

The Task Force on Climate-related Financial Disclosures (TCFD) was formed by the Financial Stability Board, an international body that seeks to strengthen and protect global financial markets from systemic risks such as climate change. The TCFD provides guidance on the disclosure of information on the financial implications of climate-related risks and opportunities, so that they can be integrated into business and investment decisions.

Set out below is our latest disclosure based on the recommendations of the TCFD. For complementary disclosures on climate-related aspects, go to our GRI Index reporting [here](#).

THE TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

GOVERNANCE

Describe the Board's oversight of climate-related risks and opportunities

The Board has overall responsibility for climate-related risks and opportunities.

The Responsible Business Committee (RBC), a principal committee of the Board (See Report & Accounts 2021 (R&A2021) 166 to 171), monitors the management of our climate-related risks and opportunities and meets at least twice a year. One of its roles is to ensure that the Board adequately reflects climate-related issues in its decision making. In turn, the RBC is kept informed by the Executive and Sustainability Committees which are separately responsible for overseeing and implementing climate-related actions and meet monthly and quarterly respectively. Chief Executive, Paul Williams, and Head of Sustainability, John Davies, are members of the Executive and Sustainability Committees and provide regular updates to the RBC and the Board on our climate-related work and the associated risks and opportunities.

During the year, the Board and various committees considered the following climate-related issues:

Responsible Business Committee – the current progress of our net zero carbon programme and targets, most notably the setting of energy reduction targets for our managed properties and our net zero carbon occupier survey.

Risk Committee – the latest position of the Group with regards to the forthcoming Energy Performance Certificate (EPC) changes from 1 April 2023 i.e. the minimum

EPC rating of E applying to all operable leases less than 99 years and greater than six months. Likewise, our preparations and financial impacts for the proposed 2030 changes and requirements for the minimum EPC rating to change from E to B – a key transition risk identified in our scenario analysis (see R&A2021 page161).

Audit Committee – the current progress of our green finance initiatives, including our new £350m green bond, which are funding our latest net zero carbon buildings. In addition, the Committee received training on the assurance we currently undertake on our environmental data which includes energy and carbon and our science-based targets, and where we could expand this assurance in the future to cover other climate-related areas e.g. TCFD.

During the year the Board agreed on the appointment of John Davies to the Executive Committee, strengthening its climate risk expertise and experience at this level.

An overview of the Board's climate-related skills, experience and knowledge is detailed in the chart on [page 140](#).

Day-to-day oversight of climate-related aspects is undertaken by the Sustainability Committee which comprises key department leaders:

- Paul Williams (Chief Executive)
- John Davies (Head of Sustainability)
- Nigel George (Executive Director)
- David Lawler (Company Secretary)
- Richard Baldwin (Director of Development)
- Katy Levine (Head of HR)

- Victoria Steventon (Head of Property Management)
- Vasiliki Arvaniti (Head of Asset Management)

The Sustainability Committee reviews the progress and performance on climate-related issues e.g. energy efficiency, embodied carbon and legislation such as the minimum energy efficiency standards. A target performance and data dashboard (inclusive of climate-related targets/metrics) is produced for discussion and analysis during the Sustainability Committee and related sustainability performance meetings.

To embed a further level of oversight over climate-related issues, we have linked performance measures to the Executive Directors' annual bonus calculations which focus on the improvement of carbon and energy intensity, accounting for 5% and 2.5% respectively of the bonus weighting. [See page 184](#) for further details.

Describe the Board's oversight of climate-related risks and opportunities

Our Chief Executive, Paul Williams, has overall accountability for ESG matters which includes climate-related issues. However, the responsibility for overseeing its day-to-day ESG management is delegated to Nigel George (Executive Director). Paul Williams oversees the review and performance as Chair of the Sustainability Committee and as a member of the main Board and Responsible Business Committee. In addition, Nigel George sits on the main Board, Executive and Sustainable Committees. Therefore, he is accountable for

climate-related issues which, if significant, are brought directly to the attention of the main Board.

John Davies, Head of Sustainability, has responsibility for developing, leading and, together with his team, implementing the business-wide sustainability programme (inclusive of all climate-related aspects) and reports to Nigel George. As a result, Nigel has a comprehensive oversight of all our climate-related work.

