Managing risks
Effective risk management

Dynamic risk management is embedded within our business and enables us to be responsive to new issues as they arise."

SOUMEN DAS
CHIEF FINANCIAL OFFICER

For SEGRO, effective risk management is a cornerstone of how we operate in order to deliver our strategy of growth in a sustainable way, both now and in the long term. Against the backdrop of the continually evolving pandemic, coupled with fluidity of the geopolitical and macroeconomic environment, the business has continued to perform strongly, in demanding operating circumstances. This is due, in no small part, to the underpin provided by our risk process, which is embedded throughout our business, to enable appropriate and responsive decision making.

ACTIVITY IN THE YEAR

The Group Risk Committee is made up of members of senior management and has met three times during the year. The members of the Committee have detailed knowledge of, and expertise in operational, financial, legal and corporate aspects of our business, ensuring we are well positioned to undertake our responsibility of overseeing the work of the risk management function on behalf of the Executive Committee.

The Head of Risk and his team report on updates to the risk register following a full risk review process which includes meetings with each risk manager and executive risk owner, consideration of changes to risk policy and appetite (see below), scrutiny of the external and internal operating environments, coordination of the risk management process and consequential external reporting. During the year the team has benefitted from input from the newly appointed Group Insurance Manager which has enabled a fresh pair of eyes to provide additional rigour and challenge. We have also taken the opportunity to review our internal Key Risk Indicators to ensure they are proportionate and appropriate for the business today. As a consequence we have deemed it appropriate to increase our acceptable appetite for appropriate land holdings in light of the favourable market conditions.

The process has identified risks whose profile is increasing, in particular environmental sustainability and major event (including cyber) as detailed further below. In addition, the disruptive Brexit risk was removed as a Principal Risk following evolution of events during the year.

Details of particular areas of interest to the Risk Committee are detailed below:

MAJOR EVENT/BUSINESS DISRUPTION

The impact of the pandemic continues to evolve and influence our risk landscape. Whilst the risk of virus variants and further restrictions remain, we have adapted our business both from an employee perspective and operationally to adjust to a 'new normal' and remain agile in our response to the risks as they arise. Our experiences over the last two years will be invaluable should there be further challenges due to the pandemic.

During the year, the Group's Board and relevant committees continued to meet regularly to identify, consider and discuss Covid-19 related risks and mitigations as they arose and evolved. Areas of particular concern included not only our operations but our people. This included changes to the working environment whilst both in the office and working from home which occurred at various points during the year across our locations.

In addition to the pandemic, we remain vigilant to cyber and other IT related issues which could result in disruption to our business, loss of data and/or reputational damage. We use both in-house resources and external specialists to review and test our controls and processes. Employees are given regular updates and mandatory training to maintain vigilance and awareness. We also have in place detailed business continuity and disaster recovery plans which are regularly tested and reviewed which are enacted should a significant event occur.

ENVIRONMENTAL SUSTAINABILITY AND CLIMATE CHANGE

Environmental sustainability is an increasingly important risk for the business.

The risk includes the short to medium-term impacts including transitional changes (for example, legislation and financial) which we closely monitor, as well as the long-term emerging risk of climate change (for example, physical changes including the increased likelihood of flooding events) for which we have undertaken extensive research. Failure to identify and mitigate risks at this stage could result in a reduction in the attractiveness of our assets to our current and prospective tenants; reputational damage and higher obsolescence and a reduction in value of our portfolio in the future.

The environmental and climate change related risks are overseen by the Sustainability team and local Business Units, reporting to the Executive Committee and ultimately the Board. The activity during 2021 and looking ahead to 2022 and beyond is described in more detail on pages 92 to 98.

TECHNOLOGY

The Group remains alert to the risks and opportunities that potentially disruptive technology could have on the business. We continued to engage with a number of external organisations – both in the property sector and in the wider technology realm – to assist us in identifying and assessing potentially disruptive technologies, none of which is currently believed to present an imminent significant risk to the Group.

We remained committed to investing in our Strategy, Investment and Innovation function which continues to assess the potential impacts of a wide range of technologies and evolves our digital and technology strategy, as described on page 38.

LOOKING AHEAD

As detailed further below, we have robust processes in place to identify and review emerging risks. By their nature emerging risks may not be fully understood or their impacts readily assessable. We remain vigilant as to how quickly and to what extent they might impact the Group.

