OUR PRINCIPAL RISKS

Risk is inherent in running any business. At Derwent London we aim to deliver on our strategic objectives for the benefit of our shareholders and other 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 that 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 (further information on page 12). For example, changes in political agendas or economic factors can impact upon:

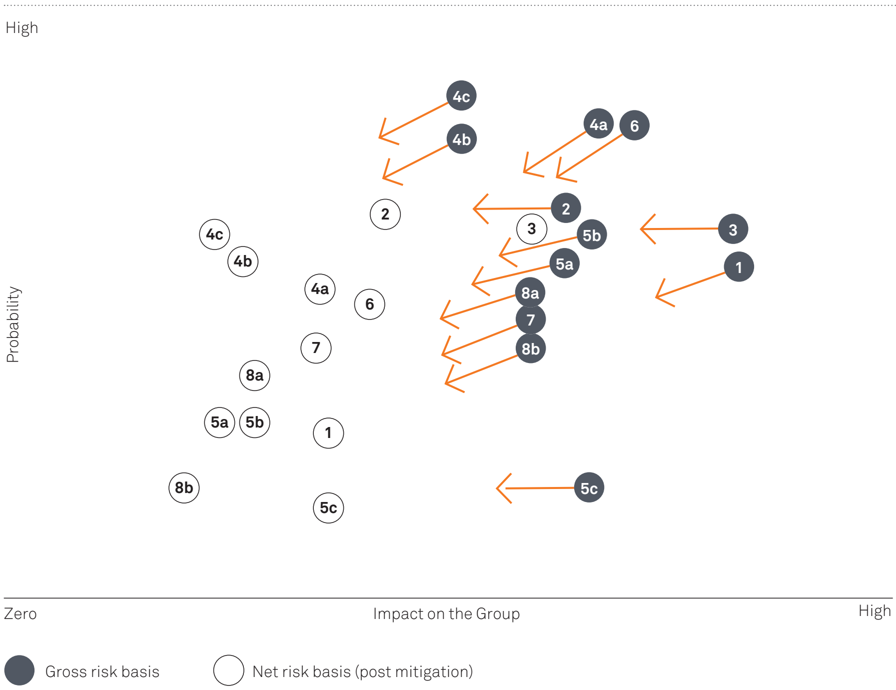
- the ease of gaining planning permission for new development projects;
- cost of acquisitions, e.g. stamp duty land tax; and
- value of our properties to overseas investors due to exchange rate fluctuations.

Risk management

Our risk management procedures are routinely reviewed and strengthened to ensure that all foreseeable and emerging risks are identified, understood and managed. Our risk management framework is on page 131 and further information on emerging risks is on pages 45 and 129. 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 132.

Effect of mitigation actions on our principal risks

p.50 to p.57 Risks



1 Failure to implement the Group's strategy
2 Adverse international trade negotiations
3 Fall in property values
4a Reduced development returns
4b 'On-site' risk
4c Contractor/subcontractor default
5a Cyber attack on our IT systems
5b Cyber attack on our buildings
5c Terrorism-related or other business interruption
6 Reputational damage
7 Our resilience to climate change
8a Non-compliance with health and safety legislation
8b Other regulatory non-compliance

Changes to our principal risks

The principal risks and uncertainties facing the Group in 2020 are set out on pages 50 to 57 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 25 February 2020. During the year under review, there has been a number of changes to our principal risks:

New principal risks

(i) Due to the rise in 'smart building' technology within our portfolio, and the associated cyber-related risks, we have separated our reporting on cyber risks between those that pose a risk to our IT systems and those that could impact on our 'smart buildings' (see page 54).

(ii) Adverse international trade negotiations following Brexit: Following the UK leaving the EU on 31 January 2020, the focus is now on the UK's ability to negotiate international trade agreements during the transition period. We set out on page 49 how the trade negotiations could impact on London and our business.

Increasing risk

(iii) Climate change is both a principal and emerging risk for our business. Companies not giving sufficient priority to climate change issues will be unprepared for the risks it poses. In response, we have accelerated our ambition to become net zero carbon by 20 years, with our new target being 2030 (our net zero carbon strategy is on page 81).

