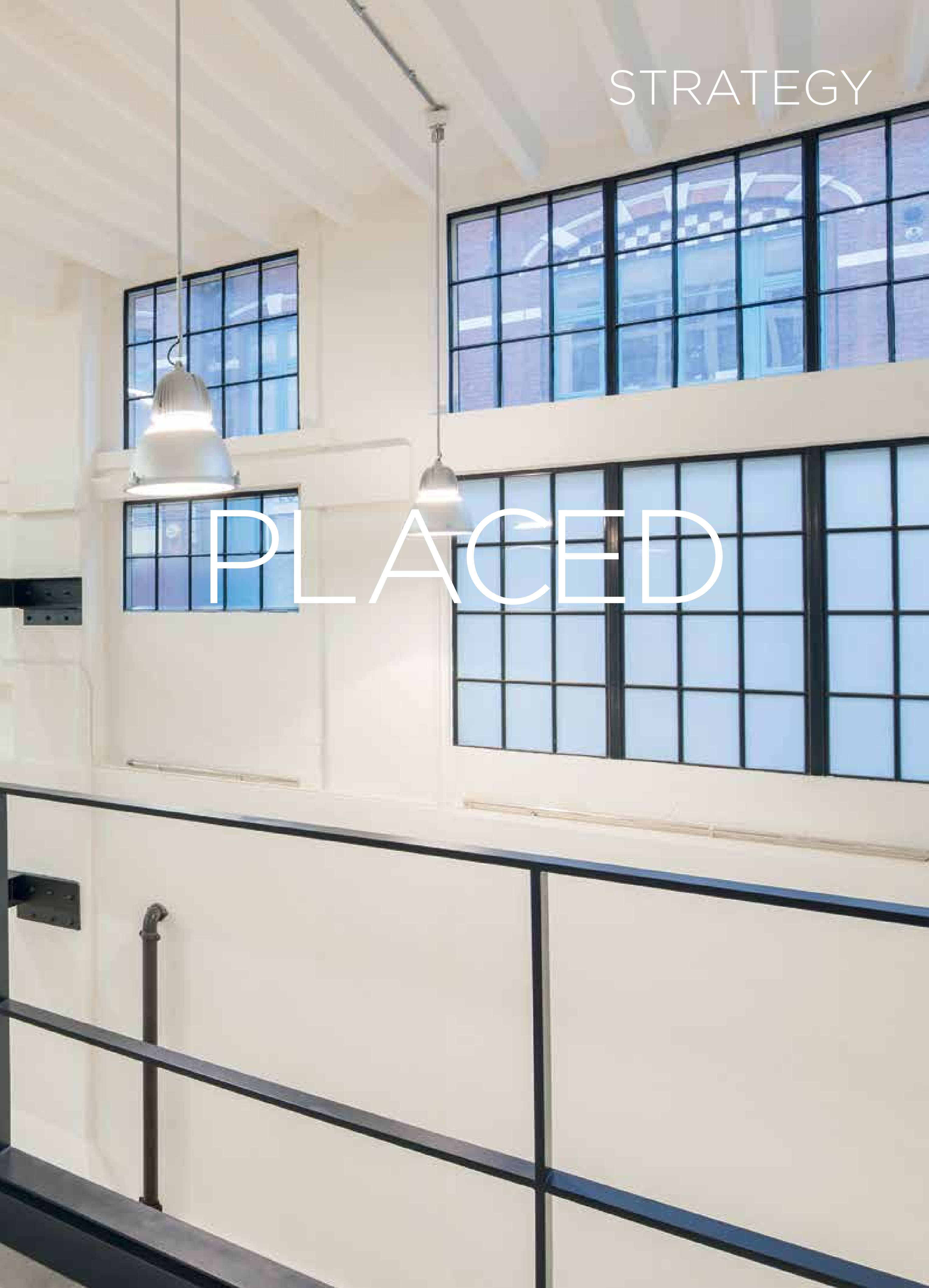
WELL



STRATEGY

PLACED

WELL PLACED: CROSSRAIL

The opening of Crossrail in 2018 will significantly improve transport into London. 200 million passengers are expected to travel on it each year with 24 trains per hour running between Paddington and Whitechapel during peak times. Derwent London owns property all along the central section of the line, most notably near Tottenham Court Road and Farringdon stations.

Portfolio distribution

Distance from Crossrail station

- 🟪 < 400 metres
- 🟦 < 800 metres

Paddington

At 55-65 North Wharf Road W2 there is planning permission to build 240,000 sq ft (22,300m²) of offices and 73,000 sq ft (6,800m²) of residential accommodation and retail space. The site is one of the best locations within Paddington Basin yet to be developed. It is ideally placed, directly opposite one of the entrances to the station.

In 2013 we signed an option agreement with the freeholder and head leaseholder that will provide us with a 999-year headlease and enable us to proceed with the office development. The head leaseholder will be responsible for the residential element.

55-65 North Wharf Road W2

240,000SQ FT

Tottenham Court Road station – North

Derwent London has substantial holdings north of Oxford Street within easy reach of Tottenham Court Road station.

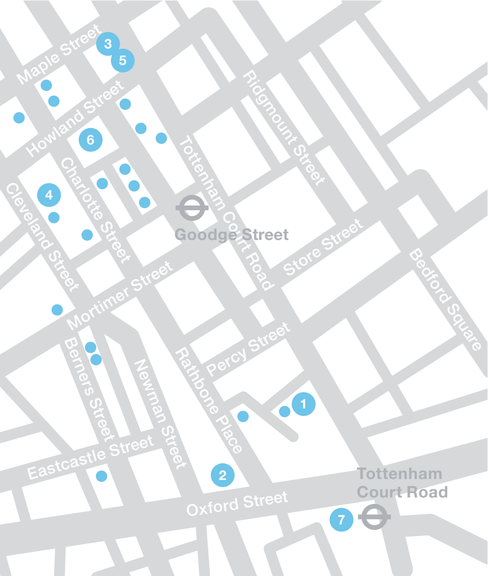
At 1-2 Stephen Street we are regenerating the building with a new entrance together with the refurbishment of the offices above. The next phase will be to extend the retail units on the Tottenham Court Road side of this building to create a new and improved double-height frontage for the existing colonnade. The arrival of Crossrail should make this area a shopping destination to rival the western end of Oxford Street.