As mentioned above, the Sustainability Committee comprises key department representatives who each have a responsibility for oversight and implementation of climate related issues within their department:

- David Lawler (Company Secretary) – is responsible for ensuring climate-related issues are adequately reflected within our corporate governance structure, e.g. our risk management processes
- Richard Baldwin (Director of Development) – is responsible for ensuring our development schemes embed the required climate resilience and net zero carbon aspects within their design and delivery programmes e.g. high EPC and BREEAM ratings
- Victoria Steventon (Head of Property Management) – is responsible for ensuring our properties are operated efficiently e.g. they are reducing their energy consumption in line with our energy targets

– Vasiliki Arvaniti (Head of Asset Management) – is responsible (together with John Davies) for ensuring EPCs are tracked and monitored across the investment portfolio. Likewise, that our asset management plans incorporate the necessary improvement measures and budgets to allow our compliance with the forthcoming EPC legislation changes for 2030 and our net zero carbon commitment

As set out above, there is a clear top down – bottom up 'line of sight' for climate-related aspects from the Board to the Sustainability Committee (see R&A2021 [page64](#) and our [ESG Governance Framework](#)). Target performance and data dashboards (inclusive of climate-related targets/metrics) are discussed and analysed during the Sustainability Committee and related sustainability performance meetings.

See the Risk Management section on [page 103](#) for an outline of how we approach the assessment and management of climate-related risk.

STRATEGY

Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long-term

We consider short-, medium- and long-term time horizons to be 0-5, 5-15 and 15+ years respectively, recognising that climate-related issues are often (but not exclusively) linked to the medium to long-term, and our properties have a life of many decades.

Short-term – we have seen a greater shift in terms of legislation, first with the introduction in the UK of the Minimum Energy Efficiency Standards (MEES) for commercial and domestic property and more recently, the proposed 2030 minimum EPC rating changes linked to the acceleration of the government's ambition to achieve net zero carbon by 2050. In addition, customer demand continues to drive the requirement for buildings with robust sustainability credentials, which are cost effective to occupy and promote higher levels of wellbeing and productivity. Our climate scenario analysis showed us that these transition risks are focused primarily on the short-term, with EPC regulation, emissions offsets and cost of raw materials presenting themselves as key risks after applying various mitigation measures from our Net Zero Carbon Pathway. By managing these risks adequately, we believe the following opportunities could include:

- Energy efficient 'green' buildings with better EPCs could be let more quickly, command higher rents and enjoy lower tenant turnover.

- Investing in the overall energy efficiency of our buildings also improves asset value by reducing our maintenance costs and extends a building's life.
- Working closely with tenants to manage building efficiency should lead to closer landlord/tenant relationships.

Medium-term – we have identified the same issues as those that occur in the short-term. We must continually invest in and develop our new and existing properties to ever higher regulatory standards and levels of efficiency to ensure we are able to operate effectively and attract occupiers. This period covers our pathway to becoming a net zero business and it is important that we minimise the amount of residual carbon needed to be offset.

Long-term – we need to invest in our existing portfolio and our development pipeline to ensure they are climate resilient such that our central London buildings remain occupiable. It is possible, depending on what changes actually occur, that climate changes may impact some of our properties which in turn could have a financial impact on our business e.g. increased insurance premiums or loss of rental income. Our scenario analysis showed us that the physical risks are most material in the long-term and present themselves most evidently in the 4°C scenario (aligned with the IPCC's RCP 8.5), with heat stress, flooding and subsidence being the most significant. By following our Net Zero Carbon Pathway and continuing to undertake regular climate risk assessments, we believe we will be in a better position to manage these potential risks. The opportunities that might present themselves include:

- The availability of buildings which become stranded because of physical risk impact could provide us with acquisition opportunities at lower prices.
- Investing in the overall climate resilience of our buildings also improves asset value by reducing our maintenance costs and extends a building's life.

The processes used to determine the climate risks which are material to our business are set out in the Risk Management section on [page 103](#). In addition, see the Principal Risks section on [pages 108 to 119](#) which details our overall risk profile and approach to risk management.

