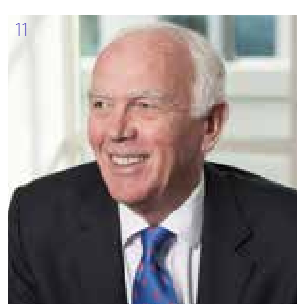
Queens, 200 Queensway W2

3 GOVERNANCE

BOARD OF DIRECTORS



1. ROBERT A. RAYNE, 66
NON-EXECUTIVE CHAIRMAN

Appointed to the Board: 2007
Skills and expertise: The Hon R.A. Rayne was Chief Executive Officer of London Merchant Securities plc and has been on the boards of a number of public companies, including First Leisure Corporation plc and Crown Sports plc.
Other current appointments: Non-executive Director of LMS Capital plc and of Weatherford International Inc.

2. JOHN D. BURNS, 70
CHIEF EXECUTIVE OFFICER

Appointed to the Board: 1984
Skills and expertise: A chartered surveyor and founder of Derwent Valley Holdings in 1984, John has overall responsibility for Group strategy, business development and day-to-day operations.
Other current appointments: Member of the strategic board of the New West End Company Limited.
Committees: Risk

3. DAMIAN M.A. WISNIEWSKI, 53
FINANCE DIRECTOR

Appointed to the Board: 2010
Skills and expertise: Damian is a chartered accountant and, prior to joining Derwent London, he held senior finance roles at Treveria Asset Management, Wood Wharf Limited Partnership and Chelsfield plc. He has overall responsibility for financial strategy, treasury, taxation and financial reporting.
Committees: Risk

4. SIMON P. SILVER, 64
EXECUTIVE DIRECTOR

Appointed to the Board: 1986
Skills and expertise: Co-founder of Derwent Valley Holdings, Simon has overall responsibility for the Group's development and regeneration programme. He is an honorary fellow of the Royal Institute of British Architects.

5. PAUL M. WILLIAMS, 54
EXECUTIVE DIRECTOR

Appointed to the Board: 1998
Skills and expertise: Paul is a chartered surveyor who joined the Group in 1987. His responsibilities include portfolio asset management, supervision of refurbishment and development projects and sustainability.
Other current appointments: Director of The Paddington Partnership.

6. NIGEL Q. GEORGE, 51
EXECUTIVE DIRECTOR

Appointed to the Board: 1998
Skills and expertise: Nigel is a chartered surveyor who joined the Group in 1988. His responsibilities include acquisitions and disposals and investment analysis.
Other current appointments: Director of the Chancery Lane Association

7. DAVID G. SILVERMAN, 45
EXECUTIVE DIRECTOR

Appointed to the Board: 2008
Skills and expertise: David is a chartered surveyor who joined the Group in 2002. His responsibilities include overseeing the Group's investment acquisitions and disposals.
Other current appointments: Immediate past Chairman and General Council Member of the Westminster Property Association

8. STUART A. CORBYN, 70
SENIOR INDEPENDENT DIRECTOR

Appointed to the Board: 2006
Skills and expertise: Stuart is a chartered surveyor. Until 2008, he was Chief Executive of Cadogan Estates, one of the principal private estates in London, and is a former president of the British Property Federation and former chairman of Pollen Estate Trustee Company.
Other current appointments: Non-Executive Chairman of Get London Living
Committees: Nominations (chairman), Audit, Remuneration

9. RICHARD D.C. DAKIN, 51
NON-EXECUTIVE DIRECTOR

Appointed to the Board: August 2013
Skills and expertise: Richard is a Fellow of the Royal Institution of Chartered Surveyors, an Associate Member of Corporate Treasurers and an Associate of the Chartered Institute of Bankers. In 2014, he joined CBRE as Managing Director of Capital Advisors Limited. Previously, he was employed at Lloyds Bank since 1982 where he undertook a variety of roles including commercial and corporate banking and leveraged finance, gaining extensive knowledge of property finance and the real estate sector.
Other current appointments: None
Committees: Risk (chairman), Audit, Nominations

10. JUNE F. DE MOLLER, 67
NON-EXECUTIVE DIRECTOR

Appointed to the Board: 2007
Skills and expertise: June was Managing Director of Carlton Communications Plc and has also served as a non-executive Director of Cookson Group plc, BT plc, AWG plc, J Sainsbury plc, Archant Limited and London Merchant Securities plc.
Other current appointments: Non-executive Director of Temple Bar Investment Trust plc.
Committees: Nominations, Remuneration, Risk

11. ROBERT A. FARNES, 69
NON-EXECUTIVE DIRECTOR

Appointed to the Board: 2003
Skills and expertise: Robert is a chartered surveyor and was previously the Chairman of CB Hillier Parker. He will be stepping down from the Board after the AGM in May 2015.
Committees: None

12. SIMON W.D. FRASER, 51
NON-EXECUTIVE DIRECTOR

Appointed to the Board: 2012
Skills and expertise: Simon started his career in the City in 1986 and, from 1997 to his retirement in 2011, worked at Bank of America Merrill Lynch where from 2004 he was Managing Director and co-head of corporate broking. Here he led a variety of transactions including equity raisings and advised company boards on a range of issues.
Other current appointments: Non-executive Director of Lancashire Holdings Limited and of Legal and General Investment Management Holdings.
Committees: Remuneration (chairman), Audit, Nominations

13. STEPHEN G. YOUNG, 59
NON-EXECUTIVE DIRECTOR

Appointed to the Board: 2010
Skills and expertise: Stephen is a chartered management accountant. He has held a number of senior financial positions including Group Finance Director at Meggitt PLC, Thistle Hotels plc and the Automobile Association.
Other current appointments: Chief Executive of Meggitt PLC.
Committees: Audit (chairman), Risk, Remuneration

SENIOR MANAGEMENT

EXECUTIVE COMMITTEE

The Executive Committee comprises the executive Directors and the following four senior managers

CELINE THOMPSON
HEAD OF LEASING

RICHARD BALDWIN
HEAD OF DEVELOPMENT

SIMON TAYLOR
HEAD OF ASSET MANAGEMENT

TIM KITE
COMPANY SECRETARY

SENIOR MANAGEMENT

DAVID WESTGATE
HEAD OF TAX

JOHN DAVIES
HEAD OF SUSTAINABILITY

KATY LEVINE
HEAD OF HUMAN RESOURCES

MARK MURRAY
HEAD OF INFORMATION TECHNOLOGY

QUENTIN FREEMAN
HEAD OF INVESTOR AND CORPORATE COMMUNICATIONS

RICK MEAKIN
GROUP FINANCIAL CONTROLLER

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company, for safeguarding the assets of the Company, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a Directors' report and the report of the Remuneration Committee which comply with the requirements of the Companies Act 2006.

The Directors are responsible for preparing the annual report and the financial statements in accordance with the Companies Act 2006. The Directors are also required to prepare financial statements for the Group in accordance with International Financial Reporting Standards (IFRSs), as adopted by the European Union and Article 4 of the IAS Regulation. The Directors have chosen to prepare financial statements for the Company in accordance with IFRSs.

Group financial statements

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Group's and Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. A fair presentation also requires the Directors to:

- consistently select and apply appropriate accounting policies;
- make judgements and accounting estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

The Directors, whose names and functions are listed on page 79, confirm to the best of their knowledge:

- they have complied with the above requirements in preparing the financial statements which give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the adoption of a going concern basis for the preparation of the financial statements continues to be appropriate based on the foregoing and having reviewed the forecast financial position of the Group; and
- the strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

The Directors consider that the annual report and accounts, taken as a whole, is fair, balanced, and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

Financial statements are published on the Group's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Group's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

On behalf of the Board.

JOHN D. BURNS,
CHIEF EXECUTIVE OFFICER

DAMIAN M.A. WISNIEWSKI,
FINANCE DIRECTOR

26 FEBRUARY 2015

CHAIRMAN'S LETTER ON CORPORATE GOVERNANCE

Dear Shareholder,

On behalf of the Board I am pleased to present the Group's Corporate Governance report for 2014.

The Company is subject to the provisions and principles of the UK Corporate Governance Code (the Code) which is published and regularly updated by the Financial Reporting Council (FRC). The latest applicable update was released in September 2012 and the Board believes that, in 2014, the Company has complied with the main and supporting principles of the Code except for provision B.1.1. This provision addresses the independence of the Company's non-executive Directors and is discussed below and on page 83.

In September 2014 the FRC published its latest revision of the Code which is effective for accounting periods commencing on or after 1 October 2014. As such, this is not yet binding on the Company but I am pleased to be able to report that the Group is largely compliant with the new requirements.

Following the significant changes over the last two years in the reporting of both the Remuneration Committee and the Audit Committee, 2014 has been a year of consolidation for these Committees. Meanwhile, the agenda for the Risk Committee continues to grow and some of these developments are discussed below.

Risk

With the publication in September 2014 of the FRC's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting attention was drawn to the adequacy of the systems companies use to manage their portfolio of risks. The Group's risk assessment process has been externally reviewed and found to be consistent both with these latest guidelines and the relevant international standard.

Given the current debate on UK taxation, the Board has determined that tax can represent a significant risk. Therefore, it is again pleasing that, following the annual review, the company has retained its low risk rating with HMRC.

Board composition

One of the cornerstones of effective corporate governance is maintaining a properly balanced Board which facilitates effective challenge by the non-executive Directors. Over the last few years the Nominations Committee has worked steadily to achieve this through the recruitment of a number of independent non-executive Directors and the Board has asked the Committee to continue the refreshment process to ensure that the Board remains properly balanced. In November 2014, one of the non-executive Directors, Richard Dakin, was appointed Managing Director of Capital Advisors Limited, a wholly owned subsidiary of CBRE Limited, and became a member of their UK Management Board. The Valuation Advisory division of CBRE acts as the Group's external valuer and, recognising the effect that this was likely to have on the perception of his independence, the Board reviewed Richard's position. Following this, the Board is completely satisfied that he remains independent in judgement and character and it has established a protocol to ensure that Richard has no involvement, at any stage, in the Group's valuation exercise and that he takes no part in any discussions concerning CBRE's role or fees.

Audit

In my letter last year I mentioned that the Audit Committee was leading an audit tendering process. This was completed in March 2014 and I am delighted to welcome PricewaterhouseCoopers as the Group's new Auditor.

Maintaining the governance framework requires a significant allocation of resources at all levels of the Group. However, the Board remains convinced that such a framework not only ensures compliance with governance regulations but is an essential element of running a sustainable and successful business.

As always, I would encourage you to attend the Group's Annual General Meeting on 15 May 2015 and take the opportunity to meet the management team at this important event.

On behalf of the Board.

ROBERT A. RAYNE
CHAIRMAN

26 FEBRUARY 2015

DIRECTORS' REPORT

TIMOTHY KITE
COMPANY SECRETARY

The Board
At the end of the year the Board consisted of:

Seven non-executive Directors:

Robert Rayne	Chairman
Stuart Corbyn	Senior Independent Director
Robert Farnes	
Stephen Young	
June de Moller	
Simon Fraser	
Richard Dakin	

Six executive Directors:

John Burns	Chief Executive Officer
Simon Silver	
Damian Wisniewski	
Nigel George	
Paul Williams	
David Silverman	

The Directors present their annual report and audited financial statements for the year ended 31 December 2014.

