MEASURING OUR PERFORMANCE

We use a balance of financial and non-financial key performance indicators (KPIs) to measure our performance and assess the effectiveness of our strategy. They are also used to monitor the impact of the principal risks that have been identified and a number are used to determine remuneration.

KPIs

Financial		Non-financial	
Operational measures	**Gearing measures**	**Operational measures**	**Responsibility measures**
Total return	Gearing and available resources	Reversionary percentage	BREEAM
Total property return	Interest cover ratio	Development potential	EPC
Total shareholder return		Tenant retention	Carbon intensity*
EPRA earnings per share*		Void management	Staff satisfaction*

* KPI introduced in 2018

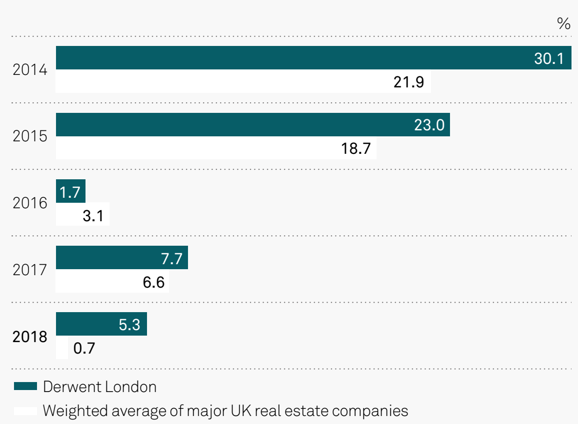
Financial KPIs	Our performance

TOTAL RETURN

1. 2. 3. 4. 5. R

Total return equates to the combination of NAV growth plus dividends paid during the year. We aim to exceed our benchmark, which is the average of other major real estate companies.

Our total return in 2018 was 5.3%, which comfortably exceeded the benchmark return of 0.7%. Derwent London's average annual return of 12.8% over the past five years against a benchmark of 9.9% p.a. demonstrates the ability of our business model to generate above average long-term returns.



Key

Strategic objectives

1. To optimise returns and create value from a balanced portfolio
2. To grow recurring earnings and cash flow
3. To attract, retain and develop talented employees
4. To design, deliver and operate our buildings responsibly
5. To maintain strong and flexible financing

Other

R Remuneration

* KPI introduced in 2018

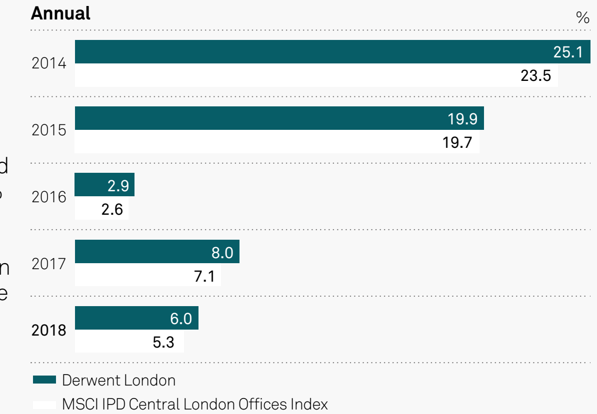
Financial KPIs	Our performance

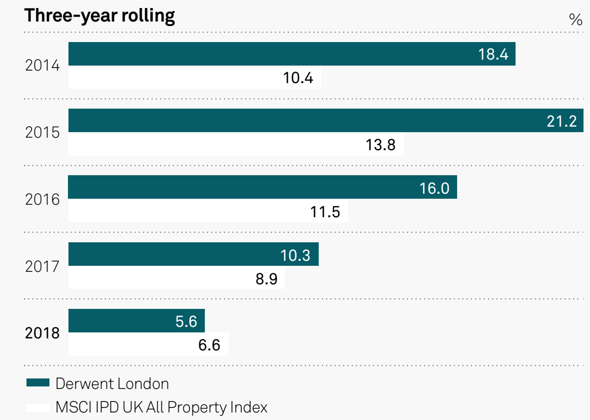
TOTAL PROPERTY RETURN

1. 2. 3. 4. 5. R

Total property return is used to assess progress against our property-focused strategic objectives. We aim to exceed the MSCI IPD Central London Offices Index on an annual basis and the MSCI IPD UK All Property Index on a three-year rolling basis.

Continued strong pre-letting at our developments and active asset management meant we outperformed MSCI IPD's Central London Offices Index by 70 bps during 2018. Although over three years we marginally underperformed their UK All Property Index, our 6.0% return in 2018 equalled the annual index. This demonstrates London's continued attraction, which has seen rents and yields remain firm, and the particular appeal of our middle market rental product.



