Our principal risks

These are extraordinary times with exceptional risks and heightened uncertainty. During the year, Derwent London responded to the Covid-19 outbreak through proactive risk identification and mitigation, and early and continual engagement with our stakeholders.

The risk profile of the Group

Covid-19 and the resulting economic and social disruption has brought unforeseen challenges to London and the wider global economy; it has impacted on our business and in general our overall risk profile is elevated. We provide information on the central London office market on pages 18 to 21.

As a predominantly London-based Group, we are particularly sensitive to factors that impact upon central London's growth and demand for office space. In the short-term, due to the impact of both Covid-19 and Brexit, we expect unemployment to rise and uncertainty to impact upon demand for office space and central London's growth. 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.

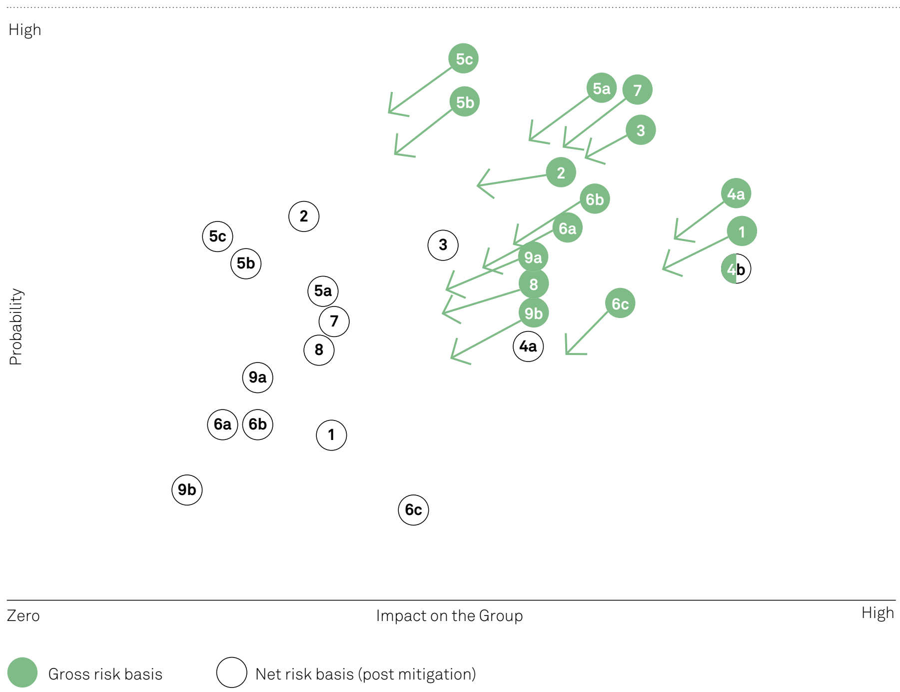
Demand for office buildings is becoming polarised. Well-designed, modern buildings with adaptable floor plans and good floor-to-ceiling heights are proving more desirable and easier to lease than older, less attractive buildings which may require refurbishment. This change in market demand will impact on our ability to lease certain properties in our portfolio without additional capital expenditure.

Despite our elevated risk profile during 2020, our strong financial position and proactive stakeholder-focused approach has helped us to weather the uncertainty. The future outlook for London is looking more promising: the Prime Minister has announced a roadmap to cautiously ease lockdown restrictions and, as at the date of signing this report, more than 22 million people in the UK have received at least one dose of a coronavirus vaccine.

p.6 Operating in challenging times

Effect of mitigation actions on our principal risks

p.88 to p.99 Risks



- **1** Failure to implement the Group's strategy
- **2** Implications of Brexit
- **3** Risk of tenants defaulting or tenant failure
- **4a** Income decline
- **4b** The potential impact on our business from the introduction of a new tax to replace or complement business rates
- **5a** Reduced development returns
- **5b** 'On-site' risk
- **5c** Contractor/subcontractor default
- **6a** Cyber attack on our IT systems
- **6b** Cyber attack on our buildings
- **6c** Significant business interruption
- **7** Reputational damage
- **8** Our resilience to climate change
- **9a** Non-compliance with health and safety legislation
- **9b** Other regulatory non-compliance

Changes to our principal risks

The principal risks and uncertainties facing the Group in 2021 are set out on pages 88 to 99 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.

