GREEN FINANCE FRAMEWORK

DERWENT LONDON

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1.0 INTRODUCTION

Derwent London ("Derwent" or "The Group") is the largest London-focused Real Estate Investment Trust (REIT), owning a 5.7 million sq ft portfolio as at 30 June 2019 of mainly commercial real estate across 13 'villages' in central London. Headquartered in London, it is a specialist property regenerator and investor with a design-led philosophy and a progressive and sustainable approach to development. The company is listed on the London Stock Exchange and is a member of the FTSE 250.

As a REIT, which requires it to be primarily a property rental business, the majority of Derwent's portfolio is income producing. However, Derwent's business model is also focused on adding value to its properties in line with its purpose, which is to help improve and upgrade the stock of office space in central London. It seeks a balance between properties with potential to add further value through regeneration and those which have already been improved but where the Group's asset management skills can continue to grow value and income.

Sustainability is deeply ingrained in what the Group does. A key part of the Group's business model is to implement good design underpinned by sustainability to develop buildings that provide great working, amenity and outdoor spaces, improve energy efficiency and reduce consumption of natural resources. This approach also seeks to improve the health and wellbeing of the buildings' occupiers.

Derwent's ongoing sustainability commitments to both new developments and the existing portfolio have been recognised externally:

- The Group is a member of the 'RE100' which recognises Derwent as an influential company, committed to 100% renewable power by purchasing renewable energy, a key step in becoming a net zero carbon business.
- Derwent is one of only a few property companies worldwide to have science-based carbon targets validated by the Science Based Targets initiative (SBTi).
- Listed as one of the Global 100 Most Sustainable Companies in 2017 and 2018 as announced at the World Economic Forum at Davos, the only UK REIT recognised in this way.
- Joined the Better Buildings Partnership in 2019 which focuses on improving the sustainability of existing commercial building stock.

The Group's tailored approach to development, re-using as much of the fabric of the original building wherever possible, reduces costs and has environmental benefits. This approach helps Derwent deliver more inherently sustainable spaces, which are not only attractive to occupy, being flexible and healthy to work in, but also efficient to operate.

One of Derwent's five strategic objectives is 'to design, deliver and operate its buildings responsibly'. To achieve this, the Group's sustainability strategy contains four key priorities, which are:

1. Designing and delivering buildings responsibly – providing inherently sustainable spaces which let well, achieve superior long-term returns, and which reduce carbon emissions and running costs for the benefit of both the Group and its customers.
2. Managing assets responsibly – undertaking rigorous asset management to maximise the Group's performance, deliver resource efficiency savings, and enable its customers to operate their spaces as efficiently as possible.
3. Creating value in the community – developing and maintaining strong relationships with local communities to deliver benefits and help them thrive.
4. Engaging and developing the Group's employees – creating the right environment for its employees by creating opportunities for individuals and teams to realise their full potential and contribute to the business achieving its strategic goals and targets.

The Group's success in achieving this strategic objective is measured through three of its key performance indicators: BREEAM ratings for major developments and refurbishments, Energy Performance Certificates ("EPCs") for its buildings and performance against our science-based carbon targets.

2.0 FRAMEWORK OVERVIEW

This Green Finance Framework (the "Framework") has been developed to demonstrate how the Group intends to enter into Green Financing Transactions ("GFTs") to fund projects that will deliver environmental benefits to support Derwent's business strategy and purpose. Fundraising may include bonds and loans with structures tailored to contribute to sustainable development by application of the proceeds towards Eligible Green Projects ("EGPs"). Any bonds issued under the Framework will be aligned with the International Capital Market Association ("ICMA") Green Bond Principles ("GBP"), 2018 or as they may be subsequently amended. With respect to bank or other loans drawn under the Framework, these will be aligned with the Loan Market Association ("LMA") Green Loan Principles ("GLP"), 2018 or as they may be subsequently amended. We also believe the Framework is consistent with the objectives set out in the latest EU Technical Expert Group on Sustainable Finance Taxonomy.

