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

Operational measures	Gearing measures
Total return	Gearing and available resources
Total property return	Interest cover ratio
Total shareholder return	
EPRA earnings per share	

Non-financial

Operational measures	Responsibility measures
Reversionary percentage	BREEAM ratings
Development potential	EPC
Tenant retention	Carbon intensity
Void management	Staff satisfaction

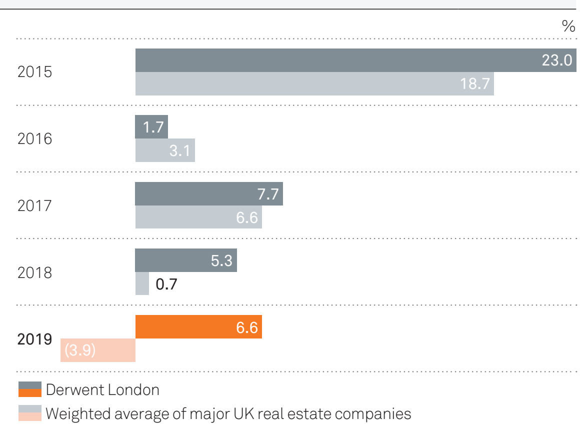
Financial KPIs **Our performance**

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 2019 was 6.6%, against a benchmark of -3.9%, as the performance of several of our peers was negatively impacted by their holdings in the retail sector. Derwent London's average annual return of 8.6% over the past five years against a benchmark of 4.8% 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

Financial KPIs | **Our performance**

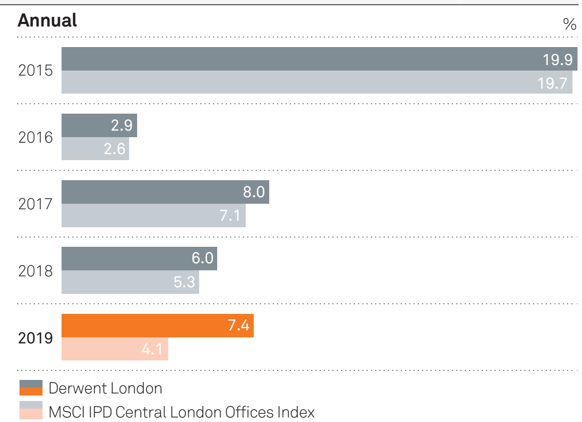
TOTAL PROPERTY RETURN

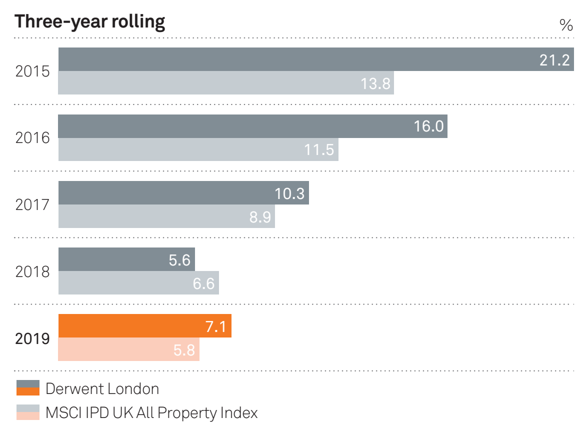
1. 2. 3. 4. 5. R

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.

There was a 21.2% valuation uplift across our four major schemes in the year - 80 Charlotte Street W1, Brunel Building W2, Soho Place W1 and The Featherstone Building EC1 – due to good progress on delivery and pre-letting. These developments contributed 91% of the portfolio's revaluation surplus and were the main reason for a 3.3% outperformance of MSCI IPD's Central London Offices Index during 2019.

Our three-year rolling average of 7.1% pa demonstrates an ability to generate returns against a background of relatively stable rents and yields. This was 1.3% pa higher than MSCI IPD's UK All Property Index, which has been impacted by difficulties facing the retail sector.