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 10 March 2021. During the year under review, there has been a number of changes to our principal risks:

New principal risks

- Due to the trading difficulties arising from the Covid-19 pandemic there is an increased risk of tenants defaulting or tenant failure, particularly in respect to the leisure/retail sectors. Retail and hospitality tenants currently account for c.9% of the Group's portfolio income. In the event one of our larger tenants went into default, we could incur write offs of IFRS 16 lease incentive balances which arise from the accounting requirement to spread any rent-free incentives given to a tenant over the lease term (see page 76).
- Due to the weakness of physical retail trading, the cost of supporting the economy during Covid-19 and the loss of tax revenues, the government has been reported as considering measures to increase tax revenues. The potential impact on our business from the introduction of a new tax to replace or complement business rates is now considered a risk for the Group (see page 90).

Changes to existing risks

- A significant business interruption was previously identified as a principal risk, however we have expanded this risk to include a pandemic in addition to a terrorism-related event or other business interruption (see page 94).
- A fall in property values has been widened to 'income decline'. In addition to the risk of property values falling, there are other risk factors which could led to income decline (see page 90).
- Adverse international trade negotiations following Brexit has been widened to 'implications of Brexit'. Despite the agreement of a UK-EU trade agreement, there remains uncertainty in respect of financial services, international trade negotiations and the longer term implications of Brexit on London's growth and appeal (see pages 6 and 88).

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 140 and further information on emerging risks is on page 87. We have set an overall low tolerance to risk, which alongside our culture, informs how our employees respond to risk. Further information on our risk tolerance is set out on page 141.

Brexit-related risks

During 2020, the Board monitored trade negotiations and discussed potential outcomes with external advisers, including the potential impact on our contractors/subcontractors and supply chain. We continued to implement our agreed contingency plans in respect of our developments (including early ordering and off-site holding facilities) and proactive supply chain management in collaboration with our contractors, including the use of UK-based logistic hubs. Due to our contingency planning, the short-term impact on Derwent London has been minimal.

The Board will continue to monitor the longer-term impact of Brexit on London's appeal and growth and will monitor the negotiations with the EU in respect of financial services.

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. Despite the disruption caused by Covid-19, our developments were not significantly impacted, with practical completion being achieved on 80 Charlotte Street in June 2020 and construction continuing at Soho Place and The Featherstone Building. We provide further commentary on the status of our three development-related principal risks on pages 92 and 93.

Overview of changes to our principal risks

Covid-19 has led to our overall risk profile being elevated. The table below provides an overview of how our principal risks have been impacted.

Principal risk		Movement during 2020
1	Failure to implement the Group's strategy	↗
2	Implications of Brexit (previously, 'Adverse international trade negotiations following Brexit')	→
3	Risk of tenants defaulting or tenant failure	New principal risk
4a	Income decline (previously, 'Fall in property values')	↗
4b	The potential impact on our business from the introduction of a new tax to replace or complement business rates	New principal risk
5a	Reduced development returns	↗
5b	'On-site' risk	↗
5c	Contractor/subcontractor default	↗
6a	Cyber attack on our IT systems	↗
6b	Cyber attack on our buildings	→
6c	Significant business interruption (for example, pandemic, terrorism-related event or other business interruption) (previously, 'Terrorism-related or other business interruption')	↗
7	Reputational damage	↘
8	Our resilience to climate change	→
9a	Non-compliance with health and safety legislation	→
9b	Other regulatory non-compliance	→

Our principal risks continued

Climate change risks

The major climate-related risk to our business is rising global temperatures, increasing the likelihood of storms, heatwaves and flooding, potentially leading to property damage, income disruption and increased investment in upgrading mechanical heating and cooling equipment (further information on page 28).

Climate change risks are identified and monitored as part of our wider risk management procedures and are overseen by the Board and Responsible Business Committee. When assessing climate change, the Board considers both the direct and indirect risk they pose (a summary of the key risks is shown in the table below).

Direct risks	Indirect risks
• Rising temperatures	• Rising prices of utilities
• More intense/unusual weather events	• Rising material costs
• Rising sea levels	• Additional regulatory and compliance requirements
• Rainfall and high winds delaying construction	• Reputational risks
• Electricity supply disruptions	• Lower property values

The risks posed by climate change, which are contained in the Group's risk register, are factored into the Board's viability assessment which spans a five-year period (see page 82).

During the year, Willis Towers Watson were engaged to assist in the identification, assessment and quantification of climate-related risks and opportunities under pre-defined climate scenarios. An overview of the review's findings is available on page 49. The main transition risk for Derwent London relates to Energy Performance Certificate (EPC) rating requirements: currently environmental regulation in the UK prevents leasing space with an EPC rating of worse than E. The government's latest energy white paper proposes that this requirement be increased to a rating of B by 2030.

