Principal risks and uncertainties

How we manage risk

The Group's performance may be impacted by potential risks and uncertainties in the pursuit of its objectives.

To continue to be a successful housebuilder in the long term, our decision making must be informed by a clear understanding of our business risks and opportunities.

Our Risk Management Framework provides assurance that we have identified our principal and emerging risks. Risk management is an integral part of our business and is embedded throughout our strategy, investment decisions, health and safety activities and core decision-making processes.

Our divisional boards consider their risk registers on a half-yearly basis, and site risks and opportunities are considered on a bi-monthly basis. Divisional risks, alongside the Group's principal risks, are carefully considered by the Executive Committee at half year and full year. They are subsequently reviewed by the Audit and Risk Committee and the Board, together with the Group's emerging risks. The risks are then assessed against the Group's risk appetite and its capacity to handle risk. More detailed and specific risk matters are reviewed by the Audit and Risk Committee on a regular basis.

RISK APPETITE

Risk appetite is the amount of risk that the Board is prepared to accept in return for achieving our purpose of building great places for our customers, communities and the environment.

Our appetite for risk is based on our analysis of market context, our strategy and input from management and advisors. These are assessed and reviewed throughout the year.

The Board takes a prudent view on risk and has an overall risk appetite across its portfolio that reflects this.

We seek to balance our risk position by:

- Maintaining a strong focus on health, safety and regulatory compliance matters
- Ensuring financial stability by generating profits and cash through our operations to meet our stakeholder objectives
- Being selective in land acquisitions - this allows us to adapt to cyclical markets and be flexible in our investment decisions
- Being disciplined in our operational efficiency and future growth
- Establishing the right culture and shared values

RISK CULTURE

Risk awareness exists throughout our decision-making processes and is embedded in systems, policies, leadership, governance and behaviours. Aligned to our values and defined in our Operational Framework, the culture we maintain is one where our colleagues are empowered to make decisions within agreed parameters in the delivery of our objectives. We ensure we have the right accountabilities across the Group, maintaining effective risk-based decision making.

RISK MANAGEMENT FRAMEWORK

TOP DOWN
Assessment and mitigation of risks at a Group level

Board
- Has overall responsibility for strategy, risk management and internal control
- Reviews the Group's principal and emerging risks
- Sets the Group's appetite for risk and strategy
- Delegates risk oversight to the Audit and Risk Committee and to the Executive Committee and divisions

Audit and Risk Committee
- Responsible for monitoring our risk management processes and approving relevant disclosures
- Monitors financial reporting and internal and external audit activities
- Provides assurance to the Board in relation to financial, operational and compliance controls

Executive Committee
- Oversees how we are managing the principal, emerging and divisional risks within the Group's risk appetite
- Embeds risk management within the Group
- Responsible for control and risk management of Group functions
- Monitors divisional performance and development risks
- Oversees the management and application of the internal control framework

Divisional boards
- Responsible for control and risk management within the division
- Monitor and assess the divisional and operational risks
- Maintain an effective system of control and risk management at a site level, including SHE and supply chain risks

BOTTOM UP
Assessment and mitigation of risk across divisional and functional areas

Principal risks and uncertainties continued

EMERGING RISKS

Emerging risks have the potential to impact our strategy but are either currently not fully defined, or are principal risks, which are particularly elevated or increasing in velocity. Our emerging risks are identified through horizon scanning by the Board and Executive Committee and include industry and macroeconomic trends.

Economic outlook
Although the economic outlook for the house building sector has improved during the year, resulting in a reduction in the residual market conditions risk, there are still significant risks related to the overall performance of the economy which may impact this trend in 2025. Growth remains fragile and there may be additional impacts from the government's budget, changes in fiscal policy and proposed legislation. This could have further implications on consumer confidence and demand in the housing market.

Planning reform
We continue to monitor developments from the government's plans to unlock the planning system and develop land planning reform. We welcome these proposals, but clearly there are risks that actions may take longer than anticipated or fail to deliver the necessary change required.

Fire remediation
We closely monitor the performance and progress of remedial fire safety works against our required commitments and contractual obligations. Regulatory requirements have continued to evolve under the Building Safety Act 2022 and there can be challenges with the scale, complexity and capabilities required to complete the works expediently. We are also mindful of the impacts on residents and the disruption this can cause. Given the increased impact, this principal risk has increased this year.