A key emerging risk is the impact of climate change (as detailed above); others include, inter alia, the long-term impacts of the pandemic, including on urbanisation and working practices; identifying and adapting to technological advances and societal attitudes to air travel and consumerism and how these impact our business model. Each emerging risk is assigned an owner and is closely monitored and assessed as it evolves.

Looking forward to 2022, whilst there is still much uncertainty, it is anticipated that Covid-19 will still be prevalent in society, and its direct and indirect impacts are still evolving. Therefore, risk management and controls, and the Group's continued flexibility in responding to the risks presented, will be fundamental to our ability to continue to operate successfully.

SOUMEN DAS
CHIEF FINANCIAL OFFICER AND
CHAIR OF RISK COMMITTEE

Our risk appetite

The Group recognises that its ability to manage risk effectively throughout the organisation continues to be central to its success. Risk management ensures a structured approach to decision making that seeks to reduce uncertainty over expected outcomes and to bring controllable risks within our appetite, thereby balancing uncertainty against the objective of creating and protecting value for our stakeholders, now and in the long term.

The Group's risk appetite is reviewed annually and approved by the Board in order to guide the business. As well as qualitative descriptions, the risk appetite defines tolerances and targets for key metrics. It is equally applicable to wholly-owned operations and joint ventures.

Our risk appetite is dynamic rather than static, it will vary over time and during the course of the property cycle. In general, the Group maintains a reasonably low appetite for risk, appropriate to our strategic objectives of delivering long-term sustainable value.

PROPERTY RISK

We recognise that, in seeking outperformance from our portfolio, the Group must accept a balanced level of property risk – with diversity in geographic locations and asset types and an appropriate mixture of stabilised income-producing and opportunity assets – in order to enhance opportunities for superior returns. This is balanced against the backdrop of the macroeconomic climate and its impact on the property cycle.

Our target portfolio should deliver attractive, low risk income returns with strong rental and capital growth when market conditions are positive and show relative resilience in a downturn. We aim to enhance these returns through a development strategy, which requires appropriate levels of land holdings to support the pipeline. We seek to balance the risk of holding too much land which might be a drag to earnings, by acquiring land in appropriate locations with the required planning or zoning. Additionally we closely monitor the churn and duration of our land holdings. We also seek to mitigate the risks – including letting, construction and contractor covenant risks – that are inherent in development. Also mindful of our environmental responsibilities, we seek to also develop buildings which meet and exceed minimum regulatory requirements and achieve high environmental certification standards, to be attractive to occupiers both now and in the future.

In line with our income focus, we have a low appetite for risks to income from customers. Accordingly we seek a diverse occupier base with strong covenants and avoid over-exposure to individual occupiers in specialist properties. We encourage tenants to share energy usage, operate in a low carbon way and actively encourage the use of green energy where possible in our buildings.

FINANCIAL RISK

The Group maintains a low to moderate appetite for financial risk in general, with a very low appetite for risks to solvency and gearing covenant breaches.

As an income-focused REIT we have a low appetite for risks which threaten a stable progression in earnings and dividends over the long-term. We are, however, prepared to tolerate fluctuations in dividend cover as a consequence of capital recycling activity.

We also seek long-term growth in net asset value. Our appetite for risks to net asset value from the factors within our control is low, albeit acknowledging that our appetite for moderate leverage across the cycle amplifies the impact of market driven asset valuation movements on net asset value.

CORPORATE RISK

We have a very low appetite for risks to our good reputation with our customers and wider stakeholders, including investors, regulators, employees, business partners, suppliers, lenders and the communities in which we operate.

Our responsibilities to these stakeholders include compliance with all relevant laws; accurate and timely reporting of financial and other regulatory information; safeguarding the health and safety of employees, suppliers, customers and other users of our assets; our impact on the environment; to assess the impact of new and evolving technologies; compliance with codes of conduct and ethics; ensuring business continuity; and making a positive contribution to the communities in which we operate.

OUR INTEGRATED AND ROBUST APPROACH TO RISK MANAGEMENT

The Board has overall responsibility for ensuring that risk is effectively and consistently managed across the Group. The Audit Committee monitors the effectiveness of the Group's risk management process on behalf of the Board. Further information on compliance with the risk management provisions of the UK Corporate Governance Code can be found in the Governance section on pages 116-117.

The risk management process is designed to identify, evaluate and respond to the significant risks (including emerging risks) that the Group faces. The process aims to understand and mitigate, rather than eliminate, the risk of failure to achieve business objectives, and therefore can only provide reasonable and not absolute assurance.