80 Charlotte Street 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 (see page 29), including Soho Place W1, The Featherstone Building EC1 and 19-35 Baker Street W1. When managing our core income portfolio, we ensure our buildings operate as efficiently as possible, with significant focus on energy and carbon reduction (see page 29).

The main opportunities from climate change will arise from our ability to adapt and respond to the risks appropriately. Energy efficient 'green' buildings with better EPCs could let more quickly, command higher rents and enjoy lower tenant turnover. Investing in the overall energy efficiency of our buildings also improves asset value by reducing our maintenance costs and extends a building's life. Working closely with tenants to manage building efficiency should lead to closer landlord/tenant collaboration and relationships.

p.28 Our pathway to net zero carbon

p.57 Climate change governance

Financial risks

Derwent London has a low financial risk profile. Fitch reaffirmed our credit rating of A-, however, they have us 'under watch' and our outlook has been marked as negative rather than stable due to Covid-19, rent collections and concerns for the financial health of our occupiers. This approach is consistent across our sector.

Our financial position remains strong. Our loan-to-value ratio has risen slightly to 18.4% at 31 December 2020 based on year end property valuations, and our net asset value gearing was 24.3%. Interest cover is 446% and we have cash and undrawn facilities of £476m.

During 2020, we recalibrated our forecasts for various scenarios to take into account possible outcomes post-Covid-19 and they will continue to be updated as the situation develops.

p.141 Insurance

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. Further information on tax governance is on pages 57 and 135.

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 by staff, subcontractors or any of its other associates. To address these risks, 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.

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 (see page 127), 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.

In 2020, we were listed in Management Today's 'Britain's Most Admired Companies', a peer-review study of corporate reputation. We were delighted to come in 10th place overall and 1st for our industry sector.

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 96 the actions we are taking to protect our reputation.

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. The methodology used to review and identify emerging risks is on page 140.

During the year under review, the Directors identified four further emerging risks (identified in the table below) and removed 'Reduced returns' as it is now considered a current risk and is therefore being monitored via the Group's Risk Register.

Emerging risk	Risk category	Potential impact	Our actions
Diminished development pipeline	Strategic	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.	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. On 30 January 2020, we acquired Blue Star House SW9 for £38.1m before costs, which has future development potential.
The future of offices (new emerging risk)	Strategic	As the pandemic led to widespread home working, questions have been raised about office use and its role in business. There is a risk that if agile/home working continues at high levels, and is sustained in the long-term, it could lead to occupiers requiring less space, increased vacant space and reduced rental income.	Our view is that 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. There is no substitute for building relationships with colleagues and clients in person. We will continue to design and deliver space that businesses want to occupy.
Long term implications of Covid-19 on our portfolio (new emerging risk)	Strategic	If the effects of Covid-19 are long-term, our existing portfolio could require significant investment to make it more adaptable to social distancing requirements and reduced occupational density. This investment would require capital expenditure which might not provide a financial return and could impact on the floor area efficiency of our existing portfolio.	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 ventilation.
Political risk arising from government response to issues (new emerging risk)	Strategic	In order to protect the NHS and reduce Covid-19 transmission, action has been taken by government to lock down large parts of the UK economy. This has reduced access to education, increased government borrowing and reduced economic activity unevenly across the UK regions.	We 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.
Increasing importance of amenities	Operational	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.	We continue to review opportunities within the portfolio to enhance our amenity offering. This risk is directly related to another emerging risk – the future of offices (see above).
Adoption of technology	Operational	With technology advancing at a rapid pace the Group needs to ensure it is sufficiently embracing these changes whilst making sure that the Group's strategy is driving which technology is adopted and not being driven by the technology itself.	During 2020, we have been developing our digital strategy and are currently testing both intelligent building technology and apps.
Environmental issues moving up the social agenda	Operational	Concerns around environmental issues, such as climate change, are becoming more important to our stakeholders and to the general public, and this is only likely to increase in the run up to COP26. Companies not giving sufficient priority to these issues will be unprepared for the risks posed by environmental issues which will, in turn, adversely impact on their business and reputation.	We are committed to being net zero carbon by 2030 and have published our Net Zero Carbon Pathway.
Impact on businesses arising from the UK's commitment to be carbon neutral by 2050 (new emerging risk)	Operational	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. As more of our tenants commit to becoming net zero carbon, tenants will increasingly demand environmentally friendly buildings to help them achieve these goals. Consequently our buildings that fail to reach these standards could be at risk of losing tenants, suffering a 'brown' discount and falling in value. Costs are also likely to increase in respect to carbon taxes on GHG emissions. Currently environmental regulation in the UK prevents leasing space with an EPC rating of worse than E and this is proposed, in the government's latest energy white paper, to increase to a rating of B by 2030, which will lead to increased capital expenditure requirements.	We commissioned a risk analysis of climate change-related risks to be performed by Willis Towers Watson. In December 2020, a working group of executives and senior managers met with Willis Towers Watson to discuss the key risks and our current mitigation. An overview of the review's findings is on page 49. A senior level working group will also be created, with input from technical experts, to explore the implications, practicalities, and possible management responses to the proposed legislation in the government's latest energy white paper.