Decreasing risks

(iv) The possibility that property values would fall increased during 2019, predominantly due to the political and economic uncertainty of Brexit and the length of the current property cycle. Following the Conservative majority win in December 2019, political uncertainty reduced which has led to an increase in market confidence. It is now more likely that property values will rise in the short term, rather than fall.

(v) 'On-site' risk has decreased during the year as Brunel Building was completed in May 2019 and 80 Charlotte Street has made excellent progress with practical completion expected to be achieved in the first half of 2020. The ground work at Soho Place has been successfully completed, see page 130 for a case study on piling risk.

(vi) 'Management of succession' was elevated to a principal risk for 2019 following the announcement in November 2018 of the Board's succession plans for the role of Chairman and CEO. The transition period during 2019 has been well managed (see page 116) and the Board deems the risk of losing senior management and/or retaining the Group's culture, to have significantly reduced. It has therefore been removed as a principal risk for 2020 but remains on the Group's risk register.

Development risks

Our developments are large, high-value projects with life cycles that 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.

During 2019, the Risk Committee received reports from the Director of Development on each major development, which included a detailed assessment of the risks and risk mitigation plans in place. In 2020, the Risk Committee will visit The Featherstone Building development to see first-hand how construction and health and safety risks are managed (see page 132).

From January 2021, UK businesses will need to adapt and adjust to the end of free movement, and the introduction of a points-based immigration system. The Migration Advisory Committee (MAC) report, published on 28 January 2020, noted that the construction industry would be among the sectors impacted by its proposed thresholds potentially resulting in an employment drop in the construction sector.

We will be working alongside our principal contractors and subcontractors to assess the potential impact on our development pipeline. Current indications are the impact will be low, as our skilled construction labour typically earn above the threshold limits.

Climate change risks

The major climate-related risk to our business is rising global temperatures, increasing the likelihood of heatwaves and flooding, potentially leading to property damage, income disruption and increased investment in upgrading mechanical heating and cooling equipment (further information on page 56).

Climate change risks are identified and monitored as part of our wider risk management procedures (see pages 90 and 131) 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
- Rising temperatures
- More intense/unusual weather events
- Rising sea levels
- Rainfall and high winds delaying construction
- Electricity supply disruptions

Indirect risks
- Rising prices of utilities
- Rising material costs
- Additional regulatory and compliance requirements
- Reputational risks
- 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 44). During 2020, the Group will be conducting a detailed physical risk assessment on the portfolio.

To reduce our exposure to the impacts of climate change, our developments are being built to be net zero carbon (see page 80). Our development pipeline has already taken significant steps, with 80 Charlotte Street becoming our first all-electric building and net zero carbon development. 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 82).

The main opportunities from climate change will arise from our ability to adapt and respond to the risks appropriately. Energy efficient 'green' buildings with high Energy Performance Certificates (EPCs), will let more quickly, could 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.80 Climate resilience

p.90 Climate change governance

OUR PRINCIPAL RISKS CONTINUED

Financial risks

The Derwent London Group has a low financial risk profile (see page 50) which has been further reduced over the past year due to:

- the repurchase of the £150m 1.125% convertible bonds due 2019 with concurrent issue of £175m convertible bonds 2025 (see page 72);
- approved extension of our main revolving banking facilities for five years with two one-year extension options;
- we have linked our £450m revolving credit facility with the Company's well-established 'green' agenda of improving the social and environmental impact of our portfolio on our various stakeholders (see page 72);
- credit rating of A- was reconfirmed;
- low financial gearing with an LTV ratio of 16.9% and strong interest cover of 462%;
- headroom under facilities and cash of over £500m; and
- low vacancy rate of 0.8% with low tenant arrears and defaults.

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. Further information of tax governance is on page 91.

From 1 October 2019, HMRC is using a new approach to evaluate the tax risk profile of large businesses. Large businesses will be reviewed and assigned one of four risk ratings (Low, Moderate, Moderate-High or High) with a separate risk rating applied to each tax regime, e.g. corporate tax, indirect taxes and employment taxes. The Board has been advised of the new approach by the Head of Tax and the Chief Financial Officer and has asked to be kept informed of progress.

The Company 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 Company 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. In addition, all staff completed a compulsory online training module on the prevention of tax evasion during 2019 (further information on training is on page 134).

