

Company number: 00007064

London Merchant Securities Limited
Annual report and financial statements
31 December 2020



London Merchant Securities Limited

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Directors

N Q George
E J Prideaux
D G Silverman
P M Williams
D M A Wisniewski

Secretary and registered office

D A Lawler
25 Savile Row
London
W1S 2ER

Company number

00007064

Independent auditors

PricewaterhouseCoopers LLP
7 More London Riverside
London
SE1 2RT

London Merchant Securities Limited

Strategic report

Review of the business

London Merchant Securities Limited (the 'Company') is an intermediate holding company of the Derwent London plc group (The 'Group').

The Company holds property investment subsidiaries indirectly. The strategy of these subsidiaries is the same as the Group's strategy - to optimise returns and create value from its portfolio, to grow recurring earnings and cash flow, to design, deliver and operate its buildings responsibly. This is achieved by adding value to buildings and sites through creative planning, imaginative design and enterprising lease management.

The Covid-19 pandemic dominated the past year but 2020 was also notable for an ever-increasing global awareness of climate change, the long running trade negotiations between the UK and EU and, for the real estate sector in particular, a spotlight on the nature of office occupation. However, the business has proved relatively resilient after a year of considerable hardship for many individuals, families, institutions and employers and during which tenants have suffered from unprecedented business disruption. In response to the pandemic, Covid-19 compliant protocols were quickly introduced in the portfolio and property management teams supported occupiers as restrictions changed over the year.

Principal risks and uncertainties

The principal risks and uncertainties that the Company faces are consistent with those of the Group and are set out below with the potential effects, controls and mitigating factors. In addition, the Company's ultimate parent undertaking, Derwent London plc, has a risk committee that is responsible for non-financial internal control, monitoring and reviewing a risk register and implementing controls and processes to minimise any risks to the Company. Further information on how risks are managed and mitigated are included in the 2020 Annual Report of Derwent London plc on pages 84 to 99.

Strategic risks

Strategic risk is the risk that the Company does not create the anticipated shareholder value or fails to meet shareholder expectations. The main strategic risk facing the Company is that its strategy is inconsistent with the current economic cycle and London losing its global appeal with a consequential impact on the property investment or occupational markets. In addition, following the UK decision to leave the EU, international trade negotiations could result in arrangements which are damaging to the London economy. Actions taken by the Company to manage strategic risk include seeking pre-lets of any developments and refurbishments, developing properties in locations where there is greatest potential future demand, anticipating occupier trends and designing office space that is innovative and sustainable.

In addition, the Group's strong financing and covenant headroom enables it to weather a downturn, whilst monitoring the Company's performance in comparison with forecasts set by the Company's ultimate parent undertaking helps mitigate the risks further. These include a five year strategic review each year, an annual budget and three rolling forecasts a year. In the course of preparing these documents, different economic scenarios and sensitivities are tested.

Financial risks

Financial risk is the risk that the Company becomes unable to meet its financial obligations or finance the business appropriately. The Group has a number of debt facilities which are subject to financial covenants. The Company has identified tenants defaulting or tenant failure and a fall in rental income as its key financial risks. Due to the economic impact of Covid-19 and its potential long-term implications, a fall in rental income will lead to lower interest cover under these financial covenants. It would also normally have an adverse impact upon the property valuation. The Group controls and mitigates this risk by regularly monitoring and forecasting rental income levels and the impact of any rent concessions or tenant defaults. In addition, the credit committee performs detailed reviews and approvals of all prospective tenants and lease variations and maintain a "tenants at risk register" which is assessed in order to monitor the effect of any changes.

Operational risks

Operational risk is the risk that the Company suffers either a financial loss or adverse consequences due to processes being inadequate or not operating correctly, human factors or other external events. Risks include business interruption (for example, terrorism, cyber-attacks or a pandemic), regulatory non-compliance, reputational damage, our resilience to climate change, 'on-site' risk (the risk of project delays and/or cost overruns caused by unidentified issues), reduced development returns and contractor/sub-contractor default.

