OUR PRINCIPAL RISKS

We responded to the Covid-19 pandemic with proactive risk mitigation, as well as early and continual engagement with our stakeholders.

The risk profile of the Group

As a predominantly London-based Group, we are particularly sensitive to factors that impact upon central London's growth and demand for office space. We provide information on the central London office market on pages 14 to 17.

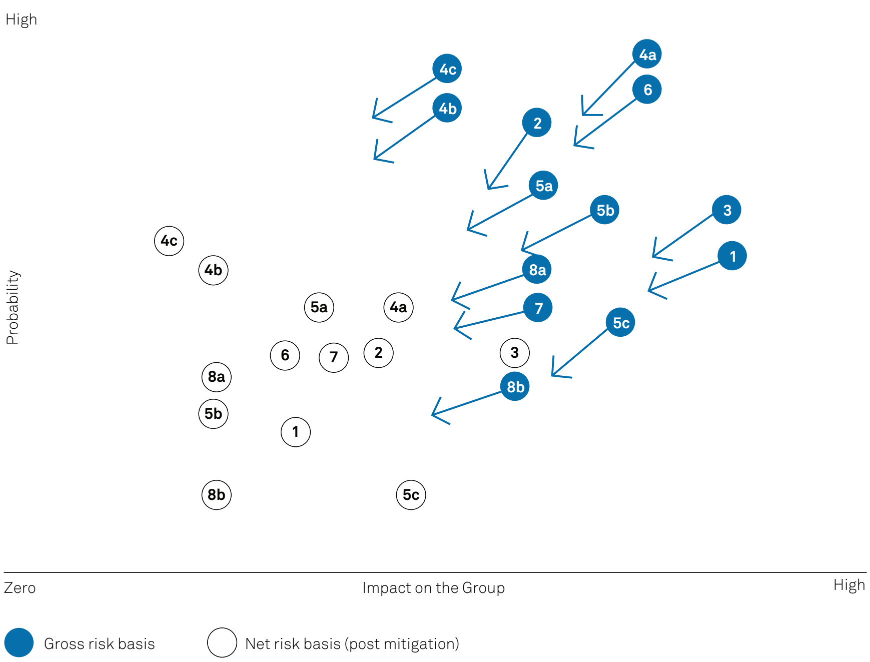
Any decline in the demand for London office space, or a significant increase in supply, could negatively impact upon:

— the value of our property portfolio;
— occupancy rates and, subsequently, our income; and
— availability of properties for acquisition and the ease of disposal and refinancing.

During the second half of 2021, as the Government completed its roadmap to ease lockdown restrictions, London's business confidence and the wider economy started to rebound. Individuals and businesses are starting to adapt to 'living with Covid-19' with assistance from the vaccination and booster programmes.

The emergence of the new Omicron variant of Covid-19 in early December, led to the implementation of 'Plan B' restrictions which were later lifted from 26 January 2022. With the lessening of restrictions and the successful vaccination programme, the outlook for the UK economy is looking more positive.

Effect of mitigation actions on our principal risks



1 Failure to implement the Group's strategy
2 Risk of tenants defaulting or tenant failure
3 Income decline
4a Reduced development returns
4b 'On-site' risk
4c Contractor/subcontractor default
5a Cyber attack on our IT systems
5b Cyber attack on our buildings
5c Significant business interruption
6 Reputational damage
7 Our resilience to climate change
8a Non-compliance with health and safety legislation
8b Other regulatory non-compliance

Arising from the upturn in the economy, the new challenges facing the Group and the wider economy are, material and labour shortages and inflation. Overall, our risk profile remains elevated but is expected to slowly stabilise to pre-Covid levels during 2022.

During 2021, we further strengthened our financial position through the raising of additional funds (see information on our new 'Green Bond' on pages 13, 96 and 97) and the renewal of our Revolving Credit Facilities (RCFs) for an additional year. Our strong financial position and proactive stakeholder-focused approach will help us to weather the current uncertainty.

Demand for office buildings remains polarised. Well-designed, energy efficient, amenity rich, modern buildings with adaptable floor plans and good floor-to-ceiling heights are proving more desirable and easier to lease than older, less attractive buildings which may require refurbishment. Without additional capital expenditure to improve energy efficiency, our ability to lease certain properties in our portfolio could be impacted.

Delivering net zero carbon buildings page 22 →
Qualifying 'green' expenditure page 96 →

Changes to our principal risks

The principal risks and uncertainties facing the Group in 2022 are set out on pages 108 to 119 together with the potential impact and the mitigating actions and controls in place. We define a principal risk as one that is currently impacting on the Group or could impact the Group over the next 12 months.

During the year under review, there has been the following changes to our principal risks:

— Implications of Brexit: We are now classifying Brexit as a general business risk rather than a standalone principal risk and it has been incorporated into 'Failure to implement the Group's strategy' as a factor which could impact on London.
— Introduction of a new tax to replace or complement business rates: The likelihood of a new tax being introduced to replace or complement business rates, which would negatively impact on landlords, is now deemed less likely and has been declassified from 'principal'. This risk is now being managed on the Group Risk Register.

Risk tolerance

Like any business, we face a number of risks and uncertainties. The Group's risk tolerance is set by the Board and is the level of risk we are willing to accept to achieve our strategic objectives. Our overall risk tolerance is low and is contained in our Risk Appetite Statement (see the table below for an overview of this statement). This tolerance, alongside our culture, informs how our staff respond to risk. Due to our open and collaborative working style, any potential problem, risk or issue is identified quickly so appropriate action can be taken.

Category	Risk tolerance		
Operational	Operational risks include health and safety risks, continuity of the IT system and retention of the senior management team.	Health and safety	Zero
		IT continuity	Low
		Staff retention	Medium
		Climate change resilience	Low
		Other operational risks	Medium
Financial	Other than market-driven movements that are beyond the Group's immediate control, the Group will not generally accept risks where it is probable that: — Asset values decline by more than £100m from the Group's annual budget. — EPRA profit before tax deviates by more than £5m from the Group's annual budget. — Cost overruns occur on capital projects of more than 5% of the approved capex budget. — The Group's interest cover ratio will fall to within 20% of the level set in the Group's borrowing covenants. It is recognised that inherent market risk may result in these financial tolerances, in particular the assets limit, being exceeded. The Board accepts this market risk but seeks to manage and mitigate its impact where possible.	REIT status	Low
		Corporate credit rating	Low
		Decrease in asset value (>£100m)	Medium
		Profits (£5m)	Medium
		Cost overruns (>5%)	Medium
		Interest cover (<20%)	Medium
Reputational	The Group has a low tolerance for risk in connection with reputational risk. In particular, this level of risk tolerance relates to any action that could adversely affect the Derwent London brand.	Brand value	Low
Regulatory	The Group's tolerance for regulatory risk arising from statute or the UK Corporate Governance Code and from adherence to 'best practice' guides.	Statutory	Zero
		Governance	Low

Zero:	Zero tolerance to risk-taking
Low:	Not willing to take any significant risks
Medium:	Willing to take measured risks if they are identified, assessed and controlled
High:	Willing to take significant risks

OUR PRINCIPAL RISKS CONTINUED

Risk management

Our risk management procedures are regularly reviewed and strengthened to ensure that all foreseeable and emerging risks are identified, understood and managed. Our risk management framework is on page 164 and further information on emerging risks is on pages 104 and 105.

In addition to our usual review process, during 2021, a detailed review of our Schedule of Principal Risks, Schedule of Emerging Risks and Group Risk Register was performed with input from Slaughter and May LLP as we prepared our prospectus for the launch of our new green bond (see pages 13, 96 and 97). This review resulted in only minor amendments to our risk registers, which provided further assurance that our risk documentation is thorough and transparent. In addition, the Board implemented an assurance framework for each principal risk to determine how each control is managed, overseen and independently verified.

Additional risk management disclosures:

Fraud risk assessment page 155 →
Fire risk management page 161 →
Water hygiene management page 161 →
Cyber and information security page 162 →
Business continuity and disaster recovery page 163 →
Anti-bribery and corruption page 165 →
Human rights and modern slavery page 167 →

Derwent London brand

The Derwent London brand is well-regarded and respected within our industry and we are recognised for innovation and developing design-led buildings. We demonstrate our brand and values through our external memberships and associations. For example, we are founding supporters of Real Estate Balance, members of the UK Green Building Council, Mayor of London's Business Climate Leaders and the Better Buildings Partnership. We are also signed up to RE100 to demonstrate our commitment to 100% renewable energy in our buildings. Further in 2021, we became founding members of the Academy of Real Assets (see page 62).