Pension risks

During the past year the Group's pension-related risks have reduced as we moved from a defined contribution trust-based scheme to a Master Trust arrangement. The risks arising from overseeing investment performance and compliance with regulatory duties was transferred from the Company's Trustees to the Master Trust board. As part of the transfer process, we signed a pre-funding agreement with the Master Trust whereby they would purchase units for our transferring members on the same date they were sold. This removed the potential market risk for our members.

In addition to reducing our pension-related risks, the Master Trust provides robust independent governance, an updated range of investment choices for members, increased retirement flexibility and 24-hour access to online services and educational support. Further information on pensions and employee benefits are on page 151.

Covid-19

Covid-19 is a new strain of coronavirus, first identified in China, which could have a considerable impact on the global economy. The World Health Organization has declared the Covid-19 virus a public health emergency of international concern. As such, the UK has currently raised the risk level from low to moderate. The ramifications of the outbreak could be far-reaching, across all sectors, and could affect our business as well as our suppliers and occupiers.

The Covid-19 virus has been discussed by the Board, Health & Safety Committee and the Executive Committee. In response, we have issued guidance to our staff on the symptoms and how to protect themselves and others. The Board is monitoring the impact on London, our business and supply chain. The outbreak is not currently classified as a principal risk to our business, but could be were it to become an epidemic in the UK.

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 119), are members of the Better Buildings Partnership and recently signed up to RE100 to demonstrate our commitment to 100% renewable energy in our buildings.

In 2019, 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 9th place overall and 1st for our industry.

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 54, the actions we are taking to protect our reputation.

CYBER SECURITY: SIMULATING SOCIAL ENGINEERING ATTACKS

Pen Test Partners LLP (PTP) were engaged by Derwent London to perform a series of social engineering attacks which aimed to gain sensitive data or information which could be useful to mount a further attack. The attacks were predominantly carried out using the telephone or SMS and were tailored to be realistic and included a variety of scenarios.

In all cases, the PTP consultant was unsuccessful. The feedback to Derwent London was that 'staff were polite and helpful but did not waiver from the Group's policies and procedures. The level of resilience to social engineering indicates a high level of security awareness from employees, whatever training they are receiving is very successful'. The Board was pleased with the results arising from the staged attacks and similar simulations will be conducted during 2020. Information on our compliance training programme is on page 134.

THE IMPACT OF ADVERSE INTERNATIONAL TRADE NEGOTIATIONS

The UK left the EU on 31 January 2020 and the focus is now on the UK's ability to negotiate international trade deals during the agreed transition period, which is currently due to expire on 31 December 2020.

Unfavourable international trade agreements could diminish London's global appeal and/or lead to increased import costs, both of which would have a negative impact on our business. In respect of the trade negotiations, the greatest impact on Derwent London will be the final trade deal agreed between the UK and EU. Although we only operate in the UK, we predominantly import materials for our developments from the EU.

In the event a trade agreement is not reached, and the transition period expires without extension, trade will default to the WTO (World Trade Organisation) rules and associated tariffs. We have detailed below the potential impacts on our business if we leave the transition period without formal trade agreements or if the agreed trade deals are unfavourable.

Our developments

The highest potential impact on Derwent London will be in respect to our future developments. In the event a trade agreement is not finalised with the EU before our exit from the transition period, 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.

There could also be a heightened risk of contractor or subcontractor default due to the increased costs arising from the risks stated above. We will work closely with our contractors to mitigate this issue.

All of our current live projects, 80 Charlotte Street, Soho Place and The Featherstone Building have been procured on the basis that labour, exchange rate fluctuations and material costs are included within fixed price contracts with Multiplex, Laing O'Rourke and Skanska (respectively). Statutory changes, including the introduction of tariffs, are not included within the fixed price contracts but are covered by contingency plans.

We have been working with our principal contractors during 2019 to determine the likely effect of an adverse Brexit on our development pipeline. As a contingency measure, our contractors will 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 ability to secure sufficient skilled labour has been a long-standing issue for the construction industry, and is a risk which lies with our principal contractors. The exodus of foreign labour predicted at the time of the referendum vote has not materialised although there has been a gradual reduction in the availability of foreign labour.

Our core income

We do not have any buildings in the City core and only 4% of our portfolio has occupants from the financial industry. Our EPRA vacancy rate is low at 0.8% 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. We continue to sell properties above book value having let over £117m by rent and sold £1.1bn of property since the EU referendum in June 2016.

