Principal risks and uncertainties

Super connected:
Delivering The Workspace Advantage requires all parts of our business to work together.
In isolation risk mitigation helps us manage specific subjects and areas of the business. However, when brought into our day-to-day activities successful risk management has helped us maximise our advantage in 2018/19.

Market understanding
Monitoring the fundamentals of the London market helped us spot opportunities as well as assess what our customers want. We have undertaken work to engage with customers to understand their needs.

Property acquisition
In the year risk mitigation helped us assess the right opportunities – where we knew we could deliver our unique customer offer.

Refurbishment and redevelopment
We continue to apply risk management at ongoing refurbishments and redevelopments where we are investing to deliver The Workspace Advantage.

- Our market – page 18
- Our business model – 40
- Doing The Right Thing – page 42
- Interim Chief Executive Officer's statement – page 34
- Business review – page 67
- Governance – page 77

Risks and delivering our strategy
In order to deliver our strategy, we aim to maintain a balance between safeguarding against potential risks, and taking advantage of all potential opportunities. Taking advantage of opportunities whilst considering the risks related to these opportunities is key, and we aim to do this as part of our everyday business activity rather than as a standalone exercise.

Our Key Strategic Aims are:
- Right market
- Right properties
- Right brand
- Right customers
- Right people

We operate within the London market which continues to be a resilient and vibrant market in which to operate.

We want our properties to be safe, secure and well maintained.

We need our brand to be reflective of our product, our customers and our culture. We aim to take opportunities to promote our brand efficiently and effectively.

Our customers are at the heart of everything we do and we want them to be safe and secure in our properties and to create an environment for them in which they can thrive.

We also need the right staff and expertise to deliver our strategy, with adequate succession planning where needed. We invest heavily in our staff and put effort into training and developing our employees and making them feel valued and part of our culture and values.

We aim to have a robust risk management process in place to enable us to meet our strategic objectives, and also manage day to day risks and issues.

Key highlights for 2018/19
- Ongoing data protection review and training has been undertaken across the organisation. Review of our information asset registers continues. A specific working group has been created, the Information Governance Group, incorporating senior managers from across the business to monitor compliance with GDPR requirements. Best practice guidance is being rolled out across the Group.
- We are launching the use of risk management software. The aim of this is to help effectively capture findings from our internal property site reviews, third party audits and detailed information to demonstrate our key controls are operating effectively.
- Continuing to safeguard the Group with regard to cyber security and keeping aware of risks and issues in this fast moving area. We undertook an external review of our cyber security in the year and are actioning recommendations made.
- Regular review and consideration of any potential impact from Brexit.

Further detail on our assessment of Brexit can be found on page 62.

Risk Management Structure
We have an established Risk Management Structure in place to help us capture, document and manage risks facing our business. We monitor this structure to confirm that it remains appropriate for Workspace's size, culture and business model.

Our aim is to manage each of our risks and mitigate them so that they fall within the risk appetite level we are prepared to tolerate for each risk area.

The Risk Management Structure is underpinned by close working relationships between the Executive Directors, Senior Management and other team members, which enhances our ability to efficiently capture, communicate and action any risk issues identified.

Risk Committee
We have a Risk Committee, which meets regularly and has responsibility for co-ordinating risk management activities throughout the Group. It prepares regular reports to the Board and Audit Committee.

The Risk Committee comprises the Interim Chief Executive Officer, the Operations Director and Company Secretary, alongside the Head of Finance and other Senior Managers and representatives from across the Group. The Risk Committee engages with staff throughout the business and our small size encourages good communication between each business area. In addition, frequent visits by head office staff to our business centres increases awareness and understanding of any property-specific risks and issues.

Risk registers for all business areas are maintained and risks are assessed against a defined scoring mechanism to enable consistency.

Risk culture
Risk Management continues to be an integral part of all our activities. Risks and opportunities are considered in every business decision we make. It is embedded in our culture to consider potential risks of any new business decision. We focus on key risks which could impact on the achievement of our strategic goals and therefore on the performance of our business.