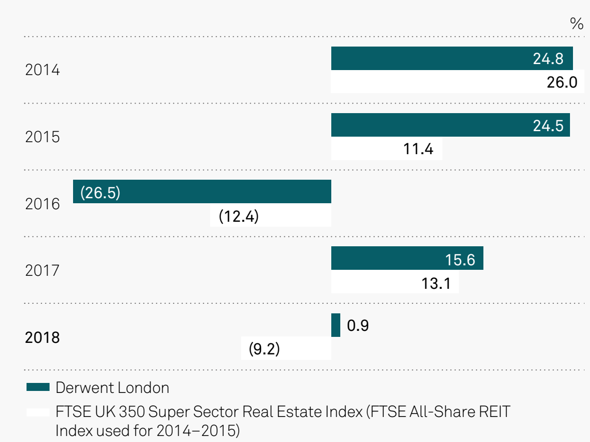


TOTAL SHAREHOLDER RETURN (TSR)

1. 2. 3. 4. 5. R

To measure the Group's achievement of providing above average long-term returns to its shareholders, we compare our performance against the FTSE UK 350 Super Sector Real Estate Index, using a 30-day average of the returns in accordance with industry best practice.

Derwent London outperformed its benchmark index in 2018 by 10.1%. Our ability to deliver above average long-term returns is demonstrated by the fact that £100 invested in Derwent London at the start of 2009 was worth £495 at the end of 2018, compared with £214 for the benchmark index.

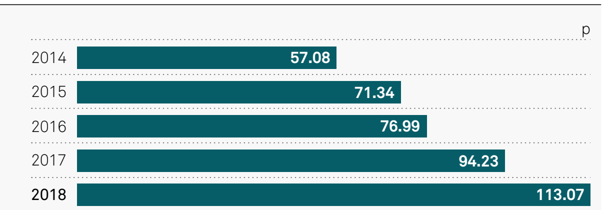


EPRA EARNINGS PER SHARE (EPS)*

1. 2. 3. 4. 5

EPRA EPS is the principal measure used to assess the Group's operating performance and a key determinant of the annual dividend. A reconciliation of this figure back to the IFRS profit can be found in note 38.

EPRA EPS rose by 20.0% in 2018 and has increased by 98% since 2014. In 2018 we have also reported an underlying EPS, which excludes a one-off receipt of 14p per share. On this basis, EPS rose 5.1% to 99.08p.



MEASURING OUR PERFORMANCE CONTINUED

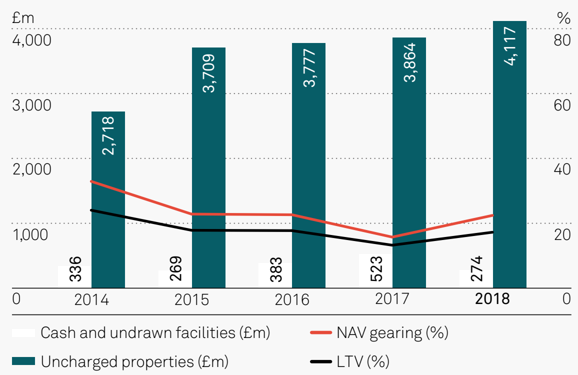
Financial KPIs	Our performance

GEARING AND AVAILABLE RESOURCES

1. 2. 3. 4. 5.

The Group monitors capital on the basis of NAV gearing and the LTV ratio. We also monitor our undrawn facilities and cash, and the level of uncharged properties, to ensure that we have sufficient flexibility to take advantage of acquisition and development opportunities.

Cash and undrawn facilities fell in the year due to net investment in our portfolio of £228.6m. This also meant an increase in the NAV gearing and LTV ratio, but both remain at a low level. In January 2019 we drew down on £250m of proceeds from a private placement, which increased available funds to over £500m, on a proforma basis.

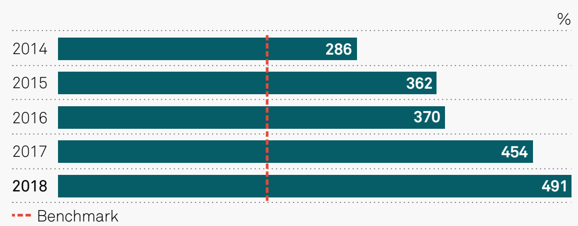


INTEREST COVER RATIO (ICR)

1. 2. 3. 4. 5.

We aim for our interest payable to be covered at least two times by net rents. The basis of calculation is similar to the covenant included in the loan documentation for our unsecured bank facilities. Please see note 40 for the calculation of this measure.

Due to both an increase in property income and decrease in finance costs, the net interest cover ratio increased during 2018. Rental income would need to fall by over 70% before the main ICR covenant was breached.



Non-financial KPIs	Our performance

REVERSIONARY PERCENTAGE

1. 2. 3. 4. 5.

This is the percentage by which the cash flow from rental income would grow were the passing rent to be increased to the estimated rental value (ERV) and assuming the on-site schemes are completed and let. It is used to monitor the potential future income growth of the Group.

New lettings helped increase the reversion to 72%, giving a portfolio ERV of £274.4m. Asset management and letting activity in the year meant that the proportion of the reversion that is contracted, either through fixed uplifts or pre-let schemes, increased from 62% to 76%.

