

Responsibility

It is how

- buildings complement and enhance their environments;
- people connect with the places in which they live and work;
- those places can bring out the best in their occupants; and
- we communicate with our tenants.

Together, these elements create communities and a sense of place.



Sustainability

Our sustainability commitments are aligned and integrated with our strategic business priorities

We recognise our responsibility to manage the environmental, social and economic impacts of our business activities. Our sustainability commitments are aligned and integrated with our strategic business priorities, representing an important element of the company's risk management strategy and offering the potential for significant value creation.

Work is now under way to integrate the commitments previously included in our environmental and social policies into a single Sustainability Policy, which will be publicly available on our website in 2010. Our Sustainability Policy will be supported by two 'frameworks': the Sustainability Framework for Assets and the Sustainability Framework for Projects. The frameworks, which are due to be implemented in 2010, will ensure that key sustainability issues are managed at all stages of the property lifecycle.

Governance

We have implemented a sustainability governance framework which ensures continual monitoring of progress against our targets at both an operational and strategic level. The group's sustainability policy is overseen by one of our directors, Mr Williams, who attends quarterly meetings with our sustainability consultants. The consultants also have quarterly meetings with key individuals responsible for the delivery of targets.



Green travel plans in place for 55% of our managed properties

Environment

Sustainable building design is at the centre of our commitment to effective environmental management. We aspire to BREEAM 'Excellent' rating on all new developments with a minimum 'Very Good' rating for all major refurbishments. Both the Charlotte Building and Arup Phases II & III are currently awaiting certification and predicted to achieve 'Very Good' and the pre-assessment of the Angel Building also indicated a 'Very Good' rating is achievable. Our current work to develop a Sustainability Framework for Projects will help us move towards BREEAM 'Excellent' on future projects.

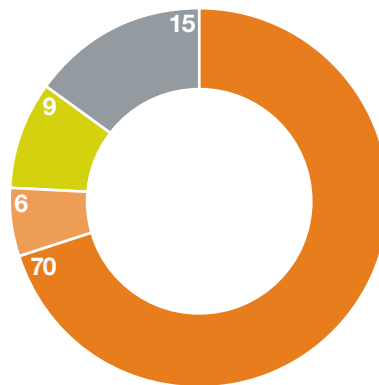
Tenant websites are now fully operational at 17 of our managed properties with a further nine due to go live during 2010. These provide an effective tool for engaging with tenants on environmental issues and the tenant feedback has been positive. We continue to engage with our tenants on key environmental issues such as energy and waste. For instance, we held a number of 'Engineering Forums' in our buildings to give tenants the opportunity to meet with the facilities managers and representatives from the engineering maintenance team. We have also developed Green Travel Plans for 17 of our managed properties. Our current work to develop a sustainability framework for assets will help us to ensure that initiatives which have been successfully implemented in one location can be rolled out successfully across the portfolio.

Summary of progress in 2009

As in previous years, we continue to set ourselves a number of targets to stretch our performance on key sustainability issues. Performance against 34 targets, where performance could be measured, is set out below:

Summary of progress

%



- Achieved
- Partially achieved
- Not achieved
- Not started

Reflecting the nature of our targets for 2009, there were an additional 17 targets which related to ongoing processes where it is not possible to measure an achievement level, and these have therefore been excluded from the analysis above. Performance against all targets is detailed in our 2009 sustainability report. For our 2010 targets, we have focused on setting more specific and measurable targets which will allow more transparent and accurate assessment of progress.

Our environmental review and internal seminar series in 2008 highlighted a strong employee view that climate change should be a priority environmental issue for Derwent London. In response, during 2009 we focused on improvements to the energy performance of our buildings. By achieving a 'B' rated Energy Performance Certificate (EPC) for Arup Phases II & III and the Charlotte Building, we exceeded our target to achieve at least a 'C' rated EPC for new buildings in excess of 3,000m². As a 'B' rating or higher is generally only awarded for exceptional air-conditioned offices, these buildings perform better than many central London buildings, for which a typical EPC rating is a 'C'. We are also on track to meet our target for the Angel Building, which is currently under construction. Our new buildings include energy efficient features such as displacement air conditioning and DALI lighting (Digital Addressable Lighting Interface).

During the year, we have also reviewed the energy performance of our managed portfolio. We appointed specialist consultants to conduct detailed energy surveys of 1 Oliver's Yard, the Davidson Building and the Johnson Building, which identified a number of potential improvements for these buildings and broader recommendations for improving energy performance across the portfolio. We are now in the process of taking corrective measures, monitoring the results and applying our findings to

'Green' leases introduced in 2009

other buildings, with the aim of reducing the annual carbon emissions from our portfolio in 2010. In 2009, this has already resulted in a 1% reduction in carbon emissions per square metre across the portfolio to 85.15 kg CO₂/m², and we anticipate further carbon savings in 2010. We also provided a voluntary disclosure to the Carbon Disclosure Project (CDP) outlining our annual carbon emissions and approach to carbon management. The response is publicly available on the CDP website.