In 2021, we were listed in Management Today's 'Britain's Most Admired Companies', a peer-review study of corporate reputation, and achieved the National Equality Standard accreditation. The protection of our brand and reputation is important to the future success of the Group and is considered a principal risk. We detail on page 116 the actions we are taking to protect our reputation.

Cyber security and ransomware

The National Cyber Security Centre identified ransomware as the most immediate threat to UK businesses. A focus area for 2022 will be a detailed review of our 'incident response playbooks' and the updating of our Business Continuity Plan to incorporate ransomware as a legitimate scenario for disaster recovery. During Q1 2022, an independent review of our controls in respect to ransomware will be conducted and we will aim to implement any arising recommendations during 2022.

Our cyber security processes are regularly independently reviewed, with any recommendations for further strengthening of our processes implemented. During 2021, IT Governance performed an independent cyber security health check and vulnerability scan (penetration test) and RSM performed an IT Controls audit. Our Cyber Essentials accreditation was renewed in 2021, having passed an external security scan of all internet-facing services and an assessment of technical and operational controls.

We also offer all our employees regular cyber security training. During 2021, we promoted Cybersecurity Awareness Month and stimulated phishing attacks (see page 162).

Risk documentation and monitoring

Schedule of Principal Risks	Contains the risks which are classified as the Group's main risks which are currently impacting on the Group or could impact the Group over the next 12 months (see pages 108 to 119). The Schedule of Principal Risks includes an assurance framework to evidence how each control is managed, overseen and independently verified. As at 31 December 2021, the Schedule of Principal Risks contains 13 risks.
Schedule of Emerging Risks	Contains the internal and external emerging risks that could significantly impact the Group's financial strength, competitive position or reputation within the next five-years. Emerging risks involve a high degree of uncertainty. As at 31 December 2021, the Schedule of Emerging Risks contains nine risks (see pages 104 and 105).
Group Risk Register	Provides a high level overview of the key risks which could impact on the Group (excluding those classified as 'principal risks'). As at 31 December 2021, the Group Risk Register contains 34 risks.
Key risk indicators	The Risk Committee has identified risk areas which could indicate an increase in the Group's risk profile. These indicators are reviewed at each Risk Committee meeting and are compared against the Board's risk tolerance framework (see page 101). Any deviance or significant increase are subject to challenge by the Risk Committee. The risk indicator contains 16 risk areas including cyber security, cost inflation, project status, data protection, and health and safety incidents etc.
Functional/departmental risk registers	Risk registers are maintained at a departmental/functional level to ensure detailed monitoring of risks, where necessary. These registers are the responsibility of each department and are periodically reviewed by the Risk Committee during risk-specific presentations. Examples of these register are the development risk registers for each building project, the 'tenant on watch' register and the 'Home working and Covid-19 related IT risks' register.

Climate change

Climate change is a major global challenge and will impact how business operates in the future. Given that the built environment contributes significantly to the UK's overall carbon footprint, we must find the solutions to further reduce emissions and develop renewable energy sources.

Since our science-based targets were first verified in 2019, by the Science-Based Target initiative (SBTi), we have been working towards achieving net zero carbon.

In 2020, we became the first UK property company to release a detailed pathway to net zero carbon, aligned to the Better Buildings Partnership (BBP) Net Zero Carbon Pathway Framework (see page 12). Working towards achieving net zero carbon is aligned to our reward programme, through the addition of climate-related targets in the Directors' annual bonus targets (see page 184).

Our pathway to net zero carbon page 12 →
Climate change governance page 65 →
Our SECR disclosure page 74 →

Climate change risks

We identify and monitor climate change risks as part of our wider risk management procedures which are overseen by the Board and its principal committees (see pages 160 and 164).

The risks posed by climate change are assessed in respect to their impact in the short-term (within the next five years), medium-term (five to 10 years) and long-term (15+ years). Climate change risks are also factored into the Board's viability assessment and strategic planning process which both span a five-year period (see page 98).

Physical risks	Transition risks
— Heat stress — Subsidence — Coastal flooding & sea level rise — Flooding — Storms — Infrastructure	— Pricing of GHG emissions — Energy Performance Certificate rating requirements — Emissions offsets — Planning approval changes — Climate change litigation — Enhanced emissions reporting obligations — Change in customer demands — Cost of debt — Increased cost of raw materials — Investment risk

For more on climate-related risk page 72 →

To better understand and plan for the risks posed by climate change we have commissioned various studies and reviews. In 2020, we undertook a multi-scenario climate risk assessment (the results of which are in our TCFD disclosures on page 71).

This assessment highlighted that the most significant/financially costly transition risk to the Group was the proposed changes to energy performance certificates (EPCs) from 2030. In response, during 2021, we commissioned a feasibility and cost report on our portfolio to determine the potential impact on the Group and to assist us in developing our strategy for achieving an EPC grade B by 2030. Further information on the outcome of this report is on page 55.

Climate change opportunities

The main opportunity from climate change will arise from our ability to adapt and respond to the risks appropriately, so that we do not have to deviate from our business model and can continue to deliver sustainable long-term value to our stakeholders. We believe that property portfolios that are able to meet climate-related challenges will remain attractive to occupiers and investors, and in good demand.

Other opportunities include:

- Short-term:
  - Energy efficient 'green' buildings with better EPCs could be let more quickly, command higher rents and enjoy lower tenant turnover.
  - Working closely with tenants to manage building efficiency should lead to closer landlord/tenant relationships. During 2021, we conducted an occupier net zero carbon survey so that we can assist our occupiers with their own climate change ambitions.
- Medium-term:
  - Regenerating buildings is at the heart of our business and provides the Group with significant opportunities to lead the sector in taking action to mitigate and adapt to climate change.
  - 80 Charlotte Street W1 was our first all electric building and net zero carbon development. To reduce our exposure to the impacts of climate change, all of our current and future developments are being built to be net zero carbon, including the Featherstone Building EC1 and 19-35 Baker Street W1.
- Long-term:
  - The availability of buildings which become stranded because of physical risk impacts, could provide us with acquisition opportunities at lower costs.
  - Investing in the overall energy efficiency of our buildings also improves asset value by reducing our maintenance costs and extends a building's life.

Further information on the climate-related opportunities we have identified over the short-, medium- and long-term is on page 69.

We continue to research and assess the opportunities for renewable energy generation on our Scottish land. In 2015, we planted 107 acres under the Woodland Carbon Code which, to date, has delivered carbon credits equivalent to 127 TCO_2e (see page 13). In 2021, we submitted a planning application for development of an 18.4 MegaWatt solar park on our Scottish land which could generate c.43% of the electricity used across our managed portfolio (see page 13).

Our key actions during 2021:

Occupier survey on their carbon aspirations page 13 →
Sustainability initiatives in Scotland page 13 →
Net zero: 2021 progress page 52 →
Our journey to COP26 page 54 →
Energy performance - looking to the future page 55 →
Green Finance Framework pages 13, 96 and 97 →
Audit Committee training on ESG assurance page 148 →

OUR PRINCIPAL RISKS CONTINUED

Emerging risks

We define an 'emerging risk' as a condition, situation or trend that could significantly impact the Group's financial strength, competitive position or reputation within the next five-years. Emerging risks involve a high degree of uncertainty and are therefore factored into the Board's viability assessment and strategic planning process. During the year under review, the Directors identified an additional emerging risk ('The rising cost of obtaining planning permission') and widened 'The importance of ESG-related concerns to our key stakeholders' to include both environmental and societal concerns. The methodology used to review and identify emerging risks is on page 164.