We are fortunate to have created a positive culture within Workspace which encourages open communication and engagement. This enables staff from all areas of the business to feel free to raise risks or opportunities, no matter how small, to their managers and teams. Having this culture means that information is communicated across the business well. We try to engage staff with risk related issues, particularly those which are new and emerging so that we are managing our lower level risks as well as the more strategic ones.

Risks are considered at every level of the business including when approving corporate transactions, property acquisitions and disposals and whenever undertaking refurbishment and redevelopment projects.

The Executive Committee meets weekly to discuss key performance measures and any change in these, meaning they are ideally placed to notice any concerning changes or early warnings. Further information on our KPIs can be found on pages 49 to 54.

Risk appetite
Risk appetite reflects the overall level of risk acceptable with regards to our principal business risks. The Board is responsible for deciding the amount of risk it is willing to take.

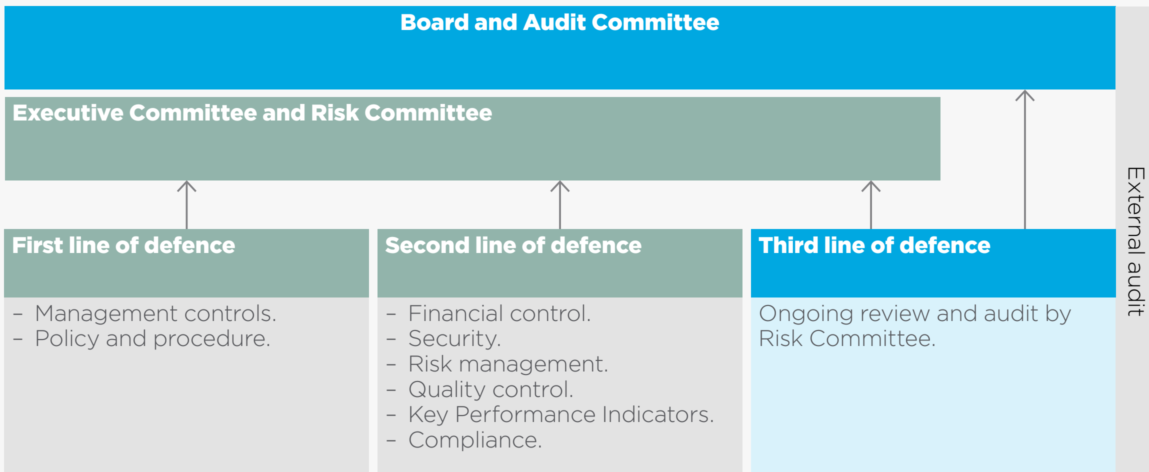
We work towards a medium to low risk profile, implementing mitigating actions to bring each risk down to within the agreed risk appetite. Currently all our Principal Strategic risks are subject to the same moderate risk appetite.

Strategic risks
- These are defined as risks which impact achievement of our strategy and objectives.
- They are identified, assessed and managed by the Executive Committee.
- Strategic risks are ultimately owned by the Board.
- The Board and the Audit Committee receive regular updates on these risks.
- The Board is satisfied that we continue to operate within our desired risk appetite for our Strategic Risks.

Details of our Principal Risks are outlined in the next few pages. These risks are not in order of risk rating.

Risk changes in year
Competition has been added as a new risk this year due to the increasing number of companies with a similar customer offering. We have also separated our Brand and Reputational Risk into two areas. Two risks have been assessed as reduced in impact during the year – Refurbishment and Redevelopment and Valuation Risk. Regulatory Risk impact has been increased, reflecting increasing legislation and complexity.