Holden House and Charlotte Building are also close by, with our other properties further north in Fitzrovia such as Qube, Network Building and Middlesex House a short walk away.

Later this year we start the redevelopment of 80 Charlotte Street, our largest project to date, to create 385,000 sq ft (35,800m²) of offices and residential space less than 800m from the Crossrail interchange.

p44, p50, p52

1	1-2 Stephen Street W1	254,500SQ FT
2	Holden House W1	90,800SQ FT
3	Qube W1	109,900SQ FT
4	Middlesex House W1	64,600SQ FT
5	Network Building W1	64,100SQ FT
6	80 Charlotte Street W1 (proposed)	385,000SQ FT
7	1 Oxford Street W1 (proposed)	275,000SQ FT



Tottenham Court Road station – South

We also hold property south of Oxford Street. Derwent London intends to exercise its option to buy back 1 Oxford Street W1 in 2017 following completion of works on the Tottenham Court Road Crossrail station. In April 2012 we received permission to build offices, retail units and a new theatre in a 275,000 sq ft (25,500m²) scheme above the station.

A 55-65 North Wharf Road: Aerial view of proposed office development opposite Paddington station.

B 1 Oxford Street: View of proposed theatre and offices from Charing Cross Road.

C 80 Charlotte Street: Proposed view of offices.

Farringdon

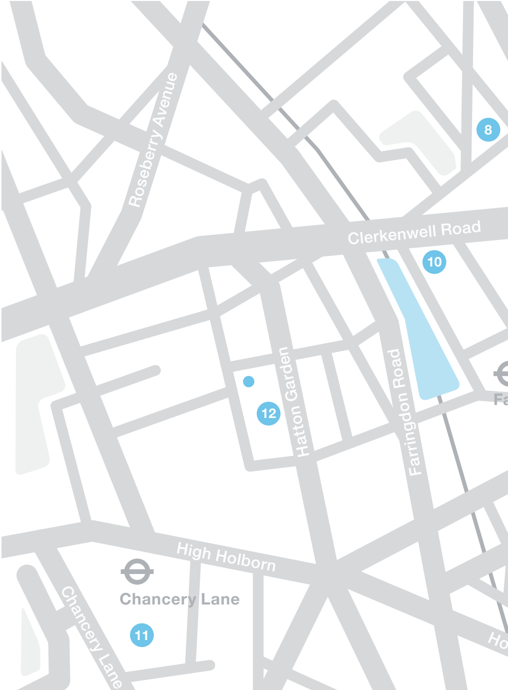
Farringdon station is on course to become one of the busiest stations in London once Crossrail is complete. Thanks to the additional presence of the Thameslink line, commuters will be able to access Heathrow, Gatwick, London City, and Luton airports as well as the Eurostar terminal at St Pancras directly.

We are well placed to benefit from the ascent in the fortunes of this area with redevelopments underway at Turnmill and 40 Chancery Lane, refurbishments at Buckley Building and Morelands Buildings as well as the now well-established Johnson Building.

📖 **p44, p50**

⑧	Buckley Building, 49 Clerkenwell Green EC1 85,000SQ FT
⑨	Morelands Buildings, 5-27 Old Street EC1 90,100SQ FT
⑩	Turnmill, 63 Clerkenwell Road EC1 70,000SQ FT
⑪	40 Chancery Lane WC2 100,000SQ FT
⑫	Johnson Building, 77 Hatton Garden EC1 157,200SQ FT

Farringdon



> "Crossrail is a fundamental game changer. It is the largest civil-engineering project in Europe… None of London's peer group has seen anything like it. We are treading entirely new stock renewal ground."
>
> **CBRE**

Liverpool Street

The Liverpool Street Crossrail station will have additional entrances at Moorgate station. This puts our White Collar Factory and 1 Oliver's Yard holdings at Old Street, as well as the Tea Building in Shoreditch, in easy proximity – making the area more accessible for overseas visitors, as well as providing a straightforward commute for employees.

