

RISK COMMITTEE REPORT



Richard Dakin
Chair of the Risk Committee

FOCUS AREAS IN 2019

- The ongoing review of the Group's principal risks
- Monitor health and safety across the Group
- Review the emerging risks which could impact on the Group in the medium to long-term
- Review the risk arising at our key developments: 80 Charlotte Street W1, The Featherstone Building EC1 and Soho Place W1.
- Monitor Brexit and the political environment to assess the potential impact on the Group

Dear Shareholder,

I am pleased to present our Risk Committee report for 2018 which describes our activities and areas of focus during the year.

Risk profile of the Group

The political and economic uncertainty triggered by the referendum decision to leave the EU is likely to continue until the future trade relationship with the EU is finalised.

The Committee's responsibility is to ensure that management are proactively planning for the risks and challenges which could arise from the Brexit negotiations and the eventual outcome. Of particular concern is the impact unfavourable negotiations could have on the UK economy and specifically London which will feed through into our leasing and development activities.

In June 2018, the Board as a whole considered potential Brexit scenarios on the Group's five-year strategic plan and long-term viability (more on page 45). Despite the potential negative impact of 'worst case' scenarios, the Group's strong financial structure and flexible business model provides sufficient flexibility to weather the uncertainty.

Additional information on the potential impact of Brexit on the Group is contained on page 47. The Board's risk tolerance is contained on page 112 of this report.

Key activities of the Committee

2018 was another busy year for the Committee. In addition to routinely reviewing the Group's risk register, the Committee's main areas of focus during 2018 were as follows:

- reviewed the tenant covenant review procedures and the work of the credit committee (see page 114);
- undertook a site tour of the Charlotte Street construction site, including a presentation on the management of construction health and safety risks (see page 112);
- the Board is aware of the well-publicised issues experienced by a number of major contractors, including the insolvency of Carillion, which highlight the ongoing issues within the construction industry. The Committee has been advised of the actions being taken by management to monitor the Group's contractors and are satisfied with the sufficiency of these controls (contractor default is a principal risk, see page 52);
- as part of our anti-bribery and corruption controls, the Committee reviewed the Group's gifts and hospitality register (see page 113) and the Group's conflict of interest register on a quarterly basis;
- received an update on recent legal developments which are of particular relevance to the Risk Committee from the Group's legal advisers, Slaughter & May LLP;
- reviewed frequent updates on the GDPR project (see page 114);
- received regular updates on our cyber security initiatives and received a presentation from Capgemini on the outcome of their benchmarking review (see page 115); and
- received an update on the full testing of the disaster recovery procedures undertaken on 21/22 September 2018 (see page 115).

Further engagement

The forthcoming AGM is on 17 May 2019 and I will be in attendance to answer any questions on the Committee's activities that you may have. If you wish to contact me, I am available via our Company Secretary, David Lawler (telephone: +44 (0)20 7659 3000 or email: company.secretary@derwentlondon.com)

Richard Dakin
Chair of the Risk Committee
26 February 2019

Committee composition

During the year under review, the Committee was composed of three independent Non-Executive Directors. Lucinda Bell will become a Committee member from 1 January 2019 in advance of Stephen Young stepping down as a Director in May 2019. In addition to the Committee members, the Board Chairman, other Directors, senior management or the external Auditor may be invited to attend all or part of any meeting as and when appropriate and necessary.

| | Independent | Number of meetings | Attendance |
|----------------------|-------------|--------------------|------------|
| Richard Dakin, Chair | Yes | 3 | 100% |
| Cilla Snowball | Yes | 3 | 100% |
| Stephen Young | Yes | 3 | 100% |

The Committee's role and responsibilities are set out in the terms of reference, which were last updated in November 2018, and are available on the Company's website at: www.derwentlondon.com/investors/governance/board-committees

Meetings of the Committee

During the year under review, the Risk Committee met three times, in May, August and November (2017: four meetings).

Risk management

At Derwent London, the management of risk is treated as a critical and core aspect of our business activities. A robust assessment of the principal risks facing the Group is regularly performed by the Directors, which takes into account the risks that could threaten our business model, future performance, solvency or liquidity, as well as the Group's strategic objectives over the coming 12 months.

In order to gain a more comprehensive understanding of the risks facing the business and the management thereof, the Committee periodically receives presentations from senior managers and external advisers. Following these reviews, the Committee has confirmed to the Board that it is satisfied that the Group's risk management procedures operated effectively throughout the period. During the annual strategic review of the five-year plan, the Board assesses the emerging risks being those that could impact on the business in the medium to long-term.

Risk management framework

How do we identify risks?

Risks are identified through workshop debates between the Executive Committee and members of senior management, analytical techniques, independent reviews and use of historical data and lessons learnt. At the Board's strategy review on 13 June 2018, scenarios for the future were considered which assisted with the identification of principal or emerging risks and how they could impact on our strategy. The continuous review of strategy and our environment ensures that we do not become complacent and that we respond in a timely manner to any changes.

How do we assess risk?

Following the identification of a potential principal risk, the Executive Committee undertakes a detailed assessment process to:

- gain sufficient understanding of the risk to allow an effective and efficient mitigation strategy to be determined;
- allow the root cause of the risk to be identified;
- estimate the probability of the risk occurring and the potential quantitative and qualitative impacts; and
- understand the Group's current exposure to the risk and the 'target risk profile' (in accordance with the Board's risk appetite) which will be achieved following the completion of mitigation plans.

Emerging risks are kept under review via the 'on watch' register and reassessed during the annual strategy reviews.

How do we monitor risks?

Once a risk has been identified and assessed, a risk owner is assigned who is considered to be in the best position to influence and monitor the outcome of the risk. As part of our risk management procedures, the Executive Committee and Risk Committee routinely conduct monitoring exercises to ensure that risk management activities are being consistently applied across the Group, that they remain sufficiently robust and to identify any weaknesses or enhancements which could be made to the procedures.

Monitoring activities include:

- the regular review and updating of the Schedule of Principal Risks, the Group's risk register and 'on watch' register;
- independent third-party reviews of the risk management process to provide further assurance of its effectiveness;
- alerting the Board to new emerging risks and changes to existing risks;
- monitoring how the risk profile is changing for the Group; and
- providing assurance that risks are being managed effectively and where any assurance gaps exist, identifiable action plans are being implemented.

How do we respond to risk?

We implement controls and procedures in response to identified risks with the aim of reducing our risk exposure, so that it is aligned or below our risk appetite. The successful management of risk cannot be done in isolation without understanding how risks relate and impact upon each other. At Derwent London, we consider the interconnectivity between risks which allows us to prioritise areas that require increased oversight and remedial action. The mitigation plans in place for our principal risks are described in greater detail on pages 48 to 57.

Risk management structure

Although the Board has ultimate responsibility for ensuring the Group has robust risk identification and management procedures in place, certain risk management activities are delegated to the level that is most capable of overseeing and managing the risks. Our risk management structure is illustrated below.

