. In 2020, we have brought forward our net zero carbon target to 2030 (see pages 80 and 81).

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 • Net zero carbon strategy (see page 81) • Climate change governance (see page 90) and risk management (see page 56) • Executive Directors' annual bonus (see page 157)
Social and employee aspects	• Volunteering Policy • Equal Opportunities & Diversity Policy • Professional Development & Training • Shared Parental Leave • Flexible Working Policy	• Our Community Strategy (see page 88) • Our employees (see page 84 to 85) • Diversity & inclusion (see page 85 and 119)
Respect for human rights	• Individual Rights Policy • Health & Safety Policy Statement • Supply Chain Sustainability Standard • Modern Slavery Statement	• Health and safety (see page 86) • Human rights and modern slavery (see page 137) • Supply Chain Sustainability Standard (see page 138)
Anti-corruption and bribery issues	• Anti-bribery Policy • Whistleblowing Policy • Expenses Policy • Money Laundering & Terrorist Financing Policy • Preventing facilitation of Tax Evasion Policy	• Audit Committee's report (see pages 122 to 127) • Risk Committee's report (see pages 128 to 135) • Our principal risks (see page 46) • Compliance training (see page 134)

Additional disclosures: p.20 Business model p.42 Non-financial key performance indicators p.119 Board diversity

80 CHARLOTTE STREET W1, DELIVERING A NET ZERO CARBON BUILDING

Developing a net zero carbon building requires a holistic approach, one that looks not only at the energy efficiency of the design but also includes embodied carbon, energy supply and operational monitoring and efficiency.

As part of our Sustainability Framework for Developments we conduct detailed energy and carbon assessments of our schemes, including TM54 in-use energy analysis and mapping embodied carbon. At 80 Charlotte Street, we additionally challenged the design team to create a building that was not just climate resilient but would also respond to a future low carbon world.

As a result, 80 Charlotte Street will be our first all-electric building, removing the need for combusting natural gas for heating and hot water and it will utilise air source heat pumps for all heating and cooling needs.

To ensure the building is net zero carbon, it will be powered with renewable electricity and subject to demanding energy consumption reduction targets to optimise usage. We will offset the remaining embodied carbon we have not been able to eliminate through the design and delivery process.

80 Charlotte Street – CGI

RESPONSIBILITY CONTINUED

Environmental

Climate resilience – we ensure our investment portfolio and development pipeline incorporate the right resilience measures to mitigate any potential negative impacts of climate change.

2019 ACHIEVEMENTS

- Established our net zero carbon strategy (see page 81)
- Conducted our phase 2 Energy Savings Opportunity Scheme (ESOS) audit
- 10% reduction in like-for-like carbon emissions
- 4% reduction in energy intensity (kWh/m²)

2020 FOCUS AREAS

- Launch our net zero carbon strategy
- Perform a post-occupancy evaluation of our White Collar Factory building
- Continue to refine and embed the Better Buildings Partnership's Design for Performance (DfP) initiative in our Baker Street scheme
- Develop our carbon offsetting strategy to support our target to be net zero carbon by 2030

p.73 Green Finance Framework

p.56 Our resilience to climate change

Net zero carbon

Our target is to make our existing portfolio net zero carbon by 2030. This is a 20-year acceleration on our previous target of 2050, demonstrating our determination to not only adapt to the risks of a changing climate but also respond to the opportunities. In addition to the environmental and ethical benefits, we believe this will reduce letting risk (as occupiers seek more sustainable buildings), extend the life of our buildings and, potentially, enable us to command higher rents.

We have been working towards becoming net zero carbon for several years. In 2017, we were one of the first UK REITs to adopt independently verified science-based targets to map our progress to becoming a net zero carbon business (see page 82).

For our existing portfolio to become net zero carbon, we need to significantly reduce our carbon footprint across all our activities and spheres of influence. Our initial net zero carbon strategy will focus on three principal elements – our development pipeline, our investment portfolio (managed and unmanaged properties) and the procurement of utilities. Our strategy will require us to invest additional capital expenditure and management time. For a more detailed breakdown of our net zero carbon strategy, please see our Annual Responsibility Report.

Developments – our current on-site developments will be net zero carbon buildings on completion:

- They will use 100% renewable energy;
- The embodied carbon produced in the development process will be offset; and
- They will have appropriate energy reduction targets to decrease operational energy consumption.

80 Charlotte Street W1, is our first 'all-electric' building, with its heating and cooling needs supplied by air source heat pumps. In future, our schemes will be all-electric, renewably powered and will utilise the Better Buildings Partnership's Design for Performance (DfP) process to eliminate the energy performance gap. The DfP initiative was established by the property industry to tackle the energy performance gap and provide an approach, based on measurable performance outcomes, to ensure new office developments deliver on their design intent.

Investment portfolio – our current investment portfolio, which comprises both our managed and unmanaged properties, will be operated on a net zero carbon basis by 2030. To achieve this target, we intend to significantly reduce our energy consumption. This will require us to upgrade some of our properties to enable them to make the energy savings required and, where possible, we will remove any on-site combustion of gas.

Our net zero carbon strategy will require enhanced collaboration with our occupiers. It will be easier to achieve net zero carbon within our managed portfolio (currently 68% of our total portfolio), however, we will aim to cover the entire portfolio, including the unmanaged portfolio over time.

Utilities – we currently procure 100% renewable, REGO backed electricity and some 'green' gas. We will ensure that all our energy requirements will originate from renewable sources. During 2020, we will be investigating off-site renewable energy generation opportunities to reduce our market-based dependency.

What could impact on our ability to become net zero carbon by 2030?

- Newly acquired properties: one of the ways we add value through our business model is by acquiring poorer quality buildings to regenerate. As a result, there is likely to always be an element of our portfolio which is progressing towards becoming net zero carbon.
- Unmanaged portfolio: within our portfolio we have a number of single-let buildings, with long leases, where the occupier is responsible for maintaining the property and ensuring its energy efficiency (currently 19% of our portfolio). As we are not responsible for the management of the building, this could be an area of challenge to achieving net zero carbon by 2030. We will actively engage with these occupiers and promote the benefits of net zero carbon.
- Emerging regulation and science: our strategy to becoming net zero carbon will adapt in line with emerging regulation, planning policies and science. We recognise that best practice and technological solutions will evolve over time and we must ensure we adapt to these accordingly.

NET ZERO

Our approach to net zero carbon is centred around the key areas of our business which have the greatest potential to help us drive down our carbon emissions and ensure we are responding robustly to the risks of a changing climate.

OUR NET ZERO CARBON STRATEGY

DELIVERING GREEN DEVELOPMENTS

Set targets to reduce operational and embodied carbon

Specify all-electric heating and cooling systems

Set carbon budgets during appraisals

ACHIEVING A GREEN INVESTMENT PORTFOLIO

All-electric programme for feasible assets

Collaborate with occupiers and Building Managers to reduce energy demand

FUTURE PROOFING ENERGY

Procure 100% renewable energy (electricity and gas) for managed portfolio

Explore opportunities for direct investment in renewable energy

↓

CARBON OFFSETS

Offset residual emissions that can't be eliminated through verified schemes

↓

NET ZERO CARBON

The Featherstone Building EC1 – CGI of exterior targeting BREEAM Outstanding/LEED Platinum/net zero carbon

RESPONSIBILITY CONTINUED

Energy efficiency actions taken during 2019

During 2019, we performed our phase 2 Energy Savings and Opportunities Scheme (ESOS) assessment which identified over 1,800 MWh of potential energy savings within our portfolio. This assessment will inform our energy efficiency programme for 2020. Over the past year, we implemented a range of energy conservation measures which saved over 4,500 MWh of energy. We achieved this by eliminating heat and cooling conflicts, together with optimising flow and return temperatures and optimising night purge strategies.

Streamlined Energy and Carbon Reporting (SECR) disclosure

Our SECR disclosure presents our carbon footprint across Scopes 1, 2 and 3, together with an appropriate intensity metric and our total energy use of electricity, gas and biomass. In 2019, the Group reduced its like-for-like carbon intensity by 10% (tCO_2e/m^2).

SECR DISCLOSURE

4,650

Total Scope 1 emissions (tCO_2e)

0*

Total Scope 2 emissions (tCO_2e) (market based)

	2019	2018
Total Scope 1 emissions (tCO_2e)	4,649	4,223
Total Scope 2 emissions (tCO_2e)		
(location based)	2,925	3,458
(market based)	0	0
Total Scope 3 emissions (tCO_2e)	11,809	12,538
Carbon intensity ratio (tCO_2e/m^2)	0.017	0.019
Total energy use (kWh of electricity, gas and biomass use)	34,194,690	34,297,942

* 100% of the electricity we purchase from the market is from Renewable Energy Guarantees of Origin (REGO) backed sources

Data notes (reporting period 1 January to 31 December 2019)	
Boundary (consolidation approach)	Operational control, based on our corporate activities and property portfolio all of which are in central London (UK) only.
Alignment with financial reporting	The only variation is that our GHG emission/energy data presented does not account for single-let properties or those not under management control, as we have no influence over the utility consumption in these buildings. The rental income from 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.
Emissions factor source	DEFRA, 2019 - https://www.gov.uk/government/collections/government-conversion-factors-for-company-reporting for all emissions factors.
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 and emissions from downstream leased assets (tenant emissions).
Independent assurance	Public reasonable assurance (using ISAE 3000) is 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 further analysis of our GHG emissions, energy consumption and renewable energy generation, use and procurement see our Annual Responsibility Report.

ENERGY EFFICIENCY AT THE WHITE CHAPEL BUILDING

During 2019, the White Chapel Building team, led by Building Manager Karolina Gasiorowska, launched an energy efficiency project designed to identify and maximise energy savings opportunities. A key part of the project was to fully utilise the control power within the Building Management System (BMS). A range of measures were implemented, with the support of our occupiers, which included:

- occupier 'Green Forums' led by the Assistant Building Manager, Nathan Joseph, followed up with monthly emails to tenants with information on their energy usage;
- using the BMS to manage the entire central hot water system on a demand-led basis, as opposed to a traditional 'set time' basis;
- delaying the start time for air handling units by an hour;
- reducing the hot water cylinder storage temperature;
- bringing the boiler control fully into the BMS; and
- replacing redundant valves and sensors.

These measures have currently yielded a 13% energy reduction, with further saving opportunities identified.

THE TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD)

Since our first disclosure in 2017, we have been embedding the TCFD guidelines into our business to ensure transparency of our understanding and management of climate-related risks. Our full TCFD disclosure is provided in the Annual Responsibility Report and a summary is provided below:

GOVERNANCE

The Board is responsible for approving the Group's net zero carbon ambitions, setting long-term science-based targets and actively monitoring portfolio performance.

p.90

Describe the board's oversight of climate-related risks and opportunities	• Our Responsible Business Committee, a principal committee of the main Board, oversees the management of our climate related risks and opportunities, which is in turn informed by our Sustainability Committee.
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 chair of the Sustainability Committee and oversees the performance of our climate-related work.

STRATEGY

Climate change is factored into all aspects of our strategy, including our financial planning. We were the first UK REIT to sign a RCF with a 'green' tranche and launched our Green Finance Framework in 2019.

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 new minimum energy efficiency standards (MEES) for commercial and domestic property. • Medium term (5-10 years) – market demand from occupiers for buildings and spaces with higher levels of efficiency and lower carbon footprints. • Long term (15+ years) – changing climate conditions in London, principally temperature increases, 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. • Our scenario analysis tool allows us to model various energy/carbon management measures on specific buildings to establish the likely impact/contribution they have on our science-based carbon reduction targets.
Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	• Physical climate-related risks, such as increasing temperatures, could increase the stresses on our properties and in turn increase our cost base, e.g. management and utility costs and our GHG emissions. • As a property owner and operator, we have a significant focus on energy and carbon reduction, ensuring our buildings operate as efficiently as possible. As a result, we have adopted a pragmatic 'bottom-up' approach to carbon reduction and energy management to ensure a high degree of resilience.

RISK MANAGEMENT

Climate change risks are identified and monitored as part of our wider risk management procedures. We factor climate-related risks into the development and management of our buildings.

p.56

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 include sustainability/climate change-related risks) to the Executive Committee. These risks are assessed by the Committee to understand their severity, likelihood and the optimal controls and/or mitigation required.

METRICS AND TARGETS

As a member of RE100 we are committed to 100% renewable power for our buildings. We have an ambition to be net zero carbon by 2030 and have science-based targets to assess our performance.

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.	• Our Streamlined Energy and Carbon Reporting (SECR) disclosure is detailed on page 82.
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.

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 at Derwent London.

2019 ACHIEVEMENTS

- 29 employees completed our bespoke management and leadership programme (Fit for the Future)
- Enhanced benefits and organised workshops and activities to improve employee wellbeing
- Provided unconscious bias training to all Directors and line managers
- Held a very successful Company awayday focusing on collaboration
- Designed and conducted our third formal employee survey with a response rate of 94%

2020 FOCUS AREAS

- Mental health awareness training for all managers and the creation of a network of mental health champions
- Run a 'Fit for the Future' programme for a further 28 employees
- Steering group to analyse the results of the 2019 employee survey and make recommendations to the Executive Committee
- Launch the Innovation Initiative to encourage employees to come forward with their ideas
- Continue to promote individual wellbeing alongside our respectful, inclusive and collaborative culture

Employee engagement

An 'open-door' policy is an important part of our culture and encourages interaction between staff and management. This, together with a range of formal and informal communication channels (see pages 19 and 104), has helped create a highly engaged workforce. During 2020, we will launch an Innovation Initiative to encourage employees to come forward with their ideas.

Employee survey results

Our formal biennial employee survey enables us to gather employee feedback and assess levels of engagement. This is designed in conjunction with an independent provider and sponsored by the Executive Directors. Our third survey was rolled out during Q4 2019 and we were delighted to achieve a 94% response rate with no area scoring less than 63% ('strongly agree' or 'agree'). Year on year, our overall engagement score remains high; 96% of respondents said they are 'proud to work for Derwent London', while 88% would like their 'long-term career to be at Derwent London'. In addition, 90% would 'recommend Derwent London as a great place to work', up from 87% in 2017.

Encouraging collaboration across the Group was a focus area during 2019, so we were delighted when 85% of respondents positively agreed that 'their team works effectively with other teams and departments to achieve a common goal', a 19% increase from 2017. 90% of employees said they 'know what is expected of them in their role' while 89% 'feel that they can make a valid contribution to the success of Derwent London'.

We remain focused on continuous improvement. In Q1 2020, a new steering group of employees will analyse the survey results and make recommendations to the Executive Committee. This process will be co-ordinated by the employee-nominated members of the Responsible Business Committee (see page 139).

Attracting and optimising talent

We recognise that our employees are essential to the successful delivery of the Derwent London strategy and to our long-term business performance. We have a high-performance culture in which our talented and diverse workforce can thrive.

27% of our employees have more than 10 years' service, with 34% of outstanding external talent joining us over the past three years. We believe this provides the right level of continuity and business knowledge, balanced with fresh ideas, experience and skills.

We continue to invest significantly in our employees and operate a comprehensive learning and development programme which caters to our employees' behavioural and technical needs at all levels. This programme includes a suite of core skills training sessions, our induction programme, internal technical workshops, mandatory compliance training (see page 134), bespoke training for our Building Managers (see page 87) and 360-degree feedback.

Our 'Fit for the Future' leadership initiative was successfully rolled out in 2019 to 30 employees. Each programme was run by a dedicated executive coach and sponsored by two Executive Directors who were involved in the design and content of the modules. These focused on personal development, learning and collaboration and were supplemented with one-to-one and group coaching sessions. During 2020, we will be rolling out the programme to a further 28 employees.

We were delighted to be placed first in the property sector, and in 9th position overall, in Management Today's 'Britain's Most Admired Companies' award in 2019.

Wellbeing

We want our employees to feel valued as part of a happy and supportive team. Our Employee Health & Wellbeing Strategy provides employees with services and support to maintain, or in some cases improve, their physical and psychological wellbeing.

During 2019 our activities included:

- upgrading our comprehensive preventive healthcare package (medical and dental) for all employees which includes a 24-hour confidential Employee Assistance Programme;
- working closely with our Occupational Health Provider in relation to advice, referrals and on-site workshops;
- focusing on encouraging employees and line managers to embrace our agile working policy, leading by example;
- providing informative workshops during the year to help employees take control of their health, manage energy levels and adopt healthier behaviours, e.g. exercises for desk-based work, nutrition and mental health; and
- launching a new Social Committee to build relationships in a fun, relaxed environment.

89% of respondents to the survey felt that 'the company is committed to ensuring the health and wellbeing of employees'.

DERWENT LONDON AWAYDAY

In September 2019 we held our second Company awayday at a beautiful location just outside London. The awayday provided an opportunity for our CEO to address our employees with his vision and strategy for the future, encourage collaboration across the business and, most importantly, have fun. The day included dragon boat racing, a motivational speaker and 'Sports Day' activities. In the evening we held our Summer Party, which Cilla Snowball attended, at our new Brunel Building in Paddington. Overall the day was a complete success, with overwhelmingly positive feedback.

In 2020, we will roll out specific mental health awareness training for all line managers, in addition to building a network of mental health champions. There will also be a variety of wellbeing activities throughout the year, as well as a new quiet 'library' and standing desks at our Savile Row office. In respect to our supply chain, we will continue to champion mental wellbeing initiatives by working closely with our contractors to help raise awareness.

Diversity and inclusion

We are an inclusive and respectful employer welcoming diversity and promoting equality, acceptance and teamwork. It is important to us to create a workplace in which our people can feel a genuine sense of belonging.

Our belief in 'diversity of thought' extends our definition 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 creative solutions and adds value for our stakeholders.

In accordance with our Equal Opportunities & Diversity Policy, we give full and fair consideration to all employment applicants regardless of disability. Recruitment, training, reward and career progression are based purely on merit. We also accommodate, wherever possible, part-time, agile and flexible working requests, adjusting to allow for employees or applicants with a disability.

The composition in respect of gender, ethnicity, age and length of service within the Group as at 31 December 2019 is shown in the charts on page 121. We consider diversity at all levels of the business. The Board's diversity focus areas and achievements in 2019, is on page 120.

p.119 Our progress against the Hampton Alexander Review's targets

Developments in the portfolio offer a level of inclusive design that exceeds the minimum access requirements of the Building Regulations. We employ specialist consultants who work alongside our architects from inception, to advise on and review our schemes to ensure both statutory and Equality Act compliance.

Ongoing activities to advance diversity and inclusion:

- mandatory unconscious bias training for all employees across the Group in partnership with the charity, Chickenshed;
- nurturing a culture of transparency and openness encouraging people to raise any concerns and speak out about bias or discrimination;
- reviewing our family-friendly policies;
- encouraging employees and line managers to embrace our agile working policy, with the latter leading by example; and working with recruitment agencies to provide gender-balanced shortlists and making it clear that we are an equal opportunity employer.

RESPONSIBILITY CONTINUED

Social

Health and safety - we continued to improve our health and safety performance in 2019 as we strive to create a business with an industry leading health and safety capability.

OUR ACHIEVEMENTS IN 2019

- A comprehensive review of fire safety procedures across our portfolio
- Completed over 1,700 hours of health and safety training with 115 employees and contractors
- Our flagship development in Fitzrovia, 80 Charlotte Street, recorded over three million-person hours without a reportable injury
- The Group continued to reduce our accident frequency rate (AFR) from 0.09 in 2018 to 0.08, despite a 6% increase in person hours worked

2020 FOCUS AREAS

- Continue to drive the health and safety agenda across all our activities, giving health (physical and mental) the same priority as safety
- Through consultation with our internal and external stakeholders, introduce the 'Derwent Way', which is a suite of health and safety standards for the way we work
- Implement an organisational Fire Safety Management System (FSMS) to meet the new requirements of BS 9997 Fire Risk Management Systems
- Inspire visible leadership in health and safety with quarterly Directors' tours

Our approach to health and safety

The management of our health and safety risks is critical to the growth and success of our business. We adopt an integrated approach to health, safety and wellbeing (including both physical and mental health) so that it is considered at every stage during the life cycle of our properties, from acquisition, through to management, development and leasing. By setting outstanding health and safety standards and providing the right environment for people to thrive, we can help to ensure our employees, occupiers and visitors are safe, healthy and productive.

During the year, our Group Head of Health & Safety strengthened the team by recruiting specialists in key areas such as property management, construction and health and safety training. We have an excellent health and safety record and have made further progress in 2019 (see our key statistics on page 87).

Health and safety governance

Our CEO, Paul Williams, is the designated Board Director for health and safety, with overall accountability for health and safety and is the signatory of our Health & Safety Policy. A directly employed chartered health and safety professional acts as our Group Head of Health & Safety to manage our compliance with the Group's legal obligations and responsibilities.

Employees

A total of 115 employees and contractors have been trained in health and safety matters through a combination of classroom and e-learning training. As a result, there has been an enhancement in their skills, knowledge and general attitude, positively impacting the day-to-day safe and healthy running of our building operations and developments. In 2020, a further competency review and training needs analysis will be undertaken to determine further focus areas.

Managed portfolio

To increase property-wide compliance and risk awareness, we commissioned external risk reviews on all our buildings throughout the year, which included a benchmarking exercise against our peers. This enabled us to focus our resources on specific issues and look at trends for improvements across our health and safety management system. Following the review, we made improvements in our accident reporting tool and compliance database and unified some of our processes to streamline our approach.

In addition to the risk review, we have improved our fire safety procedures to align ourselves with upcoming legislative changes and standardise our reporting system. We have also employed a full-time Water Consultant to carry out audits of the water services across our portfolio and standardise reporting/logbooks. In 2020, we will be making further improvements to residential health and safety management, to exceed what is currently required for legislative compliance.

Our Managed Portfolio now has a dedicated Health and Safety Manager who has built relationships with our Building Managers and provides them with guidance and support.

Development and construction

2019 was another busy year for our development team with the safe completion of Brunel Building W2 and the major refurbishments at The White Chapel Building E1 and The Johnson Building EC1.

In spring 2020, we expect to complete our flagship development in Fitzrovia, 80 Charlotte Street, which has achieved over three million-person hours without a reportable injury. This is a considerable achievement and testimony to the unrelenting hard work put in by all parties.

Our development projects continue to have an excellent health and safety record and we will strive to ensure that this continues in 2020 with the introduction of the 'Derwent Way'. This new suite of standards will enhance our existing processes for health and safety, specifically around fire safety, construction design and management of asbestos, to help our buildings meet the highest standards for workers, tenants and users.

We will also set minimum standards for the Considerate Contractors Scheme (CCS), the Construction Logistics and Community Standard (CLOCS), and Fleet Operators Registration Scheme (FORS) to help manage and promote construction in a responsible manner for the safety of the public and road users alike, especially vulnerable groups such as cyclists and pedestrians.

We are committed to improving the image of health, safety and wellbeing within the construction industry. During 2020, we will be setting ambitious health and safety targets for our project teams and partnering with our Principal Contractors to monitor on-site occupational and mental health.

2019 has seen innovation improvements, such as the increased use of cutting booths within our developments to help reduce the risk of silicosis and related illnesses. In 2020, we will be working closely with our contractors to look at practical measures which can be taken to reduce the ill health effects from dust, substances, musculoskeletal disorders (MSDs) and mental health.

Health and safety and the management of Construction, Design and Management (CDM), are key elements of Derwent London's development projects, demonstrated by our contractors' performance during 2019 which included:

- 2.4 million-person hours worked (up by 6.32% from 2018);
- 1.2 million-person hours worked across the entire portfolio without a reportable accident;
- 2 RIDDORs, both at Soho Place (see note below); and
- A reduced accident frequency rate (AFR), 54% below the industry average.

Performance is monitored using a robust set of standards and procedures, which are applied to all construction projects and verified by an independent third party. We strive to be at the forefront of construction best practice and continue to support industry-wide initiatives, for example, the HSE initiative Managing Construction Health Risks and Helping GB Work Well.

Our health and safety compliance

Our compliance system QUOODA® currently generates reports, that not only focuses on key management priorities but also tracks and manages health and safety risks across the portfolio. We will be conducting a review of how QUOODA® is being used during 2020, to ensure ease of usage and transparent reporting.

HEALTH AND SAFETY TRAINING

During 2019, health and safety training was a key focus area. We identified health and safety training needs against job profiles and enrolled our people onto the relevant training courses.

Our Building Managers were enrolled on the NEBOSH National General Certificate course, an industry-recognised qualification. In addition, due to our diverse property portfolio, we enrolled the relevant Building Managers onto the P405 Managing Asbestos Safely and without Risk to Health course. Other courses were attended by our employees both internally (e.g. coaching for Building Managers to pass their NEBOSH exam) and externally (the IOSH Managing Safely and Fire Warden training). We want to make sure all our employees have the relevant health and safety training to suit their job profile and that it is integrated into everything they do.

Our Health and Safety team

Health and safety statistics

The table below details our key health and safety statistics and accident frequency rate (AFR) for 2018 and 2019. The Group reduced its AFR from 0.09 in 2018 to 0.08, with a 6% increase in person hours worked.

	Employees		Managed portfolio		Developments	
	2019	2018	2019	2018	2019	2018
Person hours worked	n/a	n/a	n/a	n/a	2,335,651	2,196,901
Minor accidents	7	1	48	28	34	20
RIDDORS	0	0	0	0	2	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	0.08	0.09

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.

(ii) RIDDORs related to two on-site incidents at Soho Place for a cut hand in the site office and a delivery driver tripping over materials when they stepped backwards.

RESPONSIBILITY CONTINUED

Social

Community, occupiers and other stakeholders - Long-term relationships are key for our buildings to be an intrinsic part of their communities.

2019 ACHIEVEMENTS

- The Fitzrovia Community Fund became the Fitzrovia & West End Community Fund thereby extending its target area and establishing a greater community base
- 50 projects supported through the Tech Belt Fund since its inception in 2016
- Further funds committed to the Sponsorships & Donations Committee in order to provide greater financial support to charities in the wider community

2020 FOCUS AREAS

- Raising the aspirations of young Londoners by facilitating greater access to the world of work and to the workplace
- Focus support on projects that champion good mental health in the communities across our portfolio
- Commitment to ensure our work experience candidates are recruited from a wider pool of community groups and youth organisations to further improve both gender and diversity balance

Our Community Strategy

Looking beyond the bricks and mortar of our buildings to ensure we are creating a positive socio-economic impact is an important part of our management approach. Playing an active role in the communities in which we operate, and more widely across London, allows us to build lasting relationships with local stakeholders.

Our Community Strategy guides our efforts and sets a structured approach which requires us to develop action plans for each of our major 'villages' – recognising each as unique.

To help us deliver our plans we use a variety of engagement approaches, including volunteering, 'pro bono' work and our Community Funds to support 'grassroots' projects across our portfolio. In addition, we have an active corporate giving programme to support a wide range of charitable organisations through sponsorships and donations.

EFFECTIVE LONG-TERM SUPPORT

Ongoing communication is key to an effective relationship. One such example is our connection since 2016 with the Soup Kitchen that operates from the American International Church, in the heart of our Fitzrovia portfolio.

Our involvement with the Soup Kitchen started when they were a successful applicant to Derwent London's Fitzrovia Community Fund. Subsequent conversations and visits led us to believe that we could do more than just support them financially. Derwent London's volunteering scheme for staff has enabled us to take on a more active role in their outreach, with on average two employees volunteering every month to prepare food, serve breakfast and talk to the Soup Kitchen's guests.

The Soup Kitchen's work extends beyond providing meals for their guests. They realise that homelessness and mental health are often intertwined issues. This aligned with Derwent London's two key focus areas during 2019 to support charities and groups that address these subjects.

"In June 2019, we launched Europe's first-ever mental health drop-in centre located within a Soup Kitchen. Derwent agreed to fund an entire year of therapy for our guests, enabling them to meet our expert therapists twice each week. Our aim is to give people an opportunity to take control of their lives by helping to provide a sense of stability and hope, and Derwent is instrumental in helping us achieve that."

Alex Brown
Director at the Soup Kitchen

Our Community Funds

Derwent London recognises the wider community as a valued stakeholder and our commitment to community groups continues to be a priority. Our Community Funds were established to help us engage effectively with the local communities in and around our buildings and is focused across our two largest areas – Fitzrovia & West End and the Tech Belt.

The Fitzrovia Fund was originally set up in 2013 and, through successive years, it has helped us to build strong relationships with our community stakeholders. In 2019, this Fund became the Fitzrovia & West End Fund in order to cover more areas in the West End including Paddington. This has given us the opportunity to engage with new groups.

The Tech Belt Fund launched in 2016 and has evolved over the past three years to build on our connections in the local area as a company that is committed to long-term engagement. Our Community Funds aim to support grassroot projects with a focus on community events, environmental improvements, health and wellbeing activities, music and culture and ongoing help for disadvantaged groups. To date, over £650,000 has been given to almost 100 projects. During 2019 a total of £115,000 was awarded to 19 projects across the two funds.

Corporate giving

Our sponsorship and donations programme supports a wide variety of charitable organisations and initiatives. During 2019, we donated over £270,000 to 48 projects – ranging from LandAid, Cardboard Citizens, COSMIC (Children of St Mary's Intensive Care) and Seymour Place Community Hub. In addition, £10,000 was given to our annual employee-nominated charities, which for 2019 were The Brain Tumour Charity, Silverline and the MS Society.

During the year our pro bono work saw us support a variety of organisations through the provision of our people's time and expertise. Examples include participating in LREF's learning day, career sessions with Marylebone Boys School and undertaking energy audits for community groups.

p.18 Our stakeholders

p.95 Factoring our stakeholders into our decisions

OUR PORTFOLIO SUPPORTING LOCAL COMMUNITIES

It's important to us that our buildings and our occupiers connect to their surroundings and become part of their neighbourhoods. The spacious and relaxed reception space at the White Chapel Building naturally lends itself to welcoming visitors. It is home to a number of companies working in a range of sectors and is a prime example of a variety of careers housed under one roof. The space was used to showcase to local schoolchildren the types of prestige companies that are choosing to locate and operate in their neighbourhood. Such events can raise aspirations and open up career avenues for local children.

Therefore, in October, working with Tower Hamlets Education & Business Partnership (THEBP), we hosted our first ever careers carousel for Morpeth School. Forty 14-15 year old students took advantage of meeting with nine of the building's occupiers, as well as a team from Derwent London, and were encouraged to quiz them about their career paths and experiences.

We received positive feedback from the school with students agreeing that the various company representatives had been supportive and helpful when discussing their jobs and workplaces.

Following the careers carousal, several White Chapel Building occupiers have expressed an interest in working further with THEBP and Morpeth School, and we look forward to hosting more of these events in the future.

"Thank you so much for arranging today. I had great feedback from the teachers who said the students were really engaged and loved the building and the atmosphere"

Miriam Keith
Careers Lead and Transitions Co-ordinator, Morpeth School

RESPONSIBILITY CONTINUED

Governance

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

2019 ACHIEVEMENTS

- Appointed two employees to become members of the Responsible Business Committee (see page 139)
- Developed a mandatory compliance training programme in 2019 for all employees (including Directors) which covered topics such as modern slavery, unconscious bias, respect in the workplace, tackling the facilitation of tax evasion and conflicts of interest (see page 134)
- Enhanced the role of the Sustainability Committee and revised its membership
- The Responsible Business Committee received training on the Task Force on Climate-related Financial Disclosures (TCFD)

2020 FOCUS AREAS

- Publish our 2019 Modern Slavery Statement and agree focus areas to further strengthen our processes
- Monitor progress against our net zero carbon strategy
- Review the Group's charitable donations, volunteering and work experience programmes
- Follow up on the responses received from the Supply Chain Sustainability Standard questionnaire
- Host the Group's first Stakeholder Day in October 2020 (see page 104)

What governance means to Derwent London

Our approach to corporate governance embeds our values into policies and procedures, creating clear lines of accountability and oversight, whilst maintaining our flexibility to be innovative and creative. Within this part of the Responsibility section, we provide an overview of how we govern environmental, social and governance (ESG) issues. Further information on governance is disclosed in the Corporate governance statement on pages 102 to 115.

p.96 Governance at a glance

p.97 Governance framework

A responsible business

Our Chief Executive, Paul Williams, is the designated Board Director with overall accountability for ESG matters. He oversees the review and performance of our responsibility work as chair of the Sustainability Committee and member of the Responsible Business Committee (see our ESG governance framework on page 91).

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. During the year, the Board accelerated our ambition to become net zero carbon and we explain on pages 80 to 81 the challenges, targets and activities to achieve this goal by 2030.

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 and management matters from the Head of Sustainability.

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 - our 2019 Scope 1, 2 and 3 GHG emissions data, intensity ratio and energy data received 'Public Reasonable Assurance'. 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 (the assurance statement is available on our website).

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 78, 82 and 83).

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.

In May 2019, the Responsible Business Committee received training on the Task Force on Climate-related Financial Disclosures (TCFD), further information on training is on page 111. Our TCFD disclosures are on page 83.

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

Identifies climate risk to inform the risk management process

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 138 for further information).

p.19 How we engage with our suppliers

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.

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 Committees 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. 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 127.

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.

p.48 Tax risk

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).

p.137 Human rights and modern slavery

Our ESG governance framework

The Board

Overall responsibility for ESG matters

Risk Committee	Responsible Business Committee
Identifies and evaluates key ESG risks (principal and emerging) ensuring they are appropriately managed	Monitors the Group's corporate responsibility, sustainability and stakeholder engagement activities
p.128 Report	p.136 Report

Audit Committee	Remuneration Committee
Monitors assurance and internal financial control arrangements	Ensures ESG factors are included in the executive remuneration framework
p.122 Report	p.140 Report

Executive Committee

Responsible for overseeing the Group's ESG initiatives

Sustainability Committee	Health & Safety Committee
Responsible for implementing the Board's ESG strategy	Responsible for monitoring health and safety management and performance

Sponsorship & Donations Committee	Social Committee
Responsible for the Group's charitable activities and donations	Aims to encourage team working and collaboration between departments through social activities

Additional governance disclosures

p.07 Non-financial highlights

p.138 Responsible payment practices

p.109 Whistleblowing

p.95 The section 172(1) statement

p.138 Supply Chain Sustainability Standard

p.133 Anti-bribery & corruption

Tea Building E1

Once occupied by the Lipton Tea factory, Tea Building ('Tea') was originally a block of early 20th-century warehouses which have been simply refurbished to create 269,300 sq ft of quality office space on which the various different occupiers can stamp their own character. As we have refurbished space we have improved its environmental impact through our 'Green Tea' initiative. Tea is also home to a private members' club and hotel, Shoreditch House. In 2019, we upgraded the entrance and reception area at Tea. This gave us the opportunity to add 4,800 sq ft of new space, which is currently under offer.

GOVERNANCE

Image: Tea Building – CGI

INTRODUCTION FROM THE CHAIRMAN

John Burns
Chairman

2020 FOCUS AREAS

- Review the Group's strategy and five-year plan
- Monitor the progress of our key development projects: 80 Charlotte Street W1, The Featherstone Building EC1 and Soho Place W1
- As part of the Board's stakeholder engagement strategy, Non-Executive Directors will be meeting with employees in June 2020 (see page 104 for further information)

Dear Shareholder,
On behalf of the Board, I am pleased to introduce the Group's Corporate governance statement for 2019.

Governance
The 2018 UK Corporate Governance Code (the Code) became applicable to Derwent London from 1 January 2019. In advance of the effective date, the Board and its committees spent considerable time reviewing the Code to ensure our continuing compliance. I am pleased to report that for the year under review, we have consistently applied the Principles of good governance contained in the Code. Further information on our compliance with the Provisions of the Code, is available within our 2019 Compliance Statement.

Board succession
Despite 2019 being a transitional year for Derwent London, as Paul Williams succeeded me as Chief Executive Officer, I am pleased to report that our governance procedures ensured a smooth transition and 'management of succession' is no longer deemed to be a principal risk for 2020 (see page 47). We also welcomed Lucinda Bell to our Board from January 2019 and her induction process was successfully completed by June 2019 (see page 118).

Board evaluation
Our 2019 evaluation of the Board, its committees and individual Directors was externally facilitated by Tom Bonham Carter of The Effective Board LLP. We were pleased to receive external confirmation that our Board and committees continue to operate effectively with only minor focus areas identified for 2020 (further information on the process and outcome is on page 112).

Transparent reporting
The Board and reporting team work hard to ensure the Annual Report is transparent and provides meaningful disclosures on our activities and values. The 2018 Annual Report received several external accolades, shown on the inside back cover (IBC), including:

- ICSA Awards 2019: we won 'Strategic report of the year' and 'Stakeholder Disclosure of the year'
- The IR Society Awards: we won 'Best printed report FTSE 250'
- The Corporate and Financial Awards: we won 'Best printed report FTSE 250 (Bronze)'

Further engagement
As in previous years, I would encourage you to attend the Company's Annual General Meeting on 15 May 2020 where you will have the opportunity to meet the Board and members of senior management. Paul Williams will also be providing an overview of our business in advance of the formal business of the AGM.

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
25 February 2020

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, being:

(a) the likely consequences of any decision in the long term
(b) the interests of the Company's employees
(c) the need to foster the Company's business relationships with suppliers, customers and others
(d) the impact of the Company's operations on the community and the environment
(e) the desirability of the Company maintaining a reputation for high standards of business conduct
(f) the need to act fairly between members of the Company

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 18 and 19 we outline the ways in which we have engaged with key stakeholders and the material issues that they have raised with us.

Stakeholder engagement not only allows the Board to understand the impact of its decisions on key stakeholders, but also ensures it is kept aware of any significant changes in the market, including the identification of emerging trends and risks, which in turn can be factored into its strategy discussions.

s172 factor	Relevant disclosures	
The long term	p01	Company purpose
	p12	London's strength and versatility
	p20	Business model
	p30	Strategy
	p72	Dividend policy
Employees	p78	Non-financial reporting
	p84	Our people
	p85	Diversity and inclusion
	p104	Employee engagement
Business relationships – suppliers and occupiers	p138	Responsible payment practices
	p133	Anti-bribery and corruption
	p137	Modern slavery
	p138	Supply Chain Sustainability Standard
Community and environment	p26	Investing in neighbourhoods
	p80	Net zero carbon
	p83	TCFD disclosures
	p88	Our Community Strategy
	p89	Corporate giving
High standards of business conduct	p48	Derwent London brand
	p102	Culture and values
	p109	Whistleblowing
	p126	Internal controls
	IBC	Awards and recognition
Shareholders	p105	Shareholder engagement
	p146	Shareholder consultation in 2019
	p169	Annual General Meeting (AGM)

Methods used by the Board

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

- an annual strategy review which assesses the long-term sustainable success of the Group and our impact on key stakeholders (see page 102);
- 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 136 to 139);
- the Board utilises a stakeholder impact analysis to assess the potential impact of significant capital expenditure decisions on our stakeholders (see pages 106 to 107);
- 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 page 129 and 131);
- the Board sets the Group's purpose, values and strategy and ensures it is aligned with our culture (see page 102);
- direct and indirect stakeholder engagement (see pages 18 to 19 and 104 to 105);
- external assurance is received through audits, stakeholder surveys and reports from brokers and advisers; and
- specific training for our Directors and senior managers (see pages 106, 111 and 134).