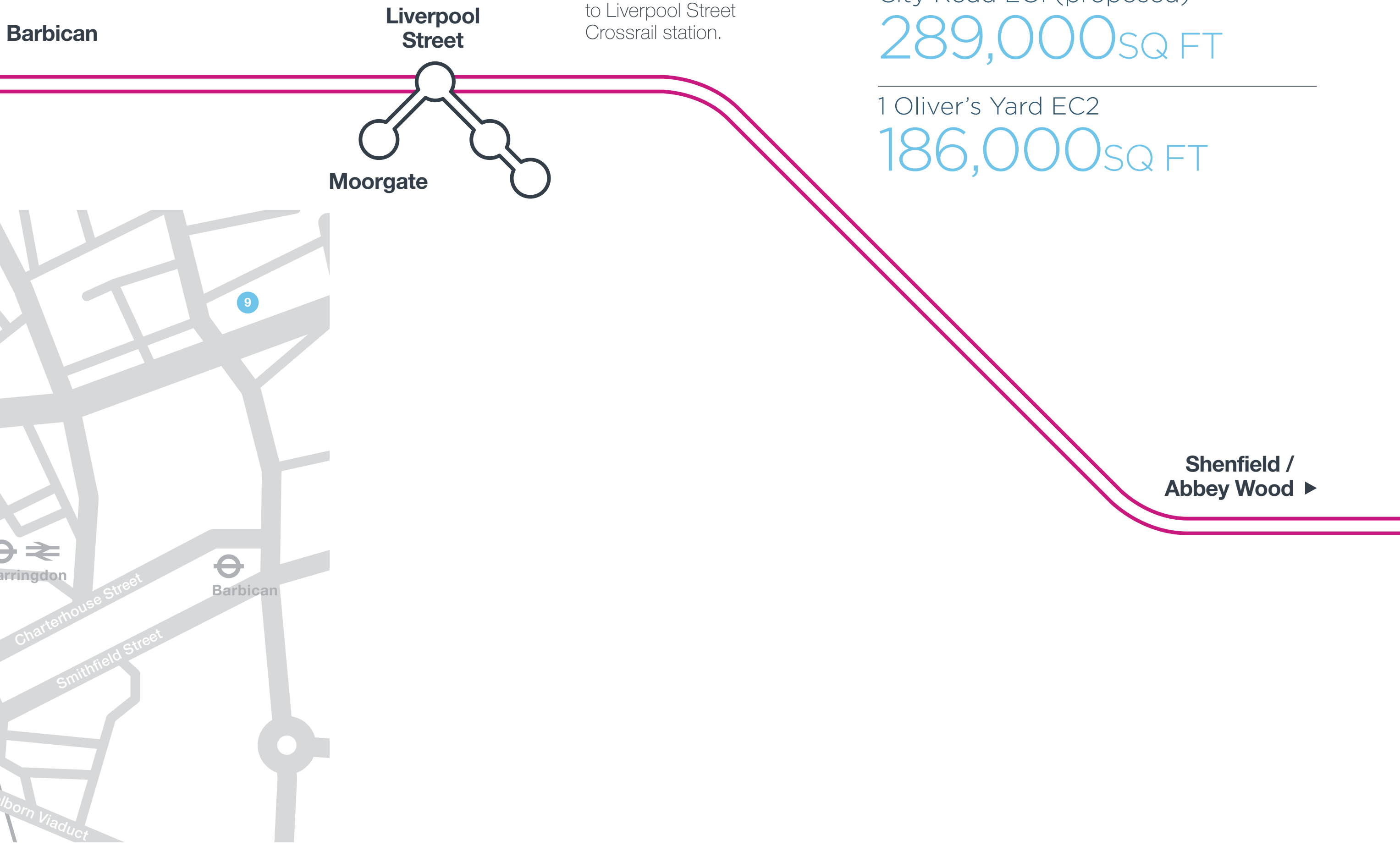
Tea Building E1
259,400SQ FT

White Collar Factory,
City Road EC1 (proposed)
289,000SQ FT

1 Oliver's Yard EC2
186,000SQ FT

D Turnmill: Proposed view from Clerkenwell Road.

E Tea Building: Easy walking distance to Liverpool Street Crossrail station.



BUSINESS MODEL

Derwent London seeks to produce consistently above average, long-term returns from its portfolio of mid-market central London offices.

> “At Derwent London we look to create tomorrow’s space today.”
>
> **John Burns**
> **Chief Executive Officer**

Previous spread:
Sweeps Studios, adjacent to Johnson Building EC1

> “Derwent was by far and away the most consistently cited UK company among the industry figures polled because of the way it focuses on creating buildings that tenants want to be in and spots trends in terms of the areas and types of buildings occupiers want.”

Property Week International’s “The Big 10” (8 March 2013) – poll of property professionals to see which companies they rated as the best in the world

From long experience the Derwent London team has shown that well-judged investment decisions, creative thinking, strong operational performance and an appropriate level of regeneration activity supported by robust financing can achieve attractive, sustained returns.

The Group typically acquires properties with identified potential often in improving areas of London. These locations will have good public transport links and, as the neighbourhood is revitalised, new users are attracted to the area. We adopt a unique plan for each property, which is designed to complement its particular characteristics. Value can be achieved by:

- a rolling refurbishment;
- adding space through infilling, conversion of underutilised areas or additional floors;
- regeneration where the building is obsolete;
- creating marriage value through buying adjacent properties;
- negotiating with freeholders to restructure leasehold interests; or
- using asset management initiatives to increase the income return.

Underpinning this approach is a desire to create sustainable workplaces that are efficient and welcoming and in which tenants can work for many years.

The team works with a variety of both established and up-and-coming architects to create well-designed office space. Development activity is balanced to maintain income where possible whilst freeing up space for regeneration.

275%

outperformance compared with FTSE EPRA UK index over 10 years

The strength of our balance sheet means that we do not require specific development finance for our schemes which are usually begun on a speculative basis, though these are often de-risked part way through via pre-letting.

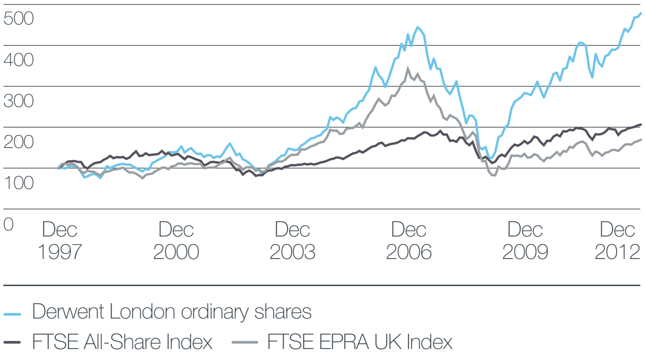
The majority of the portfolio is income-producing with reversionary rents. This means that open market rents are higher than the current passing rent. The Group optimises income by applying detailed knowledge of current and potential occupiers’ needs to attract strong tenants from a wide range of businesses. Over time, reversionary income is captured through rent rises or asset management. We often seek to move tenants within the portfolio to maximise value growth.

Properties where we believe there is limited future growth are identified for disposal, enabling us to recycle our capital effectively into more profitable projects.

Our business is supported by robust, flexible financing with moderate leverage and comfortable interest cover. This provides the ability to deliver development ambitions and to take advantage of suitable acquisitions quickly.

Total shareholder return (%)

	Derwent London	FTSE All-Share Index	FTSE EPRA UK Index
15 years	378.5	106.5	69.7
10 years	359.2	131.7	67.0
5 years	64.6	13.2	(22.3)
1 year	39.0	12.3	29.9



BUSINESS STRATEGY

The strategies employed by the Group to implement the business model are explained below, together with the key associated risks and the key indicators with which performance is measured.