Organisational change
As the business pursues its strategy in 2025 there may be a high degree of organisational change and transformation required. Such change can impact a number of risks which will need appropriate mitigation and will be carefully monitored throughout the year.

Artificial intelligence
With the rapid advancement of artificial intelligence (AI) there are a number of emerging risks that we will need to consider in this area. There are risks that we do not make significant investment in AI or have the necessary skills to take advantage of the substantial productivity, commercial or competitive opportunities that will arise through this technology. There are further emerging risks around data security, misinformation and data manipulation where regulation and control environments will need to evolve.

BOARD ASSESSMENT

The Board acknowledges that several principal risks have increased during the year or have remained elevated. This reflects the uncertainty we face through challenging trading conditions, an evolving regulatory landscape, or where further change and transformation is required.

The Board confirms that it has performed a robust assessment of the Group's principal and emerging risks, with consideration of the long term. Overall, the Group has operated within its risk tolerance. Actions are in place over the long term to address specific risks where necessary, reducing the level of residual risk.

2024 RISK REVIEW TIMELINE

MAY 2024
Half-year divisional risk reviews
Including assessing specific site risks and sustainability impacts considered at meetings throughout the year

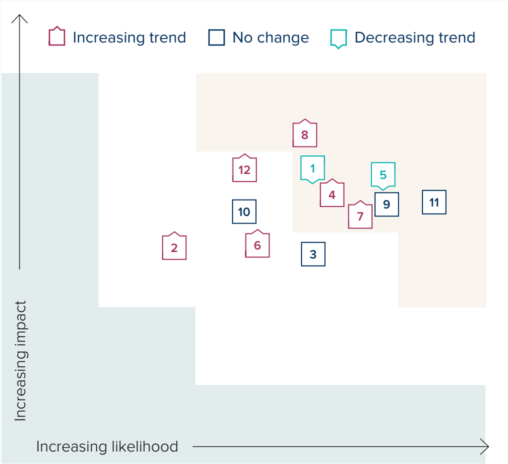
JUNE 2024
Group risk review by principal risk owners and Executive Committee
Considered existing principal and emerging risks against appetite

OCTOBER 2024
Full-year divisional risk reviews
Including assessing specific site risk and sustainability impacts considered at meetings throughout the year

NOVEMBER 2024
Executive Committee and Board risk reviews
Considered output of divisional and executive risk reviews, risk appetite and disclosures

RISK HEAT MAP

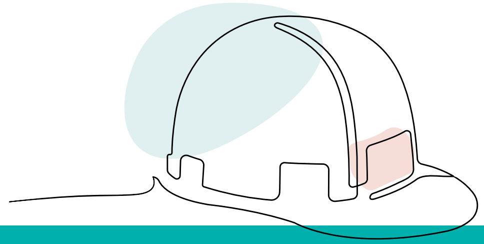
The Board has identified 12 principal risks that it considers material to the Group's performance. They have been mapped on a residual risk basis considering likelihood and impact. The Group's risk review process identified that some of the Group's principal risks had evolved during the year.



1 Market conditions
2 Safety, health and environment
3 Supply chain
4 Customer service and quality
5 Build cost and margin
6 Information technology, cyber security and business continuity
7 Attracting and retaining our skilled people
8 Solvency and liquidity
9 Laws, policies and regulations
10 Climate change
11 Land availability and planning
12 Combustible materials and legacy obligations

Principal risks and uncertainties continued

Our principal risks



1 MARKET CONDITIONS

Residual: High/Medium **Appetite:** Medium **Movement in year:** Reducing

Risk description

A decline in macroeconomic conditions in the UK negatively impacts the residential property market and reduces the ability of people to buy homes, either through unemployment or low employment, or constraints on mortgage availability.

Decreased sales volumes, occurring from a drop in housing demand, sees an increasing number of units held as unreserved and part exchange stock with a potential loss realised on final sales.

Changes to regulations and taxes negatively impact the market; for example, Stamp Duty Land Tax and the impact of government schemes such as Help to Buy: Equity Loan.

Actions/mitigations

We continually evaluate our strategy which we can flex and adjust as demand profiles change.

Regular sales forecasts and cost reviews to manage potential impact on sales volumes.