Strategic:

Risk	Potential impact	Our actions
A. The future of offices		
The Covid-19 pandemic, and the associated lockdown restrictions, has led to widespread agile and homeworking for some of the UK's office-based workforce. As a result, the future role of offices has been subject to considerable discussion among both landlords and occupiers, and more widely in the media.	In the event agile and/or homeworking continues at high levels, and is sustained in the long-term, it could lead to occupiers requiring less space, increased vacant space and downward pressure on rental levels. In addition, office space which has fewer desks, more collaboration space, meeting rooms, video conference facilities and other amenities is likely to be more desirable to occupiers. Buildings that are unable to meet these objectives may suffer in value unless they can be redeveloped or repurposed. **Strategic objectives** 1. 2. 4.	We will continue to design and deliver space that businesses want to occupy. Companies still need to bring their staff together, for the collaboration that social interaction brings, to build culture, to attract and retain talent and to have a physical embodiment of their brand.
B. Long-term implications of Covid-19 on our portfolio		
The extent of the long-term impact of the Covid-19 pandemic on the Group will depend on external factors which are outside the Group's control, including, for example, if preventative measures become less effective against any new variants of Covid-19 which may be identified.	There is a risk of new variants leading to the re-introduction of societal restrictions in the UK, which could have a significant impact on the Group's business, its occupiers and the economic outlook for London. **Strategic objectives** 2. 3. 4. 5.	As part of our planning and design of new developments, we are focused on 'long-life loose-fit' adaptable spaces and wellness factors that can enable people to meet together in larger common areas, with higher ceilings and better air quality and natural ventilation.
C. Political risk arising from government response to issues		
In the past couple of years, the Government has introduced various restrictions to protect the NHS and reduce Covid-19 transmission. On 21 February 2022, the Government outlined its 'living with Covid' plan which could end all of the remaining legal restrictions.	The actions taken by the Government has involved a significant amount of public funds. Government borrowing has increased and the impact of higher taxes could have an adverse effect on the economy for many years. **Strategic objectives** 2. 5.	We will continue to monitor the situation to assess the likely impact on jobs in London and therefore the risk of a cyclical adjustment to rents. We are supporting those tenants most in need while extending leases where this can be agreed with a focus on minimising voids and protecting value.
D. The rising cost of obtaining planning permission (new emerging risk)		
The length of time from application to approval, the need for more affordable housing or offices as a condition of planning, and the associated costs, are all factors. In addition, tighter regulation is being introduced which is orientated towards sustainable development and is instigating changes to the planning process and approval criteria which will have a material impact on our development pipeline and standing investment portfolio.	The rising cost and challenge of obtaining planning permission could have an impact on the Group's ability to realise its development ambitions and could result in increased capital expenditure during the early stages of development planning, resulting in lower development returns. **Strategic objectives** 1. 2. 4.	We liaise with each London authority to understand their needs with the aim of building a partnership and providing value to local communities –for example via our Community Fund, community initiatives and local employment opportunities etc.
E. Diminished development pipeline		
As we complete our development pipeline, and in the absence of any further acquisitions or disposals, the Group's portfolio balance could become more heavily weighted towards 'core income' and away from development opportunities.	Through our development projects we generate value and higher rates of return than from our 'core income' properties. If our development pipeline started to diminish, our returns are likely to fall which could impact on our ability to maintain a progressive dividend policy for our shareholders. **Strategic objectives** 1. 2.	We continue to focus on recycling capital, selling properties with limited future potential and acquiring properties with future regeneration opportunities in order to maintain a balanced portfolio. During the year under review, we have invested in replenishing our pipeline through strategic acquisitions (see pages 20 and 21).

Key
Strategic objectives

1. To optimise returns and create value from a balanced portfolio	3. To attract, retain and develop talented employees
2. To grow recurring earnings and cash flow	4. To design, deliver and operate our buildings responsibly
5. To maintain strong and flexible financing	

Operational:

Risk	Potential impact	Our actions
F. Increasing importance of amenities		
The provision of amenities and hospitality in buildings is becoming increasingly important to tenants.	The Group needs to ensure it is adequately responding to these demands, so our product remains attractive to tenants, thereby retaining its competitive edge. This risk is directly related to another emerging risk – 'The future of offices'. **Strategic objectives** 1. 2. 4.	We continue to review opportunities within the portfolio to enhance our amenity offering. In October 2021, we launched DL/78 at 80 Charlotte Street W1. Located at the heart of our Fitzrovia village it is a purpose built occupier facility providing drop-in space and refreshments, as well as the opportunity to hire meeting rooms and event space ranging in capacity from 8 to 100+ persons. We have been encouraged by the positive response to this initiative from our occupiers.
G. Adoption of technology		
With technology in the sector advancing at a rapid pace the Group needs to ensure it is embracing these changes sufficiently whilst making sure that the Group's strategy is driving which technology is adopted and not being driven by the technology itself.	A failure to adopt technology could lead to the Group becoming less efficient than its competitors, leading to a loss of competitive advantage. Buildings are increasingly becoming 'intelligent' and tenants may begin to choose such buildings over those without the same technological amenities. If the Group fails to respond to tenant demands for technology, the Group's office spaces could become less desirable, leading to potential vacancies and loss of rental income. **Strategic objectives** 1. 2.	We have a Digital Strategy which is being implemented by our dedicated, cross-function and highly collaborative Digital, Innovation & Technology team. We critically analyse new technology to ensure that maximum value can be derived from any new system or service that we choose to add into our overall digital and technological framework. In particular, analysing the capability of the new system or service to support our Net Zero Carbon Pathway. During 2021, we launched the DL/ App which offers a curated collection of features and benefits for our office occupiers including easy bookings and access to information about rooms, events and other benefits at DL/78.
H. The importance of ESG-related concerns to our key stakeholders (previously, 'Environmental issues moving up the social agenda')		
Environmental, social and governance concerns (including, climate change and diversity and inclusion) is important to Derwent London, our stakeholders and the general public.	If we do not give sufficient priority to these issues, and fail to act as a responsible corporate entity, we will be unprepared for the risks and opportunities arising and it will, in turn, adversely impact on our business and reputation. **Strategic objectives** 2. 3. 4.	We recognise the importance of clear communication and proactive engagement with all of our stakeholders. During 2021: — We hosted our first Stakeholder Day (see page 134). — Achieved accreditation from the National Equality Standard (see page 58). — Attended COP26 and submitted a planning application to self-generate renewable energy at our land holdings in Scotland (see page 13). — Received external recognition through FTSE4Good, EPRA and GRESB sustainability benchmarking.
I. Impact on businesses arising from the UK's commitment to be net zero carbon by 2050		
As more of the Group's tenants commit to becoming net zero carbon, it is likely that tenants will demand evermore environmentally-friendly buildings. There is a risk that greater carbon taxation on greenhouse gas emissions will lead to increased costs for the Group. In addition, while current environmental regulation in the UK only prohibits the leasing of space with an Energy Performance Certificate ('EPC') rating of E or below, the government has proposed increasing the minimum EPC rating to B by 2030.	Buildings that fail to reach the standards expected by occupiers could lose tenants, suffer a discount and fall in value. In order to improve its older buildings, the Group may need to commit to additional capital expenditure, which may not be recoverable through higher rents. The Group may also be unable to lease the space during the improvement phase, leading to reduced rental income and longer void periods. An increase in the minimum EPC rating will lead to increased capital expenditure requirements for the Group. **Strategic objectives** 2. 3. 4.	We are committed to being net zero carbon by 2030 and have published our Net Zero Carbon Pathway. We publish our progress and achievements in our annual Responsibility Report. In preparation for the proposed changes to EPC legislation from 2030, in Q4 2021, we commissioned an assessment of our portfolio to identify the potential capital expenditure requirements to ensure our compliance by 2030 (see page 55). **TCFD** page 68 →

OUR PRINCIPAL RISKS CONTINUED

Financial risks

Derwent London has a low financial risk profile. Fitch reaffirmed our credit rating of A-, with a negative outlook, in May 2021. This was mainly due to the continued uncertainty of Covid-19, rent collections and concerns for health of our occupiers, at the time of rating.

Our financial position remains strong. During 2021, Derwent London was pleased to announce its first unsecured green bond for £350m at a term of 10 years. We also extended our Revolving Credit Facilities with our UK banking partners for a further year to 2026. Our loan-to-value ratio has risen to 20.8% at 31 December 2021 based on year end property valuations, and our net asset value gearing being 28.2%. Interest cover is 464%, alongside cash and undrawn facilities of £608m.

Fraud risk assessment page 155 →

Credit Committee
The Credit Committee is a supporting committee within the Group's governance framework which typically meets on a weekly basis to assess and monitor the financial strength of potential and existing tenants. The Credit Committee is chaired by the CEO and its members include Damian Wisniewski (CFO) and senior members of the Finance, Leasing, Property and Asset Management teams.