A review of the development of the Group's business during the year, the principal risks and uncertainties facing the Group and its future prospects is included in the Chairman's statement and the strategic report earlier in this report.

As noted in the Chairman's letter on Corporate Governance above, Robert Farnes is not deemed independent under the criteria given in provision B.1.1. of the Code having served on the Board for more than nine years. The Board has therefore specifically considered his independence.

Along with a number of institutional investors the Board does not believe that length of service is necessarily a complete or accurate guide to a Director's independence and therefore it has reviewed the manner in which Robert carried out his duties during the year. In the Board's opinion, he has shown commitment to his role and the effective manner in which he applies his experience and exercises his judgement continues to demonstrate an independent state of mind.

Despite the Board having no reservations about his independence, in accordance with best practice Robert will not be standing for re-election at the Company's forthcoming Annual General Meeting (AGM).

In addition, in November 2014, Richard Dakin was appointed Managing Director of Capital Advisors Limited, a wholly owned subsidiary of CBRE Limited and became a member of their UK Management Board.

CBRE is one of the world's leading property services advisory firms offering many different property services with its global headquarters in Los Angeles. The Group uses their services as a valuer, investment adviser and agent. In view of this continuing relationship, the Board has considered the impact of his new role on Richard's independence as a non-executive Director. Having considered the lines of reporting and responsibilities in CBRE and after seeking additional assurance from them that, in their view, his independence is not compromised, the Board has concluded that Richard remains independent both in character and judgement.

It has been agreed that Richard will not take part in any considerations of the valuation of the Group's property portfolio at either Board or Committee level. In addition, he will have no involvement in any discussions or decisions regarding the appointment of CBRE or the fees paid to them.

The Group's Nominations Committee continues to monitor the composition, independence and balance of the Board to ensure that the non-executive Directors are able to effectively challenge the views of the executive Directors. As part of this process the Committee has appointed an independent recruitment agency to assist with the process of recruiting a non-executive Director to replace Robert Farnes.

An important element of assessing the composition of the Board involves considering its diversity, having particular regard to the requirements concerning gender diversity included in the 2012 revision of the Code. The Board's overriding aim is for it to have the correct balance of skills, experience, length of service and knowledge of the Group to deliver the Group's strategy whilst recognising the importance of diversity and the requests made by Lord Davies of Abersoch through the BIS. The Board does not intend to apply 'positive discrimination' in its appointments and would stress that these will continue to be made based purely on merit having given due regard to the benefits of diversity in its widest sense and the extent to which the applicant can provide the set of skills identified at the start of the process. Within this environment, the Nominations Committee's aim is for an additional female Director to be the next appointment to the Board.

The Board currently includes one female (8%) and the gender mix throughout the Group is illustrated in the diagrams on page 75.

Taking all factors into account the Directors believe that the Board has an appropriate balance of skills, experience, knowledge and independence to deliver the Group's strategy and to satisfy the requirements of good corporate governance.

The Board is responsible for setting the Group's strategic aims, for ensuring that adequate resources are available to meet its objectives and for reviewing management performance. A formal list of matters reserved for the Board is maintained which includes decisions relating to strategy and management, structure and capital, internal control and corporate governance, major contracts, certain external communications and Board membership. The list is reviewed periodically. The full Board met six times during the year and six meetings are scheduled for 2015. Extra meetings will be arranged if necessary. The Executive Committee which consists of the executive Directors plus four of the Group's senior managers met 11 times throughout the year. Both bodies are provided with comprehensive papers in a timely manner to ensure that they are fully briefed on matters to be discussed at these meetings.

Directors' attendance at Board and Executive Committee meetings during the year was as follows:

	Full Board	Executive Committee
Number of meetings	6	11
Executive		
John Burns	6	11
Simon Silver	6	11
Damian Wisniewski	6	11
Paul Williams	6	11
Nigel George	6	11
David Silverman	6	11
Non-executive		
Robert Rayne	4	–
Stuart Corbyn	6	–
Richard Dakin	6	–
June de Moller	6	–
Robert Farnes	5	–
Simon Fraser	6	–
Stephen Young	5	–

A formal schedule, which has been approved by the Board, sets out the division of responsibilities between the Chairman, who is responsible for the effectiveness of the Board and the Chief Executive Officer, who is responsible for the day-to-day operations of the business.

The Board maintains a number of Board Committees. The terms of reference of each Committee are available on the Group's website www.derwentlondon.com. Set out below are details of the membership and duties of the four principal committees that operated throughout 2014.

• – attended
o – not attended

Remuneration Committee
Membership and attendance

Simon Fraser	Chairman	•	•	•	•
Stuart Corbyn		•	•	o	•
June de Moller		•	o	o	•
Stephen Young		•	•	•	•

The Committee is responsible for establishing the Group's remuneration policy and individual remuneration packages for the executive Directors and selected senior executives. There were four meetings of the Committee in 2014 and the report of its activities is set out on pages 93 to 110.

Nominations Committee
Membership and attendance

Stuart Corbyn	Chairman	•	•	•	•
June de Moller		•	•	•	•
Robert Farnes	(until Dec 2014)	•	•	•	•
Simon Fraser		•	•	•	•
Richard Dakin	(from July 2014)	n/a	•	•	•

The Committee's responsibilities include identifying external candidates for appointment as Directors and, subsequently, recommending their appointment to the Board. If requested, the Committee will make a recommendation concerning an appointment to the Board from within the Group. The Committee met four times during 2014 and the report of the Nominations Committee is on page 111.

Risk Committee
Membership and attendance

Richard Dakin	Chairman from August 2014	•	•	•
June de Moller	Chairman until August 2014	•	•	•
Stephen Young		•	•	o
John Burns		•	•	•
Damian Wisniewski		•	•	•

The Committee's main responsibility is to review the effectiveness of the Group's internal control and risk management systems. It met three times during the year and the Committee's report is on page 112.

Audit Committee
Membership and attendance

Stephen Young	Chairman	•	•	•	o
Stuart Corbyn		•	•	•	•
Richard Dakin		•	•	•	•
Simon Fraser		•	•	•	•

The Committee is responsible for reviewing, and reporting to the Board on, the Group's financial reporting and for maintaining an appropriate relationship with the Group's Auditor. The Committee met four times during 2014 and the report of the Audit Committee is on pages 114 and 115.

Performance evaluation

With regard to the requirement of provision B.6.2 of the Code an independent third party was again used to facilitate the annual review of the effectiveness of the Board and its Committees. This is the second time that an external review has been carried out since the internal assessment carried out in 2012.

The review took the form of a confidential, online survey which was completed by all the Directors and the Company Secretary. The survey covered the processes and performance of the Board, the Committees and the Chairman with particular focus on risk management and Board information. The performance of individual Directors was assessed by the Remuneration Committee as part of the salary review process.

The facilitator prepared reports for each body which were considered by the Chairman as well as the chairmen of the relevant Committees. As a result of the review, the structure and content of the Board packs prepared for each Board meeting is to be reviewed to ensure that it is still an effective format to provide the Directors with the appropriate information.

Last year's review highlighted a requirement for the non-executive Directors to have a greater input into the strategy of the Group. A separate session was arranged to facilitate this and the 2014 review shows that the issue has been successfully addressed.

As a result of this evaluation, the Board is satisfied that the structure, mix of skills and operation of the Board continues to be satisfactory and appropriate for the Group. In addition, the Chairman is satisfied that the non-executive Directors, whom are standing for re-election at the AGM, continue to be effective and show a high level of commitment to their roles. In forming this assessment, the Chairman paid particular attention to those Directors that had served on the Board for more than six years.

The performance of the Chairman was assessed by the non-executive Directors under the leadership of the Senior Independent Director using the responses to that section of the survey.

Appointment and replacement of Directors

Appointment of a Director from outside the Group is on the recommendation of the Nominations Committee, whilst internal promotion is a matter decided by the Board unless it is considered appropriate for a recommendation to be requested from the Nominations Committee.

The Board shall consist of not less than two Directors and not more than 15. Shareholders may vary the minimum and/or maximum number of Directors by passing an ordinary resolution. Other than as required by the shareholding guideline monitored by the Remuneration Committee, a Director shall not be required to hold any shares in the Company. Directors may be appointed by the Company by ordinary resolution or by the Board. A Director appointed by the Board holds office only until the next AGM of the Company and is then eligible for re-appointment. The Board or any Committee authorised by the Board may from time to time appoint one or more Directors to hold any employment or executive office for such period and on such terms as they may determine and may also revoke or terminate any such appointment.

The articles provide that, at every AGM of the Company, any Director who has been appointed by the Board since the last AGM, or who held office at the time of the two preceding AGMs and who did not retire at either of them, or who has held office with the Company, other than employment or executive office, for a continuous period of nine years or more at the date of the meeting, shall retire from office and may offer himself for re-appointment by the members. However, in accordance with Provision B.7.1 of the Code the Company subjects all Directors to annual re-election and therefore at the next AGM all the Directors, other than Robert Farnes who is retiring at the end of the meeting, will retire and, being eligible, offer themselves for re-election. Biographies of all the Directors are given on page 79.

The Company may by special resolution remove any Director before the expiration of his period of office. The office of a Director shall be vacated if:

- he resigns or offers to resign and the Board resolves to accept such offer; his resignation is requested by all of the other Directors and all of the other Directors are not less than three in number;
- he is or has been suffering from mental or physical ill health and the Board resolves that his office be vacated;
- he is absent without the permission of the Board from meetings of the Board (whether or not an alternate Director appointed by him attends) for six consecutive months and the Board resolves that his office is vacated;
- he becomes bankrupt or enters into an agreement with his creditors generally;
- he is prohibited by a law from being a Director;
- he ceases to be a Director by virtue of the Companies Acts; or
- he is removed from office pursuant to the Company's articles.

If considered appropriate, new Directors are provided with external training that addresses their role and duties as a Director of a quoted public company. Existing Directors monitor their own continued professional development and are encouraged to attend courses that keep their market and regulatory knowledge up to date. In addition, any training and development requirements are discussed during the one-to-one meetings between the Chairman and the Directors.

All Directors have access to the services of the Company Secretary and any Director may instigate an agreed procedure whereby independent professional advice may be sought at the Company's expense. Directors' and officers' liability insurance is maintained by the Company.

Powers of the Directors

Subject to the Company's articles, the Companies Act and any directions given by the Company by special resolution, the business of the Company will be managed by the Board who may exercise all the powers of the Company, whether relating to the management of the business of the Company or not. In particular, the Board may exercise all the powers of the Company to borrow money, to guarantee, to indemnify, to mortgage or charge any of its undertaking, property, assets (present and future) and uncalled capital and to issue debentures and other securities and to give security for any debt, liability or obligation of the Company or of any third party.

Directors

The Directors of the Company during the year and their interests in the share capital of the Company, including deferred shares and shares over which options have been granted under the performance share plan, are shown below. All of these interests are held beneficially.

There have been no changes in any of the Directors' interests between the year end and 26 February 2015.