Forward sales, land expenditure and WIP are all carefully monitored to ensure they are aligned to levels of demand.

We focus on strategic purchase of sites, continued development of shared ownership models and engagement with a variety of incentive schemes.

We actively develop our sales offering by introducing new and innovative products to reflect the nature of market conditions.

We continually assess whether our organisational structures are appropriate to meet the changing demands within the housebuilding sector.

Development in the year

Market conditions have continued to improve against a tough economic backdrop, which encompassed political and economic instability. With reducing interest rates, improving house buyer demand and mortgage availability, the market outlook continues to stabilise and we are well placed to react to these changes.

We have expanded our sales and product offering to reflect the current market and strengthened our sales processes and incentives.

Links to strategic priorities

- Placemaking and Quality
- Land Portfolio
- Operational Efficiency
- Strategic Land and Partnerships

2 SAFETY, HEALTH AND ENVIRONMENT

Residual: Medium **Appetite:** Low **Movement in year:** Increasing

Risk description

A significant health and safety event results in injury, a dangerous occurrence or potentially even a fatality.

Significant environmental damage occurs caused by operations on site or in our offices.

A significant fire safety incident occurs at a legacy building under remediation.

Lack of recognition of the importance of the wellbeing of employees leads to increased sickness absence or employee turnover.

These incidents or situations have an adverse effect on people affected by our actions, our reputation and ability to secure public contracts or, if illegal, prosecution or significant financial losses.

Actions/mitigations

We have effective SHE management systems in place with increased authority for divisional build managers and Group SHE advisors to undertake incident investigations and implement follow up actions.

We use external independent safety auditors to conduct regular site safety reviews as appropriate and unannounced.

Use of external specialist consultants or contractors where specific health and safety requirements demand.

We have a network of mental health first aiders and a dedicated Employee Assistant Programme.

Where appropriate, interim risk mitigation solutions have been deployed in buildings where fire safety concerns have been identified.

Development in the year

We continue to report positive safety compliance scores and have increased our targets to drive greater performance and set higher standards.

Director and senior leadership site visits have been increased to drive stronger safety culture.

We continue to support and develop our network of mental health first aiders across the divisions.

The Group continues to assess and identify risks with legacy buildings impacted by fire-safety matters.

The risk has increased slightly during the year, reflecting the need to drive higher health and safety compliance.

Links to strategic priorities

- Operational Efficiency

Principal risks and uncertainties continued

3 SUPPLY CHAIN

Residual: Medium **Appetite:** Medium/Low **Movement in year:** No change

Risk description

Changing production levels across the industry put pressure on our materials supply chain.

Materials availability is impacted by changes in demand, rising energy prices and dislocation in supply chains due to external events.

Suppliers and subcontractors face insolvency due to adverse economic conditions.

The industry struggles to attract the next generation of talent into skilled trade professions.

The labour market does not have the knowledge and skills required to deliver modern methods of construction projects.

Actions/mitigations

We establish longer-term relationships with our supply chain partners through Group Trading Agreements and multi-year subcontractor framework agreements, including competitive tendering.

We engage in dialogue with major suppliers to understand critical supply chain risks and respond effectively.

We have developed effective procurement schedules to mitigate supply challenges.

Development in the year

Access to site labour and materials through the supply chain continues to be resilient, with forward demand and capacity planned through to the end of 2025. We have continued to build on supply chain relationships, price competitiveness and greater product selection. Our tendering processes have been enhanced through our Operational Framework and enhanced commercial controls.

Links to strategic priorities

- Placemaking and Quality
- Operational Efficiency

4 CUSTOMER SERVICE AND QUALITY

Residual: High **Appetite:** Low **Movement in year:** Increasing

Risk description

Build quality and customer service fall below our required standards, resulting in reduction of reputation and trust, and impact sales and volumes.

Unforeseen product safety or quality issues or latent defects emerge due to new construction methods.

Failure to effectively implement or comply with new regulations on build quality or customer service requirements and respond to emerging technologies impacts our sales and volumes.

Actions/mitigations

We continue to focus on enhancing build quality, achieving high customer satisfaction ratings and a retained commitment to excellent placemaking.

We have enhanced quality and build stage inspections to monitor adherence to our quality standards.

There is a central team of quality assurance and customer relationship managers to cover all divisions.