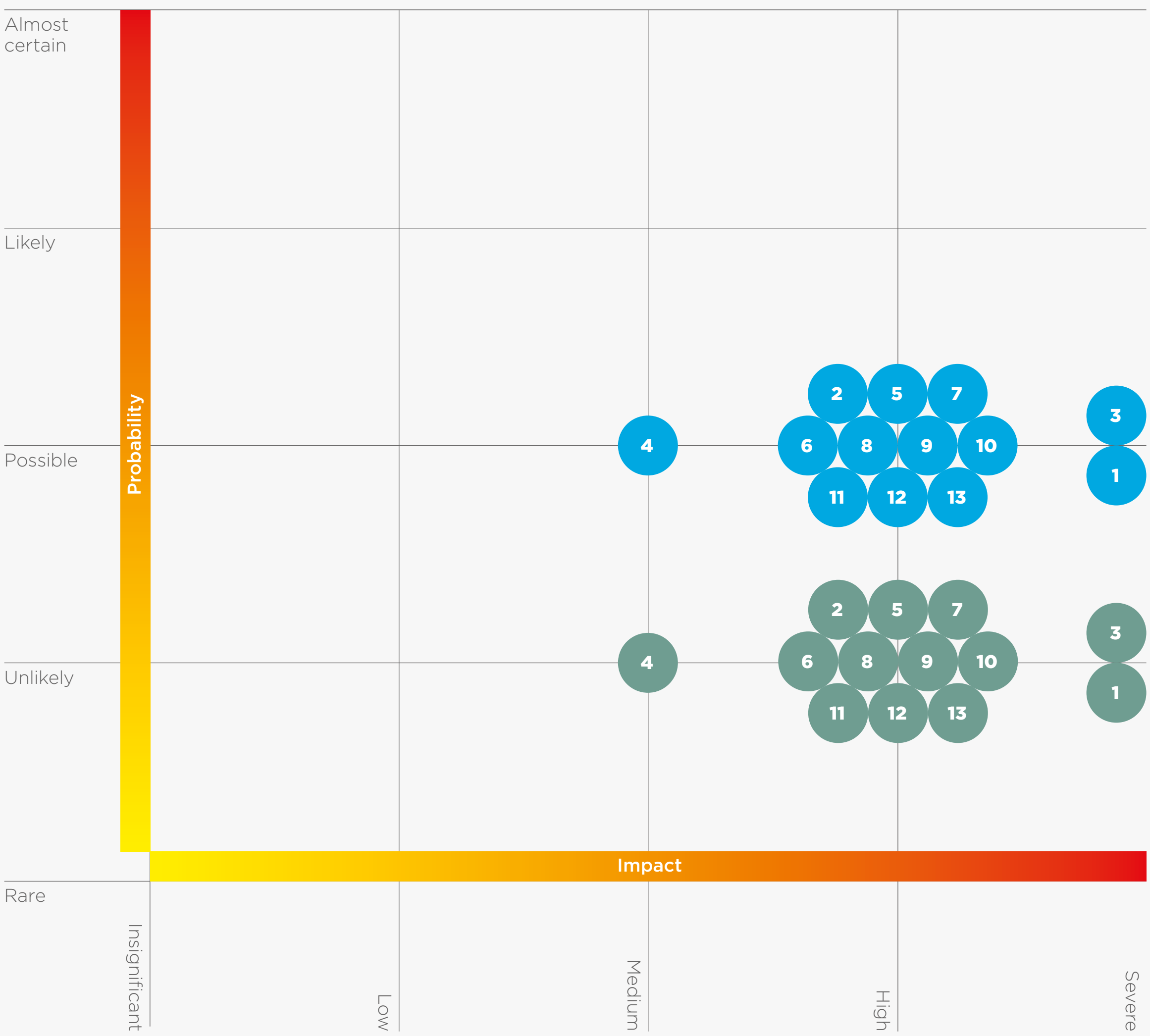
Our Risk Management Structure



Current assessment of Principal Business Risks

- Pre-mitigation
- Post-mitigation

1 Financing
2 Valuation
3 Customer demand
4 Refurbishment and redevelopment
5 Acquisitions and business development
6 Brand
7 Regulatory
8 Business interruption
9 Resourcing
10 London
11 Cyber security
12 Competition
13 Reputation



1. Financing

Principal risk
Reduced availability of financing options resulting in inability to meet business plans or satisfy liabilities.

Risk impact
- Inability to fund business plans.
- Restricted ability to invest in new opportunities.
- Increased interest costs.
- Negative reputational impact amongst lenders and in the investment community.