Principal decisions in 2019

The principal decisions taken by the Board in 2019 are detailed on page 96 and relate primarily to the sale/purchase of properties, commencement of development projects, refurbishments, refinancing and the annual strategy review. Due to the nature of these decisions, a variety of stakeholders had to be factored into the Board's discussions.

In addition, the Board discussed various stakeholder concerns and initiatives including:

- the risks and opportunities posed by a changing climate;
- our digital transformation and moving towards smarter buildings for our occupiers; and
- the results of employee survey and subsequent resulting actions to further improve employee engagement.

FACTORING OUR STAKEHOLDERS INTO OUR DECISIONS

We provide an explanation of how our stakeholders impacted on the Board's discussions in respect to the Soho Place development and the Remuneration Committee's 2020 Remuneration Policy review on the following pages:

p.107 Soho Place

p.146 Remuneration Policy

GOVERNANCE AT A GLANCE

At Derwent London, we do not view corporate governance as an exercise in compliance but as an evolving and core discipline which generates value for our stakeholders and underpins our success.

UK CORPORATE GOVERNANCE CODE-2019 COMPLIANCE STATEMENT

The Board confirms that for the year ended 31 December 2019, the Principles of good corporate governance contained in the 2018 UK Corporate Governance Code (the Code) have been consistently applied. We set out on page 102 how the Governance section has been structured around the Code Principles.

As our Non-Executive Chairman was not independent upon appointment and was previously our CEO, we have been unable to comply with provision 9 of the Code. We will remain non-compliant with this provision until 2021 when John Burns will step down. The safeguards in place to ensure separation of leadership are detailed on page 116 and operated effectively during the year.

The Nominations Committee report contains an update on our progress in appointing an independent Non-Executive Chairman in 2021 to succeed John Burns.

p.116 Chair succession

Further information on the Code can be found on the Financial Reporting Council's website at: www.frc.org.uk

HIGHLIGHTS AT A GLANCE

Board and Committee meeting attendance
for the year ended 31 December 2019

100.0%

Female representation on our Board
as at 31 December 2019

33.0%

Board independence
as at 31 December 2019
(excluding the Chairman)

54.5%

KEY GOVERNANCE ACTIVITIES

The Board' s key governance activities during the year have included:

- External Board evaluation of the Board, its committees and individual Directors (see page 112);
- Comprehensive review of our executive remuneration framework and Remuneration Policy (see page 146);
- Appointing two employees to be members of the Responsible Business Committee (see page 139); and
- The 2019 Annual General Meeting.

MAJOR BOARD DECISIONS

The Board factored the needs and concerns of our stakeholders into its decisions in accordance with s172 of the Companies Act 2006 (see page 95). The major decisions taken by the Board and its Committees during 2019 included:

- Confirmed the Board's target to become net zero carbon by 2030 and approved the strategy (see page 80)
- Approved the sale of:
  - The Buckley Building EC1 for £103m before costs
  - Premier House SW1 for £50m before costs
  - 9 and 16 Prescot Street E1 for £57.5m before costs
- Approved the issue of £175m of convertible bonds due 2025 and the concurrent repurchase of the outstanding £150m 1.125% convertible bonds due 2019 (see page 72)
- Agreed with our principal bankers a revolving credit facility, with a £300m 'green' tranche, which provides a lower rate of interest to finance our green initiatives (see page 74).
- Approved the 2018 final dividend and 2019 interim dividend.

p.114 Key activities of the Board during 2019

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 102).

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.30 Our strategy | p.46 Our principal risks | p.95 s172(1) statement | p.114 Board activities in 2019

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.116 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.122 Report

Risk Committee
Reviews and monitors the Group's principal and emerging risks and the effectiveness of the Group's risk management systems.

p.128 Report

Remuneration Committee
Establishes the Group's Remuneration Policy and ensures there is a clear link between performance and the remuneration we pay.

p.136 Report

Responsible Business Committee
Monitors the Group's corporate responsibility, sustainability and stakeholder engagement activities.

p.140 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.10 Chief Executive's statement | p.40 Measuring our performance | p.58 Property review | p.100 Members

Supporting committees

The Executive Committee operates a number of supporting committees that provide oversight on key business activities and risks such as: the Credit (see page 133), Cost, Health and safety (see page 86), IT Liaison and Sustainability Committees.

Shareholders & 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 (see page 105), employees (see page 104) and other key stakeholders are on pages 18 to 19.

BOARD OF DIRECTORS

1. Lucinda Bell, 55
Non-Executive Director

Appointed to the Board: 2019

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

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

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

2. David Silverman, 50
Executive Director

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.

3. Simon Fraser, 56
Senior Independent Director

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 and of Legal and General Investment Management Holdings and Trustee of Glyndebourne Estate.

Committees:
Nominations (chair), Audit, Remuneration.

4. Claudia Arney, 49
Non-Executive Director

Appointed to the Board: 2015

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

Other public appointments:
Non-Executive Director of Kingfisher plc, the Premier League and Ocado plc.

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

5. Nigel George, 56
Executive Director

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.

6. Paul Williams, 59
Chief Executive

Appointed to the Board: 1998

Paul is a chartered surveyor who joined the Group in 1987. He was appointed Chief Executive in 2019. 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 Deputy Chairman of the Westminster Property Association.

Committees:
Responsible Business.

7. Helen Gordon, 60
Non-Executive Director

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, President of the British Property Federation and Board Member of EPRA.

Committees: Remuneration, Nominations.

8. John Burns, 75
Non-Executive Chairman

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.

9. Simon Silver, 69
Executive Director

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.

10. Dame Cilla Snowball, 61
Non-Executive Director

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: Private Sector Council GREAT campaign (chair) and The Wellcome Trust (Governor).

Committees: Responsible Business (chair), Nominations, Risk.

11. Damian Wisniewski, 58
Chief Financial Officer

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.

12. Richard Dakin, 56
Non-Executive Director

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.

SENIOR MANAGEMENT

EXECUTIVE COMMITTEE

1. Rick Meakin, Group Financial Controller **2. Emily Prideaux,** Director of Leasing **3. Richard Baldwin,** Director of Development **4. David Lawler,** Company Secretary **5. Jennifer Whybrow,** Head of Financial Planning & Analysis

SENIOR MANAGEMENT

6. Giles Sheehan, Head of Investment **7. David Westgate,** Group Head of Tax **8. Lesley Bufton,** Head of Property Marketing
9. John Davies, Head of Sustainability **10. Victoria Steventon,** Head of Property Management
11. Vasiliki Arvaniti, Head of Asset Management **12. Quentin Freeman,** Head of Investor & Corporate Communications
13. Katy Levine, Head of Human Resources **14. Umar Loane,** Head of Property Accounts

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 96.

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 98, 99 and 111). 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.

On an annual basis, the Board conducts a detailed annual review of our strategy (including our purpose, and strategic objectives). This year's review took place on 21 June 2019 and included high-level exploratory discussions to challenge whether the strategy remains fit for purpose and responsive enough to our ever-changing environment.

Through its review, the Board is able to assess and identify changing or emerging risks that could impact on the Group in the short and medium term (further information on our emerging risks is on page 45). As we generate value through the core activities identified in our business model (see page 20), the flexibility of the business model is also assessed by the Board to ensure it remains 'future ready'.

Some of the key aspects discussed by the Board during its strategy discussions included:

- changes to the London office market and investment market (see pages 12 to 15);
- our development pipeline in respect to its replenishment and future potential (see pages 28 to 29);
- review of the five-year plan;
- our employees, their wellbeing and developing our talent pipeline (see pages 84 to 85);
- emerging occupier trends;
- responsibility matters including our net zero carbon emissions strategy (see pages 80 to 83); and
- investor relations and corporate communications.

To ensure sufficient time for discussion, the Board utilises its five principal committees to effectively manage its time. 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. Further information on the activities of the principal committees can be found on pages 116 to 165.

Purposes, values and culture

Our purpose, values and culture are disclosed on page 01.

PURPOSE — Why we do what we do → VALUES — The qualities we embody → CULTURE — How we work together

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 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 109) 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 is 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 (see page 116).

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 page 106 and its s172 statement is on page 95.

The Board monitors and assesses the culture of the Group by regularly meeting with management and reviewing the outcomes of employee surveys. In addition to a direct 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 the employee survey is on page 84. Board engagement with employees is on page 104.

The Board also assesses cultural indicators such as management's attitude to risk, behaviours and compliance with the Group's policies and procedures. This is predominantly done through direct engagement with management at Board meetings and independent assurance is sought via the outsourced internal audit function and other advisers.

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 2019.

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 97) 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 18 to 19);
- maintaining a sound system of risk oversight, management and an effective suite of internal controls (see pages 50 to 57);
- providing independent insight and knowledge from the Non-Executive Directors; and
- facilitating the development and monitoring of key performance indicators (see pages 40 to 43).

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 2019.

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.

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.

CORPORATE GOVERNANCE STATEMENT CONTINUED

Stakeholder engagement

We recognise the importance of clear communication and proactive engagement with all of our stakeholders. Our engagement programmes are kept under review by the Board.

p.18 Our stakeholders

On 1 October 2020, we will be hosting our first Stakeholder Day, which will provide all interested stakeholders with the opportunity to meet with senior management and discuss our strategy and key activities.

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. We are fortunate that more than 95% of our staff are based at a single location, 25 Savile Row, which enables effective and daily engagement.

The Board and its Committees routinely invite members of the management team to attend 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.

HOW DO WE ENGAGE WITH OUR EMPLOYEES?

DEDICATED NON-EXECUTIVE DIRECTOR

Cilla Snowball is the dedicated Non-Executive Director for gathering the views of the workforce. During 2019, Cilla attended an employee summer event and as chair of the Responsible Business Committee oversaw our employee engagement methods. Further information on Cilla's role is on page 108.

RESPONSIBLE BUSINESS COMMITTEE

In May 2019, two employees were nominated by our workforce to become members of the Responsible Business Committee to provide input and insight to Board discussions. Further information on page 139.

WHISTLEBLOWING

Our whistleblowing system includes an anonymous reporting line for employees to raise any concerns directly with the Board. Further information on page 109.

'TOWN HALL' MEETINGS

'Town hall' meetings are frequently hosted by our Chief Executive. Employees can ask questions, anonymously if they wish, which are then answered to the whole workforce.

INTRANET

Our intranet is used as a platform for employees to access our policies and be kept fully informed of the latest Group news.

AWAYDAYS

On 19 September 2019, the Executive Directors hosted an all employee awayday which focused on team work. Further information on the awayday is on page 85.

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 (see page 84). We also conduct more informal 'pulse' surveys on staff satisfaction.

MEETING WITH NEDs

The Non-Executive Directors will host a meeting on 18 June 2020 for our employees to meet with them and discuss their positions, experience and to ask/answer questions.

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. In addition to meeting with shareholders at our AGM, our Chairman routinely meets with institutional investors and reports their views to the Board. To engage with our shareholders, the Board utilises the following engagement methods:

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 the proposed changes to the Remuneration Policy, further information on page 140.
Investor meetings	During 2019, the Group held over 293 investor meetings with 199 existing and potential investors. Of these, 73 were shareholders at the year-end and their ownership represented circa 60% of the shares in issue. Investor 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 London office outlook, the impact of Brexit and Board succession. 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 2019, we hosted year-end and interim results presentations and 40 property tours, which included two private client roadshows in the UK.
Property conferences	In 2019, we attended 10 property conferences (Amsterdam, Cape Town, London, Miami and New York).
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. Further information on the AGM is on page 169, 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, The Featherstone Building EC1 and Brunel Building W2 here: www.1sohoplace.london www.thefeatherstonebuilding.london www.brunelbuilding.com
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 116.
Other contacts	Contact details for our Investor relations team, Company Secretary and Registrars are available on page 242.

Calendar of our main shareholder events in 2019

Month	Events
JAN	Closed period
FEB	2018 results presentation, Roadshow (London)
MARCH	Roadshows (Netherlands, Edinburgh and London), Property conferences (London, Miami and New York), Investor Dinner (London)
APR	Notice of AGM sent to shareholders
MAY	Annual General Meeting, 2019 Q1 Business update, Property conference (Amsterdam), salesforce presentation
JUN	Roadshow (Leeds and Manchester), Property conference (London x2), salesforce presentation
JUL	Closed period
AUG	2019 H1 Results presentation, Roadshow (London)
SEPT	Roadshow (Edinburgh and Netherlands), Property conferences (London and New York), Brunel Building Launch, Investor Breakfast (London)
OCT	Salesforce presentation
NOV	2019 Q3 Business update, Roadshow (Bristol)
DEC	Property conference (London and Cape Town), salesforce presentation

CORPORATE GOVERNANCE STATEMENT CONTINUED

THE FEATHERSTONE BUILDING EC1 – UPDATE ON CONTRACTOR-LED COMMUNITY WORK

Developing long-term relationships with the local communities in which we operate is central to our work; it not only ensures we build lasting relationships but also helps others achieve their objectives. Our Community Strategy sets out our action plan relating to our corporate giving, Community Fund, volunteering and pro bono work. In addition, our contractors undertake significant work in relation to community engagement. Building on our ownership of White Collar Factory and Oliver's Yard, The Featherstone Building forms an integral part of the Old Street portfolio where we have managed buildings for the past 25 years.

Alongside Skanska (the main contractor delivering The Featherstone Building), we have continued to foster strong community relationships. Engagement activity has included:

- issuing regular newsletters that provide construction updates and inform local occupiers of key periods of noisy working;
- regular neighbourly drop-in sessions with presentations by Skanska on the current and upcoming site activities;
- 'open-door policy' so that all local residents can visit the site office if they have any immediate questions or concerns;
- volunteers from the site team participate in local projects such as clearing litter from nearby public spaces and cooking breakfasts for the Spitalfields Crypt Trust;
- noise and dust monitors are installed around the site to manage noise and dust levels, vehicles are jet washed when leaving site and a road sweeper operates to clear up any dirt/debris that arises; and
- a minimum of six construction trainees/apprentices will be employed through Skanska to provide local employment and development opportunities.

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.

Management 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.95 The section 172(1) statement

SOHO PLACE W1 – FACTORING OUR STAKEHOLDERS INTO OUR DECISIONS

In February 2019, the Board approved the Soho Place W1 development (formerly 1 Oxford Street) which will create a new 285,000 sq ft development consisting of 209,000 sq ft of commercial office space, 36,000 sq ft of retail space and a 40,000 sq ft (600 seat) purpose-built, state-of-the-art theatre.

In addition to making a satisfactory return to our shareholders, our stakeholder impact analysis identified the following additional key benefits to our stakeholders:

- creating an improved retail offering to this part of Oxford Street and Charing Cross Road with five new retail units and replacement of pavement surfaces to surrounding public highways, which will enhance the street-level public experience;
- new public realm space – Soho Place – will be created which will link Charing Cross Road and Tottenham Court Road Station to Soho Square and will include seating areas and a public art installation;
- the first purpose-built new-build theatre in Soho since the 1970s.
- assisting with improving local infrastructure, through s278 and s106 contributions as well as the Community Infrastructure Levy and Crossrail Contributions as part of our planning obligations;
- assisting with local employment by using local procurement opportunities and local labour, where possible; and
- part-funding the art installations within the new Elizabeth line.

Our stakeholder impact analysis identified the following key concerns:

- noise and vibration impact of Transport for London (TfL) vent shaft fans on auditorium acoustics in the theatre;
- increased traffic and noise in the area during construction;
- general disruption to the surrounding area including local businesses;
- construction above Tottenham Court Road and Elizabeth line stations and within close proximity of transport infrastructure, which is in use 24 hours a day, 7 days a week (see piling risk case study on page 130); and
- an absolute requirement not to exceed the TfL Loading Bearing Regime restricting loading on to TfL structures beneath.

To mitigate these concerns, the following measures were implemented:

Community and environment

- A detailed construction logistics strategy including traffic and vehicle movement modelling was agreed with TfL, London Buses and both Camden and Westminster City Councils to minimise the impact on the surrounding roads and bus routes.
- Noise and dust monitoring equipment was positioned around the site to ensure that the site remained within the limits stipulated by Westminster City Council.
- Quiet periods and quiet working times were agreed for St Patrick's Church and strictly adhered to.
- Community engagement forums have been undertaken to keep those surrounding the site fully informed and the on-site team have developed good relationships with local businesses and St Patrick's Church to ensure that they can continue to operate with minimum impact.
- Regular monthly newsletters are circulated to local stakeholders.

Construction

- Detailed discussions with stakeholders to agree the groundworks construction methodology and attain London Underground Limited (LUL) Infrastructure Protection sign-off for all associated demolition and construction operations.
- Tunnel Monitoring system fitted inside TfL structures to monitor any movements caused by the demolition, excavation and construction phases.
- Implementation of a structural Load Monitoring strategy whereby the 'weight' of the building is measured as construction progresses to verify that the requirements of the Load Bearing Regime are never exceeded.
- Ongoing early and close engagement with LUL Infrastructure Protection to secure their approval for lifting operations and works interfacing with TfL assets.
- The design of the auditorium and associated spaces within the theatre building were designed to provide structural and acoustic isolation from the main structure and from the TfL vent shaft that presented a noise and vibration transmission risk to the theatre.

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
- 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

- 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

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

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

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
- Responsible for 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.

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 102).

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. A mandatory training programme was approved during 2019 which aims to reinforce key compliance messages in areas such as anti-bribery, modern slavery, conflicts of interest, etc (see page 134).

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 110).

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 pages 140 to 165).

Our remuneration policies and practices are aligned with our pay principles, described on page 150, 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, 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.

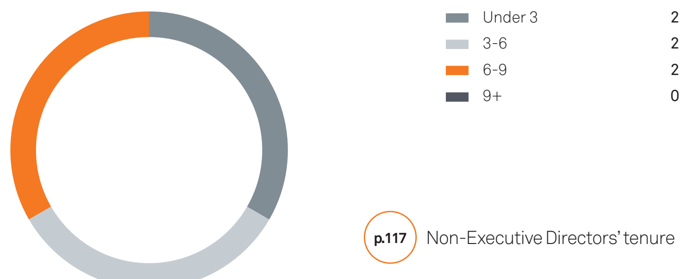
The Board receives updates from the Company Secretary on the operation of the whistleblowing system. During the year under review, we did not receive any whistleblowing messages (2018: no messages).

Independence

Independence of the Board
(excluding the Chairman)
Status

Tenure of the Non-Executive Directors

Years



p.117 Non-Executive Directors' tenure

The Board has identified on page 110 which Directors are considered to be independent. As at 1 January 2020, 54.5% of our Board (excluding the Chairman) are independent Non-Executive Directors, which is compliant with provision 11 of the Code.

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 (further information on page 117).

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, a founder of Derwent London plc and the CEO for over 30 years, was appointed Non-Executive Chairman for a fixed two-year term from the 2019 AGM. The appointment was considered by the Nominations Committee to be a natural transitionary step to preserve our culture and ensure an orderly succession following Robbie Rayne's decision to retire.

CORPORATE GOVERNANCE STATEMENT CONTINUED

As our Non-Executive Chairman was not independent upon appointment, we will be unable to comply with provision 9 of the Code until 2021, when John will step down and be succeeded by an independent Chairman (further information on page 116).

When finalising our Board succession plans, the Nominations Committee had due regard for the principles of good governance contained within the Code. In order to ensure the separation of leadership between the Chairman and Chief Executive, several 'safeguards' were put into place (further information on page 116).

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.

Prior to joining the Board, Lucinda Bell disclosed her current commitments and the time commitment involved. The Board was satisfied that Lucinda Bell could provide sufficient time to discharge her duties as a Director of Derwent London plc (see biographies on pages 98 to 99).

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. From 1 September 2019, Cilla Snowball became a Governor of The Wellcome Trust (a research charity) and Claudia Arney became a Non-Executive Director of Ocado Group plc. Both Cilla and Claudia notified our Chairman in advance of the appointment, and the Board confirmed that it does not believe that these additional directorships/roles will affect Cilla'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. 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 adjacent table for 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.

BOARD MEMBERS AND ATTENDANCE

	Attendance
Chairman	
John Burns	100%
Executive Directors	
Paul Williams, CEO	100%
Damian Wisniewski, CFO	100%
Simon Silver	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%
Cilla Snowball	100%

Notes:

(i) Percentages based on the meetings entitled to attend for the 12 months ended 31 December 2019

(ii) Lucinda Bell joined the Board as Non-Executive Director on 1 January 2019

(iii) Robert Rayne and Stephen Young stepped down from the Board at the AGM on 17 May 2019

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.

The Nominations Committee report on pages 116 to 121 provides further information on:

- Board composition, 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. The table below provides an overview of the skills and experience of our Directors as at 1 January 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 s172 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 their duties alongside the meeting agenda to ensure it is at the forefront of discussions.

During 2019, the Board:

- Completed 16 online compliance training courses on a range of topics including anti-bribery and corruption, modern slavery, diversity and inclusion (further information on page 134).
- Attended a cyber security education and awareness session hosted by our IT team and internal auditors, RSM, which covered:
  - Derwent London's threat landscape;
  - recent examples of phishing and whaling attempts at Derwent London and how these were identified and prevented from causing harm;
  - risks arising from social engineering; and
  - open discussion for attendees to share experiences and concerns.
- Received presentations on the following topics from external advisers:
  - executive remuneration trends and best practice;
  - climate resilience and the Taskforce on Climate-related Financial Disclosures (TCFD); and
  - the political and economic environment.
- Attended regular training updates from PwC and Deloitte.
- Received a legal update from Slaughter & May LLP in November.

Skills and experience[i]

Skill	Description	Number of Non-Executive Directors (including the Chairman)	Number of Executive Directors
Executive and strategic leadership	Senior executive and directorship experience	7	5
Financial acumen	Senior executive experience in financial accounting, reporting or corporate finance	4	2
Property and real estate	Experience in property development, construction or real estate management	4	5
Governance and compliance	Prior experience as a Board member, industry or membership of governance bodies	7	3
Corporate responsibility and community relations	Experience in corporate or social responsibility, charitable bodies or human resources	4	4
Health and safety, risk management	Experience in health and safety, risk management or internal controls	4	2
Investor relations and engagement	Experience in investor relations (private or institutional) and engagement	7	5
Capital projects	Experience working in an industry with projects involving large-scale capital outlays and long-term investment horizons	6	5
Remuneration	Prior Remuneration Committee membership and/or experience in relation to remuneration including incentive programmes	4	1

Number of Non-Executive Directors (including the Chairman)
Number of Executive Directors

Note:
[i] Requires senior management or executive level responsibility relative to that skill

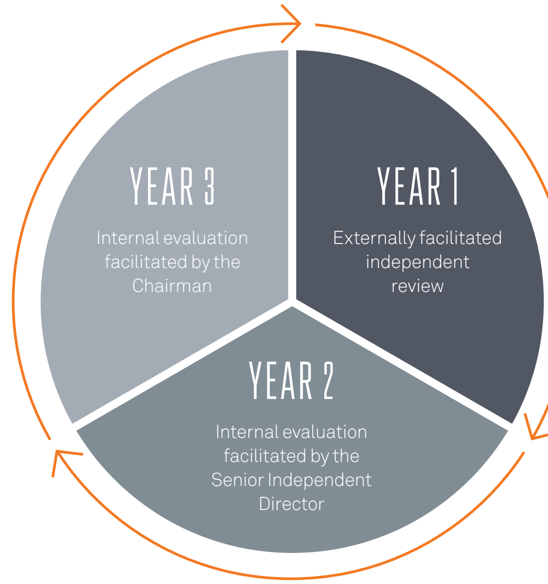
CORPORATE GOVERNANCE STATEMENT CONTINUED

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.

During the year, the Board agreed a formal three-year cycle which commenced in Q4 2019 with an externally facilitated review led by The Effective Board LLP.

The three-year cycle (illustrated to the right) was developed to enable reviews to be led from a fresh perspective, each year. It is anticipated that John Burns will step down as our Chairman in 2021 and the 'year 3' evaluation will be led by our newly appointed independent Chairman.



The evaluation for the year ended 31 December 2018

Last year's evaluation was described in the 2018 Annual Report on page 99. As a result of this evaluation, the Board identified a number of areas which it wished to focus upon during 2019:

Focus area	
Support the new Chief Executive and Non-Executive Chairman	The Nominations Committee monitored the transition and the effectiveness of the safeguards established to ensure the separation of leadership, see page 116. The Board confirms that the transition was well managed. 'Management of succession' has therefore been removed from our schedule of principal risks (see page 47).
Establish the Responsible Business Committee and ensure it operates effectively	The Responsible Business Committee was established in December 2018 and has been operational during 2019. Two employees were nominated by the Group's workforce to become members of the Committee (see page 139). The first report from the chair of the Responsible Business Committee is available on pages 136 to 139.
Ensure the Group is adequately prepared for Brexit	Brexit was a regular agenda item for the Board and its principal committees during 2019. Following the UK leaving the EU on 31 January 2020, the risk has evolved into concerns relating to adverse international trade agreements (see page 49). The Board will continue to monitor this risk during 2020.
Monitor the progress of key development projects	The Risk Committee received assurance from the development team during 2019 that the key risks for each major development was being identified and effectively managed (see page 132). A case study on the piling work completed at Soho Place is on page 130.

The evaluation for the year ended 31 December 2019

The 2019 performance evaluation was externally facilitated by Tom Bonham Carter of The Effective Board LLP (who has no other connection to the Company). The evaluation process was conducted between November 2019 and January 2020 and included a series of one-on-one interviews with Directors. An overview of the process is provided below.

September 2019	Competitive tender to select a Board evaluator
Early November 2019	Agreed the timetable and process
During November 2019	Individual interviews with Directors and the Company Secretary
January 2020	Meetings with the Board Chairman and Senior Independent Director to discuss initial results
February 2020	The Board reviewed the outcome of the evaluation and agreed the focus areas for 2020
During 2020	The Board and its principal committees will implement the agreed recommendations
February 2021	Review implementation and discuss whether further actions are needed

Selecting a Board evaluator

During the selection process, each evaluator was required to provide a written proposal and present to the Chairman, Senior Independent Director and Company Secretary. The following factors were considered when choosing the evaluator:

- the evaluator's proposed method and approach;
- their experience, skills and references; and
- any potential conflicts of interest.

The evaluation process

The evaluation process was tailored to Derwent London based on detailed discussions with the Chairman, Senior Independent Director and Company Secretary. The Company Secretary provided the evaluator with any requested information to facilitate the review which included (but was not limited to):

- the latest Annual Reports;
- the terms of reference for each principal committee;
- the Matters reserved for the Board; and
- the Board's calendar of meetings.

The individual interviews with the Directors and the Company Secretary were conducted during November and typically lasted 1 hour and 30 minutes. The agenda for the interviews was circulated to each participant prior to the meetings. The interviews also included individual Director appraisals, the results of which were independently fed back to the Board Chairman (except for any comments on the Chairman which were provided to the Senior Independent Director).

The interviews covered the following areas:

- the Company's purpose, the development of strategy, plans and targets;
- the suitability of the composition of the Board and the executive team;
- succession planning for all members of the Board and the Executive Committee;
- a review of each Director's contribution to the Board's effectiveness;
- the adequacy of the financial and operational resources to successfully implement the strategy;
- the effectiveness of engagement with employees, shareholders and other stakeholders;
- the effectiveness of the performance measurement systems;
- the effectiveness of the risk management systems and the internal controls;
- whether the Remuneration Policy works in both motivating the executive team to achieve the aim and within the approved levels of risk;
- 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; and
- a detailed discussion on the suitability of each committee's terms of reference and whether and how the committees are effective in fulfilling those terms of reference.

All parties involved have endorsed the external evaluation process as being a valuable exercise.

Re-election of Directors

In accordance with the Code, all the Directors will be putting themselves forward for re-election at the AGM on 15 May 2020. Following the formal performance evaluation (detailed above) and taking into account the Directors' skills and experience (set out on pages 98, 99 and 111), the Board believes that the re-election of each Director is in the best interests of the Company.

FEEDBACK FROM THE 2019 BOARD EVALUATION

The key strengths of our business and Board were identified as being:

- Our comprehensive approach to governance.
- The clarity of purpose, strategy and business model.
- The execution of strategy was considered 'exemplary'.
- The effectiveness of the executive team and employees.
- The Company's reputation in the market.

The key recommendations prioritised for implementation during 2020 and 2021 are detailed below.

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. • 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.
Risk Committee	• The Committee should review how the risk management system and framework has worked when an existing risk or emerging risk have emerged and impacted on the Company. • The next employee survey should try to assess the risk culture within the Company.
Nominations Committee	• Despite continuing diversity improvements, it was agreed that this will remain a focus area for the Committee during 2020. • Continue to focus on Executive Committee succession planning.
Responsible Business Committee	• Minor amendment suggested to the Committee's terms of reference which has been actioned. The updated terms of reference are available to download from our corporate website.

There were no suggestions made for how the Audit or Remuneration Committees could improve their effectiveness.

It was noted that the Board's viability statement and the Audit Committee's processes in respect of viability are 'one of the most comprehensive and transparent, both absolutely and relatively to other listed companies'. The robustness of the Audit Committee's process for monitoring the suitability of internal financial controls was also commended.

> "...clear evidence of the high degree of effectiveness of the Board and of the executive team and employees. Indeed, The Effective Board LLP believes this Board to be one of the most effective boards that it has reviewed"

Tom Bonham Carter
Extract taken from the recommendation report to the Main Board.

CORPORATE GOVERNANCE STATEMENT CONTINUED

KEY ACTIVITIES OF THE BOARD DURING 2019

Overview

The Board met seven times during the year (including the Annual General Meeting). One meeting every year is arranged specifically to consider the Group's strategy and five-year plan. 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 sale of:
  - The Buckley Building EC1 for £103m before costs
  - Premier House SW1 for £50m before costs
  - 9 and 16 Prescot Street E1 for £57.5m before costs
- Received regular updates on the key construction projects:
  - Brunel Building W2
  - 80 Charlotte Street W1
  - Soho Place W1
  - The Featherstone Building EC1
- Reviewed quarterly project cost reports
- Provided with regular updates on asset management, leasing and investment activities from the senior management team
- Reviewed and approved the half-yearly independent valuations of the Group's property portfolio

Link to strategic objectives:

1. 2. 4.

Strategy and financing

- Annual strategic review in June 2019 to approve the five-year plan which included receiving presentations from the Executive Committee and updates from external advisers
- 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 the offering of £175m of convertible bonds due 2025 and the concurrent repurchase of the outstanding £150m 1.125% convertible bonds due 2019
  - Approved a new 'green' Revolving Credit Facility (see page 74)
- Regularly considered the impact of Brexit and political uncertainty on our business and strategy

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
- 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
- Reviewed the results of a legal audit into our GDPR procedures
- Complete compliance training programme (see page 134)
- Reviewed the tenant at risk register

Link to strategic objectives:

2. 3. 4.

	FEBRUARY	MARCH	APRIL	MAY
Board and Committee meetings	• Main Board • Audit Committee	• Remuneration Committee		• Main Board • Audit Committee • Risk Committee • Responsible Business Committee • Annual General Meeting (AGM)
Key announcements	• 2018 year-end announcement	• Brunel Building office space fully pre-let	• Publication of Annual Report and Notice of AGM • Notice of Bondholders' meeting • First office pre-let at Soho Place W1	• Q1 Business update • Adjustment to conversion price • 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 2020 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 2019 Annual Report to check it is fair, balanced and understandable

Link to strategic objectives:

1. 2. 5.

Stakeholder engagement

- Met shareholders at the Annual General Meeting (AGM) held on 17 May 2019
- Accelerated our target to become net zero carbon by 2030 (see page 80)
- Received updates from the chair of the Responsible Business Committee on the Group's sustainability initiatives
- Received updates on our investor engagement programmes and regular investor relations reports
- Reviewed the results of the third employee survey conducted in Q4 2019 (see page 84 to 85)
- Approved the first grant under the Group-wide Sharesave Plan (see page 159)
- Received progress updates on our diversity targets and focus areas (see pages 119 to 121)

Link to strategic objectives:

3. 4.

Governance

- Ensured the separation of leadership between the roles of Chairman and CEO (see page 116)
- Participated in an externally facilitated evaluation of the Board, its Committees and all Directors
- Performed an annual review of the Committees' terms of reference and that the Committees' membership remained appropriate
- Received regular governance updates from the Company Secretary
- Reviewed the Matters reserved for the Board
- Routinely considered the Board's conflicts of interests
- Received regular updates from the Remuneration Committee on the Remuneration Policy review and the feedback received from shareholders during consultation (see page 146)

Link to strategic objectives:

1. 3.

JUNE	AUGUST	OCTOBER	NOVEMBER	DECEMBER
• Strategy awayday	• Main Board • Audit Committee • Risk Committee • Nominations Committee • Remuneration Committee	• Remuneration Committee	• Main Board • Audit Committee • Risk Committee • Nominations Committee • Remuneration Committee	• Main Board • Remuneration Committee • Responsible Business Committee
• Convertible bond offering and concurrent repurchase • Convertible bond: conversion and repurchase price	• 2019 Interim results • Sale of The Buckley Building EC1	• Derwent London first UK REIT to sign a RCF with a 'green' tranche	• Q3 Business update • Apollo pre-letting at 1 Soho Place W1	• Disposal of 40 Chancery Lane WC2

NOMINATIONS COMMITTEE REPORT

Simon Fraser
Chair of the Nominations Committee

2020 FOCUS AREAS

- Continue the search for an independent Non-Executive Chairman to succeed John Burns from May 2021
- Monitor succession planning and our talent pipeline at Board and Executive Committee level
- Start planning for the recruitment of an independent Non-Executive Director during 2021

Dear Shareholder,
I am pleased to present to you the report of the work of the Nominations Committee for 2019.

Since 1 January 2019, all Non-Executive Directors have been members of the Nominations Committee. As disclosed in the 2018 Annual Report, this was to ensure all Non-Executive Directors could be involved in discussions relating to succession planning and talent management.

CEO succession
2019 was a transitional year for the Board as John Burns became Non-Executive Chairman and Paul Williams took up the role of CEO. In respect to these succession changes, we consulted with 10 major shareholders representing 57.5% of our issued share capital and have been delighted with the positive feedback received during consultation and after the AGM on 17 May 2019.

The safeguards in operation during the year to ensure the clear separation of leadership between Chairman and Chief Executive were:

- John's appointment is for a finite period of two years and he is based at a separate office (not 25 Savile Row);
- the responsibilities of Chairman and Chief Executive are clearly defined and regularly reviewed;
- the next Non-Executive Chairman will be independent upon appointment; and
- I remained available as an intermediary to shareholders and Directors to raise any questions and concerns.

The Committee monitored the transition and I can confirm it was well managed.

Chair succession
As promised the Committee has been working on finding a successor to John Burns as Non-Executive Chairman. The Committee will ensure that the incoming Chairman is independent upon appointment. Our progress to date has been promising and we envisage being able to announce John's successor in the second half of 2020, which will provide sufficient time for induction and handover. John is due to step down from the role of Non-Executive Chairman during 2021.

Diversity
I am pleased to report that the targets for boardroom gender diversity and direct reports to the Executive Committee have been achieved well in advance of the Hampton-Alexander Review's deadline of 31 December 2020 (see page 119). As at 31 December 2019, 48% of our workforce is female (including Directors) (see page 121).

Other activities
Other activities of the Committee during the year under review, have included the annual composition review of the Board and its principal committees and consideration of future Board succession plans (further information on pages 117 and 118).

Further engagement
If you wish to discuss any aspect of the Committee's activities, I will be attending the forthcoming AGM on 15 May 2020 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
25 February 2020

Committee composition

Our Committee consists of six independent Non-Executive Directors (biographies are available on pages 98 to 99). 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	3	100%
Claudia Arney	Yes	3	100%
Lucinda Bell	Yes	3	100%
Richard Dakin	Yes	3	100%
Helen Gordon	Yes	3	100%
Cilla Snowball	Yes	3	100%

The Committee's role and responsibilities are set out in the terms of reference, which were last updated in August 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 three meetings (in February, August and November) which occurred either before or after a scheduled Board meeting (2018: four meetings).

Committee performance evaluation

As part of the externally facilitated Board evaluation performed by The Effective Board LLP during Q4 2019, the Committee's effectiveness was subject to review. No significant issues arose from the evaluation, however, a number of minor focus areas were identified (further information on page 113).

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. Further information on the Board's diversity is on page 119.

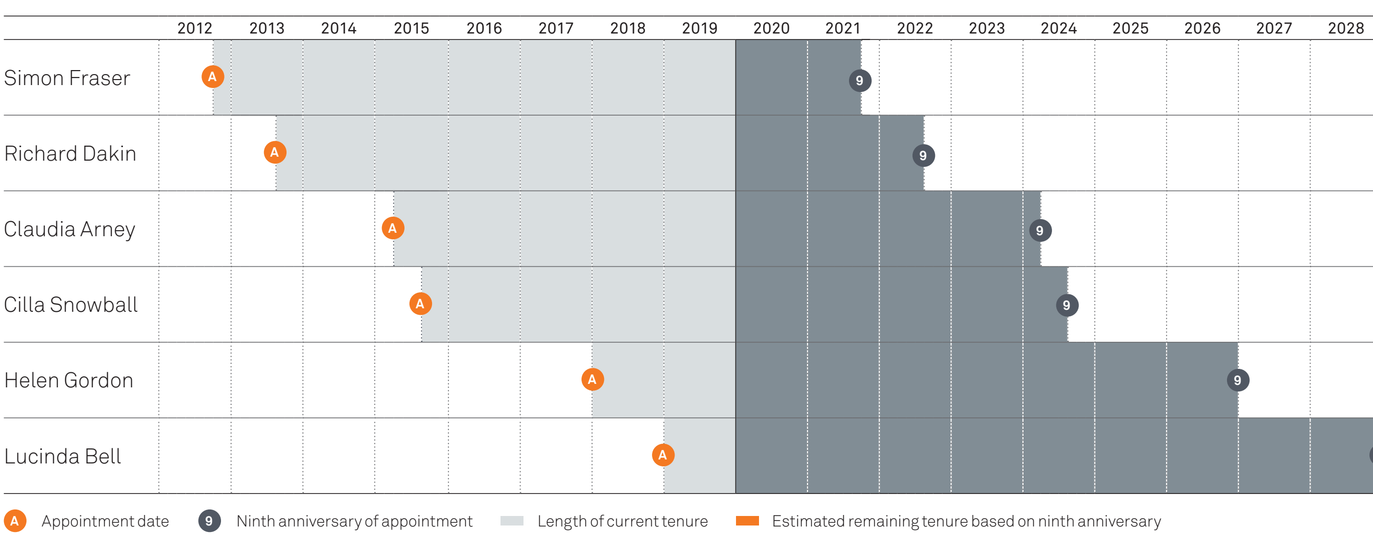
	Audit Committee	Risk Committee	Remuneration Committee	Nominations Committee	Responsible Business Committee
Simon Fraser	✓		✓	Chair	
Richard Dakin	✓	Chair		✓	
Claudia Arney	✓		Chair	✓	✓
Cilla Snowball		✓		✓	Chair
Helen Gordon			✓	✓	
Lucinda Bell	Chair	✓	✓	✓	
Number of independent NEDs:	4	3	4	6	2
Number of Executive Directors:	–	–	–	–	1
Number of Employee representatives:	–	–	–	–	2
Total membership:	**4**	**3**	**4**	**6**	**5**

During the year, two employees were nominated by their peers to become members of the Responsible Business Committee, further information is available on page 139.

