OUR PRINCIPAL RISKS

At Derwent London we aim to deliver on our strategic objectives for the benefit of our stakeholders whilst operating within the risk tolerance levels set by our Board.

The risk profile of the Group

As a predominantly London-based Group, we are particularly sensitive to factors which impact upon central London's growth and demand for office space. 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.

The London office market has proven to be cyclical and can be impacted by a number of external and internal factors. For example, changes in political agendas or economic factors can impact upon:

- the ease of gaining planning permission for new development projects;
- cost of acquisitions, e.g. stamp duty land tax; and
- value of our properties to overseas investors due to exchange rate fluctuations.

Changes to our principal risks

The principal risks and uncertainties facing the Group in 2019 are set out on pages 48 to 57 together with the potential impact and the mitigating actions and controls in place. 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 26 February 2019.

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

New principal risk

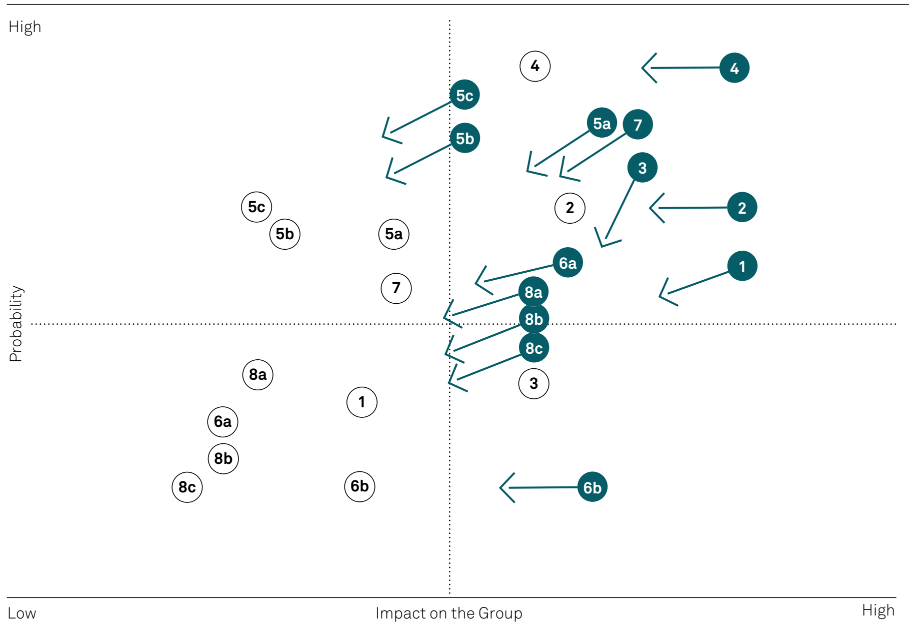
(i) 'Management of succession' has been elevated to a principal risk, due to the importance of retaining our senior management team and maintaining our culture (see page 48).

Increasing risks

(i) As at 26 February 2019, arrangements to leave the EU have not been agreed and subsequently the risk that negotiations result in arrangements which are damaging to the London economy has increased.
(ii) The possibility that property values will fall has increased due to Brexit uncertainty and as we approach the end of the current property cycle. Recent property cycles last for approximately seven years and the current cycle is over eight years.
(iii) Due to our successful programme to de-risk our developments through pre-lets, there is increased 'on-site' risk of completing 80 Charlotte Street on time. Practical completion of 80 Charlotte Street is expected to be in the first half of 2020, making 2019 an important year. If late, we could face penalties and a loss of rental income.
(iv) Partly driven by Brexit uncertainty and the concerns over contractor business models, the risk of reduced development returns has increased.

Effect of mitigation actions on our principal risks

p.48 Risks



- **1** Failure to implement the Group's strategy
- **2** Adverse Brexit settlement
- **3** Management of succession
- **4** Fall in property values
- **5a** Reduced development returns
- **5b** 'On-site' risk
- **5c** Contractor/subcontractor default
- **6a** Cyber attack
- **6b** Terrorism or other business interruption
- **7** Reputational damage
- **8a** Non-compliance with health and safety legislation
- **8b** Climate change and non-compliance with environmental and sustainability legislation
- **8c** Other regulatory non-compliance

Gross risk basis · Net risk basis (post mitigation)

Risk management

Risk is inherent in running any business. Our risk management procedures are routinely reviewed and strengthened to ensure that all foreseeable and emerging risks are identified, understood and managed. Our overall low risk tolerance (see page 112), alongside a transparent and collaborative work style, ensures that any potential risk is identified quickly. Our approach to risk management is contained on pages 111 to 112.