Our business model	**Acquiring properties and unlocking their potential**	**Creating well-designed office space**
Our strategies to achieve this	▪ Using our detailed understanding of the London market to buy at modest capital values in emerging locations, taking advantage of market cycles ▪ Holding a variety of types and sizes of properties, primarily in the West End and the borders of the City ▪ Building a portfolio with a variety of regeneration opportunities, both in terms of timing and scale ▪ Restructuring ownership interests where necessary to unlock development opportunities ▪ Maintaining a strong balance sheet with flexible financing to allow us to act quickly when opportunities arise ▪ Avoiding the core of the City of London as we believe it has a more extreme property cycle	▪ Combining exciting and innovative architecture with environmentally friendly, high quality construction ▪ Harnessing the design flair of a range of architectural, design and engineering practices to create inspiring spaces ▪ Avoiding over-specification of buildings to provide attractive, adaptable offices ▪ Adjusting the scale of the development pipeline depending on market conditions, tenant demand and the mix of the rest of the portfolio ▪ Adapting existing structures where possible, saving embodied carbon and reducing the use of new materials ▪ Investing in public realm to provide attractive spaces for our tenants and the wider local community
Current areas of focus	▪ Adding to our portfolio in core areas of operation	▪ Demonstrating the design of the White Collar Factory concept, including concrete core cooling ▪ Accelerating development pipeline
Key risks that we take into account in implementing our strategy **p30**	▪ Inconsistent strategy ▪ Breach of financial covenants	▪ Inconsistent development programme ▪ Reduced development returns ▪ Inconsistent strategy ▪ Shortage of key staff ▪ Reputational damage
Key performance indicators that measure our performance **p26**	▪ Total return ▪ Total property return **p42**	▪ Total property return ▪ BREEAM ratings **p44**

> “Derwent develops space in which the trendy kids who work in the TMT (technology, media and telecoms) sector want to be. The market has come to Derwent but the development of schemes such as the Tea Building in Shoreditch means Derwent has helped to create the market.”

Property Week International’s “The Big 10” (8 March 2013) – poll of property professionals to see which companies they rated as the best in the world

Optimising income	Recycling capital	Maintaining robust and flexible financing
▪ Providing attractive space at mid-market rents that appeal to a wide range of tenants ▪ Working closely with tenants and other stakeholders to understand tenants’ needs ▪ Altering lease lengths, building in fixed minimum rental uplifts or finding new space from elsewhere in the portfolio to accommodate those needs if necessary ▪ Building “green” features into our developments to minimise the property’s environmental impact ▪ Generating sufficient income from the portfolio to maintain comfortable interest cover and recurring profits	▪ Reviewing the status and options for each property in the portfolio regularly ▪ Disposing of assets where we believe future growth is limited when market conditions are favourable ▪ Disposing of assets that are deemed non-core when market conditions are favourable ▪ Keeping the proportion of the portfolio suitable for refurbishment or redevelopment at around 50%	▪ Basing our assessment of sustainable gearing on a minimum level of interest cover and a maximum level for the Group’s loan-to-value ratio ▪ Varying our sources of funding in accordance with the lending environment ▪ Maintaining excellent long-term relationships with our lenders and refinancing facilities well in advance of expiry ▪ Using interest rate hedging to provide adequate protection against unpredictable changes in short-term interest rates
▪ Replacing upward-only rent reviews with fixed minimum uplifts where practicable	▪ Identifying assets suitable for recycling	▪ Diversifying sources of funds
▪ Tenant default ▪ Reduced development returns ▪ Shortage of key staff ▪ Reputational damage	▪ Breach of financial covenants ▪ Sub-optimal financing structure	▪ Breach of financial covenants ▪ Higher interest rates ▪ Sub-optimal financing structure ▪ Reputational damage
▪ Void management ▪ Tenant receipts	▪ Total property return	▪ Interest cover ratio
p38	**p43**	**p58**

KEY PERFORMANCE INDICATORS AND METRICS

Key performance indicators

Objective

Measure

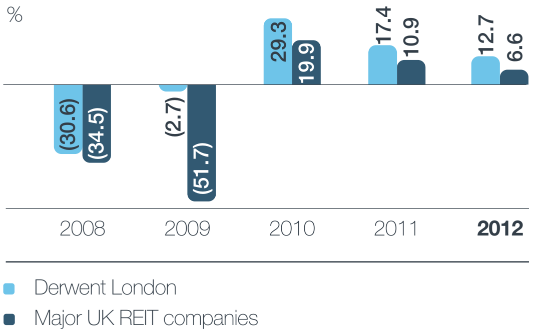
Progress

Maximise overall returns from the portfolio

p55

Total return

We aim to exceed the return from the combination of NAV growth and dividends achieved by the other major UK REIT companies using an annualised calculation based on publicly available information

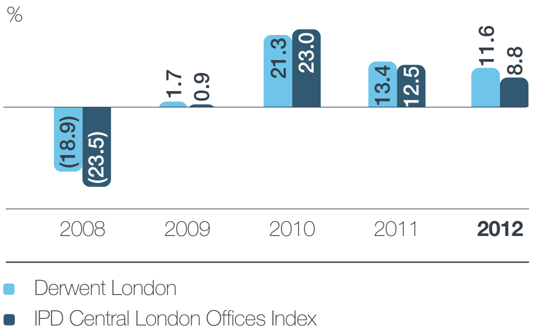


Maximise returns from the investment portfolio

p36

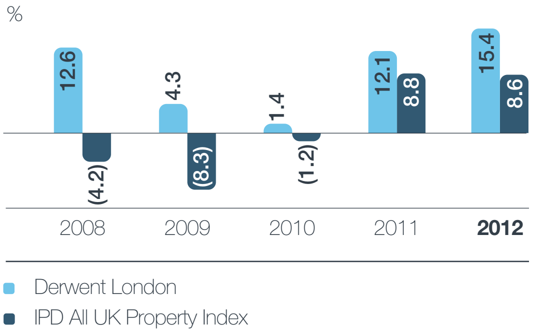
Total property return

We aim to exceed the IPD Central London Offices Index on an annual basis



Total property return – three year rolling

We also aim to exceed the annualised IPD All UK Property Index return on a three-year rolling basis



We outperformed all of our key performance indicator benchmarks in 2012.

