Measuring our performance

Our objective is to provide **above average long-term returns** and benefits to shareholders, occupiers and neighbourhoods through the execution of our **strategy**. In order to assess the effectiveness of the different strands of this strategy, **we measure our performance** against a number of different benchmarks.

Key performance indicators

- Total return
- Total property return (TPR)
- Void management
- Tenant receipts
- Interest cover ratio
- BREEAM ratings

Key metrics

- Development potential
- Reversionary percentage
- Tenant retention
- Gearing and available resources
- Energy Performance Certificates (EPC)
- Capital return
- Total shareholder return (TSR)

Above average long-term returns to shareholders

EPRA BPR

- Earnings per share
- Net asset value per share
- Triple net asset value per share
- Net initial yield (NIY)
- 'Topped-up' net initial yield
- Vacancy rate
- Like-for-like rental income growth
- Cost ratios

We have established a set of Key Performance Indicators (KPIs) which are measured against relevant external and internal benchmarks. In addition to these KPIs, we also use key metrics and the EPRA Best Practice Recommendations (BPR) to monitor the performance of the business. For definitions please see pages 173 and 174.

Link to remuneration

There is a clear link from our performance measures to the remuneration structure of senior management.

These performance measures are reflected in the remuneration structure of senior management as follows:

Bonus scheme
The Group's bonus scheme takes into account the total return and the total property return together with a number of other key metrics referred to above.

Long-term incentive plan
The vesting level of half an annual award depends on the Group's total shareholder return compared to that of a group of comparator companies. The vesting level of the other half reflects the Group's total property return compared to the IPD Central London Offices index.

Key performance indicators

Total return

Our total return, which reflects the combined effectiveness of all the strands of our strategy, 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.

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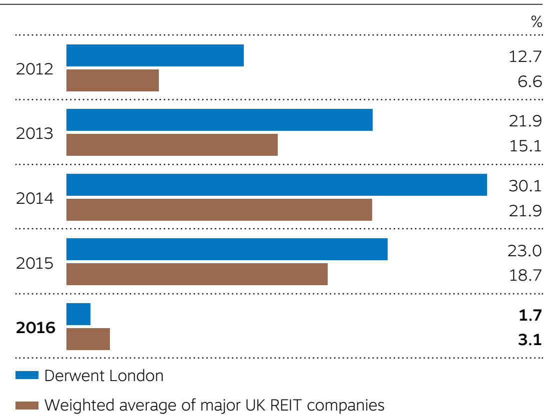
Our performance

Although our total return of 1.7% in 2016 meant we underperformed against our peer group, our cumulative performance over the past five years was 124% compared to the benchmark of 83%.



Total property return (TPR)

Our total property return gives an indication of the effectiveness of all the property related strands of our strategy. We aim to exceed the IPD Central London Offices Index on an annual basis and the IPD UK All Property Index on a three-year rolling basis.

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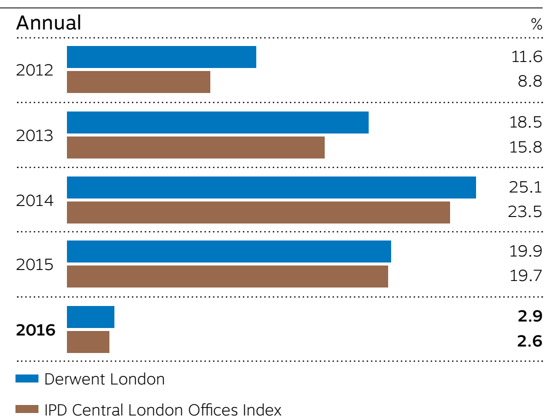
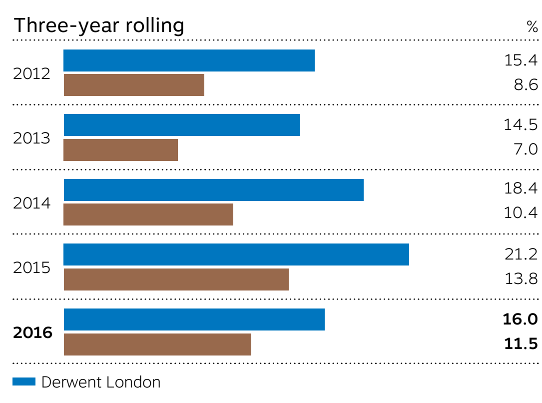
Our performance

In a year of lower property returns due partly to greater economic uncertainty, our active approach to asset management and development meant that we exceeded our IPD benchmarks again in 2016. Over the past five years we have exceeded the IPD Central London Offices Index and the IPD UK All Property Index by 13% and 47%, respectively.