We believe that property portfolios that are able to meet these challenges will remain attractive to occupiers and investors and in good demand. This trend presents opportunities for the Group ([see R&A2021 page 10](#)).

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, refurbish and manage our existing portfolio and engage with our occupiers. This in turn affects the kinds of suppliers and consultants we use in these activities to ensure we have the requisite level of expertise. As described on [page 6](#), this is driven by an ever-increasing demand from our occupiers and other stakeholders wanting buildings with higher

levels of sustainability credentials, as well as the regulatory landscape becoming tougher and more demanding.

The recognition that climate change has a material impact on our business and our stakeholders led us to develop our Net Zero Carbon Pathway to become a net zero carbon business by 2030 (aligned to a 1.5°C climate scenario). Our pathway covers the breadth of our business activities to ensure we are reducing our carbon footprint and exposure to risk, examples include:

Financial planning (operating costs, capital expenditure and allocation) – to ensure we are capturing the cost of carbon appropriately we are developing our approach to carbon accounting such that we are including the cost of carbon in our financial appraisals and forecasting, so we understand and capture the cost of carbon in our new schemes and business activities. In addition, we are undertaking specific reviews to help us understand the cost of certain transition risks. During 2021 we commissioned a report to understand the actions and costs required to ensure our portfolio would remain compliant with the proposed changes to the minimum EPC ratings required from 2030 – [see page 55](#) for further details.

Access to capital – we believe in the future it will be harder to access good quality, affordable finance without being able to demonstrate how we are addressing and effectively managing climate risk. In response, our Green Finance Framework has been specifically developed to allow us to link our finances to our net zero ambitions by setting out performance criteria and a governance framework which enable us to clearly show

the link between the use of our debt facilities to our development and refurbishment activities. To date we have two specific facilities which are linked to our framework – the £300m 'green' element of our main corporate £450m revolving credit facility and a £350m green bond issued in 2021. These are helping to fund our latest eligible projects – [see pages 22 to 25](#) for further details.

Acquisitions and divestments – our business model is based on acquiring older buildings and improving them to add value. Prior to a new purchase we now undertake carbon appraisals to establish the incumbent carbon liability allowing a more holistic understanding of cost. In addition, we also establish the EPC related risk and, if the rating is low, what actions and cost will be required to improve it. We have disposed some assets where the estimated additional costs associated with the transition to better energy performance influenced our decision.

Developments – our Responsible Development Framework and Net Zero Carbon Pathway ensure we set the right design brief for our development pipeline. These ensure that the properties are more climate resilient such as building them for a longer life, to be more flexible to occupy and operate, less reliant on mechanical cooling and free from fossil fuel use, i.e. all electric heating and cooling.

Managing assets – our Responsible Framework for Assets and Net Zero Carbon Pathway ensure we have plans and targets in place for each managed asset which set out how we will reduce energy consumption/ carbon emissions effectively to meet our overarching targets.

STRATEGY

Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario

Our properties are subject to climate-related risks, such as increasing temperatures, which could lead to greater physical stresses and, in turn, increase our costs, e.g. management and utility costs.

Our business model involves both investing in new developments and acquiring older properties which hold future regeneration 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 have a significant focus on energy and carbon reduction, 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. Ultimately, we do not envisage having to make changes to our approach when considering climate-related scenarios.

We recognise that climate change does have an impact on our business and part of our strategic response has been the commitment to becoming a net zero carbon business by 2030 such that we can transparently address the transitional and physical risks and opportunities which apply to our business. This is in addition to our existing science-based target, which is already aligned to a 2°C scenario.