Customer service and build quality performance are bonus metric targets across the Group, including for Executive Directors.

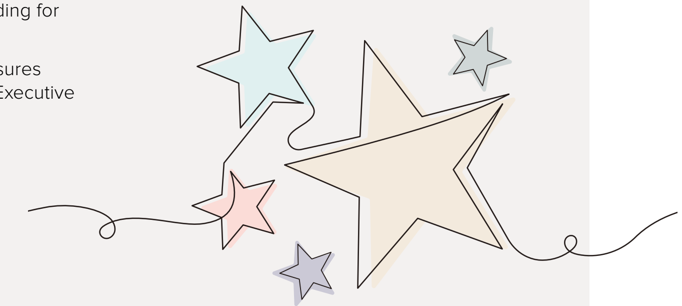
The customer service dashboard which measures key performance targets is reviewed by the Executive Committee.

Development in the year

We have continued to refine our customer service and quality processes to enhance the customer experience and strengthen the quality of our homes. We have streamlined customer service teams to ensure greater ownership of the customer journey at legal completion and improved the design and layout of our sales suites. We remain on target for a 5 star customer service rating from HBF when it is announced in March 2025, and are improving our nine-month survey scores under the new NHBC methodology, which will require a higher customer service performance. This risk has increased for the year, reflecting where further improvements can be made. Expectations are this risk should reduce in 2025 given ongoing actions and continued focus.

Links to strategic priorities

- Placemaking and Quality
- Operational Efficiency
- 5 Star Customer Service



Principal risks and uncertainties continued

5 BUILD COST AND MARGIN

Residual: High/Medium **Appetite:** Medium/Low **Movement in year:** Reducing

Risk description

A lack of oversight and control of build costs, project progress and performance leads to margin erosion and significant increase in costs.

Lack of awareness and understanding of external factors impacts build costs including complex planning permissions and emerging sustainability and environmental regulations.

A lack of quality in the build process exposes the Group to increased costs and reduced volume, and impacts our reputation.

Build cost inflation and unforeseen cost increases occur, driven by demands in the supply chain or failure to implement adequate cost control systems.

Actions/mitigations

We benchmark our costs against existing sites to ensure rates remain competitive. We build and maintain strong relationships with our suppliers and seek to obtain volume purchasing benefits.

We operate a fair and competitive tender process and we are committed to paying our suppliers and subcontractors promptly.

There are rigorous and regular divisional build cost review processes and site-based quality reviews.

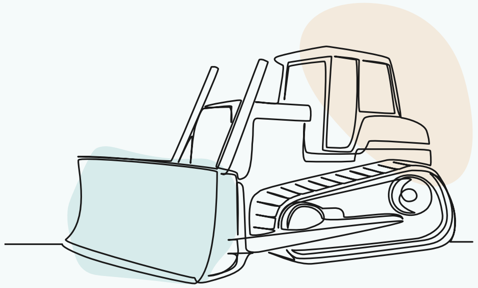
We continue to investigate alternative sources of supply where possible and utilise alternative production methods or materials where it is appropriate to do so.

Development in the year

We have continued to strengthen our commercial processes and controls as we have developed our Operational Framework. The level of oversight, review and assurance has also increased, through our second line Group Commercial function, over key build cost management processes. We expect to see this risk continue to reduce in 2025 given increased certainty and performance management over build costs.

Links to strategic priorities

Operational Efficiency



6 INFORMATION TECHNOLOGY, CYBER SECURITY AND BUSINESS CONTINUITY

Residual: Medium **Appetite:** Medium/Low **Movement in year:** Increasing

Risk description

Data breaches, ransomware or phishing attacks lead to the loss of operational systems, market-sensitive information or other critical data which risks non-compliance with data privacy requirements.

Advancement of artificial intelligence impacts data security breaches or leads to misuse in our business. This in turn results in a higher risk of fraud and, as a result, financial penalties and an impact to reputation.

Actions/mitigations

We employ network security measures and intrusion detection monitoring, including virus protection on all computers and systems, and carry out annual security-breach tests. We utilise customer relationship management systems for storing sensitive data to prevent negligent misuse by employees. We operate in a cloud environment with resilient IT providers, reducing centralised and physical risk exposure.