The identification and review of emerging risks are integrated into our risk review process. Emerging risks are those risks or a combination of risks which are often rapidly evolving and for which the impact and probability of occurrence have not yet been fully understood and consequently necessary mitigations have not yet fully evolved. All risk owners and managers within the business are challenged to consider emerging risks and this is supplemented through formal twice-yearly horizon scans with the Executive Committee.

The Board recognises that it has limited control over many of the external risks it faces, such as global events as well as the macroeconomic, geopolitical, and regulatory environment, but it reviews the potential impact of such risks on the business and consequential decision making.

Internal risks are monitored by the Board to ensures that appropriately designed controls are in place and operate in order to manage them.

The Board has performed a robust assessment of the principal and emerging risks facing the Group. It formally reviewed the principal and emerging risks twice during the year and also completed its annual review and approval of the Group's risk appetite, and the Group's risk management policy. The Audit Committee reviews the process over how the Group Risk Register has been compiled, twice a year.

OUR FRAMEWORK FOR RISK GOVERNANCE

BOARD

- Overall responsibility for ensuring that risk is effectively managed across the Group.
- Determines the Group's risk appetite and policy.
- Conducts robust assessment of current and emerging risks.

AUDIT COMMITTEE

- Monitors effectiveness of the Group's risk management process and internal control systems.

STAGE 1

EXECUTIVE RISK OWNERS

- Own risks in area for which they are responsible.
- Assign accountability for mitigating individual risks to risk managers.
- Ensure that risks are identified, assessed and adequately controlled and mitigated.
- Review and identify existing and emerging risks with the risk management function at least twice per year.

RISK MANAGERS

- Responsible for ensuring the risk is within appetite.
- Drive design and implementation of controls.
- Review, identify and assess existing and emerging risks with the risk management function at least twice per year.

STAGE 2

EXECUTIVE COMMITTEE

- Oversees execution of risk management across the business.
- Formally considers risks, including emerging risks, twice a year.
- Directly oversees strategic risks.
- Delegates accountability for risk management and monitors performance of risk controls.
- Assigns Executive Risk Owners to each risk.

MONITORING COMMITTEES

- Regularly identify and monitor the significant risks and corresponding controls within their domains.
- Risk management function attends regularly.

GROUP RISK COMMITTEE

- Coordinates the risk management process on behalf of the Executive Committee.
- Develops risk policy.
- Oversees the work of the Risk Management function, which in turn:
  – Manages, maintains and reports on the Risk Register.
  – Assesses and documents risks and controls.
  – Provides quality assurance and challenge to risk owners and managers.

STAGE 3

INTERNAL AUDIT

- Agrees internal audit programme in conjunction with the Group Risk Register.
- Conducts internal audit programme and reports to Audit Committee.
- Continues to be responsive to issues as they arise and amend their programme accordingly.

The Group adopts the 'three lines of defence' model of risk management. Operational management, the individual risk manager and executive risk owner provide the first line of defence. The Executive Committee, other monitoring committees (such as the Investment Committee and the Technology Committee), and the risk management function overseen by the Group Risk Committee provide the second line of defence. Finally, Internal Audit provides the third line of defence.

Risks are considered within each area of the business to ensure that risk management is fully embedded within the Group's operations, culture and decision-making processes.

Accountabilities for the Group's risk management are outlined in the diagram above.

We have put risk appetite at the heart of our risk management processes. It is integral both to our consideration of strategy and to our medium-term planning process. Risk appetite also defines specific tolerances and targets for key metrics and the criteria for assessing the potential impact of risks and our mitigation of them.

The most significant risks and mitigating controls are detailed in the Group Risk Register. Risks are assessed in both inherent (assuming that no controls are in place) and residual (with mitigating controls operating normally) states. As part of the assessment, risk impact is directly measured against risk appetite so that it is clear whether each risk is comfortably within appetite, tolerable, intolerable or below appetite. We also formally assess the velocity of the most significant risks to determine how quickly they might become intolerable.

A Key Risk Indicator (KRI) dashboard is produced and monitored regularly to show actual and forecast performance against risk appetite metrics, allowing informed decision making. KRIs are considered regularly by the relevant monitoring committees in their decision making as well as being integral to the Group's Medium Term Plan.

Mitigations for each risk are documented and monitored in the Group Risk Register. The Register is used as a key input to determine priorities for the Group's internal audit assurance programme. Furthermore, management's annual assessment of control effectiveness is driven by the Group's Risk Register.