In 2020 Willis Towers Watson provided a detailed analysis of the Group's climate-related risks, set across different climate scenarios – a 2°C scenario for transition risk (aligned with IPCC's RCP 2.6) and a 2°C and 4°C scenario for physical risk (aligned with the IPCC's RCP 8.5). Set out below is a summary of their findings:

Transition risk Policy & legal

- Pricing of GHG emissions
- Energy Performance Certificate rating requirements
- Emissions offsets
- Planning approval changes
- Climate change litigation
- Enhanced emissions reporting obligations

Market

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

Reputation

- Investment risk

Physical risk

The physical risk assessment was undertaken through two plausible climate scenarios – IPCC RCP 2.6 and 8.5, within which the analysis focused on three time horizons:

1. Current climate (2020 to 2030)
2. Medium-term climate change impact (2050)
3. Longer-term impact (2080 to end of century) where models were available for key perils and where a clear climate change signal warranted modelling of the time horizon or scenario

The assessment also included a review of current climate exposures, climate change implications for those exposures, indicative loss modelling and analysis and forecasts of the likely electricity and gas usage for selected properties. The physical risks were identified across two types:

Chronic

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

Acute

- Flooding
- Storms
- Infrastructure

As part of our approach to managing both transition and physical risks, we are committed to becoming a net zero carbon business by 2030. Our Net Zero Carbon Pathway sets out a clear plan on how we will transition towards this by:

- Reducing the energy consumption and improving the efficiency of our assets
- Increasing renewable energy procurement e.g. green gas procurement, self-generated energy managing the future risk of higher energy costs
- Adopting carbon accounting to enable us to anticipate the future cost of carbon so we can inform our decision-making
- Reducing the embodied carbon associated with our development schemes
- Carbon offsetting via verified removal schemes for those emissions we cannot eliminate

These commitments, coupled with our Responsible Development Framework and Sustainable Framework for Assets and net zero action plans for individual assets, support the business in addressing and managing the above risks and enabling it to move towards net zero carbon.

RISK

Describe the organisation's processes for identifying and assessing climate-related risks. Describe the organisation's processes for managing climate-related risks. Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management. (As all recommended disclosures are heavily interrelated we have opted to combine our disclosure)

The responsibility for managing our corporate risk lies with the Executive Committee, Board and Risk Committee. Each year the Executive Committee collate and assess the key risks, which include sustainability/climate change related risks. This assessment seeks to understand risk severity and likelihood as well as the optimal controls and/or mitigation actions required. This approach allows the effects of any mitigating procedures to be considered properly, recognising that risk cannot be eliminated in every circumstance. The risk register is then put forward to the Board and Risk Committee for consideration, review and ultimately adoption. Climate-related risks and opportunities are also highlighted and discussed by the Responsible Business and Sustainability Committees where appropriate. These risks can include transition risk (e.g. regulatory risk and reputational risk) and physical environmental risk.

To assess the materiality of climate-related risk we worked with Willis Towers Watson in 2020 to specifically explore climate risk and opportunity. This followed a structured identification and assessment of the transition and physical risks applicable to our business across two climate scenarios, namely 2°C

and 4°C scenarios aligned with the IPCC's RCP 2.6 and 8.5 pathways respectively. As part of the scenario analysis, the transition risks identified within the 2°C scenario estimated the financial materiality for each risk using a structured template to capture any impacts to the profit and loss (revenue and expenditures) and impacts to the balance sheet (assets and liabilities and capital/financing). High and low impact estimates were given to applicable cost components depending on the success of planned mitigating actions, and risks given a 1 to 5 impact rating according to a defined rating criterion. Working through the assessment process and applying mitigation measures already captured within the scope of our Net Zero Carbon Pathway and those within our existing business processes, demonstrated that few of these risks had a residual impact. Those which remained were:

Energy Performance Certificate rating requirements

When we undertook the assessment, tougher minimum energy performance certificate standards were indicated by the Government. These have now been confirmed and will be phased in during the period up to 2030. It was assessed that complying with the new measures would result in significant additional investment across our portfolio. To address this, in 2021 we commissioned a report to review the actions and costs required to meet these new standards – see pages 52 to 55 for further details.

Cost of raw materials

Climate change could affect the input costs of traditional development related materials or building services e.g. energy and water. Utilising more innovative low carbon

materials could allow us to mitigate some of the potential impacts this risk might pose. To monitor the effects of this on our business, we track the construction costs (of which material costs are a part) and inflationary impacts on those costs to understand the impact on our business. See the Chief Executive statement for further detail (see R&A2021 page 10).

