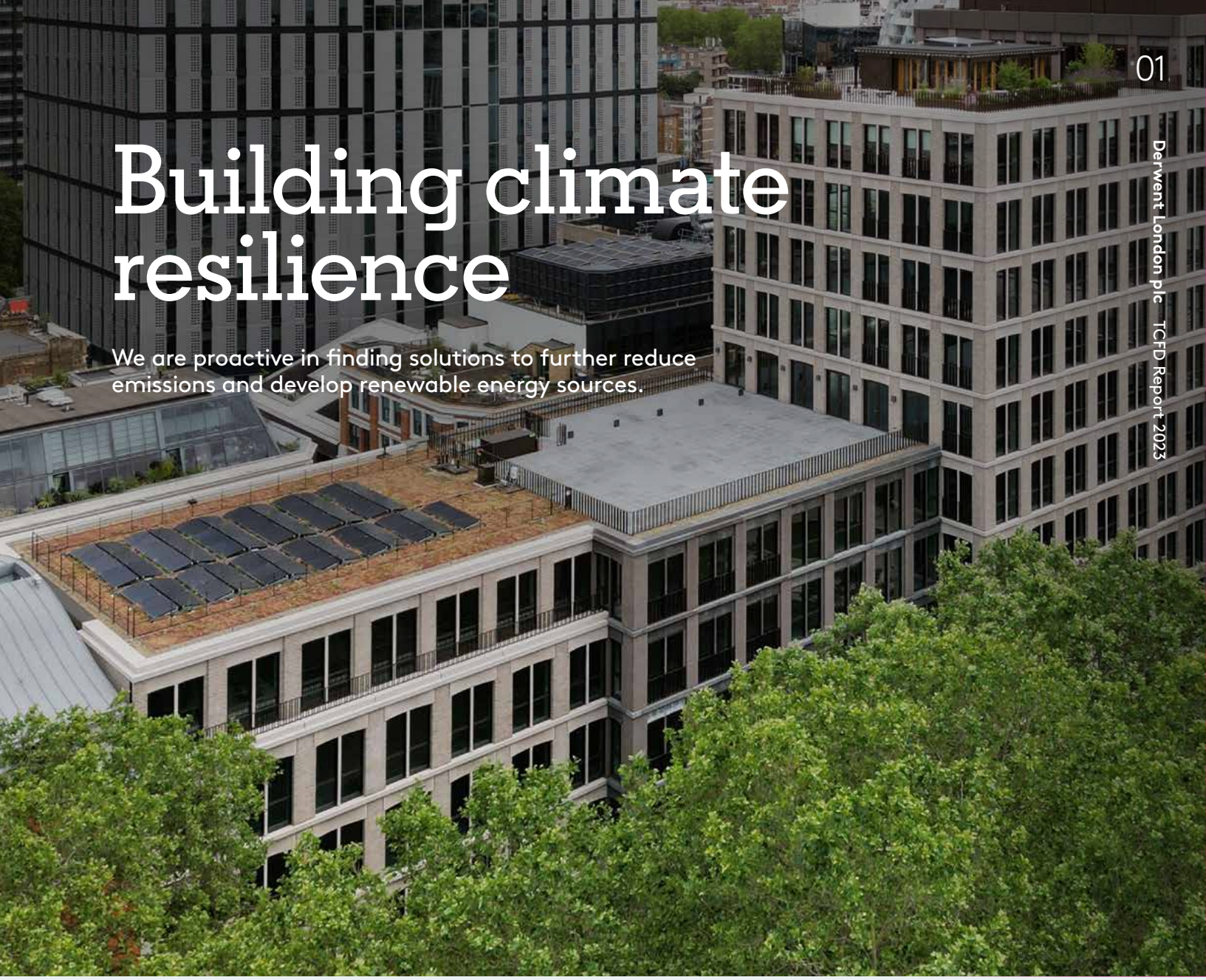
TCFD Report 2023

Derwent London plc

DERWENT
LONDON

Building climate resilience

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



The Featherstone Building EC1

The built environment

Climate change is a major global challenge and will impact how business operates in the future. Given that the built environment contributes significantly to the UK's overall carbon footprint (approximately 40%), we are being proactive in finding solutions to further reduce emissions and develop renewable energy sources (see pages 46 to 49 in the Report and Accounts 2023).