This is complemented by: employee training on data protection and internet security; data classification, retention policies and toolsets with appropriate and responsive procedures embedded to respond to data privacy matters; and IT disaster recovery plans. The IT Cyber Security and Data Sub-Board Committee, chaired by the Chief Financial Officer, meets through the year to address cyber security matters, assess threat levels and to develop appropriate policies and procedures.

We are Cyber Essentials Plus certified and are subject to regular external and internal audit review.

Development in the year

An external third-party review to assess the Group's cyber security against the National Institute of Standards and Technology Cybersecurity Framework was undertaken and benchmarked against our peers. The assessment deemed that Crest Nicholson is operating at an appropriate level for cyber security and identified opportunities for further improvement.

We have tested our cyber incident response plan through a tabletop exercise of various scenarios and we will use the output to improve our resilience.

A number of application security tools have been deployed across IT operations which has further strengthened our IT environment.

This risk has risen slightly during the year given an increase in external threats.

Links to strategic priorities

Operational Efficiency

Principal risks and uncertainties continued

7 ATTRACTING AND RETAINING OUR SKILLED PEOPLE

Residual: High **Appetite:** Medium **Movement in year:** Increasing

Risk description

An increasing skills gap in the industry at all levels results in difficulty with recruiting the right and diverse mix of people for vacant positions.

We don't have the right culture and environment to attract and retain talent, resulting in increased employee turnover and the requirement to induct and embed new employees, alongside increased cost of wages as a result of inflation.

Loss of knowledge within the Group results in inefficiencies, productivity loss, delays to business operations, increasing costs, and an overuse or reliance on consultants and the supply chain.

Actions/mitigations

We provide flexible and agile working arrangements to support employees.

Programmes of work are carried out to develop robust succession plans and improve diversity and inclusion across the business.

We monitor pay structures and market trends to ensure we remain competitive against our peers.

We monitor employee turnover, absence statistics and feedback from exit interviews.

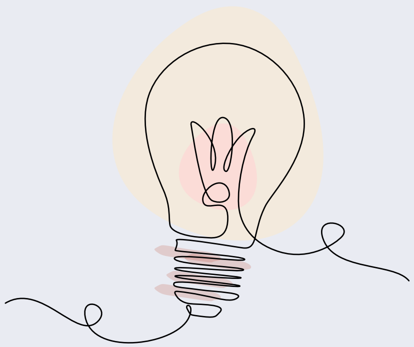
Development in the year

Employee turnover has been steady throughout the year, although higher than anticipated with challenges over retention. We have focused on strengthening our culture, delivering key and specific training in a number of areas across the Group. We have also enhanced our recruitment support and onboarding procedures for new joiners.

This risk has increased during the year, given the degree of change and transformation required and the impact of staff turnover.

Links to strategic priorities

Operational Efficiency



8 SOLVENCY AND LIQUIDITY

Residual: High/Medium **Appetite:** Low **Movement in year:** Increasing

Risk description

Cash headroom is affected by economic pressures that result in delayed receipts and potentially lower sales in the short to medium term.

Commitments to significant land and build obligations are made ahead of revenue certainty.

Commitments to significant remediation costs as a result of the Developer Remediation Contract.

Fall in sales during economic slowdown and lack of available debt finance.

Reduction in margins as average selling prices fall, inability to restructure appropriately and unsustainable levels of work-in-progress.

The Group fails to meet the three banking covenants that the Group's borrowings are subject to, which are tested on a six-monthly basis.

Actions/mitigations

Cash generation is a key focus for the Executive Committee. Cash performance is measured against forecast with variance analysis issued weekly. Cash performance is considered in detail at divisional board level.

We scrutinise the cash terms of land transactions. Private Rented Sector and bulk sales offer us the potential for early cash inflow.

The Group has the use of a £250m Revolving Credit Facility, and its expiry date was extended during the year.

Throughout the year there has been a working capital reduction action plan in place.

We generally control strategic land rather than own it and have limited capital tied up on the balance sheet. These sites are subject to regular review and diligent appraisal before being drawn down.

Development in the year

There has been a greater focus on controllable operating cash management, which has enabled us to manage the cash position adequately during the year. We continue to monitor profitability impact on interest cover covenants and liaise with banking advisors where appropriate. The Group continued to benefit from a balance sheet with diverse sources of funding and has adequate liquidity to deal with all plausible downside market scenarios.