3.0 MANAGEMENT COMMITMENT

In relation to each GFT that it enters into, Derwent will adopt the following principles:

3.1 Use of Proceeds

The net proceeds of each GFT will be used to acquire, fund or refinance, in whole or in part, new or existing EGPs within Derwent's real estate portfolio. In order to qualify as EGPs recognised in the Green Bond Principles and/or the Green Loan Principles 2018, the projects will be required to meet one or more of the following eligibility criteria:

Categories for Eligibility	Description of Criteria	Alignment to UN Sustainable Development Goal	Alignment with the Group's Strategic Responsibility Priorities
Green buildings	1. New developments or major refurbishments of commercial buildings that target and receive third-party verified green building certification and subsequently achieve the following rating: • Minimum BREEAM Excellent; and/or • Minimum LEED Gold. 2. New residential developments that target and receive third party certification and achieve the following rating: • Minimum Home Quality Mark 4 Star. Other certification standards may become applicable over time; therefore, we will introduce these into the eligibility criteria as appropriate. Note that, once a specific new green development or major green refurbishment project has been identified and commenced, the original site acquisition cost may also be included as eligible green expenditure. 3. Minor refurbishments* of commercial and residential buildings and spaces which may result in measurable improvement in the EPC rating of the existing building or spaces. This is defined as an improvement of at least two rating bands where a building or space has a current EPC rating below C. 4. Procurement of building materials and technologies that fulfil the requirements of the green building certification standards listed above. *Minor refurbishments are defined as any works which upgrade the electrical equipment and/or systems within a building or space e.g. lighting, HVAC, plant replacement etc.	7, 11 & 13	Designing and delivering buildings responsibly

Categories for Eligibility	Description of Criteria	Alignment to UN Sustainable Development Goal	Alignment with the Group's Strategic Responsibility Priorities
Renewable energy	Projects relating to renewable energy, such as the investment, installation and deployment of on-site renewable energy generation sources e.g. solar and wind systems. In addition, projects relating to off-site renewable energy generation e.g. wind, biogas and geothermal.	7 & 13	Designing and delivering buildings responsibly & Managing assets responsibly
Energy efficiency	Projects relating to energy efficiency which have a clear, demonstrable improvement on the efficiency of the building or space. This can include the adoption of systems for optimising energy management in new and existing buildings, such as building management systems (BMS), new installations or upgrades to mechanical, electrical and lighting systems and new installations or upgrades to HVAC systems. This also includes insulation and facades which allow for improved natural light and passive ventilation e.g. openable windows.	12 & 13	Managing assets responsibly
Climate change adaptation	Project works relating to climate change adaptation, for example the installation and upgrades of enhanced flood protection systems or additional insulation to strengthen building resilience to climate change impacts such as extreme weather events and natural disasters. Prior to commencing such projects, Derwent will conduct (or have a third-party conduct) a climate risk assessment to determine the needed enhancements for climate change adaptation and resilience purposes.	13	Designing and delivering buildings responsibly & Managing assets responsibly
Pollution prevention and control (waste management)	Projects relating to pollution prevention and control, such as the installation of waste facilities, systems and equipment that are used for the collection and separation of waste which allows for higher levels of recycling and recovery.	12 & 13	Managing assets responsibly
Clean transportation	Projects relating to improving accessibility to clean transport, such as bicycle racks, bicycle lifts and associated facilities e.g. showers and bike stands.	11	Managing assets responsibly
Sustainable water and wastewater management	Projects relating to sustainable water and wastewater management, such as sustainable urban drainage systems (SUDs), wastewater recycling, and installation of water treatment systems and equipment which improve water efficiency.	12 & 13	Managing assets responsibly

See appendices 1 and 2 for case studies on a selection of green projects.

3.2 Project Evaluation and Selection

Derwent's sustainability team is responsible for developing and implementing the Group's sustainability strategy and for reporting on the performance against this. Its work is governed and overseen by the Sustainability Committee which provides sustainability updates directly to the Responsible Business Committee and main Board.

The Sustainability Committee meets at least quarterly and acts as a guardian for the Group's sustainability strategy, and, in doing so:

- Evaluates performance and monitors progress against targets and initiatives, which include the Group's science-based carbon targets, energy efficiency, and greenhouse gas emissions linked to climate change. Performance is reported on a traffic light basis (red, amber and green).
- Assesses emerging legislation, key issues and risks to ensure the business is proactive and diligent in its approach.
- Reviews the sustainability strategy in the context of the objectives it is intended to achieve.

Prior to the commencement of a project, capital expenditure incurred by the Group requires approval by the Cost Committee, Executive Committee or main Board in accordance with specified tiers of delegated authority limits. Before approval is given to a project, it is appraised to assess the financial returns likely under a number of scenarios, a full risk assessment is produced and the benefits to, or impact on, other stakeholders is considered. In addition, as part of the approval process, each project will now be reviewed by the Head of Sustainability and the Treasurer to determine whether to elect the project as an EGP. Following this, the Head of Sustainability will confirm compliance with the guidelines included in this Framework to determine whether it follows the list of eligible categories as set out in section 3.1. To monitor the ongoing progress of each project and any associated environmental risks, each eligible project is required to have a Project Sustainability Plan, which is a requirement set out in the Sustainability Framework for Developments. Approved budgets and actual spend on EGPs that meet the GLP criteria are then tracked and reported internally. External reporting and monitoring requirements to be met are set out in section 3.5.