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

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

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

Engagement

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

Task Force on Climate-related Financial Disclosures (TCFD)

Compliance statement

Our disclosures in this section are consistent with the TCFD's Recommendations and Recommended Disclosures. When assessing the consistency of our disclosures, we have had due regard for all relevant guidance including the TCFD's Guidance for All Sectors. In line with the UK's Financial Conduct Authority Listing Rules, we have identified in the table on page 13 where our responses to the TCFD's 11 recommendations can be located.

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

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

Our approach

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

We ensure a high degree of resilience in our new developments and regeneration of older properties by setting high standards for sustainability, which includes climate-related aspects. When managing our core income portfolio, we focus on energy and carbon reduction (as dictated by our energy intensity reduction targets), ensuring our buildings operate as efficiently as possible. As a result, our strategy centres around the concept of continual improvement which ensures a high degree of both climate and financial resilience. Our environmental priorities are on pages 46 to 49 in the Report and Accounts 2023.

Climate risk assessment

We identify and monitor climate change risks and opportunities as part of our wider risk management procedures which are overseen by the Board and its principal committees (see pages 9 to 10 and 147 in the Report and Accounts 2023).

Our risk management framework is disclosed on pages 160 and 161 in the Report and Accounts 2023 and comprises of four stages. We have structured our climate risk disclosures on pages 1 to 14 in accordance with this four-stage approach.

Identification

See page 3

Assessment

See page 5

Monitoring

See page 9

Response

See page 11

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

During our climate risk assessments we considered short-, medium- and long-term time horizons (see page 93 in the Report and Accounts 2023), recognising that climate-related issues, in particular physical risks are often (but not exclusively) linked to the medium- to long-term and that the properties within our investment portfolio have a long lifespan of many decades.

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

Through this process we identified and reviewed nearly 20 transition and physical issues. On page 3 we have disclosed the most material risks and opportunities, in terms of impact, likelihood (transition risk) and exposure (physical risk). Once the risks and opportunities had been identified, three pre-defined climate scenarios were applied to test the resilience of our business, strategy and financial planning.

Identification

Transition

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

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

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

Material transition risks and opportunities identified:

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

Risk rating / **See page 92 in the** Report and Accounts 2023

Physical

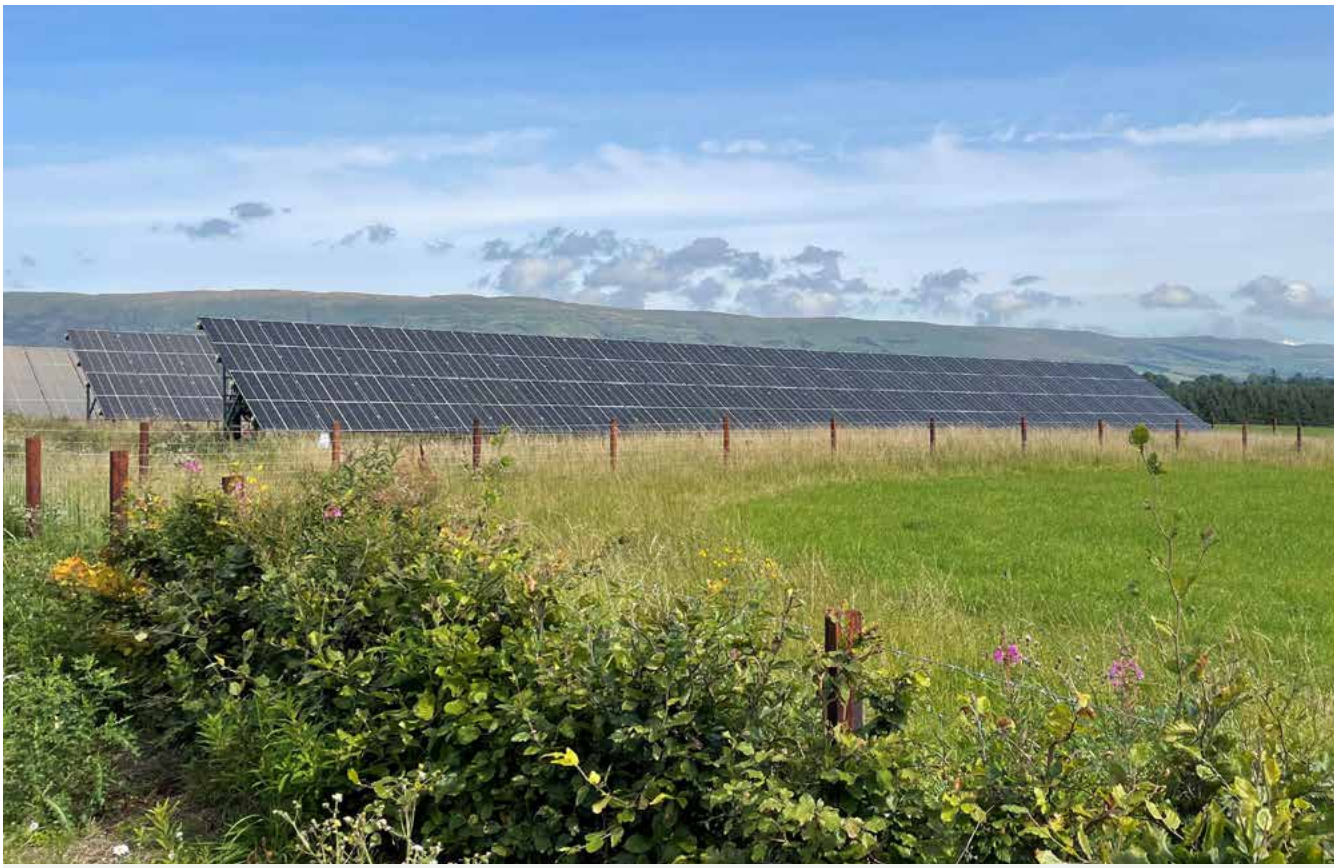
Physical risks were identified and assessed through an asset-by-asset exposure analysis using a range of acute and chronic climate hazards (risks). The scenarios were tested as at the present day, as well as for future projections under three climate scenarios (see table below). This was supplemented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

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

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

Our physical risk exposure:

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



Solar panels at Easter Cadder Farm on our Scottish land

Solar energy in Scotland

Climate risk and opportunities

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

Risk: Windstorm

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

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

Opportunity: Sunshine and cloud cover

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

Although Scotland receives a relatively low level of irradiation (<3 kWh/m^2), solar panels still produce electricity on cloudy days and during winter, with peak efficiency reached when the sun is shining.

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

Assessment

Testing our resilience

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

Our approach to creating scenarios followed the updated guidelines produced by the TCFD within their Guidance on Scenario Analysis for Non-Financial Companies. We set out on page 14 the assumptions and risk data sources that were used in our most recent climate scenarios.

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

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

The tables on pages 7 to 8 illustrate how we have incorporated these risks and opportunities into our strategy and financial planning. Ultimately, we do not envisage having to make changes to our overall strategic approach when considering climate-related scenarios.