Principal risks

The principal risks have the potential to affect SEGRO's business materially. Risks are classified as 'principal' based on their potential to intolerably exceed our appetite (considering both inherent and residual impact) and cause material harm to the Group.

Some risks that may be unknown at present, as well as other risks that are currently regarded as immaterial and therefore not detailed here, could turn out to be material in the future.

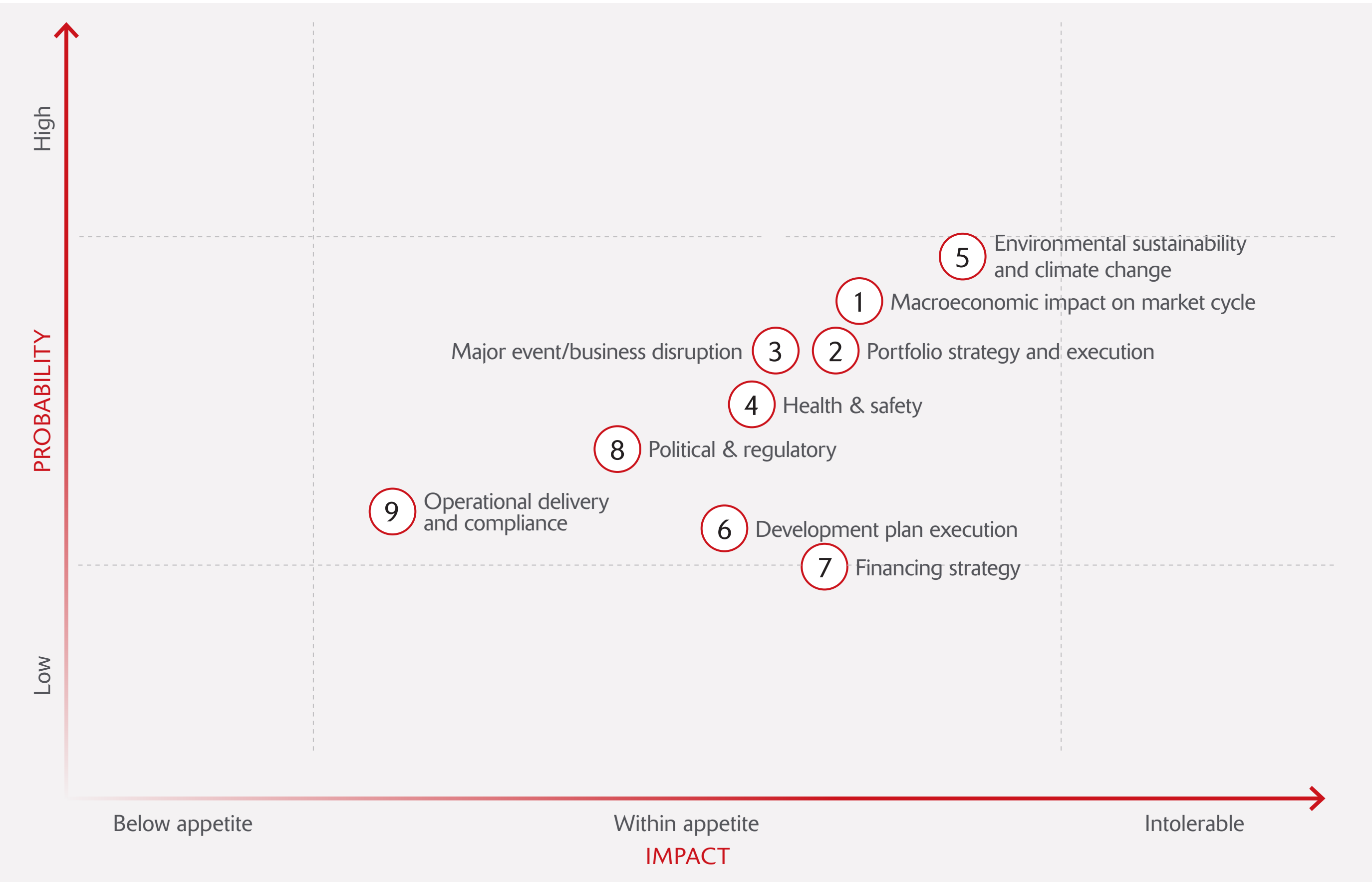
The current principal risks that the Group is aware that it is facing are summarised in the diagram below and described across the following pages.

The descriptions indicate the potential areas of impact on the Group's strategy; the time-horizon and probability of the risk; the principal activities that are in place to mitigate and manage such risks; the committees that provide second line of defence oversight; changes in the level of risk during the course of the year; whether the residual risk is within our appetite (after the application of our mitigations); and link to further relevant information in this report.