The Directors do not participate in the Executive Share Option Scheme. During the year, a conditional grant of 195,385 shares was made to Directors under the Performance Share Plan (PSP) whilst 128,091 shares vested to the Directors from an earlier conditional award at a zero exercise price. The remaining 102,959 shares of this award made to Directors lapsed.

Other than as disclosed in note 37 the Directors have no interest in any material contracts of the Company.

Conflicts of interest

The Company's articles permit the Directors to regulate conflicts of interest. The Board operates a policy for managing and, where appropriate, approving conflicts or potential conflicts of interest whereby Directors are required to notify the Company as soon as they become aware of a situation that could give rise to a conflict or potential conflict of interest. The register of potential conflicts of interest is regularly reviewed by the Risk Committee and the Board is satisfied that this policy has operated effectively throughout the period.

Communication with shareholders

The Company recognises the importance of clear communication with shareholders. Regular contact with institutional shareholders and fund managers is maintained, principally by the executive Directors, by giving presentations and organising visits to the Group's property assets. The Board receives regular reports of these meetings which include a summary of any significant issues raised by the shareholders. The annual report, which is available to all shareholders, reinforces this communication. The Group's website www.derwentlondon.com, which includes the presentations made to analysts at the time of the Group's interim and full year results, together with the social media channels that the Group uses, provide additional sources of information for shareholders. Websites for specific developments are used to help explain the Group's current activities to shareholders in more detail. The AGM provides an opportunity for shareholders to question the Directors and, in particular, the chairmen of each of the Board Committees. An alternative channel of communication to the Board is available through Stuart Corbyn, the Senior Independent Director.

	Ordinary shares of 5p each		Options and deferred shares	
	31 Dec 14	31 Dec 13	**31 Dec 14**	31 Dec 13
R.A. Rayne[1]	**4,409,295**	4,409,295	**–**	66,730
J.D. Burns	**738,244**	790,272	**163,203**	177,460
S.P. Silver	**294,887**	352,576	**139,963**	152,215
N.Q. George	**47,550**	37,179	**89,222**	92,171
P.M. Williams	**44,551**	39,180	**90,084**	92,171
D.G. Silverman	**16,469**	15,585	**85,737**	83,969
D.M.A. Wisniewski	**21,781**	13,794	**90,084**	91,185
S.A. Corbyn	**1,000**	1,000	**–**	–
R.D.C. Dakin	**–**	–	**–**	–
J. de Moller	**2,985**	2,985	**–**	–
R.A. Farnes	**5,628**	6,138	**–**	–
S.W.D. Fraser	**–**	–	**–**	–
S.G. Young	**1,000**	1,000	**–**	–
J.C. Ivey (retired 31 December 2013)	**n/a**	79,072	**–**	–

[1] Includes shares held by the Rayne Foundation and the Rayne Trust, both of which R.A. Rayne is a trustee.

Risk management and internal control

The principal risks and uncertainties facing the Group in 2015 together with the controls and mitigating factors are set out on pages 22 to 27. Details of the price, credit, liquidity and cash flow risks that are inherent in the Group's business are given in note 24 on pages 152 and 153. The key elements of the Group's internal control framework which is designed to manage and control the Group's risks are:

- an approved schedule of matters reserved for decision by the Board and the Executive Committee supported by defined responsibilities and levels of authority;
- the day-to-day involvement of the executive Directors in all aspects of the Group's business;
- a comprehensive system of financial reporting and forecasting including both sensitivity and variance analysis;
- maintenance, updating and regular review by the Risk Committee of the Group's risk register; and
- a formal whistleblowing policy.

The effectiveness of this system and the operation of the key components thereof have been reviewed for the accounting year and the period to the date of approval of the financial statements.

The Board was able to assess the effectiveness of the controls through the close day-to-day involvement of the executive Directors in the operation of many of the controls and the various reports that the Board receives which enable any significant control failure to be identified.

The Board has considered the need for an internal audit function but continues to believe that this is unnecessary given the size and complexity of the Group.

Report and accounts

The Board has considered the Group's report and accounts and, taking into account the recommendation of the Audit Committee, is satisfied that, taken as a whole, it is fair, balanced and understandable and provides the information necessary for the shareholders to assess the Company's performance, business model and strategy.

Share capital

As at 25 February 2014, the Company's issued share capital comprised a single class of 5p ordinary shares. Details of the ordinary share capital and shares issued during the year can be found in note 27 to the financial statements.

Derwent London shares held by the Group

At 31 December 2014 the Group held 38,223 Derwent London shares in order to deliver the deferred bonus shares to the Directors when the deferral periods expire. Movements on the holding of these shares are detailed below:

Transaction	Number of 5p ordinary shares	Percentage of issued share capital %	Price £	Aggregate consideration £
Holding at 1 January 2013	42,895	0.042		700,063
Acquired on 27 March 2013	18,316	0.018	21.39	391,779
Maximum holding during 2013	61,211	0.060		1,091,842
Disposed on 4 April 2013	(27,775)	(0.027)	21.50	(597,162)
Holding at 31 December 2013	33,436	0.033		494,680
Disposal on 2 April 2014	(24,275)	(0.024)	27.34	(663,678)
Acquired on 7 April 2014	29,062	0.028	26.97	783,802
Maximum holding during 2014 and holding as at 31 December 2014	**38,223**	**0.037**		**614,804**

DIRECTORS' REPORT
CONTINUED

Rights and restrictions attaching to shares
The Company can issue shares with any rights or restrictions attached to them as long as this is not restricted by any rights attached to existing shares. These rights or restrictions can be decided either by an ordinary resolution passed by the shareholders or by the Directors as long as there is no conflict with any resolution passed by the shareholders. These rights and restrictions will apply to the relevant shares as if they were set out in the articles. Subject to the articles, the Companies Act and other shareholders' rights, unissued shares are at the disposal of the Board.

Variation of rights
If the Companies Act allows this, the rights attached to any class of shares can be changed if it is approved either in writing by shareholders holding at least three-quarters of the issued shares of that class by amount (excluding any shares of that class held as treasury shares) or by a special resolution passed at a separate meeting of the holders of the relevant class of shares. This is called a 'class meeting'.

All the articles relating to general meetings will apply to any such class meeting, with any necessary changes. The following changes will also apply:

- a quorum will be present if at least two shareholders who are entitled to vote are present in person or by proxy who own at least one-third in amount of the issued shares of the class (excluding any shares of that class held as treasury shares);
- any shareholder who is present in person or by proxy and entitled to vote can demand a poll; and
- at an adjourned meeting, one person entitled to vote and who holds shares of the class, or his proxy, will be a quorum.

The provisions of this article will apply to any change of rights of shares forming part of a class. Each part of the class which is being treated differently is treated as a separate class in applying this article.

The rights conferred upon the holders of any shares shall not, unless otherwise expressly provided in the rights attaching to those shares, be deemed to be varied by the creation or issue of further shares ranking pari passu with them.

No person holds securities in the Company carrying special rights with regard to control of the Company.

Voting
Shareholders will be entitled to vote at a general meeting whether on a show of hands or a poll, as provided in the Companies Act. Where a proxy is given discretion as to how to vote on a show of hands this will be treated as an instruction by the relevant shareholder to vote in the way in which the proxy decides to exercise that discretion. This is subject to any special rights or restrictions as to voting which are given to any shares or upon which any shares may be held at the relevant time and to the articles.

If more than one joint holder votes (including voting by proxy), the only vote which will count is the vote of the person whose name is listed first on the register for the share.

Restrictions on voting
Unless the Directors decide otherwise, a shareholder cannot attend or vote shares at any general meeting of the Company or upon a poll or exercise any other right conferred by membership in relation to general meetings or polls if he has not paid all amounts relating to those shares which are due at the time of the meeting, or if he has been served with a restriction notice (as defined in the articles) after failure to provide the Company with information concerning interests in those shares required to be provided under the Companies Act.

The Company is not aware of any agreements between shareholders that may result in restrictions on voting rights.

Restrictions on transfer of securities in the Company
There are no restrictions on the transfer of securities in the Company, except:

- that certain restrictions may from time to time be imposed by laws and regulations (for example, insider trading laws); and
- pursuant to the Listing Rules of the Financial Conduct Authority whereby certain employees of the Company require the approval of the Company to deal in the Company's ordinary shares.

The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities.

Powers in relation to the Company issuing or buying back its own shares
The Directors were granted authority at the last AGM held in 2014 to allot relevant securities up to a nominal amount of £1,708,630. That authority will apply until the conclusion of this year's AGM. At this year's AGM shareholders will be asked to grant an authority to allot relevant securities (i) up to a nominal amount of £1,844,352 and (ii) up to a nominal amount of £3,688,705 (after deducting from such limit any relevant securities allotted under (i)), in connection with an offer by way of a rights issue, (the 'section 551 authority'), such section 551 authority to apply until the end of next year's AGM.

A special resolution will also be proposed to renew the Directors' power to make non-pre-emptive issues for cash in connection with rights issues and otherwise up to a nominal amount of £553,306. A further special resolution will be proposed to renew the Directors' authority to repurchase the Company's ordinary shares in the market. The authority will be limited to a maximum of 11,066,114 ordinary shares and the resolution sets the minimum and maximum prices which may be paid.

Substantial shareholders

In addition to those of the Directors disclosed on page 86, the Company has been notified of the following interests in the issued ordinary share capital as at 25 February 2015.

	Number of shares	Percentage of issued share capital
Invesco Inc	5,242,406	4.74
Blackrock Investment Management (UK) Ltd	5,143,432	4.65
Standard Life Investments	4,284,390	3.87
Lady Jane Rayne	3,593,838	3.25
Withers Trust Corporation Ltd	3,593,146	3.25

Significant agreements

There are no agreements between the Company and its Directors or employees providing for compensation for loss of office or employment that occurs because of a takeover bid, except that, under the rules of the Group's share-based remuneration schemes some awards may vest following a change of control.

Some of the Group's banking arrangements are terminable upon a change of control of the Company.

As a REIT, a tax charge may be levied on the Company if it makes a distribution to another company which is beneficially entitled to 10% or more of the shares or dividends in the Company or controls 10% or more of the voting rights in the company, (a substantial shareholder), unless the Company has taken reasonable steps to avoid such a distribution being made. The Company's articles give the Directors power to take such steps, including the power:

- to identify a substantial shareholder;
- to withhold the payment of dividends to a substantial shareholder; and
- to require the disposal of shares forming part of a substantial shareholding.

There is no person with whom the Group has a contractual or other arrangement which is essential to the business of the Company.

Amendment of articles of association

Unless expressly specified to the contrary in the articles of the Company, the Company's articles may be amended by a special resolution of the Company's shareholders.

Fixed assets

The Group's freehold and leasehold investment properties were professionally revalued at 31 December 2014, resulting in a surplus of £683.8m, before deducting the lease incentive adjustment of £11.9m. The freehold and leasehold properties are included in the Group balance sheet at a carrying value of £4,089.8m. Further details are given in note 16 of the financial statements.

Post balance sheet events

Details of post balance sheet events are given in note 35 of the financial statements.