Risk rating / **See page 92 in the Report and Accounts 2023**

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

Scenario 1 – 'Low Carbon World'	**~1.5°C**
A low temperature rise scenario as the world transitions to a low carbon economy • A minimum EPC rating of B is required for commercial property. • There are significant price increases to voluntary carbon offsets. • Increased stringency of building planning and design requirements to meet net zero targets. • Increased cost of high carbon raw materials (such as steel, cement and glass), which is further impacted by a carbon tax. • Suppliers pass on 50-100% of their exposure to high carbon taxation via increased prices.	
Transition risks	Moderate
Our overall risk exposure under the 'Low Carbon World' (1.5°C) scenario is moderate in both the short-term (2025) and the medium-term (2030). The most material transition risks identified were EPC rating requirements, increased cost of raw materials and rising emission offset prices.	
Physical risk exposure	Very Low to Low
Our physical risk exposure was low under this scenario. However, our Scottish land had greater exposure to windstorm and river floods in comparison to our London portfolio.	
Potential financial impacts	Moderate
In 2021, approximately £97m of capex was identified to achieve an EPC rating of B across our London commercial portfolio. This has since been revised to £95.3m to reflect the latest scope (change in building regulations), subsequent inflation, disposals and work carried out to date. Based on the International Energy Agency's (IEA) projected carbon prices of £62 per tonne in 2025 and £108 per tonne in 2030, and if we achieve our emission reduction targets: • The increased cost of voluntary carbon offsets could have a projected impact of ~£450,000 to £750,000 per annum by 2025 and ~£800,000 to £1.1m per annum by 2030. If we are unable to achieve our emission reduction targets, the impact is estimated as rising to ~£1.5m per annum by 2030. • The increased cost of raw materials could have a projected impact of ~£200,000 to £400,000 per annum by 2025 and ~£350,000 to £700,000 per annum by 2030.	
Potential impact on strategy	Low
Our strategy and financial planning already reflect more stringent planning and design requirements, primarily via the introduction of our Net Zero Carbon Pathway in July 2020. We estimate that the cost impact of achieving our pathway requirements is approximately 5% to 10% of our development costs which is factored into our appraisals. Over the long-term, we can reduce the cost impact of carbon offsets on our balance sheet by extending our carbon removal projects (e.g. tree planting) on our Scottish land which will help to reduce our reliance on the voluntary carbon market. However, in this scenario we are unlikely to realise the full value for some time given such projects take time to yield a significant number of credits.	

Scenario 2 – 'Current Policies' ~2 to 3°C

The world follows the emissions trajectory based on current policies/practices

- No change in EPC rating requirements.
- Offset prices increase but not by as much as under the 'Low Carbon World' scenario.
- There are no changes to existing planning and design requirements for developments.
- The increase in cost of key materials is anticipated to be substantially lower than in the 'Low Carbon World' scenario.
- Suppliers pass on 50-100% of their exposure to high carbon taxation via increased prices.

Transition risks — Moderate

Under this scenario, the risk impact and likelihood profiles for transition risks were unchanged in comparison to the 'Low Carbon World' scenario. This is because strategically we are expecting to decarbonise in a shorter time frame compared to the current policy approach.

Physical risk exposure — Low to Moderate

Within this climate scenario there was no scientific evidence to suggest that intensity or frequency of windstorms would increase significantly, therefore the risk profile has been deemed to be broadly similar to that in the short-term. All our London portfolio assets are either out of risk zones or are protected by the Thames Barrier. Four agricultural assets in our Scottish portfolio are currently exposed to very high flooding risk and part of the land could be flooded. As a result, flooding presents itself as a moderate risk in this scenario.

Potential financial impacts — Moderate

Based on the IEA's STEPS scenario and assuming the UK implements a carbon price of $65 (£54) by 2030 in line with stated EU prices, under this scenario:

- The increased cost of voluntary carbon offsets could have a projected impact for Derwent London of £400,000 to £570,000 per annum by 2030.
- The increased cost of raw materials could have a projected impact of £170,000 to £340,000 per annum by 2030.

Potential impact on strategy — Low

Sustainability has always been part of our strategy which puts us in a good position to take advantage of market and occupier demand for more sustainable space, which in turn is leading towards better rental premiums. Likewise, there are also operational cost savings that can be achieved from reduced energy intensity of more efficient spaces.

Under this scenario, we would continue to retrofit and improve our properties in line with our net zero strategy and overall business model.

It is assumed the opportunities available on our Scottish portfolio remain the same.

Scenario 3 – 'Hot House World' >4°C

A high carbon scenario where the world fails to transition, and temperatures rise

- No change in EPC rating requirements.
- Current policies promoting sustainability are removed.
- No carbon pricing in existence.
- Exploitation of abundant fossil fuel resources.
- Little or no development in low carbon technology.
- Adoption of resource and energy intensive lifestyles.

Transition risk exposure — N/A

Transition risks were not modelled under this scenario. These risks only arise if the world actively attempts to transition to a low carbon economy.