Mitigation
We regularly review funding requirements for business plans and we have a wide range of options to fund our forthcoming plans. We also prepare a five-year business plan which is reviewed and updated annually. Further detail is provided in the Viability Statement on page 66.

We have a broad range of funding relationships in place and regularly review our refinancing strategy.

We also maintain a specific interest rate profile via use of fixed rates and swaps on our loan facilities so that our interest payment profile is stable.

Loan covenants are monitored and reported to the Board on a monthly basis and we undertake detailed cashflow monitoring and forecasting.

Risk dashboard

Impact
Severe

Probability (post-mitigation)
Unlikely

Change from last year
No change

Risk appetite
Medium

Link to strategy
- Right markets.
- Right properties.

Key metrics

£276m
£100m new Private Placement Notes and £176m equity raise

22%
Loan to Value remains low after new acquisitions

2. Valuation

Principal risk
Value of our properties declining as a result of external market or internal management factors.

Risk impact
- Covenants (Loan to Value).
- Impact on share price.

Mitigation
Market-related valuation risk is largely dependent on external factors which we cannot influence. However, we continue to do the following to remain aware of any market changes, and to generate the maximum value from our portfolio we:
- Monitor the investment market mood.
- Monitor market yields and pricing of property transactions across the London market.
- Alternative use opportunities are pursued across the portfolio and we continue to drive progress made in achieving planning consent for mixed-use development schemes, helping to drive our valuation further.

Risk management in action
We have maintained a low Loan to Value ratio, providing mitigation from any potential adverse changes in the market.

During the year we have made significant progress with our programme of refurbishment works, enhancing the standard and desirability of our properties.

Risk dashboard

Impact
High

Probability (post-mitigation)
Unlikely

Change from last year
Reduced impact from Severe to high

Risk appetite
Medium

Link to strategy
- Right markets.
- Right properties.

Link to KPIs
7. Property valuation.
8. Total Property Return.

Key metrics

+2.7%
Increase in underlying property valuation

3. Customer demand

Principal risk
Demand for our accommodation declining as a result of social, economic or competitive factors, which impacts our occupancy and pricing levels.

Risk impact
- Fall in occupancy levels at our properties.
- Falling rent roll and property valuation.

Mitigation
Every week the Executive Committee meet with Senior Management to monitor occupancy levels, pricing, demand levels and reasons for customers vacating. This allows us to react quickly to changes in any of these indicators.

Our extensive marketing programme means that we are in control of our own customer leads and pipeline of deals.

We also utilise social media, backed up by a busy events programme which has further helped us to engage with customers. This differentiates us as we provide not only space but also an opportunity to network with other businesses in our portfolio.

We also stress test our business plans to assess the sensitivity we could tolerate if demand from our customers reduced. This can be found in the Viability Statement on page 66.

Dashboard

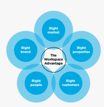
Impact
Severe

Probability (post-mitigation)
Unlikely

Change from last year
No change

Risk appetite
Medium

Link to strategy
- Right markets.
- Right properties.
- Right customers.
- Right people.
- Right brand.



Link to KPIs
5. Like-for-like rent roll.

Key metrics

90.9%
Like-for-like occupancy

12,575
Enquiries in the year

4. Refurbishment and Redevelopment

Principal risk
Cost inflation or timing delays or inability to proceed with planned pipeline of schemes.

Risk impact
- Failure to deliver expected returns on developments.
- Cost over runs.
- Delayed delivery of key projects.
- Poor reputation amongst contractors and customers if projects are delayed.

Mitigation
For every potential development scheme we work hard to gain a thorough understanding of the planning environment and seek counsel from appropriate advisers.

We undertake detailed analysis and appraisal prior to commencing a development scheme. Appraisals are presented for Investment Committee approval and sign-off is required for every project.

The Investment Committee reviews progress on refurbishments and redevelopments every fortnight, against project timings and cost budgets both during and after the completion of a project.

Dashboard

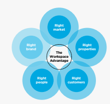
Impact
Medium

Probability (post-mitigation)
Unlikely

Change from last year
Reduced impact from High to Medium

Risk appetite
Medium

Link to strategy
- Right markets.
- Right properties.
- Right customers.
- Right people.