Going concern

Under Provision C.1.3 of the UK Corporate Governance Code, the Board needs to report whether the business is a going concern. In considering this requirement, the Directors have taken into account the following:

- The Group's latest rolling forecast for the next two years in particular the cash flows, borrowings and undrawn facilities. Sensitivity analysis is included within these forecasts.
- The headroom under the Group's financial covenants.
- The risks included on the Group's Risk Register that could impact on the Group's liquidity and solvency over the next 12 months.
- The risks on the Group's Risk Register that could be a threat to the Group's business model and capital adequacy.

The Group's risks and risk management processes are set out on pages 22 to 27.

Having due regard to these matters and after making appropriate enquiries, the Directors have a reasonable expectation that the Group and Company have adequate resources to continue in operational existence for the foreseeable future. Therefore, the Board continues to adopt the going concern basis in preparing the financial statements.

Disclosure of information to auditors

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware and that each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information.

Auditors

Having been appointed during the year, PricewaterhouseCoopers LLP has expressed its willingness to continue in office and accordingly, resolutions to reappoint it and to authorise the Directors to determine its remuneration will be proposed at the AGM. These are resolutions 16 and 17 set out in the notice of meeting.

Our carbon footprint
We present below our annual GHG (greenhouse gas) emissions profile for 2014 compared to our 2013 baseline. In addition there are a set of intensity ratios appropriate for our business, both of which align with the requirements of the Companies Act 2006 (Strategic and Directors' Report Regulations 2013).

We have seen reductions in our overall CO_2e/m² intensity of 9.7% (this excludes Scope 1 fugitive emissions).

For further analysis and detail on our GHG emissions please see our 2014 annual sustainability report, which can be found at www.derwentlondon.com/sustainability.

Whole portfolio carbon generation

			2014 tCO_2e	2013 tCO_2e	% change
Scope 1	Energy-use	Gas (total building)	**2,295**	3,691	(37.8)
		Oil (total building)	**78**	62	25.8
	Travel	Fuel use in Derwent London company cars for business travel	**19**	19	–
	Fugitive emissions	Refrigerant emissions	**774**	1,000	(22.6)
Scope 2	Energy-use	Electricity use – generation (landlord-controlled areas and Derwent London occupied floor area)	**5,527**	6,978	(20.8)
Scope 3	Energy-use	Electricity use – WTT Generated Scope 3 Indirect GHG (landlord-controlled areas and Derwent London occupied floor area)	**842**	1,063	(20.8)
		Electricity use – T&D Direct & WTT T&D Indirect (landlord-controlled areas and Derwent London occupied floor area)	**557**	703	(20.8)
		Gas (total building)	**308**	496	(37.9)
		Oil (total building)	**16**	12	25.0
	Travel	Fuel use in Derwent London company cars for business travel WTT	**4**	4	–
		Business air travel WTT	**5**	3	66.7
		Business air travel	**41**	24	70.8
	Water	Water use (total building)	**46**	44	4.5
Total	**All**	**All**	**10,512**	14,098	(25.4)
Out of scope	Energy-use	Biomass use (total building)	**26**	22	18.2

Intensity

tCO_2e/£m turnover (Scopes 1 and 2 only, excluding Scope 1 fugitive emissions)	62.81	89.29	(29.7)
tCO_2e/m² (Scopes 1 and 2 only, excluding Scope 1 fugitive emissions)	0.028	0.031	(9.7)

Data notes

Reporting period	1 January 2014 to 31 December 2014
Baseline year	2013 (restated)
Boundary (consolidation approach)	Operational control
Alignment with financial reporting	The only variation is that the GHG emission data presented does not account for single-let properties or properties for which we do not have management control, and therefore cannot be responsible for. This is because we have no control or influence over the utility consumption in these buildings. However, the rental income of these properties is included in our consolidated financial statements.
Reporting method	The Greenhouse Gas (GHG) Protocol Corporate Accounting and Reporting Standard.
Emissions factor source	Defra, May 2014 – www.ukconversionfactorscarbonsmart.co.uk
Independent assurance	Public limited assurance provided by Deloitte LLP over all Scope 1 and 2 GHG emissions data.
Data changes and restatements	We have restated our 2013 baseline emissions figures in response to changes made by Defra to the suite of UK conversion factors.

Annual General Meeting
The notice of meeting contained in the circular to shareholders that accompanies the report and accounts includes four resolutions to be considered as special business.

Resolution 18 is an ordinary resolution to renew the authority of the Directors under Section 551 of the Companies Act 2006 to allot shares. Paragraph A of the resolution gives the Directors authority to allot ordinary shares up to an aggregate nominal amount of £1,844,352 which represents about one-third of the issued ordinary share capital (excluding treasury shares) of the Company as at the latest practicable date prior to the publication of this document.

In line with guidance issued by the Investment Association, paragraph B of the resolution gives the Directors authority to allot ordinary shares in connection with a rights issue in favour of ordinary shareholders up to an aggregate nominal amount of £3,688,705, as reduced by the nominal amount of any shares issued under paragraph A of the resolution. This amount (before any reduction) represents approximately two-thirds of the issued ordinary share capital (excluding treasury shares) of the Company as at the latest practicable date prior to the publication of this document.

The Directors have no present intention of issuing shares except on the exercise of options under the Company's share option scheme, on the vesting of shares under the Company's performance share plan or in connection with the scrip dividend scheme. The authority will expire at the conclusion of next year's AGM or, if earlier, the close of business on 15 August 2016.

Resolution 19 is a special resolution to renew the Directors' authority under Sections 571 and 573 of the Companies Act 2006. The resolution empowers the Directors to allot shares or sell treasury shares for cash in connection with pre-emptive offers and the scrip dividend scheme (where the scrip election is made after the declaration (but before payment) of a final dividend) with modifications to the requirements set out in Section 561 of the Companies Act 2006. The resolution further empowers the Directors to allot or, in the case of treasury shares, sell shares for cash, otherwise than on a pre-emptive basis, up to an aggregate nominal value of £553,306 which is equivalent to approximately 10% of the issued share capital as at the latest practicable date prior to the publication of this document provided that, unless the proceeds of such allotment or sale are to be applied in connection with an acquisition or specified capital investment, this authority is limited to 5% of the issued share capital.

In respect of this aggregate nominal amount, the Directors confirm their intention to follow the provisions of the Pre-emption Group's Statement of Principles regarding cumulative usage of authorities within a rolling three-year period, which provide that usage in excess of 7.5% (excluding in connection with an acquisition or specified capital investment) should not take place without prior consultation with shareholders.

Allotments made under the authorisation in paragraph B of resolution 18 would be limited to allotments by way of a rights issue (subject to the right of the Board to impose necessary or appropriate limitations to deal with, for example, fractional entitlements and regulatory matters).

The authority will expire at the conclusion of next year's AGM or, if earlier, the close of business on 15 August 2016.

Resolution 20 is a special resolution to renew the authority enabling the Company to purchase its own shares. This authority enables the Directors to act quickly, if, having taken account of all major factors such as the effect on earnings and net asset value per share, gearing levels and alternative investment opportunities, such purchases are considered to be in the Company's and shareholders' best interest while maintaining an efficient capital structure. The special resolution gives the Directors authority to purchase up to 10% of the Company's ordinary shares and specifies the maximum and minimum prices at which shares may be bought. The authority will expire at the conclusion of next year's AGM or, if earlier, the close of business on 15 August 2016.

The Companies Act 2006 permits the Company to hold any such repurchased shares in treasury, with a view to possible re-issue at a future date, as an alternative to immediately cancelling them. Accordingly, if the Company purchases any of its shares pursuant to resolution 20, the Company may cancel those shares or hold them in treasury. Such a decision will be made by the Directors at the time of purchase on the basis of the Company's and shareholders' best interests. As at the date of the notice of meeting, the Company held no shares in treasury.

The total number of options to subscribe for ordinary shares outstanding at 26 February 2015 was 953,460 which represented 0.86% of the issued share capital (excluding treasury shares) at that date. If the Company were to purchase the maximum number of ordinary shares permitted by this resolution, the options outstanding at 26 February 2015 would represent 1.07% of the issued share capital (excluding treasury shares).

Resolution 21 is required to reflect the implementation of the Shareholder Rights Directive which, in the absence of a special resolution to the contrary, increased the notice period for general meetings of the Company to 21 days. The Company is currently able to call general meetings (other than an AGM) on 14 clear days' notice and would like to preserve this ability. The shorter notice period would not be used as a matter of routine, but only where the flexibility is merited by the business of the meeting and it is thought to be to the advantage of the shareholders as a whole. The approval will be effective until the Company's next AGM, when it is intended that a similar resolution will be proposed.

Approved by the Board and signed on its behalf by:

TIMOTHY J. KITE ACA
COMPANY SECRETARY

26 FEBRUARY 2015

LETTER FROM THE CHAIRMAN OF THE REMUNERATION COMMITTEE

SIMON W.D. FRASER
CHAIRMAN OF THE REMUNERATION COMMITTEE

Dear Shareholder,

I am pleased to present the report of the Remuneration Committee for 2014. The Committee was very satisfied with the level of support received from shareholders for the revised remuneration structure introduced in 2014. This resulted in 99.5% votes being cast in favour of the Directors' Remuneration Policy Report and 98.1% in favour of the annual report of the Remuneration Committee at the Group's 2014 AGM.

Derwent London's objective continues to be to deliver above average long-term returns to shareholders. In an industry where relatively few people manage a large and complicated business this can only be achieved by recruiting and retaining the best people. At a senior level, the Remuneration Committee is responsible for maintaining a remuneration structure that achieves this without incentivising management to run excessive levels of risk.

The Committee believes that certain elements of the structure such as: the deferral of part of the annual bonus; extended holding periods for vested LTIP awards; clawback provisions; and shareholding guidelines ensure that the policy promotes long-term sustainable performance as required by the updated UK Corporate Governance Code.

Performance and reward for 2014

As discussed in the strategic report, the Group has delivered an increase in EPRA net assets per share of 28.4% and a total return of 30.1%. The structure of the Group's bonus scheme was adjusted as part of last year's review of the Directors' remuneration arrangements, so this strong performance was assessed against a revised balance of performance measures. The outcome derived from this measurement combined with the discretionary element assessed by the Committee to reflect other corporate objectives, resulted in a bonus entitlement of 92.6% of maximum potential.

Awards made under the Group's 2004 Performance Share Plan (PSP) in 2012 were subject to two conditions, each covering 50% of the award. One was based on relative total shareholder return (TSR) performance against a group of other real estate companies and the other was based on net asset value growth compared to the return from properties in the IPD Central London Offices Total Return Index. The performance criteria were measured at the end of the year and 50% of the total awards are expected to vest. The net asset value part of the award was measured to 31 December 2014 and the TSR part will be measured to 12 April 2015.

The Committee believes the annual bonus outturn and anticipated PSP vesting during the year fairly represents Group performance over their respective performance periods.

Remuneration policy for 2015

As a Committee we are committed to ensuring that rewards for executives are aligned to the interests of shareholders through having all our incentive arrangements linked to challenging performance targets. These targets focus our management team on growing the Group's net asset value and increasing total return which in turn should deliver above market returns to shareholders. The Committee is confident that the structure implemented during 2014 continues to meet these objectives.

The Committee reviewed executive Directors' salary levels in December 2014 and agreed a basic increase of 3% for 2015. This took into account another excellent year of performance by the management team over all areas of the business in 2014 and the competitive nature of the market for top performing executives in the real estate sector. The executive salary increases are below the average salary increases for the rest of the Group.