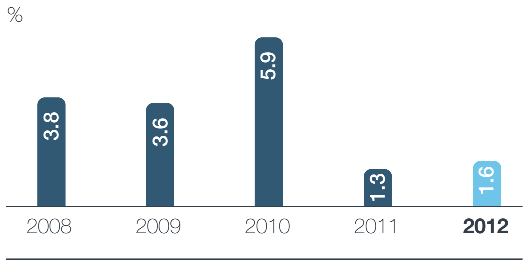
Objective | **Measure** | **Progress**

Maximise returns from the investment portfolio

p41

Void management

We plan ahead to minimise the space immediately available for letting and this should not exceed 10% of the portfolio's estimated rental value

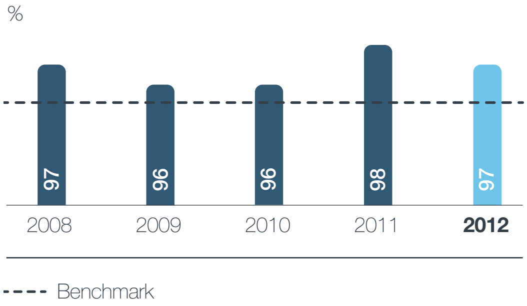


Maximise cash flow

p41

Tenant receipts

We aim to collect more than 95% of rent invoiced within 14 days of the due date throughout the year

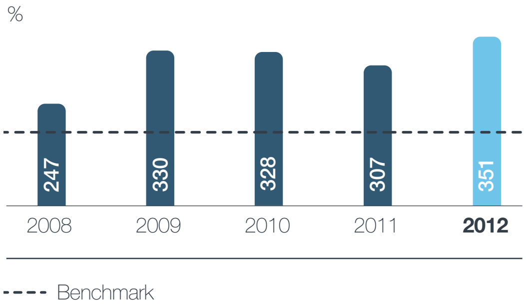


Financial stability

p58

Interest cover ratio

We aim for our gross rental income to be at least twice our net interest payable. This measures our ability to meet our interest obligation and is similar to that in many of the Group's security-specific bank covenants



Environmental sustainability

p64

BREEAM ratings

All developments in excess of 5,000m² to obtain a Building Research Establishment Environmental Assessment Method (BREEAM) rating of "Very Good" or above

BREEAM	Completion	Expected rating
4 & 10 Pentonville Road	Completed	Very Good
Buckley Building	March 2013	Very Good
Morelands Buildings	March 2013	Outstanding
1 Page Street	Q2 2013	Excellent
Turnmill	Q3 2014	Excellent
40 Chancery Lane	Q4 2014	Excellent
1-2 Stephen Street	2013/14	Very Good

KEY PERFORMANCE INDICATORS AND METRICS
CONTINUED

Key metrics

Objective	Measure	Progress

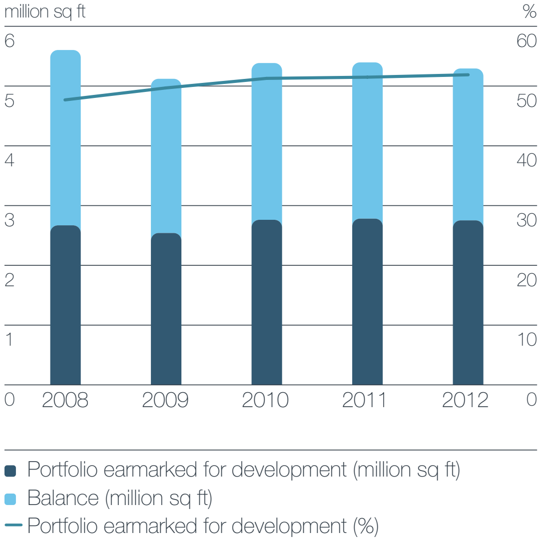
Future capital growth

p44

Development potential

We monitor the proportion of our portfolio that has the potential for refurbishment or redevelopment

52% of our portfolio has potential for refurbishment or redevelopment



Future rental growth

p39

Reversionary percentage

This is the percentage by which the rental income cashflow would increase, were the passing rent to be increased to the estimated rental value

%	2008	2009	2010	2011	**2012**
Reversion	33	14	27	42	**46**

Environmental sustainability

p63

Energy Performance Certificates (EPC)

We design projects to achieve a "B" certificate for all new-build projects over 5,000m² and a minimum of "C" for all refurbishments over 5,000m²

EPC	**Completion**	**Expected rating**
4 & 10 Pentonville Road	Completed	C
Buckley Building	March 2013	C
Morelands Buildings	March 2013	B
1 Page Street	Q2 2013	C
Turnmill	Q3 2014	B
40 Chancery Lane	Q4 2014	B
1-2 Stephen Street	2013/14	C

De-risking of income stream

p7, p38

Diversity of tenants

A diverse tenant base, both in number and across different industries, protects our income stream