Our principal risks continued

Strategic

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

Risk **Our key controls**

1. Failure to implement the Group's strategy

The Group's strategy is not met due to poor strategy implementation or a failure to respond appropriately to internal or external factors such as:

- an economic downturn;
- the Group's development programme being inconsistent with the current economic cycle; and/or
- London losing its global appeal with a consequential impact on the property investment or occupational markets.

Movement during 2020: Increased

Although the Covid-19 pandemic did not stop the Group implementing its strategy in 2020, the lockdown restrictions have marginally extended the project length for Soho Place and The Featherstone Building, and has caused significant economic disruption. Our strategy currently includes incorporating a retail element into our buildings to provide amenity to our tenants and the local community. As Covid-19 has only amplified the weaknesses within the retail market, this aspect of our strategy is being reviewed. 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.

Executive responsibility: Paul Williams

- 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 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 three two-year rolling forecasts.
- 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.

2. Implications of Brexit

International trade negotiations following Brexit result in arrangements which are damaging to the London economy. As a London-based Group, we are particularly impacted by factors which affect London's growth and demand for office space.

Movement during 2020: Unchanged

Trade negotiations with the European Union continued during 2020 despite the Covid-19 pandemic, and resulted in the UK-EU Trade and Cooperation Agreement (TCA) being finalised on 24 December 2020. For London, further uncertainty remains until terms are agreed in respect of financial services. The financial services sector contributes approximately £130 billion to the UK economy, 1.1 million jobs and 40% of the sector's exports are to the EU. London's economy, and its place as one of the world's leading financial centres, could be damaged if an adverse agreement is reached in respect of financial services. The Group will continue to monitor international trade negotiations, including the UK application to join the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP).

Executive responsibility: Paul Williams

- Trade negotiations are being monitored and potential outcomes discussed with external advisers.
- The Group's strong financing and covenant headroom enables it to weather a downturn. In addition, the Group's diverse and high quality tenant base provides resilience against tenant default.
- Construction cost risk, with the exception of Government tariffs, sits with our main contractors. Early ordering and off-site holding facilities are in place for our development projects.
- 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 £57.71 per sq ft.
- Income is maintained at future development sites for as long as possible. The Group develops properties in locations where there is good potential for future demand, such as near Crossrail stations.

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

Movement during the year

- Risk increased
- Risk unchanged
- Risk decreased

Potential impact	What we did in 2020	What we will be doing in 2021
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	• Examined opportunities for acquisitions to recycle capital. • Monitored our portfolio for further asset management activities and managed the vacancy rate. • Prepared three rolling forecasts and a budget for 2021. • Our credit rating of A- was renewed by Fitch in May 2020. • 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. • In respect to our de-risking strategy, we have pre-let 84% of Soho Place. • The Group's loan-to-value ratio remained low, its net interest cover ratio was 446% and the REIT ratios were comfortably met.	• The Board will hold its annual Strategy Away Day on 18 June 2021 to discuss the Group's five-year strategy. • Examine opportunities for acquisitions and disposals to recycle capital. • Continue to extend income through renewals and regears for properties not earmarked for regeneration.
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	• Monitored the 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 2020, the Group has cash and undrawn facilities of £476m. • Laing O'Rourke and Skanska, the contractors of our two major on-site developments, conducted detailed supply chain reviews in conjunction with Derwent London and no major concerns were flagged in the event of a 'hard Brexit'. • Proactive supply chain management in collaboration with our contractors and use of UK-based logistic hubs.	• 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

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**

3. Risk of tenants defaulting or tenant failure

The risk that tenants become unable to pay their rents and/or their businesses fail. In the current environment, this risk has increased to be classified as a principal risk for the Group.

Movement during 2020: New principal risk

Due to the economic impact of Covid-19, and its potential long-term implications, occupiers could be facing increased financial difficulty. Retail and hospitality occupiers (who account for approximately 9% of our portfolio income) are of particular concern. Covid-19 has only amplified the weaknesses within the retail market and there is a strong likelihood that retail rents and values could fall even further. 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.