The role of our Board, with support from the Risk Committee, is to ensure that our risk management and internal controls are robust so that we remain able to swiftly identify and react to new threats and uncertainties. Balanced with the maintenance of a flexible business model and strong financial structure, this better enables us to weather uncertainties and take advantage of opportunities.

Derwent London brand

The Derwent London brand is well-regarded and respected within our industry and is recognised for its innovation and for developing design-led buildings. The protection of our brand and our reputation is important to the future success of the Group (see page 54).

Development risks

Our developments are large, high-value projects with life cycles which can be up to five years. 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. In August 2018, the Risk Committee visited the 80 Charlotte Street development to see first-hand how construction and health and safety risks are managed (see page 112).

BREXIT

Since the referendum decision in June 2016 to leave the EU, we have been operating through a period of heightened economic and political uncertainty.

- If a deal is not agreed between the UK and the EU by 29 March 2019, or no alternative arrangements are agreed, trade to and from the UK will default to WTO (World Trade Organization) rules with the associated tariffs.
- If a deal is reached with a 'transition period' to 31 December 2020 or such other date that is agreed, there will be less impact on our business over the next two years or so. However, uncertainty is likely to continue until new trade and international agreements have been finalised and this may take some time.

As outlined on page 45, we have considered various Brexit scenarios when reviewing our five-year strategy. Although 'no deal' and more adverse Brexit scenarios would likely cause a decrease in earnings and NAV, our financial covenants were not close to being compromised in any of the scenarios, and we continued to be able to carry on with our current business plans.

How could Brexit impact us?

Our core income

Derwent London has no buildings in the City and few occupants from the financial services industry (4% of our portfolio). Our EPRA vacancy rate is low at 1.8% and the majority of recent rent reviews have been above ERV. To date we have not seen, nor are we forecasting in our base case, any significant impact on our operating performance in respect to Brexit.

The current market is supply limited, a situation that may even have been enhanced by the Brexit vote, which has maintained the demand for our buildings and developments leading to substantial pre-letting of the Brunel Building W2 and 80 Charlotte Street W1 developments.

If a deal is reached, we would not expect a significant short-term change in supply within the central London property market and rents would likely remain stable during the transition period. In a 'no deal' situation, if the importance of London as a global centre is diminished, demand for space could decline over time which would likely see an increase in void periods and risk of lower rents when leases come up for renewal. However, our focus on good value, well-designed, middle market rent properties means we are less susceptible to reductions in tenant demand.

Our developments

The highest potential impact on Derwent London will be in respect of our developments. In the event of a 'no deal' Brexit, the cost and timeline of our developments could be impacted where we are importing building materials or components from Europe, as they may be subject to tariffs and border delays.

In addition, development costs are likely to increase due to:

- devaluation of the pound leading to price inflation for imported materials on contracts that are not at fixed prices; and
- shortage of skilled construction workers leading to increased labour costs on future development projects.

There will be a heightened risk of contractor or subcontractor default due to the increased costs arising from the risks stated above, which will be carefully monitored as we work closely with our contractors to mitigate this issue.

We have been working with our principal contractors to determine the likely effect of a 'no deal' Brexit on 80 Charlotte Street. As a contingency measure, our contractors have started to pre-order materials and store them in advance of use, where required. Any increase in handling or storage costs of materials will be a contractual cost for our contractors.

The Brunel Building and 80 Charlotte Street developments have not yet been noticeably impacted by Brexit and their building contracts do not contain Brexit clauses. Currently any risks arising on these developments from Brexit are the responsibility of the principal contractor, although delays in completion could potentially result in a reduction in our revenue. In respect to new developments, such as Soho Place and The Featherstone Building, we may be required to accept additional risks in respect to delays and increased costs.

Value of our buildings

Since the decision to leave the EU, the valuation of our portfolio has continued to grow, albeit more slowly: 2018: +2.2%, 2017 +3.9%. If a deal is not reached and there is a significant reduction in demand for central London properties, the value of our buildings may decrease. Our external valuers, CBRE, might also add market uncertainty clauses into their valuation (as they did in the 2008 financial crisis).

Although a decrease in value will not have a direct impact on our business model, it will reduce the headroom available for our covenants. Our internal modelling indicated that, as at 31 December 2018, the value of the portfolio could fall by 69% without breaching the gearing covenants.