Link to KPIs
7. Property valuation.
8. Total Property Return.

Key metrics

4
Mixed-use redevelopment projects underway or contracted for sale

Goswell Road
We completed a major refurbishment of ground floor and basement space to create a modern and fresh feel.

5. Acquisitions and Business Development

Principal risk
Under performance due to inappropriate strategy on acquisitions and disposals.

Risk impact
- Poor timing of disposals.
- Poor timing of acquisitions.
- Failure to achieve expected returns.
- Negative reputational impact amongst investors and sell-side analysts.

Mitigation
We undertake regular monitoring of asset performance and positioning of our portfolio with periodic detailed portfolio reviews.

For each new acquisition we undertake thorough due diligence and detailed appraisals prior to purchase.

We also monitor acquisition performance against target returns via the monthly Board Pack.

Property disposals are subject to detailed review, appraisal and Board approval.

A monthly New Business Development meeting is held where the progress and profitability of each area, such as Club Workspace and our meeting room initiative, are reviewed.

Dashboard

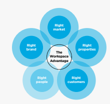
Impact
High

Probability (post-mitigation)
Unlikely

Change from last year
No change

Risk appetite
Medium

Link to strategy
- Right markets.
- Right properties.
- Right customers.
- Right brand.



Link to KPIs
3. EPRA NAV per share.
8. Total Property Return.
9. Total Shareholder Return.

Key metrics

£213m
Acquisitions in financial year

£52m
Proceeds from disposals

Customer feedback
Centre managers have regular dialogue with customers and gather feedback allowing us to adapt our offering to suit their evolving requirements.

6. Brand

Principal risk
Damage to our brand due to internal or external factors or behaviour.

Risk impact
- Damage to brand and perception amongst customers and stakeholders.
- Adverse publicity impacting on demand from new customers.

Mitigation
To enable us to understand our customers and their ever-evolving requirements we undertake twice-yearly customer surveys and have a system of real-time feedback in place. We developed a customer engagement plan to allow us to interact with our customers in a variety of ways, including the use of social media.

We maintain regular communication with all stakeholders and key shareholders. We hold investor presentations, roadshows and an annual Capital Markets Day.

Dashboard

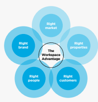
Impact
High

Probability (post-mitigation)
Unlikely

Change from last year
No change

Risk appetite
Medium

Link to strategy
- Right customers.
- Right people.
- Right brand.



Link to KPIs
5. Like-for-like rent roll.
10. Customer advocacy.

Key metrics

91.6%
Customer satisfaction score

7. Regulatory

Principal risk
Failure to meet regulatory requirements leading to fines or tax penalties, or the introduction of new requirements that inhibit activity.

Risk impact
- Fines or penalties for failure to adhere to regulations.
- Failure to identify and respond to the introduction of new requirements.
- Health and Safety breaches.
- Negative impact on reputation amongst investors and partners/suppliers.

Mitigation
Due to the increasing complexity of regulation requirements such as GDPR and Criminal Finance Act, the potential impact of the regulatory risk is considered to have increased. We continue to resource, advise and review in each key regulatory area.

During the year we recruited a Head of Legal and Assistant Company Secretary to help increase resource in this area.

REIT conditions are monitored and tested on a regular basis and reported to the Board. We work closely with HMRC and our tax advisers to remain aware of emerging issues and to keep up to date with changes.

Close working relationships are maintained with appropriate authorities and all relevant issues are openly disclosed.

The Company Secretary issues a detailed briefing to the Board regularly on emerging issues and changes to legislation.

The Group's Health and Safety Manager meets regularly with the Chief Executive Officer to keep abreast of any actual or potential Issues.

We have also undertaken a review of procedures in place in relation to the Criminal Finance Act.

Dashboard

Impact
High

Probability (post-mitigation)
Possible

Change from last year
Increased impact from Medium to High

Risk appetite
Medium

Link to strategy
- Right people.
- Right brand.

8. Business interruption

Principal risk
Major events mean that Workspace is unable to carry out its business for a sustained period.