The Committee is not proposing to make any changes to the remuneration policy and therefore we will not be seeking any new approval for the Directors' Remuneration Policy Report at the forthcoming AGM on 15 May 2015.

SIMON W.D. FRASER
CHAIRMAN OF THE REMUNERATION COMMITTEE

26 FEBRUARY 2015

REPORT OF THE REMUNERATION COMMITTEE

This part of the Directors' Remuneration Report has been prepared in accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 ('the Act'). The overall remuneration policy has been developed in compliance with the principles of the UK Corporate Governance Code 2012 and the Listing Rules. The policy, having been approved by shareholders at the 2014 AGM, is currently intended to be applied throughout the three-year period that commenced on 16 May 2014. For information purposes only, the policy report is represented, although with changes made to reflect page references, removal of prior year information when no longer relevant, the dates of the service contracts signed after the 2014 AGM (although in line with the terms disclosed last year) and the removal of the remuneration scenario chart. The full original report can be viewed on the Company's website (www.derwentlondon.com). The annual statement by the Chairman of the Remuneration Committee and the annual report on Directors' remuneration will be put to an advisory vote at the 2015 AGM on 15 May 2015.

Directors' remuneration policy report

The Committee, on behalf of the Board, is responsible for determining remuneration packages for the executive Directors and selected other senior executives. It also oversees the operation of the Group's bonus scheme and PSP and considers whether the schemes encourage the taking of excessive business risk.

The key aims of the Committee's remuneration policy for senior executives are:

- to ensure that the Company attracts, retains and motivates executives who have the skills and experience necessary to make a significant contribution to the delivery of the Group's objectives;
- to incentivise key executives by use of a remuneration package that is appropriately competitive with other real estate companies taking into account the experience and importance to the business of the individuals involved, whilst also having broad regard to the level of remuneration in similar sized FTSE 350 companies. The Committee also takes account of the pay and conditions throughout the Company;
- to align, as far as possible, the interests of the senior executives with those of shareholders by providing a significant proportion of the Directors' total remuneration potential through a balanced mix of short and long-term performance related elements that are consistent with the Group's business strategy;
- to enable executive Directors to accumulate shareholdings in the Company over time that are personally meaningful to them;
- to ensure that incentive schemes are subject to appropriately stretching performance conditions and designed so as to be consistent with best practice; and
- to ensure that the Group's remuneration structure does not encourage management to adopt an unacceptable risk profile for the business.

The policy table below sets out the broad principles which will be applied when setting the individual remuneration packages of Directors. This should be read in conjunction with the recruitment and promotions policy on page 100 and the application of policy for 2015 on pages 101 to 110.

Executive Director policy table

	Purpose and link to strategy	How operated	Maximum opportunity	Performance metrics
Base salary	To help recruit, retain and motivate high calibre executives. Reflects experience and importance to the business.	Reviewed annually, with effect from 1 January. Review reflects: ■ Role, experience and performance. ■ Economic conditions. ■ Increases throughout the rest of the business. ■ Levels in companies with similar characteristics. Salaries are set after having due regard to the salary levels operating in companies of a similar size and complexity, the responsibilities of each individual role, individual performance and an individual's experience. Our overall policy, having had due regard to the factors noted, is normally to target salaries at around the market median level.	The current salary levels are detailed in the Annual Report on Remuneration on page 102 and will be eligible for increases during the period that the Directors' remuneration policy operates. During this time, to the extent that salaries are increased, increases will normally be consistent with the policy applied to the workforce generally (in percentage of salary terms). Increases beyond those linked to the workforce generally (in percentage of salary terms) may be awarded in certain circumstances such as where there is a change in responsibility, experience or a significant increase in the scale of the role and/or size, value and/or complexity of the Group. The Committee retains the flexibility to set the salary of a new hire at a discount to the market level initially, and to implement a series of planned increases over the subsequent few years, in order to bring the salary to the desired position, subject to individual performance.	A broad assessment of personal and corporate performance is considered as part of the salary review
Benefits	To provide a market competitive benefits package to help recruit and retain high calibre executives. Medical benefits to help minimise disruption to business.	Directors are entitled to private medical insurance, car and fuel allowance and life assurance. The Committee may provide other employee benefits to executive Directors on broadly similar terms to the wider workforce.	The maximum cost of providing benefits is not pre-determined and may vary from year to year based on the overall cost to the Company in securing these benefits for a population of employees (particularly health insurance and death-in-service cover)[1]	None

[1] In relation to the types of benefits detailed in the above table, the only benefit which is considered to be significant in value terms is the provision of a company car (or the provision of cash in lieu of providing a company car). The value of the benefit will be either the taxable value assessed according to HMRC rules when a company car is provided or the cash amount in the case of cash in lieu of a company car. In either case, the provision of this benefit is limited to a cost of £50,000.

	Purpose and link to strategy	How operated	Maximum opportunity	Performance metrics
Pension	To help recruit and retain high calibre executives and reward continued contribution to the business.	The Company operates a defined contribution pension scheme. Where contributions would exceed either the lifetime or annual contribution limits cash payments in lieu are made.	Directors receive a contribution or cash supplement of up to 20% of salary. Legacy arrangements for some Directors mean that a fixed amount is paid in addition to the 20% contribution. The continuation of these arrangements for existing employees means that their maximum pension will be up to 21%.	None
Annual bonus	To incentivise the annual delivery of stretching financial targets and personal performance goals. Financial performance measures reflect KPIs of the business.	Bonus payments are determined by the Committee after the year end, based on performance against the targets set. Bonuses up to 100% of salary are paid as cash. Amounts in excess of 100% are deferred into shares of which 50% is released after 12 months and the balance after 24 months. These deferred shares are potentially forfeitable if the executive leaves prior to the share release date. The bonus is not pensionable. Clawback provisions apply in the event of misstatement or misconduct.	Maximum bonus potential, for the achievement of stretching performance conditions is 150% of salary for all Directors.	Annual bonuses are earned based on performance measured against the following metrics: ■ Total return against other major real estate companies (up to 50% of the maximum bonus opportunity); ■ Total property return versus the IPD Central London Offices Total Return Index (up to 25% of the maximum bonus opportunity); and ■ Performance objectives tailored to the delivery of the Group's short-term strategy (up to 25% of the maximum bonus opportunity). Only 22.5% of the relevant bonus element will be payable for threshold performance against the financial measures (i.e. total return and total property return), rising to full payout for achieving challenging outperformance targets. The performance condition described above will be reviewed annually by the Committee (in terms of the companies against which relative total return performance is measured, the choice of IPD Index relating to total property return and the metrics and weightings applied to each element of bonus). Any revisions to the above structure would only take place should it be considered necessary in light of developments in the Company's strategy to ensure that the annual bonus remained aligned with the Company's strategy and KPIs. In any event, a substantial majority of bonus would be expected to remain subject to financial targets with a minority based on performance against performance objectives linked to the delivery of the Group's short-term strategy. Details of the bonus structure operating each year will be provided in the relevant annual report on remuneration.

Executive Director policy table (continued)

	Purpose and link to strategy	How operated	Maximum opportunity	Performance metrics
Long-term incentive plan	To align the long-term interests of the Directors with those of the Group's shareholders. To incentivise value creation over the long-term. To aid retention.	The Committee makes a conditional award of nil-cost options each year. Vesting is determined by the Group's achievements against stretching performance targets over the three subsequent years and continued employment. The Group's performance against the targets is independently verified on behalf of the Committee. A further holding period of two years is required on the after tax number of vested shares. Dividends may be payable on vested shares. Clawback provisions apply in the event of misstatement or misconduct. Awards will be satisfied by either newly issued shares or shares purchased in the market. Any use of newly issued shares will be limited to corporate governance compliant dilution limits contained in the scheme rules.	Annual award limit: up to 200% of salary.	Long-term incentive awards vest based on three-year performance against a challenging range of total property return (50% of an award) and, separately, relative total shareholder return (50% of an award) performance targets. Total property return performance is measured relative to the IPD Central London Offices Index and total shareholder return performance is measured against a bespoke comparator group of real estate companies. 22.5% of each part of an award vests for achieving the threshold performance level with full vesting for achieving challenging outperformance targets for total property return (based on a prescribed out-performance premium of the IPD Central London Offices Index) or the upper quartile rank for total shareholder return. No awards vest for below threshold performance levels. The Committee will have discretion to reduce the extent of vesting in the event that it considers that performance against the relevant measure of performance (whether total shareholder return or total property return growth) is inconsistent with underlying financial performance. The performance condition described above will be reviewed annually by the Committee (in terms of the companies against which relative total return performance is measured, the choice of IPD Index relating to total property return and the metrics and weightings applied to each part of an award). Any revisions to the metrics and/or weightings would only take place should it be considered necessary in light of developments in the Company's strategy and following appropriate dialogue with the Company's major shareholders. Should a substantial reworking of the current approach be considered appropriate (e.g. replacing one of the current metrics with an alternative), this would only take place following a revised Directors' remuneration policy being tabled to shareholders.
Share ownership guidelines	To provide alignment between executives and shareholders.	Executive Directors are required to retain at least half of any shares vesting (net of tax) until the guideline is met.	John Burns – 200% of salary. Other executive Directors – 125% of salary. Non-executive Directors – No guideline.	None

	Purpose and link to strategy	How operated	Maximum opportunity	Performance metrics
Non-executive Directors' fees	To help recruit and retain, high calibre non-executives with relevant skills and experience. Reflects time commitments and scope of responsibility.	The remuneration for the Chairman is set by the full Board. The remuneration for non-executive Directors, is also set by the whole Board. Periodic fee reviews will set a base fee and, where relevant, fees for additional services such as chairing a Board Committee. The review will consider the expected time commitments and scope of responsibilities for each role as well as market levels in companies of comparable size and complexity.	The current non-executives' fees (and benefits where applicable) may be increased at higher rates than the wider workforce given that fees may only be reviewed periodically and to ensure that any changes in time commitment are appropriately recognised in the fee levels set.	None

Operation of the annual bonus plan and LTIP policy

The Committee will operate the annual bonus plan and LTIP in accordance with their respective rules and in accordance with the Listing Rules of the FCA where relevant. As part of the rules the Committee holds certain discretions which, are required for an efficient operation and administration of these plans, and are consistent with standard market practice. These include the following discretions:

- Participants of the plans;
- The timing of grant of award and/or payment;
- The size of an award and/or a payment (albeit with quantum and performance targets restricted to the descriptions detailed in the policy table above);
- The determination of vesting;
- Discretion required when dealing with a change of control (e.g. the timing of testing performance targets) or restructuring of the Group;
- Determination of a good/bad leaver for incentive plan purposes based on the rules of each plan and the appropriate treatment chosen;
- Adjustments required in certain circumstances (e.g. rights issues, corporate restructuring, events and special dividends); and
- The annual review of performance conditions for the annual bonus plan and Performance Share Plan from year to year.

If certain events occur (e.g. a material divestment or acquisition of a Group business), which mean the original performance conditions are no longer appropriate the Committee retains the ability to make adjustments to the targets and/or set different measures and alter weightings as necessary to ensure the conditions achieve their original purpose and are not materially less difficult to satisfy.

