

OUR BUSINESS MODEL AND STRATEGY

Strategy determines how best to use our business model and expertise to deliver our principal objective of providing above average long-term returns to our shareholders.



JOHN BURNS
CHIEF EXECUTIVE OFFICER

Derwent London's strategy has a number of strands which we have applied consistently over many years:

- Focus on central London: we stick to the markets we know best, and our insights help us to find relative value and to invest in up-and-coming areas. We have created a number of property clusters and substantial parts of our portfolio will benefit from the opening of Crossrail in 2018, or are located in the Tech Belt. We have avoided the core City office market which is dominated by financial services.
- Focus on good design: we look at each building individually and in its own context. We believe that good architecture helps create demand, that it is important to be innovative, and to continually improve quality.
- Focus on sustainability: we expect to have a positive impact on the surrounding area and to ensure that schemes are efficient and not overspecified.
- Focus on occupier needs: we offer a wide range of office accommodation, rental levels and lease structures. An active relationship with our occupiers helps inform our views and can create fresh letting opportunities.
- Experienced management: we have a dedicated team that is divided into specialist activities in line with the business model: acquisitions/disposals, development, asset management and finance. Over many years we have built up good relationships with a significant number of third party professionals, who share our passion, and help us achieve our objectives.

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- Group perspective: although all properties are treated individually, decisions are taken in the context of the Group as a whole. This is to ensure that there is the relevant balance between income and development, that the scale and pace of development activity is appropriate to the larger Group, that the longer-term growth potential remains intact and that the Group has the financial resources to adapt to different market conditions.

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- Long-term perspective: from its very origins Derwent London has had a vision to become a significant and active London landlord. This reinforces our commitment to quality, allows us to sacrifice initial returns for long-term gains, and to build good relationships with occupiers, communities and local authorities.

- We believe that our consistency and strong focus on design has helped to create a brand for Derwent London.
- For REITs, market conditions naturally change as a result of the property cycle. We aim to increase our development risk and activity while reducing financial leverage into a rising property market, and vice versa in a falling market. Ideally, our lowest leverage is near the peak and our maximum leverage near the floor. History shows this is hard to get absolutely right, and we continually monitor the market, particularly after a long period of growth, to ensure that our strategy is consistent with our view of the cycle.

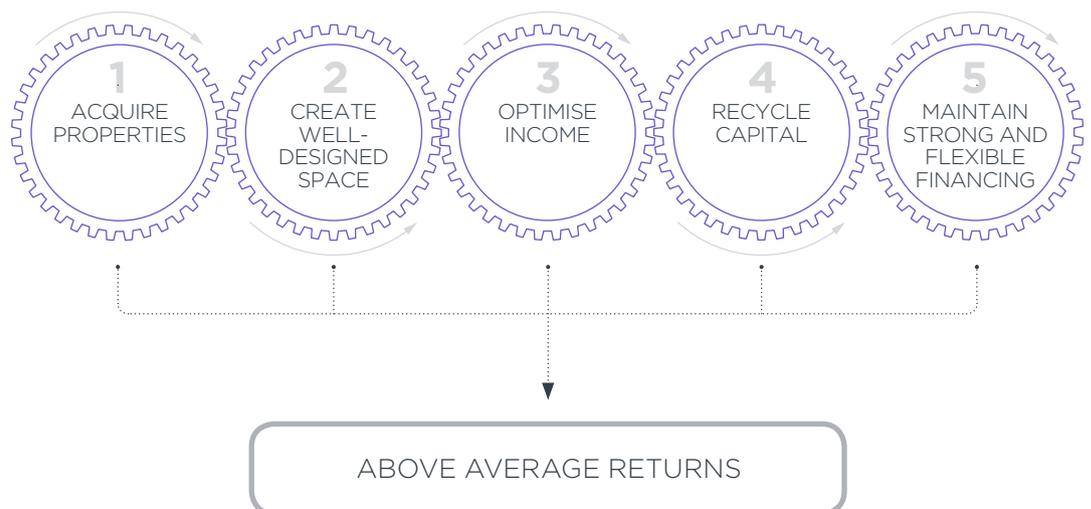
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We give more details on individual strategies below.