We do not expect a significant short-term change in supply within the central London property market and rents are likely to remain stable. In the event adverse trade agreements lead to the importance of London as a global centre being diminished, demand for space could decline over time which would likely see an increase in void periods and risk of lower rents on new lettings or lease renewals. However, our focus on good value, well-designed, 'long-life loose-fit' properties means we are less susceptible to reductions in tenant demand.

Value of our buildings

Since the decision to leave the EU, the underlying valuation of our portfolio has continued to grow, albeit more slowly: 2019: +3.9%, 2018: +2.2%, 2017: +3.9%. If there is a significant reduction in demand for central London properties, the value of our buildings may decrease. Our external valuers, CBRE, might add market uncertainty clauses into their valuation (as they did in the 2008 financial crisis).

Although a decrease in property values will not have a direct impact on our business model, it will reduce the headroom on our covenants. Our internal modelling indicates that, as at 31 December 2019, the value of the portfolio could fall by 69% without breaching the gearing covenants.

A fall in property values could present the Group with opportunities to add to the portfolio. However, in 2016, immediately after the referendum decision, the devaluation of the pound saw increased demand for London property from overseas buyers, so property values were supported.

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

Movement during 2019: Risk unchanged

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During 2019, the Group continued to benefit from a resilient central London office market despite continuing economic and political uncertainty. The Board considers this risk to have remained broadly the same.

Executive responsibility: Paul Williams

- 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's 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 our income through lease renewals and regearing.
- The Group aims to de-risk the development programme through pre-lets during the construction phase.
- The Group maintains sufficient headroom in all the Group's key ratios and financial covenants with a focus on interest cover.

2. ADVERSE INTERNATIONAL TRADE NEGOTIATIONS FOLLOWING BREXIT

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

Movement during 2019: New principal risk

Following the UK leaving the EU on 31 January 2020, the focus is now on the UK's ability to negotiate international trade agreements during the transition period (see page 49).

Executive responsibility: Paul Williams

- 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 properties that are less susceptible to reductions in tenant demand. The Group's average 'topped-up' office rent is only £57.47 per sq ft (2018: £53.25 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 development sites for as long as possible.
- Brexit negotiations are being monitored and potential outcomes discussed with external advisers.

FINANCIAL

Significant steps have been taken in recent years to reduce or mitigate the Group's financial risks such that only one is now considered to be a principal risk 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.

3. RISKS ARISING FROM CHANGING MACROECONOMIC FACTORS

a. Fall in property values

Increasing property yields, which may be a consequence of rising interest rates, could potentially cause property values to fall. Interest rates have remained low for an extended period and could 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 3.9% in 2019, despite the continuing economic uncertainties.

Movement during 2019: Reduced

↘

Following the Conservative majority win in December 2019, political uncertainty reduced which led to an increase in market confidence. It is now considered more likely that property values will rise in the short term, rather than fall.

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 are monitored regularly and are 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 operational impact on our business

Key

Strategic objectives

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

Movement during the year

- ↗ Risk increased
- → Risk unchanged
- ↘ Risk decreased

Potential impact	What we did in 2019	What we will be doing in 2020
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	• The annual strategic review was undertaken by the Executive Committee and reviewed at the Board's strategy meeting on 21 June 2019 (see page 102). • Three rolling forecasts and a budget for 2020 were prepared. • 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 let or pre-let: – 100% of Brunel Building; – 90% of 80 Charlotte Street; and – 79% of Soho Place. • The Group's loan-to-value ratio remained low, its net interest cover ratio was 462% and the REIT ratios were comfortably met. • Our credit rating of A- was renewed by Fitch in June 2019.	• The Board will hold its annual Strategy Awayday on 19 June 2020 to discuss the Group's five-year strategy. • Market The Featherstone Building to de-risk the development. • 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 acquisitions and disposals to recycle capital. • Review the potential impact of Covid-19 on the Group's strategy.
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	• A detailed review of our construction contracts was performed. • Put in place contingency plans with our principal contractors and suppliers. • Monitored letting progress and demand for our buildings. • Repurchased the £150m convertible bond due 2019 and issued a new £175m 1.5% convertible bond due 2025. • Renewed our revolving credit facility (see page 72). • As at 31 December 2019, the Group had cash and undrawn facilities of £511m.	• Monitor the trade negotiations and discuss potential outcomes with external advisers. • 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** • 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. • Disposed of The Buckley Building, Premier House, 9 and 16 Prescot Street and continue to examine opportunities for further disposals.	• Market The Featherstone Building to de-risk the development. • Continue with our current controls and mitigating actions.