The outstanding share incentive awards which are detailed in tables 2 and 4 on pages 105 and 107 will remain eligible to vest based on their original award terms. In addition, all arrangements previously disclosed in the prior year's report of the Remuneration Committee will remain eligible to vest or become payable on their original terms.

Choice of performance measures and approach to target setting

The performance metrics that are used for annual bonus and long-term incentive plans are aligned to the Company's KPIs.

For the annual bonus a combination of sector specific financial performance measures are used. These are measured on a relative basis against sector peers and industry benchmarks such as IPD. The precise measures, targets and weightings chosen may vary, depending on the Company's strategy. Other objectives are set on an annual basis for each Director, directly linked to their role and responsibilities and the overall strategic focus at that time.

When compared to sector peers, targets are set in a range which is based on median performance delivering threshold payout, rising to full payout for performance at least equal to upper quartile. When compared to an industry benchmarking, equalling the index will deliver a threshold payout rising to full payout for substantial outperformance of the index. Only a minority of the bonus element will be paid for achieving threshold targets.

Long-term performance targets are set based on a combination of relative performance measures. Relative TSR is currently used as it provides a clear alignment between shareholders and executives. Other relative measures such as TPR against a relevant industry benchmark promotes the aim to maximise returns from the investment portfolio. Measuring Derwent's TPR against the TPR of the IPD Central London Offices Index ensures the Group's performance is being assessed on a consistent basis. As with annual bonus measures, the target range when compared to sector peers, is based on a market standard median to upper quartile ranking approach. When compared to an industry benchmarking, equalling the index will deliver a threshold payout rising to full payout for outperformance of the index. Only 22.5% of any long-term incentive will vest for achieving threshold targets.

How the pay of employees is taken into account and how it compares to executive Director remuneration policy

While the Company does not formally consult employees on remuneration, in determining the remuneration policy for executive Directors, the Committee takes account of the policy for employees across the workforce. In particular when setting base salaries for executives the Committee compares the salary increases with those for the workforce as a whole.

The overall remuneration policy for executive Directors is broadly consistent with the remainder of the workforce. However, whilst executive remuneration is weighted towards performance-related pay, the Company is introducing both option and bonus schemes to more employees (albeit at lower quantum and subject to performance criteria more appropriate for their role) which are similar to those of the Directors.

How the views of shareholders are taken into account

The Committee actively seeks dialogue with shareholders and values their input in helping to formulate the Company's remuneration policy. Any feedback received from shareholders is considered as part of the Committee's annual review of remuneration policy. The Committee will also discuss voting outcomes at the relevant Committee meeting and will consult with shareholders when making any significant changes to the remuneration policy.

Service contracts and compensation for loss of office

As part of the major review of the Directors' remuneration structure undertaken last year, all the executive Directors entered into new service contracts dated 16 May 2014. These include a payment in lieu of notice clause which provides for monthly phased payments throughout the notice period which include pro-rated salary, benefits and pension only and are subject to mitigation. The new service contracts have no change of control provisions and all other elements have been brought up to date in line with best practice.

Other than in the event of certain 'good leaver' events (such as redundancy or retirement), no bonus will be payable unless the individual remains employed and is not under notice at the payment date. With regards to LTIP awards, if a participant resigns voluntarily, the award lapses. The 2004 PSP rules provide standard 'good leaver' definitions for death, retirement, injury, ill-health, disability, redundancy or transfer of employment outside the Group, or any other reason at the Committee's discretion, whereby awards will vest at their original vesting date subject to performance criteria being achieved and time pro-rating (rounded up to the next completed service year for awards granted before 1 January 2013) to reduce vested awards for time served in the relevant period.

The 2014 LTIP includes a similar definition of a 'good leaver' as detailed above for the 2004 PSP. The extent of vesting for a good leaver under the 2014 LTIP will depend upon the extent to which the performance conditions have, in the opinion of the Committee, been satisfied over the original three-year performance measurement period and pro rating of the award to reflect the reduced period of time between its grant and vesting, although the Committee can decide not to pro-rate an award if it regards it as inappropriate to do so in the particular circumstances. Alternatively, for a 'good leaver', the Committee can decide that his award will vest when he leaves subject to the performance conditions measured at that time and the same pro-rating described above. Such treatment will apply in the case of death.

In the event of a change of control, the treatment detailed above for good leavers under the 2004 PSP and 2014 LTIP would apply albeit with performance tested over the shortened performance period.

Chairman and non-executive Directors

Neither the Chairman nor non-executive Directors are eligible for pension scheme membership and do not participate in the Company's bonus or equity-based incentive schemes although the Chairman held options granted under the historic LMS Executive Share Option Scheme, details of which are given in table 4 on page 107.

The non-executive Directors do not have service contracts and are appointed for three year terms which expire as follows: Stuart Corbyn, 23 May 2015; June de Moller, 31 January 2016; Stephen Young, 31 July 2016; Robert Farnes, 15 May 2015, Simon Fraser, 31 August 2015 and Richard Dakin 31 July 2016. Mr Rayne has a letter of appointment, which runs for three years, expiring on 31 January 2016. In addition to his fee as Chairman, it provides for a car, driver and secretary, together with a contribution to his office running costs. His letter of appointment also contains provisions relating to payment in lieu of notice.

Recruitment and promotion policy

When facilitating an external recruitment or an internal promotion the Committee will apply the following principles:

Remuneration Element	Policy
Base salary	Base salary levels will be set taking into account the individual's experience and skills, prevailing market rates in companies of comparable size and complexity and internal relativities. Where appropriate the Committee may set the initial salary below this level (e.g. if the individual has limited PLC Board experience or is new to the role), with the intention to make phased pay increases over a number of years, which may be above those of the wider workforce, to achieve the desired market positioning. These increases will be subject to continued development in the role.
Benefits	Benefits as provided to current executive Directors. The Committee may pay relevant relocation and legal expenses in order to facilitate a recruitment.
Pension	A defined contribution or cash supplement at the level provided to current executive Directors.
Annual bonus	The Committee would intend to operate the same annual bonus plan for all Directors, including the same maximum opportunity at 150% of salary, albeit pro-rated for the period of employment. However, depending on the nature and timing of an appointment, the Committee reserves the right to set different performance measures, targets and weightings for the first bonus plan year if considered necessary. Any bonus criteria in such circumstances would be disclosed in the following year's annual report on remuneration.
Long-term incentives	LTIP awards would be granted in line with the policy set out in the policy table, with the possibility of an award being made after an appointment. The maximum ongoing annual award would be limited to that of the current Chief Executive Officer. For an internal hire, existing awards would continue over their original vesting period and remain subject to their terms as at the date of grant.
Buy-out awards	Should it be the case that the Remuneration Committee considered it necessary to buyout incentive pay which an individual would forfeit on leaving their current employer, such compensation, where possible, would be structured so that the terms of the buy-out mirrored the form and structure of the remuneration being replaced (e.g. vested share awards may be replaced with shares in Derwent London while recently granted long-term incentive awards may be replaced with a performance related LTIP award). Where possible this will be accommodated under the Company's existing incentive plans, but it may be necessary to utilise the exemption under rule 9.4.2 of the Listing Rules. Shareholders will be informed of any such payments at the time of appointment.

External appointments

Executive Directors may accept a non-executive role at another company with the approval of the Board. The executive is entitled to retain any fees paid for these services.

Annual report on remuneration

Remuneration Committee

The Remuneration Committee (the 'Committee') consisted of Simon Fraser (Chairman), Stuart Corbyn, June de Moller and Stephen Young. None of the members who have served during the year had any personal interest in the matters decided by the Committee, or any day-to-day involvement in the running of the business and, therefore, are considered to be independent. The full terms of reference of the Committee are available on the Company's website.

New Bridge Street (NBS) – a trading name of Aon plc – was retained to provide independent assistance to the Committee regarding the setting of salaries and the operation of the PSP and bonus scheme. In particular, NBS provides an independent assessment of outcomes under the bonus scheme and the extent of vesting of the conditional share awards and ensures that the measures used for both schemes are comparable and consistent. The fees paid to NBS for these services, based on hourly rates, amount to £68,534. NBS did not provide any other services to the Group during the year and the Committee is satisfied that the advice provided by NBS is independent and objective.

No Director had any involvement in determining his own remuneration although some of the matters considered by the Committee, other than his own salary, were discussed with John Burns. The Company Secretary acted as secretary to the Committee.

Application of policy for 2015

Base salaries

The base salaries that are applicable from 1 January 2015, after allowing for a 3% increase are as follows:

- John Burns – £619,500
- Simon Silver – £531,500
- Damian Wisniewski – £394,500
- Paul Williams – £394,500
- Nigel George – £394,500
- David Silverman – £394,500

The salary increases of 3% are below those offered to the wider workforce.

Benefits and pension

Benefits will continue to include a car and fuel allowance, private medical insurance and life insurance. Pension benefits are provided by way of a Company contribution at up to 21% of salary for all executive Directors.

Annual bonus

The bonus will operate subject to the following metrics with a bonus potential of 150% for all executive Directors:

- 50% of bonus will be earned based on Derwent London's total return against other major real estate companies;
- 25% of bonus will be earned based on Derwent London's TPR versus the IPD Central London Offices Total Return Index; and
- 25% of bonus will be earned subject to other performance objectives tailored to the delivery of the Group's short-term strategy.

For achieving the threshold performance target (i.e. at the IPD Index or median total return against our sector peers), 22.5% of the maximum bonus opportunity will become payable.

Total return pay-out accrues on a straight line basis between the threshold level for median performance and maximum payment for upper quartile performance. For TPR, the payout schedule starts to earn at Index, rising to Index +2.5% (for 75% of maximum) and then Index +5% for maximum.

Bonuses earned above 100% of salary will be subject to deferral into the Company's shares with half of the deferred element released on the 1st anniversary of the deferral and the remaining half released on the 2nd anniversary.

The cash and deferred elements of bonuses are subject to provisions that enable the Committee to recover the cash paid (clawback) or to lapse the associated deferred shares (withhold payments) in the event of a misstatement of results for the financial year to which the bonus relates or for gross misconduct within two years of the payment of the cash bonus.

Long-term incentives

It is proposed that long-term incentive awards in 2015 will be granted at 200% of salary to all executive Directors.

Half of an award vests according to the Group's relative TSR performance versus real estate comparators with the following vesting profile:

TSR Performance of the Company relative to real estate sector peers tested over three years	Vesting (% of TSR part of award)
Below median	0
At median	22.5
Upper quartile	100
Straight-line vesting occurs between these points	

The peer companies are:

- Big Yellow Group plc
- The British Land Company plc
- Capital & Regional plc
- Capital & Counties Properties plc
- Great Portland Estates plc
- Hammerson plc
- Intu Properties plc
- Land Securities plc
- Quintain Estates and Development plc
- St Modwen Properties plc
- Segro plc
- Shaftesbury plc
- Workspace Group plc

The other half of an award vests according to the Group's relative TPR versus the constituents of the IPD Central London Offices Total Return Index with the following vesting profile:

Derwent London's Annualised TPR versus the IPD Central London Offices Total Return Index tested over three years	Vesting (% of TPR part of award)
Below median	0
At median	22.5
Median +2.5%	75
Median +5%	100
Straight-line vesting occurs between these points	

Performance periods will run over three financial years. For awards granted in 2014 and beyond, as a minimum, the after-tax number of vested shares must be retained for a minimum holding period of two years. This five-year aggregate period is considered appropriate for a Company focused on aligning executives with shareholders over the long-term.