Emissions offsets

The cost of high-quality carbon offsetting is likely to continue to rise due to supply constraints. However, the energy/carbon reduction initiatives and investment in our portfolio should enable us to reduce our reliance on offsetting and exposure to significant cost movements. We publish details of our annual offsetting practices, (see R&A2021 page 54). Where we purchase any new offsets, we will state the costs together with any applicable inflationary commentary.

The physical risks assessed within the 2°C scenario highlighted:

Storms

Many of our buildings could be exposed to windstorm damage especially during the winter season. This was the most significant risk in this scenario and means we need to ensure we have the right features in place to protect our building façades.

Heat stress

Whilst within this climate scenario, and coupled with our management approach, this is not a high risk to our business, we remain vigilant to any increase in temperature and the effect it could have e.g. increased cooling demands and subsequent increases in energy consumption.

Subsidence

Although not a significant risk to our business in this scenario, temperature increases in different climate scenarios, coupled with increased rainfall or flooding, could affect some of our older properties. Within the 4°C scenario the risks assessed highlighted:

Heat stress

Hotter summers (10-20 days of heatwave per year in London) will impact our business, by increasing cooling demands and thereby increasing energy consumption and maintenance costs for our buildings.

Flooding

In this climate scenario, flood defences such as the Thames Barrier could be placed under increased stress which could lead to failures, albeit this would possibly only affect four of our properties. In addition, flash flood risk could increase.

Subsidence/critical infrastructure

In this climate scenario, instances of subsidence and critical infrastructure disruption are more probable.

METRICS AND TARGETS

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 climate-related impact and subsequent performance, the data section of our Responsibility Report (rr.derwentlondon.com) includes an extensive range of consumption and intensity metrics for energy, carbon, waste and water, and reflect those highlighted in the buildings and materials groups, namely:

- Total energy consumed, broken down by source (e.g. purchased electricity and renewable sources)
- Total fuel consumed percentage from coal, natural gas, oil, and renewable sources
- Building energy intensity (by square area)
- Building water intensity (by square area)
- GHG emissions intensity from buildings (square area) and from new construction and redevelopment
- For each property type, the percentage certified as sustainable

All the above metrics are presented in the data section of our latest Responsibility Report with at least the previous year's data to allow for comparison. In addition, our previous reports are available on our website which contain several years' worth of data, allowing for historical trend analysis.

As identified in our materiality review, resource efficiency (which includes energy efficiency, greenhouse gases, climate change and water) is a material issue for our business and, as such, is classified as a principal risk ([see R&A2021 page116](#)). Further to this, performance against our science-based carbon targets form a part of our Executive Directors' remuneration – details of which can be found on [page 184](#).

In addition to the above metrics, we also use our science-based carbon targets and a specific scenario analysis tool to support us in the strategic planning of our portfolio and undertake future projections of carbon intensity reduction set against recognised 2°C transition scenarios, namely the IEA ETP 2DS and the nationally determined UK climate change commitments modelling trajectory.

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

We publish a detailed data report which sets out our environmental data performance. This includes extensive carbon reporting across all scopes: Scopes 1, 2 and 3 using the Greenhouse Gas (GHG) Protocol Corporate Accounting and Reporting Standard. Likewise, we provide trend analysis across several years to show progress and historical performance.

Refer to the data section of our latest Responsibility Report for our carbon reporting which also includes full details of the aggregation and calculation methodology. Moreover, we publish a summary of our corporate carbon footprint on [page 74](#).

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

Following our review of the Paris International Climate Change Agreement in 2016, we developed a set of science-based carbon targets to ensure we align our carbon reduction programme to its objectives, as well as minimising our risk exposure to climate change on our managed portfolio.

These were verified by the Science-Based Target initiative (SBTi) in 2019 and are:

"We commit to reduce Scope 1 and 2 GHG emissions 55% per square metre by 2027 from a 2013 base year. Derwent London also commits to reduce Scope 3 GHG emissions 20% per square metre by 2027 from a 2017 base year."

As part of our revised net zero ambition, we will be reviewing these targets to align them with a 1.5°C climate warming scenario and we will provide further updates when this is complete.

To see the latest progress against these targets refer to the science-based carbon target performance section of our latest Responsibility Report.