The disruptive Brexit risk previously reported has been removed as a principal risk as it was at least partially mitigated by the trade agreement between the UK and EU and subsequently no material impacts on the Group have arisen. The relevant consequences of Brexit are now being managed within each applicable risk, such as political and regulatory risk.

Furthermore, our environmental sustainability and climate change risk has increased during the year for reasons described in more detail below, whilst the others have remained in line with the prior year.

RESIDUAL RISK



OPERATIONAL EXCELLENCE | DISCIPLINED CAPITAL ALLOCATION | EFFICIENT CAPITAL AND CORPORATE STRUCTURE | INCREASED RISK | SIMILAR RISK | DECREASED RISK

1 MACROECONOMIC IMPACT ON MARKET CYCLE

The property market is cyclical and there is a continuous risk that the Group could either misread the market or fail to react appropriately to changing market and wider geopolitical conditions. This could result in capital being invested or disposals taking place at the wrong price or time in the cycle.

MITIGATIONS

The Board, Executive Committee and Investment Committee monitor the property market cycle on a continual basis and adapt the Group's investment/divestment stance in anticipation of changing market conditions.

Multiple, diverse investment and occupier market intelligence is regularly reviewed and considered, both from internal 'on the ground' sources and from independent external sources.

Upside and downside scenarios are incorporated into Investment Committee papers to assess the impact of differing market conditions and inform our portfolio strategy (see separate principal risk).

CURRENT YEAR ACTIVITY

During the year, we have continued to regularly monitor and assess the economic outlook. This includes a wide range of external forces, such as inflation, which has increased in the period with consequential impact on a number of areas including rental income, construction costs and interest rates.

IMPACT ON STRATEGY

CHANGE IN 2021

RESIDUAL RISK WITHIN APPETITE? ✓

OVERSEEN BY: EXECUTIVE COMMITTEE

FURTHER INFORMATION: THE MARKET OUTLOOK IS DETAILED IN THE CHIEF EXECUTIVE'S STATEMENT ON **PAGES 16-19**

2 PORTFOLIO STRATEGY AND EXECUTION

The Group's Total Property and/or Shareholder Returns could underperform in absolute or relative terms as a result of an inappropriate portfolio strategy. This could result from:

- Holding the wrong balance of prime or secondary assets;
- Holding the wrong amounts or types of land, reducing returns and/or constraining opportunities;
- Holding the wrong mix of risk assets (for example, between higher risk 'opportunity' assets and lower risk 'core' assets) or too many old or obsolete assets;
- Holding assets in the wrong geographical markets, missing opportunities in new markets or lacking critical mass in existing markets; and
- Overpaying for assets through inadequate due diligence or price pressures from competitors.

MITIGATIONS

The Group's portfolio strategy is subject to regular review by the Board in order to consider the desired shape of the portfolio so as to meet the Group's overall objectives and to determine our response to changing opportunities and market conditions.

The Group's disciplined capital allocation is informed by comprehensive asset plans and independent external assessments of market conditions and forecasts.

Regular portfolio analysis enables the portfolio to be correctly positioned in terms of location and asset type and to retain the right mix of core and opportunity assets. The annual asset planning exercise provides a bottom-up assessment of the performance and potential for all assets so that underperforming assets can be identified and considered for sale. Asset plans are prepared annually for all estates to determine where to invest capital in existing assets and to identify assets for disposal. Locally based property investment and operational teams provide market intelligence and networking to source attractive opportunities. Policies are in place to govern the evaluation, due diligence process, approval, execution and subsequent review of investment activity. Investment hurdle rates are regularly reappraised taking into account estimates of our weighted average cost of capital. Major capital investment and disposal decisions are subject to Board approval in line with portfolio strategy.

CURRENT YEAR ACTIVITY

During the year, external impacts discussed in the Macroeconomic Impact on Market Cycle risk, has influenced our portfolio strategy. Whilst we continue to closely monitor the situation, we have taken advantage of appropriate opportunities as they arise (as discussed further on pages 60 to 61).