Awards granted under the Company's 2014 LTIP include provisions that enable the Committee to recover value in the event of a misstatement of results for the financial year to which the vesting of an award related, or an error in calculation when determining the vesting result, or as a result of misconduct which results in the individual ceasing to be a Director or employee of the Group within two years of the vesting (i.e. clawback provisions apply). The mechanism through which the clawback can be implemented enables the Committee to (i) reduce the cash bonus earned in a subsequent year and/or reduce outstanding discretionary long-term incentive share awards (i.e. withholding amounts to become payable may be used to effect a clawback) or (ii) for the Committee to require that a net of tax balancing cash payment be made. Similar provisions applied under the Company's 2004 PSP in the event of a misstatement of the Company's results.

Non-executive Director fees

The fees effective from 1 January 2015 are Chairman £150,000 (additional benefits are provided as detailed on page 99), base fee £42,500, Committee Chairman fee £7,500, Senior Independent Director fee £5,300, Committee fee £4,000.

Directors' remuneration summary

Details of Directors' remuneration are given in table 1 below:

Table 1

2014	Salary and fees £'000	Benefits in kind £'000	Pension and life assurance £'000	Bonus Cash £'000	Bonus Deferred £'000	Sub total £'000	Gains from equity-settled schemes[1] £'000	Total £'000
Executive								
J.D. Burns	602	53	139	602	234	1,630	840	2,470
S.P. Silver	516	37	131	516	201	1,401	720	2,121
D.M.A. Wisniewski	383	21	85	383	149	1,021	458	1,479
N.Q. George	383	18	90	383	149	1,023	458	1,481
P.M. Williams	383	21	89	383	149	1,025	458	1,483
D.G. Silverman	383	20	85	383	149	1,020	425	1,445
Non-executive								
R.A. Rayne	150	31	–	–	–	181	1,196	1,377
R.A. Farnes	44	–	–	–	–	44	–	44
S.A. Corbyn	62	–	–	–	–	62	–	62
J. de Moller	47	–	–	–	–	47	–	47
S.G. Young	53	–	–	–	–	53	–	53
S.W.D. Fraser	57	–	–	–	–	57	–	57
R.D.C. Dakin	45	–	–	–	–	45	–	45
	3,108	**201**	**619**	**2,650**	**1,031**	**7,609**	**4,555**	**12,164**

[1] The gains from equity-settled shares are in respect of the 2012 award which will vest in April 2015 and for which the performance conditions were complete or substantially complete at 31 December 2014. The value is based on an estimate of expected vesting and the average share price over the last three months of 2014.

2013	Salary and fees £'000	Benefits in kind £'000	Pension and life assurance £'000	Bonus Cash £'000	Bonus Deferred £'000	Sub total £'000	Gains from equity-settled schemes[1] £'000	Total £'000
Executive								
J.D. Burns	584	51	126	584	248	1,593	885	2,478
S.P. Silver	501	35	121	501	213	1,371	760	2,131
D.M.A. Wisniewski	372	20	83	372	93	940	469	1,409
N.Q. George	372	16	88	372	70	918	483	1,401
P.M. Williams	372	20	86	372	93	943	483	1,426
D.G. Silverman	357	19	80	357	67	880	413	1,293
Non-executive								
R.A. Rayne	150	30	–	–	–	180	322	502
J.C. Ivey[2]	58	–	–	–	–	58	–	58
R.A. Farnes	49	–	–	–	–	49	–	49
S.A. Corbyn	62	–	–	–	–	62	–	62
J. de Moller	53	–	–	–	–	53	–	53
S.G. Young	55	–	–	–	–	55	–	55
S.W.D. Fraser	52	–	–	–	–	52	–	52
R.D.C. Dakin[3]	18	–	–	–	–	18	–	18
	3,055	191	584	2,558	784	7,172	3,815	10,987

[1] The value of gains from equity settled schemes presented in last year's report was based on an estimate of vesting and the share price on 25 February 2014. The value has been restated in this year's report to reflect the actual number of awards which vested and the share price on the date the awards were transferred to participants.

[2] John Ivey retired from the Board on 31 December 2013.

[3] Richard Dakin joined the Board in August 2013.

No payments were made to past Directors or in respect of loss of office during 2014 or 2013.

Benefits
Taxable benefits relates to car and fuel allowance as well as private medical insurance and life assurance.

Determination of 2014 annual bonus outcome
Provision has been made for a bonus for 2014 of 92.6% (2013: between 95% and 100%) of the maximum potential. This has been derived as follows:

Performance Measure	Weighting % of bonus	Basis of calculation	Threshold %	Maximum %	Actual %	Payable %
Total return	50.0	Total return of major real estate companies	21.0	27.1	30.1	50.0
Total property return	25.0	Relative to IPD Central London Offices Total Return Index	22.0	27.0	25.1	20.1

In addition to the above formulaic result, 25% of the annual bonus is measured against performance objectives. The factors considered by the Committee are as follows:

- **The financing structure of the Group**
  Measures used to assess performance in this area include the interest cover ratio KPI and two of the Group's key metrics – Gearing and available resources.
- **Rent collection and the level of arrears**
  Tenant receipts is one of the Group's KPIs.
- **Delivery of projects both in terms of timing and costs**
  This is a key driver to the Group's total property return KPI and is monitored through regular progress reports to the Board and post completion reviews.
- **Health and safety performance**
  Both the Board and the Executive Committee receive regular health and safety reports and zero RIDDORS is one of the Group's CSR targets.
- **Void management and letting performance**
  Management of void space is one of the Group's KPIs and the Board receives regular reports on both these objectives.
- **Staff retention**
  This is considered a good proxy for staff welfare.
- **Governance**
  The Board aims to maintain a high level of governance as it considers this to be a key element in running a successful and sustainable business.
- **Reputation**
  The Board considers this to be a major asset of the Company and the risk of damage to the Group's reputation is one of the major risks identified on pages 22 to 27.
- **Design**
  This is key to maintaining and developing the Group's brand.

The total bonus estimated for each executive is therefore:

	Bonus payable			Deferred bonus	
	% of maximum	% of salary	Cash bonus payable	£	% of salary
J.D. Burns	92.6	139	601,500	234,164	39
S.P. Silver	92.6	139	516,000	200,879	39
D.M.A. Wisniewski	92.6	139	383,000	149,102	39
N.Q. George	92.6	139	383,000	149,102	39
P.M. Williams	92.6	139	383,000	149,102	39
D.G. Silverman	92.6	139	383,000	149,102	39

Long-term incentive plan

Half the awards granted in 2012 under the 2004 Performance Share Plan (PSP) were subject to a relative TSR performance measure and half subject to a growth in the net asset value measure. The performance condition was complete or substantially complete at the year end and the Committee made the following assessment of vesting:

Performance Measure	Weighting % of award	Basis of calculation	Threshold %	Maximum %	Actual %	% vesting/ estimated vesting
Growth in NAV	50	Relative to IPD Central London Offices Total Return Index	53.4	68.4	71.0	50
Total shareholder return	50	TSR of major real estate companies	102.8	135.9	95.3	0

As required by the scheme rules, before allowing any vesting, the Committee considered whether the Group's TSR performance reflected its underlying financial performance. Having considered a range of key financial indicators, including profits and NAV performance, the Committee concluded that, for the parts of the 2012 awards with measurement periods ending in 2014, this was the case.

Therefore, the vesting for each executive is estimated to be:

Executive	Number of awards vesting	Value of award on vesting[1] £
J.D. Burns	28,860	839,826
S.P. Silver	24,738	719,816
D.M.A. Wisniewski	15,750	458,325
N.Q. George	15,750	458,325
P.M. Williams	15,750	458,325
D.G. Silverman	14,615	425,297

[1] Based on the average share price over the last three months of the financial year of £29.10 and the estimated vesting percentage of 50%.

On 29 May 2014 the Committee made a LTIP award under the Group's 2014 LTIP to executive Directors on the following basis:

	Type of award	Basis of award granted % of salary	Share price at date of grant £	Number of shares awarded	Face value of award £	% of face value which vests at threshold
J.D. Burns	Nil-cost option	200	27.12	44,355	1,202,908	22.5%
S.P. Silver	Nil-cost option	200	27.12	38,050	1,031,916	22.5%
D.M.A. Wisniewski	Nil-cost option	200	27.12	28,245	766,004	22.5%
N.Q. George	Nil-cost option	200	27.12	28,245	766,004	22.5%
P.M. Williams	Nil-cost option	200	27.12	28,245	766,004	22.5%
D.G. Silverman	Nil-cost option	200	27.12	28,245	766,004	22.5%

If threshold performance is not achieved over the three-year period from 1 January 2014 to 31 December 2016, none of the award will vest. The performance conditions are described in more detail on page 101.

The outstanding LTIP awards held by Directors are set out in the table below:

Table 2

Market price at award date £	Earliest vesting date	J.D. Burns	S.P. Silver	N.Q. George	P.M. Williams	D.G. Silverman	D.M.A. Wisniewski	Employees	Total
13.66	01/04/13	67,250	57,650	36,780	36,780	30,190	34,590	14,640	277,880
16.43	01/04/14	58,550	50,250	31,950	31,950	27,350	31,000	12,750	243,800
17.19	12/04/15	57,720	49,475	31,500	31,500	29,230	31,500	12,620	243,545
Interest as at 1 January 2013		183,520	157,375	100,230	100,230	86,700	97,090	40,010	765,225
Shares conditionally awarded on 8 April 2013:									
Market price at award date £	Earliest vesting date								
21.2	08/04/16	48,200	41,350	26,320	26,320	25,250	26,320	10,560	204,320
Shares vested or lapsed during the year:									
Market price at award date £	Market price at date of vesting £								
13.66	22.44	(56,369)	(48,322)	(30,829)	(30,829)	(25,305)	(28,993)	(12,271)	(232,918)
13.66	Lapsed	(10,881)	(9,328)	(5,951)	(5,951)	(4,885)	(5,597)	(2,369)	(44,962)
Interest as at 31 December 2013		164,470	141,075	89,770	89,770	81,830	88,820	35,930	691,665
Shares conditionally awarded on 29 May 2014:									
Market price at award date £	Earliest vesting date								
27.12	29/05/17	44,355	38,050	28,245	28,245	28,245	28,245	12,745	208,130
Shares vested or lapsed during the year:									
Market price at award date £	Market price at date of vesting £								
16.43	27.26	(32,325)	(27,743)	(17,640)	(17,640)	(15,100)	(17,115)	(7,039)	(134,602)
16.43	28.15	(134)	(115)	(73)	(73)	(62)	(71)	(29)	(557)
16.43	Lapsed	(26,091)	(22,392)	(14,237)	(14,237)	(12,188)	(13,814)	(5,682)	(108,641)
Interest as at 31 December 2014		**150,275**	**128,875**	**86,065**	**86,065**	**82,725**	**86,065**	**35,925**	**655,995**

	31 December 2014	31 December 2013	1 January 2013
Weighted average exercise price of PSP awards	–	–	–
Weighted average remaining contracted life of PSP awards	1.26 years	1.21 years	1.21 years

At each year end, none of the outstanding awards were exercisable. The weighted average exercise price of awards that either vested or lapsed in 2014 was £nil (2013: £nil). The weighted average market price of awards vesting in 2014 was £27.26 (2013: £22.44).