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 (NED) 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 unless in exceptional circumstances (see the table below).



The Committee has agreed that its initial focus during 2020 will be on the appointment of an independent Non-Executive Chairman to succeed John Burns from May 2021. Following this appointment, the Committee will consider the need to recruit an additional Non-Executive Director during 2021 as Simon Fraser reaches his ninth anniversary on the Board in September 2021.

NOMINATIONS COMMITTEE REPORT CONTINUED

Appointment review
As Richard Dakin's current term of office was due to expire in August 2019, the Committee performed a rigorous review of his appointment. The Committee's review considered Richard's:

- contribution to boardroom discussion;
- independence;
- industry knowledge;
- length of tenure on the Board;
- outcome of his latest individual annual effectiveness review;
- Board composition (including diversity considerations); and
- time commitment to the appointment (including other external appointments).

Richard Dakin was not present when his term of appointment was considered by the Committee. The Committee is pleased to report that it is satisfied with Richard's ongoing performance and commitment and has recommended that his appointment be extended for another three years.

Induction
The Company provides new Directors with a comprehensive and tailored induction process which includes visiting a number of the Group's properties with senior management, meetings with the Group's audit partner and corporate lawyer together with meetings with members of the senior management team. 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 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:

- the Group's risk register and Schedule of Principal Risks;
- our latest budget and five-year plan;
- recent broker reports and feedback from our stakeholder engagement programmes;
- information on our sustainability initiatives;
- recent reports from the external Auditor, PwC; and
- Matters reserved for the Board and the Committee terms of reference.

Lucinda Bell's induction began during 2018 in advance of her appointment to the Board from 1 January 2019. An overview of her key induction events is provided in the timeline below.

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 co-ordinated.

The Committee also 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. 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.

Timeline: Lucinda Bell's key induction events

JUL 2018
- Met with the CEO and Senior Independent Director;
- Met with Claudia Arney, Chair of the Remuneration Committee, to gain an overview of how our Remuneration Policy ensures a clear link between performance and pay for executives; and
- Met with the Group's brokers

AUG 2018
- Met with the Chairman of the Board; and
- Stephen Young, Chair of the Audit Committee

OCT 2018
Met our corporate lawyers, Slaughter & May LLP

NOV 2018
Site tours of our major developments and properties with insights provided by our senior management team

DEC 2018
Met with the Group's external Auditor, PwC

JAN 2019
Received a presentation on the Group's key development projects and the management of risks by Richard Baldwin, Head of Development

FEB 2019
- Met with the Group's external valuers
- Met with the Head of HR and Head of Sustainability to gain an overview of stakeholder matters

MAY 2019
Visit to Scotland to receive an overview of our Scottish estate

1ST HALF OF 2019
Individual meetings with members of the Executive Committee

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 84 to 85).

We fully support, and are signatories to, the Property Week Diversity Charter and the RICS Inclusive Employer Quality Mark. We are founding supporters of Real Estate Balance and we are also members of the City Women Network (CWN) which provides membership to all our senior female employees.

Board diversity policy

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.

Our gender diversity policy ensures that, where possible, each time a Director is recruited, at least one of the shortlist of candidates is female.

Whilst we have identified areas where we could further improve our diversity balance, principally our ethnic and gender 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.

On 5 February 2020, Sir John Parker published an update report on ethnic diversity. Currently 24% of our workforce identify as non-white. During 2020, the Committee will continue to focus on diversity at Board level and within the Group's talent pipeline with particular focus on ethnic diversity. The Board is aware and supportive of the recommendation that by 2024, all FTSE 250 Boards have at least one director of colour.

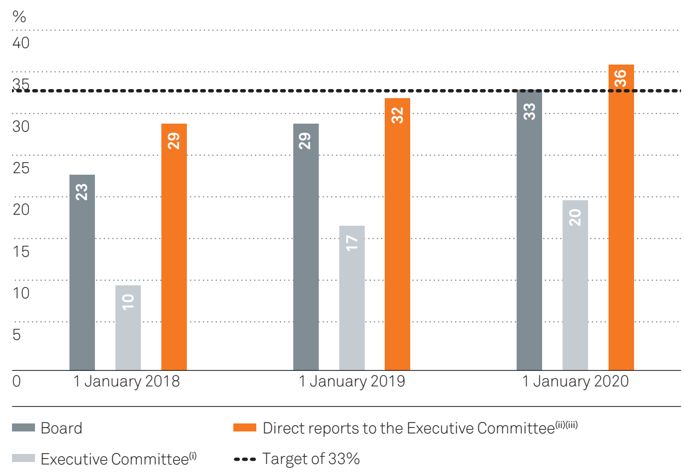
Gender diversity targets

The Company have 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 have been achieved well in advance of the deadline, however, our Executive Committee gender diversity remains a challenge. Since 2017, the gender balance of the Executive Committee has improved from 10% to 20% and the combined gender balance of the Executive Committee and its direct reports have improved from 25% to 32%.

Improving the diversity of the Executive Committee can only be achieved through either increasing its size (which is not considered a practical or effective solution) or through natural succession changes. Although it is disappointing that this target might not be achieved within the deadline, the Committee has been focusing on the talent pipeline to the Executive Committee and its diversity focus areas (see page 120) which aim to improve diversity throughout the Group.

Hampton-Alexander Review



Notes:

(i) The Executive Committee is composed of five Executive Directors and five senior managers (see page 100). If the Executive Directors are excluded from the calculation, the gender diversity of the Executive Committee is 40% women.

(ii) The combined diversity balance of the Executive Committee and its direct reports (excluding administrative and support staff) is 31.7% women as at 1 January 2020.

(iii) Direct reports to the Executive Committee, excluding administrative and support staff, is 35.5% women. Direct reports to the Executive Committee, including administrative and support staff, is 47.5% 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.

Focus	Actions taken during 2019	Further actions required in 2020
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)	• Unconscious bias training provided to everyone involved in recruitment or performance appraisals • All current recruitment agencies are signatories to the Code of Practice • During the year under review: — 63% of new recruits have been female — 47% of new 'professional' recruits have been female — This is a further improvement from 2018, when 47% of new recruits (and 31% of new professional recruits) were female	• All employees to attend compulsory unconscious bias training • Continue with current initiatives including to ensure: — all recruitment agencies are signatories to the Code of Practice — all shortlists have gender balance — review of family-friendly policies
Retaining the best talent • Focus on women returning to work • Promote the importance of work/life balance • Equal opportunities for all	• Introduction of parental transition coaching designed to support men and women, enabling them to achieve a seamless return to the workplace, during and after a period of extended leave • We have continued to promote agile working and the importance of a work/life balance. During 2019, 56% of our staff worked agile (340 days in total) • We have designed and implemented a 'core skills' training programme, open to all employees, focusing on personal development, advancement and leadership skills • 29 employees completed the recently established Fit for the Future programme during 2019	• Continue to actively promote agile working arrangements and remove any perceived barriers • Flexible working requests will continue to be accommodated whenever possible • A further 28 employees to undertake the Fit for the Future programme • Introduce an additional four new core skills workshops which includes a module on work/life balance
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	• 50% of all internships and work experience placements have been female (2018: 24% female) including two girls from 'Fitzrovia Youth in Action', Camden's leading youth charity supporting disadvantaged young people • Three female work experience students came via the organisation Inspire! and their initiative 'City Talent'. A paid work placement initiative for financially disadvantaged young people aged 16-19 supporting young people (including BAME) from the boroughs of Camden, Islington and the City • Two students (one male and one female) came via the Westminster organisation 2-3 Degrees, who provide employment opportunities for young people (including BAME) in Westminster as well as ways to improve their employability opportunities • Two young women recruited through the Hackney 100 work experience scheme (unfortunately, one dropped out due to family/school pressures). The other young woman remains with us and is due to complete her placement in February. She has been supervised by two female role models at the White Chapel Building and White Collar Factory • Four female employees took part in a career's carousel at Parliament Hill School (a secondary school for girls). The event was organised by Inspire! and aimed to challenge stereotypes	• Participate in a further careers event during 2020 • Continue to have gender balance within our internships and work placements

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 2020. The Board's composition as at 1 January 2020 is shown on pages 109 and 119.

Length of service

Years

Years	
Under 3	46
3-5	21
5-10	31
10-15	17
15-20	11
20+	9

Employees by age

Years

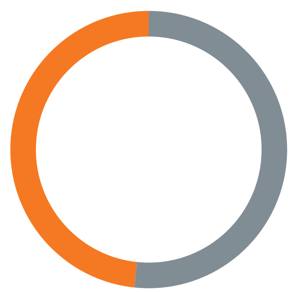
Years	
19 or below	1
20-29	13
30-39	45
40-49	34
50-59	29
60+	13

Headcount by department

Gender diversity

(inc. Board of Directors)

Number



Number	
Men	70
Women	65

p.119 Gender diversity of the Board and Executive Committee

Ethnic origin

Number

Number	
Asian	12
Black	11
Middle Eastern	1
Mixed	6
White British	85
White other	18
Undisclosed	2

AUDIT COMMITTEE REPORT

Lucinda Bell
Chair of the Audit Committee

2020 FOCUS AREAS

- Ensure a smooth transition as Sandra Dowling becomes the new audit partner
- Review our internal financial control procedures to ensure they continue to operate effectively
- Monitor changes to legislation and the UK Corporate Governance Code following the publication of The Brydon Report
- Review the external valuers' appointment policy
- Conduct a review of RSM's effectiveness and assess their compliance with the Internal Audit Code of Practice

Dear Shareholder,
This is my first report to you as Chair of the Audit Committee after Stephen Young stepped down from the Board at the 2019 AGM. I am pleased to provide you with an overview of the Committee's main activities and areas of focus during the year.

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. A subcommittee of the Audit Committee meets twice yearly to review the underlying assumptions and estimates made during the valuation process (see page 124).

During the year under review, the Committee:

- performed a detailed effectiveness review of our external valuers;
- reviewed and approved the proposed new lead valuer signatories at CBRE Limited; and
- agreed that a detailed review of our valuers' appointment policy would be conducted during 2020.

External Auditor
Following the 2019 year-end audit, John Waters will step down as our audit partner and will be succeeded by Sandra Dowling. After discussing the handover process in detail with our Chief Financial Officer, Damian Wisniewski, we are confident that the transition and handover period will be efficiently managed.

Internal audit
The Committee appointed RSM to act as the Group's outsourced internal audit function in December 2018 and approved the 2019 audit plan at a joint meeting with the Risk Committee in May 2019. An overview of the reviews performed is provided on page 126 of this report.

Overall, the Committee has been pleased with the work performed by RSM and with the additional assurance received from their reviews. Management have actively embraced any recommendations raised and have acted swiftly to implement the limited number of recommendations identified. We intend to perform a formal review of RSM's effectiveness during 2020.

Financial reporting
We were pleased to advise the Board that the 2019 Annual Report is fair, balanced and understandable and provides the necessary information for our shareholders to assess the Company's position, prospects, business model and strategy. Our review process is described in greater detail on page 127.

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).

I will be attending the 2020 AGM alongside my fellow Board members and look forward to meeting you there.

Lucinda Bell
Chair of the Audit Committee
25 February 2020

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 98 to 99). 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	4	100%
Simon Fraser	Yes	4	100%
Richard Dakin	Yes	4	100%
Claudia Arney	Yes	4	100%
Stephen Young [(i)]	Yes	2	100%

[(i)] Stephen Young attended all meetings until he stepped down from the Board on 17 May 2019.

The Committee's role and responsibilities are set out in the terms of reference, which were last updated in November 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 met four times, in February, May, August and November (2018: three meetings). 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. Two additional subcommittee meetings are held each year with the Group's external property valuers to consider the valuation of our property portfolio.

Committee performance evaluation

As part of the externally facilitated Board evaluation performed by The Effective Board LLP during Q4 2019, the Committee's effectiveness was subject to review. The Committee was concluded to work effectively and no recommendations were raised. The evaluator did highlight two areas of the Committee's work for being particularly robust (its viability processes and review of internal financial controls), further information on page 113.

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. 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 230 to 233);
- the effectiveness and application of internal financial controls (see page 126);
- material accounting assumptions and estimates made by management (see note 3 on page 185);
- significant judgements or key audit matters identified by the external Auditor (see pages 175 and 176); 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 external Auditors 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.

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 2019 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 195 to 198).	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.
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 203).	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.

AUDIT COMMITTEE REPORT CONTINUED

Portfolio valuation

Our property portfolio is valued by the external valuers for our interim and year-end results. As at 31 December 2019, it was valued at £5.475bn (2018: £5.2bn) and principally consists of 82 properties in 13 'villages' across London.

p.16 Our property portfolio

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 40 and 156).
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 110).

Key matters discussed during the meetings include:

- the assumptions underlying the valuation and the quality of data;
- any valuation which required a greater level of judgement than normal, for example development properties;
- any valuation movements that were not broadly in line with that of the MSCI Investment Property Databank (IPD) benchmark;
- the London commercial property market and the potential impact of Brexit on the valuation; and
- the quality of the Derwent London team.

The assumptions underlying the valuation are discussed with the external Auditor and an update on the matters discussed at the meetings is provided to the Board.

During the year, the Committee also reviewed and approved the proposed new lead valuer and signatories at CBRE Limited. As part of this review, the Committee were assured that the changes were complaint with the Red Book[1] and in accordance with CBRE's internal policies which require lead valuer rotation every five years.

Effectiveness of the Group's valuers

In February 2020, the valuation meeting reviewed the effectiveness of the external valuers with assistance from Nigel George. The review considered the following:

- experience and qualification of the valuation team;
- independence and objectivity;
- quality of reporting; and
- robustness of the valuation.

The meeting concluded that the external valuers continue to perform effectively and are compliant with the Red Book[1].

The Audit Committee agreed to review its valuer appointment policy in August 2020, to ensure it reflects the most recent RICS proposals and best corporate governance practice. One aspect of the review will include considering the RICS 2020 Futures Report which is due to be published in the first half of 2020.

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. Prior to this appointment, BDO had been the Group's Auditor since 1985. 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. This timetable is subject to annual assessment of the Auditor's effectiveness and independence (see page 125).

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.

Working with the Auditor

The external Auditor (the lead audit partner and his team) attends the Committee's meetings to provide insight and challenge and to present their reports on the review of the half-year results and audit of the year-end financial statements. To further facilitate open dialogue and assurance, the Committee holds private sessions with the Auditor without members of management being present.

1 'RICS Valuation – Global Standards 2017' (the Red Book).

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 took into account the views of the Chief Financial Officer, finance team and senior management and was supported by a questionnaire. The questionnaire allowed the Committee to track progress and improvements from prior years. The areas covered by the review are detailed in Chart 1 below.

Chart 1: Annual effectiveness review of the external Auditor

As part of their review, the Committee reviewed the audit plan, which was focused on risk and materiality, and considered the quality of their planning, whether the agreed plan had been met, the extent to which it was tailored to the Group's business and its ability to respond to any changes in the business.

The Committee also considered the outcome of the review by the Financial Reporting Council, published in July 2019, containing the conclusions from 26 audit file inspections at PwC. The Committee noted that six of the 26 audit files reviewed required improvements . The Committee received confirmation from PwC that they were committed to further investment to support audit quality, including additional funding for recruitment, training and technical support. The Committee also took into account the Audit Quality Review by the FRC in respect of the Derwent London 31 December 2017 audit which had no recommendations for improvement.

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;
- 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 (further information is provided below).

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 2020, subject to reappointment at the 2020 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 Group's pre-approval policy for the provision of non-audit services by the external Auditor is described on page 126.

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. During 2019, the only significant non-audit services provided by PwC was in respect of the interim results review. The Committee intends to review its Non-Audit Services Policy during 2020.

	2019		2018	
	£'000	%	£'000	%
Audit of Derwent London plc and subsidiaries	387	90%	350	89%
Review of interim results	42	10%	41	10%
Other non-audit services	-	-	4	1%
Total fees	429	100%	395	100%

AUDIT COMMITTEE REPORT CONTINUED

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, assurance work on non-financial data, tax services including tax advisory, and reporting best practice.

The Committee has provided pre-approval which allows management to appoint the external Auditor to conduct permissible non-audit services if they fall below a set fee level. The Committee review the pre-approval limit on an annual basis, and it is currently set at £25,000. Permissible services which are above the pre-approval limit require approval from at least two members of the Audit Committee (including the Committee Chair). When considering if the services should be approved, the Committee will ensure that the Auditor's objectivity and independence are not threatened. Any non-audit service provided by the external Auditor is reported to the Board. In the unlikely event that the provision of non-audit services would exceed £100,000, the Committee would request Board approval.

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, RSM also review our year-end tax returns.

The Internal Audit Plan for 2019 was approved jointly by the Risk and Audit Committees in May and includes a combination of risk-based audits and projects. During 2019, RSM performed six audits:

- budgeting and reforecasting;
- risk management and assurance mapping;
- procurement – major developments;
- cyber security;
- know your client/anti-money laundering; and
- cash and treasury management.

The outcome of these audits has been presented to the Risk and Audit Committees. The Committees were pleased with the level of assurance received from the audits and that no high priority actions were raised.

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.

During 2020, the Committee will receive an update on RSM's compliance with The Institute of Internal Auditors' Internal Audit Code of Practice.

The Committee has agreed to review the performance and effectiveness of the outsourced internal audit function (RSM) after they have been in their position for one year. The effectiveness review is therefore a focus area for 2020. The Internal Audit Plan for 2020 has been approved by the Audit and Risk Committees and will include audits on the following:

- due diligence on acquisition of property;
- charity and sponsorship;
- compliance management – building regulations;
- service charge management; and
- core financial controls.

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 table 1 on page 127.

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 2019, the following changes were made to our system of internal financial controls:

- updated our 'new supplier set-up form', which now includes a questionnaire for completion by the new supplier which obtains information to reduce risk in areas including tax (VAT, CIS, PAYE), health and safety, insurance arrangements and their supply chain, as well as providing key data such as bank account details. This process must be completed prior to work being instructed;
- as cyber risk has grown and systems have become more complex, these areas have been given much greater focus. This includes annual security awareness training, which is mandatory for all employees (further information on page 134); and
- updated our Expenses Policy, which provides guidance to employees on what they can claim and the details that need to be provided for a claim to be valid.

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. Almost all of our staff work in the same building and are in close proximity to our Executive Committee members, making for close supervision and easy monitoring. 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.

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. Information on the Risk Committee's review of non-financial internal controls and risk management is available on pages 128 to 135.

Table 1 – Overview of Internal Financial Controls

Governance framework	Our governance framework (see page 97) 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. Break even 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 48 and 91.
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 128 to 135.
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 109).
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 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.

Review of the 2019 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 Financial Reporting Council (FRC) letter to Audit Committee chairs dated 30 October 2019 which outlined the key developments for 2019/20 annual reports, in addition 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?

Structural changes to the 2019 Annual Report included:

- Improved navigation of the Responsibility section through an 'ESG' overview (see page 76);
- Revised structure of the Responsibility section, including additional disclosures on environmental, community and ESG governance;
- Inclusion of the new Remuneration Policy for Executive Directors (see pages 143 to 149); and
- The first report of the Responsible Business Committee (see pages 136 to 139).

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 2019 Annual Report is fair, balanced and provides sufficient clarity for shareholders to understand our business model, strategy, position and performance.

Viability statement

We have 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. Further information on this assessment is contained on page 44.

p.45 Viability statement

RISK COMMITTEE REPORT

Richard Dakin
Chair of the Risk Committee

2020 FOCUS AREAS

- The ongoing review of the Group's principal (see pages 50 to 57) and emerging risks (see page 45)
- Monitor the impact of the Covid-19 virus on London, our business and supply chain (see page 48)
- Continue to ensure health and safety risks are being effectively managed across the Group (see page 86)
- Review the risks arising at our key developments: 80 Charlotte Street W1, The Featherstone Building EC1 and Soho Place W1
- Continue to monitor trade negotiations with the EU and the possible impact on Derwent London

Dear Shareholder,
I am pleased to present our Risk Committee report for 2019 which describes our activities and areas of focus during the year.

Risk profile of the Group

The Group has been operating through a period of political and economic uncertainty following the referendum decision to leave the EU. Although political risks have decreased following the Conservative majority win in December 2019, the economic risks are likely to continue until a trade agreement is finalised with the EU.

The role of the Committee during this period has been to assure the Board that management are proactively preparing for various Brexit and trade outcomes which could impact on the Group (further information on page 49). This will continue as we await the final trade arrangements with the EU. Of particular concern is the impact unfavourable negotiations could have on the UK economy and specifically the London office market, which will feed through into our leasing and development activities.

Despite the uncertainty, the Group has taken several initiatives to reduce its risk profile, predominantly from a financial and pension perspective (see page 48). Additional information on the Group's management of Brexit-related risks is contained on page 49. The Board's risk tolerance is contained on page 132 of this report.

Key activities of the Committee

2019 was another busy year for the Committee. In addition to proactively reviewing the Group's risk register, the Committee's main areas of focus during 2019 were as follows:

- reviewed detailed Brexit contingency planning in respect of:
  - developments;
  - property management; and
  - investor relations;
- received detailed presentations on the Group's major developments (Soho Place, 80 Charlotte Street, The Featherstone Building) and the management of development risks (see page 132);
- received frequent updates on health and safety matters, including presentations on the management of fire- and water-related risks;
- received regular updates on RSM's progress against the 2019 Internal Audit Plan and performed a detailed review of the outcome of the audit on cyber security and risk management;
- approved a Group-wide mandatory compliance training programme (see page 134);
- received regular updates on IT security and the cyber security initiatives;
- as part of our anti-bribery and corruption controls, the Committee reviewed the Group's gifts and hospitality register (see page 133) and the Group's conflict of interest register on a quarterly basis (see page 110); and
- received an update on recent legal developments which are of particular relevance to the Risk Committee from the Group's legal advisers, Slaughter & May LLP.

Further engagement

The forthcoming AGM is on 15 May 2020 and I will be in attendance 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
25 February 2020

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, 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	3	100%
Cilla Snowball	Yes	3	100%
Lucinda Bell	Yes	3	100%
Stephen Young[i]	Yes	1	100%

[i] Stephen Young attended all meetings until he stepped down from the Board on 17 May 2019.

The Committee's role and responsibilities are set out in the terms of reference, which were last updated in August 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 Risk Committee met three times, in May, August and November (2018: three meetings). The meetings in August and November included a joint session with the Audit Committee to review the outcome of the internal auditor's reviews (further information on page 126).

Committee performance evaluation

As part of the externally facilitated Board evaluation performed during Q4 2019, the Committee's effectiveness was subject to review. No significant issues arose from the evaluation. However, a few minor improvements/focus areas were identified (further information on page 113).

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 47).

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.

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.

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 45). 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.

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 present to the Risk Committee on an annual basis. The Group's insurers, RSA, perform regular reviews of our properties that aim to identify risk improvement areas.

p.47 Climate change risk

p.48 Tax risk

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) ensures 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 Auditor's 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 oversee and manage

RISK COMMITTEE REPORT CONTINUED

'ON-SITE' RISK: PILING AT SOHO PLACE

All of our current large development projects utilise piled foundations. Piling work can be complicated by the below ground conditions and the structures beneath all central London sites. For example, transport and utilities infrastructure, past buildings, ordnance, archaeology and contamination can be present and require bespoke solutions to ensure the structural frame can be developed as planned. Piling work also typically occurs at the perimeter of a site, involving large machines working in close proximity to other buildings and members of the public. There can be imprecise or incomplete information of the below ground conditions and an unforeseen issue could lead to cost and time overruns (see 'on-site' risk on page 52).

The Soho Place development requires us to build above a newly redeveloped station (Tottenham Court Road station) containing a range of modern and historical structures that are operational 24 hours a day and can react differently to the redevelopment works being undertaken above them. In addition, the Soho Place site is in close proximity to other buildings and on a busy crossroad (Oxford Street and Charing Cross Road).

The choice of contractor was also heavily influenced by the complex groundworks that were planned. Laing O'Rourke demonstrated an engineering-led approach to the project, good relationships with TfL and a history of successfully delivering challenging groundworks projects in central London.

The Derwent London development team alongside the principal contractor, Laing O'Rourke, developed detailed mitigation plans to offset the risks arising at Soho Place including:

- the use of sophisticated equipment to monitor below ground movements to ensure there were no issues for nearby transport links;
- review of possible ordnance and contamination records at an early stage to define the associated risk as being low;
- the utilities on site were exposed and those that clashed with the piling layout were relocated and an accurate 3D model of the reburied services provided to Laing O'Rourke;
- extremely detailed technical alignment of pile locations, design detailing, and associated mitigation measures agreed with the Transport for London (TfL) Engineering Department;
- the employment of dedicated on-site engineers to undertake a series of quality assurance checks on the equipment, the designs and the information available; and
- installation of an innovative walkway system to ensure the public were completely separated from the works by a robust enclosure.

The Risk Committee and Board approved the mitigation plans and received regular updates on progress. The piling work at Soho Place was completed in April 2019, without incident and on programme. The lessons learnt from the Soho Place site were adopted at The Featherstone Building.

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 review on 21 June 2019, scenarios for the future were considered which assisted with the identification of principal or 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, analytical techniques, independent reviews and use of historical data and lessons learnt. Risk registers are maintained at a departmental/functional level to ensure detailed monitoring of risks. Risks contained on the departmental registers are fed into the main Group risk register depending on the individual risk probability and potential impact.

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 50 to 57.

RISK COMMITTEE REPORT CONTINUED

Brexit

The Committee's responsibility was to ensure that management were proactively planning for the risks and challenges which could arise from the Brexit 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 addition, the Committee received regular presentations from senior management on contingency planning for our development projects, management portfolio, investor relations and other matters. An overview of how we are managing Brexit-related risks is on pages 49, 50 and 51.

During the year, the Audit Committee Chair received a letter from the FRC which detailed the critical actions that businesses should be addressing in preparation for Brexit. Management reported to both the Audit Committee and Risk Committee on these matters, and the Committees were assured they were being sufficiently managed.

Development risks

Our developments are large, high-value projects with build life cycles which can be up to five years. The success of our development activities is reliant on taking managed and carefully considered risks, which aims to deliver the office space our occupiers desire when it is needed.

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 52 to 53. Due to the actions we have taken, fixing costs and advancing pre-lets, there has been a general reduction in development risks in 2019.

p.52 Risks arising from our development activities

The Risk Committee's role is to gain assurance that risks are being identified, effectively managed and where possible mitigated. At each meeting during 2019, the Risk Committee met with the Head of Development, Richard Baldwin, and members of the development team to discuss the Group's largest development projects and the management of risks.

In addition, the Committee discussed the Brexit contingency plans in place for our developments (see page 49 for further information).

During 2020, the Committee will visit The Featherstone Building development to see first-hand how construction and health and safety risks are managed.

Risk tolerance

Like any business, we face a number of risks and uncertainties. An overview of the Group's risk profile, including commentary on Brexit, is available on pages 46 to 49. 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.

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 work 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
		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

Health and safety

The Group is committed to providing a safe environment at all our properties for the benefit of tenants, employees, contractors and visitors.

At each Committee meeting, a detailed update is provided on health and safety matters on both the managed portfolio and the development pipeline. The Committee also meets with ORSA, who were appointed as our corporate health and safety advisers for all construction projects from January 2017, on an annual basis. ORSA outlined to the Committee the key health and safety risks at the major construction sites, including 80 Charlotte Street, The Featherstone Building and Soho Place, and how these are being effectively managed.

p.86 Further information on health and safety

Credit Committee

The Credit Committee is a supporting committee within the Group's governance framework which 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.

The Credit Committee's remit of responsibilities includes the assessment of:

- lettings to new tenants;
- additional space for existing tenants;
- renewals/regears;
- an existing tenant moving within the portfolio; and
- assignments/subleases.

The Credit Committee also reviews the 'Tenants at Risk' register to monitor the financial performance of existing tenants. As at 31 December 2019, the 25 tenants included on the 'Tenants at Risk' register represented 4% of the Group's contracted net rental income.

The Risk Committee conducted a review of the role of the Credit Committee during 2018, which was disclosed in the 2018 Annual Report on page 114. The Risk Committee confirmed that it was satisfied with the extensive due diligence process being undertaken by the Credit Committee.

Anti-bribery and corruption

We are committed to the highest standards of ethical conduct and integrity in our business practices and adopt a zero-tolerance approach to bribery and corruption. The Group's Anti-Bribery Policy was reviewed and approved by the Committee during 2019 and updated guidance provided to staff. An overview of our policies and procedures in this area is contained in the table below.

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 138).
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 110 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 109.

RISK COMMITTEE REPORT CONTINUED

Business continuity and disaster recovery

Cyber Essentials accreditation

As part of our ongoing commitment to cyber security, on 2 August 2019, Derwent London achieved Cyber Essentials accreditation 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.

Information and cyber 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.

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.

During 2019, we requested that RSM, our outsourced internal audit function, conduct a review of our cyber security procedures (further information on page 126). The audit report suggested that there were no high-risk category findings requiring immediate action and that the Board can take reasonable assurance that the controls in place to manage this risk are suitably designed and consistently applied.

In November, the Committee reviewed the outcome of the audit and agreed the responses and time frames for implementing the audit recommendations. Management will be required to provide the Committee with a status update on the implementation of the recommendations at the Committee's August 2020 meeting.

The Committee reviews a dashboard of key risk indicators at each meeting which includes information security and cyber risk-related KPIs. During 2019, there were 201,532 (2018: 474) attempted attacks on our systems, none of which resulted in a security breach and 99.98% (2018: 99.9%) of the attempts were stopped before they reached the intended targets – this highlights the robustness of our cyber security posture. The dramatic increase in attempted attacks in 2019 compared to 2018 is predominantly due to enhanced email filtering reporting, which now includes blocked emails which have originated from known IP addresses with a poor reputation.

Our IT team tested the effectiveness of our ongoing security awareness programme in 2019 by sending fake phishing emails to staff in April and August 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 attend 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.

p.48 Case study: simulating social engineering attacks

Compliance training

In May 2019, the Risk Committee approved a monthly training programme which aims to provide 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.

Each month 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 takes approximately 30 minutes per month to complete. The topics covered during 2019 included:

- insider trading;
- modern slavery;
- phishing, social engineering and information security;
- respect at work, preventing harassment and unconscious bias;
- anti-bribery and corruption;
- preventing the facilitation of tax evasion; and
- conflicts of interest.

The Committee were pleased with the level of engagement from employees for the new compliance programme with on average 96% of all participants (inclusive of the Board) completing their training on a monthly basis.

p.111 Board training in 2019

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 2020 are provided in the adjacent table.

A full business continuity test was last 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 last full test completed in October 2016). The next full business continuity test is scheduled for Q4 2020.

Business continuity tests planned for 2020/2021

Test	Purpose	Date
Business Continuity Plan review	The CMT meet to review and update the business continuity plan, review current threat levels and agree on any action points.	Q1 2020
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 2020
Desktop review	A desktop exercise which uses a series of scenarios to rehearse decision making and familiarise the CMT members with their roles.	Q2 2020
IT disaster recovery test	A technical test to carry out a full IT systems failover from our offices to the disaster recovery suite.	Q3 2020
Full business continuity test	A full plan invocation exercise covering one disaster scenario and testing all contingency functions at the disaster recovering suite. Representatives from each department will confirm all business-critical functions are still available.	Q4 2020

RESPONSIBLE BUSINESS COMMITTEE REPORT

Dame Cilla Snowball
Chair of the Responsible Business Committee

FOCUS AREAS IN 2020

- Challenge progress against the Group's net zero carbon strategy (see page 81)
- Ensure that the areas identified in the 2019 Employee Survey (see pages 84 and 85) are being appropriately responded to by management
- Review the Group's Modern Slavery Statement for the year ended 31 December 2019
- Review the Group's community engagement programmes

Dear Shareholder,
I am pleased to present to you the report of the work of the Responsible Business Committee for 2019. I would suggest that this report is read alongside the Responsibility section on pages 76 to 91 which provides further information on Derwent London's ESG activities.

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. 2019 was our first year in operation and I detail on page 137 an overview of our activities which were structured around the Group's long-term sustainability objectives.

Employee nominated members

At the Committee's meeting in December 2018, it was agreed that we would benefit from participation and input from the wider workforce and that two employees should be nominated to join the Committee as members.

I was pleased to welcome Ally Clements and Jonathan Theobald to the Committee and have provided further information on their nomination on page 139. Both Ally and Jonathan have been fully engaged with the Committee's activities and I am keen that they continue to strengthen the employee voice in our boardroom.

Net zero carbon

In 2017, Derwent London agreed its first set of science-based targets (see page 82) and set the ambition to become net zero carbon by 2050. The Group was an early adopter of Task Force on Climate-related Financial Disclosure (TCFD) reporting (see page 83) and was the first UK REIT to arrange a revolving credit facility with a 'green' tranche (see page 74).

During the year, the Board brought forward its target for the current portfolio to be net zero carbon by 2030, a 20-year acceleration on its original plans. The net zero carbon strategy was approved by the Board and management will be actively working towards achieving this target. We are conscious that this will not be an easy task, particularly in respect of the managed portfolio, further information is on page 80.

Reporting frameworks

We report 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 223 to 228, and for our Global Reporting Index disclosures and United Nations Sustainable Development Goals alignment, see our Annual Responsibility Report.

If you wish to discuss any aspect of the Committee's activities, I will be available at the 2020 AGM on 15 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
25 February 2020

Committee composition

Our Committee consists of two independent Non-Executive Directors, the Chief Executive Officer (biographies are available on pages 98 to 99) and two employee nominated 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]
Cilla Snowball, Chair	Yes	2	100%
Claudia Arney	Yes	2	100%
Paul Williams	No	2	100%
Ally Clements	Employee	2	100%
Jonathan Theobald	Employee	1	100%

[i] Percentages based on the meetings entitled to attend for the 12 months ended 31 December 2019

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 meetings (in June and December) (2018: one meeting to establish the Committee and approve its terms of reference).

Committee performance evaluation

As part of the externally facilitated Board evaluation performed during Q4 2019, the Committee's effectiveness was considered. No issues arose from the evaluation. However, a minor alteration to its terms of reference was suggested (further information on page 113). Although it is early days for a full evaluation of this new Committee, the Board has welcomed its creation, in particular its positive contribution to furthering employee engagement.

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 84. The Board's role in managing the Group's culture can be found on page 102.

Externally, we are active in ensuring our ESG standards are clearly communicated to our supply chains, principally via our Supply Chain Sustainability Standard (more on page 138). 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

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 (see page 138).

During 2019, 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. This included more detailed and targeted training (see page 134) and ownership internally, with the appointment of a 'Champion'. We continued to monitor and cross-check our supply chain, from procurement to delivery.

Key activities of the Committee during 2019

Responsibility strategy and reporting	
• Approved the Group's long-term responsibility priorities and focus areas • Agreed the focus areas for the Responsibility section of the 2019 Annual Report	Page 76: Responsibility section Page 77: Our ESG priorities Page 78: United Nations' SDGs
Managing our assets responsibility and designing and delivering buildings responsibly	
• Agreed management's approach to becoming net zero carbon by 2030 • Received a presentation on the Group's approach to ensuring our buildings are accessible for disabled visitors • Received an update on our COP21 carbon reduction programme • Reviewed the Supply Chain Sustainability Standard and received an update on supplier compliance • Received training from Deloitte on Task force on Climate-related Financial Disclosures (TCFD) • Reviewed our approach to the design of our buildings (and the implementation of the Sustainability Framework for Developments)	Page 38: Designing our buildings Page 80: Net zero carbon Page 83: TCFD summary Page 138: Supply Chain Sustainability Standard
Engaging and developing our employees	
• Received a presentation on the wellbeing and health initiatives offered to employees • Agreed the objectives of the 2019 Employee Survey • Considered the initial outcomes of the 2019 Employee Survey and the feedback received from employees on the employee awayday • Received feedback from the first cycle of employees undertaking the Fit for the Future programme	Page 84: Wellbeing Page 84: 2019 Employee Survey Page 85: Employee awayday
Creating value in the community and for our wider stakeholders	
• Reviewed the Group's community engagement strategy, including the Community Funds, our objectives and targets • Reviewed the Group's volunteering programme for staff to be involved in our community initiatives • Received a presentation on the charitable donations and sponsorship committee and approved its terms of reference • Received an update on the work experience programmes and mentorships	Page 88: Community Strategy Page 89: Community Funds Page 89: Corporate giving

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 Standard. This involved completion of a questionnaire and providing copies of key policies and procedures.

Overall, we received an excellent response rate from the suppliers and subcontractors asked to complete the questionnaire, with over 90% of respondents operating detailed policies to address issues such as anti-bribery and corruption, equal opportunities, employee development and GDPR. Furthermore, it was encouraging to learn that companies in our supply chain not only hold these policies but are committed to training their staff on these subjects.

The Executive Committee and Responsible Business Committee reviewed the responses received and agreed any follow-up actions required. A further audit of our suppliers is scheduled for 2020.

p.19 How we engage with our suppliers

p.90 Supply chain governance

Responsible payment practices

We are signatories to the 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. During 2019, we paid our suppliers within 25 days on average (2018: 28 days). 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 above).

EMPLOYEES ON THE RESPONSIBLE BUSINESS COMMITTEE

1. **Paul Williams**, Chief Executive Officer 2. **Ally Clements**, Senior Property Marketing Co-ordinator 3. **Cilla Snowball**, Non-Executive Director 4. **Jonathan Theobald**, Associate, Investment 5. **Claudia Arney**, Non-Executive Director

We have appointed two employees to the Responsible Business Committee via a ballot open to all employees. We received seven nominations from across the business (three male and four female candidates) and following a company-wide vote, Ally Clements and Jonathan Theobald became members of the Committee for a two-year period.

Ally Clements and Jonathan Theobald are fully-participating members of the Committee alongside Cilla Snowball, Claudia Arney and Paul Williams. It is envisaged that they will complete a two-year tenure on the Committee following which we will seek two new employee nominated members.

By having employees on a Board-level Committee we are bringing the voice of our employees into the boardroom and gaining additional insight.

"Being part of the Responsible Business Committee has been enlightening. It has allowed me to contribute towards aspects of the business, outside of my day-to-day role, on important topics that affect our environment and the wider community"

Jonathan Theobald
Associate from the Investment Team
Joined Derwent London in 2012

REMUNERATION COMMITTEE REPORT

Claudia Arney
Chair of the Remuneration Committee

2020 FOCUS AREAS

- Ensure the 2020 Remuneration Policy is effectively implemented following shareholder approval in May 2020
- Continue to keep wider workforce remuneration arrangements under review, taking these into account when considering remuneration arrangements for Executive Directors
- Continue to keep under review the effectiveness and relevance of performance conditions and comparator groups for variable remuneration

STRUCTURE

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 2019.