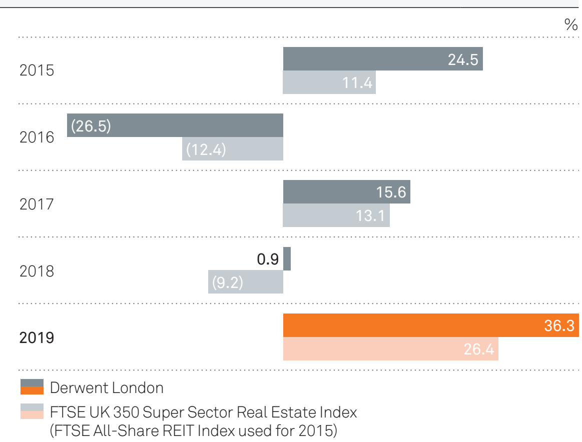


TOTAL SHAREHOLDER RETURN (TSR)

1. 2. 3. 4. 5. R

To measure the Group's success in 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 2019 by 9.9%. Our ability to deliver above average long-term returns is demonstrated by the fact that £100 invested in Derwent London at the start of 2010 was worth £373 at the end of 2019, compared with £249 for the benchmark index.

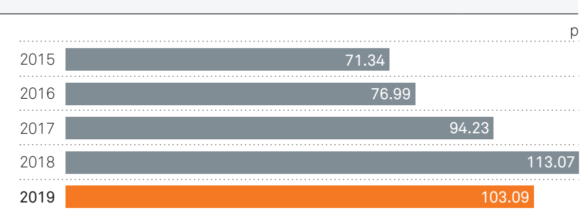


EPRA EARNINGS PER SHARE (EPS)

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 39.

EPS on an EPRA basis fell 8.8% to 103.09p per share. After adjusting for a one-off receipt of 14p per share in 2018, as we did in the prior year, there was an increase in underlying earnings of 4.0% as income came through from the completed and fully-let Brunel Building, as well as from asset management initiatives.



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.

Both the NAV gearing and LTV ratio were at a similar level to 2018 as proceeds from disposals almost offset capital expenditure and acquisitions. Uncharged properties increased to £4.4bn, or 81% of the portfolio, and cash and undrawn facilities rose to £511m at the year end.

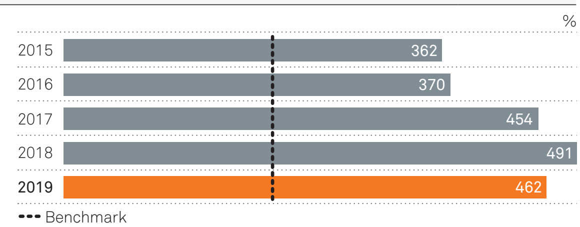
	2018	2019
LTV ratio	17.2%	16.9%
NAV gearing	22.4%	21.9%
Cash and undrawn facilities	£274m	£511m
Uncharged properties	£4,117m	£4,423m

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 41 for the calculation of this measure.

The net interest cover ratio decreased in 2019 due to interest incurred funding development costs. Despite this, rental income would need to fall by 69% 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.

Despite disposals, the Group's ERV increased almost £30.0m during 2019 to £303.0m, helped by the commencement of schemes at Soho Place and The Featherstone Building. This included the reversion of £133.9m, 79% of the net passing rent of £169.1m, of which 80% is contracted.

	2015	2016	2017	2018	2019
%	103	89	69	72	79

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.

With on-site developments representing 14% of the portfolio at the end of 2019, and a further 29% identified as potential schemes, there are considerable opportunities to add value through regeneration. We continue to seek acquisitions to move the balance between core income and development potential closer to 50/50.

	2015	2016	2017	2018	2019
%	47	43	44	41	43

TENANT RETENTION

1. 2. 3. 4. 5.

