

LIST OF DEFINITIONS

Average 'topped-up' rent

Annualised rents generated by the portfolio plus rent contracted from expiry of rent free periods and uplifts agreed at the balance sheet date.

Capital return

The annual valuation movement arising on the Group's portfolio expressed as a percentage return of the valuation at the beginning of the year adjusted for acquisitions and capital expenditure.

Diluted figures

Reported results adjusted to include the effects of potential dilutive shares issuable under the Group's share option schemes and the convertible bonds.

Earnings/earnings per share (EPS)

Earnings represent the profit or loss for the year attributable to equity shareholders and are divided by the weighted average number of ordinary shares in issue during the financial year to arrive at earnings per share.

Estimated rental value (ERV)

This is the external valuers' opinion as to the open market rent which, on the date of valuation, could reasonably be expected to be obtained on a new letting or rent review of a property.

European Public Real Estate Association (EPRA)

A not-for-profit association with a membership 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. EPRA published its latest Best Practices Recommendations in December 2014 (www.epra.com/media/EPRA_Best_Practices_Recommendations_BPR_-_Dec2014_1418399386044.pdf). This includes guidelines for the calculation of the following performance measures which the Group has adopted.

- EPRA earnings per share
Recurring earnings from core operational activities.
- EPRA net asset value per share
NAV adjusted to include trading properties and other investment interests at fair value and to exclude certain items not expected to crystallise in a long-term investment property business model.
- EPRA triple net asset value per share
EPRA NAV adjusted to include the fair values of (i) financial instruments, (ii) debt and (iii) deferred taxes on revaluations, where applicable.
- EPRA cost ratio (including direct vacancy costs)
EPRA costs as a percentage of gross rental income less ground rent (including share of joint venture gross rental income less ground rent). EPRA costs include administrative expenses, other property costs, net service charge costs and the share of joint ventures' overheads and operating expenses (net of any service charge costs), adjusted for service charge costs recovered through rents and management fees.
- EPRA cost ratio (excluding direct vacancy costs)
Calculated as above, but with an adjustment to exclude direct vacancy costs.
- EPRA net initial yield (NIY)
Annualised rental income based on the cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the market value of the EPRA property portfolio, increased by estimated purchasers' costs.

- EPRA 'topped up' net initial yield
This measure incorporates an adjustment to the EPRA NIY in respect of the expiration of rent free periods (or other unexpired lease incentives such as discounted rent periods and stepped rents).
- EPRA vacancy rate
Estimated rental value (ERV) of immediately available space divided by the ERV of the EPRA portfolio.
- EPRA like-for-like rental income growth
The growth in rental income on properties owned throughout the current and previous year under review. This growth rate includes revenue recognition and lease accounting adjustments but excludes properties held for development in either year and properties acquired or disposed of in either year.

Fair value movement

An accounting adjustment to change the book value of an asset or liability to its market value.

Ground rent

The rent payable by the Group for its leasehold properties. Under IFRS, these leases are treated as finance leases and the cost allocated between interest payable and property outgoings.

Headroom

This is the amount left to draw under the Group's loan facilities, i.e. the total loan facilities less amounts already drawn.

Interest rate swap

A financial instrument where two parties agree to exchange an interest rate obligation for a predetermined amount of time. These are generally used by the Group to convert floating rate debt to fixed rates.

Investment Property Databank Limited (IPD)

IPD is a company that produces independent benchmarks of property returns. The Group measures its performance against both the Central London Offices Index and the All UK Property Index.

Key Performance Indicators (KPIs)

Activities and behaviours, aligned to both business objectives and individual goals, against which the performance of the Group is annually assessed. Performance measured against them is referenced in the annual report.

Lease incentives

Any incentive offered to occupiers to enter into a lease. Typically the incentive will be an initial rent free or half rent period, stepped rents, or a cash contribution to fit-out or similar costs.

Loan-to-value ratio (LTV)

Drawn debt net of cash divided by the fair value of the property portfolio. Drawn debt is equal to drawn facilities and the unamortised equity element of the convertible bonds.

Mark-to-market

The difference between the book value of an asset or liability and its market value.

NAV gearing

Net debt divided by net assets.

Net assets per share or net asset value (NAV)

Equity shareholders' funds divided by the number of ordinary shares in issue at the balance sheet date.

Net debt

Borrowings plus bank overdraft less cash and cash equivalents.

Net interest cover ratio

Net property income, excluding all non-core items divided by interest payable on borrowings and non-utilisation fees.

Property income distribution (PID)

Dividends from profits of the Group's tax-exempt property rental business under the REIT regulations.

Non-PID

Dividends from profits of the Group's taxable residual business.

Real Estate Investment Trust (REIT)

The Government established REIT status in the UK in 2007 to remove tax inequalities between different real estate investors and aimed to improve overall investor access to real estate. REITs are companies which are exempt from corporate taxation on profits from property rental income and capital gains on the sale of investment properties.