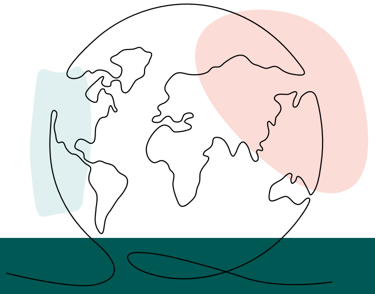
The Group closely monitors its forecast covenant compliance on a monthly basis. In its base case projections, the Group will meet all its banking covenants in the going concern and viability statement periods. In its severe but plausible downside projections, the Group would meet all its banking covenants except the interest cover ratio. See note 1 to the consolidated financial statements on going concern.

Links to strategic priorities

Land Portfolio

Operational Efficiency

Principal risks and uncertainties continued



9 LAWS, POLICIES AND REGULATIONS

Residual: High **Appetite:** Medium **Movement in year:** No change

Risk description

Future regulatory changes impact our ability to make medium- and longer-term decisions.

Failure to effectively implement new regulations including the Future Homes Standard (which has been delayed), the Environment Act 2021, the New Homes Quality Code, and the Building Safety Act 2022, impacts the Group.

Actions/mitigations

We engage with the government directly and through the Home Builders Federation and memberships of industry groups, and build relationships in key local authority areas.

We continue to assess and plan for emerging regulation and developments in readiness for potential change.

Development in the year

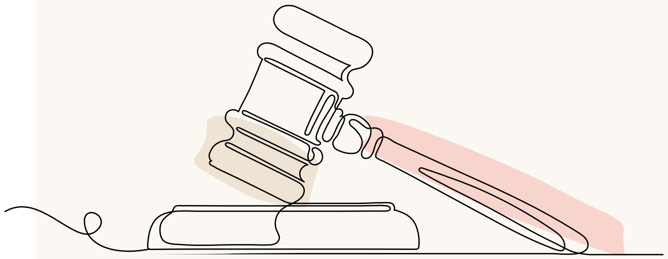
This continues to be an elevated risk given the challenging regulatory landscape in the housebuilding sector. We have increased regulatory and compliance training during the year to drive greater understanding of requirements on our business.

A new workstream has been established to review and implement requirements of the Building Safety Act 2022.

Emerging legislation such as the Employment Rights Bill has significant reforms and implications to employment rights that will impact our business, and we continue to monitor developments.

Links to strategic priorities

- Placemaking and Quality
- Operational Efficiency
- 5 Star Customer Service



10 CLIMATE CHANGE

Residual: Medium **Appetite:** Low **Movement in year:** No change

Risk description

Failure to further enhance our sustainable practices and processes and transition to a carbon net zero business by 2045, and failure to continue to meet evolving government regulations and growing investor expectations.

Climate change impacts our business through transition and physical risks. Transition risks include regulatory change, increased carbon pricing and shifts in stakeholder preferences. Physical risks are direct impacts from a changing climate, including rising temperatures, changing weather patterns increasing the risk of droughts and flooding, and more frequent and severe weather events.

Failure to manage climate-related risk leads to additional costs, build programme delays and damage to our reputation.

Actions/mitigations

Our Sustainability Committee oversees our sustainability strategy, including our approach to climate change. The Committee monitors performance against our climate targets and monitors climate-related risks and opportunities.

We are members of the Future Homes Hub, an industry-wide initiative to support the implementation of the Future Homes Delivery Plan to meet climate and environmental targets. We have internal workstreams to plan for new regulations, including the Future Homes Standard.

Near- and long-term science-based targets are in place, driving action to reduce greenhouse gas emissions.

Our Executive Directors have greenhouse gas emission reduction targets within their Long-Term Incentive Plan.

Development in the year

The rollout of air source heat pumps has increased on a number of sites and we are delivering more homes to the current Future Homes Standard which will positively impact our emissions.

We have increased Board level awareness on TCFD and CDP and increased engagement with the supply chain through the Supply Chain Sustainability School and procurement selection.

We are on track for 2030 greenhouse gas and 2025 waste intensity targets.