Since 2020, due to the difficulties being faced by our current and prospective tenants, the Credit Committee has met on a more frequent basis. The 'tenants on watch' register was regularly reviewed to carefully monitor the financial performance of existing tenants. As at 31 December 2021, the 29 tenants included on the 'tenants on watch' register represented 4% of the Group's contracted net rental income, and mainly consists of businesses operating in retail and hospitality sectors.

The Risk Committee and Audit Committee were updated on the work of the Credit Committee during the year under review, to ensure it was in agreement with the accounting principles being applied and the management of risk. The Risk Committee confirms that it is satisfied with the extensive due diligence process being undertaken by the Credit Committee.

Tax risk
Our attitude towards tax risk is primarily governed by the Board's objectives to retain our REIT status and maintain our 'low-risk' rating from HMRC. The Board was pleased to have received a 'low-risk' rating from HMRC which is valid until 2022.

The Group takes its responsibilities under the 'corporate offences of failure to prevent the facilitation of fraudulent tax evasion' legislation seriously and will not tolerate any facilitation of tax evasion. The Group has established procedures which are designed to prevent its associated persons from deliberately and fraudulently facilitating tax evasion. Ongoing training is provided to staff and a policy document is kept updated on the Company intranet.

Tax governance page 65 →

Lease expiries and vacancies
To provide flexibility within our portfolio for project work, a percentage of our leases expire per annum. Unusually in 2021, we had a higher-than-normal lease expiry exposure, with £33.3m of income subject to breaks/expiries (17% of our income). In addition, at the beginning of 2021 there were concerns that Covid-19 and Brexit could lead to rising unemployment, which would impact upon demand for office space resulting in higher vacancy rates.

Lease expiries and vacancies were subsequently identified as a potential risk area. The Risk Committee received updates on the work of the Asset Management team to reduce the Group's exposure. Through active asset management activities, good relationships with our occupiers, and partly assisted by the economy rebounding following the easing of lockdown restrictions, our 2021 lease expiry exposure reduced significantly, with 77% being retained or re-let.

77%
Tenant retention/re-lets

Protecting our occupiers

Protecting our occupiers and stopping the spread of the Covid-19 virus in our buildings was a priority as our tenants returned to their office spaces during 2021. To ensure their health and safety we implemented the following measures:

- Social distancing, one-way traffic flow systems and clear signage
- Readily available hand sanitiser units
- Restrictions on numbers using lifts and WC accommodation
- Fresh air ventilation
- Enhanced cleaning regimes and upon notification of a confirmed case, an electrostatic clean was undertaken automatically
- Temperature checks on entry on agreement with occupiers
- Lateral flow testing programme for Derwent London Building Management team and our contractors
- Random Covid-19 testing of our air-conditioning filters

We will continue to offer these measures until our occupiers deem them no longer necessary.

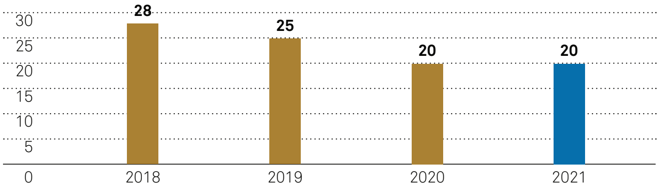
During the year, we also tracked the confirmed cases of Covid-19 throughout our managed portfolio. The data of confirmed cases clearly showed that, where there were several incidents, these were concentrated to a tenant's area and not more widely spread throughout the building. This provided our occupiers, and the Board, with comfort that our measures were proving effective in minimising the spread of the virus.

Supply chain risks

Our supply chain is important to our business; the contractors and professional teams working on our sites, and the 200+ suppliers that ensure we provide agreed service levels across the portfolio.

To support our supply chain, we have worked to reduce our average days from 25 days in 2019 to 20 days in 2021. In addition, due to the Covid-19 pandemic, we assisted supplier cash flow by early partial release of retention and contributing to additional costs generated by the delays.

Average payment term
Days



Responsible payment practices page 169 →

Partly as a preparation for any Brexit-related delays, we have facilitated payment for materials and components properly vested and safely stored off site, a strategy which has also served us well through the challenges of the pandemic. These measures helped mitigate supply chain risks, by reducing uncertainty in relation to time and cost, enabling them to concentrate on delivery and quality.

We are pleased to be one of the first developers in the UK who require our supply chain partners to follow the Common Assessment Standard which was developed by Build UK, with the support of CECA. The Common Assessment Standard covers 12 key areas of risk management (including, health and safety, environmental, equality and corporate social responsibility). The aim of the Common Assessment Standard is to improve supply chain efficiency and reduce supply chain risks.

We set out our principles and expectations in terms of the environmental, social, ethical and governance issues which relate to our supply chains in our Supply Chain Sustainability Standard (the Standard). The Standard renews our commitment to ensuring our supply chain remains as engaged as we are in setting the highest standards and reducing the risk that a supplier acts in a manner which is contrary to our values.

Human rights and modern slavery page 167 →
Supply Chain Sustainability Standard page 169 →

Development risks

Our developments are large, high-value projects that can take over five years from concept to completion. The success of our development activities is reliant on taking managed and carefully considered risk, which aims to deliver the office space our occupiers desire when it is needed.

The Risk Committee receives reports from the Director of Development on the Group's major developments, which includes a detailed assessment of the risks and risk mitigation plans in place.

Risk area	Comment
Material shortages	In 2021, our on-site development projects were safeguarded from material shortages due to early ordering and strong supply chain relationships. Material shortages could become a more material issue in the short-term, if demand continues to rise and supply issues continue.
Labour shortages	Underlying skill shortages across the construction industry were exacerbated by Brexit and Covid-19. Derwent London's strategy of securing Tier 1 contractors and subcontractors for project delivery, provides us with the best prospect of securing labour and repeat business. During 2021, none of our on-site projects experienced any insurmountable issues in respect to labour.
Inflation	Inflation is putting pressure on construction costs. Where possible, designs are diverted away from materials attracting higher price increases. Our Soho Place and Featherstone Building developments had fixed price contracts, resulting in Derwent London not being exposed to inflation. In respect to the Baker Street development, which is commencing in Q3 2022, 83% of the costs have been fixed. Derwent London's strong reputation for being fair, reasonable and for paying our supply chain promptly, makes us well placed as preferred clients in the construction industry.
Covid-19	Our development projects continue to progress as we adapt to Covid-19 restrictions and protocols. We comply with strict Covid-19 protocols at all of our on-site developments, in accordance with Site Operating Procedures.
Planning	De-risking planning is achieved by a sound understanding of policy coupled with a collaborative approach with the borough and local community. We are required to meet the sustainability agenda in respect of net zero carbon and operational energy consumption. There are concerns that planning in London may become more challenging against the backdrop of the UK Government's 'levelling up agenda'. We will be monitoring the outcome of the 'Planning for the Future White Paper' and 'Changes to the current planning system' consultations and the upcoming Planning Bill.

We provide further commentary on the status of our three development-related principal risks on pages 112 and 115.

OUR PRINCIPAL RISKS CONTINUED

Key
Strategic objectives
1. To optimise returns and create value from a balanced portfolio
2. To grow recurring earnings and cash flow
3. To attract, retain and develop talented employees
4. To design, deliver and operate our buildings responsibly
5. To maintain strong and flexible financing

Schedule of Principal Risks

The principal risks and uncertainties facing the Group in 2022 are set out on pages 108 to 119. Our principal risks are not an exhaustive list of all risks facing the Group but are a snapshot of the Company's main risk profile as at 23 February 2022. The key controls identified were in operation during the year under review and up to the date the 2021 Report & Accounts was approved.

STRATEGIC

The Group's business model and/or strategy does not create the anticipated shareholder value or fails to meet investors' and other stakeholders' expectations.

1. FAILURE TO IMPLEMENT THE GROUP'S STRATEGY

Risk

The Group's success depends on implementing its strategy and responding appropriately to internal or external factors including responding to changing work practices, occupational demand and London's global appeal.

While it is not yet possible to fully evaluate the impact that Brexit will have on the Group's operations, the main risk to the Group posed by Brexit is that economic growth in the UK may be negatively impacted which may in turn affect London's growth and demand for office space.

In addition, the Group must respond and/or adapt appropriately to economic cycles as the London office market has generally been cyclical in recent decades, with strong growth followed by sharp economic downturns precipitated by rising interest rates coinciding with significant oversupply. Should the Group fail to respond and adapt to such cycles or execute the projects that underpin its strategy, this may have a negative impact on the Group's expected growth and financial performance.