London Merchant Securities Limited

Strategic report – continued

Energy and carbon reporting

The Company's energy use and carbon emissions are included within the group reporting of Derwent London plc which can be found on page 62 of its 2020 Annual Report and within its Annual Responsibility Report. Both reports are downloadable from the Derwent London plc website – www.derwentlondon.com

Business relationships

The importance of business relationships with our suppliers and occupiers is disclosed in the s172(1) statement below.

Section 172(1) Statement

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

| s172 factor | Disclosure |
|---|---|
| The likely consequences of any decision in the long term | <p>When making decisions the Directors have due regard for the interests of other stakeholders, the long-term impact of the Company's activities on the community and environment and broader matters that may affect the Company's performance over the longer term.</p> <p>Identifying the likely consequences of decisions in the long-term, and having regard to those likely consequences, forms part of the Board's risk management processes.</p> |
| The interests of the Company's employees | <p>During the year ended 31 December 2020, the Company did not have employees.</p> |
| The need to foster the Company's business relationships with suppliers, customers and others | <p>We outsource many of our activities to third-party suppliers and providers. As a result, it is crucial that we develop strong working relationships with our suppliers, so we can enhance the efficiency of our business and create value.</p> <p>Through effective collaboration, we aim to build long-term relationships with our suppliers so that we can develop and operate great spaces for our occupiers.</p> <p>We are clear about our payment practices and we expect our suppliers to adopt similar practices throughout their supply chains to ensure fair and prompt treatment of all creditors.</p> |
| The impact of the Company's operations on the community and the environment | <p>We are committed to supporting the communities in which we operate, including local businesses, residents and the wider public. As part of the Derwent London Group, the Company is aiming to be net zero carbon by 2030.</p> |
| The desirability of the Company maintaining a reputation for high standards of business conduct | <p>The protection of our brand and reputation is important to the future success of the Company and the wider Derwent London plc Group. The Board's low overall risk tolerance and established procedures mitigate against the risk of internal wrongdoing.</p> |
| The need to act fairly between members of the Company | <p>The Company's sole shareholder, Derwent London plc, plays an important role in monitoring and safeguarding the governance of the Company.</p> |

The principal activities and decisions taken by the Board in 2020 are detailed in the Directors' report and relate primarily to property investment. Due to the nature of these decisions, a variety of stakeholders had to be factored into the Board's discussions.

Corporate governance arrangements

As a subsidiary of the Derwent London plc Group, the company is governed by the principles of good governance found in the UK Corporate Governance Code 2018. Further information on the Code can be found on the Financial Reporting Council's website at: www.frc.org.uk

London Merchant Securities Limited

Strategic report – continued

Performance and position of the business

The Company received a £40m dividend from its subsidiary which was subsequently distributed to its immediate parent company. Net assets increased by 1.9% during the year, but this was after payment of the £40m dividend to its immediate parent company. Excluding this, the Company generated a total return of 4.6%.

Performance indicators:

| | 2020 | 2019 | % movement |
|--|---------------|---------------|------------|
| Net assets (£) | 1,479,016,913 | 1,451,547,694 | 1.9 |
| Operating (loss)/profit (£) | 24,191,936 | (1,819,611) | n/a |
| Profit and total comprehensive income for the financial year (£) | 67,469,219 | 31,049,588 | 117.3 |
| Total return (%) | 4.6 | 2.1 | n/a |

The Board uses the total return measure to monitor the performance of the Company. This is a measure of growth in Shareholders' funds per share, adding back any current year dividend.

For more information also see the Derwent London plc group annual report.

By order of the board



D A Lawler
Secretary
25 Savile Row
London
W1S 2ER

29 June 2021

London Merchant Securities Limited

Directors' report

Principal activities and future developments

London Merchant Securities Limited (the 'Company') is a private company limited by shares. The Company is incorporated and domiciled in the UK and the address of its registered office is 25 Savile Row, London, W1S 2ER. The Company is an intermediate holding company of the Derwent London plc group (The 'Group'). The Directors foresee no material change in the nature of the Company's activities.

Financial review and dividends

The results for the year are set out in the statement of comprehensive income on page 9. In 2020, the Company paid a dividend of £40,000,000 on its Ordinary Shares (2019: £29,000,000).

