

# LIST OF DEFINITIONS (UNAUDITED)

## **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 on 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](http://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  
Earnings from 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 UK All 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 less cash 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 UK Real Estate Investment Trust (REIT) regime was launched on 1 January 2007. On 1 July 2007, Derwent elected to convert to REIT status.

The REIT legislation was introduced to provide a structure which closely mirrors the tax outcomes of direct ownership in property and removes tax inequalities between different real estate investors. It provides a liquid and publically available vehicle which opens the property market to a wide range of investors.

A REIT is exempt from corporation tax on qualifying income and gains of its property rental business providing various conditions are met. It remains subject to corporation tax on non-exempt income and gains e.g. interest income, trading activity and development fees.

REITs must distribute at least 90% of the Group's income profits from its tax exempt property rental business, by way of dividend, known as a property income distribution. Property income distributions from the tax exempt property rental business will suffer withholding tax at 20% with withholding tax exemption for certain UK resident companies and tax exempt bodies.

If the Group distributes profits from the non-tax exempt business, the distribution will be taxed as an ordinary dividend in the hands of the investors.

**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 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 space that is vacant and available to occupy or under development or refurbishment.

**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.

**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 on a diluted basis 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 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 (UNAUDITED) CONTINUED

## **Sustainability and corporate responsibility**

### **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.

### **CDP**

The CDP is an organisation which works with shareholders and listed companies to facilitate the disclosure and reporting of climate change data and information.

### **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.

### **Global Reporting Initiative (GRI)**

The GRI is an internationally recognised sustainability reporting framework which provides metrics and methods for measuring and reporting sustainability related impacts and performance.

### **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.