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.

Risk	Our key controls
4. 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 • adverse letting conditions Movement during 2019: Risk unchanged Due to our significant development pipeline, with a number of key projects currently under construction including 80 Charlotte Street, Soho Place and The Featherstone Building, the risk of delays to our projects and/or cost overruns remain a principal risk. In respect of future projects, there is an increased risk that construction cost inflation could occur, particularly if certain skills or trades are in short supply. Executive responsibility: Nigel George	• Investment appraisals, which include contingencies and inflationary cost increases, are prepared and sensitivity analysis is undertaken to judge whether an adequate return is made in all likely circumstances. • The 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.
b. 'On-site' 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 at 80 Charlotte Street and Soho Place means we could face a loss of rental income and penalties if the project is delayed. Movement during 2019: Reduced There has been good progress at our major development projects, 80 Charlotte Street, Soho Place and The Featherstone Building during 2019 and 80 Charlotte Street is expected to complete in spring 2020. In 2020, we will be monitoring the progress of the Immigration Bill and the introduction of a points-based system and how this could impact on our development projects. Executive responsibility: Nigel George	• 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 prior to delivery to ensure they are of the requisite quality. • Frequent meetings with key contractors and subcontractors to review their work programme.
c. Contractor/subcontractor default	
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 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 our contractors or subcontractors, it did highlight the ongoing issues within the construction industry and the level of risk and narrow profit margins being accepted by contractors. We regularly monitor our contractors for any trading concerns. Movement during 2019: Risk unchanged The Board considers this risk to have remained broadly the same during the year. 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. • Key construction packages are acquired early in the project's life to reduce the risks associated with later default. • Regular on-site supervision by a dedicated project manager who monitors contractor performance and identifies problems at an early stage, thereby enabling remedial action to be taken. • 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 and subcontractors with whom we have established long-term working relationships. • Contractors are paid promptly and are encouraged to pay subcontractors promptly.

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 2019	What we will be doing in 2020
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	• Demand for our developments is evidenced by the significant pre-letting activity. • The Board and Executive Committee received regular updates on our principal developments. • In respect to our de-risking strategy, we have let or pre-let: – 100% of Brunel Building; – 90% of 80 Charlotte Street; and – 79% of Soho Place. • The Featherstone Building development is on site and progressing well. • 99% of the costs for The Featherstone Building and all of the costs for Soho Place have been fixed.	• Achieving practical completion at 80 Charlotte Street and handing the building over for tenant fit-out. • 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	• The Board and Executive Committee received regular updates on our principal developments. • 99% of the costs for The Featherstone Building and all of the costs for Soho Place have been fixed. • Quarterly cost reports provided an update on development progress from a cost, profitability and programme perspective. • Seek to provide the tenants with early access to 80 Charlotte Street to avoid penalties if practical completion is delayed.	• Preparation work on future schemes including 19-35 Baker Street. • Consider the impact of Covid-19 on our supply chain and other aspects of each project. • 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	• 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 25 days.	• Monitor international trade negotiations and the potential impact on our contractors/subcontractors 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

5. 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 2019: Risk unchanged

→

The Board considers this risk to have remained broadly the same during the year.

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.
- Security measures are regularly reviewed by the IT department.
- The Group has recently 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 'smarter', with an increase in internet enabled devices broadening the cyber security threat landscape.

Movement during 2019: New principal risk

Due to the rise in 'smart building' technology within our portfolio, and the associated cyber-related risks, we have separated our reporting on cyber risks between those that pose a risk to our IT systems and those that could impact on our 'smart buildings' (see page 47).

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 tenant's corporate IT networks.
- Physical segregation of IT infrastructure between buildings across the portfolio.

c. Terrorism-related or other business interruption

The risk that an act of terrorism interrupts the Group's operations is considered a principal risk due to ongoing terrorist activity from time to time in European cities.

Movement during 2019: Risk unchanged

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The Board considers this risk to have remained broadly the same during the year.

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 are performed for each property in our managed portfolio.