The Directors do not recommend payment of a final 2020 dividend (2019: £nil).

Going concern

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The Company therefore continues to adopt the going concern basis in preparing its financial statements.

Political contributions

There were no political contributions in the year (2019: £nil).

Directors

The Directors who held office during the year and up to the date of signing were as follows:

N Q George

E J Prideaux (Appointed on 1 March 2021)

S P Silver (Resigned on 26 February 2021)

D G Silverman

P M Williams

D M A Wisniewski

None of the above Directors has an interest in the ordinary share capital of the Company. The interests of the Directors in the share capital of Derwent London plc, the Company's parent company, are disclosed in the financial statements of that company.

Directors' indemnities

As permitted by the Articles of Association, the Directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the financial year and continues to be in place. The Company also purchased and maintained throughout the financial year Directors' and Officers' liability insurance in respect of itself and its Directors.

Disclosure of information to the Auditors

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's Auditors are unaware; and each Director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's Auditors are aware of that information.

Independent Auditors

PricewaterhouseCoopers LLP have expressed a willingness to continue in office. Under the Companies Act 2006 section 487 (2) they will be automatically re-appointed as Auditors 28 days after these financial statements are sent to the members, unless the members exercise their rights under the Companies Act 2006 to prevent their re-appointment.

Strategic report

The Company has included a Strategic report in its financial statements for the year ended 31 December 2020 and information on the principal risks and uncertainties and a review of the business can be found there.

London Merchant Securities Limited

Directors' report - continued

Statement of Directors' responsibilities

The Directors are responsible for preparing the accounts and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. The Directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors' report has been approved by the Board of Directors and signed by order of the Board:



D A Lawler
Secretary
25 Savile Row
London
W1S 2ER

29 June 2021

London Merchant Securities Limited

Independent Auditors' report to the members of London Merchant Securities Limited

Report on the audit of the financial statements

Opinion

In our opinion, London Merchant Securities Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Directors' report and financial statements (the "Directors' report"), which comprise: the balance sheet as at 31 December 2020; the statement of comprehensive income for the year ended 31 December 2020; the statement of changes in equity for the year ended 31 December 2020; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

Reporting on other information

The other information comprises all of the information in the Directors' report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included. Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Directors' report for the year ended at 31 December 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Directors' report.

London Merchant Securities Limited

Independent Auditors' report to the members of London Merchant Securities Limited – continued

Report on the audit of the financial statements – continued

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities set out on page 2, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Entitlement to exemptions

Under the Companies Act 2006 we are required to report to you if, in our opinion, the directors were not entitled to take advantage of the small companies exemption from preparing a strategic report. We have no exceptions to report arising from this responsibility.

Diane Walmsley (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
29 June 2021

London Merchant Securities Limited

Statement of comprehensive income for the year ended 31 December

| | Note | 2020 £ | 2019 £ |
|--|------|--------------|--------------|
| Other income | 3 | - | 116 |
| Administrative expenses | | (5,045) | - |
| Profit on disposal of artwork | 4 | - | 1,200,000 |
| | | <hr/> | <hr/> |
| Operating (loss)/profit | 5 | (5,045) | 1,200,116 |
| Interest receivable and similar income | 6 | 27,968,927 | 26,244,008 |
| Interest payable and similar expenses | 7 | (24,691,644) | (22,374,809) |
| Dividend receivable | | 40,000,000 | 29,000,000 |
| | | <hr/> | <hr/> |
| Profit for the financial year | | 43,272,238 | 34,069,315 |
| Other comprehensive income/(expense): | | | |
| Fair value gain/(loss) on revaluation of investments | 10 | 24,196,981 | (3,019,727) |
| | | <hr/> | <hr/> |
| Profit and total comprehensive income for the financial year | | 67,469,219 | 31,049,588 |
| | | <hr/> | <hr/> |

All amounts relate to continuing activities

The notes on pages 12 to 20 form part of these financial statements.