Executive responsibility: Paul Williams

Our key controls:

- The Credit Committee perform detailed reviews of all prospective tenants.
- A "tenants at risk" 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 2020 was £18.8m.
- Active rent collection with regular reports to the Executive Committee.
- We maintain close and frequent contact with our tenants.
- Insurance for loss of rent is regularly considered.

4. Risks arising from changing macroeconomic factors

a. Income decline (previously, 'Fall in property values')

Due to the various risk factors, including:

- future demand for office space;
- rising 'grey' market vacancy in office space (i.e. tenant controlled vacant space);
- weaknesses in retail and hospitality businesses;
- depth of recession;
- Brexit uncertainty; and
- rising unemployment.

There is a risk that our income could decline which could lead to lower interest cover under our debt facility financial covenants. This could also have an adverse impact upon the property valuation and future dividend payments. In addition, depending on how prolonged the adverse impacts of Covid-19 are on businesses, and how our occupiers fare during this period, we could face additional risk of income impairment.

Movement during 2020: Increased

↗

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. Given the ongoing uncertainty, it is difficult to forecast the impact on 2021 EPRA earnings or cash receipts. Future dividends will remain under review.

Executive responsibility: Paul Williams

Our key controls:

- The Credit Committee receives detailed reviews of all prospective tenants.
- A "tenants at risk" register is maintained and regularly reviewed by the Executive Committee and the Board.
- Ongoing dialogue is held 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.

b. The potential impact on our business from the introduction of a new tax to replace or complement business rates

Due to the ongoing weakness of physical retail trading, the cost of supporting the economy during Covid-19 and the loss of tax revenues, the government has been reported as considering measures to increase tax revenues. One area that has dominated the headlines is the reform of business rates. The government has been seeking views on how the business rates system currently works, issues to be addressed, ideas for change and a number of alternative means of taxing non-residential property to either replace or complement the business rates system. Derwent London is particularly mindful of alternatives being discussed which could impose a tax on the landowner rather than the tenant. In this respect, Derwent London will keep abreast of any new developments in this area and consider the impact of the various proposals once more detail is published.

Movement during 2020: New principal risk

Executive responsibility: Damian Wisniewski

Our key controls:

- The Executive Committee and Board monitor macroeconomic factors, including interest rates and tax policy.
- The Group has an experienced Head of Tax who advises the Board on the implications of tax policy.

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

Movement during the year

- Risk increased
- Risk unchanged
- Risk decreased

Potential impact	What we did in 2020	What we will be doing in 2021
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. • Reduced service charges by 25% for two quarters. • In respect of service charges, we agreed reductions in costs across our supply chain. In total, we achieved savings of c.£1m per quarter against the service charge budgets. • We have analysed the sectors which could perform well despite the current economic difficulties, so that we can better focus our marketing and leasing activities.	• Continue to support restaurants, retail and leisure amenities in our buildings. • We will continue with our current controls and mitigating actions.
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	• During 2020, the Credit Committee performed a detailed analysis of our tenant base, the strength of financial covenants and its future outlook. • We maintained proactive engagement with our tenants, dealing with their concerns on a case by case basis and supporting them as appropriate. • In the light of the Covid-19 outbreak, the Board gave careful consideration to our obligations to all our stakeholders and agreed that it remained appropriate to pay the 2019 final dividend of 51.45p per share on 5 June 2020. • 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. • 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. • 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.
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	• The Board received political updates from external advisers and monitored the situation during 2020.	• We will continue with our current controls and mitigating actions. • In the event the government opens a consultation on tax-related policy, we would respond with our views.

Our principal risks continued

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.

5. Risks arising from our development activities

a. Reduced development returns

Risk

The Group's development projects do not produce the targeted financial returns due to one or more of the following factors:

- delay on site;
- increased construction costs; and
- adverse letting conditions.

Movement during 2020: Increased

Due to restrictions introduced to prevent the spread of Covid-19, our on-site developments have been subject to delays of between one to three months. During 2020, our Development team liaised and agreed with our principal contractors in respect to Covid-19-related liabilities and cost sharing.

Executive responsibility: Nigel George

Our key controls

- Development 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 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.
- 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.
- The Group's pre-letting strategy reduces or removes the letting risk of the development as soon as possible.
- Detailed reviews are performed on construction projects to ensure that programme forecasts predicted by our contractors are aligned with our views.
- 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.

b. 'On-site' risk

Risk

Risk of project delays and/or cost overruns caused by unidentified issues e.g. asbestos in refurbishments or ground conditions in developments. For example, our successful pre-letting programme means we could face a loss of rental income and penalties if projects are delayed.