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 2019 and has averaged that level over the past five years, evidence of the strong relationships we have with our tenants and the appeal of our product.

	2015	2016	2017	2018	2019
Exposure (£m pa)	17.0	11.0	8.5	14.9	13.5
Retention (%)	45	63	57	76	83
Re-let (%)	44	26	35	14	7
Total (%)	89	89	92	90	90

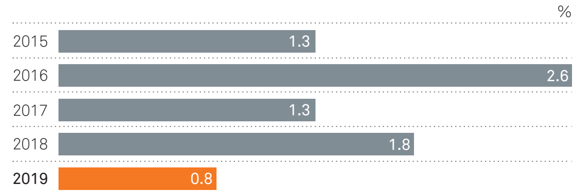
Non-financial KPIs	Our performance

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.

Our vacancy rate was under 1% at the end of 2019, in part a result of successfully letting all the office space at Brunel Building prior to completion in May, as well as smaller refurbishments at 25 Savile Row W1 and Johnson Building EC1.



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 major developments and 'Very good' for major refurbishments.

Brunel Building is expected to receive a rating of 'Excellent' post-completion having received this rating at Design Stage. Our three developments currently on site were rated either BREEAM 'Outstanding' or 'Excellent' at Design Stage.

	Completion	Rating
Brunel Building W2	H1 2019	Excellent[1]
80 Charlotte Street W1	H1 2020[1]	Excellent[2]
Soho Place W1	H1 2022[1]	Outstanding[2]
The Featherstone Building EC1	H1 2022[1]	Outstanding[2]

[1] Targeted
[2] Certified at Design Stage

ENERGY PERFORMANCE CERTIFICATES (EPC)

1. 2. 3. 4. 5.

EPCs indicate the energy efficiency of a building by assigning a rating from 'A' (very efficient) to 'G' (inefficient). Since 2017, we have targeted a minimum certification of 'A' for major new-build schemes and 'B' for major refurbishments.

Soho Place is targeting an EPC of 'B' and Brunel Building received one post-completion; this was the target rating for developments at the outset of these project. Our other two on-site developments are both targeting a certification of 'A'.

	Completion	Rating
Brunel Building W2	H1 2019	B
80 Charlotte Street W1	H1 2020[1]	A[1]
Soho Place W1	H1 2022[1]	B[1]
The Featherstone Building EC1	H1 2022[1]	A[1]

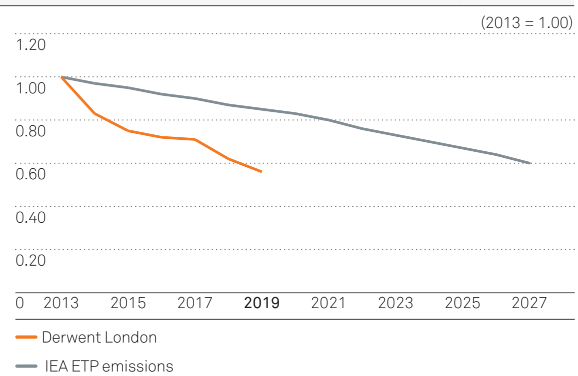
[1] Targeted

CARBON INTENSITY

1. 2. 3. 4. 5. R

This is measured by emissions intensity per metre squared 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 2019, we reduced our landlord (scope 1 & 2) emissions intensity in the like-for-like portfolio by 10%. A rebasing of the figures for 2018 meant a revised reduction for that year of 13% rather than 20%, which still exceeded our target range. The 44% reduction achieved since our base year of 2013 means we are on course to meet our emissions target by 2027 and consider the more stringent targets that will be adopted in 2020 to be achievable.



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%.

Despite a year of significant change for the business, staff satisfaction remained above 90% in 2019. This exceptional level is testament to our collaborative and supportive corporate culture and the pride our staff feel in working for Derwent.

	2015	2016	2017	2018	2019
%	96.0	96.0	96.0	90.4	92.5