London Merchant Securities Limited

Company no. 00007064

Balance sheet as at 31 December

| | Note | 2020 £ | 2019 £ |
|---|------|----------------------|----------------------|
| Non-current assets | | | |
| Investments | 10 | 1,284,383,951 | 1,260,186,970 |
| | | <u>1,284,383,951</u> | <u>1,260,186,970</u> |
| Current assets | | | |
| Debtors: amounts falling due within one year | 11 | 730,972,180 | 663,002,243 |
| | | <u>730,972,180</u> | <u>663,002,243</u> |
| Current liabilities | | | |
| Creditors: amounts falling due within one year | 12 | (362,055,710) | (297,456,193) |
| | | <u>368,916,470</u> | <u>365,546,050</u> |
| Net current assets | | | |
| | | <u>368,916,470</u> | <u>365,546,050</u> |
| Non-current liabilities | | | |
| Creditors: amounts falling due after more than one year | 12 | (174,283,508) | (174,185,326) |
| | | <u>1,479,016,913</u> | <u>1,451,547,694</u> |
| Net assets | | | |
| | | <u>1,479,016,913</u> | <u>1,451,547,694</u> |
| Capital and reserves | | | |
| Called up share capital | 13 | 82,562,722 | 82,562,722 |
| Share premium account | | 22,200,069 | 22,200,069 |
| Revaluation reserve | | 1,223,527,702 | 1,199,330,721 |
| Other reserves | | 10,892,043 | 10,892,043 |
| Retained earnings | | 139,834,377 | 136,562,139 |
| | | <u>1,479,016,913</u> | <u>1,451,547,694</u> |
| Total equity | | | |
| | | <u>1,479,016,913</u> | <u>1,451,547,694</u> |

The financial statements on pages 9 to 20 were approved by the Board of Directors on 29 June 2021 and were signed on its behalf by:



D M A Wisniewski

The notes on pages 12 to 20 form part of these financial statements.

London Merchant Securities Limited

Statement of changes in equity for the year ended 31 December

| | Note | Called up share capital £ | Share premium account £ | Revaluation reserve £ | Other reserves £ | Retained earnings £ | Total equity £ |
|---|------|------------------------------------|----------------------------------|-----------------------------|------------------------|---------------------------|----------------------|
| At 1 January 2020 | | 82,562,722 | 22,200,069 | 1,199,330,721 | 10,892,043 | 136,562,139 | 1,451,547,694 |
| Profit for the financial year | | - | - | - | - | 43,272,238 | 43,272,238 |
| Other comprehensive income for the financial year | | - | - | 24,196,981 | - | - | 24,196,981 |
| Dividends paid | 9 | - | - | - | - | (40,000,000) | (40,000,000) |
| At 31 December 2020 | | 82,562,722 | 22,200,069 | 1,223,527,702 | 10,892,043 | 139,834,377 | 1,479,016,913 |
| At 1 January 2019 | | 82,562,722 | 22,200,069 | 1,202,350,448 | 10,892,043 | 131,492,824 | 1,449,498,106 |
| Profit for the financial year | | - | - | - | - | 34,069,315 | 34,069,315 |
| Other comprehensive expense for the financial year | | - | - | (3,019,727) | - | - | (3,019,727) |
| Dividends paid | 9 | - | - | - | - | (29,000,000) | (29,000,000) |
| At 31 December 2019 | | 82,562,722 | 22,200,069 | 1,199,330,721 | 10,892,043 | 136,562,139 | 1,451,547,694 |

The notes on pages 12 to 20 form part of these financial statements.

London Merchant Securities Limited

Notes to the financial statements

1. Basis of preparation

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented unless otherwise stated.

The financial statements of London Merchant Securities Limited have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of fixed asset investments measured at fair value through other comprehensive income, and in accordance with the Companies Act 2006, as applicable to companies using FRS 101.

The Company is a qualifying entity for the purpose of FRS 101. Note 15 gives details of the Company's ultimate parent company and from where its consolidated financial statements prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 ('IFRS'), may be obtained.

FRS 101 sets out amendments to international accounting standards in conformity with the requirements of the Companies Act 2006 ('IFRS') that are necessary to achieve compliance with the Act and related Regulations. The disclosure exemptions adopted by the Company in accordance with FRS 101 are as follows:

- the requirements of paragraphs 91 to 99 of IFRS 13 Fair Value Measurement;
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- the requirements of IFRS 7 Financial Instruments: Disclosures;
- the requirements of IAS 7 Statement of Cash Flows; and
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group.