See principal tenants and profile of tenants' business charts on page 7

Continuity of income

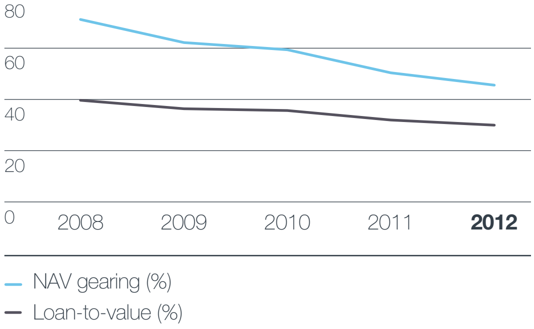
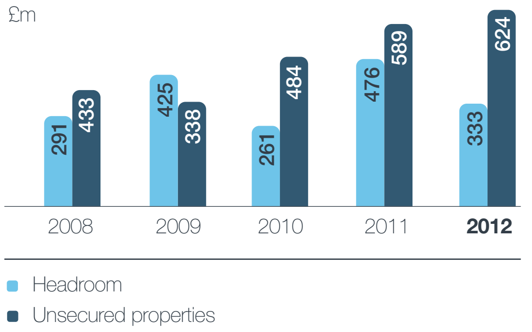
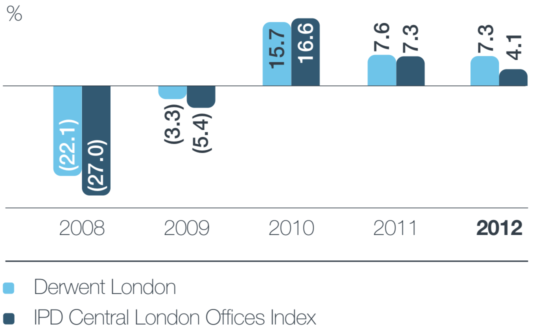
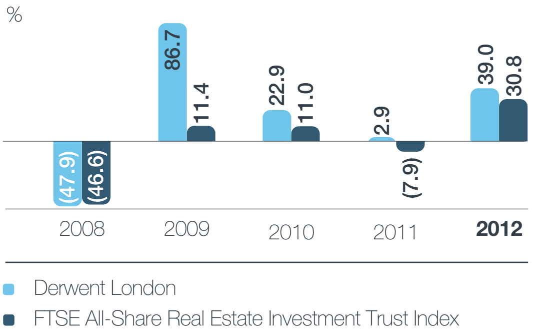
p40

Tenant retention

It is important, where we wish to retain income, that we maximise tenant retention following tenant lease breaks or expiries and minimise any void period

	2008	2009	2010	2011	**2012**
Exposure (£m pa)	13.0	12.1	11.5	16.2	**14.7**
Retention (%)	70	66	72	72	**81**
Re-let (%)	11	18	17	21	**5**
Total (%)	81	84	89	93	**86**

There are a number of further metrics which, whilst they do not constitute key performance indicators, nevertheless we find useful in monitoring the performance of the business.

Objective	**Measure**	**Progress**
Financial stability **p58**	**Gearing** Consistent with others in its industry, the Group monitors capital on the basis of NAV gearing and the loan-to-value ratio	
Financial flexibility **p58**	**Available resources** We ensure that we have sufficient flexibility to take advantage of acquisition and development opportunities and we carefully monitor our headroom (ie the difference between our total facilities and the amounts drawn under those facilities)	
Maximise returns to the investment portfolio **p36**	**Capital return** We compare our performance against the IPD Central London Offices Index for capital growth	
Maximise returns to shareholders **p99**	**Total shareholder return** We compare our performance against the FTSE All-Share Real Estate Investment Trust Index[1]	

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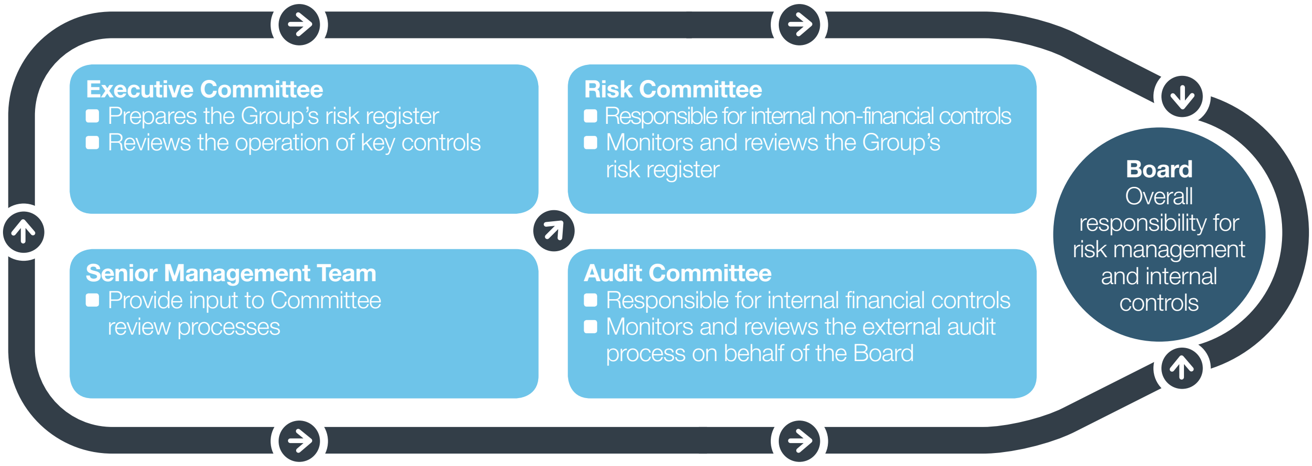
[1] In accordance with industry best practice, the benchmarks have been calculated using a 30-day average of the returns

RISK MANAGEMENT

Risk is an inherent part of running a business and, whilst the Board aims to maximise returns, it needs to understand and manage the associated risks.

Risk organisation structure



Executive Committee
- Prepares the Group's risk register
- Reviews the operation of key controls

Senior Management Team
- Provide input to Committee review processes

Risk Committee
- Responsible for internal non-financial controls
- Monitors and reviews the Group's risk register

Audit Committee
- Responsible for internal financial controls
- Monitors and reviews the external audit process on behalf of the Board

Board
Overall responsibility for risk management and internal controls

Risk is an inherent part of running a business and, whilst the Board aims to maximise returns, it needs to understand and manage the associated risks. Whilst overall responsibility for this process rests with the Board it has delegated responsibility for assurance concerning the risk management process to the Audit Committee and the Risk Committee, the latter having been established at the end of 2011. Executive management is responsible for designing, implementing and maintaining the necessary systems of internal control.