Movement during 2021: Unchanged

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Although the Covid-19 pandemic has not stopped the Group implementing its strategy, the lockdown restrictions have marginally extended the project length for Soho Place and The Featherstone Building, and has caused significant disruption to the economy. Covid-19 has only amplified weaknesses within the retail market, and we are reviewing on an ongoing basis the retail elements in our buildings. Our occupiers perceive the restaurant, retail and leisure aspects within our portfolio as amenities; hence we feel it is important that they are retained within our building offerings. The impact of a potential recession on our strategy, and other longer-term consequences of the Covid-19 pandemic, is being monitored by the Executive Committee and the Board. In respect to Brexit, the Group continued to monitor international trade negotiations. During 2021, labour shortages occurred due to the relocation of European labour back to the EU which had an impact on supply chains and the construction industry.

Executive responsibility: Paul Williams

Our key controls

— The Group's development pipeline has a degree of flexibility that enables plans for individual properties to be changed to reflect prevailing economic circumstances.
— The Group seeks generally to maintain income from properties until development commences and has an ongoing strategy to extend income through lease renewals and regears.
— The Group aims to de-risk the development programme through pre-lets, typically during the construction period.
— The Group conducts an annual strategic review, prepares a budget and provides two-year rolling forecasts three times a year.
— The Board considers the sensitivity of the Group KPIs to changes in the assumptions underlying our forecasts in light of anticipated economic conditions. If considered necessary, modifications are made.
— The Group maintains sufficient headroom in all the Group's key ratios and financial covenants with a particular focus on interest cover.
— The Group focuses on good value properties that are less susceptible to reductions in tenant demand. The Group's average 'topped-up' office rent is only £59.69 per sq ft.
— International trade negotiations are being monitored and potential outcomes discussed with external advisers.
— The Group's diverse and high quality tenant base provides resilience against tenant default.
— The Group develops properties in locations where there is good potential for future demand, such as near Crossrail stations. We do not have any properties in the City or Docklands.

Potential impact

Strategic objectives

1. 2. 4. 5.

Business model
Could potentially impact on all aspects of our business model

KPIs
— Total return
— Total property return
— Total shareholder return

What we did in 2021

— The Board held its annual strategy awayday on 18 June 2021 to discuss the Group's five-year strategy.
— Examined opportunities for acquisitions and disposals to recycle capital.
— Completed a number of important acquisitions which has helped to restock the Group's development pipeline (see pages 20 to 21 and 24 to 25).
— Monitored our portfolio for further asset management activities and managed the vacancy rate.
— Prepared rolling forecasts three times a year and a budget for 2022.
— Our credit rating of A- was renewed by Fitch in May 2021.
— The Board considered the sensitivity of our KPIs to changes in underlying assumptions including interest rates, timing of projects, level of capital expenditure and the extent of capital recycling.
— Began to pursue opportunities to self-generate renewable energy from our land holdings in Scotland and liaised with our occupiers to align our net zero carbon journeys (see page 13).
— In respect to our de-risking strategy, we have pre-let 87% of Soho Place.
— The Group's loan-to-value ratio remained low, its net interest cover ratio was 464% and the REIT ratios were comfortably met.
— Tenant surveys were performed to provide further insights to the Board.
— We understand the importance of amenities to our occupiers. During 2021, we opened DL/78, launched the new DL/ app, and further improved the facilities available in our buildings (see pages 30 and 31).
— Monitored international trade negotiations and discussed potential outcomes, including the potential impact on our contractors/ subcontractors and supply chain.
— Received political and economic updates from external advisers throughout the year.
— Monitored letting progress and demand for our buildings.
— As at 31 December 2021, the Group has cash and undrawn facilities of £608m.

What we will be doing in 2022

— Examine opportunities for acquisitions and disposals to recycle capital.
— Continue to extend income through renewals and regears for properties not earmarked for regeneration.
— We will continue with our current controls and mitigating actions, including operating the business on a basis that balances risk and income generation.

OUR PRINCIPAL RISKS CONTINUED

Key
Strategic objectives

1. To optimise returns and create value from a balanced portfolio
2. To grow recurring earnings and cash flow
3. To attract, retain and develop talented employees
4. To design, deliver and operate our buildings responsibly
5. To maintain strong and flexible financing

FINANCIAL

Significant steps have been taken in recent years to reduce or mitigate the Group's financial risks.
The main financial risk is that the Group becomes unable to meet its financial obligations, which is not currently a principal risk.
Financial risks can arise from movements in the financial markets in which we operate and inefficient management of capital resources.

Risk	Our key controls	Potential impact	What we did in 2021	What we will be doing in 2022
2. RISK OF TENANTS DEFAULTING OR TENANT FAILURE				
The majority of the Group's revenues are comprised of rent received from its tenants and any deterioration in their businesses and/or profitability could in turn adversely affect the Group's rental income or increase the Group's bad debts and/or number of lease terminations. In the event that some of our tenants went into default, we could incur impairments and write-offs of IFRS 16 lease incentive receivable balances which arise from the accounting requirement to spread any rent-free incentives given to a tenant over the respective lease term. **Movement during 2021:** Reduced Due to the economic impact of Covid-19, and its potential long-term implications, occupiers could be facing increased financial difficulty. Restaurants and hospitality tenants account for approximately 6% of the Group's portfolio income. Despite re-opening restaurants, retail and leisure properties, footfall is lower than pre Covid-19 levels, disproportionately impacting on the revenues and operations of such tenants. **Executive responsibility:** Paul Williams	— Detailed reviews of all prospective tenants are performed. — A 'tenants on watch' register is maintained and regularly reviewed by the Executive Committee and the Board. — Rent deposits are held where considered appropriate; the balance at 31 December 2021 was £17.6m. — Active rent collection with regular reports to the Executive Committee. — We maintain close and frequent contact with our tenants.	**Strategic objectives** 1. 2. 5. **Business model** — Asset management **KPIs** — Total property return — EPRA earnings per share — Interest cover ratio — Tenant retention — Void management	— We have maintained proactive engagement with our tenants, dealing with their concerns on a case-by-case basis and supporting them as appropriate. — Ensured consistency in our approach to similar tenants and prioritised assistance to those most affected by Covid-19. — Due to the difficulties being faced by our current and prospective tenants, the Credit Committee continued to meet on a frequent basis (see page 106). — We have continued to support restaurants, retail and leisure amenities in our buildings.	— We will continue with our current controls and mitigating actions.
3. INCOME DECLINE				
Changes in macroeconomic factors may adversely affect London's office market. The Group is exposed to external factors which are outside the Group's control, such as future demand for office space, the 'grey' market in office space (i.e. tenant controlled vacant space), weaknesses in retail and hospitality businesses, increase in homeworking and the depth of any future recession and subsequent rise in unemployment and/or interest rates. Such macroeconomic conditions may lead to a general property market contraction, a decline in rental values, decline in Group income and potentially property values. Any reduction in property income could also have an adverse impact on the value of the Group's properties and may hinder any future dividend payments. **Movement during 2021:** Unchanged In light of Covid-19, we have been monitoring the economic outlook, vacancy rates, financial health of our tenants and the condition of the wider property market. **Executive responsibility:** Paul Williams	— The Credit Committee receives detailed reviews of all prospective tenants. — A 'tenants on watch' register is maintained and regularly reviewed by the Executive Committee and the Board. — Ongoing dialogue and proactive internal management is maintained with tenants to understand their concerns and requirements. — The Group's low loan-to-value ratio reduces the likelihood that falls in property values have a significant impact on our business continuity.	**Strategic objectives** 1. 2. 5. **Business model** Could potentially impact on all aspects of our business model **KPIs** — Interest cover ratio — Total return — Total property return — Gearing and available resources	— We maintained proactive engagement with our tenants, dealing with their concerns on a case-by-case basis and supporting them as appropriate. — The Group produced a budget, strategic review and three rolling forecasts during the year which contain detailed sensitivity analyses including the effect of changes to yields. — Through active asset management activities, good relationships with our occupiers, and partly assisted by the economy rebounding following the easing of lockdown restrictions, our lease expiry exposure reduced significantly to c.2% during 2021 (see page 106). — The 'tenants on watch' register was regularly reviewed to carefully monitor the financial performance of existing tenants. — Quarterly management accounts were provided to the Board.	— We will continue with our current controls and mitigating actions, including operating the business on a basis that balances risk and income generation.