Going concern

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The Company therefore continues to adopt the going concern basis in preparing its financial statements.

As at the date of signing the financial statements, the Directors have assessed the possible impact of the ongoing Covid-19 pandemic and have prepared the financial statements on a going concern basis as a result of the Company's financial position and in view of both the financial position of the ultimate parent company and its focus on maintaining a strong liquidity position.

Changes in accounting policies

New standards adopted during the year

The following standards, amendments and interpretations were effective for the first time for the Company's 31 December 2020 year end and had no material impact on the financial statements.

References to Conceptual Framework in IFRSs (amended);
IAS 1 and IAS 8 (amended) – Definition of Material;
IFRS 3 (amended) – Definition of a Business;
IFRS 16 (amended) – Covid-19-Related Rent Concessions.

London Merchant Securities Limited

Notes to the financial statements - continued

1. Basis of preparation - continued

Standards and interpretations in issue but not yet effective

The following standards, amendments and interpretations were in issue at the date of approval of these financial statements but were not yet effective for the current accounting year and have not been adopted early. Based on the Company's current circumstances the Directors do not anticipate that their adoption in future periods will have a material impact on the financial statements of the Company.

IFRS 17 – Insurance Contracts;

IAS 1 (amended) – Classification of liabilities as current or non-current;

IFRS 10 and IAS 28 (amended) – Sale or Contribution of Assets between an investor and its Associate or Joint Venture;

IFRS 3 (amended) – Reference to the Conceptual Framework;

IAS 16 (amended) – Property, Plant and Equipment: Proceeds before Intended Use.

Significant judgements, key assumptions and estimates

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The Company's significant accounting policies are stated in note 2. Not all of these accounting policies require management to make difficult, subjective or complex judgements or estimates. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may differ from those estimates.

2. Accounting policies

Subsidiary undertakings valuation

The Company's investments in the shares of Group undertakings are stated at directors' valuation on a basis which takes account of the net assets of the undertakings at 31 December 2020 which will include the professional valuation of properties held in subsidiary entities. Surpluses or deficits resulting from changes in the net asset value of the subsidiary undertakings are reported in other comprehensive income in the year in which they arise.

Artwork

Artwork is carried at cost to the Company at acquisition.

London Merchant Securities Limited

Notes to the financial statements – continued

2. Accounting policies - continued

Financial assets

Intercompany receivables – Intercompany receivables are recognised and carried at the original transaction value. The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

Financial liabilities

(i) Trade payables – Trade payables are recognised and carried at the original transaction value.

(ii) Non-convertible bonds – These are included as a financial liability on the balance sheet net of the unamortised issue costs. Interest payable to bondholders is expensed in the year to which it relates.

Taxation

The charge for taxation is based on the profit for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Dividends

Dividends payable on the ordinary share capital are recognised in the year in which they are declared.

3. Other income

| | 2020 £ | 2019 £ |
|--------------|-----------|-----------|
| Other income | - | 116 |

4. Profit on disposal of artwork

| | 2020 £ | 2019 £ |
|-------------------------------|-----------|-----------|
| Gross disposal proceeds | - | 1,200,000 |
| Net disposal proceeds | - | 1,200,000 |
| Carrying value | - | - |
| Profit on disposal of artwork | - | 1,200,000 |

In October 2019, the Company disposed of Henry Moore (1898-1986), Working Model for Oval with Points for £1.2m.

London Merchant Securities Limited

Notes to the financial statements – continued

5. Operating (loss)/profit

Audit fees of £250 (2019: £250) have been incurred by Derwent London plc on behalf of the Company.

The Company has no employees (2019: nil). Group employees are held in and remunerated by other Group companies.

The Company's Directors were not directly remunerated for their services to the Company, but instead received emoluments from the Company's parent for their services to all Group companies. The Directors do not believe that it is practicable to apportion this amount between their services as Directors of the Company and their services as Directors of other Group companies.