Movement during 2020: Increased

Due to restrictions introduced to prevent the spread of Covid-19, our on-site developments have been subject to minor delays. 80 Charlotte Street achieved practical completion in June 2020, and The Featherstone Building and Soho Place are still expected to be completed within their original budgets under the revised programme.

Sites are now operational but are not at full capacity due to social distancing measures. Despite strict Covid-19 protocols on-site, there is a risk of labour and resource shortages as UK cases rise, which could lead to productivity disruption and project delay.

Executive responsibility: Nigel George

Our key controls

- Strict Covid-19 protocols have been introduced at all of our on-site developments, in accordance with Site Operating Procedures (published by the Construction Leadership Council).
- Productivity is monitored on a monthly basis and our contractors have been incentivised to achieve the reset programmes post the Covid-19 site closures.
- Prior to construction beginning on site, we conduct site investigations including the building's history and various surveys to identify any potential issues.
- Regular monitoring of our contractors' cash flows.
- Off-site inspection of key components to ensure they have been completed to the requisite quality.
- Frequent meetings with key contractors and subcontractors to review their work programme.
- Monthly reviews of Brexit-related supply chain issues.

c. 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. We regularly monitor our contractors for any trading concerns.

Movement during 2020: Increased

There is an increased risk of insolvencies in the construction industry when the government's Covid-19 furlough scheme ceases. Due to this risk, we have been actively monitoring the financial health of our main contractors and subcontractors.

Executive responsibility: Nigel George

Our key controls

- The financial standing of our main contractors is reviewed prior to awarding the project contract.
- 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.
- Regular on-site supervision is undertaken by a dedicated Project Manager who monitors contractor performance and identifies problems at an early stage, thereby enabling remedial action to be taken.
- Payments to contractors to incentivise them to achieve agreed project timescale and damages agreed in the event of delays/cost overruns.
- Our main contractors are responsible for, and assume the immediate risk of, subcontractor default.
- We use known contractors with whom we have established long-term working relationships.
- Contractors are paid promptly and are encouraged to pay subcontractors promptly.

Key

Strategic objectives

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5. To maintain strong and flexible financing

Movement during the year

- Risk increased
- Risk unchanged
- Risk decreased

Potential impact	What we did in 2020	What we will be doing in 2021
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. • Agreed revised timeframes for achieving practical completion and the apportionment of cost with our Soho Place and The Featherstone Building contractors. • Monitored construction cost inflation in relation to future projects. • The Board and Executive Committee received regular updates on our principal developments including construction costs. • In respect to our de-risking strategy, we have pre-let 84% of Soho Place. • Both major on-site developments are progressing well. 100% of the costs for The Featherstone Building, and 99.7% of the costs for Soho Place, have been agreed and fixed.	• Continue with our current controls and mitigating actions with a major focus on project monitoring.
Strategic objectives 1. 2. 4. **Business model** Our core activities Adding value for stakeholders **KPIs** • Total return • Total property return • Total shareholder return	• Monitored and agreed the impact and risks of Covid-19 on our supply chain and other aspects of each project. • The Board and Executive Committee received regular updates on our principal developments. • 100% of the costs for The Featherstone Building, and 99.7% of the costs for Soho Place, have been agreed and fixed. • Quarterly cost reports provided an update on development progress from a cost, profitability and programme perspective.	• Continue with our current controls and mitigating actions.
Strategic objectives 1. 2. 4. **Business model** Our core activities Adding value for stakeholders **KPIs** • Total return • Total property return • Total shareholder return	• Engaged continuously with our contractors, subcontractors and supply chain during the Covid-19 pandemic. • Agreed the apportioning of risk and costs between Derwent London and the contractors. • Reduced retention from 3% to 2% against gross value certified to date to accelerate cash flow to our supply chain, and 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.	• Continue with our current controls and mitigating actions.

Our principal risks continued

Operational continued

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**

6. Risk of business interruption

a. Cyber attack on our IT systems

The Group is subject to a cyber attack that results in it being unable to use its IT systems and/or losing data. This could lead to an increase in costs whilst a significant diversion of management time would have a wider impact. Considerable time has been spent assessing cyber risk and strengthening our controls and procedures.

Movement during 2020: Increased

During 2020, there has been an increase in cyber attacks being perpetrated as cyber criminals seek to exploit Covid-19. In response, we identified the key IT risks arising from home working and implemented additional controls.