REITs must distribute 90% of profits from their rental income business in the form of property income distributions (PIDs). This makes the tax implications of investing in REITs equivalent to investing directly in property. REITs are also required to meet certain conditions including the proportion of total profits and assets accounted for by their property rental businesses. They remain liable to corporation tax on non-property investment businesses e.g. management fees and interest receivable.

The UK has had a tax exempt real estate regime since 1 January 2007 and Derwent London has been a REIT since 1 July 2007.

Rent reviews

Rent reviews take place at intervals agreed in the lease (typically every five years) and their purpose is usually to adjust the rent to the current market level at the review date. For upwards only rent reviews, the rent will either remain at the same level or increase (if market rents are higher) at the review date.

Reversion

The reversion is the amount by which the ERV is higher than the rent roll of a property or portfolio. The reversion is derived from contractual rental increases, rent reviews, lease renewals and the letting of vacant space.

Scrip dividend

Derwent London offers its shareholders the opportunity to receive dividends in the form of shares instead of cash. This is known as a scrip dividend.

Square foot/square metre

1m² = 10.7639 sq ft.

1 sq ft = 0.0929m².

Total property return (TPR)

The annual capital appreciation, net of capital expenditure, plus the net annual rental income received, expressed as a percentage of capital employed (property value at the beginning of the year plus capital expenditure).

Total return

The movement in EPRA adjusted net asset value per share on a diluted basis between the beginning and the end of each financial year plus the dividend per share paid during the year expressed as a percentage of the EPRA net asset value per share at the beginning of the year.

Total shareholder return (TSR)

The growth in the ordinary share price as quoted on the London Stock Exchange plus dividends per share received for the year, expressed as a percentage of the share price at the beginning of the year.

Underlying portfolio

Properties that have been held for the whole of the year, i.e. excluding any acquisitions or disposals made during the year.

Underlying valuation increase

The valuation increase on the underlying portfolio.

Yields

- Net initial yield
Annualised rental income based on the cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the market value of the property, increased by estimated purchasers' costs.
- Reversionary yield
The anticipated yield, to which the net initial yield will rise to once the rent reaches the estimated rental values.
- True equivalent yield
The constant capitalisation rate which, if applied to all cash flows from the portfolio, including current rent, reversions to valuers' estimated rental value and such items as voids and expenditures, equates to the valuation having taken into account notional purchasers' costs. Rent is assumed to be received quarterly in advance.
- Yield shift
A movement in the yield of a property asset, or like-for-like portfolio, over a given year. Yield compression is a commonly-used term for a reduction in yields.

LIST OF DEFINITIONS CONTINUED

Sustainability and corporate responsibility

Automatic Meter Reading (AMR)

This is the technology of automatically collecting consumption, diagnostic, and status data from water or energy metering devices and transferring that data to a central database for billing, troubleshooting, or analysis purposes.

Building Research Establishment Environmental Assessment Method (BREEAM)

An environmental impact assessment method for non-domestic buildings. Performance is measured across a series of ratings; Good, Very Good, Excellent and Outstanding.

Carbon emissions – Scopes 1, 2 and 3

Scope 1 – direct emissions;

Scope 2 – indirect emissions; and

Scope 3 – other indirect emissions.

Carbon Reduction Commitment Energy Efficiency Scheme (CRC)

This is the UK Government's mandatory scheme for carbon emissions reporting and allowance purchasing.

Chartered Institution of Building Services Engineers (CIBSE)

CIBSE promotes the career of building services engineers by accrediting courses of study in further and higher education.

It publishes guidance and codes which are internationally recognised as authoritative, and sets the criteria for best practice in the profession.

Code for Sustainable Homes (CfSH)

An environmental assessment method for rating and certifying the performance of new homes. Performance is measured across a series of levels from 1 to 6.

CSR

Corporate and Social Responsibility.

Department for Environment, Food and Rural Affairs (Defra)

The Government department responsible for environmental protection, food production and standards, agriculture, fisheries and rural communities in the United Kingdom.

Global Real Estate Sustainability Benchmark (GRESB)

The Global Real Estate Sustainability Benchmark is an initiative set up to assess the environmental and social performance of public and private real estate investments and allow investors to understand their performance.

Leadership in Energy and Environmental Design (LEED)

A US based environmental impact assessment method for buildings. Performance is measured across a series of ratings – Certified, Silver, Gold and Platinum.

Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDORs)

The regulations place a legal duty on employers to report work-related deaths, major injuries or over-three-day injuries, work related diseases and dangerous occurrences (near miss accidents) to the Health and Safety Executive.

Transmission and distribution (T&D)

The emissions associated with the transmission and distribution losses in the grid from the transportation of electricity from its generation source.

Well to tank (WTT)

The emissions associated with extracting, refining and transporting raw fuel to the vehicle, asset or process under scrutiny.