6. REPUTATIONAL DAMAGE

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 2019: Risk unchanged

→

The Board considers this risk to have remained broadly the same during the year.

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 employee handbook.
- The Group employs a Head of Investor and Corporate Communications and retains services of an external PR agency, through whom we 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.

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 2019	What we will be doing in 2020
Strategic objectives 1. 2. 3. 4. 5. **Business model** Could potentially impact on all aspects of our business model **KPIs** • Total shareholder return	• 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 by RSM (see page 134). • Achieved the government-backed Cyber Essentials accreditation (see page 134). • Conducted 'social engineering' and simulated phishing exercises as part of the ongoing security awareness programme (see page 48). • Completed mandatory security awareness training for all staff (see page 134).	• Respond to the recommendations raised by RSM following their independent review. • 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	• Completed 'smart school' training for key stakeholders to raise awareness of the Internet of Things (IoT) 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.	• Finalise a 'smart' buildings brief which incorporates information security risk mitigation. • Develop an Information security risk register for each building. • Review supply chain risks.
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.	• Contingency planning in case of escalation of Covid-19. • Continue with our current controls and mitigating actions.
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	• Developed a mandatory compliance training programme in 2019 for all employees (including Directors). • Monitored investor views and press comments while maintaining contact with other stakeholders. • Investment in a social media strategy, including providing some staff with additional social media training.	• 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. OUR RESILIENCE TO CLIMATE CHANGE

Risk

The Group fails to respond appropriately, and sufficiently, to climate change risks or adapt 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 2019: Increased

↗

Although climate change risks remain unchanged for the Group, the impacts of climate change can already be seen and will become more severe and widespread as global temperatures rise. In response, we have accelerated our ambition to become 'net zero carbon' to 2030 (see page 80).

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.
- 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 Responsibility Report, the key data points and performance of which are externally assured.

8. NON-COMPLIANCE WITH REGULATION

a. Non-compliance with health and safety legislation

Risk

The Group's cost base is increased and management time is diverted through an incident or breach of health and safety legislation leading to reputational damage and/or loss of our licence to operate.

Following independent review of our health and safety procedures, the Group has gained a better understanding of health and safety risks.

Movement during 2019: Risk unchanged

→

The Board considers this risk to have remained broadly the same during the year.

Executive responsibility: Nigel George

Our key controls

- 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.
- The Group has a qualified health and safety team whose performance is monitored and managed by the Health & 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.

b. Other regulatory non-compliance

Risk

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 2019: Risk unchanged

→

The Board considers this risk to have remained broadly the same during the year.

Executive responsibility: Damian Wisniewski

Our key controls

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

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 2019	What we will be doing in 2020
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 • Total shareholder return A significant diversion of time could affect a wider range of KPIs	• Agreed a revised target that the Group would be net zero carbon by 2030 and approved our strategy to achieve this target (see page 80). • Established the Responsible Business Committee to strengthen the Board's oversight of ESG matters (report on pages 136 to 139). • Agreed with our principal bankers a revolving credit facility, with a £300m 'green' tranche, which provides a lower rate of interest to finance our green initiatives (see page 72). • Project approval forms updated to ensure any capital expenditure will not adversely affect our carbon target performance or the EPC rating of the property. • The Group continued to set sustainability targets that were 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.	• Implement our strategy to be net zero carbon by 2030 (see page 81). • Investigate off-site renewable energy generation opportunities available to us to reduce our market-based dependency. • Continue with our current controls and mitigating actions.
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	• 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. • ORSA reported to the Risk Committee and the Health and Safety Committee on construction health and safety matters. • The Risk Committee received updates on the Group's fire protection and water risk management 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. • Further strengthened our health and safety resource with the recruitment of new health and safety team members. • Deloitte performed an assurance audit of our health and safety figures, further information on page 87.	• 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	• Reviewed our governance procedures to ensure compliance with the 2018 UK Corporate Governance Code. • Quarterly review of our anti-bribery and corruption procedures by the Risk Committee. • Implemented a compliance training programme, mandatory for all employees including the Board (see page 134). • Board and Risk Committee received updates on General Data Protection Regulations (GDPR). • As part of our 2019 staff performance appraisals, all employees confirmed they have reviewed and understood Group policies.	• Continue with our current controls and mitigating actions.