	2014	2015	2016	2017	2018
%	64	103	89	69	**72**

DEVELOPMENT POTENTIAL

1. 2. 3. 4. 5. R

We monitor the proportion of our portfolio with the potential for refurbishment or redevelopment to ensure that there are sufficient opportunities for future value creation in the portfolio.

The percentage of our portfolio that had redevelopment, regeneration or refurbishment potential was 41% at the end of 2018. We continue to seek acquisitions that would provide value creation opportunities.

	2014	2015	2016	2017	2018
%	52	47	43	44	**41**

TENANT RETENTION

1. 2. 3. 4. 5. R

Maximising tenant retention following tenant lease breaks or expiries when we do not have redevelopment plans minimises void periods and contributes towards net rental income.

Our retention and re-let rate was 90% in 2018 and averaged 87% over the past five years, evidence of the strong relationships we have with our tenants and the appeal of our mid-market product.

	2014	2015	2016	2017	2018
Exposure (£m pa)	17.3	17.0	11.0	8.5	**14.9**
Retention (%)	63	45	63	57	**76**
Re-let (%)	10	44	26	35	**14**
Total (%)	73	89	89	92	**90**

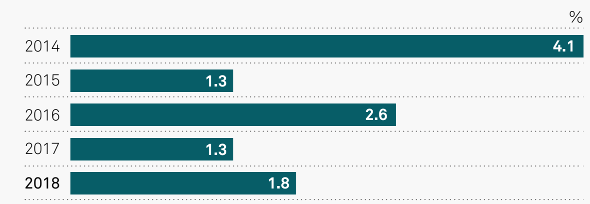
Non-financial KPIs	Our performance

VOID MANAGEMENT

1. 2. 3. 4. 5. R

To optimise our rental income we plan to minimise the space immediately available for letting. We aim that this should not exceed 10% of the portfolio's estimated rental value.

With two refurbishments that completed in H1 2018 substantially let by the year end, our vacancy rate fell from 4.2% to 1.8% between June and December 2018. Our ability to retain tenants and let space, particularly at our on-site developments, has kept the vacancy rate low.



BREEAM RATINGS

1. 2. 3. 4. 5. R

BREEAM is an environmental impact assessment method for commercial buildings. Performance is measured across a series of ratings: 'Pass', 'Good', 'Very good', 'Excellent' and 'Outstanding'. We target minimum BREEAM ratings of 'Excellent' for both major developments and major refurbishments.

We have not completed any major developments or refurbishments during the year, but have been focusing on Brunel Building W2 and 80 Charlotte Street W1, the two developments due to complete in the next 18 months.

	Expected completion	Target rating
Brunel Building W2	H1 2019	'Excellent'
80 Charlotte Street W1	H1 2020	'Excellent'

ENERGY PERFORMANCE CERTIFICATES (EPC)

1. 2. 3. 4. 5.

EPCs indicate how energy efficient a building is by assigning a rating from 'A' (very efficient) to 'G' (inefficient). We target a minimum certification of 'A' for major new-build schemes and 'B' for major refurbishments.

During 2018 we undertook activities that improved the EPC ratings within 14 of our buildings.

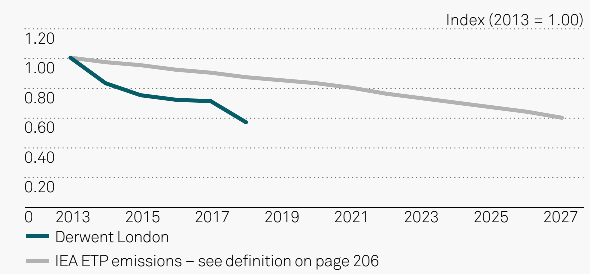
Number of buildings	Rating
8	B
6	C

CARBON INTENSITY*

1. 2. 3. 4. 5. R

This is measured by emissions intensity per sq m of landlord-controlled floor area across our managed like-for-like portfolio. Our target is an annual decrease of between 2% and 4% per annum.

In 2018, we reduced our landlord (scope 1 & 2) emissions intensity in the like-for-like portfolio by 20%. A 43% reduction since our base year of 2013 means that we are on target to meet our emissions target reduction by 2027.



STAFF SATISFACTION*

1. 2. 3. 4. 5. R

The satisfaction of our employees is assessed through a number of questions in a staff survey. We aim to keep the satisfaction rate above 80%.

Although the rate fell in 2018, staff satisfaction remained over 90%. This exceptional level is testament to our collaborative and supportive corporate culture.

	2015	2016	2017	2018
%	96.0	96.0	96.0	**90.4**

The Directors annually review the Group's KPIs to ensure they reflect the measures employed to assess performance. Following the review in 2017, the Directors agreed to introduce three new KPIs in 2018 (shown with an asterisk in this section). They also agreed that while capital return and tenant receipts were important measures, others were more effective in assessing progress against objectives.