Executive responsibility: Damian Wisniewski

- The Group's Business Continuity Plan is regularly reviewed and tested.
- Independent internal and external 'penetration' 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' badge to demonstrate our commitment to cyber security.

b. Cyber attack on our buildings

The Group is subject to a cyber attack that results in data breaches or significant disruption to IT-enabled tenant services. Buildings are becoming 'intelligent', with an increase in internet enabled devices broadening the cyber security threat landscape.

Movement during 2020: Unchanged

The potential impact of a cyber attack on our buildings has reduced due to the winding down of services and overall low occupancy caused by Covid-19. Conversely, the potential risk of this occurring has increased due to low occupancy levels which could provide an opportunity for attack. During the lockdown, 24/7 security was provided by outsourced providers.

Executive responsibility: David Silverman

- 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 any cyber security awareness training and phishing simulations.

c. Significant business interruption (for example, pandemic, terrorism-related event or other business interruption) (previously, 'Terrorism-related or other business interruption')

The risk that a pandemic, terrorism-related event or other business interruption causes significant business interruption to the Group and/or its occupiers or supply chain. This could result in issues such as inability to access or operate our properties, tenant failures or reduced rental income, share price volatility, loss of key suppliers, etc.

Movement during 2020: Increased

Covid-19 has caused significant business interruption for some of our occupiers, particularly retail, travel, restaurants or other leisure services. During 2020, there has been limited business interruption for Derwent London; however, the lockdown has caused a delay to our development activities and reduction in cash flow due to deferment, concessions 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.
- Robust security at our buildings, including CCTV and access controls.

Key

Strategic objectives

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Movement during the year

- Risk increased
- Risk unchanged
- Risk decreased

Potential impact	What we did in 2020	What we will be doing in 2021
Strategic objectives 1. 2. 3. 4. 5. **Business model** Could potentially impact on all aspects of our business model **KPIs** • Total shareholder return	• All employees who did not already have work laptops, were issued with fully encrypted and security hardened business-laptops to remove the need for personal computers. • Introduced a secure internet gateway to mitigate the risk of internet-borne threats during home working. • Migrated to a cloud managed anti-virus and security platform to enhance protection for remote workers. • Introduced OneDrive for business and Microsoft Teams to provide secure external file sharing and video conferencing capabilities. • Introduced Multi-Factor Authentication on all Office 365 accounts. • Provided additional employee security awareness training and guidance on remote working security best practices. • Introduced Data Leak Prevention to mitigate the risk of personal data breaches. • Conducted monthly vulnerability scans. • Conducted simulated 'phishing' exercises as part of the ongoing security awareness programme. • Configured secure VPN connections for remote workers. • Capgemini performed a cyber security audit during 2020. In addition, we implemented the RSM recommendations which arose from the 2019 internal audit review.	• Implement the recommendations arising from the Capgemini cyber security audit. • Further develop our IT governance framework and incident response plans. • Implement further security controls to enhance our layered defence model.
Strategic objectives 1. 2. 3. 4. 5. **Business model** Could potentially impact on all aspects of our business model **KPIs** • Total shareholder return	• Reviewed and updated our portfolio IT cyber security strategy. • Completed cyber gap analysis audits. • Contributed to security best practice documents as part of the Internet of Things Security Foundation (IoTSF) Smart Buildings Working Group with stakeholders from across the commercial real estate industry. • Conducted security reviews on network designs for any new buildings or refurbishments. • Completed 'smart school' training for key stakeholders to raise awareness of the IoTSF and the associated inherent cyber security risks. • Sent phishing simulation tests to Building Managers. • Completed mandatory security awareness training for all staff, including Building Managers.	• Further develop our IT governance framework and incident response plans. • Implement further security controls to enhance our layered defence model.
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	• The Executive Committee monitored the Covid-19 outbreak and its potential implications since early-January 2020 with support from the Health & Safety Committee and a Covid-19 Working Group. • RSM performed an internal audit into our response to Covid-19. • Additional Board and Committee meetings were held during 2020 to respond to the Covid-19 pandemic. • Active engagement with tenants, our supply chain and employees. • Implemented detailed 'return to work' procedures for 25 Savile Row and our managed portfolio to ensure the safety of employees and occupiers. • Updated our incident management procedures for each of the buildings in the managed portfolio. • Provided training to our Building Managers on the management of major incidents. • Ensured that our employees have the right technology and resources to work as effectively as possible from home, and that our communications with all stakeholders are as transparent and informative as they can be.	• Review the results of the internal audit review into our response to Covid-19 and implement any arising recommendations. • Continue to work closely with, and support, our occupiers and supply chain. • Continue with our current controls and mitigating actions.