Average recycling rate –

56%

compared to target of 40%

Our successful programme of tenant engagement to increase the proportion of waste recycled in our managed properties also continued in 2009. Two visits to our waste contractor's recycling centre were attended by 16 tenants, and the topic of waste and recycling was featured during our tenant meetings. We are pleased to report an average recycling rate of 56% at the properties where we have control over waste management. This is a significant improvement on last year and above our target of 40%. This year all 13 properties for which we have control over waste management achieved the target of 40%, compared to seven out of 12 properties last year.

We have continued to install water meters in our managed properties and in 2009, water usage increased marginally by 1% compared to 2008. This is largely as a result of the installation of showers to encourage tenants to cycle to work. However, usage is below the industry good practice guideline for offices of 0.55m³/m², which we have set as our internal target. We ensure that options for recycling rain water are considered in all new projects and aim to further reduce our water consumption across the portfolio. In addition to monitoring water usage across our managed portfolio, we have also started to monitor water usage in our development projects with a view to reducing consumption where possible.

We have introduced a number of 'green clauses' concerning environmental matters into our standard lease as a way of influencing tenant behaviour at properties that we do not manage. →see page 17

We are also working hard to ensure the sustainable use of materials in our construction and refurbishment projects, and responsibly sourced timber continues to be a priority in all our projects. Our pioneering 'White Collar Factory' concept, launched in 2009, will help us to reduce our use of new materials and to reduce waste. It provides a simplified specification: a flexible and adaptable space that can be tailored to tenant needs, rather than a high specification, fully glazed, air-conditioned Category A office space. Features such as increased natural light and natural ventilation also help to reduce the building's energy demand and lead to improvements in user wellbeing. →see page 22 We have taken this concept and applied it to the design of the Hampstead Road project.

Customers

As part of our commitment to high standards of customer service, we implemented a number of tenant-focused initiatives in 2009. Our annual customer survey asked all tenants for their opinions on a range of property management issues including matters relating to security, works and repairs and the environmental aspects of buildings in operation. With an encouraging 22% return rate, key highlights (where tenants stated excellent or good) included 65% satisfaction with building design and main reception and 75% satisfaction with rent and service charge communication. We have been working closely with building managers since the survey was completed to implement a number of improvements to our management, typically on maintenance concerns.

Health and safety remains a core management priority in our managed portfolio. We are pleased to report that there were zero RIDDOR (Reportable Injuries, Diseases and Dangerous Occurrences Regulations) incidents at our multi-let managed properties. To maintain these high standards we have taken steps to introduce formal health and safety training for our property managers covering, amongst other things, procedures for dealing with reportable accidents, major injuries and fire.

2009 employee turnover:

7.4%

Suppliers

We are committed to treating our suppliers with fairness and respect – which is especially important during times of economic uncertainty. We continue to commit to pay suppliers within 28 days of invoice receipt. The average head office payment period for both 2008 and 2009 was 21 days. We also conducted a pilot survey with suppliers to gauge their feedback in relation to Derwent London's supply chain management practices. The feedback received from this survey was very positive, particularly in regard to our openness in communication and payment terms. Following this successful pilot, a more extensive survey of supply chain management practices will take place in 2010.

Communities

We understand the importance of fostering strong links with local communities. Part of this is working closely with contractors to ensure minimum disruption and nuisance during construction works. Of the three sites eligible for the Considerate Constructors Scheme – which assesses construction sites in line with a good practice code – all achieved well over the good practice threshold and our 2009 target of 32 out of 40, with the Angel Building scoring 36.5 out of 40 ('an exceptionally good site') and the Charlotte Building and Arup Phases II & III both scoring 34 out of 40 ('a very good site'). The Angel Building has subsequently been submitted for the Considerate Constructors Scheme's annual national award.

Our initiative to regenerate the Fitzrovia area of London, where we own over one million sq ft of property, has also seen significant progress over the past 12 months. The Fitzrovia Partnership's primary focus this year has been to establish representation amongst local businesses. A full time partnership coordinator was appointed during 2009 as well as a street ambassador who will be a visible presence in the area. We continued our member recruitment drive and are pleased to report the addition of City Corporation. Make Architects were appointed to conduct a public realm study of Fitzrovia which will help to prioritise improvements.

→ see page 23

Employees

Employee turnover in 2009 was 7.4%, well below the overall national turnover rate for the UK of 15.7%. We believe this reflects our commitment to talent retention which is driven by a stimulating work environment and competitive remuneration and benefits. As our business continues to grow, the need for more formal HR processes and procedures becomes an increasingly important priority. In 2009, we implemented a revised employee appraisal process to promote structured feedback as part of our employees' professional learning and development. We achieved a 100% return on appraisals at both the annual and mid-year reviews and all requirements for training were met through external or internal courses or on-the-job learning.