Annual



Three-year rolling



Strategic objective measured

- Acquire properties and unlock their value
- Maintain strong and flexible financing
- Create well-designed space
- Optimise income
- Recycle capital

Measuring our performance

continued

Key performance indicators continued

Void management

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.

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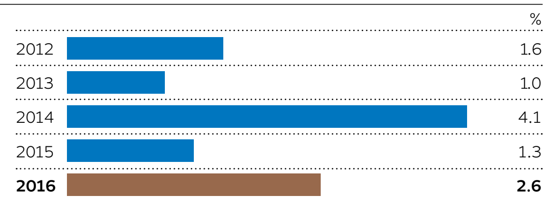
Our performance

Due to our letting success over the past few years, the EPRA vacancy rate has remained consistently low and well below our maximum guideline of 10%.



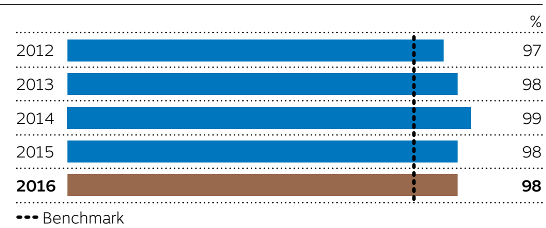
Tenant receipts

To maximise our cash flow and minimise any potential bad debts we aim to collect more than 95% of rent invoiced within 14 days of the due date.

Page 43

Our performance

Due to the quality of our tenants and effective credit control, rent collection has remained high over the past five years and consequently the level of defaults has been de minimis.



Interest cover ratio

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 39 for the calculation of this measure.

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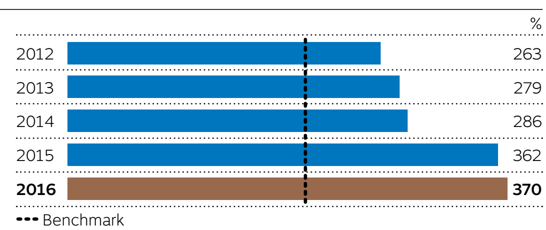
Our performance

The net interest cover ratio comfortably exceeded our benchmark of 200% in each of the past five years.



BREEAM ratings

Sustainability has always been at the heart of Derwent London's business model. It is important that our buildings are attractive to tenants and that they are also environmentally sound and efficient. BREEAM is an environmental impact assessment method for non-domestic buildings. Performance is measured across a series of ratings; Pass, Good, Very good, Excellent and Outstanding. We target that all of our major new developments in excess of 5,000m² should obtain a minimum BREEAM rating of 'Excellent' and all major refurbishments a minimum rating of 'Very good'.

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Our performance

No BREEAM certificates were received in 2016. Based on interim scores, we are expecting our two major developments due for completion in 2017 to meet our benchmark.

	Expected completion	Rating
White Collar Factory EC1 (Building 1)	Q1 2017	Outstanding[1]
The Copyright Building W1	Q4 2017	Excellent[1]

[1] Interim score based on design stage.

Key metrics

Development potential

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.

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Our performance
The percentage of our portfolio which is available for redevelopment, regeneration or refurbishment was 43% at the end of 2016.

%	2012	2013	2014	2015	**2016**
	53	55	52	47	**43**

Reversionary percentage

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 and assuming the on-site schemes are completed and let. It is used to monitor the potential future income growth of the Group.

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Our performance
Having increased contracted rent by £13.2m during 2016, the 89% reversion demonstrates that there still remains significant growth potential in our income stream.

%	2012	2013	2014	2015	**2016**
	46	56	64	103	**89**

Tenant retention

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

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Our performance
Our retention and re-let rate was 89% in 2016 and averaged 85% over the past five years, evidence of the strong relationships we have with our tenants and the appeal of our mid-market product.

	2012	2013	2014	2015	**2016**
Exposure (£m pa)	14.7	20.0	17.3	17.0	**11.0**
Retention (%)	81	74	63	45	**63**
Re-let(%)	5	14	10	44	**26**
Total (%)	86	88	73	89	**89**

Strategic objective measured

- Acquire properties and unlock their value
- Maintain strong and flexible financing
- Create well-designed space
- Optimise income
- Recycle capital

Measuring our performance

continued

Key metrics continued

Gearing and available resources

Consistent with others in its industry, the Group monitors capital on the basis of NAV gearing and the LTV ratio. Our approach to financing has remained robust and our gearing levels reflect our ability to finance our pipeline, cope with fluctuations in the market and react quickly to any potential acquisition opportunities.

