





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	<ul style="list-style-type: none"> ■ 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 	<ul style="list-style-type: none"> ■ 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	<ul style="list-style-type: none"> ■ Adding to our portfolio in core areas of operation 	<ul style="list-style-type: none"> ■ 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	<ul style="list-style-type: none"> ■ Inconsistent strategy ■ Breach of financial covenants 	<ul style="list-style-type: none"> ■ Inconsistent development programme ■ Reduced development returns ■ Inconsistent strategy ■ Shortage of key staff ■ Reputational damage
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Key performance indicators that measure our performance	<ul style="list-style-type: none"> ■ Total return ■ Total property return 	<ul style="list-style-type: none"> ■ Total property return ■ BREEAM ratings
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“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
<ul style="list-style-type: none"> ■ 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 	<ul style="list-style-type: none"> ■ 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% 	<ul style="list-style-type: none"> ■ 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
<ul style="list-style-type: none"> ■ Replacing upward-only rent reviews with fixed minimum uplifts where practicable 	<ul style="list-style-type: none"> ■ Identifying assets suitable for recycling 	<ul style="list-style-type: none"> ■ Diversifying sources of funds
<ul style="list-style-type: none"> ■ Tenant default ■ Reduced development returns ■ Shortage of key staff ■ Reputational damage 	<ul style="list-style-type: none"> ■ Breach of financial covenants ■ Sub-optimal financing structure 	<ul style="list-style-type: none"> ■ Breach of financial covenants ■ Higher interest rates ■ Sub-optimal financing structure ■ Reputational damage
<ul style="list-style-type: none"> ■ Void management ■ Tenant receipts 	<ul style="list-style-type: none"> ■ Total property return 	<ul style="list-style-type: none"> ■ Interest cover ratio

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