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.

Covid-19 has had a significant impact on the business and we have seen an overall fall in property values in 2020, though our recent and on-site developments have performed relatively well. Impairments have also been recognised against some receivable balances which has reduced net rental income and earnings. Despite this, the business has remained resilient but some of our KPIs below have been affected.

KPIs

Financial

Operational measures
Total return
Total property return
Total shareholder return
EPRA earnings per share

Gearing measures
Gearing and available resources
Interest cover ratio

Non-financial

Operational measures
Reversionary percentage
Development potential
Tenant retention
Void management

Responsibility measures
BREEAM ratings
EPC
Carbon intensity
Staff satisfaction

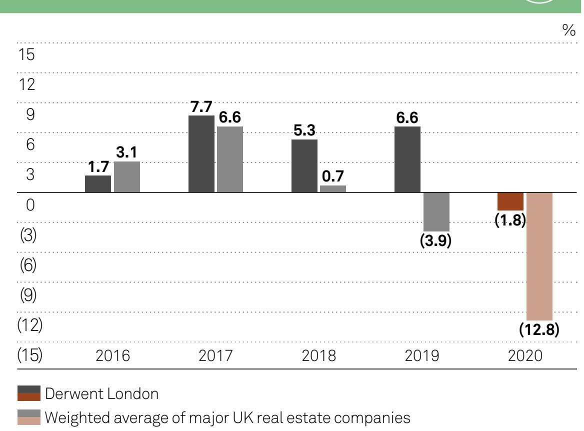
Financial KPIs | **Our performance**

Total return

1. 2. 3. 4. 5. R

Total return equates to the combination of NAV growth (measured using the EPRA NTA metric) 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 2020 was -1.8%, against a benchmark of -12.8%, as the performance of several of our peers was negatively impacted by their exposure to the retail sector. Derwent London's average annual return of 3.8% over the past five years against a benchmark of -1.5% 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**

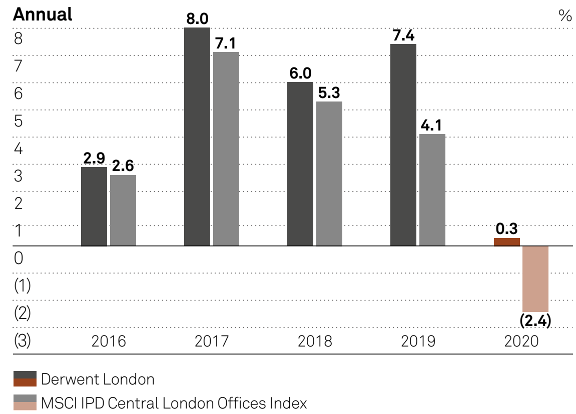
Total property return

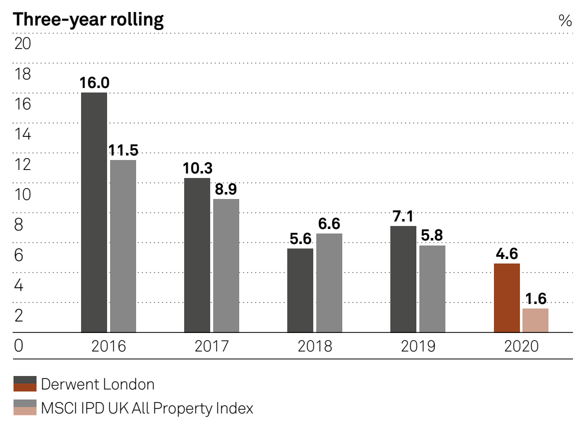
1. 2. 3. 4. 5. R

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.

While the rest of the portfolio saw a modest fall in value, our developments allowed us to outperform the MSCI IPD's Central London Offices Index by 2.7% during 2020, with a 5.3% valuation uplift across our three major schemes in the year – 80 Charlotte Street W1, Soho Place W1 and The Featherstone Building EC1 – due to good progress on delivery and pre-letting.

The three-year rolling average of 4.6% p.a. demonstrates our ability to generate returns against a background of relatively stable rents and yields. This was 3.0% p.a. higher than MSCI IPD's UK All Property Index.



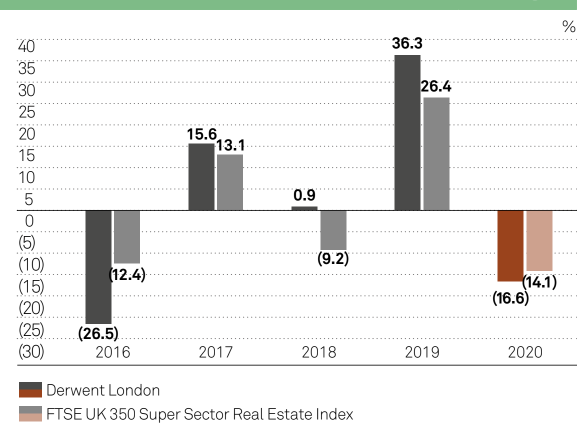


Total shareholder return (TSR)

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.

The fall in the share price during the year has meant that the Group slightly underperformed its benchmark index in 2020. However, our ability to deliver above average long-term returns is demonstrated by the fact that £100 invested in Derwent London at the start of 2011 was worth £252 at the end of 2020, compared with £194 for the benchmark index.

