OUR BUSINESS MODEL AND STRATEGY

At Derwent London, we focus on maximising the total return from our substantial central London portfolio. To this end, we typically acquire properties off-market with low capital values in improving areas of London, taking advantage of the dynamic nature of one of the world's great cities.

We balance development activity to maintain income where possible while freeing up space for regeneration.

We target that at least 50% of the portfolio has significant potential to upgrade. We take a fresh approach to each property, looking to complement its particular characteristics and add the maximum value to it. We do this in a combination of ways:

- rolling refurbishment
- infilling, converting or adding further floors to create additional space
- regeneration where the building is obsolete
- buying adjacent properties to increase our options for development
- negotiating with freeholders to restructure leasehold interests
- increasing the income return and improving capital values through asset management

A flexible, forward-thinking approach allows us to build sustainable workplaces that are adaptable, long-lasting, efficient and welcoming. Our team works with a variety of architects to create well-designed office space that tries to anticipate future tenant requirements. We are able to commit to our development schemes on a speculative basis because of the strength of our balance sheet, although schemes are sometimes partially or wholly de-risked through pre-letting before completion.

The majority of our portfolio is income-producing with reversionary rents. This means that open market rents are higher than the current passing rent, allowing us to increase rental income over time through rent reviews or by negotiating amended lease terms. Over time we have built up relationships with a set of strong tenants from a wide range of businesses. We frequently liaise with our tenant base and strive to improve our offering. We use this detailed understanding of tenants' needs to find the right space with the most suitable lease structure for each occupier, often seeking to move tenants within the portfolio where value can be enhanced.

We recycle capital into our most profitable projects by disposing of properties where we believe there is limited future growth.

Our business is supported by robust, flexible financing with sustainable interest and dividend cover, allowing the Group to achieve its development ambitions and react quickly when suitable acquisition opportunities arise.

From long experience our team has demonstrated that well-judged investment decisions, strong operational performance and appropriate regeneration activity supported by robust financing can achieve attractive, sustained returns.

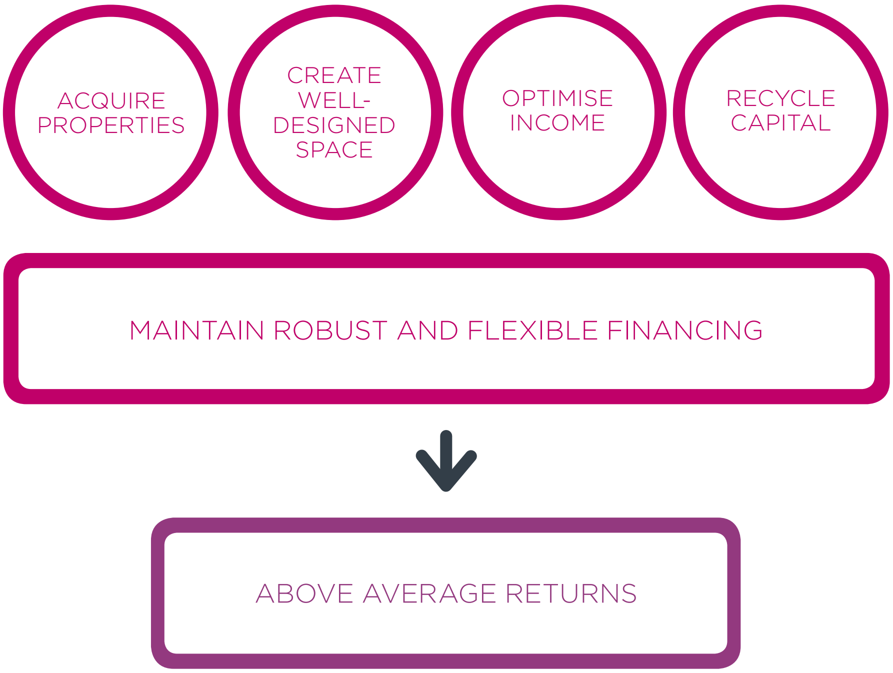
"With buildings in some of the most fashionable parts of London, Derwent has made a name for itself as the capital's coolest developer."

MANAGEMENT TODAY
BRITAIN'S MOST ADMIRED COMPANIES 2013

Previous pages:
The Buckley Building EC1

JOHN BURNS
CHIEF EXECUTIVE OFFICER

HOW WE CREATE VALUE



OUR BUSINESS MODEL

ACQUIRE PROPERTIES AND UNLOCK VALUE

Purchase buildings in central London which can be improved or regenerated. Restructure leases to unlock additional value.

p42

CREATE WELL-DESIGNED SPACE

Transform properties to create adaptable, attractive spaces for our tenants and the local community.

p49

OPTIMISE INCOME

Employ our detailed knowledge of occupiers' needs to let to high quality tenants from a wide range of businesses.

p44

RECYCLE CAPITAL

Identify properties for disposal where value has been optimised and dispose of those which do not fit the Group's long-term plans.

p42

MAINTAIN ROBUST AND FLEXIBLE FINANCING

Negotiate flexible financing and retain a healthy level of interest cover and gearing.