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 142.

Derwent London values openness and transparency. To this end, and mindful of media and societal focus regarding executive pay, the Committee strives to provide clarity on how pay and performance is reported at Derwent London and how decisions made by the Committee support the strategic direction of the Group. Our decision to renew the Remuneration Policy on broadly the same basis as before (see below) is, in part, based on the belief that the current arrangements are well understood by both internal and external stakeholders.

Performance outcomes in 2019

The Group has delivered sustained and strong returns to shareholders, despite continued economic uncertainty. As noted on page 160, a £100 investment in Derwent London shares at the start of 2010 would have generated a return (including reinvestment of dividends) of just under £373 in 10 years compared to the FTSE 350 Supersector Real Estate Index with a return of £249.

In 2019, the Group has delivered another year of strong financial and operating performance as outlined in the Strategic report. Notably, the Group has achieved a total property return of 7.4% and a total return of 6.6%. Taking into account our financial performance both in absolute terms and relative to REIT peer groups, as well as performance against strategic objectives, the Committee has approved the following incentive outcomes for 2019:

- an annual bonus vesting of 145.46% of base salary equivalent to 97% of maximum (see page 156).
- a PSP award vesting of 65.75% of maximum (see page 158).

The Committee considers that the annual bonus and PSP award vesting outcomes fairly represent the Group's underlying business performance and return to shareholders and no discretion has been exercised in relation to outcomes.

Remuneration Policy review

Our current Remuneration Policy, which was approved by shareholders at our 2017 AGM (with a vote in favour of 98.4%), is approaching the end of its three-year term. During 2019, the Committee conducted a comprehensive review of its executive remuneration framework which included consultation with 20 major shareholders (representing approximately 68% of our issued share capital) and three proxy voting agencies.

The Committee concluded that the Remuneration Policy continues to support the delivery of business strategy and the creation of shareholder value and, following consultation, we are not proposing any significant changes to the framework. The proposed policy refinements (see page 146) take account of changes to the UK Corporate Governance Code, feedback from shareholders and ensure that there is sufficient flexibility over the next three years to support the execution of strategy.

In particular, in response to specific shareholder feedback, the Committee, with the executives' agreement, plans to reduce the level of pensions for the current Executive Directors from 20%/21% of salary to 15% of salary by 1 January 2022, which is aligned with wider workforce levels. From 1 January 2020 pension allowance for all Executive Directors will be 20% of salary, this will be reduced to 17.5% of salary from 1 January 2021, and further reduced to 15% of salary from 1 January 2022. The Committee appreciates the rapidly evolving environment around pensions and believes that the proposed reduction demonstrates how seriously we take the view of shareholders on such issues.

An overview of the proposed changes and how they compare to the current Policy are summarised in the table below.

Executive pay and responsibilities
Following his succession to CEO, Paul Williams restructured the executive team, which resulted in a reduction in the number of Executive Directors from six to five and an increase in the size of roles and responsibilities for certain Executive Directors (see page 155).

After careful consideration, the Committee awarded Nigel George, David Silverman and Damian Wisniewski each an 8.6% salary increase to take account of the additional roles and responsibilities. The salary increases were effective from 17 June 2019, being the date that the restructure and other organisation changes were communicated to the workforce. Their salaries have therefore been increased from £442,000 to £480,000 per annum.

The three Executive Directors did not receive a salary increase on 1 January 2020 and therefore the increase outlined above is inclusive of their normal annual increase for 2020.

The increase in relation to the Executive Directors' additional responsibilities is therefore considered to be approximately 5.6% after taking into account a 3% annual increase. The average 2020 salary increase for the wider workforce was 7%.

Paul Williams and Simon Silver also did not receive a salary increase on 1 January 2020 and their base salaries remain £600,000 and £581,000 per annum, respectively.

Implementation of incentives in 2020
Annual bonus and PSP opportunities and performance measures remain unchanged for 2020. Some changes have been made to strategic targets which make up 25% of the bonus to reflect our evolving strategic priorities. These changes include an increase in the weighting on sustainability linked measures (see page 157).

On an annual basis, the Committee conducts a critical assessment of the performance targets and comparator groups used for the annual bonus and PSP. The Committee proposes to reduce the total property return targets for maximum vesting under the annual bonus and PSP from index +3% pa to index +2% pa. This is to ensure that the targets reflect a fair and appropriate level of stretch taking into account internal growth forecasts and the current and expected economic climate. This change brings our targets more in line with targets at comparable companies. The Committee consulted extensively with shareholders regarding this change and there was a strong level of support. Further information is available on page 146.

Conclusion
I look forward to receiving your support at our 2020 AGM on Friday 15 May, where I will be available to respond to any questions shareholders may have on this report, our refined Remuneration Policy 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 David Lawler, the Company Secretary, (telephone: +44 (0)20 7659 3000 or email: company.secretary@derwentlondon.com)

Claudia Arney
Chair of the Remuneration Committee
25 February 2020

Summary of proposed changes

Element	2017 Remuneration Policy	2020 Remuneration Policy
Maximum pension opportunity reduced for current Executive Directors and new hires	Up to 21% of salary.	Current Executive Directors: phased reduction over the next two years such that contributions are aligned with the wider workforce levels by 1 January 2022 (15% of salary). New appointment: pension contributions aligned with the wider workforce levels (15% of salary).
Extending the time horizon for annual bonus deferral	Amounts in excess of 100% of salary are deferred into shares, of which 50% are released after one year and the balance after two years subject to continued employment.	Amounts in excess of 100% of salary are deferred into shares, which are released after three years subject to continued employment.
Strengthening annual bonus and PSP malus and clawback provisions	Material misstatement of financial results, an error in assessing performance metrics which has led to an overpayment, and dismissal due to gross misconduct.	Serious reputational damage and corporate failure, in addition to the current circumstances.
Introducing post-employment shareholding guidelines	No guideline.	Executive Directors are required to retain a shareholding equal to: • 200% of salary (or 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 actual shareholding at the point of departure if lower) for the subsequent 12 months. The guideline will apply to all shares acquired pursuant to the exercise of deferred bonus and performance share plan awards after 1 January 2020. The guideline will not apply to shares purchased by Executive Directors.

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 CONSIDERATIONS

The Committee considers pay policies and practices for employees across the Group when making remuneration decisions for Executive Directors.

+7%

Average increase to our employees' base salaries effective from 1 January 2020 (excluding, Directors)

100%

Percentage of eligible workforce who received an annual bonus in respect of 2019 performance

31:1

CEO pay ratio (CEO: Median employee pay)

£89k

Total remuneration of the median employee

REMUNERATION POLICY AND STRUCTURE SUMMARY

Component	Key features
Base salary and benefits	Attract and retain high calibre executives
Pension	Currently up to 21% of salary 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 Post-employment guidelines apply

Notes:

(i) Strong link between performance against strategy and KPIs and reward

(ii) Supports long-term stewardship

(iii) Takes into account risk management

REWARD LINKED TO PERFORMANCE

Annual bonus earned by Executive Directors

Measure		Threshold	Maximum	Actual	Bonus earned (% max)
Relative TR	37.5%	-2.7	6.3	6.6	37.5
Relative TPR	37.5%	4.1	7.1	7.4	37.5
Strategic	25%				22.0
Total					**97.0**

PSP earned by Executive Directors

Measure		Threshold	Maximum	Actual	PSP earned (% max)
Relative TSR	50%	36.4	74.7	60.3	37.20
Relative TPR	50%	5.8	8.8	7.1	28.55
Total					**65.75**

The Committee considers that the annual bonus and PSP award vesting outcomes fairly represent the Group's underlying business performance and return to shareholders.

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	S
EPC	
Carbon intensity	S
Staff satisfaction	S

DIRECTORS' REMUNERATION POLICY

The following part of the report sets out the Remuneration Policy for the Group ('Policy'). This Policy will be put forward to shareholders for their binding approval at the AGM on 15 May 2020 and will apply to payments made from this date. Further details regarding the operation of the Policy for the 2020 financial year can be found on pages 150 to 165.

Executive Director policy table

The policy table below sets out the key elements of the remuneration package for Executive Directors.

Element	Purpose and link to strategy	How operated	Maximum opportunity	Performance measures
Base salary	To recruit, retain and motivate high calibre executives. Reflects experience and importance to the business.	Normally reviewed annually. Any increase is normally effective from 1 January. Factors taken into account in the review 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.	While there is no maximum salary or salary increase, increases will normally be consistent with the policy applied to the workforce generally (in percentage of salary terms). Increases above this level may be awarded in certain circumstances such as, but not limited to: • where there is a change in role or responsibility; • an Executive Director's development or performance in role (e.g. to align a new hire's salary with the market over time); and • where there is a significant change in the size and/or complexity of the Group.	A broad assessment of personal and corporate performance is considered as part of the salary review.
Benefits	To provide a market competitive benefits package to help recruit and retain high calibre executives and to support their wellbeing.	Benefits include, but are not limited to, private medical insurance, car and fuel allowance and life assurance. Executive Directors may participate in the Sharesave Plan and any other all-employee plans on the same basis as other employees up to HMRC approved limits. In certain circumstances, the Committee may also approve additional one-off or ongoing allowances or benefits relating to the relocation of an Executive Director as may be required to perform the role. The Committee has the ability to reimburse reasonable business-related expenses and any tax thereon. The Committee may introduce other benefits if it is considered appropriate to do so.	Whilst there is no prescribed maximum cost of providing benefits, the value of benefits is 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.	None.
Pension	To provide an appropriate level of retirement benefit.	The Company operates a defined contribution pension scheme. Executive Directors may receive cash payments in lieu of contributions (e.g. where contributions would exceed either the lifetime or annual contribution limits).	The 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 over a two-year phased approach, 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).	None.

REMUNERATION COMMITTEE REPORT CONTINUED

Element	Purpose and link to strategy	How operated	Maximum opportunity	Performance measures
Annual bonus	To incentivise the annual delivery of stretching financial targets and strategic goals. Financial performance measures reflect KPIs of the business.	Bonus awards are based on performance measures set by the Committee (typically measured over a financial year) against key financial measures and strategic objectives, and continued employment. 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. The Committee may decide to pay the entire bonus in cash where the amount to be deferred into shares would, in the opinion of the Committee, be so small it is administratively burdensome to apply deferral. Dividend equivalents may accrue on deferred shares. Such amounts will normally be paid in shares. Malus and clawback provisions apply (see table on page 145). 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.	Maximum opportunity of up to 150% of salary may be awarded in respect of a financial year.	At least 75% of the annual bonus will be based on financial measures with up to 25% based on strategic objectives. **Financial measures** Up to 22.5% of each bonus element will be payable for threshold performance, with full payout for maximum performance. No amount is payable for achieving below threshold performance. **Strategic objectives** Vesting will apply on a scale between 0% and 100% based on the Committee's assessment of the extent to which performance against the strategic objectives has been met.
Long-term incentives	To align the long term interests of the executives with those of the Group's shareholders. To incentivise value creation over the long-term and support stewardship.	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 table on page 145). 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.	Maximum opportunity of up to 200% of salary may be awarded in respect of a financial year.	Performance measures are reviewed annually reflecting the Group's strategy and KPIs. At least one third of an award will normally be based on Total Shareholder Return (TSR). Up to 22.5% of each element of an award vests for achieving threshold performance, with full vesting for achieving maximum performance. No award vests for achieving below threshold performance.

Information supporting the Policy

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 awards granted in 2020 onwards).
5. Corporate failure (for awards granted in 2020 onwards).

Choice of performance measures

The performance measures used for annual bonus and PSP awards reflect the short- and long-term financial and strategic priorities of the business, and are aligned with performance measures used by our real estate sector peers. Stretching performance targets are set each year for the annual bonus and PSP awards. Maximum vesting will only occur for what the Committee considers to be outstanding performance.

A significant proportion of annual bonus and PSP awards are subject to performance relative to the real estate sector. This helps support an incentive framework whereby Executive Directors may be fairly and equitably rewarded for outperforming peers and delivering shareholder value in a cyclical market.

Details of the performance measures for the 2020 annual bonus and PSP awards are set out on page 153.

The Committee retains the ability to adjust or set different performance measures or targets if events occur (such as a change in strategy, a material acquisition and/or divestment of a Group business or a change in prevailing market conditions) which cause the Committee to determine that the performance measures and/or targets are no longer appropriate and the amendment is required so that they achieve their original purpose and are not materially less difficult to satisfy.

Share awards may be adjusted in the event of a variation of share capital or a demerger, delisting, special dividend or other event that may affect the Company's share price.

Legacy arrangements

The Committee retains discretion to make any remuneration payment and/or payments for loss of office (including exercising any discretions available to it in connection with such payments) which are outside of Policy set out here:

- Where the terms of the payment were agreed before 16 May 2014 (the date the Company's first shareholder-approved policy came into force) or this Policy came into effect (provided that the terms of the payment were consistent with the shareholder approved Directors' Remuneration Policy in force at the time they were agreed).
- Where the terms of the payment were agreed at a time when the relevant individual was not a Director of the Company (or other persons to whom the Policy set out above applies), and in the opinion of the Committee, the payment was not in consideration of the individual becoming a Director of the Company or such other person.
- To satisfy contractual arrangements under legacy remuneration arrangements.

For these purposes 'payments' includes the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are 'agreed' no later than at the time the award is granted. This Policy applies equally to any individual who is required to be treated as a Director under the applicable regulations.

REMUNERATION COMMITTEE REPORT CONTINUED

Changes to the Directors' Remuneration Policy and summary of decision-making process

The Committee has undertaken a comprehensive review of the executive remuneration framework and concluded that it continues to support the delivery of our business strategy and the creation of shareholder value. Consequently, we are not proposing any significant changes to the framework. The proposed Policy refinements therefore take account of changes to the UK Corporate Governance Code and ensure that there is sufficient flexibility over the next three years to support the execution of strategy.

In determining the Policy the Committee followed a robust process which included discussions on the content of the Policy at five Remuneration Committee meetings. The Committee considered input from Management and our independent advisers, and consulted with major shareholders. The key changes are as follows:

- **Pension provision:** pension contribution or allowance for a newly appointed Executive Director has been aligned with the contribution available to the majority of the wider workforce (currently 15% of salary). Pension allowances for current Executive Directors will be aligned to the contribution available to the wider workforce over a two-year phased approach (see page 141).
- **Annual bonus deferral:** under the Policy, Executive Directors are to defer any amounts earned above 100% of salary into shares, but the shares will only be released after three years subject to continued employment (under the 2017 Policy, shares are released 50% after one year and 50% after two years).
- **Post-employment shareholding guideline:** the Committee has implemented a post-employment shareholding guideline.
- **Malus and clawback:** the circumstances in which malus and clawback may apply to annual bonus and PSP awards have been expanded to include serious reputational damage and corporate failure, therefore providing alignment with best practice.
- **Other:** other minor changes have been made to the wording of the Policy to simplify and aid its operation and to increase clarity.

Shareholding guidelines

Within-employment: Executive Directors are expected to build up and retain a shareholding equal to 200% of salary. Until the shareholding guideline is met, 50% of any deferred bonus awards or PSP awards vesting (net of tax) normally must be retained.

Post-employment: Executive Directors who step down from the Board following 1 January 2020 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. Unless the Committee determines otherwise, an Executive Director or former Executive Director shall be deemed to have disposed of shares which are not 'guideline shares' before 'guideline shares'.

REMUNERATION POLICY - FACTORING OUR STAKEHOLDERS INTO OUR DECISIONS

How the pay of employees is taken into account and how it compares to the Executive Director Remuneration Policy

While the Company does not formally consult employees on remuneration in determining the Remuneration Policy for Executive Directors, the Committee does take into account the policy for employees across the workforce. In particular, when setting base salaries for Executive Directors, the Committee compares the salary increases with those for the workforce as a whole.

As part of the Committee's review of executive remuneration, it was noted that although a significant proportion of the workforce received pension contributions of 15% of salary, it was not all employees. The Committee agreed that with effect from 1 January 2020, all employees would receive pension contributions of 15% of salary.

The overall Remuneration Policy for Executive Directors is broadly consistent with the remainder of the workforce. The Company operates both bonus and share plan schemes for employees (albeit at lower quantum and subject to performance criteria more appropriate for their role) which are similar to those of the Executive Directors.

For further details of our approach to setting remuneration throughout the Group and our approach to ensuring that the 'employee voice' is heard on a range of issues in the boardroom please see page 151 of the Annual report on remuneration and page 104 of the Strategic report.

How the views of shareholders are taken into account

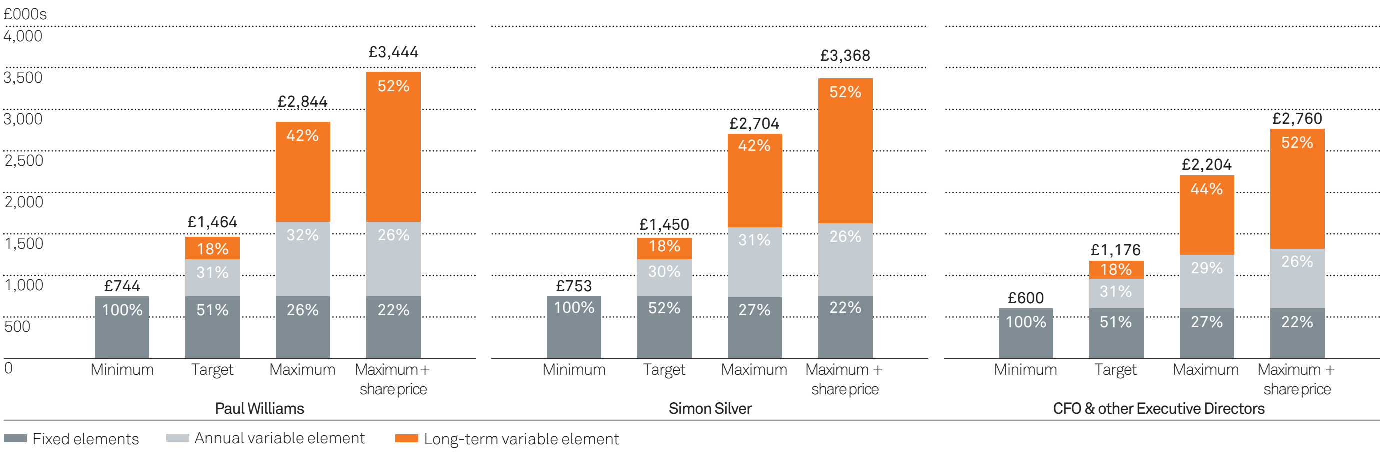
The Committee actively seeks dialogue with shareholders and values their input. A comprehensive shareholder consultation was undertaken in formulating the Company's revised Remuneration Policy. The Committee carefully considered the feedback received from major shareholders and proxy voting agencies as part of the Remuneration Policy review. Following specific feedback, the Committee altered its policy in respect of executive pension contributions so that by 1 January 2022, pension contributions for Executive Directors would be aligned with the entire workforce (further information on page 141).

On an ongoing basis, any feedback received from shareholders is considered as part of the Committee's annual review of remuneration. The Committee will also discuss voting outcomes at the relevant Committee meeting and will consult with shareholders if and when making any significant changes to the way the Remuneration Policy is implemented.

p.95 The section 172(1) statement

Remuneration scenarios for Executive Directors

The Committee aims to provide a significant part of the Executive Directors' total remuneration through variable pay and the following diagram illustrates the remuneration opportunity provided to the Executive Directors for various indicative levels of performance.



For the purpose of this analysis, the following assumptions have been made:

Minimum performance	• Fixed remuneration only
On target performance	• Fixed remuneration • 50% of the annual bonus is earned • 22.5% of the PSP vests
Maximum performance	• Fixed remuneration • 100% of the annual bonus is earned • 100% of the PSP vests
Maximum performance + 50% share price growth	• As per the maximum performance illustration, but also assumes for the purposes of the PSP that share price increases by 50% over the performance period.

Notes:
(i) 'Fixed remuneration' includes salary, pension and other benefits.
(ii) Salary levels applying on 1 January 2020.
(iii) Pension is based on the salary and pension policy applying from 1 January 2020.
(iv) Benefit levels are assumed to be the same as disclosed in the single figure for 2019.

Non-Executive Director policy table

The policy table below sets out the key elements of the remuneration package for Non-Executive Directors.

	Operation	Determination of fees
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.	Fees are set taking into account: • The time commitment and responsibilities expected for the roles. • Practice in companies with similar business characteristics. Fees are reviewed periodically. Overall fees paid to the Chair and Non-Executive Directors will remain within the limits set by the Company's Articles of Association.
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 chairship, Committee membership and for the Senior Independent Director. Additional fees may be paid to reflect additional Board or Committee responsibilities as appropriate. 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.	

REMUNERATION COMMITTEE REPORT CONTINUED

Service contracts and compensation for loss of office

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. Further details are set out in the Annual report on remuneration on page 152.

The principles on which the determination of compensation for loss of office will be approached are set out below.

	Policy
Payments in lieu of notice	Service contracts include a payment in lieu of notice clause which provides for monthly phased payments throughout the notice period which include pro-rated salary, benefits and pension only. Payments in lieu of notice are subject to mitigation.
Annual bonus	The extent to which any bonus will be paid out will be determined in accordance with the annual bonus plan rules. Executive Directors must normally be in employment on the payment date to receive an annual bonus. However, if an Executive Director leaves as a 'good leaver', the Executive Director will normally be considered for a bonus payment. It is the Committee's policy to ensure that any bonus payment reflects the departing Executive Director's performance. Unless the Committee determines otherwise, any bonus payment will be paid at the usual time following the determination of performance measures and be subject to a pro rata reduction for time served during the performance period.
Deferred bonus shares	The extent to which any unvested awards will vest will be determined in accordance with the deferred bonus plan rules. Unvested awards will normally lapse on cessation of employment. However, if an Executive Director leaves as a 'good leaver', the awards will continue and will vest at the normal vesting date. In exceptional circumstances, the Committee may decide that the Executive Director's deferred share awards will vest at the date of cessation of employment.
PSP	The extent to which any unvested awards will vest will be determined in accordance with the PSP rules. Unvested awards will normally lapse on cessation of employment. However, if an Executive Director leaves as a 'good leaver', the unvested awards will continue and will remain capable of vesting at the normal vesting date. To the extent that the awards vest, a two-year holding period would then normally apply. In exceptional circumstances, the Committee may decide that the Executive Director's awards will vest and be released early at the date of cessation of employment or at some other time (e.g. following the end of the performance period). In either case, vesting will depend on the extent to which the performance measures have been satisfied and will be subject to a pro rata reduction of the awards for time served from the grant date to the date of cessation of employment (although the Committee has discretion to disapply time pro rating if the circumstances warrant it). If an Executive Director leaves for any reason (other than summary dismissal) after an award has vested but before it has been released (i.e. during a holding period), their award will ordinarily continue to be released at the normal release date. In exceptional circumstances, the Committee may decide that the participant's award will be released early at the date of cessation of employment.
Change of control	Deferred bonus shares will vest in full in the event of a change of control or substantial exit. PSP awards will vest early in the event of change of control or substantial exit. The level of vesting will be determined taking into account the extent to which performance measures are satisfied at the date of the relevant event and, unless the Committee determines otherwise, awards will be pro rated for time served from the grant date to the date of the relevant event.
Other payments	In appropriate circumstances, payments may also be made in respect of accrued holiday, outplacement and legal fees. Awards under the Sharesave Plan may vest and, where relevant, be exercised in the event of cessation of employment or change of control in accordance with the Sharesave Plan rules. The terms applying to any buyout awards on cessation of employment or change of control would be determined when the award is granted. Such terms would normally be consistent with the principles outlined above. The Committee reserves the right to make payments by way of settlement of any claim arising in connection with the cessation of employment.

'Good leavers' includes: cessation of employment by reason of death, retirement, injury, ill health, disability, redundancy, transfer of employment outside of the Group, or any other reason as determined by the Committee.

Chair and Non-Executive Directors

John Burns was appointed to the role of Non-Executive Chairman on 17 May 2019 for a fixed period of two years and will step down from the Board during 2021. The Non-Executive Directors do not have service contracts but are appointed for initial three-year terms which thereafter may be extended, subject to re-election at each AGM. Details are set out in the Annual report on remuneration on page 152.

External appointments

Executive Directors may accept a non-executive role at another company with the approval of the Board (see page 110). The Executive Director is entitled to retain any fees paid for these services.

Recruitment and promotion policy

The remuneration of a new Executive Director will normally include salary, benefits, pension and participation in the annual bonus and PSP arrangements in accordance with the policy for Executive Directors' remuneration. In addition, the Committee has discretion to include any other remuneration component or award which it feels is appropriate taking into account the specific circumstances of the recruitment, subject to the principles and limits set out below. The key terms and rationale for any such component would be disclosed as appropriate in the Directors' remuneration report for the relevant year.

	Policy
Salary	Salary will be set taking into account the individual's experience and skills, prevailing market rates in companies of comparable size and complexity and internal relativities. Where appropriate the Committee may set the initial salary below the market level (e.g. if the individual has limited PLC Board experience or is new to the role), with the intention to make phased pay increases over a number of years, which may be above those of the wider workforce, to achieve the desired market positioning. These increases will be subject to continued development in the role.
Buy-out awards	Where an individual forfeits outstanding variable pay opportunities or contractual rights at a previous employer as a result of appointment, the Committee may offer compensatory payments or awards, in such form as the Committee considers appropriate, taking into account all relevant factors including the form of awards, expected value and vesting time frame of forfeited opportunities. When determining any such 'buyout', the guiding principle would be that awards would generally be on a 'like-for-like' basis unless this is considered by the Committee not to be practical or appropriate. Where possible the buyout award will be accommodated under the Company's existing incentive plans, but it may be necessary to utilise the exemption provided in the Listing Rules. Shareholders will be informed of any such payments in the following year's Annual report on remuneration.
Maximum level of variable remuneration	The Committee will not offer non-performance-related variable remuneration and the maximum level of variable remuneration which may be granted (excluding buyout awards) is 350% of salary, which is in line with the current maximum limit under the annual bonus and PSP.
Other elements of remuneration	Other elements may be included in the following circumstances: • An interim appointment being made to fill an Executive Director role on a short-term basis. • If exceptional circumstances require that the Chair or a Non-Executive Director takes on an executive function on a short-term basis. • If an Executive Director is recruited at a time in the year when it would be inappropriate to provide an annual bonus or PSP award for that year. Subject to the limit on variable remuneration set out above, the quantum in respect of the period employed during the year may be transferred to the subsequent year. • If the Executive Director is required to relocate, reasonable relocation, travel and subsistence payments may be provided (either via one-off or ongoing payments or benefits).

In the case of an internal appointment, any ongoing remuneration obligations or variable pay element awarded in respect of the prior role shall be allowed to continue according to its original terms, adjusted as relevant to take into account the appointment.

Fees payable to a newly appointed Chair or Non-Executive Director will be in line with the fee policy in place at the time of appointment.

REMUNERATION COMMITTEE REPORT CONTINUED

ANNUAL REPORT ON REMUNERATION

This part of the Directors' remuneration report explains how we have implemented our Remuneration Policy during 2019. The Remuneration Policy in place for the year was approved by shareholders at the 2017 AGM and is available to download 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 2020 AGM on 15 May 2020.

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 132). 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 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 February 2019.

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	5	100%
Simon Fraser	Yes	5	100%
Helen Gordon	Yes	5	100%
Lucinda Bell[i]	Yes	4	100%
Stephen Young[i]	Yes	1	100%

[i] Stephen Young attended all meetings until he stepped down from the Board on 17 May 2019. Lucinda Bell replaced Stephen Young as a member of the Remuneration Committee from 17 May 2019.

The Committee's composition, responsibilities and operation comply with the principles of good governance (as set out in the 2018 UK Corporate Governance Code), with the Listing Rules (of the FCA) and with the Companies Act 2006.

Committee performance evaluation

As part of the externally facilitated evaluation performed by The Effective Board LLP during Q4 2019 , the Committee's effectiveness was subject to review. It was concluded that the Committee worked effectively and no recommendations were raised (further information on page 113).

Advisers to the Committee

The Committee has authority to obtain the advice of external independent remuneration consultants. Deloitte 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.

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.
- Determining salaries for certain Executive Directors following a change to the organisational structure and an increase in their roles and responsibilities.
- 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 £64,350.

Deloitte 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 2017 AGM in respect of the Remuneration Policy and the 2019 AGM in respect of the Annual report on remuneration, received the following votes from shareholders:

	2019 AGM Annual report on remuneration		2017 AGM Remuneration Policy	
Votes cast in favour	92.8m	99.5%	82.7m	98.4%
Votes cast against	0.5m	0.5%	1.3m	1.6%
Votes withheld	4.2m	4.3%	0.1m	0.1%
Total votes cast (including withheld)	97.5m	–	84.1m	–

The Committee was extremely pleased with the level of shareholder support at the 2019 AGM; further information on page 169.

The Committee encourages ongoing, open and constructive dialogue with shareholders and their representative bodies. During the year, the Committee consulted with major shareholders on changes to the Remuneration Policy and total property return performance targets. The Committee is very appreciative of the time taken by shareholders to provide their feedback which was taken into account in finalising the changes set out in this report.

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.

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 2019, 100% of our workforce below Board level (not subject to probation) received an annual bonus (2018: 100%).

All employees are eligible to participate in our non-contributory occupational pension scheme operated as a Master Trust with Fidelity (further information on page 48). Fidelity offer all employees who are members of the pension scheme, ongoing support and training opportunities in respect of their pension and investments.

From 1 January 2020, all employees are eligible to receive an employer pension contribution equal to 15% of salary per annum.

In addition, our employees are invited into a non-contractual healthcare cash plan which offers an affordable way to help with everyday healthcare costs. Further information on our benefit package is available on page 84.

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 2019, we granted 142,900 options to 72% of our workforce below the Board and Executive Committee.

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 first grant under the Sharesave Plan was made on 30 April 2019 with a take-up rate of 70.6% of employees saving on average £182 per month (further information on page 159). Our communications approach was recognised by ProShare who awarded us 'Most Effective Communication of an Employee Share Plan (up to 500 employees)' at the ProShare 2019 Award Ceremony. Our communication approach was focused on being inclusive and included face-to-face briefings, conference calls, an open-door policy by the company secretarial team for anyone with questions, out-of-hours meetings for staff on shifts, all with the aim of supplementing email and hard copy information packs.

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 18 to 19, 84 to 85 and 104). Employee engagement is frequently measured and we have a designated Non-Executive Director, 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.

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 2018 to 2019.

£m	2019	2018	% change
Staff costs	27.8	24.2	14.9
Distributions to shareholders[i]	75.6	152.2	(50.3)
Net asset value attributable to equity shareholders[ii]	4,421	4,202	5.2

Notes:

(i) Distributions to shareholders in 2018 included the payment of a special dividend of 75.0 pence per ordinary share, paid on 8 June 2018. If the special dividend is excluded, the percentage change in distribution to shareholders from 2018 to 2019 is 10.0%.

(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. Further information, including how this figure is calculated, is on page 68.

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 2019, our Executive Directors did not receive fees for their external appointments. Further information on our Executive Directors' external appointments is provided on pages 98 to 99.

Payments to past Directors and for loss of office

No payments were made to past Directors or in respect of loss of office during 2019.

Service contracts and letters of appointment

Executive Directors

	Date of service contract	Notice period	Service contract expiry date
Paul Williams, CEO[i]	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		
Simon Silver	16 May 2014		
Nigel George	10 July 2019		
David Silverman	14 August 2019		

Note:

(i) Paul Williams entered into a new service contract dated 22 November 2018 which became effective from 17 May 2019 following his succession to Chief Executive.

Non-Executive Directors

The Non-Executive Directors listed below do not have service contracts but are appointed for initial three-year terms which thereafter may be extended, subject to re-election at each AGM.

	Appointment date to the Board	Current tenure as at 1 January 2020	Date of latest appointment letter	Appointment letter expiry date
John Burns[i]	25 May 1984	35 years, 7 months	17 May 2019	14 May 2021
Simon Fraser	1 September 2012	7 years, 4 months	8 August 2018	1 September 2021
Richard Dakin	6 August 2013	6 years, 5 months	6 August 2019	6 August 2022
Claudia Arney	18 May 2015	4 years, 7 months	8 August 2018	31 May 2021
Cilla Snowball	1 September 2015	4 years, 4 months	8 August 2018	31 August 2021
Helen Gordon	1 January 2018	2 years	8 November 2017	1 January 2021
Lucinda Bell	1 January 2019	1 year	8 August 2018	1 January 2022

Note:

(i) John Burns was the appointed to the role of Non-Executive Chairman on 17 May 2019 for a fixed period of two years. John will step down as Non-Executive Chair during 2021, further information is available on page 116.

Implementation of Remuneration Policy for 2020

Base salary and fees

In light of the changes to salaries made during 2019, which are outlined on page 155, the Executive Directors did not receive a salary increase on 1 January 2020 (the wider workforce increase was 7%). Executive Directors will next be eligible for a salary increase with effect from 1 January 2021. There will be no change to the Non-Executive Director fees for the year ending 31 December 2020.

Benefits and pension

Benefits will continue to include a car and fuel allowance, private medical insurance and life assurance. Executive Directors' pension contributions will be reduced over the next two years to align with the pension contribution available to the wider workforce (currently at 15% of salary). From 1 January 2020, pension will be 20% of salary for all Executive Directors, with contributions being reduced to 17.5% of salary from 1 January 2021 and to 15% of salary from 1 January 2022.

Annual bonus
The maximum bonus potential for Executive Directors for 2020 is 150% of salary. In line with recent years, bonuses are subject to the following performance metrics:

Performance metric	Weighting	Targets
Total Property Return	37.5%	Performance measured against the MSCI IPD Central London Offices Total Return Index. Details of the targets are set out below.
Total Return	37.5%	Performance measured against a comparator group of real estate companies. Targets and amounts vesting for threshold and maximum performance are structured the same as in 2019 (see page 156). The comparator group constituents remain broadly the same as for 2019 (see page 156). The Committee has, however, decided to remove St Modwen Properties and Capital & Regional from the Comparator group. The Committee considered that St Modwen Properties and Capital & Regional are no longer of comparable size or operating in a comparable business area to be suitable peer constituents going forward. These companies will be replaced with Helical plc which the Committee considered to be a more appropriate comparator. The Committee will continue to keep the constituents of the comparator group under review each year to ensure it remains appropriate.
Strategic objectives	25%	The strategic targets for 2020 have been subject to a number of small changes to reflect our evolving strategic priorities. The weighting on sustainability linked measures has been increased (full details of the changes are in note iii on page 157).

Under the current policy, Executive Directors are required to defer any amounts earned above 100% of salary into shares, of which 50% are released after one year and the balance after two years subject to continued employment.

For annual bonuses earned in respect of 2020, Executive Directors will continue to be required to defer any amounts earned above 100% of salary into shares, these shares will only be released after three years subject to continued employment (under the 2017 Policy deferred shares are released 50% after one year and the balance after two years). This refinement simplifies the approach and extends the time horizon of the delivery of deferred shares.

Long-term incentives
The maximum PSP award potential for Executive Directors for 2020 is 200% of salary. In line with recent years, PSP awards are subject to the following performance metrics:

Performance metric	Weighting	Targets
Total Property Return	50%	Performance measured against the MSCI IPD All UK Property Total Return Index. Details of the targets are set out below.
Total Shareholder Return	50%	Performance measured against constituents of the FTSE 350 Super Sector Real Estate Index. Targets and amounts vesting for threshold and maximum performance are structured the same as in 2019 (see page 158).

Any vested PSP awards will be subject to a two-year post-vesting holding period (see page 158).

Total Property Return (TPR) targets
As part of the Remuneration Policy review, the Committee undertook a critical assessment of the Total Property Return targets for maximum vesting under the annual bonus and PSP, which have been set at Index +3% per annum in recent years.

Growth in the MSCI IPD Central London Offices and UK All Property Indexes has slowed considerably over the past four years. Forecast growth in the Indexes is also expected to be moderate over the next four years (less than 5% per annum). As the growth in the Indexes has slowed, this has had the effect of increasing the level of stretch of the target for maximum vesting as these are set on an absolute outperformance basis.

In light of this, the Committee has reduced the outperformance percentage required for maximum vesting to Index +2% per annum for both the annual bonus and PSP awards in 2020 (currently Index +3% per annum). The Committee strongly considers that these targets reflect a much fairer and appropriate level of stretch taking into account the Group's internal growth forecasts and the current and expected economic climate. The approach is also more consistent with that taken by our real estate peers. The Committee consulted extensively with shareholders regarding this change in targets and there was a strong level of support.

The table below sets out the Total Property Return targets for the annual bonus and PSP awards.

Annual bonus: TPR versus the MSCI IPD Central London Offices Total Return Index tested over the year ending 31 December 2020 **PSP award:** Annualised TPR versus the MSCI IPD UK All Property Total Return Index tested over the three-year performance period ending 31 December 2022	Vesting (% of TPR part of award)
Below Index	0%
Index	22.5%
Index + 2%	100%
Straight-line vesting occurs between these points	

Note that historically Total Return has been based on EPRA Net Asset Value. Following the change in the methodology published by EPRA, from 1 January 2020 Total Return will be calculated based on EPRA Net Tangible Assets (see note 39 on page 226). The Board believes that this definition is closely aligned with the previous definition used. The Committee will continue to keep the targets under review to ensure that they remain appropriate.

REMUNERATION COMMITTEE REPORT CONTINUED

Total remuneration in 2019

The table below sets out the remuneration paid to each Director for the financial years ended 31 December 2019 and 31 December 2018 as a single figure. A full breakdown of fixed pay and pay for performance in 2019 can be found on pages 155 to 159.

Executive Directors

	Fixed pay				Pay for performance					
					Bonus					
(£'000)	Salary	Taxable benefits	Pension and life assurance	Subtotal	Cash	Deferred	Performance LTIPs(i)(ii)(iii)	Subtotal	Other items in the nature of remuneration(iv)	Total remuneration
2019										
Paul Williams, CEO	543	24	123	690	543	247	811	1,601	2	2,293
Damian Wisniewski, CFO	463	23	102	588	463	210	811	1,484	2	2,073
Simon Silver	581	52	154	787	581	264	1,066	1,911	–	2,698
Nigel George	463	23	105	591	463	210	811	1,484	2	2,076
David Silverman	463	22	103	588	463	210	811	1,484	2	2,073
Former Executive Director										
John Burns(v)	260	21	59	340	260	118	893	1,271	–	1,611
2018										
Paul Williams	429	24	98	551	429	12	421	862	–	1,413
Damian Wisniewski	429	24	93	546	429	12	421	862	–	1,408
Simon Silver	564	55	149	768	564	16	568	1,148	–	1,916
Nigel George	429	26	96	551	429	12	421	862	–	1,413
David Silverman	429	21	95	545	429	12	421	862	–	1,407
Former Executive Director										
John Burns	657	71	155	883	657	18	661	1,336	–	2,219

Non-Executive Directors

	2019			2018		
(£'000)	Fees	Taxable benefits	Total	Fees	Taxable benefits	Total
John Burns(vi)	158	–	158	–	–	–
Simon Fraser	77	–	77	68	–	68
Richard Dakin	67	–	67	62	–	62
Claudia Arney	71	–	71	58	–	58
Cilla Snowball	67	–	67	51	–	51
Helen Gordon	56	–	56	47	–	47
Lucinda Bell(vii)	67	–	67	–	–	–
Robert Rayne(viii)	57	17	74	150	46	196
Stephen Young(viii)	39	–	39	62	–	62

Notes:

(i) Performance LTIPs for 2019 relate to the 2017 PSP awards which will vest on 20 March 2020 and for which the performance conditions related to the year ended 31 December 2019. The value is based on an estimate of expected vesting of 65.75% and the average share price over the last three months of the financial year ended 31 December 2019 of £36.22. 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 158.