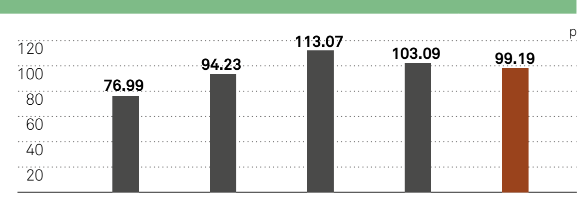


EPRA earnings per share (EPS)

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 3.8% to 99.19p per share in 2020. This follows 9p per share of write-off/impairment of receivable balances in the year to reflect the weakened financial position of some of our tenants, particularly in the retail and hospitality sectors. Note that the 2018 EPS included a one-off receipt of 14p per share.



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 £61.1m. The fall in property values in the year has given rise to a small increase in the NAV gearing and LTV ratios, but both remain at low levels.

In January 2021, we completed on the sale of Johnson Building, which increased cash and available facilities to over £640m on a proforma basis.

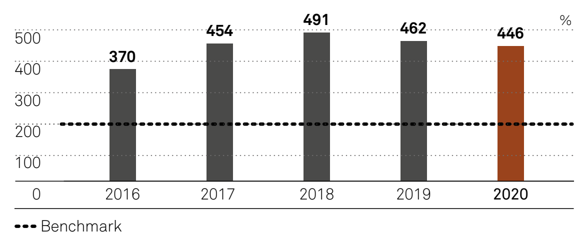
	2019	2020
LTV ratio	16.9%	**18.4%**
NAV gearing	21.9%	**24.3%**
Cash and undrawn facilities	£511m	**£476m**
Uncharged properties	£4,423m	**£4,329m**

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 the same as 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 (ICR) decreased a little in 2020 due to the write-off/impairment of the receivables balance which is included in net property income. Despite this, rental income would need to fall by a further 68% before the main ICR covenant of 145% 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.

As a result of a subdued leasing market and income lost from disposals in the year, the Group's ERV decreased by £11.8m during 2020 to £291.2m. This included potential reversion of £102.0m, 54% of the net passing rent of £189.2m, of which 57% is contracted.

	2016	2017	2018	2019	2020
%	89	69	72	79	**54**

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 and refurbishments representing 8% of the portfolio at the end of 2020, and a further 35% 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.

	2016	2017	2018	2019	2020
%	43	44	41	43	**43**

Tenant retention

1. 2. 3. 4. 5.

Maximising tenant retention upon 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 87% in 2020 and is broadly in line with our average of 90% over the past five years, demonstrating the strong relationships we have with our tenants and the appeal of our mid-market product.

	2016	2017	2018	2019	2020
Exposure (£m pa)	11.0	8.5	14.9	13.5	**16.1**
Retention (%)	63	57	76	83	**65**
Re-let (%)	26	35	14	7	**22**
Total (%)	89	92	90	90	**87**

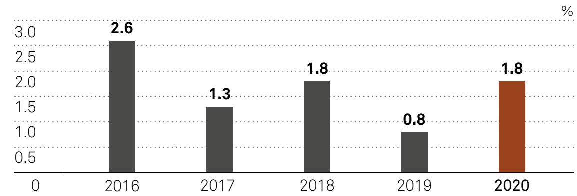
Non-financial KPIs | **Our performance**

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 ability to retain tenants and let space, particularly at our on-site developments, has kept the vacancy rate low. At the end of 2020, our EPRA vacancy rate was under 2%, a result of successfully letting most of the office space at 80 Charlotte Street prior to completion in June. Additionally, our asset managers have focused on tenant retention and the regearing of leases where possible across the rest of the portfolio.



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.

80 Charlotte Street, which completed in June 2020, is expected to receive a final rating of 'Excellent' having received this rating at Design Stage. Our two developments currently on-site were rated BREEAM 'Outstanding' at Design Stage.

Following the completion of Brunel Building in 2019, it received a final BREEAM rating of 'Excellent' in 2020.

	Completion	Rating
80 Charlotte Street W1	H1 2020	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.

80 Charlotte Street is targeting an EPC rating of 'B' post-completion. Our other two on-site developments, Soho Place and The Featherstone Building, are targeting a certification of 'B' and 'A', respectively.

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

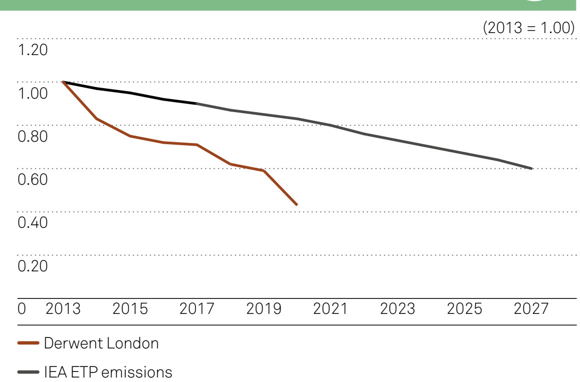
[1] Targeted

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 2020, landlord (Scope 1 & 2) emissions intensity in the like-for-like portfolio decreased by 27%. This was helped substantially by the low occupation of our portfolio during the year as a result of Covid-19. The 57% reduction achieved since our base year of 2013 means we are on course to meet our emissions target by 2027. During 2021 we will be reviewing our targets to ensure they are in line with our net zero carbon pathway.



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 challenges for individuals and the business, staff satisfaction in 2020 remained very high at 96%. We believe these figures reflect our collaborative and supportive corporate culture and the pride our staff feel in working for Derwent London.

	2016	2017	2018	2019	**2020**
%	96.0	96.0	90.4	92.5	**96.3**