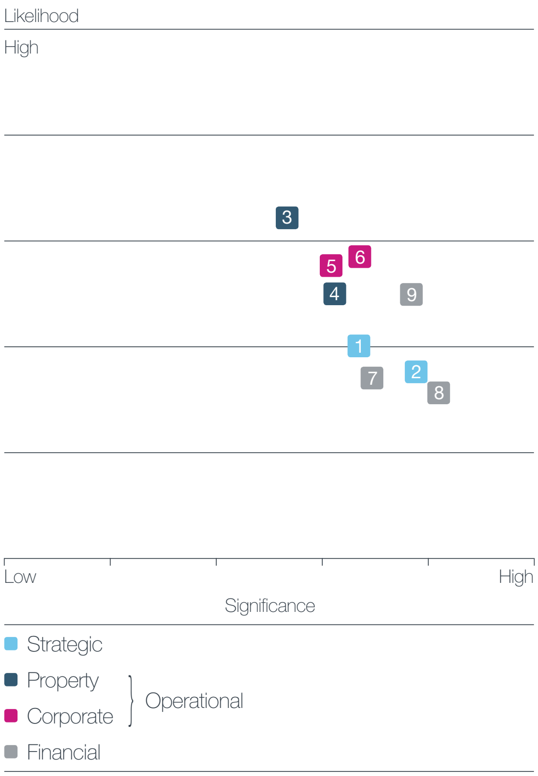
The Group operates principally from one central London office with a relatively flat management structure. This enables members of the Executive Committee to be closely involved in day-to-day matters and therefore able to quickly identify and respond to risks.

A key element in the system of internal controls is the Group's risk register which is reviewed formally by the Board once a year. The register is prepared by the members of the Executive Committee which, having identified the risks, collectively assesses the severity of each risk, the likelihood of it occurring and the strength of the controls in place. This approach allows the effect of any mitigating procedures to be considered and recognises that risk cannot be totally eliminated at an acceptable cost. It also recognises that there are some risks that, with its experience and after due consideration, the Board will be prepared to accept.

The register, its method of preparation and the operation of the key controls in the Group's system of internal control, is reviewed throughout the year by the Risk Committee, which periodically receives presentations from senior management to gain a more in-depth understanding of the control environment in certain areas of the business. The register was updated between December 2012 and February 2013 and includes 43 risks across the following categories: strategic risks, corporate risks, property risks and financial risks.

The principal risks and uncertainties that the Group faces in 2013, together with the controls and mitigating factors, are set out on the following pages.

Major risks



Key to risk table below

- ↑ Risk increase
- ↗ Risk slight increase
- → Risk unchanged
- ↘ Risk slight decrease
- ↓ Risk decrease

Strategic risks

That the Group's strategy does not create the anticipated shareholder value or fails to meet investors' expectations.

Risk effect and progression	Controls and mitigation	Action
1 Inconsistent strategy ■ The Group's strategy is inconsistent with the state of the market in which it operates. **2 Inconsistent development programme** ■ The Group's development programme is not consistent with the economic cycle. The Group currently benefits from a strong central London market which could be adversely affected by a number of high level economic factors. This would reduce the value of the Group's portfolio. KPIs affected: – Total return – Total property return The Board sees the level of this risk as broadly unchanged from last year. →	■ The Group carries out a five-year strategic review each year and also prepares an annual budget and three rolling forecasts which cover the next two years. In the course of preparing these documents the Board considers the effect on the Group's KPIs and key ratios caused by changing the main underlying assumptions to reflect different economic scenarios. ■ The Group's plans can then be set so as to best realise its long-term strategic goals given the expected economic and market conditions. This flexibility arises from the policy of maintaining income from properties for as long as possible until development starts. ■ Over 50% of the Group's portfolio has been identified for future redevelopment. This enables the Board to delay marginal projects until market conditions are favourable. ■ The risk remains significant and therefore in forming its plans the Board pays particular attention to maintaining sufficient headroom in all the Group's key ratios, financial covenants and interest cover.	■ The last annual strategic review was carried out by the Board in June 2012. This considered the sensitivity of six key measures to changes in underlying assumptions including interest rates and borrowing margins, timing of projects, level of capital expenditure and capital recycling. ■ The three rolling forecasts prepared during the year focus on the same key measures but consider the effect of varying different assumptions to reflect changing economic and market conditions. ■ The timing of the Group's development programme and the strategies for individual properties reflect the outcome of these considerations. ■ At the year end the Group's interest cover ratio was above 350%, the REIT ratios were comfortably met and its loan-to-value ratio was 30%.

RISK MANAGEMENT
CONTINUED

Operational risks[1]

That the Group suffers either a loss or adverse consequences due to processes being inadequate or not operating correctly.