p62

OUR STRATEGIES		OUR ACHIEVEMENTS IN 2013

■ Buy at low capital values in improving locations, usually off-market, using our detailed understanding of London
■ Hold a variety of properties, primarily in the West End and the Tech Belt
■ Generate a number of revitalisation opportunities, both in terms of timing and scale
	■ Restructure ownership interests where necessary
	■ Maintain flexible financing and a strong balance sheet to allow us to transact quickly
		■ Purchased:
		  ■ Mark Square House, 1 Mark Square EC2, a 61,700 sq ft (5,730m²) Shoreditch office building for £29.6m
		  ■ 19 Charterhouse Street EC1, a 63,700 sq ft (5,920m²) office building in Clerkenwell for £41.3m
		  ■ 22 Kingsway WC2 comprising 91,400 sq ft (8,490m²).of offices in Holborn for £59.3m
		■ Regeared the lease on 55-65 North Wharf Road W2, unlocking the development of 240,000 sq ft (22,300m²) of permissioned offices

■ Collaborate with a range of architectural, design and engineering practices to create inspiring spaces
■ Incorporate high quality construction into these designs
■ Create attractive, adaptable offices, avoiding over-specification
■ Build green features into our developments to reduce the properties' environmental impact and to add to their appeal
	■ Adapt existing structures where possible, reducing the use of new materials
	■ Invest in public realm to provide attractive spaces for the local community, including our tenants
		■ Completed 248,100 sq ft (23,050m²) of major projects, with refurbishments of:
		  ■ 127,000 sq ft (11,800m²) at 1 Page Street SW1
		  ■ 85,000 sq ft (7,900m²) at The Buckley Building EC1
		  ■ 17,800 sq ft (1,650m²) at Morelands Buildings EC1

■ Offer attractive space at mid-market rents of £40-70 per sq ft that appeals to a range of tenants ■ Understand the needs of tenants and other stakeholders by building strong relationships with them through regular dialogue	■ Accommodate tenants' needs by altering lease lengths, or by moving them to elsewhere in the portfolio ■ Build features into new leases such as minimum rental uplifts to maximise income	■ Let all of The Buckley Building within six months of completion ■ Pre-let 155,600 sq ft (14,460m²) at 40 Chancery Lane WC2 and Turnmill EC1 to existing tenant Publicis Groupe ■ Extended the tenant's lease on the Grafton Hotel, 130 Tottenham Court Road W1 from 77 to 150 years, increasing rental income 56% to £920,000 pa from September 2013 and by 3% pa thereafter

■ Regularly review the status and options for each property in the portfolio
■ When market conditions are favourable, dispose of assets where:
  ■ we believe future growth is limited or
  ■ the assets are deemed non-core
	■ Maintain the proportion of the portfolio suitable for refurbishment or redevelopment in excess of 50%	■ Sold remaining interest in 1-5 Grosvenor Place SW1 for £131.4m, a 70% premium to the December 2012 valuation
		■ Sold holdings in Commercial Road E1 for £16.7m with planning permission for student accommodation

■ Assess sustainable gearing on a minimum level of interest cover and a maximum level for the Group's loan-to-value ratio
■ Maintain excellent long-term relationships with our lenders
■ Vary our sources of funding in accordance with the lending environment
■ Refinance facilities well in advance of expiry
	■ Provide adequate protection against changes in interest rates through the structure of our loans and the use of interest rate hedging
	■ Generate sufficient income from the portfolio to maintain comfortable interest cover and recurring profits
	■ Adjust the scale of the development pipeline depending on market conditions and the portfolio mix
		■ Completed £800m of unsecured refinancing:
		  ■ Issued £150m 1.125% convertible bonds due 2019 with a conversion price of £33.35 per share
		  ■ Completed £550m unsecured five-year revolving credit facility
		  ■ Signed £100m fixed rate unsecured private placement funding: £25m for 15 years at 4.41% and £75m for 20 years at 4.68%
		■ On a proforma basis, this reduced the cash cost of debt to 3.88%
		■ Extended the average duration of financing from 6.3 to 7.7 years

CURRENT AREAS OF FOCUS	ASSOCIATED KEY RISKS	KEY PERFORMANCE INDICATORS AND METRICS
■ Add selectively to the portfolio, with a particular focus on properties in the Tech Belt and near Crossrail ■ Restructure leases where necessary to enable redevelopment	■ Inconsistent strategy ■ Regulatory non-compliance ■ Reputational damage ■ Shortage of key staff	Interest cover ratio Development potential Capital return
■ Complete current phase of 1-2 Stephen Street W1 office refurbishment ■ Complete construction of Turnmill EC1 and 40 Chancery Lane WC2 ■ Progress construction of White Collar Factory in EC1 ■ Planned capital expenditure in 2014 of £141m	■ Inconsistent development programme ■ Property yields rise ■ Reduced development returns ■ Inconsistent strategy ■ Regulatory non-compliance ■ Reputational damage ■ Shortage of key staff	BREEAM ratings EPC ratings Capital return
■ Launch letting campaign at 1-2 Stephen Street W1 ■ Monitor portfolio for further asset management initiatives	■ Tenant default ■ Inconsistent strategy ■ Regulatory non-compliance ■ Reputational damage ■ Shortage of key staff	Tenant receipts Void management Reversionary percentage Diversity of tenants Tenant retention Total property return Total return Total shareholder return
■ Monitor portfolio for further opportunities to recycle capital	■ Property yields rise ■ Inconsistent strategy ■ Regulatory non-compliance ■ Reputational damage ■ Shortage of key staff	Interest cover ratio Capital return
■ Monitor interest cover and maintain balance between development activity and income generation	■ Higher interest rates ■ Property yields rise ■ Inconsistent strategy ■ Regulatory non-compliance ■ Reputational damage ■ Shortage of key staff	Interest cover ratio NAV gearing LTV ratio

○ KEY PERFORMANCE INDICATORS

△ KEY METRICS

● ▲ USED IN THE GROUP'S INCENTIVE SCHEMES