Physical risk exposure — Moderate to High

Our London portfolio could see a moderate risk of drought, between three to four months per year, a notable increase over today's climate. Under this scenario, there is increased susceptibility of subsidence, with all the London portfolio having 'probable' increases and instability issues in line with the wider London area. There was also no scientific evidence to suggest that intensity or frequency of windstorm would increase significantly, therefore the risk profile has been deemed to be broadly similar to that in the 'Current Policies' scenario.

Potential financial impacts — Low

Within the next 10 years, modelling showed that there was a 10% probability of windstorm damage costing approximately £2.6m.

Potential impact on strategy — Low

Heat stress is not projected to be a significant risk by 2050 but changes in average temperatures and increased number of heatwaves in London could impact occupier comfort within buildings (overheating), increase energy costs for cooling and lead to increased demand for ventilation and air conditioning. We seek to address these risks through energy efficient building design and use of renewable energy to meet the increased demand.

Drought might create water stress issues and shortages in water supply for London. Our water management strategy would need to be strengthened to use water more optimally (reuse, collections etc.) which could lead to higher maintenance and regeneration costs.

Although the overall flood risk is not significant, projected changes indicate that the frequency of flood events could increase in the UK (and more for Scotland) and create additional direct building and infrastructure damage and more frequent interruptions. Flood risk assessment is one of our considerations during our acquisition's appraisal process.

Assessment continued

Impact on our strategy and financial planning

The outputs from the risk and scenario assessments (see pages 3 to 6) have been embedded into our business to ensure all of our core activities accurately reflect the required actions and investments. Our strategy remains unchanged as we continue to develop design-led, amenity-rich, low carbon office space in line with market and customer demand.

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

Strategic objectives

1 To optimise returns and create value from a balanced portfolio

2 To grow recurring earnings and cash flow

3 To attract, retain and develop talented employees

4 To design, deliver and operate our buildings responsibly

5 To maintain strong and flexible financing

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

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

Our pathway to net zero / **See page 48 in the** Report and Accounts 2023

Regeneration of 6-8 Greencoat Place SW1 (EPC rating of E to B) / **See page 20 in the** Report and Accounts 2023

Occupier engagement on climate change / **See page 46 in the** Report and Accounts 2023

Monitoring

Role of the Board

The Board has overall accountability for climate-related risks and opportunities. It is responsible for ensuring that climate change is adequately reflected in the Group's strategy to ensure our future resilience. Due to its importance, climate-related matters are regularly discussed during the Board's strategy reviews and factored into the Board's assessment of our viability (see page 89 in the Report and Accounts 2023).

Climate resilience has been classified as a principal risk for the Group and is contained on our Schedule of Principal Risks (see page 100 in the Report and Accounts 2023). The Board reviews and approves the Group's risk registers on at least an annual basis and they are subject to review by the Risk Committee at each of its meetings.

Climate-related topics are included on the agenda of each meeting of the Responsible Business Committee and the Sustainability Committee, including our progress to net zero carbon. Climate-related risks and reporting are standing agenda items for the Risk and Audit Committee meetings. The climate risk governance framework is on page 10.

To embed a further level of oversight, we have linked climate-related performance measures into our Remuneration Policy for the Executive Directors' incentive remuneration (see page 177 in the Report and Accounts 2023). These targets are directly linked to our Net Zero Carbon Pathway.

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

Audit Committee Report / **See page 147 in the** Report and Accounts 2023

Remuneration Committee Report / **See page 173 in the** Report and Accounts 2023

Intelligent Building Programme / **See page 163 in the** Report and Accounts 2023

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

The Board's assessment of its skills, experience and knowledge is on page 136 in the Report and Accounts 2023 and includes reference to environmental matters, including climate change. The Audit Committee also received training on climate-related disclosures during the year.

Board training in 2023 / **See page 136 in the** Report and Accounts 2023

Role of management

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

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

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

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

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

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

Climate risk governance framework

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

Oversight

Board

Overall accountability for climate-related risks and opportunities

Audit Committee	Risk Committee	Remuneration Committee	Nominations Committee
Ensures climate-related risks and capital expenditure are appropriately reflected in our financial statements and portfolio valuations. The Committee typically meets three times per year.	Ensures climate-related risks are appropriately identified, monitored and managed. This Committee typically meets three times per year.	Ensures climate-related aspects are appropriately included in executive remuneration. The Committee typically meets at least twice per year.	Ensures climate and environmental skills, knowledge and experience are a consideration when assessing the Board's composition and identification of any skill gaps. The Committee meets as required.