OUR PRINCIPAL RISKS CONTINUED

Key
Strategic objectives

1. To optimise returns and create value from a balanced portfolio
2. To grow recurring earnings and cash flow
3. To attract, retain and develop talented employees
4. To design, deliver and operate our buildings responsibly
5. To maintain strong and flexible financing

OPERATIONAL

The Group suffers either a financial loss or adverse consequences due to processes being inadequate or not operating correctly, human factors or other external events

Risk	Our key controls	Potential impact	What we did in 2021	What we will be doing in 2022
4A. REDUCED DEVELOPMENT RETURNS				
Returns from the Group's developments may be adversely impacted due to: — delays on site; — increased construction costs; — labour shortages; — materials and material shortages; and — adverse letting conditions. Despite strict Covid-19 protocols on site, there is a risk of labour and resource shortages both on site and in the supply chain, which could lead to productivity disruption and project delay. Any significant delay in completing the development projects may result in financial penalties or a reduction in the Group's targeted financial returns. **Movement during 2021:** Increased During 2021, our Development team liaised and agreed processes to mitigate against delays or cost increases with our principal contractors due to potential material and labour shortages. **Executive responsibility:** Paul Williams	— Detailed reviews are performed on construction projects to ensure that programme forecasts prepared by our contractors are aligned with our views. — The procurement process used by the Group includes the use of highly regarded firms of quantity surveyors and is designed to minimise uncertainty regarding costs. — Development costs are benchmarked to ensure that the Group obtains competitive pricing and, where appropriate, fixed price contracts are negotiated. — Post-completion reviews are carried out for all major developments to ensure that improvements to the Group's procedures are identified, implemented and lessons learned. — Procedures carried out before starting work on site, such as site investigations, historical research of the property and surveys conducted as part of the planning application, reduce the risk of unidentified issues causing delays once on site. — Investment appraisals, which include contingencies and inflationary cost increases, are prepared and sensitivity analysis is undertaken to judge whether an adequate return is made in all likely circumstances. — The Group's pre-letting strategy reduces or removes the letting risk of the development as soon as possible.	**Strategic objectives** 1. 2. 5. **Business model** Could potentially impact on all aspects of our business model **KPIs** — Total return — Total property return — Total shareholder return	— We have a flexible development pipeline and, where appropriate, we deferred expenditure and decisions on future projects while keeping very close to our contractors, professional consultants and the project teams on site. — Monitored construction cost inflation in relation to future projects. — The Board and Executive Committee received regular updates on our principal developments including construction costs. — Both major on site developments are progressing well. 100% of the costs for The Featherstone Building and Soho Place, have been agreed and fixed. — Demand for construction activity in Central London is increasing and input costs of both materials and labour are increasing. — Specific risk assessments on budget allowances for inflation are kept under review on a quarterly basis to test adequacy of budgets. — In respect to our de-risking strategy, we have pre-let 87% of Soho Place.	— Continue with our current controls and mitigating actions with a major focus on project monitoring.
4B. 'ON SITE' RISK				
Risk of project delays and/or cost overruns caused by unidentified issues. For example, if the Group fails to: (i) adequately appraise investments prior to starting work on site, including through taking into account contingencies and inflationary cost increases; (ii) use a procurement process that is properly designed (to minimise uncertainty around costs) and that includes the use of highly regarded quantity surveyors; (iii) benchmark development costs; (iv) conduct thorough site investigations to reduce the risk of unidentified issues such as asbestos; (v) implement pre-letting strategy; or (vi) conduct detailed reviews on construction projects to evaluate programme forecasts made by contractors, development projects may be significantly delayed and we could face a loss of rental income and penalties. **Movement during 2021:** Unchanged Due to the restrictions introduced to prevent the spread of Covid-19, our on site developments have been subject to minor delays. The Featherstone Building and Soho Place are aiming to achieve practical completion in H1 2022 and are still expected to be completed within their original budgets. Sites are now fully operational in accordance with Site Operating Procedures Version 9. Despite strict Covid-19 protocols on site, there is a risk of labour and resource shortages both on site and in the supply chain, which could lead to productivity disruption and project delay. **Executive responsibility:** Paul Williams	— Strict Covid-19 protocols at all of our on site developments, in accordance with Site Operating Procedures (published by the Construction Leadership Council). — Regular monitoring of our contractors' cash flows. — Frequent meetings with key contractors and subcontractors to review their work programme and maintain strong relationships. — Off-site inspection of key components to ensure they have been completed to the requisite quality. — Prior to construction beginning on site, professional project managers conduct site investigations including the building's history and various surveys to identify any potential issues. — Monthly reviews of Brexit-related supply chain issues for each of our major projects, including in respect to potential labour shortages.	**Strategic objectives** 1. 2. 4. 5. **Business model** — Our core activities — Adding value for stakeholders **KPIs** — Total return — Total property return — Total shareholder return	— The Board and Executive Committee received regular updates on our principal developments. — 100% of the costs for The Featherstone Building and Soho Place, have been agreed and fixed. — Quarterly cost reports provided an update on development progress from a cost, profitability and programme perspective. — Monitored the number of on site workers being required to isolate due to being notified by the NHS app and the potential impact on our projects.	— Continue with our current controls and mitigating actions.

OUR PRINCIPAL RISKS CONTINUED

Key

Strategic objectives

1. To optimise returns and create value from a balanced portfolio
2. To grow recurring earnings and cash flow
3. To attract, retain and develop talented employees
4. To design, deliver and operate our buildings responsibly
5. To maintain strong and flexible financing

OPERATIONAL CONTINUED

Risk | **Our key controls** | **Potential impact** | **What we did in 2021** | **What we will be doing in 2022**

4C. CONTRACTOR/SUBCONTRACTOR DEFAULT

Risk

Returns from the Group's developments are reduced due to delays and cost increases caused by either a main contractor or major subcontractor defaulting during the project. There have been ongoing issues within the construction industry in respect of the level of risk and narrow profit margins being accepted by contractors.

Movement during 2021: Unchanged

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There is an ongoing risk of insolvencies in the construction industry. Due to this risk, we have been actively monitoring the financial health of our main contractors and subcontractors.

Executive responsibility: Paul Williams

Our key controls

- Regular monitoring of our contractors, including their project cash flows, is carried out.
- Key construction packages are acquired early in the project's life to reduce the risks associated with later default.
- The financial standing of our main contractors is reviewed prior to awarding the project contract.
- Our main contractors are responsible, and assume the immediate risk, for subcontractor default.
- Payments to contractors are in place to incentivise the achievement of project timescales, with damages agreed in the event of delay/cost overruns.
- Regular on site supervision by a dedicated Project Manager who monitors contractor performance and identifies problems at an early stage, thereby enabling remedial action to be taken.
- We use known contractors with whom we have established long-term working relationships.
- Contractors are paid promptly and are encouraged to pay subcontractors promptly.

Potential impact

Strategic objectives

1. 2. 4.

Business model

- Our core activities
- Adding value for stakeholders

KPIs

- Total return
- Total property return
- Total shareholder return

What we did in 2021

- Engaged continuously with our contractors, subcontractors and supply chain during the Covid-19 pandemic.
- Our suppliers were paid on average within 20 days.
- Accepted early ordering of materials ahead of their need on site to accelerate cash flow to our supply chain.
- Worked alongside local authorities to extend permissible working hours on site.
- The Board and Executive Committee received regular updates on our principal developments.
- Quarterly cost reports provided an update on development progress from a cost, profitability and programme perspective.

What we will be doing in 2022

- Continue with our current controls and mitigating actions.

5A. CYBER ATTACK ON OUR IT SYSTEMS

Risk

The Group may be subject to a cyber attack that results in it being unable to use its information systems and/or losing data. Such an attack could severely restrict the ability of the Group to operate, lead to an increase in costs and/or require a significant diversion of management time.

Movement during 2021: Increased

↗

This risk has been heightened during the Covid-19 pandemic, as cyber-criminals seek to exploit the disruption caused by employees working from home. In response, we identified the key IT risks arising from homeworking and implemented additional controls.

Executive responsibility: Damian Wisniewski

Our key controls

- The Group's Business Continuity Plan is regularly reviewed and tested.
- Independent internal and external penetration/vulnerability tests are regularly conducted to assess the effectiveness of the Group's security.
- Multi-Factor Authentication exists for remote access to our systems.
- Incident response and remediation processes are in place, which are regularly reviewed and tested.
- The Group's data is regularly backed up and replicated off-site.
- Our IT systems are protected by anti-virus software, security anomaly detection and firewalls that are frequently updated.
- Frequent staff awareness and training programmes.
- Security measures are regularly reviewed by the DIT department.
- The Group has been awarded the 'Cyber Essentials' accreditation which demonstrates our commitment to cyber security.