3.3 Qualifying Expenditure on Eligible Green Projects

Expenditure on EGPs will qualify for inclusion as qualifying green expenditure as follows:

1. Projects under development or refurbishment at commencement of any new green facility, where the projects and their related rights are still owned by the Group. This includes expenditure incurred in the look back[1] period before initial drawdown; or
2. Projects commencing during the life of the facility and where the projects and their related rights are still owned by the Group; or
3. Where a new green facility is refinancing an existing green facility, the EGP balance of the existing facility can be transferred into the new one.

Disposals of EGPs
From time to time, and in accordance with its well-established business model, it is expected that the Group will dispose of buildings that were part financed by GFTs. When this occurs, any EGP expenditure will be deducted from the running balance at the point at which the property sale completes.

3.4 Management of Proceeds

Funding for Derwent's EGPs comes from a number of sources, including the proceeds of any eligible green borrowings from GFTs. These may include debt drawn from the Group's green bank facilities, green revolving credit facilities ("RCFs") or green bonds.

Once the Group's funding requirements have been established and the uses of those proceeds split between EGP and other 'non-green' uses, funds will be drawn from the GFTs to finance only the qualifying expenditure on EGPs or to refinance expenditure on green projects which has previously been funded from other sources. Any unallocated surplus funds from GFTs will be managed by the Group's Treasury function; they may be used to repay revolving credit facilities (including green RCFs), placed on short-term fixed interest deposits or on the overnight money markets with counterparties that comply with the Group's Treasury policy.

The Group will always ensure that it owns projects in relation to which there is an excess of spend on EGPs over the amount of drawn borrowings from GFTs.

Revolving Credit Facilities (RCF)
Unlike a term loan where a drawdown of the facility may be directly linked to specific expenditure, the use of the green component of an RCF is not easily identifiable and trackable. For this reason, where the flow of funds is not separately identifiable, Derwent may instead identify the specific EGPs which are being funded by the facility and keep a record of the running total of such expenditure incurred to date. As noted above, it will ensure that, at all times, the amount of qualifying green expenditure on EGPs which are still owned by the Group will be greater than the amount of drawn green borrowings under all the GFTs, including any RCF that qualifies as a 'green' RCF.

It is important to note that a green RCF can be used to assist with the working capital of the Group to support the development of EGPs. Whilst the initial drawings on green tranches will be made to fund expenditure on EGPs incurred at the time or previously, these tranches may be repaid using receipts, such as from rental income received from tenants, and subsequently redrawn unless capped by the facility size. Any redrawn funds will be assessed against identifiable green expenditure allocated from EGPs in relation to buildings that the Group continues to own.

[1] See glossary

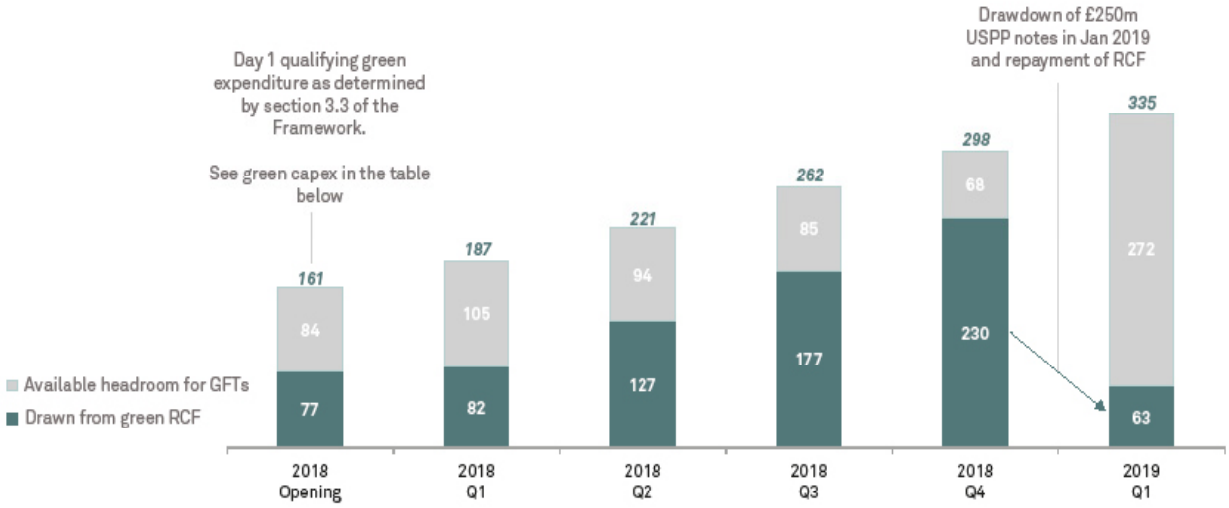
At the end of each quarter the qualifying green expenditure will be calculated to determine the available headroom for GFTs. If the headroom is less than £25m, then the qualifying green expenditure and amount drawn under the facility will be checked at each subsequent drawdown to ensure compliance, until the headroom exceeds £25m.