Risk impact
- Loss of critical data.
- Loss of access for customers to work at our business centres.
- Potential loss of income.
- Potential negative impact on reputation amongst customers.

Mitigation
We have robust Business Continuity Plans and procedures in place which are regularly tested and updated. We also have in place a Crisis Management plan which details how we quickly and efficiently respond in an emergency event.

IT controls and safeguards are in place across all our systems.

By listening to our customers we know that technology, connectivity and remote working is more key than ever. We have invested time and funding into improving the security and reliability of technology and connectivity across much of our portfolio.

Dashboard

Impact
High

Probability (post-mitigation)
Unlikely

Change from last year
No change

Risk appetite
Medium

Link to strategy
- Right properties.
- Right people.
- Right brand.

Link to KPIs
10. Customer advocacy.

Key metrics

33

Buildings with Gold/ Platinum wired score ratings

Brexit

With the continuing uncertainty in the political and economic environment following the EU Referendum, it is important that we remain vigilant to any potential issues or impact that we foresee.

The Board has debated the potential implications of Brexit and mitigating actions required for key areas of the business.

Specific consideration has been given to the following areas:

Customers
The operational impact of Brexit and how it may affect customers is being monitored. Reviewing trends in pricing and demand as part of weekly trading meetings provides the ability to identify adverse market signals, thus enabling the operational team to respond accordingly. To date, we have not seen any significant impact on customer demand or pricing.

Supply chain
The Development team maintains a close relationship with contractors, conducting due diligence to understand the contingency plans and Brexit scenario planning programmes implemented by our partners and, seeking assurances that the services they provide and the materials they procure, will not be materially impacted. In the event that our contractors are impacted, this could result in a slowdown in our redevelopment and refurbishment programme.

Facilities management services provided by suppliers, such as cleaning and lift maintenance, are also subject to due diligence. Suppliers are asked to confirm that the products and services they are responsible for can be delivered without significant interruption under any scenario.

Employees
The potential impact on staff and the ability to recruit skilled people remains a focus. The Company is well regarded and there is a liquid pool of potential staff available. We have a large number of staff from EU countries and we plan to assist relevant staff with visa arrangements once the requirements under Brexit become clear.

Financing
As detailed in the Viability Statement on page 66 we have considered a number of sensitivities within our 5 year plan. We consider that the sensitivities modelled would cover the worst-case scenario of a no deal Brexit and plans have therefore been stress tested for this potential outcome.

The Company continues to meet regularly with its relationship banks and PP noteholders to discuss market conditions and availability of various sources of finance. The CFO receives regular updates from banks in relation to activity in the funding market.

Valuation
The valuation of our property portfolio could be reduced if Brexit impacts London office values and customer demand. A reduction in valuation could impact on LTV covenants within our financing facilities. However, with a relatively low LTV of 22% we would not expect this to cause a breach of covenants.

Regulation
The Company keeps up to date with changing regulations through discussions with advisors. Regulation is taken seriously and additional internal resource has been added in the year to allow an increased focus on this area.

Employee training
We carried out 227 training days during the year.

9. Resourcing

Principal risk
Failure to progress with strategy due to inability to recruit and retain correct staff.

Risk impact
- Reduced ability to action strategy successfully.
- Insufficient resource to manage increased demands as the Group grows.

Mitigation
We have a robust recruitment process in place to enable appropriate level of interviewing and scrutiny of new joiners.

We have various incentives to align staff objectives with those of the Group to help ensure staff are working in the best interests of the Group and its stakeholders. This is supported by a robust appraisal and review process for staff.

Our HR team run a detailed training and development programme designed to ensure staff are supported and encouraged to progress with learning and study opportunities.

Risk management in action
Our staff are fundamental to what makes our business work and drive the success of the Group, alongside making our business centres a fun and vibrant place to work for both staff and customers. We wanted to build on the culture we have and make sure we are communicating this well, so a series of staff workshops was held to discuss, debate and celebrate the culture and values we have. These were a success and helped ensure staff feel fully engaged with defining our core values.