OUR BUSINESS MODEL

Our principal objective is to deliver above average long-term returns to shareholders through owning, creating and managing well-designed central London offices benefiting occupiers and neighbourhoods.

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OUR BUSINESS MODEL AND STRATEGY CONTINUED

OUR BUSINESS MODEL

ACQUIRE PROPERTIES AND UNLOCK THEIR VALUE

- Buy at low capital values in improving locations, using our detailed understanding of London
- Add to our pipeline of future opportunities, and maintain that proportion of our portfolio at around 50%

OUR ACHIEVEMENTS IN 2014

- Acquired 19-23 Featherstone Street EC1 opposite our White Collar Factory EC1
- Acquired Angel Square EC1 opposite our Angel Building EC1

CREATE WELL-DESIGNED SPACE

- Create attractive, adaptable offices avoiding over-specification
- Build green features into our developments to reduce environmental impact and increase their appeal
- Invest in public realm to provide desirable spaces for occupiers and communities
- Work with top architects to design fresh and modern spaces

- Completed 1-2 Stephen Street W1 and Queens W2
- Construction started on White Collar Factory EC1
- Planning received on The Copyright Building, 25-33 Berners Street W1 and 25 Savile Row W1

OPTIMISE INCOME

- Understand occupiers' needs by building strong relationships through regular dialogue
- Respond to occupiers' needs by altering lease lengths or by relocating them within the portfolio
- Ensure income growth by incorporating minimum rental uplifts in some leases

- Secured £9.2m of rental income 11.2% above December 2013 ERV

RECYCLE CAPITAL

- Regularly review the status and options for each property in the portfolio
- When market conditions are favourable, dispose of assets where:
 - future growth is limited
 - they are non-core

- Sold Jaeger House W1 prior to redevelopment 32% above December 2013 value
- Sold four smaller properties for 45% surplus over December 2013 values

MAINTAIN STRONG AND FLEXIBLE FINANCING

- Ensure sustainable interest cover
- Ensure appropriate level of gearing for market conditions and our development activity
- Provide significant protection from rising interest rates
- Maintain good relationships with a broad spread of funding sources
- Extend loan maturities when rates are attractive

- Drew down £100m US Private Placing
- Refinanced bank facility to extend maturity and reduce margin payable
- Net interest cover 286%
- LTV ratio 24.0%

-  Key metrics
-  Key performance indicators
-  Key metrics used in the Group's incentive schemes
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AREAS OF FOCUS IN 2015

- Continue to seek acquisitions that meet our criteria of:
 - low passing rents and capital values
 - improving locations
 - refurbishment/redevelopment potential
 - income producing while working up plans
 - often in close proximity to another Group property

- Complete Turnmill EC1, 40 Chancery Lane WC2, Tottenham Court Walk W1 and 73 Charlotte Street W1
- Commence The Copyright Building W1 and 80 Charlotte Street W1
- Submit planning application for Wedge House SE1

- Let recently completed offices at 1-2 Stephen Street W1 and retail space at Tottenham Court Walk W1
- Monitor portfolio for further asset management initiatives

- Sell remaining Queens W2 units, and start to market units at 73 Charlotte Street W1
- Monitor portfolio for further opportunities to recycle capital

- Conversion of £175m 2.75% convertible bonds 2016 into new shares
- Monitor interest cover and maintain balance between income generation and development activity

-  Inconsistent development programme
-  Property yields rise
-  Reduced development returns
-  Shortage of future developments

 Tenant default

 Property yields rise

PRINCIPAL RISKS

-  Inconsistent strategy
-  Regulatory non-compliance
-  Reputational damage
-  Shortage of key staff
-  Inefficient systems
-  Business interruption

KEY PERFORMANCE INDICATORS AND METRICS

-  Interest cover ratio
-  Development potential
-  Capital return
-  BREEM rating
-  EPC ratings
-  Capital return
-  Tenant receipts
-  Reversionary percentage
-  Interest cover ratio
-  Capital return
-  Interest cover ratio
-  NAV gearing
-  LTV ratio
-  Void management
-  Diversity of tenants
-  Tenant retention
-  Total property return
-  Total return
-  Total shareholder return