We carefully monitor our headroom (i.e. the difference between our total facilities and the amounts drawn under those facilities) and the level of uncharged properties to ensure that we have sufficient flexibility to take advantage of acquisition and development opportunities.

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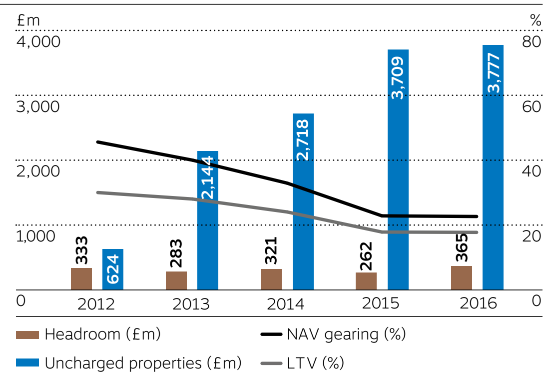
Our performance

Our gearing levels improved slightly in 2016 and the level of uncharged properties remained above £3.7bn (76% of the portfolio). Headroom increased due to property sales and £105m of long-term debt arranged in 2016.



Energy Performance Certificates (EPC)

EPCs indicate how energy efficient a building is by assigning a rating from A (very efficient) to G (inefficient). We design projects to achieve a minimum of 'B' certificate for all new-build projects over 5,000m² and a minimum of 'C' for all refurbishments over 5,000m².

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Our performance

During 2016 we received certificates for three of our major refurbishments, all of which met or exceeded our benchmark.

	Completion	Rating
Angel Square EC1	Q1 2016	C
20 Farringdon Road EC1	Q3 2016	B
The White Chapel Building E1	Q4 2016	B

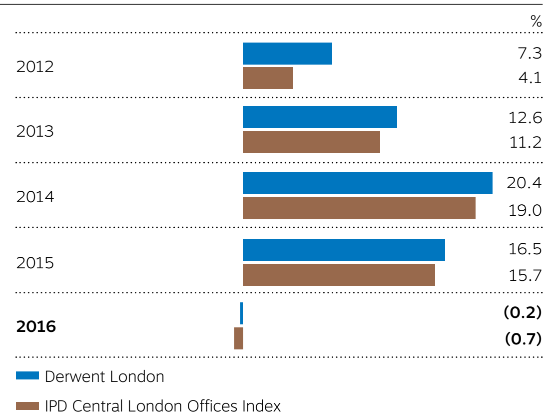
Capital return

We compare our valuation performance with the IPD Central London Offices Index for capital growth.

Page 40

Our performance

While central London office values declined in 2016 principally due to an outward movement in yields, our letting activity and the appeal of our mid-market product meant that we exceeded our IPD benchmark by 0.5% and have done so over the past five years by a total of 10.9%.



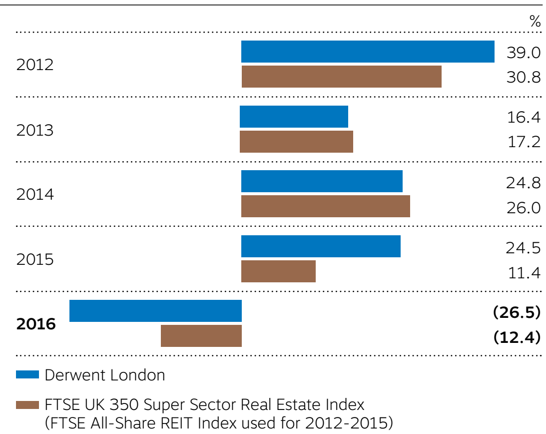
Total shareholder return (TSR)

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

Page 102

Our performance

The fall in the share price during the year has meant that the Group underperformed its benchmark index in 2016. However, our ability to deliver above average long-term returns is demonstrated by the fact that £100 invested in Derwent London 15 years or 10 years ago would, at the end of 2016, have been worth £496 or £156 compared with £245 or £77, respectively, for the benchmark index.



Strategic objective measured

- Acquire properties and unlock their value
- Maintain strong and flexible financing
- Create well-designed space
- Optimise income
- Recycle capital