

MEASURING OUR PERFORMANCE

Our objective is to provide above average long-term returns to shareholders through the execution of our strategy. In order to measure the effectiveness of the different strands of this strategy, we measure our performance in a number of different ways.

Key performance indicators

We have established a set of Key Performance Indicators (KPIs) which are measured against relevant external and internal benchmarks. For definitions please see pages 166 and 167.

Total return

Our total return reflects the combined effectiveness of all the strands of our strategy. It equates to the combination of NAV growth plus dividends paid during the year and we aim to exceed the average of the other major UK REIT companies.

Total property return

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 All UK Property Index on a three-year rolling basis.

Void management

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

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.

Interest cover ratio

We aim for our interest payable to be covered at least 1.5 times by net rents or two times by gross rents. Following our recent refinancing we are changing the main interest cover measure to a net basis, which is similar to the covenant included in the loan documentation for the new unsecured bank facility. Please see note 28 for the calculation of the new measure.

BREEAM ratings

Sustainability has always been at the heart of Derwent London's business model and it is important that our buildings are not only attractive to tenants but 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. All of our developments in excess of 5,000m² should obtain a minimum BREEAM rating of 'Very Good'.

Key metrics

In addition to these KPIs, we also use additional metrics to monitor the performance of the business. These are discussed in more detail on pages 36 and 37.

European Public Real Estate Association (EPRA)

EPRA is an association of Europe's leading property companies, investors and consultants which strives to establish best practices in accounting, reporting and corporate governance and to provide high-quality information to investors. This includes guidelines for the calculation of the performance measures listed below and which the Group has adopted.

- 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 ratio

For definitions please see pages 166 and 167.

These figures are reported on page 14 and derived in note 17.

Link to remuneration

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

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 index.

Bonus scheme

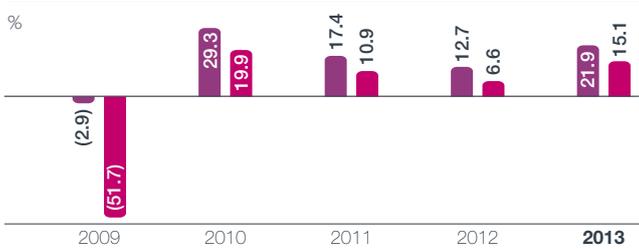
The Group's bonus scheme takes into account the total return, the total property return together with a number of other key metrics referred to above.

 **To read more on the link to remuneration see pages 93 to 96**

KEY PERFORMANCE INDICATORS AND METRICS

KEY PERFORMANCE INDICATORS

Total return



- Derwent London
- Weighted average of major UK REIT companies

Our performance

In 2013 our total return of 21.9% again comfortably exceeded our benchmark, the average of the other major REITs. Our cumulative performance over the past five years was 102% compared to the benchmark which produced a negative return of 21%.

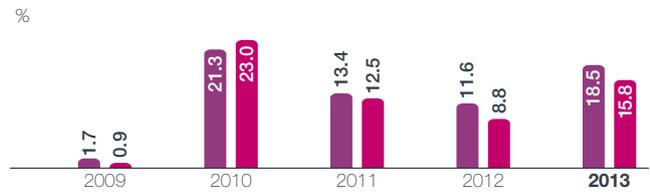
Strategies measured:

- Acquiring properties
- Creating well-designed office space
- Optimising income
- Recycling capital
- Maintaining robust financing



Total property return

Annual



- Derwent London
- IPD Central London Offices Index

Three-year rolling



- Derwent London
- IPD All UK Property Index

Our performance

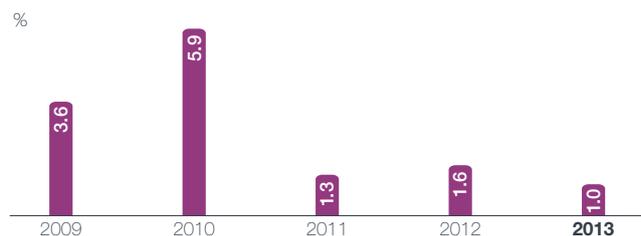
We exceeded both of our IPD benchmarks again in 2013. Over the past five years we have exceeded the IPD Central London Offices Index and the IPD All UK Property Index by 9% and 68% respectively.

Strategies measured:

- Acquiring properties
- Creating well-designed office space
- Optimising income
- Recycling capital



Void management



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%.