Worked example based on Q1 2018 to Q1 2019

In order to clarify how the EGP expenditure will be determined in practice, we have provided an analysis of the Group's expenditure over a period of five quarters from Q1 2018 to Q1 2019 and assessed this against the Group's source and use of funds. This illustrates Derwent's business model and shows how capital recycling will help maintain drawings under GFTs comfortably below the level of qualifying EGP expenditure.

See below an illustrative example based on the principles above.

ILLUSTRATIVE RCF POSITION FOR THE PERIOD Q1 2018 TO Q1 2019 (£M)



	£m
Net property income	162.6
Employee and admin costs	(27.2)
Finance costs	(20.0)
Other	(0.2)
Net cash from operating activities	**115.2**

Green acquisitions	-	-	-	-	-
Green capex - cumulative	(26.9)	(59.9)	(101.0)	(137.1)	(174.1)
Green disposals	-	-	-	-	-
Non-green acquisitions				(57.3)	
Non-green capex				(34.5)	
Non-green disposals				0.3	
Other				19.5	
Net cash used from investment activities				**(209.1)**	
Dividends paid				(152.0)	
Movement in revolving bank loans				180.5	
Other				(3.3)	
Net cash used in financing activities				**25.2**	

Green capex - cumulative											
Opening at 1 January 2018	(160.6)		(160.6)		(160.6)		(160.6)		(160.6)		(160.6)
80 Charlotte Street, W1		(76.7)	(11.8)		(25.9)		(45.1)		(64.5)		(84.0)
Brunel Building, W2		(63.0)	(11.1)	(26.9)	(25.8)	(59.9)	(42.8)	(101.0)	(53.4)	(137.1)	(62.1) (174.1)
Soho Place, W1		(20.9)	(4.0)		(8.2)		(13.1)		(19.2)		(28.0)
	(160.6)		**(187.5)**		**(220.5)**		**(261.6)**		**(297.7)**		**(334.7)**

3.5 Reporting

Allocation approach
In line with the principles set out in the LMA Green Loan Principles guidance document, we will annually disclose the allocations of drawn funds from the green element of our RCF within each annual Report and Accounts.

In addition, we will provide an annual report to the green finance providers no later than 180 days after each year end. The disclosure will, as a minimum, cover the following:

- A list of the projects benefiting from the green funding element which follows a list of eligible categories as set out in section 3.1 of this Framework.
- A short description, expected completion date, impact reporting indicator selected and green credentials of each project.
- The green funds allocated in aggregate to the EGPs and, where relevant, an indication of the proportion of new finance versus refinance. The look back period applied to those amounts refinanced will also be disclosed.
- A statement of the remaining balance of unallocated funds within the green element of the RCF.
- A statement confirming that projects and their related rights are owned in relation to which there is an excess of spend on EGPs over the amount of drawn borrowings from GFTs.
- We will provide a summary of all the projects which benefit from the green funding element and will show how the Group has funded such expenditure in accordance with the Group's business model.

Impact performance reporting
We believe it is important that we demonstrate to our stakeholders the impact of the green funding on our portfolio. Therefore, where feasible and reasonably practicable, we will periodically provide qualitative and quantitative environmental performance reporting of the EGPs. A range of indicators will be used to demonstrate performance, including:

- Building certification achieved (system & rating).
- Energy intensity against industry benchmarks (kWh/m^2).
- Carbon emissions intensity reduction compared to previous baseline ($tCO2e/m^2$).
- Water consumption intensity against industry benchmarks (m^3/m^2).
- Percentage of construction and demolition waste diverted from landfill.

The above list is not exhaustive and may change over time. Each project may not necessarily report against all indicators, however the performance indicator(s) chosen for reporting will be appropriate to the project type.