IMPACT ON STRATEGY

CHANGE IN 2021

RESIDUAL RISK WITHIN APPETITE? ✓

OVERSEEN BY: EXECUTIVE COMMITTEE ; INVESTMENT COMMITTEE

FURTHER INFORMATION: THE MARKET OUTLOOK IS DETAILED IN THE CHIEF EXECUTIVE'S STATEMENT ON **PAGES 16-19**

Principal risks
continued

OPERATIONAL EXCELLENCE | DISCIPLINED CAPITAL ALLOCATION | EFFICIENT CAPITAL AND CORPORATE STRUCTURE | INCREASED RISK ▲ | SIMILAR RISK ◀▶ | DECREASED RISK ▼

3 MAJOR EVENT/BUSINESS DISRUPTION

Unexpected global, regional or national events result in severe adverse disruption to SEGRO, such as sustained asset value or revenue impairment, solvency or covenant stress, liquidity or business continuity challenges. A global event or business disruptor may include, but is not limited to a global financial crisis, health pandemic, civil unrest, act of terrorism, cyber-attack or other IT disruption. Events may be singular or cumulative, and lead to acute/systemic issues in the business and/or operating environment.

MITIGATIONS

The Group positions itself to withstand a global event and business disruption through its financing strategy (see separate principal risk); portfolio strategy (see separate principal risk) including holding a diverse set of property assets, staying close to customers to understand their changing needs, property insurance and strong customer base; organisational resilience of the work force; and detailed business continuity and disaster recovery plans. Going concern and viability is assessed through a detailed bottom-up medium-term planning process including a business stress test and downside scenarios.

We use third parties to supplement internal expertise when testing our resilience to cyber attack and other business disruption alongside regular training.

CURRENT YEAR ACTIVITY

The Group has continued to maintain a robust financing and portfolio strategy to leave it well positioned and provide flexibility given the continued uncertainty caused by the pandemic. As discussed in more detail on page 74, whilst we remain vigilant to the continued risk from the pandemic, we seek to operate with a degree of normality.

IMPACT ON STRATEGY

CHANGE IN 2021 ◀▶

RESIDUAL RISK WITHIN APPETITE? ✓

OVERSEEN BY: EXECUTIVE COMMITTEE; TECHNOLOGY COMMITTEE

FURTHER INFORMATION: THE MARKET OUTLOOK IS DETAILED IN THE CHIEF EXECUTIVE'S STATEMENT ON **PAGES 16-19**

4 HEALTH AND SAFETY

Health and safety management processes could fail, leading to a loss of life, litigation, fines and serious reputational damage to the Group.

This risk is heightened by the continued scale of the Group's development activity.

MITIGATIONS

The Group manages an active health and safety management system, with a particular focus on managing the quality of and compliance with good health and safety practice of all our suppliers.

A published health and safety policy is supported by site inspections of existing assets, as part of proactive management, and development project inspections in line with SEGRO's Health and Safety Construction Standard.

SEGRO seeks to improve health and safety standards on our development sites and continue to work closely with our suppliers and health and safety consultants to increase understanding and implementation of SEGRO's requirements.

The Health and Safety Working Group is responsible for overseeing the implementation of, and compliance with, the Health and Safety Policy and Safety Management System. We undertake continuous monitoring of health and safety practices, including incidents, inspections and training tracked across the Group. Legal guidance and further support is provided through local health and safety consultants who provide regulatory assurance support to the Group alongside our internal expertise.

CURRENT YEAR ACTIVITY

During the year, the health and safety team have continued to prioritise the safety of the internal workforce whilst working away from the office and the management of available office space to the extent permitted by local regulations, in the context of the pandemic. Furthermore, the team has also worked with our contractors to ensure that work on our development sites was undertaken in a safe and compliant manner.

IMPACT ON STRATEGY

CHANGE IN 2021 ◀▶

RESIDUAL RISK WITHIN APPETITE? ✓

OVERSEEN BY: EXECUTIVE COMMITTEE; OPERATIONS COMMITTEE

FURTHER INFORMATION: APPROACH TO HEALTH AND SAFETY ON **PAGE 45**

OPERATIONAL EXCELLENCE | DISCIPLINED CAPITAL ALLOCATION | EFFICIENT CAPITAL AND CORPORATE STRUCTURE | INCREASED RISK ▲ | SIMILAR RISK ◀▶ | DECREASED RISK ▼

5 ENVIRONMENTAL SUSTAINABILITY AND CLIMATE CHANGE

Failure to anticipate and respond to the impact of both physical and transitional risks from climate change on the sustainability of our environment as both a principal and emerging risk. Laws, regulations, policies, taxation, obligations, customer preferences and social attitudes relating to climate change continue to evolve. Non-compliance with laws and regulations, reporting requirements, increased costs of tax and energy could cause loss of value to the Group. Not keeping pace with social attitudes and customer behaviours and preferences could additionally cause reputational damage and reduce the attractiveness and value of our assets. A lack of strong environmental credentials may reduce access to capital or increase cost as these are increasingly important criteria to investors and lenders.