If there is a fall in property values, there could be opportunities to buy property for future development. Alongside a fall, the devaluation of the pound could increase demand for London properties from overseas buyers, as was seen immediately after the referendum decision. With increased investment in London property, this will provide underlying support for the value of our buildings.

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

Movement during the year

- Risk increased
- Risk unchanged
- Risk decreased

STRATEGIC RISKS

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	Potential impact	What we did in 2018	Further mitigating actions for 2019

1. FAILURE TO IMPLEMENT THE GROUP'S STRATEGY

Risk

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

Movement during the year: Risk unchanged

The Board considers this risk to have remained broadly the same. Throughout the year, the Group continued to benefit from a resilient central London office market despite continuing political uncertainty.

Executive responsibility: John Burns

Our key controls

- The Group conducts an annual five-year strategic review and prepares a budget and three rolling forecasts covering the next two years.
- 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'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 regearing.
- The Group aims to de-risk the development programme through pre-lets.
- The Group maintains sufficient headroom in all the Group's key ratios and financial covenants with a focus on interest cover.

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 2018

- The annual strategic review was performed by the Executive Committee and reviewed at the Board's strategy meeting on 13 June 2018.
- 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.
- Three rolling forecasts and a budget for 2019 were prepared.
- In respect to our de-risking strategy, 77% (188,100 sq ft) of the Brunel Building and 74% (279,600 sq ft) of 80 Charlotte Street have now been pre-let.
- The Group's loan-to-value ratio remained low, its net interest cover ratio was 491% and the REIT ratios were comfortably met.
- The Board has committed to The Featherstone Building and Soho Place developments.

Further mitigating actions for 2019

- Continue to de-risk the Brunel Building development through pre-letting strategy and monitoring of construction progress.
- Market The Featherstone Building and Soho Place to start de-risking these developments via our pre-letting strategy.
- Monitor our portfolio for further asset management activities and manage the vacancy rate.
- Extend income through renewals and regears for properties not earmarked for regeneration.
- Examine opportunities for disposals.
- Focus on maintaining our credit rating of A- assigned by Fitch in August 2018.

2. ADVERSE BREXIT SETTLEMENT

Risk

Risk that negotiations to leave the European Union result in arrangements which are damaging to the London economy.

As a predominantly London-based group, we are particularly sensitive to any factors which impact upon London's growth and demand for office space.

Movement during the year: Slight increase

Further commentary on Brexit can be found on page 47.

Executive responsibility: John Burns

Our key controls

- The Group's strong financing and covenant headroom enables it to weather a downturn.
- The Group's diverse and high-quality tenant base provides resilience against tenant default.
- The Group focuses on good value, middle market rent properties which are less susceptible to reductions in tenant demand. The Group's average 'topped' up office rent is only £53.25 per sq ft (2017: £49.74 per sq ft).
- The Group develops properties in locations where there is good potential for future demand, such as near Crossrail stations.
- Income is maintained at future developments for as long as possible.
- Ongoing strategy is to extend income through lease renewals and regearing and to de-risk the development programme through pre-lets.
- Updates received on occupier trends by engaging with our current tenants and advisers.

Potential impact

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

What we did in 2018

- A detailed review of our construction contracts was performed which included foreign currency impact.
- Put in place contingency plans with our principal contractors.
- Brexit risk assessments have been performed to understand how the different Brexit scenarios could impact on our business model and strategy.
- Monitored Brexit negotiations and discussed potential outcomes with external advisers.
- Monitored letting progress and demand for our buildings.
- As at 31 December 2018, the Group had cash and undrawn facilities of £274m.

Further mitigating actions for 2019

- Extend loan durations, where appropriate.
- Redemption or conversion of the unsecured convertible bonds.
- We will continue with our current controls and mitigating actions including operating the business on a basis that balances risk and income generation.

3. MANAGEMENT OF SUCCESSION

Risk

Risk that the Board's succession plans, due to become effective during 2019, fail to retain our senior management team and lead to a loss of our culture and/or talent.

Movement during the year: New principal risk

Executive responsibility: John Burns

Our key controls

- John Burns will be the Non-Executive Chairman until May 2021 and will aim to retain the culture of the Group and ensure an orderly succession.
- Simon Fraser, Senior Independent Director, acts as a 'sounding board' for the Chairman and an independent point of contact for Directors and Shareholders.
- Remuneration packages are benchmarked regularly.
- Six-monthly performance appraisals identify training requirements and career aspirations.
- The Board monitors the culture of the Group (see page 85).