We will report on the impact of our EGPs and, where practicable, state whether the performance is expected or actual in the annual Responsibility Report, recognising that it may take some time for the relevant data to become available. It will then be validated and analysed against the appropriate indicators.

4.0 REVIEW

To ensure we are taking a robust approach to the management, measurement and reporting of the green element of our RCF or other forms of green funding, we will include a review in our annual non-financial audit assurance programme which will be published within our assurance statement in our annual Responsibility Report. In addition, we will ask our assurance provider to provide reasonable assurance on the relevant information contained in our annual reports.

External review of the Green Finance Framework
Derwent has obtained an external review of this Green Finance Framework to confirm its compliance with the LMA Green Loan Principles. This can be viewed in the relevant section at www.derwentlondon.com.

APPENDIX 1 - CASE STUDIES: GREEN DEVELOPMENT PROJECTS

80 Charlotte Street, W1

Expected completion date:	2020
Size:	380,000 sq ft
Projected cost:	£508m
Categories for eligibility:	Green building, criterion 1 of section 3.1
Impact reporting indicators:	Building certification achieved (system & rating)
Green credentials:	Achieved: BREEAM – Excellent (design stage) LEED target - Gold EPC target - B

Soho Place, W1

Expected completion date:	2022
Size:	285,000 sq ft
Projected cost:	£411m
Categories for eligibility:	Green building, criterion 1 of section 3.1 (excludes Site B - Theatre)
Impact reporting indicators:	Building certification achieved (system & rating)
Green credentials:	Site A Achieved: BREEAM - Outstanding (design stage) LEED target - Gold EPC target -B Site B - Offices Achieved: BREEAM - Excellent (design stage) Site B - Theatre Achieved: BREEAM - Very good (design stage)

The Featherstone Building, EC1

Expected completion date:	2022
Size:	125,000 sq ft
Projected cost:	£142m
Categories for eligibility:	Green building, criterion 1 of section 3.1
Impact reporting indicators:	Building certification achieved (system & rating)
Green credentials:	Achieved: BREEAM - Outstanding (targeted) LEED target - Platinum (targeted) EPC target - A (targeted)

Green Tea, Tea Building, E1

'Green Tea' is an ongoing rolling refurbishment programme at the Tea Building, designed to help improve the building's energy efficiency and reduce carbon footprint.

The approach

Our strategy is to provide comfortable and flexible working conditions that will be sustained through intelligent energy conservation. This approach reduces consumption by about 25% of the previous energy usage in three stages:

Stage 1: Double glazing & insulation

- New double glazed, openable windows with solar control to reduce heat gain
- Natural ventilation
- Roof insulation

Stage 2: Lighting

- Low energy LED light fittings
- Movement detection in common areas

Stage 3: Thermal loop

- Moves excess heat to cold areas
- Moves excess coolness to hot areas

Categories for eligibility

- Green building, criterion 1 and energy efficiency of section 3.1

Impact reporting indicators

- Building certification achieved (system & rating)
- EPC rating

GLOSSARY

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

Eligible Green Projects (EGPs)
Green Projects that meet the eligibility criteria as set out in section 3.1 Use of Proceeds.

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.

Green Bond Principles (GBP)
The GBP are the internationally recognised voluntary issuance guidelines that promote transparency, disclosure and reporting in the green bond market.

Green Financing Transaction (GFT)
Any type of loan instrument made available exclusively to finance or re-finance, in whole or in part, new and/or existing Eligible Green Projects.

Green Loan Principles (GLP)
The GLP comprise voluntary recommended guidelines, to be applied by market participants on a deal-by-deal basis depending on the underlying characteristics of the transaction, that seek to promote integrity in the development of the green loan market by clarifying the instances in which a loan may be categorised as "green".

Home Quality Mark (HQM)
HQM is an assessment standard for new homes. Performance is measured across a series of star ratings 1–5.

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.

Look back period
A period in which expenditure has been incurred prior to management's approval of the project as an EGP. If assessed by management as contributing to the EGP, expenditure incurred in this look back period can be included as qualifying expenditure.

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. 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.

Science Based Target initiative (SBTi)
SBTi is a collaboration between CDP, the United Nations Global Compact, World Resources Institute (WRI) and the

GLOSSARY

UN Sustainable Development Goals
The United Nations Sustainable Development Goals (SDGs) are a collection of 17 global goals set by the United Nations General Assembly in 2015 for the year 2030. The goals are wide ranging yet interdependent, with each goal having a list of targets that are measured against a set of key performance indicators.

US Private Placement (USPP)
A form of private bond funding regulated in the United States of America.