Climate-related risks, their time horizon and the corporate strategy and financial planning response are detailed further on pages 92 to 97.

MITIGATIONS

The Responsible SEGRO Framework sets out our corporate responsibility strategy, as well as medium and long-term commitments. The Responsible SEGRO Driving Group is responsible for overseeing the delivery of the strategy and regularly report to the Executive Committee and Board on implementation of strategy and progress against our stated sustainability targets. Our dedicated Sustainability team is in place to support the operations teams in managing our day to day response to environmental risks including the Technical Implementation Group (who are responsible for developments). Each significant investment appraisal includes environmental considerations such as measures taken to increase energy efficiency and reduce carbon emissions. A climate resilience study has been undertaken to assess the medium and long-term physical risks to our portfolio as detailed further on page 95. Group and local teams are constantly kept up to date with new laws and regulations as they become relevant through regular training and use of a panel of expert advisors.

CURRENT YEAR ACTIVITY

During the year, the Board agreed the new 'Responsible SEGRO' framework including the target to be net zero by 2030. Furthermore, we reduced the carbon emissions from our Polish portfolio through a certified sustainable energy tariff. Both SEGRO and our most significant joint venture, SELP, issued Green Bonds associated with our environmental credentials. See page 97 for details of further actions during 2022.

The Group provide disclosures in line with those required by the Task Force on Climate-Related Financial Disclosures (TCFD) framework recommendations on page 98.

IMPACT ON STRATEGY

CHANGE IN 2021 ▲

RESIDUAL RISK WITHIN APPETITE? ✓

OVERSEEN BY: EXECUTIVE COMMITTEE; OPERATIONS COMMITTEE

FURTHER INFORMATION: ESG DISCLOSURES ON **PAGES 92-97**

6 DEVELOPMENT PLAN EXECUTION

The Group has an extensive current programme and future pipeline of developments. The Group could suffer significant financial losses from:

- Cost over-runs on larger, more complex projects, for example, due to contractor default or poor performance and management;
- Increased construction costs (for example from labour market changes or supply chain pressures) leading to reduced or uneconomic development yields;
- Above-appetite exposure to non-income producing land, infrastructure and speculatively developed buildings arising from a sharp deterioration in occupier demand and/or inappropriate land acquisition due diligence; and
- Market competition reducing access to suitable land bank and/or increasing acquisition costs.

MITIGATIONS

Our appetite for exposure to non-income producing assets (including land, infrastructure and speculative developments) is monitored closely, for example, when acquisition decisions are being made by the Investment Committee.

We retain a high level of optionality in our future development programme including at the point of land acquisition, commitment to infrastructure and commitment to building. Pricing of land acquisitions and the consequential impact on returns are considered by the Investment Committee when assessing appraisals.

The development programme remains weighted towards pre-let opportunities.

The risk of cost-overruns is mitigated by using our experienced development teams and the use of trusted advisors and contractors.

The risk of contractor default is mitigated by using a diversified selection of companies who have been through a rigorous onboarding process and closely monitoring their financial strength.

Our short development lead-times enable a quick response to changing market conditions.

CURRENT YEAR ACTIVITY

During the year, the Group continued to spend a significant amount on our development programme with each significant project appraisal required to meet detailed pre-set criteria and subject to approval by the Investment Committee. We continue to regularly monitor the performance and financial strength of our contractors as contracts are awarded through the year.

IMPACT ON STRATEGY

CHANGE IN 2021 ◀▶

RESIDUAL RISK WITHIN APPETITE? ✓

OVERSEEN BY: EXECUTIVE COMMITTEE; OPERATIONS COMMITTEE

FURTHER INFORMATION: DEVELOPMENT UPDATE ON **PAGES 56-59**

Principal risks
continued

OPERATIONAL EXCELLENCE | DISCIPLINED CAPITAL ALLOCATION | EFFICIENT CAPITAL AND CORPORATE STRUCTURE | INCREASED RISK | SIMILAR RISK | DECREASED RISK

7 FINANCING STRATEGY

The Group could suffer an acute liquidity or solvency crisis, financial loss or financial distress as a result of a failure in the design or execution of its financing strategy.

