

Risk management

British Land generates returns to shareholders through long-term investment decisions requiring the Company to evaluate opportunities arising in the following core areas:

- demand for space from occupiers against available supply;
- differential pricing for premium locations and buildings;
- alternative use for buildings;
- demand for returns from investors in property, compared to other asset classes;
- economic cycles, including their impact on tenant covenant quality, interest rates, inflation and property values;
- price differentials for capital to finance the business;
- legislative changes, including planning consents and taxation; and
- construction pricing and programming.

These opportunities also represent risks, the most significant being change to the value of the property portfolio. This risk has high visibility to senior executives and is considered and managed on a continuous basis. Executives use their knowledge and experience to knowingly accept a measured degree of market risk.

The principal **external business risks** identified can be summarised in the table below.

Key **internal management and process** risks are also identified within British Land's formal risk management process. These internal risks are the focus of assurance work performed by the Group's Internal Audit function. The risk management process includes defined risk areas and a risk scoring methodology based on the assessed impact of the risk event and the likelihood of its occurrence. The principal risks identified are considered and reviewed at various stages in the process, culminating in consideration of and discussion by the Executive Directors, the Audit Committee and the Board.

Risk:	Principal Mitigations:
Property Market	
Market pricing and other changes affecting property value, including:	Regular investment appraisals assess prospects and identify properties for disposal where justified
• Change in investor and occupier demand	Upward only long leases on good quality well located buildings
• Letting risk on speculative development	Occupier led development strategies with a phased pipeline of projects
• Environmentally unsustainable buildings	New developments built in line with a formal Sustainability Brief
• Tenant default	Spread of tenants with strong financial covenants and regular covenant review process
Debt Market	
Reduced availability or increased cost of finance	Leverage regularly reviewed
	Borrowing covenant headroom maintained
	Spread of sources and maturities of facilities
	Sufficient lines maintained for spending commitments
	Interest rate management policy with high level of hedging
Currency exchange movement	Foreign currency assets financed by matching currency borrowings
Development	
Poor control of design and construction programme, or contractor failure leading to cost overruns and programme delays	Contractor performance closely monitored within project management process
	Regular monitoring and forecasting of project costs
	Contractor financial covenant review process
Reputation	
Health and safety	Health and Safety Policy and defined responsibilities and reporting throughout the Group
Non-compliance with regulation	Independent compliance auditing programme
People	
Retention of key staff	Career development and succession planning for key executive positions
	Key man insurance
	Remuneration structure reviewed and benchmarked