Responsible Business Committee

Monitors the management of our climate-related risks and opportunities and meets at least twice per year to ensure that the Board adequately reflects climate-related issues in its decision making.

Monitoring

Executive Committee	Sustainability Committee
Typically meets monthly and has overall responsibility for oversight of climate-related risks and opportunities.	Typically meets quarterly and is comprised of key department leaders and is chaired by the CEO. The Committee is responsible for monitoring our day-to-day climate-related progress and performance.

Management

Sustainability team

Responsible for developing appropriate climate-related management measures for implementation across the business and identifying climate risk and opportunities to inform the risk management process.

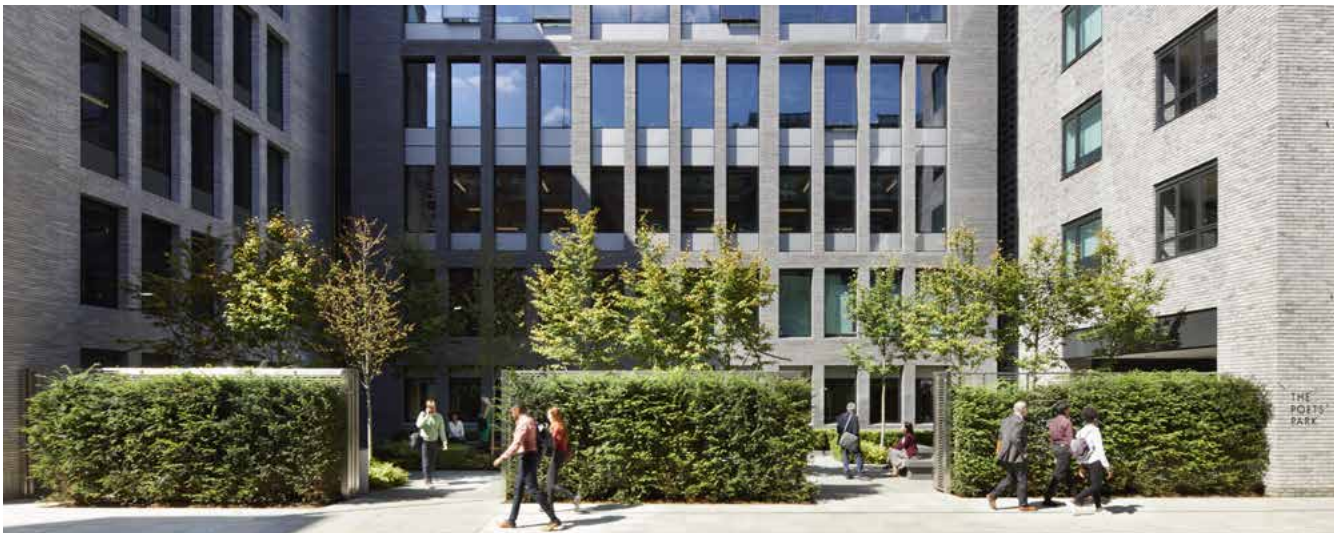
Development	Property Management	Asset Management	Company Secretarial
Responsible for ensuring our development schemes embed the required climate-related and net zero carbon aspects within their design and delivery programmes.	Responsible for ensuring our properties are operated efficiently e.g. building energy consumption is reducing in line with our energy targets.	Responsible for ensuring EPCs are tracked and monitored across the investment portfolio.	Responsible for ensuring climate-related issues are adequately reflected within our corporate governance structure.