(ii) In the 2018 Annual Report, the potential value of 2016 PSP awards vesting for which the performance conditions related to the year ended 31 December 2018 was calculated using the average share price for the three months ended 31 December 2018, being £29.23. The 2018 Performance LTIP figures in the table above, have been restated to reflect the actual number of 2016 PSP awards which vested on 4 April 2019 using the share price on the day of vesting (being, £32.19). The restated value provides a difference of £2.96 per vested share in comparison to the estimates contained in the 2018 Annual Report on page 123. Further details of vesting is provided on page 164.

(iii) The 2016 PSP awards which vested on 4 April 2019 were granted on 4 April 2016 when the share price was £31.35. Between grant and the vesting date, the share price had increased to £32.19 which equated to an increase in value of each vesting share equivalent to £0.84. The proportion of the value disclosed in the single figure attributable to share price growth is therefore 2.7%. The Remuneration Committee did not exercise discretion in respect of the share price appreciation.

(iv) Included in the column for 'other items in the nature of remuneration' is the grant under the Derwent London Sharesave Plan made on 30 April 2019. These have been calculated based on the middle market share price on the date of grant being £31.70 minus the value of the awards at the option price which was £25.80. Further information on the Derwent London Sharesave Plan is on page 159.

(v) 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.

(vi) 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.

(vii) 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.

(viii) Robert Rayne and Stephen Young stepped down from the Board on 17 May 2019.

(ix) The Remuneration Committee did not exercise discretion in relation to remuneration outcomes for the year.

Executive Directors' remuneration in 2019

Remuneration for Executive Directors comprises the following elements:

Total remuneration

Fixed pay

Base salary | Benefits | Pension

Variable pay

Annual bonus | Long-term incentive

Performance-based

Fixed pay in 2019

Base salary

Salaries for the Executive Directors were increased by 3% with effect from 1 January 2019, to £677,000 for John Burns, £581,000 for Simon Silver and £442,000 for the other Executive Directors, which was in line with the cost of living increase awarded to the wider workforce.

Paul Williams' salary was increased to £600,000 effective from his appointment as CEO on 17 May 2019, as disclosed in our 2018 Directors' Remuneration Report on page 117. Paul's salary will next be reviewed with effect from 1 January 2021.

As announced on 8 August 2019, following his succession to CEO, Paul Williams restructured the executive team. This has resulted in a reduction in the number of Executive Directors from six to five and an increase in the size of roles and responsibilities for certain Executive Directors. In particular:

- Nigel George has taken responsibility for the development department.
- Damian Wisniewski continues to be responsible for providing financial leadership to the Group and, in addition, is supporting the CEO in investor relations, delivering the Group's 'Responsibility' agenda and developing and delivering the Group's strategy. To reflect Damian's expanded role and responsibilities, his job title has changed to Chief Financial Officer.
- David Silverman has added the leasing, asset and property management teams to his investment brief.

After careful consideration, the Committee awarded Nigel George, David Silverman and Damian Wisniewski each an 8.6% salary increase to take account of the additional roles and responsibilities. The salary increases were effective from 17 June 2019, being the date that the restructure and other organisation changes were communicated to the workforce. Their salaries have therefore been increased from £442,000 to £480,000 per annum.

The three Executive Directors did not receive a salary increase on 1 January 2020 and therefore the increase outlined above is inclusive of their normal annual increase for 2020. The increase in relation to the Executive Directors' additional responsibilities is therefore considered to be approximately 5.6% after taking into account a 3% annual increase. The average 2020 salary increase for the wider workforce was 7%.

Paul Williams and Simon Silver also did not receive a salary increase on 1 January 2020.

The Committee considers the salary decisions set out above to be fully justified in the context of the Company's size and complexity and the expansion of the Executive Directors' roles. The current total salary costs for the Executive Directors is equal to £2.62m per annum, compared to total salary costs of £3.03m per annum immediately prior to Paul's succession as Chief Executive, reflecting the reduction in the size of the executive leadership team.

The salaries shown in the table below are the actual pro rata salaries paid to the Executive Directors during the year ended 31 December 2019.

	2019 base salary	2018 base salary
Executive Directors		
Paul Williams, CEO [i]	**£543,118**	£429,000
Damian Wisniewski, CFO	**£462,462**	£429,000
Simon Silver	**£581,000**	£564,000
Other Executive Directors [ii]	**£462,462**	£429,000
Former Executive Director		
John Burns [iii]	**£259,517**	£657,200

Notes:

[i] Paul Williams was promoted to CEO from 17 May 2019.

[ii] Other Executive Directors are Nigel George and David Silverman.

[ii] The base salary shown in the table above for John Burns is for the period he was Chief Executive from 1 January 2019 to 17 May 2019. John Burns' Non-Executive Chair fee is disclosed on page 154.

REMUNERATION COMMITTEE REPORT CONTINUED

Benefits

Executive Directors are entitled to a car and fuel allowance and private medical insurance. The value of benefits paid in 2019. Further details can be found in the table below.

	Car and fuel allowance	Private medical insurance	Total 2019 taxable benefits
Executive Directors			
Paul Williams, CEO	£16,000	£7,518	£23,518
Damian Wisniewski, CFO	£16,000	£7,160	£23,160
Simon Silver	£39,055	£13,362	£52,417
Nigel George(i)	£16,458	£6,595	£23,053
David Silverman	£16,000	£5,345	£21,345
Former Executive Director			
John Burns(ii)	£13,607	£7,322	£20,929

Notes:

(i) Nigel George received a car allowance instead of a company car from 1 May 2019.

(ii) John Burns was eligible to receive his benefits in the role of Chief Executive until 17 May 2019.

Pension and life assurance

In addition to life assurance, Executive Directors receive a pension contribution or cash supplement (or a mix of both) of up to 20% of salary. Legacy arrangements for some Directors mean that a fixed amount is paid in addition to the 20% contribution, which results in a maximum pension contribution of up to 21% of salary.

There was no change in the pension contributions or life assurance received by the Executive Directors in 2019. As noted on page 152, Executive Directors' pension contributions will be reduced over the next two years to align with the pension contribution available to the wider workforce (currently at 15% of salary). The change in the annual cost of these benefits is due to increases in life assurance premiums.

Pay for performance

Determination of 2019 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 2019 performance, the annual bonus payment for Executive Directors is 97% of the maximum potential (2018: 68.5%; 2017: 53.6%). This has been derived as follows:

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)	-2.7	6.3	6.6	37.5
Total property return (TPR)	37.5	Versus the MSCI IPD Quarterly Central London Offices Total Return Index	4.1	7.1	7.4	37.5
Total bonus payable for financial based metrics						**75.0**

Notes:

(i) The major real estate companies contained in the comparator group for the 2019 annual bonus are: Big Yellow Group plc, The British Land Company plc, Capital & Regional plc, Capital & Counties Properties plc, Great Portland Estates plc, Hammerson plc, Intu Properties plc, Landsec plc, St Modwen Properties plc, Segro plc, Shaftesbury plc, 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 +3%.

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

Strategic targets

The strategic targets for the annual bonus include a combination of operational and responsibility measures. They are key non-financial performance indicators (further information on page 40) and are linked to our strategic objectives.

Performance measure[iii]	Link to strategic objectives[i]	Target range[ii]	Maximum award	2019 achievement	Proportion awarded for 2019
Void management This is measured by the Group's average EPRA vacancy rate over the year.	1. 2.	7% to 2%	7.5%	0.8%	7.5%
Portfolio development potential This is measured by the percentage of the Group's portfolio by area, where a potential development scheme has been identified.	1.	35% to 45%	2.5%	43%	2.0%
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.	5 to 10 years	5.0%	8.3 years	3.3%
Sustainability This is assessed by the Group's achievements against the BREEAM benchmark at its new developments or major refurbishments.	4.	New build – Excellent Major refurbishment – Very good	2.5%	All sustainability targets have been achieved	2.5%
Carbon intensity This is measured by emissions intensity per m² of landlord-controlled floor area across our managed like-for-like portfolio.	4.	-2% to -4%	2.5%	-10%	2.5%
Staff satisfaction Staff surveys are used to assess this measure.	3.	80% to >95% of staff to be satisfied or better	5.0%	92.5%	4.2%
			25.0%		**22.0%**

Notes:
[i] Success against our strategic objectives is measured using our KPIs (see pages 40 to 43) 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 31 to 39).
[ii] Payout accrues on a straight-line basis, between threshold and maximum performance.
[iii] The strategic targets for the 2020 annual bonus will be broadly the same as those above except for the following changes: (1) to increase management focus in 2020, void management and carbon intensity will both be worth 5.0% of the bonus potential and staff satisfaction will be worth 2.5%; (2) the following target ranges have been strengthened: void management of 7% to 1%, portfolio development potential of 35% to 50% and carbon intensity of -5% to -10%; and (3) the introduction of a one-off target worth 5.0% of the bonus potential which requires the publication of our 'route map' during 2020, which details how we intend to become net zero carbon by 2030. The route map would be subject to external verification that it meets the Better Buildings Partnership Climate Change Commitment and best practice guidance.

The Committee also considered the underlying financial performance of the Group during 2019, taking into account performance against key financial indicators including profits, NAV and share price performance as well as our broader performance and the experience of stakeholders. The Committee also considered whether there had been a significant negative event (such as an ESG event) which would warrant an adjustment. The Committee concluded the proposed payout outcome of 97% of maximum to be appropriate and no discretion was exercised. The total bonus for each executive is therefore:

	Bonus payable		Cash bonus payable	Deferred bonus	
	% of maximum	% of salary	£'000	£'000	% of salary
Executive Directors					
Paul Williams, CEO	97	145.46	543	247	45.46
Damian Wisniewski, CFO	97	145.46	463	210	45.46
Simon Silver	97	145.46	581	264	45.46
Other Executive Directors[i]	97	145.46	463	210	45.46
Former Executive Director					
John Burns[ii]	97	145.46	260	118	45.46

Notes:
[i] Other Executive Directors are Nigel George and David Silverman, whose base salary and subsequently, annual bonus payout, will be identical.
[ii] John Burns was eligible to earn a pro rata bonus for the period 1 January 2019 to 17 May 2019.

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 of which 50% are released after 12 months and the balance after 24 months.

REMUNERATION COMMITTEE REPORT CONTINUED

Performance Share Plan (PSP) Vesting of awards

As shown in the table below, the PSP awards granted in 2017 will vest on 20 March 2020 at 65.75% of maximum.

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	5.8	8.8	7.1	28.55
Total shareholder return (TSR)	50	FTSE 350 Super Sector Real Estate Index[i]	36.4	74.7	60.3	37.20
						65.75

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 2017).

[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) 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 payout for Index +3%.

The Committee considered the underlying financial performance of the Group during the performance period, taking into account performance against key financial indicators including profits, NAV and share price performance as well as our broader performance and the experience of stakeholders. The Committee also considered whether there had been a significant negative event (such as an ESG event) which would warrant an adjustment. The Committee concluded the proposed vesting outcome of 65.75% of maximum to be appropriate and no discretion was exercised.

Therefore, the vesting for each executive will be:

	Number of awards granted	Number of shares vesting based on performance (65.75%)	Dividend equivalents(i) (number of shares)	Total number of shares vesting	Total estimate value of award on vesting
Executive Directors					
Paul Williams, CEO	30,850	20,283	2,111	22,394	£811,111
Damian Wisniewski, CFO	30,850	20,283	2,111	22,394	£811,111
Simon Silver	40,550	26,661	2,775	29,436	£1,066,172
Other Executive Directors[ii]	30,850	20,283	2,111	22,394	£811,111
Former Executive Director					
John Burns[iii]	47,250	22,336	2,326	24,662	£893,273

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 identical number of awards under the PSP grant in 2017.

[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 2019 being £36.22. The estimated value of the vesting awards has been included within the 'single figure' total remuneration table on page 154.

The Company's share price rose by £13.10 between the grant date (20 March 2017) and the end of the performance period (31 December 2019) from £27.00 to £40.10. The proportion of the value disclosed in the single figure attributable to share price growth is therefore 48.5%. The Remuneration Committee did not consider that it was necessary to exercise discretion in respect of share price fluctuations since grant. It should be noted that as at 25 February 2020, the Company's share price rose to c.£43 (which exceeds the share price at grant by c.59%).

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 2015 has been provided below.

Grant	Grant date	Performance period	Vesting date	Holding period	Holding period ceases
2015 Grant	30 March 2015	1 January 2015 to 31 December 2017	3 April 2018	Two years	3 April 2020
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

Overall, the Committee considers that the Remuneration Policy has operated as it intended during 2019 and that the pay outcomes are aligned with the experience of shareholders and other stakeholders.

Grant of LTIP awards

On 12 March 2019 and 14 August 2019, the Committee made the following awards under the Group's 2014 PSP to Executive Directors on the following basis:

	12 March 2019		14 August 2019[ii]	
	Number of shares awarded	Face value of award £	Number of shares awarded	Face value of award £
Paul Williams, CEO	27,174	883,970	6,713	197,496
Damian Wisniewski, CFO	27,174	883,970	–	–
Simon Silver	35,720	1,161,972	–	–
Other Executive Directors[i]	27,174	883,970	–	–

Notes:

(i) Other Executive Directors are Nigel George and David Silverman, who were granted identical number of awards under the PSP grant in March 2019.

(ii) Paul Williams was granted an award on 12 March 2019 which reflected his 2019 salary as a Property Director. As disclosed in our 2018 Annual Report (page 121), the Remuneration Committee had agreed a further Award would be made in August to reflect Paul's new pro rata salary as Chief Executive.

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 dates of £32.53 and £29.42, respectively. The performance periods will run over three financial years and, dependent upon the achievement of the performance conditions, the awards will vest on 12 March 2022 and 14 August 2022 and will be subject to a two-year holding period as outlined on page 158.

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 the three-year performance period ending 31 December 2021	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 the three-year performance period ending 31 December 2021	Vesting (% of TSR part of award)
Below Index	0%
Index	22.5%
Index + 3%	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. 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.

Grant of Sharesave Plan options

On 30 April 2019, the Company granted options under the Derwent London Sharesave Plan. The three-year contract for the Options started on 1 June 2019. These Options are exercisable at a price of £25.80 per share from 1 June 2022 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	348	£25.80	£31.70	£2,053
Damian Wisniewski, CFO	£250	348	£25.80	£31.70	£2,053
Other Executive Directors[ii]	£250	348	£25.80	£31.70	£2,053

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 151 and 163.

(ii) Other Executive Directors are Nigel George and David Silverman.

REMUNERATION COMMITTEE REPORT CONTINUED

Managing shareholder dilution

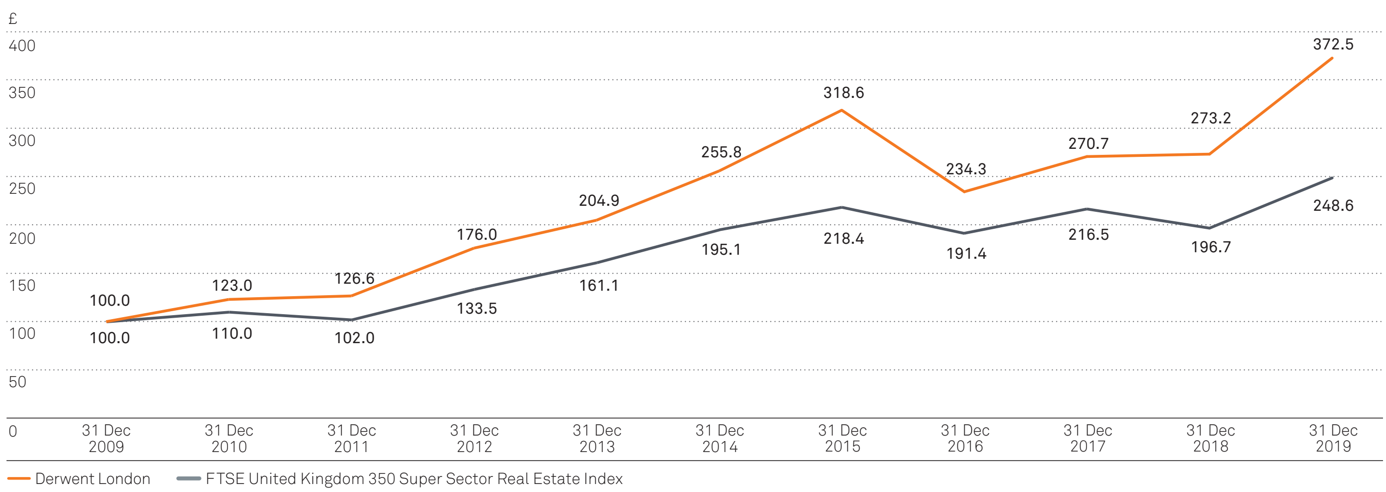
The table below sets out the available dilution capacity for the Company's employee share plans based on the limits set out in the rules of those plans that relate to issuing new shares.

	2019
Total issued share capital as at 31 December 2019	111.8m
Investment Association share limits (in any consecutive 10-year period):	
Current dilution for all share plans	2.4%
Headroom relative to 10% limit	7.6%
5% for executive plans – current dilution for discretionary (executive) plans	1.5%
Headroom relative to 5% limit	3.5%

Pay for performance comparison

The graph below shows the value on 31 December 2019 of £100 invested in Derwent London on 31 December 2009 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	31/12/2010	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	
Chief Executive	John Burns	John Burns	John Burns	John Burns	John Burns	John Burns	John Burns	John Burns	John Burns restated(i)	John Burns(ii)	Paul Williams(iii)
Total remuneration (single figure) (£'000)	2,304	2,387	2,721	2,478	2,648	2,529	1,403	1,681	2,219	1,611	2,293
Annual bonus (% of maximum)	87.5	90.0	85.4	95.0	92.6	74.2	23.3	53.6	68.5	97.0	
Long-term variable pay (% of maximum)	50.0	50.0	83.8	55.2	50.0	65.7	24.9	26.5	46.0	65.75	

Notes:

(i) John Burns' total remuneration for 2018 has been restated to reflect the actual number of 2016 PSP awards which vested on 4 April 2019 using the share price on the day of vesting (being, £32.19). The restated value provides a difference of £2.96 per vested share in comparison to the estimates contained in the 2018 Annual Report. Further details of total remuneration is provided on page 154.

(ii) The annual bonus (% of maximum) and long-term variable pay (% of maximum) for John Burns is based on remuneration in the role of Chief Executive.

(iii) Paul Williams' 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.

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 year ended 31 December 2019, 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 2019			
25th percentile	£40,993	£63,211	44 : 1
50th percentile	£68,462	£89,274	31 : 1
75th percentile	£67,500	£153,828 (i)	18 : 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

Note:

(i) Total remuneration includes one-off employee gains received through the exercise of options granted under the Employee Share Option Plan (see page 151). Due to the strength of our share price during 2019, there was an increase in the number of ESOP option exercised.

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). The following should be noted:

- 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.
- Chief Executive remuneration for the year ended 31 December 2018 is John Burns' 2018 'single figure' which has been adjusted to reflect actual PSP vesting (further information on page 154). This adjustment has led to a minor change in the CEO pay ratio for the year ended 31 December 2018 in respect of the 25th and 50th percentile (from 37:1 and 28:1, respectively).
- 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).
- The workforce comparison includes employer pension contributions, life assurance and the healthcare cash plan.
- The CEO pay ratio has been rounded to the nearest whole number.

2019 has been an excellent year for the Group resulting in an increase in 'pay for performance' remuneration for all employees, including the Executive Directors. As a significant proportion of executive remuneration is dependent upon performance, this has increased the CEO pay comparator for 2019. In respect of median employee (50th percentile) total remuneration this has increased from £76.8k to £89.3k, an increase of c.16.2%.

The Board have confirmed that the ratio is consistent with the Company's wider policies on employee pay, reward and progression.

Percentage change in the remuneration of the Chief Executive

The table below shows the movement in the salary, benefits and annual bonus for the Chief Executive between the current and previous financial year compared to that for an average employee (excluding Directors).

£'000	**2019**	2018	% change
Chief Executive (i)			
Salary	**636.0**	657.2	-3.2%
Benefits	**172.6**	225.6	-23.5%
Bonus (annual incentive)	**925.1**	675.3	37.0%
Average per employee (ii)			
Salary	**73.8**	75.3	-2.0%
Benefits	**15.4**	14.2	8.4%
Bonus (annual incentive)	**29.3**	27.7	5.7%

Notes:

(i) 2019 salary, benefit and bonus figures for the Chief Executive are calculated based on the combined salary, benefits and bonus received by John Burns and Paul Williams during their respective tenures as Chief Executive.

(ii) All employees received an inflationary base salary increase on 1 January 2019. The average salary per employee was impacted by the 8.9% increase in our workforce during 2019.

REMUNERATION COMMITTEE REPORT CONTINUED

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 2019					Number at 31 December 2018				
	Beneficially held	Deferred shares	Conditional shares	Share options	Total	Beneficially held	Deferred shares	Conditional shares	Share options	Total
Executive Directors										
Paul Williams, CEO(i)	60,632	363	93,841	348	155,184	53,708	–	85,884	–	139,592
Damian Wisniewski, CFO(i)	40,105	363	87,128	348	127,944	33,181	–	85,884	–	119,065
Simon Silver(ii)	132,767	476	114,533	–	247,776	183,087	–	113,738	–	296,825
Nigel George(i)	63,472	363	87,128	348	151,311	58,145	–	85,884	–	144,029
David Silverman(i)	36,720	363	87,128	348	124,559	29,796	–	85,884	–	115,680
Total	333,696	1,928	469,758	1,392	806,774	357,917	–	457,274	–	815,191
Non-Executive										
John Burns(iii)	432,595	556	91,836	–	524,987	661,497	–	132,536	–	794,033
Simon Fraser	2,000	–	–	–	2,000	2,000	–	–	–	2,000
Richard Dakin	–	–	–	–	–	–	–	–	–	–
Claudia Arney	2,500	–	–	–	2,500	2,500	–	–	–	2,500
Cilla Snowball	–	–	–	–	–	–	–	–	–	–
Helen Gordon	892	–	–	–	892	892	–	–	–	892
Lucinda Bell(iv)	1,000	–	–	–	1,000	1,000	–	–	–	1,000
Total	438,987	556	91,836	–	531,379	667,889	–	132,536	–	800,425

There have been no other changes to the above interests between 31 December 2019 and 25 February 2020.

Notes:

(i) Paul Williams, Damian Wisniewski, Nigel George and David Silverman each acquired 13,089 shares from the PSP 2016 grant which vested on 4 April 2019. The vesting shares included dividend equivalents in the form of 1,161 additional shares. To satisfy the tax liability arising, they each sold 6,165 shares immediately upon vesting at an average share price of £32.19 per share. On 30 April 2019, they were each granted 348 share options under the Derwent London Sharesave Plan, further information on page 163.

(ii) Simon Silver acquired 17,630 shares from the PSP 2016 grant which vested on 4 April 2019. The vesting shares included dividend equivalents in the form of 1,565 additional shares. To satisfy the tax liability arising, Simon sold 7,950 shares immediately upon vesting at an average share price of £32.19 per share. On 11 March 2019 and 20 June 2019, Simon sold 25,000 shares at an average sale price of £32.57 and £31.38, respectively. On 23 August 2019, Simon transferred 1,900 shares from his executive nominee account to his self-invested personal pension. There was no change in the number of shares beneficially held by Simon and he remains interested in the 1,900 shares that were the subject of the transfers. On 16 October 2019, Simon sold 10,000 shares at an average sale price of £34.94.

(iii) John Burns acquired 20,546 shares from the PSP 2016 grant which vested on 4 April 2019. The vesting shares included dividend equivalents in the form of 1,824 additional shares. To satisfy the tax liability arising, John sold 9,265 shares immediately upon vesting at an average share price of £32.19 per share. On 1 October 2019, John sold 90,183 shares at an average sale price of £33.35. On 15 November 2019, John sold 150,000 shares at an average sale price of £35.26.

(iv) Lucinda Bell acquired 1,000 shares in advance of becoming a Non-Executive Director of Derwent London plc on 1 January 2019.

Directors' shareholding guideline

Executive Directors are subject to within-employment and post-employment shareholding guidelines (see page 146). The within-employment shareholding guideline for the year ended 31 December 2019 expects all Executive Directors to work towards holding shares in Derwent London plc equivalent to 200% of base salary. As at 31 December 2019, all Executive Directors have exceeded the within-employment shareholding guideline.

			Within-employment shareholding guideline		
Executive Director	Beneficially held shares	2019 salary[i]	Target (% of base salary)	Achieved	Value of beneficially held shares[ii]
Paul Williams, CEO	60,632	£600,000	200%	405%	£2,431,343
Damian Wisniewski, CFO	40,105	£480,000	200%	335%	£1,608,211
Simon Silver	132,767	£581,000	200%	916%	£5,323,957
Nigel George	63,472	£480,000	200%	530%	£2,545,227
David Silverman	36,720	£480,000	200%	307%	£1,472,472

Notes:

[i] The base salaries shown in the table above are as at 31 December 2019. Further information on fixed pay during 2019 is provided on page 155.

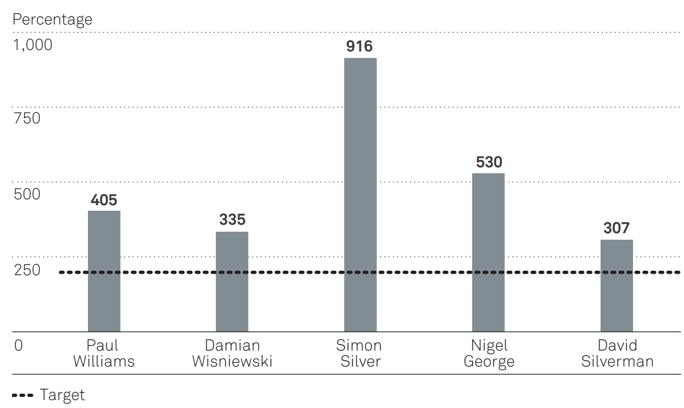
[ii] The value of the Executive Directors' beneficially held shares has been calculated using the average closing share price during the year ended 31 December 2019 of £40.10.

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 20% of his base salary.

Shares held as a % of 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. The first grant under the Sharesave Plan was in 2019 (further information on page 151). The outstanding Sharesave options held by Directors are set out in the table below:

	At grant		During the year							
	Date of grant	Option price	01 January 2019 (number)	Granted[i] (number)	Exercised (number)	Lapsed (number)	31 December 2019 (number)	Market price at date of exercise (£)	Value at exercise £'000	Maturity date
Executive Directors										
Paul Williams, CEO	30/04/2019	25.8	–	348	–	–	348			01/06/2022
			–	**348**	**–**	**–**	**348**			
Damian Wisniewski, CFO	30/04/2019	25.8	–	348	–	–	348			01/06/2022
			–	**348**	**–**	**–**	**348**			
Nigel George	30/04/2019	25.8	–	348	–	–	348			01/06/2022
			–	**348**	**–**	**–**	**348**			
David Silverman	30/04/2019	25.8	–	348	–	–	348			01/06/2022
			–	**348**	**–**	**–**	**348**			
Other employees										
Other employees	30/04/2019	25.8	–	19,370	–	(556)	18,814			01/06/2022
			–	**19,370**	**–**	**(556)**	**18,814**			
Total			**–**	**20,762**	**–**	**(556)**	**20,206**			

Note:

[i] On 30 April 2019, the Company granted options over 20,762 shares under the Derwent London Sharesave Plan. The three-year contract for the Options started on 1 June 2019. These Options are exercisable at a price of £25.80 per share from 1 June 2022 and are not subject to any performance conditions.

REMUNERATION COMMITTEE REPORT CONTINUED

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 (£)	01 January 2019 (number)	Granted[iii] (number)	Vested[i][ii] (number)	Lapsed (number)	31 December 2019 (number)	Market price at date of vesting (£)	Value vested £'000	Earliest vesting date
Executive Directors										
Paul Williams, CEO	04/04/2016	31.35	25,930	–	(13,089)	(12,841)	–	32.19	421	04/04/2019
	20/03/2017	27.00	30,850	–	–	–	30,850			20/03/2020
	06/03/2018	29.48	29,104	–	–	–	29,104			08/03/2021
	12/03/2019	32.53	–	27,174	–	–	27,174			14/03/2022
	14/08/2019	29.42	–	6,713	–	–	6,713			14/08/2022
			85,884	**33,887**	**(13,089)**	**(12,841)**	**93,841**			
Damian Wisniewski, CFO	04/04/2016	31.35	25,930	–	(13,089)	(12,841)	–	32.19	421	04/04/2019
	20/03/2017	27.00	30,850	–	–	–	30,850			20/03/2020
	06/03/2018	29.48	29,104	–	–	–	29,104			08/03/2021
	12/03/2019	32.53	–	27,174	–	–	27,174			14/03/2022
			85,884	**27,174**	**(13,089)**	**(12,841)**	**87,128**			
Simon Silver	04/04/2016	31.35	34,925	–	(17,630)	(17,295)	–	32.19	568	04/04/2019
	20/03/2017	27.00	40,550	–	–	–	40,550			20/03/2020
	06/03/2018	29.48	38,263	–	–	–	38,263			08/03/2021
	12/03/2019	32.53	–	35,720	–	–	35,720			14/03/2022
			113,738	**35,720**	**(17,630)**	**(17,295)**	**114,533**			
Nigel George	04/04/2016	31.35	25,930	–	(13,089)	(12,841)	–	32.19	421	04/04/2019
	20/03/2017	27.00	30,850	–	–	–	30,850			20/03/2020
	06/03/2018	29.48	29,104	–	–	–	29,104			08/03/2021
	12/03/2019	32.53	–	27,174	–	–	27,174			14/03/2022
			85,884	**27,174**	**(13,089)**	**(12,841)**	**87,128**			
David Silverman	04/04/2016	31.35	25,930	–	(13,089)	(12,841)	–	32.19	421	04/04/2019
	20/03/2017	27.00	30,850	–	–	–	30,850			20/03/2020
	06/03/2018	29.48	29,104	–	–	–	29,104			08/03/2021
	12/03/2019	32.53	–	27,174	–	–	27,174			14/03/2022
			85,884	**27,174**	**(13,089)**	**(12,841)**	**87,128**			
Former Executive Directors										
John Burns	04/04/2016	31.35	40,700	–	(20,546)	(20,154)	–	32.19	661	04/04/2019
	20/03/2017	27.00	47,250	–	–	–	47,250			20/03/2020
	06/03/2018	29.48	44,586	–	–	–	44,586			08/03/2021
			132,536	**–**	**(20,546)**	**(20,154)**	**91,836**			
Other employees										
Other employees	04/04/2016	31.35	28,270	–	(9,497)	(18,773)	–	32.19	305	04/04/2019
	21/03/2017	27.00	42,640	–	–	–	42,640			20/03/2020
	06/03/2018	29.48	42,484	–	–	–	42,484			08/03/2021
	12/03/2019	32.53	–	40,407	–	–	40,407			14/03/2022
			113,394	**40,407**	**(9,497)**	**(18,773)**	**125,531**			
Total			**703,204**	**191,536**	**(100,029)**	**(107,586)**	**687,125**		**3,218**	

Notes:

(i) The PSP award granted on 4 April 2016 vested on 4 April 2019 at a vesting level of 46.0%. 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 2016 PSP grant, dividend equivalents were in the form of additional vesting shares and equated to dividends paid between April 2016 and April 2019. The dividend equivalent shares have been included in the table above, within the number of vesting awards, and equates to 1,824 shares for John Burns, 1,565 shares for Simon Silver and 1,161 shares each for the other Executive Directors.

(iii) The PSP awards granted on 12 March 2019 and 14 August 2019 will vest on 12 March 2022 and 14 August 2022, respectively. The performance targets attached to these awards are detailed on page 159.

	31/12/2019	31/12/2018	01/01/2018
Weighted average exercise price of PSP awards	**–**	–	–
Weighted average remaining contracted life of PSP awards	**1.20 years**	1.22 years	1.24 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 2019 was £nil (2018: £nil). The weighted average market price of awards vesting in 2019 was £32.18 (2018: £30.78).

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)	01 January 2019 (number)	Deferred[i][ii] (number)	Released (number)	31 December 2019 (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	–	363			20/03/2020 22/03/2021
				–	**363**	**–**	**363**			
Damian Wisniewski, CFO	20/03/2019	32.50	363	–	363	–	363			20/03/2020 22/03/2021
				–	**363**	**–**	**363**			
Simon Silver	20/03/2019	32.50	476	–	476	–	476			20/03/2020 22/03/2021
				–	**476**	**–**	**476**			
Nigel George	20/03/2019	32.50	363	–	363	–	363			20/03/2020 22/03/2021
				–	**363**	**–**	**363**			
David Silverman	20/03/2019	32.50	363	–	363	–	363			20/03/2020 22/03/2021
				–	**363**	**–**	**363**			
Former Executive Directors										
John Burns	20/03/2019	32.50	556	–	556	–	556			20/03/2020 22/03/2021
				–	**556**	**–**	**556**			
Total				**–**	**2,484**	**–**	**2,484**			

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 will be released 12 months after deferral (on 20 March 2020) and the remaining balance after 24 months (on 22 March 2021).

[ii] The 2019 annual bonus in excess of 100% of salary, will be deferred in March 2020 and will be released in two tranches; 50% of the award will be released 12 months after deferral (in March 2021) and the remaining balance after 24 months (in March 2022). Further information on the 2019 annual bonus is on page 156.

DIRECTORS' REPORT

David Lawler
Company Secretary

The Directors' report for the financial year ended 31 December 2019 is set out on pages 166 to 169. 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 on the following pages:

- p.02 Future business developments (throughout the strategic report)
- p.18 Stakeholder engagement
- p.44 Viability statement
- p.93 Governance
- p.95 The s172(1) statement
- p.119 Diversity
- p.126 Internal financial control
- p.46 Risk management and internal controls
- p.144 Long-term incentive schemes
- p.169 Significant agreements
- p.188 Interest capitalised
- p.203 Financial instruments
- p.211 Financial risk management
- p.212 Credit, market and liquidity risks
- p.222 Related party disclosures
- p.89 Charitable donations

The Directors present their Annual Report and audited financial statements for the year ended 31 December 2019.

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 2019, we have applied the principles of good governance contained in the UK Corporate Governance Code 2018 (the 'Code'). Our Compliance Statement for 2019 is on page 96. Further details on how we have applied the Code can be found in the Governance section on pages 93 to 169. 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.

Results and dividends

The financial statements set out the results of the Group for the financial year ended 31 December 2019 and are shown on page 179. The Directors recommend a final dividend of 51.45 pence per ordinary share for the year ended 31 December 2019. When taken together with the interim dividend of 21.00 pence per ordinary share paid in October 2019, this results in a total dividend for the year of 72.45 pence (2018: 65.85 pence) per ordinary share. Subject to approval by shareholders of the recommended final dividend, the dividend to shareholders for 2019 will total £80.9m. If approved, the Company will pay the final dividend on 5 June 2020 to shareholders on the register of members at 1 May 2020.

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 18 to 19 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

Table 1 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 2019			25 February 2020		
Table 1	Direct/indirect	Number of shares (m)	%	Direct/indirect	Number of shares (m)	%
Invesco Limited	Indirect	11.2	9.98	Indirect	11.2	9.98
Stichting PGGM Depositary	Direct	8.1	7.23	Direct	7.6	6.81
Norges Bank	Direct	6.7	6.01	Direct	6.7	6.01
BlackRock Investment Management (UK) Ltd	Indirect	6.0	5.39	Indirect	6.0	5.39
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.

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 page 84 and 104. During the year, two employees were nominated by the workforce to become members of the Responsible Business Committee (further information is available on page 139).

Directors

The Directors of the Company who were in office during the year, and up to the date of the signing of the financial statements, are set out on pages 98 and 99, except for Robert Rayne and Stephen Young. For the period 1 January 2019 to 17 May 2019, Robert Rayne and Stephen Young served as Directors before retiring from the Board at the 2019 AGM. Information on their retirement was contained within the 2018 Annual Report on page 7.

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 140 to 165.

Appointment and replacement of Directors

Directors may be appointed by ordinary resolution of the shareholders, or by the Board. Appointment of a Director from outside the Group is on the recommendation of the Nominations Committee, whilst internal promotion is a matter decided by the Board unless it is considered appropriate for a recommendation to be requested from the Nominations Committee.

At every AGM of the Company, any of the Directors who have been appointed by the Board since the last AGM shall seek election by the members. Notwithstanding provisions in the Company's Articles of Association, the Board has agreed, in accordance with the Code and in line with previous years, that all of the Directors wishing to continue will retire and, being eligible, offer themselves for re-election by the shareholders at the 2020 AGM.

Directors' indemnity

Directors' and officers' liability insurance is maintained by the Company.

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 111.

Share capital

As at 25 February 2020, the Company's issued share capital comprised a single class of 5p ordinary shares and equalled an amount of £5,588,664 divided into 111,773,286 ordinary shares.

The market price of the 5p ordinary shares at 31 December 2019 was £40.10 (2018: £28.53). During the year, they traded in a range between £27.85 and £40.82 (2018: £27.40 and £32.41).

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 2019, the Group holds 2,484 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 165). Movements on the holding of these shares are detailed below.

	Year ended 31 December 2019				Year ended 31 December 2018			
Table 2	As at 1 January 2019	Acquired	Disposed	As at 31 December 2019	As at 1 January 2018	Acquired	Disposed	As at 31 December 2018
Number of 5p ordinary shares	–	2,484	–	2,484	4,952	–	4,952	–
Percentage of issued share capital				0%				0%
Price (£)		32.50					30.27	

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 2019 AGM, shareholders authorised the Company to allot relevant securities,

(i) up to a nominal amount of £1,860,601; and
(ii) up to a nominal amount of £3,721,759, 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 2020 AGM to grant a similar authority to allot:

(i) up to a nominal amount of £1,862,702 (being one-third of the issued share capital of the Company); 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 (being two-thirds of the issued share capital).

At the 2020 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 £279,433 (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 £279,433 (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 11,177,329 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 he has not paid all amounts relating to those shares which are due at the time of the meeting, or if he has 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 Articles of Association of the Company, the Company's Articles of Association may be amended by a special resolution of the Company's shareholders.