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 2018

- We have continued to cultivate the 'talent pipeline' via the 'Fit for the Future' programme to identify key individuals and enable them, in future, to take on key roles.
- Appointed Cilla Snowball, Non-Executive Director, as the Director responsible for gathering the views of the workforce (see page 92).
- A working group proposed ideas to the Executive Committee in November 2018 on how to address the higher priority areas arising from the latest employee survey.

Further mitigating actions for 2019

- The Remuneration Committee will be reviewing the effectiveness of the incentive schemes to retain and motivate the senior management team.
- Conduct the third biennial employee survey.
- Continue to support the Group in creating a working environment that promotes individual well-being and a respectful, inclusive and collaborative culture.

OUR PRINCIPAL RISKS CONTINUED

Key

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

FINANCIAL RISKS

Significant steps have been taken in recent years to reduce or mitigate the Group's financial risks such that few are now considered to be principal risks of the Group. 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 2018	Further mitigating actions for 2019
4. FALL IN PROPERTY VALUES (previously, 'Increase in property yields') Increasing property yields, which may be a consequence of rising interest rates, would cause property values to fall. Interest rates have remained low for an extended period and are expected to rise gradually over the next few years. Though there is no direct relationship, this may cause property yields to increase. The underlying value of our investment portfolio has remained resilient, increasing by 2.2% in 2018, despite the continuing economic uncertainties. Movement during the year: Slight increase The possibility that property values will fall has increased over the last year as we approach the end of the current property cycle (normal property cycles last for approximately seven years and we are currently at just over eight years). The Bank of England's Monetary Policy Committee increased interest rates during the year from 0.5% to 0.75%. Despite this rise, future interest rate increases are anticipated to be slow and incremental. **Executive responsibility:** Nigel George	• The impact of yield changes is considered when potential projects are appraised. • The impact of yield changes on the Group's financial covenants and performance is monitored regularly and subject to sensitivity analysis to ensure that adequate headroom is preserved. • The Group's mainly unsecured financing makes the management of our financial covenants straightforward. • The Group's low loan-to-value ratio reduces the likelihood that falls in property values have a significant impact on our business.	**Strategic objectives** 1. 5. **Business model** • Our assets and resources • Adding value for stakeholders **KPIs** • Interest cover ratio • Total return • Total property return • Gearing and available resources	• The Group produced a budget, five-year 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 and included the Group's performance against the financial covenants.	• Continue with our current controls and mitigating actions. • Examine opportunities for disposals.

OPERATIONAL RISKS

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 2018	Further mitigating actions for 2019
5. RISKS ARISING FROM OUR DEVELOPMENT ACTIVITIES a. Reduced development returns 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. For example: delays could lead to penalties payable to pre-let tenants at 80 Charlotte Street. Movement during the year: Slight increase Due to our significant development pipeline, with a number of key projects currently under construction including 80 Charlotte Street and the Brunel Building, the risk of delays to our projects and/or cost overruns remain a principal risk. By the end of 2018 we had largely de-risked these projects. **Executive responsibility:** Paul Williams	• Investment appraisals, which include contingencies and inflationary cost increases, are prepared and sensitivity analysis is undertaken to measure that 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 forecasts are aligned with our contractors. • 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.	**Strategic objectives** 1. 2. 5. **Business model** Could potentially impact on all aspects of our business model **KPIs** • Total shareholder return	• Demand for our developments is evidenced by the significant pre-letting activity in the year. • In respect to our de-risking strategy, 77% (188,100 sq ft) of the Brunel Building and 74% (279,600 sq ft) of 80 Charlotte Street have now been pre-let. • Construction costs now substantially fixed on the 80 Charlotte Street and the Brunel Building developments. • The Board and Executive Committee received regular updates on our principal developments. • Approved The Featherstone Building development.	• Further de-risk the Brunel Building, The Featherstone Building and Soho Place developments through our pre-letting strategy. • Continue with our current controls and mitigating actions with a major focus on project monitoring.

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

Movement during the year

↗ Risk increased
→ Risk unchanged
↘ Risk decreased

OPERATIONAL RISKS 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.