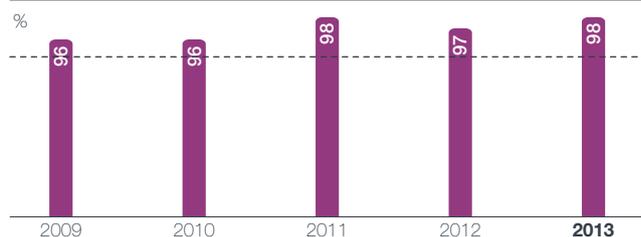
Strategies measured:

- Optimising income



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Tenant receipts



--- Benchmark

Our performance

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

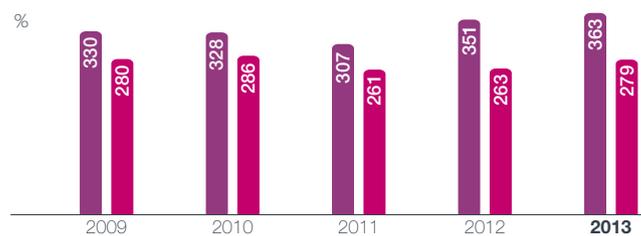
Strategies measured:

- Optimising income



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Interest cover ratio



■ Gross interest cover

■ Net interest cover

Our performance

The gross interest cover comfortably exceeded our benchmark of 200% in each of the past five years. The benchmark for our new net interest cover ratio, which will be presented going forward, has been set at a minimum of 150%.

Strategies measured:

- Acquiring properties
- Recycling capital
- Maintaining robust financing



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BREEAM ratings

	Completion	Rating
The Buckley Building	April 2013	Very good
Morelands Buildings	April 2013	Outstanding
1 Page Street	July 2013	Excellent
Turmill	Q3 2014 ¹	Excellent
40 Chancery Lane	Q4 2014 ¹	Excellent
1-2 Stephen Street	2013/14 ¹	Very good

¹ Expected

Our performance

We are pleased that all of completions in 2013 met or exceeded our benchmark and the Morelands Buildings' rooftop scheme achieved an 'Outstanding' rating. We expect all our 2014 projects to maintain this high performance.

Strategies measured:

- Creating well-designed office space



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KEY PERFORMANCE INDICATORS AND METRICS CONTINUED

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.

Reversionary percentage

This is the percentage by which the cash flow from rental income would increase, were the passing rent to be increased to the estimated rental value. It is used to monitor the potential future income growth of the Group.

Diversity of tenants

A diverse tenant base, both in number and across different industries, protects our income stream. This spread is monitored regularly and is shown in the graph on page 13.

Tenant retention

Maximising tenant retention following tenant lease breaks or expiries, minimises void periods and contributes towards rental income.

Gearing

Consistent with others in its industry, the Group monitors capital on the basis of NAV gearing and the loan-to-value 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 to react quickly to any potential acquisition opportunities.

Available resources

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

Energy Performance Certificates (EPC)

EPCs tell us 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.

Capital return

In order to evaluate the performance of our portfolio we compare our performance against the IPD Central London Offices Index for capital growth.

Total shareholder return

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

Portfolio earmarked for development

%	2009	2010	2011	2012	2013
	50	51	51	53	55

Our performance

The percentage of our portfolio which is available for redevelopment, regeneration or refurbishment was 55% at the end of 2013 and has remained above 50% for the past five years.

Strategies measured:

- Acquiring properties



Reversionary percentage

%	2009	2010	2011	2012	2013
Reversion	14	27	42	46	56

Our performance

The 56% reversion in the portfolio demonstrates the growth potential in our income stream.

Strategies measured:

- Optimising income



Tenant retention

	2009	2010	2011	2012	2013
Exposure (£m pa)	12.1	11.5	16.2	14.7	20.0
Retention (%)	66	72	72	81	74
Re-let (%)	18	17	21	5	14
Total (%)	84	89	93	86	88

Our performance

In order to protect our income stream, where we do not have redevelopment plans, it is important for us to retain tenants at lease expiry or break. Our retention was 88% in 2013 and averages 88% over the past five years.

Strategies measured:

- Optimising income



Gearing and available resources



Our performance

Our gearing levels reduced again in 2013 and our recent unsecured refinancing increased our headroom as well as the level of unsecured properties.

Strategies measured:

- Maintaining robust financing



¹ 2013 shown after drawdown of £100m fixed rate loan in January 2014

Energy Performance Certificates (EPC)

	Completion	Rating
The Buckley Building	April 2013	B
Morelands Buildings	April 2013	B
1 Page Street	July 2013	C
Tummill	Q3 2014 ¹	B
40 Chancery Lane	Q4 2014 ¹	B
1-2 Stephen Street	2013/14 ¹	C

¹ Expected

Our performance

All our 2013 and 2014 completions have, or are planned to, match or exceed our benchmark.

Strategies measured:

- Creating well-designed office space



Capital return



Our performance

In 2013 we again exceeded our IPD benchmark, outperforming by 1.4% and over the past five years by a total of 8.4%.

Strategies measured:

- Acquiring properties
- Creating well-designed office space
- Recycling capital



Total shareholder return



Our performance

2013 saw the Group marginally underperform our benchmark index. This result is partially due to our strong performance over the past five years which has resulted in a total outperformance of 207%.

Strategies measured:

- Acquiring properties
- Creating well-designed office space
- Optimising income
- Recycling capital
- Maintaining robust financing