Potential impact

Strategic objectives

1. 2. 3. 4. 5.

Business model

Could potentially impact on all aspects of our business model

KPIs

- Total shareholder return

What we did in 2021

- Monitored our secure internet gateway and cloud managed malware protection for malicious activity during home/office working.
- Provided additional employee awareness training on social media and remote working security best practice.
- Monitored our Data Leak Prevention system for any indications of personal data breaches.
- Remediated any key findings from the last security penetration test and commissioned another independent internal/external test.
- Conducted a simulated 'phishing' exercise as part of the ongoing security awareness programme.
- Completed a business continuity test and full disaster recovery test.
- On 30 July 2021, our Cyber Essentials accreditation was renewed, having passed an external security scan of all internet-facing services and an assessment of technical and operational controls.
- IT Governance conducted a cyber security health check which consisted of a review of our information security governance framework, an internal/external vulnerability scan and employee questionnaire (see page 162).

What we will be doing in 2022

- Implement the recommendations arising from RSM's internal audit of our IT controls and the cyber security health check performed by IT Governance.
- Perform a detailed review of our 'ransomware security incident response playbook' (see page 162).
- Implement further security controls to enhance our layered defence model.
- Enhancing cloud security and anomaly detection for remote workers.
- Enhancing our security patching and mobile device management capabilities to support a hybrid working model.

5B. CYBER ATTACK ON OUR BUILDINGS

Risk

The Group is exposed to cyber attacks on its properties which may result in data breaches or significant disruption to IT-enabled tenant services. A major cyber attack against the Group or its properties could negatively impact the Group's business, reputation and operating results.

Movement during 2021: Unchanged but likely to increase as our buildings become more 'intelligent'

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Executive responsibility: David Silverman

Our key controls

- Each building has incident management procedures which are regularly reviewed and tested.
- Physical segregation between the building's core IT infrastructure and tenants' corporate IT networks.
- Physical segregation of IT infrastructure between buildings across the portfolio.
- Inclusion of Building Managers in all cyber security awareness training and phishing simulations.

Potential impact

Strategic objectives

1. 2. 3. 4. 5.

Business model

Could potentially impact on all aspects of our business model

KPIs

- Could impact on any Group KPIs

What we did in 2021

- Engaged with a portfolio IT partner to provide additional support for ICT infrastructure and cyber security assessments.
- Conducted security reviews on network designs for any new buildings, or refurbishments.
- Ensured that cyber security remains a key consideration in the delivery of intelligent buildings and digital initiatives.
- Continued to collaborate with the IoT Security Foundation and other industry stakeholders on the development of a set of intelligent buildings security guidance documents.
- Sent phishing simulation tests to Building Managers.
- Completed mandatory security awareness training for all staff, including Building Managers.

What we will be doing in 2022

- Further develop our IT governance framework, security monitoring and security incident response procedures.
- Implement further security controls to enhance our layered defence model.
- Collaborate with our portfolio IT partner on mitigating any cyber risks identified following cyber security assessments.

OUR PRINCIPAL RISKS CONTINUED

Key
Strategic objectives

1. To optimise returns and create value from a balanced portfolio
2. To grow recurring earnings and cash flow
3. To attract, retain and develop talented employees
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5. To maintain strong and flexible financing

OPERATIONAL CONTINUED

Risk	Our key controls	Potential impact	What we did in 2021	What we will be doing in 2022
5C. SIGNIFICANT BUSINESS INTERRUPTION (for example, pandemic, terrorism-related event or other business interruption)				
Major incidents may significantly interrupt the Group's business, its occupiers and/or supply chain. Such incidents could be caused by a wide range of events such as a pandemic, terrorism-related events, natural catastrophes or fires. This could result in issues such as being unable to access or operate the Group's properties, tenant failures or reduced rental income, share price volatility or loss of key suppliers. **Movement during 2021:** Unchanged → The ramifications of the Covid-19 outbreak have been far-reaching across all sectors and the pandemic has created extreme economic volatility. The Group has suffered minimal disruption due to Covid-19 and has been capable of operating successfully remotely during lockdown restrictions. However, the lockdowns have caused a delay to our development activities and reduction in cash flow due to deferment or non-payment of rent. **Executive responsibility:** All Executive Directors	— The Group has comprehensive business continuity and incident management procedures both at Group level and for each of our managed buildings which are regularly reviewed and tested. — Government health guidelines are maintained at all of our construction sites. — Most of our employees are capable of working remotely and have the necessary IT resources. — Fire protection and access/security procedures are in place at all of our managed properties. — Comprehensive property damage and business interruption insurance which includes terrorism. — At least annually, a fire risk assessment and health and safety inspection are performed for each property in our managed portfolio, in addition to annual Planned Preventive Maintenance surveys. — Robust security at our buildings, including CCTV and access controls.	**Strategic objectives** 1. 2. 3. 4. 5. **Business model** Could potentially impact on all aspects of our business model **KPIs** — Could impact on any Group KPIs	— Engaged with a portfolio IT partner to provide additional support for ICT infrastructure and cyber security assessments. — Continued to configure secure VPN connections and deploy fully encrypted laptops to enable secure hybrid working capabilities. — Provided additional employee awareness training on social media and remote working security best practice. — Remediated any key findings from the last security penetration test and commissioned another independent internal/external test. — Completed a business continuity technical test and full disaster recovery test. — Conducted monthly vulnerability scans. — Worked with our external fire consultants to be amongst the first UK property companies to implement a Fire Safety Management System in line with BS9997.	— Continue with our current controls and mitigating actions.
6. REPUTATIONAL DAMAGE				
The Group has invested significantly in developing a well-regarded and respected brand. The Group's reputation could be damaged, for example, through unauthorised or inaccurate media coverage, unethical practices or behaviours by the Group's executives, or failure to comply with relevant legislation. This could lead to a material adverse effect on the Group's operating performance and the overall financial position of the Group. Our strong culture, low overall risk tolerance and established procedures and policies mitigate against the risk of internal wrongdoing. **Movement during 2021:** Reduced ↘ Feedback on how we have responded to the Covid-19 pandemic, particularly in respect to our occupiers, suppliers, employees and Community Fund, has generally been positive. **Executive responsibility:** All Executive Directors	— Close involvement of senior management in day-to-day operations and established procedures for approving all external announcements. — All new members of staff benefit from an induction programme and are issued with our Group staff handbook. — The Group employs a Head of Investor and Corporate Communications and retains services of an external PR agency, both of whom maintain regular contact with external media sources. — A Group whistleblowing system for staff is maintained to report wrongdoing anonymously. — Social media channels are monitored. — Ongoing engagement with local communities in areas where the Group operates. — Staff training and awareness programmes.	**Strategic objectives** 1. 2. 3. 4. 5. **Business model** Could potentially impact on all aspects of our business model **KPIs** — Total return — Total property return — Total shareholder return Could indirectly impact on a number of our other KPIs	In order to support our community during Covid-19: — Ensured the market and our key stakeholders were kept updated on our response to Covid-19. — Followed a proactive and personalised response to our tenants facing difficulties due to Covid-19. — Charitable donations, sponsorships and community funding of £704,000 in 2021. — Worked with relevant agencies to provide accommodation and car parking free of charge to NHS staff in central London. — Continued to implement a mandatory compliance training programme for all employees (including Directors). — Monitored investor views and press comments while maintaining contact with other stakeholders.	— Continue communication with, and listening to, our stakeholders. — Continue to support those in need. — Continue to support our staff's training requirements. — Continue with our current controls and mitigating actions.
7. OUR RESILIENCE TO CLIMATE CHANGE				
If the Group fails to respond appropriately, and sufficiently, to climate change risks or fails to benefit from the potential opportunities. This could lead to damage to our reputation, loss of income and/or property values and loss of our licence to operate. In addition, there is a risk that the cost of construction materials and providing energy, water and other services to occupiers will rise as a consequence of climate change. **Movement during 2021:** Unchanged → Overall, climate change risk continues to increase in prominence and importance. The UK Government continues to introduce more legislative aspects linked to climate risk e.g. from 2022 certain listed entities will have to disclose in line with the TCFD and the latest energy white paper is setting out higher standards for energy efficiency in commercial and residential properties. **Executive responsibility:** Nigel George	— The Board and Executive Committee receive regular updates and presentations on ESG (environmental, social and governance) matters as well as progress against our pathway to becoming net zero carbon by 2030. — The Sustainability Committee monitors our performance and management controls. — Strong team led by an experienced Head of Sustainability. — The Group monitors its ESG reporting against various industry benchmarks. — Production of an annual Responsibility Report with key data and performance points which are externally assured. — In 2017 we adopted science-based carbon targets which have been independently verified by the Science-Based Targets initiative (SBTi).	**Strategic objectives** 1. 2. 3. 4. 5. **Business model** Could potentially impact on all aspects of our business model **KPIs** — Total return — BREEAM rating — Science-based carbon target performance — Total shareholder return A significant diversion of time could affect a wider range of KPIs	— Published our annual Responsibility Report in April 2021. — Continued investigations into off-site renewable energy generation opportunities available to us to reduce our market-based dependency, which included submitting a planning application for an 18.4MW solar park on Lochfaulds Farm (see page 13). — Refreshed our Development Framework for Developments, which sets new minimum requirements for the development pipeline. — We set building specific operational energy targets, aligned with a 1.5°C science-based scenario. — Launched our first net zero carbon occupier survey focused specifically on better understanding how we can support our occupiers achieve their goals (see page 13). — Ensured our 2021 Report & Accounts contains disclosures which are consistent with Task Force on Climate-Related Financial Disclosures (TCFD) recommendations (see pages 68 to 73). — Commissioned a comprehensive report into the feasibility and costs of achieving an EPC B grade across our portfolio by 2030 (see page 55). — Attended, and presented, at the Conference of the Parties 26 (COP26) (see page 54).	— Review the findings arising from the occupier net zero carbon survey and how we can support our occupiers achieving their goals. — Investigate planting a further 425ha of trees across our Scottish land (equivalent to 794 football fields). — Agree a strategy for the portfolio to achieve an EPC B grade by 2030 following the results of the feasibility and cost report. — Continue with our current controls and mitigating actions.