5. RISKS ARISING FROM OUR DEVELOPMENT ACTIVITIES

b. 'On-site' risk

Risk	Our key controls	Potential impact	What we did in 2018	Further mitigating actions for 2019
Risk of project delays and/or cost overruns caused by unidentified issues, e.g. asbestos in refurbishments or ground conditions in developments. For example, delays could lead to penalties payable to pre-let tenants at 80 Charlotte Street. Our pre-let strategy has increased this risk. Movement during the year: Slight increase ↗ Due to our successful pre-letting programme, there is increased risk on completing 80 Charlotte Street on time. If late, we could face a loss of rental income and penalties. **Executive responsibility:** Paul Williams	• 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.	**Strategic objectives** 1. 2. 4. **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. • Quarterly cost reports provided an update on development progress from a cost, profitability and programme perspective. • Our development teams have managed to substantially fix the costs for 80 Charlotte Street and the Brunel Building.	• We will aim to substantially fix the costs and programme for the Soho Place scheme through the appointment of a main contractor. • Fix the costs for The Featherstone Building in Q2 2019. • Seek to provide the tenants with early access to 80 Charlotte Street to avoid penalties if practical completion is delayed. • Continue with our current controls and mitigating actions.

c. Contractor/subcontractor default

Risk	Our key controls	Potential impact	What we did in 2018	Further mitigating actions for 2019
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. Movement during the year: Risk unchanged → There have been well-publicised issues for a number of major contractors, including the insolvency of Carillion and the funding problems of other major contractors. Although the insolvency of Carillion did not significantly impact on our contractors (or subcontractors) it did highlight the ongoing issues within the construction industry and the level of risk (and thin profit margins) being accepted by contractors. We regularly monitor our contractors who are currently not showing any trading concerns. **Executive responsibility:** Paul Williams	• 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. • Whenever possible the Group uses contractors/subcontractors that it has previously worked with successfully. • Regular on-site supervision by a dedicated Project Manager. Monitor contractor performance and identify 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. • Performance bonds are sought if considered necessary. • Our main contractors are responsible, and assume the immediate risk, for subcontractor default. • We use known contractors with who we have established long-term working relationships. • Contractors are paid promptly and are encouraged to pay subcontractors promptly.	**Strategic objectives** 1. 2. 4. **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. • Quarterly cost reports provided an update on development progress from a cost, profitability and programme perspective. • To mitigate risk at Soho Place, we conducted a two-stage procurement process which allowed us to assess and have input into the selection of subcontractors. • Maintained regular contact with our contractors and major subcontractors. • Suppliers were paid on average within 28 days.	• Continue with our current controls and mitigating actions.

OUR PRINCIPAL RISKS CONTINUED

Key

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

OPERATIONAL RISKS 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	Potential impact	What we did in 2018	Further mitigating actions for 2019
6. RISK OF BUSINESS INTERRUPTION				
a. Cyber attack				
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 while a significant diversion of management time would have a wider impact. Movement during the year: Slight reduction Considerable time has been spent assessing cyber risk and strengthening our controls and procedures. **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. • Multifactor authentication exists for remote access to our systems. • Incident response and remediation policies are in place. • The Group's data is regularly backed up and replicated and our IT systems are protected by anti-virus software and firewalls that are frequently updated. • Annual staff awareness and training programmes are implemented. • Security measures are regularly reviewed by the IT Liaison Committee.	**Strategic objectives** 1. 2. 3. 4. 5. **Business model** Could potentially impact on all aspects of our business model **KPIs** • Total shareholder return	• A full business continuity test was conducted on 21 and 22 September (see page 115). • Independent internal and external 'penetration' tests were conducted to assess the effectiveness of the Group's security. • Independent benchmarking review of the Group's cyber security was carried out in November. • Upgraded firewall protection to enhance cyber defences. • Conducted 'social engineering' and simulated 'phishing' exercises as part of the ongoing security awareness programme. • Reviewed whether the Group would benefit from cyber insurance.	• Perform an exercise to better understand the potential impact of a cyber attack on our Group. • Further develop our IT governance framework and incident response plans. • Enhance data breach notification mechanisms.
b. Terrorism or other business interruption				
Considered a principal risk due to attacks in European cities. Movement during the year: Slight reduction The risk that an act of terrorism interrupts the Group's operations is considered a principal risk due to terrorist activity in European cities. **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. • 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 is performed for each property in our managed portfolio.	**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	• 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.	• Continue with our current controls and mitigating actions.
7. REPUTATIONAL DAMAGE				
The Group's reputation is damaged, for example through unauthorised and/or inaccurate media coverage or failure to comply with relevant legislation. Movement during the year: Risk unchanged The Board considers this risk to have remained broadly the same during the year. 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. **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.	**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	• Monitored investor views and press comments while maintaining contact with other stakeholders (see page 18). • Strengthened our whistleblowing procedures through the introduction of an independent helpline for employees to report their concerns anonymously. • Implemented the social media strategy, including providing some staff with additional social media training.	• Continue with our current controls and mitigating actions.