Fixed assets

The Group's portfolio was professionally revalued at 31 December 2019, resulting in a surplus of £188.5m, before accounting adjustments of £33.9m. The portfolio is included in the Group balance sheet at a carrying value of £5,379m. 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 and include the acquisition of the freehold interest in Blue Star House SW9 for £38.1m and the disposal of the leasehold interest in 40 Chancery Lane WC2 for £121.3m before top-ups and costs.

Political donations

There were no political donations during 2019 (2018: 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 17 and 18 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 82 of the Responsibility section, which includes our annual GHG (greenhouse gas) emissions footprint and an intensity ratio appropriate for our business, which fulfil the requirements of the Companies Act 2006 (Strategic and Directors' Report) Regulations 2013.

For further analysis and detail on our GHG emissions, please see our 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 February 2021. Therefore, the Board continues to adopt the going concern basis in preparing the financial statements.

Annual General Meeting (AGM)

Our 2019 AGM was held on 17 May 2019 and we were delighted to receive in excess of 90% votes in favour for all of our resolutions. In total, 86.99% of our shareholders (voting capital) voted at the 2019 AGM, which was a 2.5% increase from the prior year's AGM.

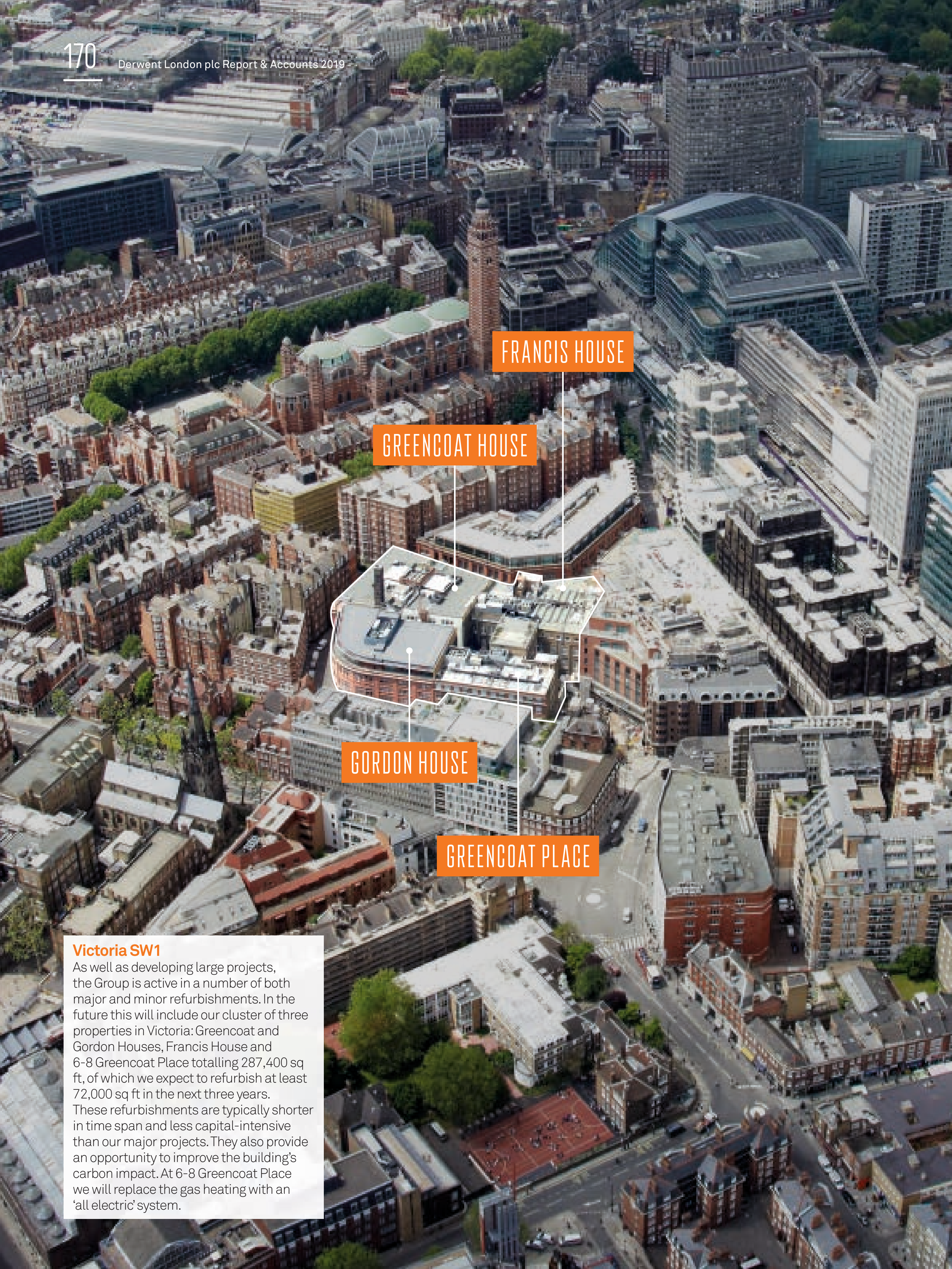
The 36th AGM of Derwent London plc will be held at The Conduit, 40 Conduit Street, London W1S 2YQ on 15 May 2020 at 10.30am and will include a presentation on our business from the Executive Directors.

The Notice of Meeting together with explanatory notes is contained in 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 on its behalf by:

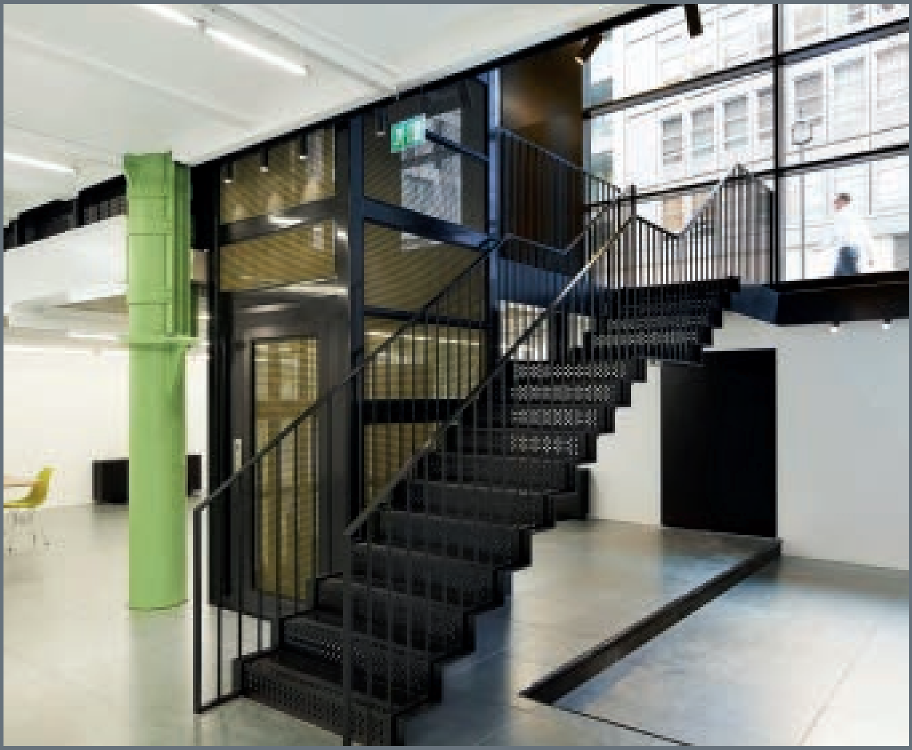
David Lawler
Company Secretary
25 February 2020



Victoria SW1

As well as developing large projects, the Group is active in a number of both major and minor refurbishments. In the future this will include our cluster of three properties in Victoria: Greencoat and Gordon Houses, Francis House and 6-8 Greencoat Place totalling 287,400 sq ft, of which we expect to refurbish at least 72,000 sq ft in the next three years. These refurbishments are typically shorter in time span and less capital-intensive than our major projects. They also provide an opportunity to improve the building's carbon impact. At 6-8 Greencoat Place we will replace the gas heating with an 'all electric' system.

FINANCIAL STATEMENTS



STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report, the report of the Remuneration Committee and the financial statements in accordance with applicable law and regulations.

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 Financial Reporting Standards (IFRS) as adopted by the EU. Under company law the 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 the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and Group will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's and the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the report of the Remuneration Committee comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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.

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 position, performance, business model and strategy.

Each of the Directors, whose names and functions are listed on pages 98 and 99, confirm that to the best of their knowledge:

- The Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit and loss of the Group; and
- The Strategic Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

The financial statements on pages 179 to 233 were approved by the Board of Directors and signed on its behalf by:

Paul Williams
Chief Executive

Damian Wisniewski
Chief Financial Officer
25 February 2020

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 2019 and of the Group's profit and the Group's and the Company's cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Company's financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Report and Accounts (the "Annual Report"), which comprise: the Balance sheets as at 31 December 2019; 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.

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

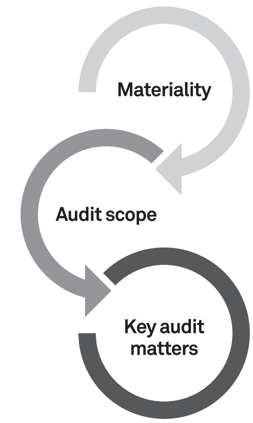
We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities 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 or the Company.

Other than those disclosed in note 10 to the financial statements, we have provided no non-audit services to the Group or the Company in the period from 1 January 2019 to 31 December 2019.

Our audit approach

Overview



Materiality

- Overall Group materiality: £56.2 million (2018: £53.2 million), based on 1% of total assets.
- Specific Group materiality: £4.0m million (2018: £4.0 million) applied to property and other income, administrative expenses, provisions and working capital balances.
- Overall Company materiality: £48.7 million (2018: £41.5 million), based on 2% of total assets.

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 54 statutory entities with the Group financial statements being a consolidation of these entities, the Company and the Group's joint ventures. Each statutory entity which owned a property was identified as requiring an audit of its complete financial information, either due to size, risk characteristics or statutory requirements. This work, all of which was carried out by the Group audit team, together with additional procedures performed on the consolidation, gave us sufficient appropriate audit evidence for our opinion on the Group financial statements as a whole.

Key audit matters

- Valuation of investment properties (Group)
- Compliance with REIT guidelines (Group)
- Accounting for borrowings and derivatives (Group and 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

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 (see page 185 of the Annual Report), 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 included:

- Discussion 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 combination or posted by senior management.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. 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.

Key audit matter	How our audit addressed the key audit matter
Valuation of investment properties **Group** Refer to page 123 (Audit Committee Report), pages 195 to 198 (Notes to the financial statements – Note 16) and page 232 (Significant accounting policies). 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 and IAS 40. 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 surplus on revaluation is primarily driven by the progress on the development projects where further capital expenditure has been incurred and the risk weighting applied to the valuation has decreased – hence increasing the capitalised value. Excluding these properties, the surplus reflects fairly flat ERVs in the central London property market with some significant new lettings being offset by ERV decreases at other sites. The existence of significant estimation uncertainty, coupled with the fact that only a small percentage difference in individual property valuations when aggregated could result in material misstatement, is why we have given specific audit focus and attention to this area.	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. In addition, we visited one of the key properties in Central London that is under development to confirm the status of developments. 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 £100m; 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 new lettings at higher rents, movements in ERV or yield to reflect market transactions in close proximity 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 page 123 (Audit Committee Report) and page 185 (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 inadvertently 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
Accounting for borrowing and derivatives **Group and Company** Refer to page 123 (Audit Committee Report), pages 203 to 212 (Notes to the financial statements – Note 24) and page 233 (Significant accounting policies). The Group has secured and unsecured debt totalling £976.6 million (2018: £914.5 million). There was an extension and amendment to the existing £450m facility to include a 'Green' tranche of £300m which was deemed to be a modification of the existing facility rather than an extinguishment. New £175m 1.5% convertible bonds were issued during the year redeemable in 2025 with an effective interest rate of 2.3% whilst the existing £150m 1.125% convertible bonds due in July 2019 were redeemed in the year. The Group uses interest rate swaps on a portion of its debt. The interest rate swaps were valued at 31 December 2019 by external valuers. The valuation of the swaps is based on market movements which can fluctuate significantly in the year and could have a material impact on the Group financial statements. The valuation also involves the use of estimates and therefore is considered an area of audit focus.	We obtained and reviewed each loan contract to understand the terms and conditions. Where debt covenants were identified, we re-performed management's calculations to verify compliance with the contracts. The carrying value of all debt was agreed to third party confirmations. We obtained and reviewed the loan amendment contract to understand the terms and conditions. Due to the judgement surrounding whether the amendment constitutes a modification or extinguishment we consulted with our internal specialists to confirm that the amendment was a modification in accordance with IFRS 9. We reviewed the agreement for the new bond and agreed the effective rate to correspondence with the banks to assess the reliability of the data used. For derivatives, we agreed the carrying value to valuations obtained directly from the third party valuers, JC Rathbone Associates. We assessed the competence and capabilities of the external valuers by considering their qualifications and market experience. We involved our internal specialists who performed independent valuations to recalculate the value using independent market data . From our work on the terms of the debt arrangements in place as at 31 December 2019, we consider the borrowings and derivatives to be accounted for appropriately, valued correctly in the context of materiality, and disclosed appropriately.

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.

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 54 statutory entities with the Group financial statements being a consolidation of these entities, the Company and the Group's joint ventures. Each statutory entity which owned a property was identified as requiring an audit of its complete financial information, either due to size, risk characteristics or statutory requirements.

This work, all of which was carried out by the Group audit team, together with additional procedures performed on the consolidation, gave us sufficient 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:

	Group financial statements	Company financial statements
Overall materiality	£56.2 million (2018: £53.2 million).	£42.1 million (2018: £41.5 million).
How we determined it	1% of total assets.	2% 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. In addition, a number of key performance indicators of the Group are driven by income statement items and we therefore also applied a lower specific materiality for testing property and other income, administrative expenses, provisions and working capital balances.	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 agreed with the Audit Committee that we would report to them misstatements identified during our audit above £2.8 million (for items audited using overall materiality) and £0.4 million (for items audited using specific materiality) (Group audit) (2018: £2.6 million and £0.4 million) and £2.4 million (Company audit) (2018: £2.0 million) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Going concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Directors' identification of any material uncertainties to the Group's and the Company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. As not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Company's ability to continue as a going concern. For example, the terms of the United Kingdom's withdrawal from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the Group's trade, customers, suppliers and the wider economy.
We are required to report if the Directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to 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 the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006 (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

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 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

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. (CA06)

The Directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

We have nothing material to add or draw attention to regarding:

- The Directors' confirmation on page 129 of the Annual Report that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The Directors' explanation on pages 44 and 45 of the Annual Report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report having performed a review of the Directors' statement that they have carried out a robust assessment of the principal risks facing the Group and statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the "Code"); and considering whether the statements are consistent with the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit. (Listing Rules)

INDEPENDENT AUDITOR'S REPORT CONTINUED

Other Code Provisions
We have nothing to report in respect of our responsibility to report when:

- The statement given by the Directors, on page 172, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and Company obtained in the course of performing our audit.
- The section of the Annual Report on pages 124 to 126 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- 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.

Directors' Remuneration
In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006. (CA06)

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements
As explained more fully in the Directors' Responsibilities Statement, 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.

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 received 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 Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment
Following the recommendation of the Audit Committee, we were appointed by the Directors on 14 May 2014 to audit the financial statements for the year ended 31 December 2014 and subsequent financial periods. The period of total uninterrupted engagement is six years, covering the years ended 31 December 2014 to 31 December 2019.

John Waters (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
25 February 2020

GROUP INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 £m	2018 £m
Gross property and other income	5	230.3	228.0
Net property and other income	5	182.6	185.9
Administrative expenses		(37.0)	(32.3)
Revaluation surplus	16	156.4	83.4
Profit on disposal	6	13.8	5.2
Profit from operations		315.8	242.2
Finance income	7	0.2	–
Finance costs	7	(26.7)	(23.5)
Bond redemption premium	7	(7.8)	–
Movement in fair value of derivative financial instruments		(0.1)	4.3
Financial derivative termination costs	8	(2.7)	(3.5)
Share of results of joint ventures	9	1.9	2.1
Profit before tax	10	280.6	221.6
Tax charge	15	(2.5)	(2.7)
Profit for the year		278.1	218.9
Attributable to:			
Equity shareholders	30	283.4	222.3
Non-controlling interest		(5.3)	(3.4)
		278.1	218.9
Earnings per share	39	253.82p	199.33p
Diluted earnings per share	39	253.11p	198.91p

The notes on pages 184 to 233 form part of these financial statements.

GROUP STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 £m	2018 £m
Profit for the year		278.1	218.9
Actuarial losses on defined benefit pension scheme	14	(0.6)	–
Revaluation (deficit)/surplus of owner-occupied property	16	(1.8)	0.7
Deferred tax credit on revaluation	27	0.1	0.1
Other comprehensive (expense)/income that will not be reclassified to profit or loss		(2.3)	0.8
Total comprehensive income relating to the year		275.8	219.7
Attributable to:			
Equity shareholders		281.1	223.1
Non-controlling interest		(5.3)	(3.4)
		275.8	219.7

The notes on pages 184 to 233 form part of these financial statements.

BALANCE SHEETS
AS AT 31 DECEMBER 2019

REGISTERED NO. 1819699

	Note	Group 2019 £m	2018 £m	Company 2019 £m	2018 £m
Non-current assets					
Investment property	16	**5,174.3**	5,028.2	**–**	–
Property, plant and equipment	17	**50.2**	53.1	**25.2**	5.4
Investments	18	**1.3**	29.1	**1,550.2**	1,226.4
Deferred tax	27	**–**	–	**3.2**	2.1
Pension scheme surplus	14	**0.5**	0.3	**0.5**	0.3
Other receivables	19	**134.4**	123.1	**–**	–
		5,360.7	5,233.8	**1,579.1**	1,234.2
Current assets					
Trading property	16	**40.7**	36.3	**–**	–
Trade and other receivables	20	**58.6**	61.4	**1,676.6**	1,849.8
Corporation tax asset		**–**	–	**0.4**	–
Cash and cash equivalents	32	**54.5**	18.3	**54.0**	17.3
		153.8	116.0	**1,731.0**	1,867.1
Non-current assets held for sale	21	**118.6**	–	**–**	–
Total assets		**5,633.1**	5,349.8	**3,310.1**	3,101.3
Current liabilities					
Borrowings	24	**–**	148.4	**–**	148.4
Leasehold liabilities	24	**–**	–	**1.1**	–
Trade and other payables	22	**112.5**	103.1	**988.0**	856.4
Corporation tax liability		**0.3**	2.1	**–**	1.0
Provisions	23	**0.9**	0.3	**0.9**	0.3
		113.7	253.9	**990.0**	1,006.1
Non-current liabilities					
Borrowings	24	**976.6**	766.1	**764.0**	552.5
Derivative financial instruments	24	**3.7**	3.6	**3.7**	3.6
Leasehold liabilities	24	**59.5**	60.7	**25.3**	–
Provisions	23	**1.5**	0.3	**1.5**	0.3
Deferred tax	27	**1.2**	1.8	**–**	–
		1,042.5	832.5	**794.5**	556.4
Total liabilities		**1,156.2**	1,086.4	**1,784.5**	1,562.5
Total net assets		**4,476.9**	4,263.4	**1,525.6**	1,538.8
Equity					
Share capital	28	**5.6**	5.6	**5.6**	5.6
Share premium	29	**193.0**	189.6	**193.0**	189.6
Other reserves	29	**936.2**	943.5	**923.3**	928.9
Retained earnings[1]	29	**3,286.4**	3,063.2	**403.7**	414.7
Equity shareholders' funds		**4,421.2**	4,201.9	**1,525.6**	1,538.8
Non-controlling interest		**55.7**	61.5	**–**	–
Total equity		**4,476.9**	4,263.4	**1,525.6**	1,538.8

[1] Retained earnings for the Company include profit for the year of £49.7m (2018: £327.6m).

The financial statements were approved by the Board of Directors and authorised for issue on 25 February 2020.

Paul Williams
Chief Executive

Damian Wisniewski
Chief Financial Officer

The notes on pages 184 to 233 form part of these financial statements.

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

	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 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**
At 1 January 2018	5.6	189.2	942.9	2,990.6	4,128.3	64.9	4,193.2
Profit/(loss) for the year	–	–	–	222.3	222.3	(3.4)	218.9
Other comprehensive income	–	–	0.8	–	0.8	–	0.8
Share-based payments	–	0.4	(0.2)	2.5	2.7	–	2.7
Dividends paid	–	–	–	(152.2)	(152.2)	–	(152.2)
At 31 December 2018	5.6	189.6	943.5	3,063.2	4,201.9	61.5	4,263.4
Company							
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)
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)	–	(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**
At 1 January 2018	5.6	189.2	929.1	236.8	1,360.7	–	1,360.7
Profit for the year	–	–	–	327.6	327.6	–	327.6
Share-based payments	–	0.4	(0.2)	2.5	2.7	–	2.7
Dividends paid	–	–	–	(152.2)	(152.2)	–	(152.2)
At 31 December 2018	5.6	189.6	928.9	414.7	1,538.8	–	1,538.8

[1] See note 29.

The notes on pages 184 to 233 form part of these financial statements.

CASH FLOW STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	Group 2019 £m	2018 £m	Company 2019 £m	2018 £m
Operating activities					
Rents received		171.0	159.5	–	–
Surrender premiums and other property income		0.5	22.2	–	–
Property expenses		(18.6)	(19.1)	–	–
Cash paid to and on behalf of employees		(24.4)	(22.0)	(24.2)	(21.9)
Other administrative expenses		(9.9)	(5.2)	(9.5)	(5.9)
Interest received	7	0.2	–	–	–
Interest paid	7	(18.8)	(17.4)	(16.8)	(13.9)
Other finance costs	7	(3.0)	(2.6)	(2.9)	(1.9)
Other income		3.6	2.9	3.3	2.8
Tax paid in respect of operating activities		(3.5)	(3.1)	–	–
Net cash from/(used in) operating activities		97.1	115.2	(50.1)	(40.8)
Investing activities					
Acquisition of properties		(31.6)	(57.3)	–	–
Capital expenditure on the property portfolio	7	(204.0)	(187.5)	–	–
Reimbursement of capital expenditure		3.5	15.9	–	–
Disposal of investment properties		159.3	0.3	–	–
Investment in joint ventures		(0.6)	(0.8)	–	–
Receipts from joint ventures		30.3	13.5	–	–
Purchase of property, plant and equipment		(0.3)	(0.8)	(0.2)	(0.8)
Disposal of property, plant and equipment		1.3	–	0.1	–
VAT (paid)/received		(2.2)	7.6	–	–
Net cash used in investing activities		(44.3)	(209.1)	(0.1)	(0.8)
Financing activities					
Net proceeds of bond issue		171.0	–	–	–
Net movement in intercompany loans		–	–	115.5	(52.7)
Net movement in revolving bank loans	26	(203.1)	180.5	(203.1)	180.5
Payment of loan arrangement costs		–	–	–	(0.2)
Bond redemption		(150.0)	–	–	–
Bond redemption premium		(8.5)	–	–	–
Drawdown of private placement notes		248.8	(0.2)	248.8	–
Financial derivative termination costs		(2.7)	(3.5)	(2.7)	(2.9)
Net proceeds of share issues	28	3.5	0.4	3.5	0.4
Dividends paid to non-controlling interest holder		(0.5)	–	–	–
Dividends paid	31	(75.1)	(152.0)	(75.1)	(152.0)
Net cash (used in)/from financing activities		(16.6)	25.2	86.9	(26.9)
Increase/(decrease) in cash and cash equivalents in the year		36.2	(68.7)	36.7	(68.5)
Cash and cash equivalents at the beginning of the year		18.3	87.0	17.3	85.8
Cash and cash equivalents at the end of the year	32	54.5	18.3	54.0	17.3

The notes on pages 184 to 233 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

1 Basis of preparation
The financial statements have been prepared in accordance with International Financial Reporting Standards, as adopted by the European Union (IFRS), IFRS Interpretations Committee interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. 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 for trading.

Going concern
Under Provision 30 of the UK Corporate Governance Code 2018, the Board needs 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.
- 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.

In particular the Directors have considered the relatively long-term and stable nature of the cash flows receivable under the tenant leases, the Group's year-end loan-to-value ratio for 2019 of 16.9%, the interest cover ratio of 462% and the £511m total of undrawn facilities and cash at 31 December 2019. They have also considered the fact that the average maturity of borrowings was 7.8 years at 31 December 2019.

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 2018, 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.

IFRIC 23 – Uncertainty over Income Tax Treatments;
IFRS 9 (amended) – Prepayment Features with Negative Compensation and modifications of financial liabilities;
IAS 28 (amended) – Long-term interests in Associates and Joint Ventures;
IAS 19 (amended) – Plan Amendment, Curtailment or Settlement;
Annual Improvements to IFRSs (2015 – 2017 cycle).

IFRS 16 Leases (effective 1 January 2019)
IFRS 16, which replaces IAS 17 and SIC-15, removes the distinction between operating and finance leases for lessees and results in almost all leases being recognised on balance sheet.

The Group and Company adopted IFRS 16 on 1 January 2019, using the modified retrospective approach under which comparatives are not restated. As the Group already accounted for investment properties held under operating leases as if they were held under finance leases, the adoption of IFRS 16 has had no impact on the Group's financial statements.

The Company has leased the space occupied at 25 Savile Row W1 from a subsidiary for which has been accounted for in accordance with IFRS 16 since 1 January 2019. As a result, the Company has recognised a lease liability, which was initially measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate as of 1 January 2019. A right-of-use asset has also been recognised on the balance sheet.

The impacts on transition at 1 January 2019, and on the balance sheet as at 31 December 2019, are shown below:

	31 December 2019 £m	1 January 2019 £m
Right-of-use asset	20.4	21.5
Lease liability	(26.4)	(25.4)

The Company's profit in 2019 was £0.4m lower as a result of adopting IFRS 16. In addition, £0.5m was charged to retained earnings on the date of transition, which was derived as follows:

	2019 £m
Reversal of rent previously expensed	3.4
Depreciation adjustment	(2.2)
Interest adjustment	(1.7)
	(0.5)

In applying IFRS 16 for the first time, the Group and Company have used the following practical expedients permitted by the standard:

- Applying a single discount rate to a portfolio of leases with reasonably similar characteristics.
- Excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application.
- Using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group and Company have elected not to reassess whether contracts entered into before the transition date were leases, or contained leases, at the date of initial application and instead have relied on their initial assessment made when applying IAS 17 and IFRIC 4 'Determining whether an Arrangement Contains a Lease'.

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.

References to Conceptual Framework in IFRSs (amended);
IFRS 17 – Insurance Contracts;
IFRS 10 and IAS 28 (amended) – Sale or Contribution of Assets between an investor and its Associate or Joint Venture.

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. More information is provided in note 16.

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 2019 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 five 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 asset value. 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 operating segment in that its performance is monitored individually.

The Group's property portfolio includes investment property, owner-occupied property and trading property and comprised 97% office buildings[1] by value at 31 December 2019 (2018: 97%). The Directors consider that these individual properties have similar economic characteristics and therefore have been aggregated into a single operating segment. The remaining 3% (2018: 3%) represented a mixture of retail, hotel, 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 and City borders), with the remainder in Scotland (Provincial).

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

4 Segmental information (continued)

Gross property income

	2019			2018		
	Office buildings £m	Other £m	Total £m	Office buildings £m	Other £m	Total £m
West End central	87.3	0.1	87.4	95.5	0.1	95.6
West End borders	19.3	–	19.3	19.3	–	19.3
City borders	81.1	0.5	81.6	76.1	0.5	76.6
Provincial	–	4.4	4.4	–	4.5	4.5
	187.7	5.0	192.7	190.9	5.1	196.0

A reconciliation of gross property income to gross property and other income is given in note 5.

Property portfolio

	2019			2018		
	Office buildings £m	Other £m	Total £m	Office buildings £m	Other £m	Total £m
Carrying value						
West End central	2,933.6	58.0	2,991.6	2,659.4	53.8	2,713.2
West End borders	434.8	–	434.8	439.2	–	439.2
City borders	1,860.2	7.7	1,867.9	1,859.5	7.7	1,867.2
Provincial	–	84.6	84.6	–	91.9	91.9
	5,228.6	150.3	5,378.9	4,958.1	153.4	5,111.5
Fair value						
West End central	2,944.1	60.5	3,004.6	2,658.1	54.9	2,713.0
West End borders	464.2	–	464.2	462.5	–	462.5
City borders	1,912.8	7.7	1,920.5	1,913.7	7.7	1,921.4
Provincial	–	85.9	85.9	–	93.8	93.8
	5,321.1	154.1	5,475.2	5,034.3	156.4	5,190.7

A reconciliation between the fair value and carrying value of the portfolio is set out in note 16.

5 Property and other income

	2019 £m	2018 £m
Gross rental income	191.7	175.1
Surrender premiums received	1.0	3.2
Other property income	–	17.7
Gross property income	192.7	196.0
Service charge income	34.0	29.1
Other income	3.6	2.9
Gross property and other income	230.3	228.0
Gross rental income	191.7	175.1
Ground rent	(1.5)	(1.4)
Service charge income	34.0	29.1
Service charge expenses	(36.1)	(32.0)
	(2.1)	(2.9)
Other property costs	(10.1)	(9.7)
Net rental income	178.0	161.1
Other property income	–	17.7
Other income	3.6	2.9
Other costs	–	(0.4)
Surrender premiums received	1.0	3.2
Reverse surrender premiums	–	(0.1)
Dilapidation receipts	–	1.7
Write-down of trading property	–	(0.2)
Net property and other income	182.6	185.9

Gross rental income includes £27.3m (2018: £13.4m) relating to rents recognised in advance of cash receipts.

In the prior year, other property income included £15.8m for granting a new access rights deed to a neighbouring property owner, with the remaining £1.9m relating to rights of light income.

Other income relates to fees and commissions earned in relation to the management of the Group's properties and was recognised in the Group income statement in accordance with the delivery of services.

6 Profit on disposal

	2019 £m	2018 £m
Investment property		
Gross disposal proceeds	155.2	5.4
Costs of disposal	(1.9)	–
Net disposal proceeds	153.3	5.4
Carrying value	(136.8)	(0.2)
Adjustment for lease costs and rents recognised in advance	(3.3)	–
Profit on disposal of investment property	13.2	5.2
Artwork		
Gross disposal proceeds	1.2	–
Carrying value	(0.6)	–
Profit on disposal of artwork	0.6	–
Profit on disposal	13.8	5.2

Gross disposal proceeds include £3.8m (2018: £2.0m) of accrued overage in relation to Balmoral Grove N7, which was originally sold in December 2016.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

7 Finance income and total finance costs

	2019 £m	2018 £m
Finance income		
Other	0.2	–
Finance income	0.2	–
Finance costs		
Bank loans and overdraft	2.1	3.6
Non-utilisation fees	2.1	1.9
Unsecured convertible bonds	3.9	3.9
Secured bonds	11.4	11.4
Unsecured private placement notes	15.0	8.3
Secured loan	3.3	3.3
Amortisation of issue and arrangement costs	2.2	2.1
Amortisation of the fair value of the secured bonds	(1.2)	(1.2)
Finance lease costs	0.7	0.7
Other	0.2	0.2
Gross interest costs	39.7	34.2
Less: interest capitalised	(13.0)	(10.7)
Finance costs	26.7	23.5
Bond redemption premium	7.8	–
Total finance costs	34.5	23.5

Finance costs of £13.0m (2018: £10.7m) 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 2019 were £34.8m (2018: £30.7m) of which £13.0m (2018: £10.7m) was included in capital expenditure on the property portfolio in the Group cash flow statement under investing activities.

Included in the bond redemption premium of £7.8m is £0.1m of unamortised loan arrangement costs written off.

8 Financial derivative termination costs

The Group incurred costs of £2.7m in the year to 31 December 2019 (2018: £3.5m) deferring, re-couponing or terminating interest rate swaps.

9 Share of results of joint ventures

	2019 £m	2018 £m
Revaluation deficit	–	(0.1)
Profit on disposal of investment property	1.7	1.3
Other profit from operations after tax	0.2	0.9
	1.9	2.1

In 2019, Prescot Street GP Limited and Prescot Street Nominees Limited, in which the Group has a 50% shareholding, disposed of the freehold interest in 9 and 16 Prescot Street E1 for £57.5m before costs, generating a profit of £3.4m net of tax.

See note 18 for further details of the Group's joint ventures.

10 Profit before tax

	2019 £m	2018 £m
This is arrived at after charging:		
Depreciation and amortisation	0.7	0.7
Contingent rent payable under property finance leases	1.5	1.4
Auditor's remuneration		
Audit – Group	0.4	0.3
Audit – subsidiaries	0.1	0.1

In 2019, audit fees for the Group were £310,708 (2018: £287,200) and for the subsidiaries £63,500 (2018: £63,000). Fees for non-audit services, relating to the half year review, were £42,432 (2018: £40,788).

Details of the Auditor's independence are included on pages 124 to 126.

11 Directors' emoluments

	2019 £m	2018 £m
Remuneration for management services	6.2	6.2
Share-based payments	2.9	1.4
Post-employment benefits	0.7	0.7
	9.8	8.3
National insurance contributions	1.4	1.1
	11.2	9.4

In accordance with IFRS 2 Share-based Payment, there is £2.8m (2018: £1.5m) relating to the Directors included within the £4.6m (2018: £2.3m) for Share-based payments expense relating to equity-settled schemes in note 12.

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 140 to 165. The only key management personnel are the Directors.

12 Employees

	Group 2019 £m	2018 £m	Company 2019 £m	2018 £m
Staff costs, including those of Directors:				
Wages and salaries	18.5	17.3	18.4	17.1
Social security costs	2.6	2.4	2.5	2.4
Other pension costs	2.1	2.2	2.1	2.1
Share-based payments expense relating to equity-settled schemes	4.6	2.3	4.5	2.4
	27.8	24.2	27.5	24.0

The monthly average number of employees in the Group during the year, excluding Directors, was 116 (2018: 106). The monthly average number of employees in the Company during the year, excluding Directors, was 104 (2018: 96). All were employed in administrative or support roles. Of the Group employees, there were 13 (2018: 10) whose costs were recharged or partially recharged to tenants via service charges.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

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.

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	Adjustment[1]	Exercised	Lapsed	Outstanding at 31 December
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**
For the year to 31 December 2018								
2009	6.10	6.10	1,000	–	–	(1,000)	–	–
2011	16.60	16.60	200	–	–	–	–	200
2012	17.19	16.49	14,643	–	312	(1,500)	–	13,455
2013	21.99	21.09	39,332	–	814	(2,724)	–	37,422
2014	27.39	26.27	64,402	–	1,029	(11,692)	–	53,739
2015	34.65	33.23	66,718	–	1,423	–	(4,166)	63,975
2016	31.20	29.93	91,936	–	1,866	–	(5,211)	88,591
2017	28.93	27.75	132,993	–	2,627	–	(11,036)	124,584
2018	30.29	29.57	–	132,600	2,938	–	(2,560)	132,978
			411,224	132,600	11,009	(16,916)	(22,973)	514,944

	31 December 2019	31 December 2018	1 January 2018
Number of shares:			
Exercisable	**115,760**	168,791	119,577
Non-exercisable	**368,012**	346,153	291,647
Weighted average exercise price of share options:			
Exercisable	**£30.39**	£27.14	£23.75
Non-exercisable	**£30.14**	£29.15	£30.41
Weighted average remaining contracted life of share options:			
Exercisable	**5.41 years**	5.26 years	5.79 years
Non-exercisable	**8.30 years**	8.38 years	8.48 years
Weighted average exercise price of share options that lapsed:			
Exercisable	**£32.54**	£33.26	–
Non-exercisable	**£29.74**	£28.85	£32.57

[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 2019 was £36.08 (2018: £30.90).

The weighted average fair value of options granted during 2019 was £6.87 (2018: £6.83).

The following information is relevant in the determination of the fair value of the options granted during 2019 and 2018 under the equity-settled employee share plan operated by the Group.

	2019	2018
Option pricing model used	Binomial lattice	Binomial lattice
Risk free interest rate	0.9%	1.1%
Volatility	24.0%	25.0%
Dividend yield	2.0%	2.0%

For both the 2019 and 2018 grants, additional assumptions have been made that there is no employee turnover and 50% of employees exercise early when the share options are 20% in the money and 50% of employees exercise early when the share options are 100% in the money.

The volatility assumption, measured as the standard deviation of expected share price returns, is based on a statistical analysis of daily prices over the last four years.

Group and Company – Save As You Earn scheme

The Save As You Earn (SAYE) is designed to allow employees (including Directors) to purchase shares in the Company in a tax efficient manner. The SAYE plan is an HMRC approved scheme. Employees can participate on an annual basis and save up to £250 per grant. Further details are given in the report of the Remuneration Committee.

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 £1.9m (2018: £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 some 63 past and 4 present employees as at 31 October 2016. Future benefit accrual ceased with effect from 31 July 2019 for the remaining employees. 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 2016 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 £8.3m. The Company agreed with the trustees that it will aim to eliminate the deficit over a period of 7 years and 1 month from 14 November 2017 by the payment of annual contributions of £0.9m payable by each 31 December from 31 December 2017 to 31 December 2024 inclusive. In addition the Company has agreed with the trustees that the Company will meet expenses of 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 2020 is £0.9m (31 December 2019 actual: £0.9m). Contributions will be reviewed as part of the valuation as at 31 October 2019 which is currently in progress.

For the purposes of IAS 19 the actuarial valuation as at 31 October 2016, which was carried out by a qualified independent actuary, has been updated on an approximate basis to 31 December 2019 for the non-insured members. For the insured members the liabilities in these disclosures have been calculated by updating the results of the SORP valuations produced by the Scheme Actuary for inclusion in the Trustee Report and Accounts. There have been no changes in the valuation methodology adopted for this period's disclosures compared to the previous period's disclosures.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

14 Pension costs (continued)

Amounts included in the balance sheet

	2019 £m	2018 £m	2017 £m
Fair value of plan assets	53.9	49.1	54.7
Present value of defined benefit obligation	(53.4)	(48.8)	(55.1)
Net asset/(liability)	0.5	0.3	(0.4)

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 using the projected unit credit method. The value calculated in this way is reflected in the net asset/(liability) 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 IFRIC14 and deemed it to have no material effect on the IAS19 figures.

Reconciliation of the opening and closing present value of the defined benefit obligation

	2019 £m	2018 £m
At 1 January	48.8	55.1
Current service cost	0.1	0.1
Past service cost	–	0.2
Interest cost	1.4	1.3
Actuarial losses due to scheme experience	–	0.1
Actuarial gains due to changes in demographic assumptions	(0.6)	(0.4)
Actuarial losses/(gains) due to changes in financial assumptions	6.2	(3.0)
Benefits paid, death in service premiums and expenses	(2.5)	(4.6)
At 31 December	53.4	48.8

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

	2019 £m	2018 £m
At 1 January	49.1	54.7
Interest income	1.4	1.3
Return on plan assets (excluding amounts included in interest income)	5.0	(3.3)
Contributions by the Group	0.9	1.0
Benefits paid, death in service premiums and expenses	(2.5)	(4.6)
At 31 December	53.9	49.1

The actual return on the plan assets over the year was a gain of £6.4m (2018: loss of £2.0m).