Such an event may be caused by a number of factors including a failure to obtain debt or equity funding (for example, due to market disruption or rating downgrade); having an inappropriate debt structure (including leverage level, debt maturity, interest rate or currency exposure); poor forecasting; defaulting on loan agreements as a result of a breach of financial or other covenants; or counterparty default.

MITIGATIONS

The Group's financing strategy is aligned with our long-term business strategy, the Medium Term Plan and our risk appetite. The Treasury policy defines key policy parameters and controls to support execution of the strategy.

The Group regularly reviews its changing financing requirements in light of opportunities and market conditions and maintains a good long-term relationship with a wide range of sources of finance.

Liquidity remains strong and there is substantial headroom on all our financial covenants.

CURRENT YEAR ACTIVITY

During the year, financing activity has maintained a balance sheet, increased average debt maturity, lowered the average cost of debt, and demonstrated our ability to access a range of debt capital markets (see pages 68 to 69).

IMPACT ON STRATEGY

CHANGE IN 2021

RESIDUAL RISK WITHIN APPETITE? ✓

OVERSEEN BY: EXECUTIVE COMMITTEE

FURTHER INFORMATION: FINANCE REVIEW ON **PAGES 68-69**

8 POLITICAL AND REGULATORY

The Group could fail to anticipate significant political, legal, tax or regulatory changes, leading to a significant unforeseen financial or reputational impact.

In general, regulatory matters present medium- to long-term risks with a medium likelihood of causing significant harm to the Group.

Political risks could impact business confidence and conditions in the short and longer terms.

MITIGATIONS

Legal and regulatory risks are reviewed regularly by the Executive Committee. Corporate heads of function consult with external advisers, attend industry and specialist briefings, and sit on key industry bodies such as EPRA and the British Property Federation.

As the economic impact of the pandemic affects global economies, the likelihood of changes to taxation regulations increases. We continue to closely monitor the taxation regulations with our advisors to ensure changes which may impact the Group or our customers, are identified and addressed accordingly, in a timely fashion.

CURRENT YEAR ACTIVITY

The regulatory environment has been somewhat dynamic for a number of reasons including the UK leaving the EU and the impact of the pandemic. The Group continues to work closely with advisors to monitor changes in relevant legislation and regulations to ensure that they are identified and addressed appropriately.

IMPACT ON STRATEGY

CHANGE IN 2021

RESIDUAL RISK WITHIN APPETITE? ✓

OVERSEEN BY: EXECUTIVE COMMITTEE

FURTHER INFORMATION: OUR GOVERNANCE FRAMEWORK ON **PAGES 116-118**

OPERATIONAL EXCELLENCE | DISCIPLINED CAPITAL ALLOCATION | EFFICIENT CAPITAL AND CORPORATE STRUCTURE | INCREASED RISK | SIMILAR RISK | DECREASED RISK

9 OPERATIONAL DELIVERY AND COMPLIANCE

The Group's ability to protect its reputation, revenues and shareholder value could be damaged by operational failures such as: failing to attract, retain and motivate key staff; major customer default; supply chain failure or the structural failure of one of our assets.

Compliance failures, such as breaches of joint venture shareholders' agreements, loan agreements or tax legislation could also damage reputation, revenue and shareholder value.

MITIGATIONS

The Group maintains a strong focus on Operational Excellence. The Executive, Operations, and Technology Committees regularly monitor the range of risks to property management, compliance, organisational effectiveness and customer management.

The Group's tax compliance is managed by an experienced internal tax team. REIT and SIIC tax regime compliance is demonstrated at least bi-annually. Compliance with joint venture shareholder agreements is managed by experienced property operations, finance and legal employees. The SELP joint venture additionally has comprehensive governance and compliance arrangements in place, including dedicated management, operating manuals, and specialist third party compliance support.

Our HR team is responsible for our organisational resilience ensuring the correct organisational structure and culture is in place to support the business and attract, retain and motivate a suitably talented workforce.

CURRENT YEAR ACTIVITY

During the year, the working life of staff has continued to be impacted and we have continually monitored the organisational resilience to respond to this, for example, ensuring that staff have the ability and resources to work away from the office for sustained periods, and that the resilience and the security of our technology systems is fully maintained.

IMPACT ON STRATEGY

CHANGE IN 2021

RESIDUAL RISK WITHIN APPETITE? ✓

OVERSEEN BY: EXECUTIVE COMMITTEE; TECHNOLOGY COMMITTEE; OPERATIONS COMMITTEE

FURTHER INFORMATION: OUR PEOPLE SECTION ON **PAGES 99-100**