OUR PRINCIPAL RISKS CONTINUED

Key
Strategic objectives

1. To optimise returns and create value from a balanced portfolio
2. To grow recurring earnings and cash flow
3. To attract, retain and develop talented employees
4. To design, deliver and operate our buildings responsibly
5. To maintain strong and flexible financing

OPERATIONAL CONTINUED

Risk | Our key controls | Potential impact | What we did in 2021 | What we will be doing in 2022

8A. NON-COMPLIANCE WITH HEALTH AND SAFETY LEGISLATION

Risk

The Group's cost base is increased, and management time is diverted through an incident or breach of health, safety and fire legislation leading to reputational damage and/or loss of our licence to operate. For example, a major health and safety incident could cause significant business interruption for the Group

Movement during 2021: Reduced

During 2021, the health and wellbeing of our employees, occupiers and other stakeholders has been a top priority. We have invested additional resources into health and safety. Our accident frequency rate (AFR) for development projects in 2021 was 1.26 (2020: 2.72) a reduction of 53.7% (see page 66).

Executive responsibility: Paul Williams

Our key controls

— All our properties have the relevant health, safety and fire management procedures in place which are reviewed annually.
— The Group has a qualified Health and Safety team whose performance is monitored and managed by the Health and Safety Committee.
— Health and safety statutory compliance within our managed portfolio is managed and monitored using RiskWise, a software compliance platform. This is supported by annual property health checks.
— The Managed Portfolio Health and Safety Manager with the support of internal and external stakeholders supports our Portfolio and Building Managers to ensure statutory compliance.
— The Construction Health and Safety Manager, with the support of internal and external stakeholders, ensures our Construction (Design and Management) Regulations (CDM) client duties are executed and monitored and reviews health, safety and welfare on each construction site on a monthly basis.
— The Board and Executive Committee receive frequent updates and presentations on key health and safety matters, including both physical and mental health.

Potential impact

Strategic objectives
1. 2. 3. 4. 5.

Business model
Could potentially impact on all aspects of our business model

KPIs
— Total shareholder return

A significant diversion of time could affect a wider range of KPIs

What we did in 2021

— Our Head of Health and Safety was part of the Construction Leadership Council (CLC) Covid-19 Task Force, which published guidance for contractors on-site operating procedures. He also sits on the Construction Industry Councils (CIC) Building Safety Committee Chairs the Health and Safety Executives (HSE) Managing Risk Well Group and sits on the new Building Safety Alliance Group and output of the post-Grenfell Hackett report, which is setting the competencies for the new duties of the Accountable Person and Building Safety Manager.
— Published a health and wellbeing guide for employees working from home.
— Became a supporter of the Mates in Mind Mental Health programme designed specifically for the construction industry, developed a working from home guide and arranged webinars on topics such as resilience, mental health and nutrition.
— Performed detailed health and safety risk assessments of 25 Savile Row and common areas within the managed portfolio and implemented initiatives aimed at preserving social distancing and protecting our employees and occupiers.
— Launched our new bespoke compliance system, RiskWise, which is embedded into our business operations.
— Performed a detailed health and safety audit of all residential properties and a property health check of all commercial properties in our managed portfolio, in conjunction with six monthly risk assessment checks by external specialist water consultants.
— Developed a health and safety knowledge library where all our procedures and standards are made available to both internal and external stakeholders.
— Worked with our external fire consultants to be amongst the first UK property companies to implement a Fire Safety Management System in line with BS9997.
— Set up a property benchmarking group to share best practice accident data and agree KPIs.

What we will be doing in 2022

— Prepare the business for the implementation of our new Fire Safety Management System aligned with the requirements of the Fire Safety and Building Safety Acts.
— Continue with our current controls and mitigating actions.
— Introduce an e-permit system, CDM and water hygiene module within our RiskWise platform.
— Monitoring Contractor performance in line with their KPIs.
— Continuing the focus on health giving it the same billing as safety.
— Continue to raise Derwent London's profile across the property and development sectors.

8B. OTHER REGULATORY NON-COMPLIANCE

Risk

Should the Group breach any of the legislation that forms the regulatory framework within which the Group operates, the Group's cost base could increase and management time could be diverted. This could lead to damage to our reputation and/or loss of our licence to operate.

Movement during 2021: Reduced

During 2020 and 2021, we have followed the UK Government's regulations in respect of social distancing and safe working practices. In accordance with disclosure requirements, we ensured our stakeholders and the wider investment market were kept appraised of Derwent London's response to Covid-19 and its impact on our business.

During 2021, the Competition and Markets Authority (the 'CMA') has been investigating uncompetitive behaviour in the construction industry, including price fixing, marketing sharing and bid rigging. Although the Group seeks assurances from prospective contractors on the status of any CMA investigations in which they are involved, the use of contractors which are found to be engaging in uncompetitive behaviour could lead to reputational damage for the Group.

Executive responsibility: Damian Wisniewski

Our key controls

— The Board and Risk Committee receive regular reports prepared by the Group's legal advisers identifying upcoming legislative/regulatory changes. External advice is taken on any new legislation.
— Staff training and awareness programmes.
— Group policies and procedures dealing with all key legislation are available on the Group's intranet.
— A Group whistleblowing system for staff is maintained to report wrongdoing anonymously.
— Managing our properties to ensure they are compliant with the Minimum Energy Efficiency Standards (MEES) for Energy Performance Certificates (EPCs).

Potential impact

Strategic objectives
3. 4. 5.

Business model
Could potentially impact on all aspects of our business model

KPIs
— Total return
— Total property return
— Total shareholder return

A significant diversion of time could affect a wider range of KPIs

What we did in 2021

— Despite homeworking, our employees continued to follow the Group's normal compliance procedures, including in respect of the signing of documentation and delegated authorities.
— Our 2020 Report & Accounts and Responsibility Report was successfully published despite lockdown restrictions.
— Our AGM arrangements were amended to be in accordance with UK Government guidelines and was held on 14 May 2021.
— Quarterly review of our anti-bribery and corruption procedures by the Risk Committee.
— Continued to implement a compliance training programme, mandatory for all employees including the Board.
— As part of our 2021 staff performance appraisals, all employees confirmed they have reviewed and understood Group policies.

What we will be doing in 2022

— Continue with our current controls and mitigating actions.