Defined benefit costs recognised in the income statement

	2019 £m	2018 £m
Current service cost	0.1	0.1
Past service cost	–	0.2
Defined benefit costs recognised in the income statement	0.1	0.3

Amounts recognised in other comprehensive income

	2019 £m	2018 £m
Gain/(loss) on plan assets (excluding amounts recognised in net interest cost)	5.0	(3.3)
Experience losses arising on the defined benefit obligation	–	(0.1)
Gain from changes in the demographic assumptions underlying the present value of the defined benefit obligation	0.6	0.4
(Loss)/gain from changes in the financial assumptions underlying the present value of the defined benefit obligation	(6.2)	3.0
Total loss recognised in other comprehensive income	(0.6)	–

Fair value of plan assets

	2019 £m	2018 £m	2017 £m
UK equities	0.5	0.4	0.7
Overseas equities	0.5	0.4	0.7
Government bonds	3.0	2.7	2.7
Cash	0.5	–	1.0
Other	14.0	11.5	12.5
Insured assets	35.4	34.1	37.1
Total assets	53.9	49.1	54.7

The £14.0m in the ‘other’ asset class is made up of holdings of £9.0m in equity-linked gilt funds and £5.0m in absolute return funds.

None of the fair values of the assets shown above include any directly held financial instruments of the Group or property occupied by, or other assets used by, the Group. All of the scheme assets have a quoted market price in an active market with the exception of the Trustee’s bank account balance and the insured assets. 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.

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 2019.

There are no asset-liability matching strategies currently being used by the plan.

Significant actuarial assumptions

	2019 %	2018 %	2017 %
Discount rate	2.1	2.9	2.5
Inflation (RPI)	n/a	3.2	3.2
Salary increases	n/a	4.7	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 2019 are 80% of the standard tables S2PxA, year of birth, no age rating for males and females, projected using CMI_2018 converging to 1.25% p.a. These imply the following life expectancies:

Life expectancy at age 65

	Years
Male retiring in 2019	23.5
Female retiring in 2019	25.4
Male retiring in 2039	24.8
Female retiring in 2039	26.9

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

14 Pension costs (continued)

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 5.0%

The sensitivities shown above are approximate. Each sensitivity considers one change in isolation. The average duration of the defined benefit obligation at the year ended 31 December 2019 is 15 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 2019 is £0.9m.

15 Tax charge

	2019 £m	2018 £m
Corporation tax		
UK corporation tax and income tax in respect of profit for the year	1.0	2.9
Other adjustments in respect of prior years' tax	0.7	0.2
Corporation tax charge	1.7	3.1
Deferred tax		
Origination and reversal of temporary differences	0.8	(0.4)
Deferred tax charge/(credit)	0.8	(0.4)
Tax charge	2.5	2.7

In addition to the tax charge of £2.5m (2018: £2.7m) that passed through the Group income statement, a deferred tax credit of £0.1m (2018: £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 2019 is lower (2018: lower) than the standard rate of corporation tax in the UK. The differences are explained below:

	2019 £m	2018 £m
Profit before tax	280.6	221.6
Expected tax charge based on the standard rate of corporation tax in the UK of 19.00% (2018: 19.00%)[1]	53.3	42.1
Difference between tax and accounting profit on disposals	(2.6)	(1.0)
REIT exempt income	(11.2)	(10.7)
Revaluation surplus attributable to REIT properties	(29.2)	(15.2)
Expenses and fair value adjustments not allowable for tax purposes	(4.4)	(8.1)
Capital allowances	(5.5)	(4.6)
Other differences	1.4	–
Tax charge in respect of profit for the year	1.8	2.5
Adjustments in respect of prior years' tax	0.7	0.2
Tax charge	2.5	2.7

[1] Changes to the UK corporation tax rates were substantively enacted as part of the Finance Bill 2015 (on 26 October 2015) and the Finance Bill 2016 (on 7 September 2016). These include reductions in the main rate to 19% from 1 April 2017 and then to 17% from 1 April 2020. Deferred taxes at the balance sheet date have been measured using the expected enacted tax rate and this is reflected in these financial statements.

16 Property portfolio

	Freehold £m	Leasehold £m	Total investment property £m	Owner-occupied property £m	Assets held for sale £m	Trading property £m	Total property portfolio £m
Group							
Carrying value							
At 1 January 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**
At 1 January 2018	3,867.0	803.7	4,670.7	46.5	–	25.3	4,742.5
Acquisitions	52.1	5.1	57.2	–	–	–	57.2
Capital expenditure	84.5	75.7	160.2	(0.2)	–	10.8	170.8
Interest capitalisation	5.2	5.1	10.3	–	–	0.4	10.7
Additions	141.8	85.9	227.7	(0.2)	–	11.2	238.7
Disposals	(0.2)	–	(0.2)	–	–	–	(0.2)
Revaluation	25.5	57.9	83.4	0.7	–	–	84.1
Write-down of trading property	–	–	–	–	–	(0.2)	(0.2)
Movement in grossing up of headlease liabilities	–	46.6	46.6	–	–	–	46.6
At 31 December 2018	4,034.1	994.1	5,028.2	47.0	–	36.3	5,111.5
Adjustments from fair value to carrying value							
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**
At 31 December 2018							
Fair value	4,151.4	955.0	5,106.4	47.0	–	37.3	5,190.7
Revaluation of trading property	–	–	–	–	–	(1.0)	(1.0)
Lease incentives and costs included in receivables	(117.3)	(21.6)	(138.9)	–	–	–	(138.9)
Grossing up of headlease liabilities	–	60.7	60.7	–	–	–	60.7
Carrying value	4,034.1	994.1	5,028.2	47.0	–	36.3	5,111.5

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

16 Property portfolio (continued)

Reconciliation of fair value

	2019 £m	2018 £m
Portfolio including the Group's share of joint ventures	5,475.2	5,217.6
Less: joint ventures	–	(26.9)
IFRS property portfolio	5,475.2	5,190.7

The property portfolio is subject to semi-annual external valuations and was revalued at 31 December 2019 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.

CBRE Limited valued properties at £5,443.0m (2018: £5,157.8m) and other valuers at £32.2m (2018: £32.9m), giving a combined value of £5,475.2m (2018: £5,190.7m). Of the properties revalued by CBRE, £45.3m (2018: £47.0m) relating to owner-occupied property was included within property, plant and equipment and £43.0m (2018: £37.3m) 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.

Following exchange of contracts in December 2019 for the sale of its long leasehold interest in 40 Chancery Lane WC2, the Group transferred £107.0m from investment property to assets held for sale.

Reconciliation of revaluation surplus

	2019 £m	2018 £m
Total revaluation surplus	188.5	100.2
Less:		
Share of joint ventures	–	(0.2)
Lease incentives and costs	(32.2)	(16.5)
Assets held for sale selling costs	(0.4)	–
Trading property revaluation (surplus)/deficit	(1.3)	0.4
IFRS revaluation surplus	154.6	83.9
Reported in the:		
Revaluation surplus	156.4	83.4
Write-down of trading property	–	(0.2)
Group income statement	156.4	83.2
Group statement of comprehensive income	(1.8)	0.7
	154.6	83.9

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.

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 2019 or 2018.

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 gain of £156.4m (2018: £83.4m) and are presented in the Group income statement in the line item 'revaluation surplus'. The revaluation deficit for the owner-occupied property of £1.8m (2018: credit of £0.7m) was included within the revaluation reserve.

All gains and losses recorded in profit or loss in 2019 and 2018 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 2019 and 31 December 2018, respectively.

Quantitative information about fair value measurement using unobservable inputs (Level 3)

	West End central	West End borders	City borders	Provincial commercial	Provincial land	Total
Valuation technique	Income capitalisation	Income capitalisation	Income capitalisation	Income capitalisation	Income capitalisation	
Fair value (£m)[1]	3,004.6	464.2	1,920.5	53.7	32.2	5,475.2
Area ('000 sq ft)	2,787	495	2,007	347	–	5,636
Range of unobservable inputs[2]:						
Gross ERV (per sq ft pa)						
Minimum	£15	£43	£32	£4	n/a[3]	
Maximum	£176	£60	£69	£15	n/a[3]	
Weighted average	£61	£53	£53	£11	n/a[3]	
Net initial yield						
Minimum	0.0%	1.4%	1.7%	0.0%	0.0%	
Maximum	6.1%	4.8%	5.8%	17.4%	10.1%	
Weighted average	2.5%	2.6%	3.5%	7.6%	1.3%	
Reversionary yield						
Minimum	3.0%	4.8%	3.4%	8.2%	0.0%	
Maximum	11.7%	6.9%	5.8%	21.1%	9.8%	
Weighted average	4.8%	5.3%	5.0%	8.4%	1.3%	
True equivalent yield (EPRA basis)						
Minimum	2.7%	4.6%	3.6%	8.3%	9.7%	
Maximum	6.6%	5.3%	5.1%	19.2%	11.0%	
Weighted average	4.6%	5.1%	4.8%	8.4%	10.7%	

1 Includes the Group's share of joint ventures.
2 Costs to complete are not deemed a significant unobservable input by virtue of the high percentage that is already fixed.
3 There is no calculation of gross ERV per sq ft pa. The land totals 5,318 acres.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

16 Property portfolio (continued)

Sensitivity of measurement to variations in the significant unobservable inputs

The significant unobservable inputs used in the fair value measurement categorised within Level 3 of the fair value hierarchy of the Group's property portfolio, together with the impact of significant movements in these inputs on the fair value measurement, are shown below:

Unobservable input	Impact on fair value measurement of significant increase in input	Impact on fair value measurement of significant decrease in input
Gross ERV	Increase	Decrease
Net initial yield	Decrease	Increase
Reversionary yield	Decrease	Increase
True equivalent yield	Decrease	Increase

There are inter-relationships between these inputs as they are partially determined by market conditions. An increase in the reversionary yield may accompany an increase in gross ERV and would mitigate its impact on the fair value measurement.

A sensitivity analysis was performed to ascertain the impact on the fair value of a 25 basis point shift in true equivalent yield and a £2.50 psf shift in ERV.

	West End central	West End borders	City borders	Provincial commercial	Provincial land	Total
True equivalent yield						
+25bp	(5.2%)	(4.7%)	(5.0%)	(2.9%)	(2.3%)	(5.0%)
- 25bp	5.7%	5.2%	5.5%	3.1%	2.4%	5.5%
ERV						
+£2.50 psf	4.1%	4.7%	4.7%	16.6%	–	4.6%
- £2.50 psf	(4.1%)	(4.7%)	(4.7%)	(16.6%)	–	(4.6%)

Historical cost

	2019 £m	2018 £m
Investment property	3,009.7	2,924.5
Owner-occupied property	19.7	19.6
Assets held for sale	76.2	–
Trading property	48.6	44.2
Total property portfolio	3,154.2	2,988.3

17 Property, plant and equipment

	Owner-occupied property £m	Right-of-use asset £m	Artwork £m	Other £m	Total £m
Group					
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**
At 1 January 2018	46.5	–	1.6	4.1	52.2
Additions	(0.2)	–	–	1.1	0.9
Depreciation	–	–	–	(0.7)	(0.7)
Revaluation	0.7	–	–	–	0.7
At 31 December 2018	47.0	–	1.6	4.5	53.1
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**
Net book value					
Cost or valuation	47.0	–	1.6	7.0	55.6
Accumulated depreciation	–	–	–	(2.5)	(2.5)
At 31 December 2018	47.0	–	1.6	4.5	53.1
Company					
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**
At 1 January 2018	–	–	1.0	4.1	5.1
Additions	–	–	–	1.0	1.0
Depreciation	–	–	–	(0.7)	(0.7)
At 31 December 2018	–	–	1.0	4.4	5.4
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**
Net book value					
Cost or valuation	–	–	1.0	6.9	7.9
Accumulated depreciation	–	–	–	(2.5)	(2.5)
At 31 December 2018	–	–	1.0	4.4	5.4

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 2019 was £1.0m (2018: £1.6m) and £1.0m (2018: £1.0m) in the Company. See note 16 for the historical cost of owner-occupied property and IFRS 13 Fair Value Measurement disclosures.

Adoption of IFRS 16 has had no impact on the Groups' financial results. Adoption in the Company has resulted in a right-of-use asset in relation to the lease it has with a subsidiary company for the space occupied at 25 Savile Row W1.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

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.

	2019 £m	2018 £m
At 1 January	29.1	39.7
Share of results of joint ventures (see note 9)	1.9	2.1
Additions	0.6	0.8
Repayment of shareholder loan	(21.3)	–
Distributions received	(9.0)	(13.5)
At 31 December	1.3	29.1

The Group's share of its investments in joint ventures is represented by the following amounts in the underlying joint venture entities.

	2019		2018	
	Joint ventures £m	Group share £m	Joint ventures £m	Group share £m
Non-current assets	–	–	–	–
Current assets	2.1	1.1	59.2	29.6
Current liabilities	(0.7)	(0.4)	(2.4)	(1.2)
Non-current liabilities	–	–	(41.2)	(20.6)
Net assets	1.4	0.7	15.6	7.8
Loans provided to joint ventures		0.6		21.3
Total investment in joint ventures		1.3		29.1
Income	3.9	1.9	47.8	23.9
Expenses	(0.1)	–	(43.6)	(21.8)
Profit for the year	3.8	1.9	4.2	2.1

Following the disposal of 9 and 16 Prescot Street E1, Prescot Street GP Limited and Prescot Street Nominees Limited repaid £21.3m of shareholder loans and made further distributions of £9.0m.

Company

	Subsidiaries £m	Joint ventures £m	Total £m
At 1 January 2018	1,225.8	–	1,225.8
Reversal of impairment	0.6	–	0.6
At 31 December 2018	1,226.4	–	1,226.4
Additions	323.8	–	323.8
At 31 December 2019	**1,550.2**	**–**	**1,550.2**

At 31 December 2019, 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.

19 Other receivables (non-current)

	Group 2019 £m	2018 £m	Company 2019 £m	2018 £m
Prepayments and accrued income	134.4	123.1	–	–

Prepayments and accrued income relates to rents recognised in advance as a result of spreading the effect of rent free and reduced rent periods, capital contributions in lieu of rent free periods and contracted rent uplifts, as well as the initial direct costs of the letting, over the expected terms of their respective leases. Together with £18.7m (2018: £15.8m), which was included as accrued income within trade and other receivables (see note 20), these amounts totalled £153.1m at 31 December 2019 (2018: £138.9m).

20 Trade and other receivables

	Group 2019 £m	2018 £m	Company 2019 £m	2018 £m
Trade receivables	7.9	10.7	–	–
Amounts owed by subsidiaries	–	–	1,651.7	1,845.4
Other receivables	4.4	4.1	1.3	2.4
Prepayments	20.6	20.6	23.0	1.7
Other taxes	–	–	0.5	0.1
Accrued income	25.7	26.0	0.1	0.2
	58.6	61.4	1,676.6	1,849.8

	2019 £m	2018 £m
Group trade receivables are split as follows:		
less than three months due	7.8	10.5
between three and six months due	0.1	0.2
	7.9	10.7

Group trade receivables includes a provision for bad debts as follows:

	2019 £m	2018 £m
At 1 January	0.3	0.3
Additions	0.1	–
Released	–	–
At 31 December	0.4	0.3
The provision for bad debts is split as follows:		
less than three months due	0.4	0.3
	0.4	0.3

None of the amounts included in other receivables are past due and therefore no ageing has been shown.

21 Non-current assets held for sale

	2019 £m	2018 £m
Transferred from investment properties (see note 16)	118.6	–

In December 2019, the Group exchanged contracts on the sale of its long leasehold interest in 40 Chancery Lane WC2. The property was valued at £119.0m at 31 December 2019. 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 £0.4m, the carrying value was £118.6m.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

22 Trade and other payables

	Group 2019 £m	2018 £m	Company 2019 £m	2018 £m
Trade payables	7.2	1.4	0.2	0.9
Amounts owed to subsidiaries	–	–	972.6	837.3
Other payables	19.8	17.8	0.4	1.3
Other taxes	2.1	2.5	–	–
Accruals	38.6	38.7	14.6	16.8
Deferred income	44.8	42.7	0.2	0.1
	112.5	103.1	988.0	856.4

23 Provisions

	Group £m	Company £m
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
At 1 January 2018	0.6	0.6
Provided in the income statement	0.2	0.2
Utilised in year	(0.2)	(0.2)
At 31 December 2018	0.6	0.6
Due within one year	0.3	0.3
Due after one year	0.3	0.3
	0.6	0.6

The provisions in both the Group and the Company relate to deferred shares expected to be granted to Directors, and 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.

24 Net debt and derivative financial instruments

	Group 2019 £m	2018 £m	Company 2019 £m	2018 £m
Current liabilities				
1.125% unsecured convertible bonds 2019	–	148.4	–	–
Intercompany loan	–	–	–	148.4
	–	148.4	–	148.4
Non-current liabilities				
1.5% unsecured convertible bonds 2025	164.5	–	–	–
6.5% secured bonds 2026	184.8	185.9	–	–
2.68% unsecured private placement notes 2026	54.7	–	54.7	–
3.46% unsecured private placement notes 2028	29.9	29.8	29.9	29.8
4.41% unsecured private placement notes 2029	24.8	24.8	24.8	24.8
2.87% unsecured private placement notes 2029	92.5	–	92.5	–
2.97% unsecured private placement notes 2031	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	51.7	–	51.7	–
4.68% unsecured private placement notes 2034	74.4	74.4	74.4	74.4
3.99% secured loan 2024	82.1	81.9	82.1	81.9
Unsecured bank loans	65.0	267.0	65.0	267.0
Secured bank loans	27.8	27.7	–	–
Intercompany loan	–	–	164.5	–
	976.6	766.1	764.0	552.5
Borrowings	976.6	914.5	764.0	700.9
Leasehold liabilities	59.5	60.7	26.4	–
Derivative financial instruments expiring in greater than one year	3.7	3.6	3.7	3.6
Gross debt	1,039.8	978.8	794.1	704.5
Reconciliation to net debt:				
Gross debt	1,039.8	978.8	794.1	704.5
Derivative financial instruments	(3.7)	(3.6)	(3.7)	(3.6)
Cash and cash equivalents	(54.5)	(18.3)	(54.0)	(17.3)
Net debt	981.6	956.9	736.4	683.6

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. At 31 December 2018, the carrying value was £148.4m and the fair value was determined by the ask-price of £102.38 per £100.

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 £109.10 per £100 as at 31 December 2019. The carrying value at 31 December 2019 was £164.5m.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

24 Net debt and derivative financial instruments (continued)

Reconciliation of nominal value to carrying value:

	£m
Nominal value	175.0
Fair value adjustment on issue allocated to equity	(7.7)
Debt component on issue	167.3
Unamortised issue costs	(3.5)
Amortisation of fair value adjustment	0.7
Carrying amount included in borrowings	**164.5**

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 2019 was determined by the ask-price of £127.30 per £100 (2018: £126.90 per £100). The carrying value at 31 December 2019 was £184.8m (2018: £185.9m).

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 2019 were £54.7m, £92.5m, £49.8m and £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 2019 were £29.9m (2018: £29.8m) and £74.6m (2018: £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 2019 were £24.8m (2018: £24.8m) and £74.4m (2018: £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 2019 was £82.1m (2018: £81.9m).

Bank borrowings

In October 2019, the main corporate £450m revolving credit facility was amended to include a £300m 'green' tranche and extended out to 2024. This facility has similar covenants and pricing to the Group's £75m revolving credit facility, which had been amended previously. The fair values of the Group's bank loans are therefore 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 2019	**–**	**–**	**68.5**	**–**	**388.0**	**–**	**456.5**
At 31 December 2018	–	–	–	255.5	–	–	255.5
Company							
At 31 December 2019	**–**	**–**	**68.5**	**–**	**388.0**	**–**	**456.5**
At 31 December 2018	–	–	–	255.5	–	–	255.5

Intercompany loans

The terms of the intercompany loans in the Company mirror those of the unsecured convertible bonds 2019 and 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 2019 was £164.5m (2018: £148.4m).

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 2019 for the period to the contracted expiry dates.

The Group has a £40m forward starting interest rate swap effective from 15 January 2020, and a £75m forward starting interest rate swap effective from 1 January 2020. These swaps are not included in the 31 December 2019 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 2019						
Interest rate swaps	**28.0**	**0.88**	**0.2**	**–**	**–**	**–**
At 31 December 2018						
Interest rate swaps	28.0	0.88	1.2	–	–	–

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

24 Net debt and derivative financial instruments (continued)

Secured and unsecured debt

	Group 2019 £m	2018 £m	Company 2019 £m	2018 £m
Secured				
6.5% secured bonds 2026	184.8	185.9	–	–
3.99% secured loan 2024	82.1	81.9	82.1	81.9
Secured bank loans	27.8	27.7	–	–
	294.7	295.5	82.1	81.9
Unsecured				
1.125% unsecured convertible bonds 2019	–	148.4	–	–
1.5% unsecured convertible bonds 2025	164.5	–	–	–
2.68% unsecured private placement notes 2026	54.7	–	54.7	–
3.46% unsecured private placement notes 2028	29.9	29.8	29.9	29.8
4.41% unsecured private placement notes 2029	24.8	24.8	24.8	24.8
2.87% unsecured private placement notes 2029	92.5	–	92.5	–
2.97% unsecured private placement notes 2031	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	51.7	–	51.7	–
4.68% unsecured private placement notes 2034	74.4	74.4	74.4	74.4
Unsecured bank loans	65.0	267.0	65.0	267.0
Intercompany loans	–	–	164.5	148.4
	681.9	619.0	681.9	619.0
Borrowings	976.6	914.5	764.0	700.9

At 31 December 2019, the Group's secured bank loan and the 3.99% secured loan 2024 were secured by a fixed charge over £105.7m (2018: £112.4m) and £311.6m (2018: £293.3m), 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 £634.5m (2018: £668.0m) of the Group's properties.

At 31 December 2019, the Company's 3.99% secured loan 2024 was secured by a fixed charge over £311.6m (2018: £293.3m) of the Group's properties.

Fixed interest rate and hedged debt

At 31 December 2019 and 2018, the Group's fixed rate and hedged debt included the unsecured convertible bonds, the secured bonds, a secured loan, the unsecured private placement notes and the hedged bank debt.

At 31 December 2019 and 2018, the Company's fixed rate debt comprised a secured loan, the unsecured private placement notes, the hedged bank debt and the intercompany loans.

Interest rate exposure
After taking into account the various interest rate hedging instruments entered into by the Group and the Company, the interest rate exposure of the Group's and Company's borrowings were:

	Floating rate £m	Hedged £m	Fixed rate £m	Borrowings £m	Weighted average interest rate[1] %	Weighted average life Years
Group						
At 31 December 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
2.68% unsecured private placement notes 2026	–	–	54.7	54.7	2.68	6.1
3.46% unsecured private placement notes 2028	–	–	29.9	29.9	3.46	8.3
4.41% unsecured private placement notes 2029	–	–	24.8	24.8	4.41	9.0
2.87% unsecured private placement notes 2029	–	–	92.5	92.5	2.87	9.1
2.97% unsecured private placement notes 2031	–	–	49.8	49.8	2.97	11.1
3.57% unsecured private placement notes 2031	–	–	74.6	74.6	3.57	11.3
3.09% unsecured private placement notes 2034	–	–	51.7	51.7	3.09	14.1
4.68% unsecured private placement notes 2034	–	–	74.4	74.4	4.68	14.0
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**
At 31 December 2018						
1.125% unsecured convertible bonds 2019	–	–	148.4	148.4	2.67	0.6
6.5% secured bonds 2026	–	–	185.9	185.9	6.50	7.2
3.46% unsecured private placement notes 2028	–	–	29.8	29.8	3.46	9.3
4.41% unsecured private placement notes 2029	–	–	24.8	24.8	4.41	10.0
3.57% unsecured private placement notes 2031	–	–	74.6	74.6	3.57	12.3
4.68% unsecured private placement notes 2034	–	–	74.4	74.4	4.68	15.0
3.99% secured loan 2024	–	–	81.9	81.9	3.99	5.8
Unsecured bank loans	267.0	–	–	267.0	2.14	3.1
Secured bank loans	–	27.7	–	27.7	2.58	3.6
	267.0	27.7	619.8	914.5	3.68	5.9
Company						
At 31 December 2019						
2.68% unsecured private placement notes 2026	–	–	54.7	54.7	2.68	6.1
3.46% unsecured private placement notes 2028	–	–	29.9	29.9	3.46	8.3
4.41% unsecured private placement notes 2029	–	–	24.8	24.8	4.41	9.0
2.87% unsecured private placement notes 2029	–	–	92.5	92.5	2.87	9.1
2.97% unsecured private placement notes 2031	–	–	49.8	49.8	2.97	11.1
3.57% unsecured private placement notes 2031	–	–	74.6	74.6	3.57	11.3
3.09% unsecured private placement notes 2034	–	–	51.7	51.7	3.09	14.1
4.68% unsecured private placement notes 2034	–	–	74.4	74.4	4.68	14.0
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**
At 31 December 2018						
3.46% unsecured private placement notes 2028	–	–	29.8	29.8	3.46	9.3
4.41% unsecured private placement notes 2029	–	–	24.8	24.8	4.41	10.0
3.57% unsecured private placement notes 2031	–	–	74.6	74.6	3.57	12.3
4.68% unsecured private placement notes 2034	–	–	74.4	74.4	4.68	15.0
3.99% secured loan 2024	–	–	81.9	81.9	3.99	5.8
Unsecured bank loans	267.0	–	–	267.0	2.14	3.1
Intercompany loans	–	–	148.4	148.4	2.67	0.6
	267.0	–	433.9	700.9	3.03	5.6

[1] The weighted average interest rates are based on the nominal amounts of the debt facilities.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

24 Net debt and derivative financial instruments (continued)

Contractual undiscounted cash outflows

IFRS 7 Financial Instruments: Disclosure, requires disclosure of the maturity of the Group's and Company's remaining contractual financial liabilities. The tables below show the contractual undiscounted cash outflows arising from the Group's gross debt.

	< 1 year £m	1 to 2 years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	> 5 years £m	Total £m
Group							
At 31 December 2019							
1.5% unsecured convertible bonds 2025	–	–	–	–	–	175.0	175.0
6.5% secured bonds 2026	–	–	–	–	–	175.0	175.0
2.68% unsecured private placement notes 2026	–	–	–	–	–	55.0	55.0
3.46% unsecured private placement notes 2028	–	–	–	–	–	30.0	30.0
4.41% unsecured private placement notes 2029	–	–	–	–	–	25.0	25.0
2.87% unsecured private placement notes 2029	–	–	–	–	–	93.0	93.0
2.97% unsecured private placement notes 2031	–	–	–	–	–	50.0	50.0
3.57% unsecured private placement notes 2031	–	–	–	–	–	75.0	75.0
3.09% unsecured private placement notes 2034	–	–	–	–	–	52.0	52.0
4.68% unsecured private placement notes 2034	–	–	–	–	–	75.0	75.0
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**
At 31 December 2018							
1.125% unsecured convertible bonds 2019	150.0	–	–	–	–	–	150.0
6.5% secured bonds 2026	–	–	–	–	–	175.0	175.0
3.46% unsecured private placement notes 2028	–	–	–	–	–	30.0	30.0
4.41% unsecured private placement notes 2029	–	–	–	–	–	25.0	25.0
3.57% unsecured private placement notes 2031	–	–	–	–	–	75.0	75.0
4.68% unsecured private placement notes 2034	–	–	–	–	–	75.0	75.0
3.99% secured loan 2024	–	–	–	–	–	83.0	83.0
Unsecured bank loans	–	–	–	269.5	–	–	269.5
Secured bank loans	–	–	–	28.0	–	–	28.0
Total on maturity	150.0	–	–	297.5	–	463.0	910.5
Leasehold liabilities	0.8	0.8	0.8	52.4	0.8	194.8	250.4
Interest on borrowings	31.5	30.8	31.1	24.4	23.0	99.4	240.2
Effect of interest rate swaps	1.6	1.2	0.5	0.4	–	(0.1)	3.6
Gross loan commitments	183.9	32.8	32.4	374.7	23.8	757.1	1,404.7

Reconciliation to borrowings:

	Gross loan commitments £m	Adjustments: Interest on gross debt £m	Effect of interest rate swaps £m	Leasehold liabilities £m	Non-cash amortisation £m	Borrowings £m
Group						
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**
At 31 December 2018						
Maturing in:						
< 1 year	183.9	(31.5)	(1.6)	(0.8)	(1.6)	148.4
1 to 2 years	32.8	(30.8)	(1.2)	(0.8)	–	–
2 to 3 years	32.4	(31.1)	(0.5)	(0.8)	–	–
3 to 4 years	374.7	(24.4)	(0.4)	(52.4)	(2.8)	294.7
4 to 5 years	23.8	(23.0)	–	(0.8)	–	–
> 5 years	757.1	(99.4)	0.1	(194.8)	8.4	471.4
	1,404.7	(240.2)	(3.6)	(250.4)	4.0	914.5

	< 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 2019							
2.68% unsecured private placement notes 2026	–	–	–	–	–	55.0	55.0
3.46% unsecured private placement notes 2028	–	–	–	–	–	30.0	30.0
4.41% unsecured private placement notes 2029	–	–	–	–	–	25.0	25.0
2.87% unsecured private placement notes 2029	–	–	–	–	–	93.0	93.0
2.97% unsecured private placement notes 2031	–	–	–	–	–	50.0	50.0
3.57% unsecured private placement notes 2031	–	–	–	–	–	75.0	75.0
3.09% unsecured private placement notes 2034	–	–	–	–	–	52.0	52.0
4.68% unsecured private placement notes 2034	–	–	–	–	–	75.0	75.0
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**
At 31 December 2018							
3.46% unsecured private placement notes 2028	–	–	–	–	–	30.0	30.0
4.41% unsecured private placement notes 2029	–	–	–	–	–	25.0	25.0
3.57% unsecured private placement notes 2031	–	–	–	–	–	75.0	75.0
4.68% unsecured private placement notes 2034	–	–	–	–	–	75.0	75.0
3.99% secured loan 2024	–	–	–	–	–	83.0	83.0
Unsecured bank loans	–	–	–	269.5	–	–	269.5
Intercompany loans	150.0	–	–	–	–	–	150.0
Total on maturity	150.0	–	–	269.5	–	288.0	707.5
Interest on debt	19.3	18.6	18.9	12.4	11.6	71.0	151.8
Effect of interest rate swaps	1.6	1.2	0.5	0.4	–	(0.1)	3.6
Gross loan commitments	170.9	19.8	19.4	282.3	11.6	358.9	862.9

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

24 Net debt and derivative financial instruments (continued)

Reconciliation to borrowings:

	Gross loan commitments £m	Adjustments: Interest on gross debt £m	Adjustments: Effect of interest rate swaps £m	Adjustments: Leasehold liabilities £m	Adjustments: Non-cash amortisation £m	Borrowings £m
Company						
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**
At 31 December 2018						
Maturing in:						
< 1 year	170.9	(19.3)	(1.6)	–	(1.6)	148.4
1 to 2 years	19.8	(18.6)	(1.2)	–	–	–
2 to 3 years	19.4	(18.9)	(0.5)	–	–	–
3 to 4 years	282.3	(12.4)	(0.4)	–	(2.5)	267.0
4 to 5 years	11.6	(11.6)	–	–	–	–
> 5 years	358.9	(71.0)	0.1	–	(2.5)	285.5
	862.9	(151.8)	(3.6)	–	(6.6)	700.9

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.

	2019 Receivable £m	2019 Payable £m	2018 Receivable £m	2018 Payable £m
Group				
Maturing in:				
< 1 year	**0.6**	**(1.6)**	1.2	(2.8)
1 to 2 years	**0.9**	**(2.0)**	1.6	(2.8)
2 to 3 years	**0.9**	**(1.8)**	1.5	(2.0)
3 to 4 years	**0.7**	**(1.0)**	1.4	(1.8)
4 to 5 years	**0.7**	**(1.0)**	1.0	(1.0)
> 5 years	**0.4**	**(0.5)**	1.6	(1.5)
Gross contractual cash flows	**4.2**	**(7.9)**	8.3	(11.9)
Company				
Maturing in:				
< 1 year	**0.6**	**(1.6)**	1.2	(2.8)
1 to 2 years	**0.9**	**(2.0)**	1.6	(2.8)
2 to 3 years	**0.9**	**(1.8)**	1.5	(2.0)
3 to 4 years	**0.7**	**(1.0)**	1.4	(1.8)
4 to 5 years	**0.7**	**(1.0)**	1.0	(1.0)
> 5 years	**0.4**	**(0.5)**	1.6	(1.5)
Gross contractual cash flows	**4.2**	**(7.9)**	8.3	(11.9)

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 46 to 57.

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, cash at bank, trade and other payables, floating rate bank loans, fixed rate loans and private placement notes, secured and unsecured bonds and interest rate swaps.

General objectives, policies and processes
The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority to executive management for designing and operating processes that ensure the effective implementation of the objectives and policies.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's flexibility and its ability to maximise returns. Further details regarding these policies are set out below:

Credit risk
Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group is mainly exposed to credit risk from lease contracts in relation to its property portfolio. It is Group policy to assess the credit risk of new tenants before entering into such contracts. The Board has established 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 and trade references. The covenant strength of each tenant is determined based on this review and, if appropriate, a deposit or a guarantee is obtained.

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 quantitative disclosures of the credit risk exposure in relation to trade and other receivables which are neither past due nor impaired are disclosed in note 20.

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 a regular 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 £0.3m (2018: £1.3m) or a decrease of £0.3m (2018: £1.3m).

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 2019, the proportion of fixed debt held by the Group was above this range at 93% (2018: 70%) following a property disposal in late September 2019. During both 2019 and 2018, 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

24 Net debt and derivative financial instruments (continued)

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 2019, the Group's strategy, which was unchanged from 2018, 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 page 240 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 £4.4bn of uncharged property as at 31 December 2019.

25 Financial assets and liabilities and fair values

Categories of financial assets and liabilities

	Fair value through profit and loss £m	Loans and receivables £m	Amortised cost £m	Total carrying value £m
Group				
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)
2.68% unsecured private placement notes 2026	–	–	(54.7)	(54.7)
3.46% unsecured private placement notes 2028	–	–	(29.9)	(29.9)
4.41% unsecured private placement notes 2029	–	–	(24.8)	(24.8)
2.87% unsecured private placement notes 2029	–	–	(92.5)	(92.5)
2.97% unsecured private placement notes 2031	–	–	(49.8)	(49.8)
3.57% unsecured private placement notes 2031	–	–	(74.6)	(74.6)
3.09% unsecured private placement notes 2034	–	–	(51.7)	(51.7)
4.68% unsecured private placement notes 2034	–	–	(74.4)	(74.4)
3.99% secured loan 2024	–	–	(82.1)	(82.1)
Bank borrowings due within one year	–	–	–	–
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)**
Financial assets				
Cash and cash equivalents	–	18.3	–	18.3
Other assets – current[1]	–	24.9	–	24.9
	–	43.2	–	43.2
Financial liabilities				
1.125% unsecured convertible bonds 2019	–	–	(148.4)	(148.4)
6.5% secured bonds 2026	–	–	(185.9)	(185.9)
3.46% unsecured private placement notes 2028	–	–	(29.8)	(29.8)
4.41% unsecured private placement notes 2029	–	–	(24.8)	(24.8)
3.57% unsecured private placement notes 2031	–	–	(74.6)	(74.6)
4.68% unsecured private placement notes 2034	–	–	(74.4)	(74.4)
3.99% secured loan 2024	–	–	(81.9)	(81.9)
Bank borrowings due after one year	–	–	(294.7)	(294.7)
Leasehold liabilities	–	–	(60.7)	(60.7)
Derivative financial instruments	(3.6)	–	–	(3.6)
Other liabilities – current[2]	–	–	(57.9)	(57.9)
	(3.6)	–	(1,033.1)	(1,036.7)
At 31 December 2018	(3.6)	43.2	(1,033.1)	(993.5)

1 In 2019, 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 £39.3m (2018: £36.5m) for the Group and £23.5m (2018: £1.8m) for the Company. All amounts are non-interest bearing and are receivable within one year.

2 In 2019, other liabilities for the Group include all amounts shown as trade and other payables in note 22 except deferred income and sales and social security taxes of £46.9m (2018: £45.2m) for the Group and of £0.2m (2018: £0.1m) 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	Loans and receivables £m	Amortised cost £m	Total carrying value £m
Company				
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				
2.68% unsecured private placement notes 2026	–	–	(54.7)	(54.7)
3.46% unsecured private placement notes 2028	–	–	(29.9)	(29.9)
4.41% unsecured private placement notes 2029	–	–	(24.8)	(24.8)
2.87% unsecured private placement notes 2029	–	–	(92.5)	(92.5)
2.97% unsecured private placement notes 2031	–	–	(49.8)	(49.8)
3.57% unsecured private placement notes 2031	–	–	(74.6)	(74.6)
3.09% unsecured private placement notes 2034	–	–	(51.7)	(51.7)
4.68% unsecured private placement notes 2034	–	–	(74.4)	(74.4)
3.99% secured loan 2024	–	–	(82.1)	(82.1)
Bank borrowings due after one year	–	–	(65.0)	(65.0)
Intercompany loans	–	–	(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)**
Financial assets				
Cash and cash equivalents	–	17.3	–	17.3
Other assets – current[1]	–	1,848.0	–	1,848.0
	–	1,865.3	–	1,865.3
Financial liabilities				
3.46% unsecured private placement notes 2028	–	–	(29.8)	(29.8)
4.41% unsecured private placement notes 2029	–	–	(24.8)	(24.8)
3.57% unsecured private placement notes 2031	–	–	(74.6)	(74.6)
4.68% unsecured private placement notes 2034	–	–	(74.4)	(74.4)
3.99% secured loan 2024	–	–	(81.9)	(81.9)
Bank borrowings due after one year	–	–	(267.0)	(267.0)
Intercompany loans	–	–	(148.4)	(148.4)
Derivative financial instruments	(3.6)	–	–	(3.6)
Other liabilities – current[2]	–	(837.3)	(19.0)	(856.3)
	(3.6)	(837.3)	(719.9)	(1,560.8)
At 31 December 2018	(3.6)	1,028.0	(719.9)	304.5

1 In 2019, 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 £39.3m (2018: £36.5m) for the Group and £23.5m (2018: £1.8m) for the Company. All amounts are non-interest bearing and are receivable within one year.