OUR PRINCIPAL RISKS CONTINUED

Key

Strategic objectives		Movement during the year
1. To optimise returns and create value from a balanced portfolio	4. To design, deliver and operate our buildings responsibly	↗ Risk increased
2. To grow recurring earnings and cash flow	5. To maintain strong and flexible financing	→ Risk unchanged
3. To attract, retain and develop talented employees		↘ Risk decreased

OPERATIONAL RISKS 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.

8. NON-COMPLIANCE WITH REGULATION

a. Non-compliance with health and safety legislation

Risk	Our key controls	Potential impact	What we did in 2018	Further mitigating actions for 2019
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 the year: Risk unchanged → Following independent review of our health and safety procedures, the Group has gained a better understanding of health and safety risks. There is no evidence that this risk has increased for the Group. **Executive responsibility:** Paul Williams	• The Group has a qualified health and safety team whose performance is monitored and managed by the Health and Safety Committee. • External advisers (ORSA) appointed to advise on construction health and safety. • The Board and Executive Committee receive regular updates and presentations on key health and safety matters. • All our properties have health, safety and fire management procedures in place which are reviewed annually. • External project managers review health and safety on each construction site on a monthly basis.	**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	• Recruited a new Head of Health and Safety. • The Executive Committee approved the composition and revised terms of reference of the Health and Safety Committee. • ORSA reported to the Risk Committee and the Health and Safety Committee on construction health and safety matters. • Deloitte performed an independent review of construction health and safety and our health and safety indicators during the year. • Performed a detailed health and safety audit of all residential properties. • The Risk Committee received regular updates on the Group's review of insulation cladding and fire protetion procedures. • The Health and Safety Committee received regular reports from each external Project Manager on health and safety at each of our construction sites during the year.	• Continue with our current controls and mitigating actions.

b. Climate change and non-compliance with environmental and sustainability legislation

Risk	Our key controls	Potential impact	What we did in 2018	Further mitigating actions for 2019
The Group's cost base is increased and management time is diverted due to the impacts of climate change on our portfolio and/or a breach of any legislation. This could lead to damage to our reputation, loss of income and/or property value, and loss of our licence to operate. Movement during the year: Risk unchanged → **Executive responsibility:** Paul Williams	• The Board and Executive Committee receive regular updates and presentations on environmental and sustainability performance and management matters. • The Sustainability Committee monitors our performance and management controls. • Employment of a qualified team led by an experienced Head of Sustainability. • The Group benchmarks its ESG (environmental, social and governance) reporting against various industry benchmarks. • The Group has set long-term, science-based carbon targets and actively monitors portfolio performance against these. • Production of an Annual Sustainability Report, the key data points and performance of which are externally assured.	**Strategic objectives** 1. 3. 4. **Business model** Could potentially impact on all aspects of our business model **KPIs** • Total return • BREEAM rating • Science based target performance A significant diversion of time could affect a wider range of KPIs	• The Group continues to set sustainability targets which are monitored during the year. • Reviewed and updated our sustainability policy and strategy. • Implementation of a new carbon measurement tool to help the Group track its performance against the new science-based targets.	• Project approval forms to be updated to ensure any capital expenditure will not adversely affect our carbon target performance or the EPC rating of the property. • Continue with our current controls and mitigating actions.

c. Other regulatory non-compliance

Risk	Our key controls	Potential impact	What we did in 2018	Further mitigating actions for 2019
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 the year: Risk unchanged → Considerable time has been spent during the year on areas such as GDPR and the project to prevent and detect any facilitation of tax evasion (see page 114). **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.	**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	• Quarterly review of our anti-bribery and corruption procedures by the Risk Committee. • Board and Risk Committee received updates on General Data Protection Regulations (GDPR) and preventing the facilitation of tax evasion. • Governance procedures were reviewed to determine our compliance with the 2018 UK Corporate Governance Code from 1 January 2019. • As part of our 2018 staff performance appraisals, all employees confirmed they have reviewed and understood Group policies.	• Continue with our current controls and mitigating actions.