6. Interest receivable and similar income

| | 2020 £ | 2019 £ |
|------------------------------------|------------|------------|
| Receivable from Group undertakings | 27,968,927 | 26,244,008 |

7. Interest payable and similar expenses

| | 2020 £ | 2019 £ |
|--|------------|------------|
| Amounts payable to Group undertakings | 13,218,462 | 10,897,507 |
| Amortisation of loan arrangement costs | 98,182 | 92,972 |
| Interest on bond | 11,375,000 | 11,375,000 |
| Other | - | 9,330 |
| | 24,691,644 | 22,374,809 |

London Merchant Securities Limited

Notes to the financial statements – continued

8. Tax on profit

There is no current taxation (2019: £nil) or deferred taxation (2019: £nil) charge for the year.

Factors affecting the tax for the year

The effective tax rate for the year is lower (2019: lower) than the standard rate of corporation tax in the UK. The differences are explained below.

| | 2020 £ | 2019 £ |
|--|-------------|-------------|
| Profit before taxation | 43,272,238 | 34,069,315 |
| Current tax at 19% (2019: 19%) | 8,221,725 | 6,473,170 |
| Effects of: | | |
| Differences between expenses and deductions for tax purposes | 1 | - |
| Group relief claimed not paid | (618,684) | (1,341,266) |
| REIT exempt disposal | - | (228,000) |
| Difference in interest rate on intercompany loans for tax purposes | (3,042) | 588,630 |
| Difference in capital gain for tax purposes | - | 17,466 |
| Group dividend | (7,600,000) | (5,510,000) |
| Tax on profit | - | - |

Changes to the UK corporation tax rates were substantively enacted as part of the Finance Bill 2015 (on 26 October 2015) and include reducing the main rate to 19%. The reduction to 17% from 1 April 2020 enacted as part of the Finance Bill 2016 was cancelled as announced in the Budget on 11 March 2020, maintaining the rate of corporation tax at 19%.

London Merchant Securities Limited

Notes to the financial statements – continued

9. Dividend

| | 2020 £ | 2019 £ |
|---|------------|------------|
| Dividend paid - £0.12 per share (2019: £0.09 per share) | 40,000,000 | 29,000,000 |

10. Investments

| | 2020 £ | 2019 £ |
|--|----------------------|----------------------|
| At 1 January | 1,260,186,970 | 1,263,206,697 |
| Revaluation of investment in subsidiary undertakings | 24,196,981 | (3,019,727) |
| At 31 December | 1,284,383,951 | 1,260,186,970 |
| Historical cost | 60,856,249 | 60,856,249 |

London Merchant Securities Limited

Notes to the financial statements – continued

10. Investments – continued

| Name | Percentage holding | Country of registration | Activity |
|---|--------------------|-------------------------|---------------------|
| Asta Commercial Limited | 100 | England and Wales | Property investment |
| Bargate Quarter Limited | 65 | England and Wales | Investment Company |
| Caledonian Properties Limited | 100 | England and Wales | Property investment |
| Caledonian Property Estates Limited | 100 | England and Wales | Property investment |
| Caledonian Property Investments Limited | 100 | England and Wales | Property investment |
| Carlton Construction & Development Company Ltd | 100 | England and Wales | Dormant |
| Central London Commercial Estates Limited | 100 | England and Wales | Property investment |
| Charlotte Apartments Limited | 100 | England and Wales | Property investment |
| Derwent London Asta Limited | 100 | England and Wales | Property trading |
| Derwent London Asta Residential Limited | 100 | England and Wales | Dormant |
| Derwent London No.1 Limited | 55 | England and Wales | Dormant |
| Derwent Valley Finance Limited | 100 | England and Wales | Finance company |
| Derwent Valley Limited | 100 | England and Wales | Holding company |
| Kensington Commercial Property Investments Limited | 100 | England and Wales | Property investment |
| LMS (City Road) Limited | 100 | England and Wales | Property investment |
| LMS Finance Limited ¹ | 100 | England and Wales | Investment Holding |
| LMS Offices Limited | 100 | England and Wales | Property investment |
| Portman Investments (Baker Street) Limited | 55 | England and Wales | Property investment |
| The New River Company Limited | 100 | England and Wales | Property investment |
| Urbanfirst Limited ¹ | 100 | England and Wales | Investment Holding |
| West London & Suburban Property Investments Limited | 100 | England and Wales | Property investment |
| Joint ventures | | | |
| Prescot Street GP Limited | 50 | England and Wales | Management Company |
| Prescot Street Limited Partnership | 50 | England and Wales | Property investment |
| Prescot Street Nominees Limited | 50 | England and Wales | Dormant |