2 In 2019, other liabilities for the Group include all amounts shown as trade and other payables in note 22 except deferred income and sales and social security taxes of £46.9m (2018: £45.2m) for the Group and of £0.2m (2018: £0.1m) 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 2019 £m	2018 £m	Company 2019 £m	2018 £m
Net financial assets and liabilities	(1,031.6)	(993.5)	(101.2)	304.5
Other assets – current	(19.3)	(24.9)	(1,653.1)	(1,848.0)
Other liabilities – current	65.6	57.9	1,014.2	856.3
Cash and cash equivalents	(54.5)	(18.3)	(54.0)	(17.3)
Gross debt	(1,039.8)	(978.8)	(794.1)	(704.5)

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 2019					
1.5% unsecured convertible bonds 2025	(164.5)	(183.9)	–	–	Level 1
6.5% secured bonds 2026	(184.8)	(222.8)	–	–	Level 1
2.68% unsecured private placement notes 2026	(54.7)	(55.3)	(54.7)	(55.3)	Level 2
3.46% unsecured private placement notes 2028	(29.9)	(31.7)	(29.9)	(31.7)	Level 2
4.41% unsecured private placement notes 2029	(24.8)	(29.8)	(24.8)	(29.8)	Level 2
2.87% unsecured private placement notes 2029	(92.5)	(95.6)	(92.5)	(95.6)	Level 2
2.97% unsecured private placement notes 2031	(49.8)	(51.9)	(49.8)	(51.9)	Level 2
3.57% unsecured private placement notes 2031	(74.6)	(79.2)	(74.6)	(79.2)	Level 2
3.09% unsecured private placement notes 2034	(51.7)	(54.8)	(51.7)	(54.8)	Level 2
4.68% unsecured private placement notes 2034	(74.4)	(95.4)	(74.4)	(95.4)	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)		

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

25 Financial assets and liabilities and fair values (continued)

	Group Carrying value £m	Group Fair value £m	Company Carrying value £m	Company Fair value £m	Fair value hierarchy
At 31 December 2018					
1.125% unsecured convertible bonds 2019	(148.4)	(152.3)	–	–	Level 1
6.5% secured bonds 2026	(185.9)	(222.1)	–	–	Level 1
3.46% unsecured private placement notes 2028	(29.8)	(30.9)	(29.8)	(30.9)	Level 2
4.41% unsecured private placement notes 2029	(24.8)	(29.0)	(24.8)	(29.0)	Level 2
3.57% unsecured private placement notes 2031	(74.6)	(76.4)	(74.6)	(76.4)	Level 2
4.68% unsecured private placement notes 2034	(74.4)	(90.9)	(74.4)	(90.9)	Level 2
3.99% secured loan 2024	(81.9)	(87.0)	(81.9)	(87.0)	Level 2
Bank borrowings due after one year	(294.7)	(297.5)	(267.0)	(269.5)	Level 2
Intercompany loan	–	–	(148.4)	(152.3)	Level 2
Derivative financial instruments	(3.6)	(3.6)	(3.6)	(3.6)	Level 2
	(918.1)	(989.7)	(704.5)	(739.6)	
Amounts not fair valued:					
Cash and cash equivalents	18.3		17.3		
Other assets – current	24.9		1,848.0		
Leasehold liabilities	(60.7)		–		
Other liabilities – current	(57.9)		(856.3)		
Net financial assets and liabilities	(993.5)		304.5		

There have been no transfers between Level 1 and Level 2 or Level 2 and Level 3 in either 2019 or 2018.

26 Cash flow information

Net debt reconciliation

	2018 £m	Cash flows £m	Non-cash changes: Impact of issue and arrangement costs £m	Fair value adjustments £m	Transition to IFRS 16 £m	Disposals £m	Unwind of discount £m	2019 £m
Group								
Borrowings	914.5	66.7	2.3	(6.9)	–	–	–	**976.6**
Leasehold liabilities	60.7	–	–	–	–	(3.1)	1.9	**59.5**
Total liabilities from financing activities	975.2	66.7	2.3	(6.9)	–	(3.1)	1.9	**1,036.1**
Cash and cash equivalents	(18.3)	(36.2)	–	–	–	–	–	**(54.5)**
Net debt	956.9	30.5	2.3	(6.9)	–	(3.1)	1.9	**981.6**
Company								
Borrowings	700.9	66.7	2.1	(5.7)	–	–	–	**764.0**
Leasehold liabilities	–	–	–	–	25.4	–	1.0	**26.4**
Total liabilities from financing activities	700.9	66.7	2.1	(5.7)	25.4	–	1.0	**790.4**
Cash and cash equivalents	(17.3)	(36.7)	–	–	–	–	–	**(54.0)**
Net debt	683.6	30.0	2.1	(5.7)	25.4	–	1.0	**736.4**

27 Deferred tax

	Revaluation surplus £m	Other £m	Total £m
Group			
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**
At 1 January 2018	4.5	(2.2)	2.3
(Credited)/charged to the income statement	(0.8)	0.4	(0.4)
Credited to other comprehensive income	(0.1)	–	(0.1)
At 31 December 2018	3.6	(1.8)	1.8
Company			
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)**
At 1 January 2018	–	(2.1)	(2.1)
At 31 December 2018	–	(2.1)	(2.1)

Deferred tax on the 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.

The £1.3m credited to equity relates to equity settled share-based payments and represents the amount by which the total expected tax deduction exceeds the cumulative IFRS 2 expensed to date.

Deferred tax assets 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 2018	111,474,821
Issued as a result of awards vesting under the Group's Performance Share Plan	48,200
Issued as a result of the exercise of share options[1]	16,916
At 31 December 2018	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**

[1] Proceeds from these issues were £3.5m (2018: £0.4m).

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 and share-based payments.

Other reserves

	Group 2019 £m	2018 £m	Company 2019 £m	2018 £m
Merger reserve	910.5	910.5	910.5	910.5
Revaluation reserve	12.9	14.6	–	–
Equity portion of the convertible bonds	7.5	12.3	–	–
Equity portion of long-term intercompany loan	–	–	7.5	12.3
Fair value of equity instruments under share-based payments	5.3	6.1	5.3	6.1
	936.2	943.5	923.3	928.9

30 Profit for the year attributable to members of Derwent London plc

Profit for the year in the Group income statement includes a profit of £49.7m (2018: £327.6m) 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	Dividend per share Non-PID p	Dividend per share Total p	2019 £m	2018 £m
Current year						
2019 final dividend[1]	5 June 2020	34.45	17.00	51.45	–	–
2019 interim dividend	18 October 2019	21.00	–	21.00	23.4	–
Distribution of current year profit		55.45	17.00	72.45	23.4	–
Prior year						
2018 final dividend	7 June 2019	30.00	16.75	46.75	52.2	–
2018 interim dividend	19 October 2018	19.10	–	19.10	–	21.3
Distribution of prior year profit		49.10	16.75	65.85	52.2	21.3
2017 final dividend	8 June 2018	35.00	7.40	42.40	–	47.3
2017 special dividend	8 June 2018	–	75.00	75.00	–	83.6
Dividends as reported in the Group statement of changes in equity					75.6	152.2
2019 interim dividend withholding tax	14 January 2020				(2.8)	–
2018 interim dividend withholding tax	14 January 2019				2.3	(2.3)
2017 interim dividend withholding tax	14 January 2018				–	2.1
Dividends paid as reported in the Group cash flow statement					75.1	152.0

[1] Subject to shareholder approval at the AGM on 15 May 2020.

32 Cash and cash equivalents

	Group 2019 £m	2018 £m	Company 2019 £m	2018 £m
Cash at bank	54.5	18.3	54.0	17.3

33 Capital commitments

Contracts for capital expenditure entered into by the Group at 31 December 2019 and not provided for in the accounts relating to the construction, development or enhancement of the Group's investment properties amounted to £317.4m (2018: £147.2m), whilst that relating to the Group's trading properties amounted to £0.5m (2018: £8.7m). At 31 December 2019 and 31 December 2018, 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 2019 and 31 December 2018, 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

	2019 £m	2018 £m
Operating lease receipts		
Minimum lease receipts under non-cancellable operating leases to be received:		
not later than one year	192.2	157.7
later than one year and not later than five years	577.6	503.2
later than five years	723.1	706.9
	1,492.9	1,367.8

	Group 2019 £m	2018 £m	Company 2019 £m	2018 £m
Finance lease obligations				
Minimum lease payments under finance leases that fall due:				
not later than one year	0.7	0.8	2.1	–
later than one year and not later than five years	54.3	54.8	8.4	–
later than five years	176.5	194.8	25.1	–
	231.5	250.4	35.6	–
Future contingent rent payable on finance leases	(23.1)	(25.1)	–	–
Future finance charges on finance leases	(148.9)	(164.6)	(9.2)	–
Present value of finance lease liabilities	59.5	60.7	26.4	–
Present value of minimum finance lease obligations:				
not later than one year	–	–	1.1	–
later than one year and not later than five years	47.7	45.9	5.0	–
later than five years	11.8	14.8	20.3	–
	59.5	60.7	26.4	–

The Group has approximately 786 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 2019 was 11.2 years (2018: 7.2 years). Of these leases, on a weighted average basis, 95% (2018: 88%) included a rent free or half rent period.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

36 Post balance sheet events

In February 2020, the Group acquired the freehold interest in Blue Star House, 234-244 Stockwell Road, Brixton SW9 for £38.1m before costs. Additionally, the Group also completed the disposal of the long leasehold interest in 40 Chancery Lane WC2 for £121.3m before rental top-ups and costs.

37 List of subsidiaries and joint ventures

A full list of subsidiaries and joint ventures as at 31 December 2019 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 Angel Square Limited[1]	100%	Property investment
Derwent London Asta Limited	100%	Property trading
Derwent London Asta Residential Limited	100%	Dormant
Derwent London Capital No. 2 (Jersey) Limited[1]	100%	Finance company
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%	Management services
Derwent London Farringdon Limited[1]	100%	Property investment
Derwent London Featherstone Limited[1]	100%	Property investment
Derwent London Grafton Limited[1]	100%	Property investment
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 (Nominees) Limited	100%	Dormant
Derwent London Page Street 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 benefit 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
Derwent Valley West End Limited[1]	100%	Property investment

	Ownership[2]	Principal activity
Kensington Commercial Property Investments Limited	100%	Property investment
22 Kingsway Limited[1]	100%	Holding company
LMS (City Road) Limited	100%	Property investment
LMS Finance Limited	100%	Investment Holding
LMS Offices Limited	100%	Property investment
LS Kingsway	100%	Dormant
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 Investment Limited	50%	Investment company
Prescot Street GP Limited	50%	Management Company
Prescot Street Limited Partnership	50%	Property investment
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 is 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 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, Derwent London Capital No. 2 (Jersey) 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, Derwent London Capital No. 2 (Jersey) 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 Investment 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 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 to the running costs of Buxton Jones Consultants Limited, a company that John Burns is a director of.

At 31 December 2019, included within other receivables in note 20 is an amount owed by the Portman Estate, the minority owner of one of the Group's subsidiaries, of £2.0m (2018: £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)	
	2019 £m	2018 £m	2019 £m	2018 £m
Related party				
22 Kingsway Limited	–	–	(33.5)	(33.5)
80 Charlotte Street Limited	8.7	8.6	213.2	200.9
BBR (Commercial) Limited	(0.1)	(0.1)	(2.6)	(2.5)
BBR Property Limited	(0.2)	(0.2)	(6.1)	(5.8)
Derwent Asset Management Limited	–	–	(0.8)	(0.5)
Derwent Central Cross Limited	8.0	8.4	189.0	193.6
Derwent Henry Wood Limited	1.0	2.0	(1.0)	46.5
Derwent London Angel Square Limited	(0.1)	3.6	(4.5)	82.1
Derwent London Asta Limited	–	0.7	–	17.4
Derwent London Capital No. 2 (Jersey) Limited[1]	(1.8)	(3.9)	–	(148.3)
Derwent London Capital No. 3 (Jersey) Limited[2]	(2.1)	–	(164.4)	–
Derwent London Charlotte Street (Commercial) Limited	–	–	(1.1)	(1.1)
Derwent London Charlotte Street Limited	(0.1)	(0.1)	(1.8)	(1.7)
Derwent London Copyright House Limited	(0.1)	(0.6)	(3.3)	(2.5)
Derwent London Development Services Limited	0.3	–	14.3	2.4
Derwent London Farringdon Limited	(0.2)	4.5	(6.1)	102.0
Derwent London Featherstone Limited	1.7	1.0	40.8	36.3
Derwent London Grafton Limited	(0.4)	(1.0)	(8.6)	(8.3)
Derwent London Holden House Limited	6.8	2.5	161.1	160.3
Derwent London Howland Limited	(0.3)	(1.8)	(7.7)	(7.3)
Derwent London KSW Limited	(1.3)	4.0	(98.7)	93.7
Derwent London Oliver's Yard Limited	5.3	5.3	126.6	122.4
Derwent London Page Street Limited	0.1	0.3	0.1	4.6
Derwent London Whitfield Street Limited	1.7	1.6	40.8	41.8
Derwent Valley Central Limited	(0.5)	(3.0)	41.1	(41.2)
Derwent Valley London Limited	12.4	10.0	310.7	282.7
Derwent Valley Property Developments Limited	(6.4)	(1.5)	(157.1)	(141.9)
Derwent Valley Property Investments Limited	(4.3)	(4.1)	(105.9)	(98.1)
Derwent Valley Property Trading Limited	0.3	0.3	8.0	8.0
Derwent Valley Railway Company[3]	–	–	(0.2)	(0.2)
Derwent Valley West End Limited	0.1	0.1	1.9	2.0
London Merchant Securities Limited[4]	(1.5)	(4.8)	(29.6)	(44.1)
	27.0	31.8	514.6	859.7

1 The payable balance at 31 December 2019 includes the intercompany loan of £nil (2018: £148.4) included in note 24.
2 The payable balance at 31 December 2019 includes the intercompany loan of £164.5m (2018: £nil) included in note 24.
3 Dormant company.
4 Balance owed includes subsidiaries which form part of the LMS sub-group.

The Group 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

	2019		2018	
		Pence per share p		Pence per share p
EPRA earnings	£115.1m	103.09	£126.1m	113.07
EPRA net asset value	£4,440.3m	3,958	£4,220.8m	3,776
EPRA triple net asset value	£4,315.4m	3,847	£4,131.1m	3,696
EPRA cost ratio (including direct vacancy costs)	23.9%		23.3%	
EPRA net initial yield	3.4%		3.4%	
EPRA 'topped-up' net initial yield	4.7%		4.6%	
EPRA vacancy rate	0.8%		1.8%	

The definition of these measures can be found on pages 239 to 240 .

	Earnings per share		Net asset value per share	
	Weighted average		At 31 December	
	2019 £m	2018 £m	2019 £m	2018 £m
For use in basic measures	111,652	111,521	111,773	111,540
Dilutive effect of share-based payments	315	239	400	239
For use in diluted measures	111,967	111,760	112,173	111,779

The £150m unsecured convertible bonds 2019 ('2019 bonds') were repurchased in the year, and £175m of new unsecured convertible bonds 2025 ('2025 bonds') were issued. The 2025 bonds have an initial conversion price set at £44.96. The Group recognises the effect of conversion of the bonds if they are both dilutive and, based on the share price, likely to convert. For the year ended 31 December 2018, the Group did not recognise the dilutive impact of the conversion of the bonds on its earnings per share (EPS) or net asset value (NAV) per share measures as, based on the share price at each year end, the bonds were not expected to convert. For the year ended 31 December 2019, conversion of the bonds was not dilutive.

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 and the fair value part of the bond redemption premium

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

39 EPRA performance measures and core recommendations (unaudited) (continued)

In addition to the EPRA performance measures, underlying performance measures that exclude certain items considered to be non-recurring are used by the Directors to assess the operating performance of the Group. A reconciliation of the EPRA and underlying earnings is presented below.

Earnings and earnings per share

		Adjustments			
	IFRS £m	A £m	B £m	C £m	EPRA basis £m
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
Year ended 31 December 2018					
Net property and other income	185.9	–	0.2	–	186.1
Total administrative expenses	(32.3)	–	–	–	(32.3)
Revaluation surplus	83.4	–	(83.4)	–	–
Profit on disposal of investments	5.2	(5.2)	–	–	–
Net finance costs	(23.5)	–	–	–	(23.5)
Movement in fair value of derivative financial instruments	4.3	–	–	(4.3)	–
Financial derivative termination costs	(3.5)	–	–	3.5	–
Share of results of joint ventures	2.1	(1.3)	0.1	–	0.9
Profit before tax	221.6	(6.5)	(83.1)	(0.8)	131.2
Tax charge	(2.7)	0.3	(0.7)	–	(3.1)
Profit for the year	218.9	(6.2)	(83.8)	(0.8)	128.1
Non-controlling interest	3.4	–	(5.5)	0.1	(2.0)
Earnings attributable to equity shareholders	222.3	(6.2)	(89.3)	(0.7)	126.1
Earnings per share	199.33p				113.07p
Diluted earnings per share	198.91p				112.83p

Underlying earnings and underlying earnings per share

	2019 £m	2018 £m
EPRA earnings attributable to equity shareholders	115.1	126.1
Net income from grant of access rights	–	(15.6)
Underlying earnings attributable to equity shareholders	**115.1**	110.5
Underlying earnings per share	**103.09p**	99.08p

Net asset value and net asset value per share

	£m	Undiluted p	Diluted p
At 31 December 2019			
Net assets attributable to equity shareholders	4,421.2	3,956	3,941
Adjustment for:			
Revaluation of trading properties	2.3		
Deferred tax on revaluation surplus	3.3		
Fair value of derivative financial instruments	3.7		
Fair value adjustment to secured bonds	10.6		
Non-controlling interest in respect of the above	(0.8)		
EPRA net asset value (EPRA NAV)	**4,440.3**	**3,973**	**3,958**
Adjustment for:			
Mark-to-market of secured bonds 2026	(47.8)		
Mark-to-market of secured loan 2024	(4.8)		
Mark-to-market of unsecured private placement notes	(38.7)		
Mark-to-market of 1.5% unsecured convertible bonds 2025	(15.9)		
Deferred tax on revaluation surplus	(3.3)		
Fair value of derivative financial instruments	(3.7)		
Unamortised issue and arrangement costs	(11.5)		
Non-controlling interest in respect of the above	0.8		
EPRA triple net asset value (EPRA NNNAV)	**4,315.4**	**3,861**	**3,847**
At 31 December 2018			
Net assets attributable to equity shareholders	4,201.9	3,767	3,759
Adjustment for:			
Revaluation of trading properties	0.8		
Deferred tax on revaluation surplus	3.6		
Fair value of derivative financial instruments	3.6		
Fair value adjustment to secured bonds	11.8		
Non-controlling interest in respect of the above	(0.9)		
EPRA net asset value (EPRA NAV)	4,220.8	3,784	3,776
Adjustment for:			
Mark-to-market of secured bonds 2026	(47.1)		
Mark-to-market of secured loan 2024	(4.0)		
Mark-to-market of unsecured private placement notes	(22.2)		
Mark-to-market of 1.125% unsecured convertible bonds 2019	(3.6)		
Deferred tax on revaluation surplus	(3.6)		
Fair value of derivative financial instruments	(3.6)		
Unamortised issue and arrangement costs	(6.5)		
Non-controlling interest in respect of the above	0.9		
EPRA triple net asset value (EPRA NNNAV)	4,131.1	3,704	3,696

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

39 EPRA performance measures and core recommendations (unaudited) (continued)

EPRA published its latest Best Practices Recommendations in October 2019 which included three new Net Asset Valuation metrics, namely EPRA Net Reinstatement Value (NRV), EPRA Net Tangible Assets (NTA) and EPRA Net Disposal Value (NDV). These metrics are effective from 1 January 2020 but have been presented below as at 31 December 2019 to provide a comparison to the current measures, EPRA NAV and EPRA NNNAV.

	EPRA NRV £m	EPRA NTA £m
At 31 December 2019		
EPRA net asset value	4,440.3	4,440.3
Adjustment for:		
Purchasers' costs	372.3	–
Deferred tax adjustment	–	(1.7)
	4,812.6	**4,438.6**
Per share measure	**4,290p**	**3,957p**

As the Group's EPRA NDV is the same as the EPRA NNNAV, there are no reconciling items.

	EPRA NDV £m
At 31 December 2019	
EPRA net disposal value	**4,315.4**
Per share measure	**3,847p**

Cost ratio

	2019 £m	2018 £m
Administrative expenses	37.0	32.3
Other property costs	10.1	9.7
Dilapidation receipts	–	(1.7)
Other costs	–	0.4
Net service charge costs	2.1	2.9
Service charge costs recovered through rents but not separately invoiced	(0.5)	(0.3)
Management fees received less estimated profit element	(3.6)	(2.9)
Share of joint ventures' expenses	0.3	0.4
EPRA costs (including direct vacancy costs) (A)	45.4	40.8
Direct vacancy costs	(2.6)	(4.4)
EPRA costs (excluding direct vacancy costs) (B)	42.8	36.4
Gross rental income	191.7	175.1
Ground rent	(1.5)	(1.4)
Service charge components of rental income	(0.5)	(0.3)
Share of joint ventures' rental income less ground rent	0.5	1.7
Adjusted gross rental income (C)	190.2	175.1
EPRA cost ratio (including direct vacancy costs) (A/C)	23.9%	23.3%
EPRA cost ratio (excluding direct vacancy costs) (B/C)	22.5%	20.8%

In addition to the two EPRA cost ratios, the Group has calculated an additional cost ratio based on its property portfolio fair value to recognise the 'total return' nature of the Group's activities.

Property portfolio at fair value (D)	5,475.2	5,190.7
Portfolio cost ratio (A/D)	0.8%	0.8%

The Group has not capitalised any overheads in either 2019 or 2018.

Net initial yield and 'topped-up' net initial yield

	2019 £m	2018 £m
Property portfolio – wholly owned	5,475.2	5,190.7
Share of joint ventures	–	26.9
Less non-EPRA properties[1]	(846.2)	(837.1)
Completed property portfolio	4,629.0	4,380.5
Allowance for:		
Estimated purchasers' costs	314.8	297.9
EPRA property portfolio valuation (A)	4,943.8	4,678.4
Annualised contracted rental income, net of ground rents	169.1	158.3
Share of joint ventures	–	1.2
Less non-EPRA properties[1]	(1.0)	(0.7)
Add outstanding rent reviews	0.4	2.1
Less estimate of non-recoverable expenses	(2.0)	(2.8)
	(2.6)	(1.4)
Current income net of non-recoverable expenses (B)	166.5	158.1
Contractual rental increases across the portfolio	65.0	55.3
Less non-EPRA properties[1]	(0.3)	–
Contractual rental increases across the EPRA portfolio	64.7	55.3
'Topped-up' net annualised rent (C)	231.2	213.4
EPRA net initial yield (B/A)	3.4%	3.4%
EPRA 'topped-up' net initial yield (C/A)	4.7%	4.6%

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

39 EPRA performance measures and core recommendations (unaudited) (continued)

Vacancy rate

	2019 £m	2018 £m
Annualised estimated rental value of vacant premises	2.0	4.1
Portfolio estimated rental value	303.0	274.4
Less non-EPRA properties[1]	(60.5)	(48.1)
	242.5	226.3
EPRA vacancy rate	0.8%	1.8%

[1] In accordance with EPRA best practice guidelines, deductions are made for development properties, land and long-dated reversions.

Like-for-like rental growth

	Properties owned throughout the year £m	Development property £m	Acquisitions and disposals £m	Total £m
2019				
Gross rental income	**174.9**	**10.3**	**6.5**	**191.7**
Property expenditure	(11.0)	(2.8)	0.1	(13.7)
Net rental income	**163.9**	**7.5**	**6.6**	**178.0**
Other	4.6	–	–	4.6
Net property and other income	**168.5**	**7.5**	**6.6**	**182.6**
2018				
Gross rental income	167.5	1.0	6.6	175.1
Property expenditure	(11.0)	(2.9)	(0.1)	(14.0)
Net rental income	156.5	(1.9)	6.5	161.1
Other property income	17.7	–	–	17.7
Other	7.3	(0.2)	–	7.1
Net property and other income	181.5	(2.1)	6.5	185.9
Increase based on gross rental income	4.4%			9.5%
Increase based on net rental income	4.7%			10.5%
Decrease based on net property and other income	(7.2%)			(1.8%)

Property-related capital expenditure

	2019 £m
Acquisitions	32.0
Development	168.1
Investment properties[1]	23.0
Owner occupied property	0.1
Capitalised interest	13.0
Total capital expenditure	236.2
Conversion from accrual to cash basis	(4.1)
Total capital expenditure on a cash basis	**232.1**

[1] Although this capital expenditure resulted in no incremental lettable space, it enhanced existing space and contributed to the 4.7% increase in like-for-like net rental income in 2019.

40 Total return

	2019 p	2018 p
EPRA net asset value on a diluted basis		
At end of year	3,958	3,776
At start of year	(3,776)	(3,716)
Increase	182	60
Dividend per share	68	137
Increase including dividend	250	197
Total return	6.6%	5.3%

41 Gearing and interest cover

NAV gearing

	2019 £m	2018 £m
Net debt	981.6	956.9
Net assets	4,476.9	4,263.4
NAV gearing	21.9%	22.4%

Loan-to-value ratio

	2019 £m	2018 £m
Net debt	981.6	956.9
Fair value adjustment of secured bonds	(10.6)	(11.8)
Unamortised issue and arrangement costs	11.5	6.5
Leasehold liabilities	(59.5)	(60.7)
Drawn debt net of cash	923.0	890.9
Fair value of property portfolio	5,475.2	5,190.7
Loan-to-value ratio	16.9%	17.2%

Net interest cover ratio

	2019 £m	2018 £m
Net property and other income	182.6	185.9
Adjustments for:		
Other income	(3.6)	(2.9)
Other property income	–	(17.7)
Surrender premiums received	(1.0)	(3.2)
Write-down of trading property	–	0.2
Reverse surrender premiums	–	0.1
Adjusted net property income	178.0	162.4
Finance income	(0.2)	–
Finance costs	26.7	23.5
	26.5	23.5
Adjustments for:		
Finance income	0.2	–
Other finance costs	(0.2)	(0.2)
Amortisation of fair value adjustment to secured bonds	1.2	1.2
Amortisation of issue and arrangement costs	(2.2)	(2.1)
Finance costs capitalised	13.0	10.7
Net interest payable	38.5	33.1
Net interest cover ratio	462%	491%

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 fully consolidated from the date on which control is transferred to the Group. They are deconsolidated 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

42 Significant accounting policies (continued)

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.

(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 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 less overdrafts. 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. A provision for impairment is established where there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables concerned.

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 remeasured. Issue costs are apportioned between the liability and the equity components of the convertible bonds based on their carrying amounts at the date of issue. The portion relating to the equity component is charged directly against equity. The issue costs apportioned to the liability are amortised over the life of the bond. The issue costs apportioned to equity are not amortised.

(iv) Finance lease liabilities – Finance lease liabilities arise for those investment properties held under a leasehold interest and accounted for as investment property. The liability is initially calculated as the present value of the minimum lease payments, reducing in subsequent years by the apportionment of payments to the lessor, as described above under the heading for lease payments.

(v) Interest rate derivatives – The Group uses derivative financial instruments to manage the interest rate risk associated with the financing of the Group's business. No trading in financial instruments is undertaken.

At each reporting date, these interest rate derivatives are measured at fair value, being the estimated amount that the Group would receive or pay to terminate the agreement at the balance sheet date, taking into account current interest rates and the current credit rating of the counterparties. The gain or loss at each fair value remeasurement is recognised in the Group income statement because the Group does not apply hedge accounting.

(vi) Trade payables – Trade payables are recognised and carried at the original transaction value.

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)

	2019 £m	2018 £m	2017 £m	2016 £m	2015 £m	2014 £m	2013 £m	2012 £m	2011 £m	2010 £m
Income statement										
Gross property income	**192.7**	196.0	172.2	156.0	152.0	138.4	131.6	124.8	125.5	119.4
Net property income and other income	**182.6**	185.9	164.8	149.2	148.6	136.1	124.3	117.0	117.7	113.0
Profit on disposal of properties and investments	**13.8**	5.2	50.3	7.5	40.2	30.2	53.5	10.8	36.1	0.9
Profit before tax	**280.6**	221.6	314.8	54.5	779.5	753.7	467.9	228.1	233.0	352.8
Earnings and dividend per share										
EPRA earnings	**115.1**	126.1	105.0	85.7	78.7	58.6	55.1	51.3	52.3	53.6
EPRA earnings per share (p)	**103.09**	113.07	94.23	76.99	71.34	57.08	53.87	50.36	51.59	52.89
Dividend paid (p)	**67.75**	136.50	107.83	44.66	40.60	37.40	34.50	31.85	29.70	27.60
Distribution of years' profit (p)	**72.45**	65.85	59.73	52.36	43.40	39.65	36.50	33.70	31.35	29.00
Special dividend paid (p)	**–**	–	75.00	52.00	–	–	–	–	–	–
Net asset value										
Net assets	**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	1,494.7
Net asset value per share (p) – undiluted	**3,956**	3,767	3,703	3,530	3,528	2,931	2,248	1,824	1,636	1,432
EPRA net asset value per share (p) – diluted	**3,958**	3,776	3,716	3,551	3,535	2,908	2,264	1,886	1,701	1,474
EPRA triple net asset value per share (p) – diluted	**3,847**	3,696	3,617	3,450	3,463	2,800	2,222	1,764	1,607	1,425
EPRA total return (%)	**6.6**	5.3	7.7	1.7	23.0	30.1	21.9	12.7	17.4	29.3
Property portfolio										
Property portfolio at fair value	**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	2,426.1
Revaluation surplus/(deficit)	**154.6**	84.1	149.7	(42.6)	651.4	671.9	337.5	175.3	172.1	301.7
Cash flow statement										
Cash flow[1]	**(22.3)**	(245.9)	247.8	19.6	(43.6)	(57.3)	(65.9)	1.9	18.4	(171.6)
Net cash from operating activities	**97.1**	115.2	83.5	77.7	76.0	65.6	57.5	52.5	47.2	46.5
Acquisitions	**31.6**	57.3	8.5	18.0	246.2	92.4	130.1	99.8	91.6	148.0
Net capital expenditure on properties	**200.5**	171.6	165.0	213.5	116.4	113.2	108.4	78.6	42.6	49.5
Disposals	**159.3**	0.3	472.9	224.7	277.2	114.4	149.7	161.0	131.5	8.5
Gearing and debt										
Net debt	**981.6**	956.9	657.9	904.8	911.7	1,013.3	949.2	874.8	864.5	887.8
NAV gearing (%)	**21.9**	22.4	15.7	22.6	22.8	32.9	40.0	45.6	50.4	59.4
Loan-to-value ratio (%)	**16.9**	17.2	13.2	17.7	17.8	24.0	28.0	30.0	32.0	35.7
Net interest cover ratio (%)	**462**	491	454	370	362	286	279	263	261	286

[1] Cash flow is the net cash from operating and investing activities less the dividend paid.

A list of definitions is provided from page 239.

EPRA SUMMARY
(UNAUDITED)

EPRA Measure	Definition	2019	2018
EPRA Performance Measures			
EPRA earnings	Earnings from operational activities	**£115.1m**	£126.1m
EPRA undiluted earnings per share	EPRA earnings divided by the weighted average number of ordinary shares in issue during the financial year	**103.09p**	113.07p
EPRA net asset value (NAV)	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	**£4,440.3m**	£4,220.8m
EPRA diluted NAV per share	EPRA NAV 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	**3,958p**	3,776p
EPRA triple NAV	EPRA NAV adjusted to include the fair values of (i) financial instruments, (ii) debt and (iii) deferred taxes on revaluations, where applicable	**£4,315.4m**	£4,131.1m
EPRA diluted triple NAV per share	EPRA triple NAV 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	**3,847p**	3,696p
EPRA cost ratio (including direct vacancy costs)	Administrative and operating costs (including costs of direct vacancy) divided by gross rental income	**23.9%**	23.3%
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	**3.4%**	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)	**4.7%**	4.6%
EPRA vacancy rate	Estimated rental value (ERV) of immediately available space divided by the ERV of the EPRA portfolio	**0.8%**	1.8%

EPRA Sustainability Performance Measures			
Environmental Sustainability Performance Measures			
Total electricity consumption	Energy use across our total managed portfolio (landlord/common areas) – annual kWh	**11,510,515**	12,302,615
Like-for-like total electricity consumption	Energy use across our like-for-like portfolio (landlord/common areas) – annual kWh	**10,408,710**	10,374,073[1]
Total fuel consumption	Energy use across our total managed portfolio (landlord/common areas); a total of gas, oil and biomass consumption – annual kWh	**22,684,175**	21,995,327
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	**18,926,656**	19,959,646[1]
Building energy intensity	Energy use across our total managed portfolio (landlord/common areas) – kWh per m²	**84.65**	87.21
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	**4,650**	4,223
Total indirect greenhouse gas (GHG) emissions	Total managed portfolio emissions (landlord influenced portfolio emissions); Scope 2 energy-use – annual metric tonnes CO_2e	**2,925**	3,458
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	**3,554**	3,929[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	**2,664**	2,912[1]
Greenhouse gas (GHG) intensity from building energy consumption	Intensity (Scopes 1 & 2) per m²/£m turnover/fair market value (reported in tCO_2e/m^2) – kg CO_2e/m^2/year	**0.017**	0.019
Total water consumption	Water use across our total managed portfolio (excluding retail consumption) – annual m³	**205,781**	206,190
Like-for-like total water consumption	Water use across our like-for-like portfolio (excluding retail consumption) – annual m³	**181,086**	185,287[1]
Building water intensity	Water use across our total managed portfolio (excluding retail consumption) – m³/m²/year	**0.50**	0.52
Total weight of waste by disposal route	Waste generated across our total managed portfolio – annual metric tonnes and proportion by disposal route	**3,202**	2,909
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	**2,261**	1,892

1 Prior year restated to reflect a change in methodology of the like-for-like portfolio. See the EPRA Reporting section in our 2019 Annual Responsibility Report for full explanation.

EPRA SUMMARY CONTINUED

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 121
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 84
Employee health and safety	Occupational health and safety performance with relation to direct employees	See page 86
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 page 86
Asset health and safety compliance	Any incidents of non-compliance with regulations and/or voluntary standards concerning the health and safety impacts of assets assessed during the reporting period	See page 87
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 2019 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 and non-executive Board members, average tenure of the governance body and number of non-executive Board members with competencies relating to environmental and social topics	See pages 98, 99, 111 and 117
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 117 to 118
Process for managing conflicts of interest	Process for the highest governance body to ensure conflicts of interest are avoided and managed	See page 110

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 (55%)					
Fitzrovia[1] (32%)					
80 Charlotte Street W1	200+	O/R/Re	F	*Excellent	380,000
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	50-100	O/R	F		44,500
Rathbone Studios, 3-10 Rathbone Place W1	25-50	O/R/Re/L	L/F		41,100
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 (9%)					
Horseferry House, Horseferry Road SW1	100-200	O	F		162,700
Greencoat and Gordon House, Francis Street SW1	100-200	O	F		138,500
1 Page Street SW1	100-200	O	F	Excellent	127,800
Francis House, 11 Francis Street SW1	25-50	O	F		54,200
6-8 Greencoat Place SW1	0-25	O	F		32,200
Paddington (6%)					
Brunel Building, 2 Canalside Walk W2	200+	O / R	L	*Excellent	243,200
Soho/Covent Garden (3%)					
Soho Place W1	100-200	O/R/L	L	*Outstanding, *Excellent	285,000
Bush House, South West Wing, Strand WC2	25-50	O	F		107,900
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
17-39 George Street W1	25-50	O/R/Re	L		21,500
30 Gloucester Place W1	0-25	O/Re	L		23,600
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		43,000

PRINCIPAL PROPERTIES CONTINUED

	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 (8%)					
Islington/Camden (8%)					
Angel Building, 407 St. John Street EC1	200+	O/R	F	Excellent	261,800
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
City: Borders (35%)					
Old Street (11%)					
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		184,900
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	50-100	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	25-50	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	200+	O / L	F		272,900
Holborn (6%)					
Johnson Building, 77 Hatton Garden EC1	100-200	O/R	F		157,900
40 Chancery Lane WC2	100-200	O/R	L		103,700
6-7 St. Cross Street EC1	25-50	O	F		33,800
Provincial (2%)					
Scotland (2%)					
Strathkelvin Retail Park, Bishopbriggs, Glasgow	50-100	R/L	F		325,500
Land, Bishopbriggs, Glasgow	25-50	–	F		5,200 acres

[1] Includes North of Oxford Street
[2] Includes 36-38 and 42-44 Hanway Street W1
* On-track for Post-Completion target
() Percentages weighted by valuation

Tech Belt (41%)

LIST OF DEFINITIONS
(UNAUDITED)

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

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

Carbon Disclosure Project (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.

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
  Earnings from operational activities.
- EPRA net asset value
  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
  EPRA NAV adjusted to include the fair values of (i) financial instruments, (ii) debt and (iii) deferred taxes on revaluations, where applicable.
- EPRA net reinstatement value per share (effective from 1 January 2020)
  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 per share (effective from 1 January 2020)
  Assumes that entities buy and sell assets, thereby crystallising certain levels of unavoidable deferred tax.
- EPRA net disposal value per share (effective from 1 January 2020)
  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.

LIST OF DEFINITIONS CONTINUED

- **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.

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, these leases are treated as finance leases and the cost allocated between interest payable and property outgoings.

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.

NAV gearing
Net debt divided by net assets.

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

Net debt
Borrowings plus bank overdraft less 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).

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.

SKA
SKA is a sustainability rating method developed specifically for fit-out projects. It sets out a range of good practice criteria and measures. Performance is measured across a series of ratings – Bronze, Silver and Gold.

'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 adjusted net asset value 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 asset value 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 037037 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	PricewaterhouseCooper
Registrars	Equiniti Limited

Financial and dividend calendar – 2020
Our forthcoming financial and dividend calendar for 2020 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	25 February
Q1 Business update	7 May
Annual General Meeting	15 May
Interim results announced	11 August
Q3 Business update	5 November

Dividend calendar

	Final dividend	Interim dividend
Ex-dividend rate	30 April	10 September
Record date	1 May	11 September
Dividend paid	5 June	16 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

Contact details
Our registrars
Equiniti Limited
Aspect House
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Lancing
West Sussex BN99 6DA

Equiniti general shareholder helpline:
Calling from the UK: 0371 384 2192
Calling from overseas: +44 (0) 121 415 0804
Lines are open 8.30am to 5.30pm, Monday to Friday (excluding public holidays in England and Wales)

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Company Secretary

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AWARDS & RECOGNITION

Derwent London won numerous awards for its achievements and buildings in 2019, a sample of which are shown below.

EPRA Gold – for Annual Report

EPRA Gold – for Annual Sustainability Report

FTSE4Good – Member since 2003

Global Real Estate Sustainability Benchmark – 4 star

Carbon Disclosure Project – Management B rating

Westminster Business Council – Winner for Best achievement in Sustainability

Top 10 in MT's Britain's Most Admired Companies

EG – Offices Company of the Year

IR Society – Best Annual Report FTSE 250

PwC Building Public Trust awards – Highly commended for Reporting FTSE350

ICSA – Stakeholder Disclosure of the Year

ICSA – Strategic Report of the Year

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