Response

Capturing opportunities

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

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



The Poets' Park at 80 Charlotte Street W1

EPC improvements	Refurbishing space to optimise rents as and when vacancies occur is an integral part of our business model and typically includes upgrades which improve a building's energy performance. Since the independent third party assessment in 2021, we have invested £3.0m of capital expenditure on EPC upgrade works. EPC upgrades are factored into all refurbishment projects to ensure ongoing compliance with evolving legislation.
Intelligent Buildings	Our Intelligent Building Programme is a medium- to long-term initiative which seeks to enable our buildings to be digitally monitored and operated more efficiently, driving down equipment faults (and consequential maintenance) and delivering energy and operational carbon savings. The key indicators of success will be the cost savings to our occupiers and the operational carbon savings for our occupiers and Derwent London.
Green Finance	Our Green Finance Framework has been specifically developed to allow us to link our debt to our net zero carbon ambitions by clearly showing the connection between the use of our new debt and our development and refurbishment activities. To date, we have two specific debt facilities which are linked to our framework; the £300m 'green' tranche of our main corporate £450m revolving credit facility and a £350m Green Bond issued in 2021. These are being used to part-fund our latest eligible projects. Further information on our Green Finance Framework is on pages 84 and 85 in the Report and Accounts 2023.
Woodlands	Nearly seven years ago we planted over 30 hectares of woodlands which has already generated 127 Woodland Carbon Code verified carbon credits and we are exploring how to increase this further. Our ambition is to be as self-sufficient with our offsetting as possible to meet our long-term needs and increase the transparency and robustness of the offsets we use. Resolution to grant planning consent was received for a c.100 acre, 18.4 MW solar park on part of our Scottish land. When completed and operational, we expect it to generate electricity equivalent to more than 40% of the needs of our managed London portfolio.

Metrics and targets

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

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

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

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

Reducing operational energy and carbon emissions

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

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

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

Reducing embodied carbon of development projects

New build commercial office schemes completing from 2025 to achieve: ≤600 kg/CO_2e/sqm (upfront carbon, A1-A5)

New build commercial office schemes completing from 2030 to achieve: ≤500 kg/CO_2e/sqm (upfront carbon, A1-A5)

Energy and carbon reporting

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

SECR disclosures / **See page 60 in the Report and Accounts 2023**

EPC ratings

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

68.4%
of our portfolio (by ERV) has an EPC rating of A or B

19.1%
of our portfolio (by ERV) has an EPC rating of C

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

Renewable energy

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

99%
of our electricity is from renewable sources
Target: 100%

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

1 Electricity purchased on renewable tariffs backed by REGOs.

Certification

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

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

Response continued

Our progress

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

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

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

Future priorities

On page 48 in the Report and Accounts 2023 we have outlined our environmental priorities for 2024. In addition to these focus areas, we intend to action the following:

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

Supporting information

TCFD directory

We have identified in the table below where our responses to the TCFD's 11 recommendations can be located. We retain sufficient evidence/records to support our compliance statement (on page 2) and our data disclosures in our annual Report & Accounts and Responsibility Reports.

Governance		
a)	Describe the Board's oversight of climate-related risks and opportunities	Pages 9 and 10
b)	Describe management's role in assessing and managing climate-related risks and opportunities	Pages 5 to 10
Strategy		
a)	Describe the climate-related risks and opportunities the organisation has identified over the short-, medium- and long-term	Pages 3 to 6
b)	Describe the impact of climate-related risks and opportunities on the organisation's business strategy and financial planning	Pages 7 and 8
c)	Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario	Pages 3 to 6
Risk management		
a)	Describe the organisation's processes for identifying and assessing climate-related risks	Pages 2 to 8
b)	Describe the organisation's processes for managing climate-related risks	Pages 9 to 12 and page 100 in the Report and Accounts 2023
c)	Describe how processes for identifying and managing climate-related risks are integrated into the organisation's overall risk management	Page 2
Metrics and targets		
a)	Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process	Page 12 and pages 60 to 61 in the Report and Accounts 2023
b)	Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks	Pages 60 and 61 in the Report and Accounts 2023
c)	Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets	Page 12 and 49 in the Report and Accounts 2023

Climate scenarios – assumptions and risk data sources

2022 Willis Towers Watson risk assessment

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

DERWENT LONDON

Derwent London plc
Registered office: 25 Savile Row, London W1S 2ER
T: +44 (0)20 7659 3000
www.derwentlondon.com
Registered No: 1819699