¹ Indicates subsidiary undertakings held directly

All of the above entities are incorporated and domiciled in England and Wales. In addition, all the entities are registered at 25 Savile Row, London W1S 2ER.

The Company is exempt by virtue of section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements because it is a wholly owned subsidiary of Derwent London plc, which is incorporated in England and Wales and prepares consolidated financial statements which are publicly available.

London Merchant Securities Limited

Notes to the financial statements – continued

11. Debtors

| | 2020 £ | 2019 £ |
|--------------------------------------|-------------|-------------|
| Amounts falling due within one year: | | |
| Amounts due from Group undertakings | 730,954,530 | 662,985,603 |
| Taxation and social security | 16,640 | 16,640 |
| Prepayments and accrued income | 1,010 | - |
| | <hr/> | <hr/> |
| | 730,972,180 | 663,002,243 |
| | <hr/> | <hr/> |

Amounts owed by Group undertakings are unsecured, have no fixed date of repayment and are repayable on demand. Interest is charged at a rate dependant on the Group's overall debt funding cost for the year. For the year ended 31 December 2020, interest is charged at 4.09% (2019: 4.32%).

12. Creditors

| | 2020 £ | 2019 £ |
|--------------------------------------|-------------|-------------|
| Amounts falling due within one year: | | |
| Amounts owed to Group undertakings | 358,778,012 | 294,178,496 |
| Trade creditors | 381 | 381 |
| Accruals and deferred income | 3,277,317 | 3,277,316 |
| | <hr/> | <hr/> |
| | 362,055,710 | 297,456,193 |
| | <hr/> | <hr/> |

Amounts owed to Group undertakings are unsecured, have no fixed date of repayment and are repayable on demand. Interest is charged at a rate dependant on the Group's overall debt funding cost for the year. For the year ended 31 December 2020, interest is charged at 4.09% (2019: 4.32%).

London Merchant Securities Limited

Notes to the financial statements – continued

12. Creditors – continued

| | 2020 £ | 2019 £ |
|---|--------------------|--------------------|
| Amounts falling due after more than one year: | | |
| 6.5% Secured Bond 2026 | 175,000,000 | 175,000,000 |
| Unamortised issue costs | (716,492) | (814,674) |
| | <u>174,283,508</u> | <u>174,185,326</u> |

There is a floating charge over a number of the Company's subsidiary undertakings which together contained £616.5m (2019: £634.5m) of properties to secure the £175,000,000 Bond.

The fair value of the Secured Bond at 31 December 2020 was £220.3m (2019: £222.8m) which was determined by the ask price of £125.90 per £100 (2019: £127.30 per £100). It is secured on all the assets of the Company. The maturity profile of the Company's borrowings is shown below:

| | 2020 £ | 2019 £ |
|--------------------------------------|--------------------|--------------------|
| Borrowings: | | |
| Repayable after more than five years | <u>174,283,508</u> | <u>174,185,326</u> |

13. Called up share capital

| | 2020 £ | 2019 £ |
|---|-------------------|-------------------|
| Allotted, called up and fully paid: | | |
| 330,250,888 (2019: 330,250,888) ordinary shares of 25p each | <u>82,562,722</u> | <u>82,562,722</u> |

14. Other reserves

Other reserves consists of premium on the issue of shares as equity consideration for the acquisition of London Merchant Securities plc (LMS).

15. Parent company

The Company's immediate and ultimate parent company is Derwent London plc, a company incorporated in England and Wales, whose registered office is at 25 Savile Row, London, W1S 2ER. Copies of the consolidated Group financial statements can be obtained from this address.