Links to strategic priorities

- Placemaking and Quality
- Land Portfolio
- Operational Efficiency
- 5 Star Customer Service

Principal risks and uncertainties continued

11 LAND AVAILABILITY AND PLANNING

Residual: High **Appetite:** Medium/Low **Movement in year:** No change

Risk description

Failure to maintain a supply of suitable strategic land with planning consent at the right economic terms to support our growth ambitions.

Acquired land is delayed in the planning process where local authorities and public sector resources are constrained.

Regulatory planning and environmental requirements continue to evolve with the National Policy Framework developments. Environmental requirements such as nutrients, phosphates and water neutrality, flood risk assessment requirements and biodiversity obligations are increasing. This increases the challenge of providing quality and affordable homes in the locations required.

Actions/mitigations

We have expertise within our land teams to ensure we acquire sites in the best locations that allow us to demonstrate our placemaking credentials.

We build strong relationships with key land suppliers, landowners and agents, and local authorities.

Land acquisitions are subject to appraisal and viability assessment through our formal approval process prior to bid submission and exchange of contracts.

The planning status of all our sites is regularly reviewed.

We undertake close consultation with the government on planning reform.

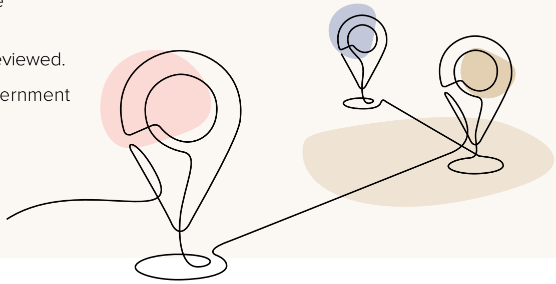
Development in the year

Although our strategy continues to focus on achieving planning consent on land under our control, we have reduced land acquisitions during the year. The planning process continues to be challenging, highly complex and time consuming. There continue to be challenges in some of our divisions regarding nutrients, water neutrality and the impact of flood risks.

We are pleased with the strong political consensus behind planning reform through the National Policy Framework and the government's commitment to increase the supply of new homes. However, material change may take time to deliver the actions needed to increase housing supply.

Links to strategic priorities

- Placemaking and Quality
- Land Portfolio
- 5 Star Customer Service



12 COMBUSTIBLE MATERIALS AND LEGACY OBLIGATIONS

Residual: High/Medium **Appetite:** Low **Movement in year:** Increasing

Risk description

Failure to address the issues faced by residents impacted by combustible materials in a timely manner, significantly impacts our brand and reputation. There is heightened political and public awareness with government publication of remediation progress.

This is a complex area where it is often difficult to identify and implement remedies quickly. The rapidly changing landscape of regulatory guidance and the need to engage with multiple stakeholders contribute to this complexity, as does the limited availability of qualified resource to oversee work performed. Given this, costs can be difficult to estimate and control which could be subject to considerable variability and government legislation, or regulation could further change, increasing the scope of legacy buildings and required remedial works.

The Group has a large number of legacy obligations with old site remedial works and it may take longer to address the actions than anticipated.

Actions/mitigations

A dedicated specialist team is in place with robust controls and processes in respect of combustible materials. There is a regular review process in place which is overseen by the Chief Executive Officer, Chief Financial Officer and the Special Projects division which is responsible for this area.

There is a detailed risk register of all schemes under review including any safety considerations, and recent customer or stakeholder correspondence, that considers how we may choose to respond.

In addition, the Special Projects division assesses whether faulty workmanship or design was a factor in the potential remedial works, and if appropriate seeks to recover these costs directly from the subcontractor or consultant involved.

Development in the year

During the year, the Group made substantial progress in its assessment of required remediation related to combustible materials, allowing it to make a full assessment of its probable liabilities for the first time.

Management has considered the progress of any combustible remedial works and has adjusted the financial provision to reflect the Group's best estimate of any future costs. In December 2024, the Group signed up to the Joint Plan to Accelerate, requiring developers to complete all assessments of buildings under the scope of Developer Remediation Contract by July 2025 and commence work on 100% of affected buildings by July 2027.

Divisions have increased focus on completion of old sites and associated remedial works projects continue including addressing resident management company obligations. However, there are a significant number of legacy activities to complete that will take time to resolve.

A new division was established to address remedial works for legacy buildings in scope.

Links to strategic priorities

- Placemaking and Quality
- 5 Star Customer Service