Risk effect and progression	Controls and mitigation	Action
3 Reduced development returns ■ The Group's development projects do not produce the anticipated financial return due to one or more of the following factors: – Delays in the planning process. – Delays due to contractors/ sub-contractors defaulting. – Increased construction costs. – Adverse letting conditions. KPIs affected: – Total return – Total property return Taken as a whole the Board considers this risk to be at the same level as last year. →	■ Standardised appraisals including contingencies are prepared for all investments and sensitivity analysis is undertaken to ensure that an adequate return is made in all circumstances considered likely to occur. ■ The scale of the Group's development programme is managed to reflect anticipated market conditions. ■ Regular cost reports are produced for the Executive Committee and the Board that monitor progress of actual expenditure against budget. This allows potential adverse variances to be identified and addressed at an early stage. ■ Post completion reviews are carried out for all major developments to ensure that improvements to the Group's procedures are identified and implemented.	■ The Group is advised by top planning consultants and has considerable in-house planning expertise. ■ Executive Directors represent the Group on a number of local bodies which ensures that it remains aware of local issues. ■ The procurement process used by the Group includes the use of highly regarded firms of quantity surveyors and is designed to minimise uncertainty regarding costs. ■ Development costs are benchmarked to ensure that the Group obtains competitive pricing. ■ The Group's style of accommodation remains in demand as evidenced by the 49 lettings achieved in 2012, which totalled 340,300 sq ft. ■ The Group has secured significant pre-lets of the space in its current development programme which significantly "de-risks" these projects.
4 Tenant default ■ The Group suffers a loss of rental income and increased vacant property costs due to tenants vacating or becoming bankrupt. The continuing lack of growth in the UK economy could lead to an increase in business failure. KPIs affected: – Tenant receipts – Void management – Total return – Total property return } if significant – Interest cover ratio The Board considers this risk to have increased over the past year due to the effect that the prolonged austerity measures are having on businesses. ↑	■ All prospective tenants are considered by the Group's credit committee and security is taken where appropriate either in the form of parent company guarantees or rent deposits. ■ The Group's property managers maintain regular contact with tenants and work closely with any that are facing financial difficulties. ■ The Group's credit committee regularly reviews a list of slow payers and considers what actions should be taken.	■ The Group has a diversified tenant base. ■ The credit committee meets each week and considered 98 potential tenants during the year. ■ In total the Group holds rental deposits amounting to £10.8m. ■ On average during the year, the Group has collected 97% of the rents due within 14 days of the due date.
5 Reputational damage ■ The Group's cost base is increased or its reputation damaged through a breach of any of the legislation that forms the regulatory framework within which the Group operates. This risk would most directly impact on the Group's total shareholder return – one of its key metrics. Indirectly it could impact on a number of the formal KPIs. The Board considers the risk to have increased over the year due to increased legislation covering more areas of the Group's business and an increased ability of pressure groups to gain publicity for any breaches. ↑	■ The Group's Risk Committee reports to the Board concerning regulatory risk. ■ The Group employs a health and safety manager. ■ A sustainability committee chaired by Paul Williams and advised by external consultants addresses risk in this area. A sustainability manager was recruited in January 2013. ■ The Company's policies including those on the Bribery Act, Health and Safety, Equal Opportunities, Harassment and Whistleblowing are available to all staff on the Company intranet. ■ All new members of staff benefit from an induction programme.	■ A Health and Safety report is presented at all Executive Committee and main Board meetings. ■ The Group pays considerable attention to sustainability issues and produces a sustainability report annually.

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[1] Incorporates the corporate and property risks from the Group's risk register

Operational risks (continued)

6 Shortage of key staff - The Group is unable to successfully implement its strategy due to inadequate succession planning or a failure to recruit and retain key staff with appropriate skills. No KPIs affected. The risk is seen as unchanged over the year. →	- The remuneration packages of all employees are benchmarked regularly. - Six-monthly appraisals identify training requirements which are fulfilled over the next six months. - The Nominations Committee reviews the Group's succession planning for both executive and non-executive Directors.	- The Group recruited 11 new members of staff during 2012. The key appointment of a sustainability manager was made in January 2013. - Staff turnover during 2012 was low at 7% (9% including retirees). - The Executive Committee considers non-Board succession issues.

Financial risks

That the Group becomes unable to meet its financial obligations or finance the business appropriately.

Risk effect and progression	Controls and mitigation	Action
7 Breach of financial covenants - A substantial decline in property values or a material loss of rental income could result in a breach of the Group's financial covenants. This may accelerate the repayment of the Group's borrowings or result in their cancellation. KPIs affected: – Total return (property values) – Total property return (property values) – Interest cover ratio (rental income) The Board considers this risk to be slightly lower this year as it has considerable headroom within its covenants and expects the business cycle to be less volatile. ↘	- The Group's secured borrowings contain financial covenants based on specific security and not corporate ratios such as overall NAV gearing. Treasury control schedules are updated weekly whilst the rolling forecasts enable any potential problems to be identified at an early stage and corrective action to be taken. The Group has considerable headroom under its financial covenants, operates at a modest level of gearing and has a substantial amount of uncharged property that could be secured if necessary.	- The Group tests its compliance with financial covenants regularly and operated comfortably within these limits throughout 2012. Property values could decline by around 40% at the balance sheet date before there would be a breach of financial covenants. - Compliance with the financial covenants is one of the matters monitored as part of the sensitivity analysis undertaken when preparing the annual strategic review and the rolling forecasts. - At 31 December 2012 the Group owned £624m of uncharged properties.
8 Sub-optimal financing structure - The Group's cost of borrowing is increased due to an inability to raise finance from its preferred sources. KPI affected: – Interest cover ratio The Board considers this risk to have decreased over the past 12 months as the Group has increased the diversity of its funding sources and there have been improvements in the health of the banking sector. ↓	- The Group's five-year strategic review and rolling forecasts enable financing requirements to be identified at an early stage. This allows alternative sources of finance to be evaluated and the preferred one to be identified. To a degree, the funds can then be raised when market conditions are favourable.	- The Group's financing comes increasingly from a number of different sources/providers and has a varied maturity profile. The proportion of the Group's borrowings provided by bank loans decreased from 59% at 31 December 2011 to 50% at the year end. - The refinancing of the facilities maturing in 2013 that was started in 2011 was completed in August 2012. The focus in 2011 was to renew or refinance revolving bank facilities. Then in August 2012, the remaining £150m bank loan expiring in 2013 was prepaid and cancelled and a new £83m loan was signed with Cornerstone/Mass Mutual for a term of 12¼ years at a fixed rate of 3.99%. - As at 31 December 2012, the weighted average duration of the Group's debt was 6.1 years. - At the year end the Group had £333m of unutilised, available, committed bank facilities.
9 Higher interest rates - Financing costs are higher due to increases in interest rates. KPI affected: – Interest cover ratio The Board sees this risk as unchanged over the year. →	- The Group uses interest rate derivatives to "top up" the amount of fixed rate debt to a level commensurate with the perceived risk to the Group.	- During the year the Group terminated three interest rate swaps which were at historic rates and initiated new instruments which have locked in the lower rates that were available at that time. - 92% of borrowings were fixed or hedged at the year end.

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1 Oliver's Yard EC2