Priorities in 2010

Targets form a key component of our sustainability policy, driving improvements in performance across all sustainability impact areas. Our targets this year demonstrate a greater degree of integration between social and environmental issues and a focus on measurable action. The key targets for 2010 are as follows:

- developing a sustainability policy to integrate the commitments in our current environmental policy and social policy;
- creating a sustainability framework for projects to ensure that sustainability considerations are appropriately taken into account at all stages of the design and construction process;
- creating a sustainability framework for assets to ensure that sustainability considerations are managed consistently across the managed portfolio;
- implementing the recommendations identified in our pilot study which assessed the energy performance of our managed portfolio;
- strengthening tenant communication to encourage improved environmental performance at multi-let properties;
- improving health & safety management systems at multi-let properties;
- focusing on sustainable procurement and supply chain management practices; and
- liaising with, and showing consideration for, local communities during large and small developments.

A full list of our targets for 2010 will be included in our 2009 sustainability report.

Angel Building submitted for the Considerate Constructors Scheme's national award

Risk management

The board recognises that risk is an inherent part of running a business and that whilst it aims to maximise returns, the associated risks must be understood and managed. Overall responsibility for this process rests with the board whilst executive management is responsible for designing, implementing and maintaining the necessary systems of control.

Key to this function is the group's risk register, which is reviewed formally once a year. The register is initially prepared by the executive board which, having created the list of risks, collectively assesses the severity of the risk,

the likelihood of it occurring and the strength of the controls over the risk. This approach allows the effect of any mitigating procedures to be considered, recognising that risk cannot be totally eliminated and that some activities incur inherent risk.

The register is then reviewed and commented upon by the audit committee before being considered and adopted by the full board. The register was reviewed in February 2010 and the principal risks and uncertainties that the group faces in 2010, together with the controls and mitigating factors, are set out below:

Strategic risks

That the group's strategy doesn't create the anticipated shareholder value or fails to meet investors' expectations.

- The group's strategy is inconsistent with the market environment.
- The group's development programme is not consistent with the economic cycle.

The group carries out a five-year strategic review and prepares regular rolling forecasts covering the next two years. In both exercises, the board considers the effect on key ratios of changing the main underlying assumptions and set these so as to best realise its long-term strategic goals. This flexibility arises from the policy of maintaining income from properties until development starts.

Financial risks

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

- 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.

The group's secured borrowings contain financial covenants based on specific security and not corporate ratios such as balance sheet gearing. Treasury control schedules are updated weekly whilst the rolling forecast enables any potential problems to be identified at an early stage and corrective action to be taken. The group has a considerable amount of uncharged property that could be used in such circumstances.

- The group's cost of borrowing is increased due to an inability to raise finance from its preferred sources.

The group's five-year strategic review and rolling forecasts enables any financing requirement to be identified at an early stage. This allows sources of finance to be identified and evaluated and, to a degree, the finance to be raised when market conditions are favourable.

- Financing costs are higher due to increases in interest rates.

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.

- The group incurs tax penalties or loses its REIT status due to failing to comply with the REIT legislation.

The group's rolling forecast monitors compliance over the forecast period which enables any potential non-compliance to be identified and corrective action to be taken at an early stage.

Operational risks

The group suffers either a loss or adverse consequences due to processes being inadequate or not working correctly.

– The implementation of the group's strategy is inhibited by an inability to acquire assets at an attractive price.	The size of the central London market in which the group operates, means that such a situation is unlikely to persist for very long. During this time, the group is able to develop opportunities from within its existing portfolio.
– The group's development projects do not produce the anticipated financial return due to delays in the planning process, increased construction costs or adverse letting conditions.	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.
– The group suffers a loss of rental income and increased vacant property costs due to tenants vacating or becoming bankrupt.	Prospective tenants are considered by the group's credit committee and security is taken where appropriate. The group's property managers maintain regular contact with tenants and work closely with any that are facing financial difficulties.
– The financial return of the group's developments is reduced due to the insolvency of a contractor or sub-contractor.	Generally, the group selects contractors from a pool that are well known to it, and the financial information on these companies is regularly reviewed. If the insolvency of a major sub-contractor is seen to present a material risk to the critical path of a project, specific strategies are implemented to mitigate the effect.
– The group's reputation is damaged due to a breach of health and safety regulations.	The group employs a health and safety executive who establishes appropriate policies for the group's offices and an external health and safety supervisor is appointed for each development project. All significant accidents are reported to the board and reports for each scheme are submitted regularly to the board.
– The group is unable to successfully implement its strategy due to a failure to recruit and retain key staff with appropriate skills.	The remuneration packages of all employees are regularly benchmarked. Six-monthly appraisals identify training requirements which are fulfilled over the next year.