Our principal risks continued

Operational continued

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

7. Reputational damage

Risk

The Group's reputation is damaged, for example through unauthorised and/or inaccurate media coverage or failure to comply with relevant legislation. We have invested significantly in developing a well-regarded and respected brand. Our strong culture, low overall risk tolerance and established procedures and policies mitigate against the risk of internal wrongdoing.

Movement during 2020: Unchanged

How the Group responds to, and manages, the Covid-19 pandemic could either enhance or damage our reputation. Feedback on how we have responded, particularly in respect to our occupiers, suppliers, employees and Community Fund, has generally been positive.

Executive responsibility: All Executive Directors

Our key controls

- 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.

8. Our resilience to climate change

Risk

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.

Movement during 2020: Unchanged

In July we published our Net Zero Carbon Pathway, which sets out in more detail how we will become a net zero carbon business by 2030.

Executive responsibility: Paul Williams

Our key controls

- The Board and Executive Committee receive regular updates and presentations on environmental and sustainability performance and management 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 (environmental, social and governance) 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 independently verified science-based carbon targets which have been approved by the Science-Based Targets Initiative (SBTi).

Key

Strategic objectives

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Movement during the year

- Risk increased
- Risk unchanged
- Risk decreased

Potential impact	What we did in 2020	What we will be doing in 2021
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. • The Directors waived 20% of their base salaries or fees for a three month period, effective from 1 April 2020, which was used for charitable purposes. • We increased our charitable donations, sponsorships and community funding by 179% to £1.1m in 2020. • Worked with relevant agencies to provide accommodation and carparking 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. • Invested in a social media strategy, including providing some staff with additional social media training.	• Continue communicating to, 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.
Strategic objectives 1. 3. 4. **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	• Prepared and published our pathway to become net zero carbon by 2030. • Published our annual Responsibility Report in April 2020. • Started investigations into off-site renewable energy generation opportunities available to us to reduce our market-based dependency. • Willis Towers Watson were engaged to assist in the identification, assessment and quantification of climate related risks and opportunities under pre-defined climate scenarios (see page 49).	• We will look to align our SBTi targets to a more challenging 1.5°C climate scenario inline with our net zero carbon ambition. • A senior level working group will be created, with input from technical experts, to explore the implications, practicalities, and possible management responses to the proposed legislation in the government's latest energy white paper. • Continue with our current controls and mitigating actions.

Our principal risks continued

Operational continued

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
9. Non-compliance with regulation	
a. Non-compliance with health and safety legislation	
The Group's cost base is increased and management time is diverted through an incident or breach of health and safety legislation leading to reputational damage and/or loss of our licence to operate. **Movement during 2020:** Unchanged → During 2020, 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 (see page 54). **Executive responsibility:** Paul Williams	• 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 QUOODA, a software compliance platform. This is supported by annual property health checks. • The Construction Health and Safety Manager, with the support of external advisers, 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.
b. Other regulatory non-compliance	
The Group's cost base is increased and management time is diverted through a breach of any of the legislation that forms the regulatory framework within which the Group operates. This could lead to damage to our reputation and/or loss of our licence to operate. **Movement during 2020:** Unchanged → During 2020, we 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. **Executive responsibility:** Damian Wisniewski	• 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).

Key

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Movement during the year

- Risk increased
- Risk unchanged
- Risk decreased

Potential impact	What we did in 2020	What we will be doing in 2021
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	• Our Head of Health and Safety was part of the Construction Leadership Council (CLC) Covid-19 Task Force which recently published guidance for contractors on-site operating procedures. • Published a health and wellbeing guide for employees working from home. • 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. • Performed a detailed health and safety audit of all residential properties and a property health check of all commercial properties in our managed portfolio. • Developed a health and safety knowledge library where all our procedures and standards are made available to both internal and external stakeholders. • Developed and implemented robust CDM procedures rolled out to our internal and external project managers and our managed portfolio. • Worked with our external fire consultants to become the first UK property company to implement a new Fire Safety Management System in line with BS9997 in preparation for the new Building Fire Safety Bill (see page 55). • The Health and Safety Committee received regular health and safety reports from the Director of Developments and Head of Health and Safety for each of our construction sites during the year. • Deloitte performed an assurance audit of our health and safety figures (see page 62).	• Continue with our current controls and mitigating actions.
Strategic objectives 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	• Despite home working, our employees continued to follow the Group's normal compliance procedures, including in respect of the signing of documentation and delegated authorities. • Our 2019 Annual Report 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 15 May 2020. • 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 2020 staff performance appraisals, all employees confirmed they have reviewed and understood Group policies.	• Continue with our current controls and mitigating actions.