Dashboard

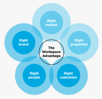
Impact
High

Probability (post-mitigation)
Unlikely

Change from last year
No change

Risk appetite
Medium

Link to strategy
- Right customers.
- Right people.
- Right brand.



Link to KPIs
1. Net Rental Income growth
2. Trading profit after interest
3. EPRA NAV per share
4. Dividend per share
5. Like-for-like rent roll
6. Like-for-like rent per sq. ft.
7. Property valuation
8. Total property return
9. Total Shareholder Return

Key metrics

26
Long service awards in the year

10. London

Principal risk
Adverse changes in the political, infrastructure and environmental dynamics of London lead to reduced demand from our customers.

Risk impact
- Impact on demand for space if London adversely affected by a major incident.

Mitigation
Having been based within the London market for a number of years, we know our markets and areas well.

We regularly monitor the London economy and commission research reports. We also hold regular meetings with the GLA and the councils in the London boroughs in which we operate so that we are aware of any changes coming through ahead of time.

We still see London as a vibrant city-communication with our customers and stakeholders supports this. For further detail on engagement with customers and stakeholders see page 91.

Dashboard

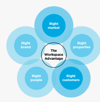
Impact
High

Probability (post-mitigation)
Unlikely

Change from last year
No change

Risk appetite
Medium

Link to strategy
- Right markets.
- Right customers.



Link to KPIs
2. Trading profit after interest.
5. Like-for-like rent roll.
6. Like-for-like rent per sq. ft.
7. Property valuation.
9. Total Shareholder Return.

11. Cyber security

Principal risk
Loss of data or income due to cyber security attack on our business.

Risk impact
- Loss of critical data.
- Financial loss due to fraud.
- Reputational damage amongst customers.
- Potential loss of income.

Mitigation
Time and resource is spent testing the security of our systems.

Monitoring guidance and best practice issued by Government and advisors.

Regular review of IT systems and infrastructure is in place to keep these as robust as practicable.

Performing system penetration tests.

Risk management in action
Cyber security and the safety and security of our systems and data remains key for us. This area is more of a challenge due to the constant evolution of technology and the risks which are posed.

Our staff have been required to complete a detailed cyber-security training programme and we have performed some phishing exercises to make staff more vigilant about opening suspicious emails and following internet links.

We used external resource to undertake a detailed review of our policies, procedures and controls in relation to cyber security.

Dashboard

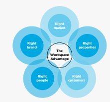
Impact
High

Probability (post-mitigation)
Unlikely

Change from last year
No change

Risk appetite
Medium

Link to strategy
- Right properties.
- Right people.
- Right brand.



12. Competition

Principal risk
Emerging third parties and competitors within our market.

Risk impact
- Reduced customer demand.
- Adverse impact on rental growth.

Mitigation
We closely monitor competitors at both a local level, by looking at similar business centres located closely to ours, and at a corporate level by reviewing competitor trends and performance.

We invest time and effort in getting to know our customers, building connections with them and encouraging them to build connections with each other, We thereby establish ourselves as more than just a landlord, giving us a competitive edge.

Dashboard

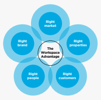
Impact
High

Probability (post-mitigation)
Unlikely

Change from last year
New risk

Risk appetite
Medium

Link to strategy
- Right properties.
- Right people.
- Right brand.
- Right customers.
- Right market.



13. Reputation

Principal risk
Failure to meet customer and external stakeholder expectations.

Risk impact
- Damage to our reputation and perception amongst customers and stakeholders.
- Adverse publicity impacting on demand from new customers.
- Worse reputation amongst all stakeholders as a result.

Mitigation
To facilitate our understanding of our customers and their ever-evolving requirements we undertake twice-yearly customer surveys and have a system of real-time feedback in place. We developed a customer engagement plan to enable us to interact with our customers in a variety of ways, including the use of social media.

Dashboard

Impact
High

Probability (post-mitigation)
Unlikely

Change from last year
No change to risk rating, but has been split out as a separate risk from Brand

Risk appetite
Medium

Link to strategy
- Right customers.
- Right people.
- Right brand.

Customers
We are more than just a landlord – we take the time to get to know our customers.