Awards made in 2013 and previous years were made under the Group's 2004 PSP whilst those made in 2014 were made under the 2014 LTIP.

For awards granted under either the 2004 PSP or the 2014 LTIP:

- half of the shares vest based on TSR performance relative to a comparator group of companies; and
- half of the shares vest based on NAV performance compared to properties in the IPD Central London Offices Total Return Index.

The TSR comparator group consists of a defined group of real estate companies. The comparator group for 2014 comprises the following – Big Yellow Group plc, The British Land Company plc, Capital & Regional plc, Capital & Counties Properties Limited, Great Portland Estates plc, Hammerson plc, Intu Properties plc, Land Securities plc, Quintain Estates and Development plc, St Modwen Properties plc, Segro plc, Shaftesbury plc and Workspace Group plc. Under the 2004 PSP 25% of awards subject to the TSR target vest for median performance over the three-year performance period increasing to full vesting for upper quartile performance. Median performance under the 2014 LTIP results in 22.5% of the award subject to the TSR target test vesting with full vesting still requiring upper quartile performance.

For the 2004 PSP if the Group's NAV performance matches that of the median performing property in the Index over the three-year performance period 25% of awards subject to the NAV target vest. Vesting increases on a sliding scale to full vesting for out-performing the median performing property by 5% per annum. Under the 2014 LTIP median performance results in 22.5% of the award subject to the NAV target vesting. This increases to 75% vesting for outperforming the median by 2.5% per annum with full vesting being achieved for 5% per annum outperformance of the median.

The Committee has discretion to reduce the extent of vesting in the event that it feels that performance against either measure of performance is inconsistent with underlying financial performance.

For awards granted under the 2014 LTIP in 2014 and beyond, as a minimum, the after tax number of vested shares must be retained for a minimum holding period of two years.

Share option schemes

Details of the options held by Directors and employees under the Group's 1997 Executive Share Option Scheme at 31 December 2014 are given in table 3 below. Disclosure relating to a further share option scheme in which the Directors do not participate is given in note 13 on page 134.

Table 3

Exercise price £	Date from which exercisable	Expiry date	Employees	Total
13.63	08/06/09	07/06/16	4,500	4,500
Outstanding at 1 January 2013			4,500	4,500
No options were granted or lapsed in 2013				
Options exercised during 2013				
Exercise Price £	**Market price at date of exercise £**			
13.63	24.89		(4,500)	(4,500)
Outstanding at 31 December 2013			–	–
No options were granted, lapsed or exercised in 2014				
Outstanding at 31 December 2014			**–**	**–**

The weighted average exercise price of options exercised in 2014 was £nil (2013: £13.63) and the weighted average market price at the date of exercise £nil (2013: £24.89).

	31 December 2014	31 December 2013	31 December 2012
Number of exercisable share options:	–	–	4,500
Weighted average exercise price of exercisable share options:	–	–	£13.63
Weighted average remaining contracted life of exercisable share options:	–	–	3.44 years

There were no non-exercisable share options at any of the year ends shown.

The exercise of options granted under the 1997 Executive Share Option Scheme was subject to three-year performance criteria. This states that a year's options can only be exercised once the growth of the Group's net asset value per share over a subsequent three-year period exceeds the increase of the IPD Central London Office Capital Growth Index over the same period by 6% or more.

Following the acquisition of London Merchant Securities plc (LMS) in 2007, options that had already vested under the LMS Executive Share Option Scheme were converted to options over Derwent London shares. Details of these options, all of which are exercisable, are given in table 4 below:

Table 4

	Exercise price £	Expiry date	R.A. Rayne
	9.92	01/09/14	50,274
	12.03	28/06/15	41,456
Outstanding at 1 January 2013			91,730
No options were granted or lapsed in 2013			
Options exercised during 2013			
	Exercise price £	Market price at date of exercise £	
	9.92	22.81	(25,000)
Outstanding at 31 December 2013			66,730
No options were granted or lapsed in 2014			
Options exercised during 2014			
	Exercise price £	Market price at date of exercise £	
	9.92	27.99	(25,274)
	12.03	29.52	(20,000)
	12.03	29.99	(10,000)
	12.03	30.38	(11,456)
			(66,730)
Outstanding at 31 December 2014			**–**

R.A. Rayne made a gain of £1,196,000 (2013: £322,000) on options exercised during the year.

The weighted average exercise price of options exercised during 2014 was £11.23 (2013: £9.92) and the weighted average market price at the date of exercise £29.16 (2013: £22.81).

In respect of the options outstanding at 31 December 2014 in table 4 the weighted average exercise price is £nil (2013: £11.23) and the weighted average remaining contracted life is zero years (2013: 1.2 years).

The market price of the 5p ordinary shares at 31 December 2014 was £30.18 (2013: £21.60). During the year, they traded in a range between £24.58 and 30.73 (2013: £21.20 and £25.74).

Deferred bonus shares

Details of the deferred bonus shares held by the Directors are given in table 5.

Table 5

		J.D. Burns	S.P. Silver	D.M.A. Wisniewski	P.M. Williams	N.Q. George	D.G. Silverman	Total
Interest at 1 January 2013		16,023	13,745	3,262	3,465	3,465	2,935	42,895
Deferred in 2013								
Date of deferment	Value per share on deferment £							
25/03/13	21.40	7,449	6,385	1,141	1,141	1,141	1,059	18,316
Vested in 2013								
Date of vesting	Value per share on vesting £							
04/04/13	21.50	(4,941)	(4,235)	(815)	(946)	(946)	(776)	(12,659)
04/04/13	21.50	(5,541)	(4,755)	(1,223)	(1,259)	(1,259)	(1,079)	(15,116)
Interest at 31 December 2013		12,990	11,140	2,365	2,401	2,401	2,139	33,436
Deferred in 2014								
Date of deferment	Value per share on deferment £							
25/03/14	26.97	9,203	7,895	3,448	3,448	2,586	2,482	29,062
Vested in 2014								
Date of vesting	Value per share on vesting £							
02/04/14	27.34	(5,541)	(4,755)	(1,224)	(1,260)	(1,260)	(1,080)	(15,120)
02/04/14	27.34	(3,724)	(3,192)	(570)	(570)	(570)	(529)	(9,155)
Interest at 31 December 2014		12,928	11,088	4,019	4,019	3,157	3,012	38,223

Directors' interests in shares and shareholding guideline

Details of the Directors' interests in shares and shareholding guidelines are given in table 6.

Table 6

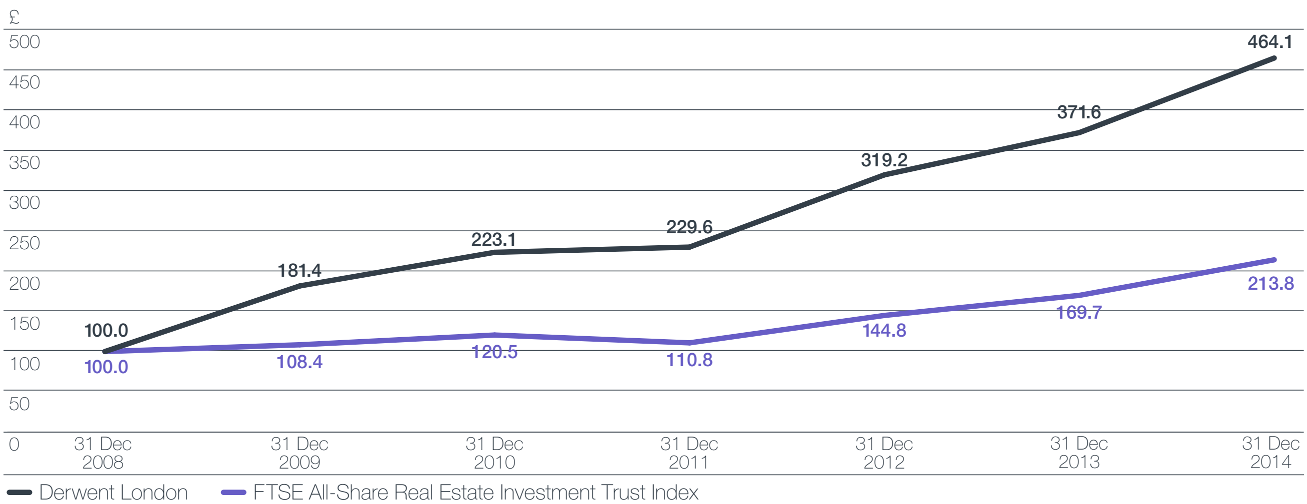
	£'000			Number of shares			
	2015 salary	Shareholding guideline	Value of beneficially held shares[1]	Beneficially held	Deferred	Conditional	Total
J.D. Burns	619	1,238	24,406	738,244	12,928	150,275	**901,447**
S.P. Silver	531	664	9,748	294,887	11,088	128,875	**434,850**
D.M.A. Wisniewski	394	493	720	21,781	4,019	86,065	**111,865**
P.M. Williams	394	493	1,473	44,551	4,019	86,065	**134,635**
N.Q. George	394	493	1,572	47,550	3,157	86,065	**136,772**
D.G. Silverman	394	493	544	16,469	3,012	82,725	**102,206**

[1] Valued at £33.06, the value of a 5p ordinary share in the Company on 24 February 2015.

Details of non-executive Directors shareholdings are given on page 86.

Performance graph

Total shareholder return compared to the FTSE All-Share Real Estate Investment Trusts Index.



Source: Thomson Reuters

This graph shows the value, by 31 December 2014, of £100 invested in Derwent London on 31 December 2008 compared to that of £100 invested in the FTSE All-Share Real Estate Investment Trusts Index. The other points plotted are the values at intervening financial year ends.

This index has been chosen by the Committee as it is considered the most appropriate benchmark against which to assess the relative performance of the Company for this purpose. To produce a 'fair value', each point is a 30-day average of the return.

Remuneration of the Chief Executive Officer 2008 – 2014

Year Ending	Executive	Total remuneration £'000	Annual bonus (% of max)	LTIP vesting (% of max)
31/12/14	J.D. Burns	2,470	92.6%	50.0%[1]
31/12/13	J.D. Burns	2,478	95.0%	55.2%
31/12/12	J.D. Burns	2,721	85.4%	83.8%
31/12/11	J.D. Burns	2,387	90.0%	50.0%
31/12/10	J.D. Burns	2,304	87.5%	50.0%
31/12/09	J.D. Burns	1,384	62.5%	47.6%
31/12/08	J.D. Burns	956	25.6%	36.5%

[1] Estimate

REPORT OF THE REMUNERATION COMMITTEE
CONTINUED

Percentage increase in the remuneration of the Chief Executive Officer

	2014	2013	% change
Chief Executive (£'000)			
Salary	**601.5**	584.0	3.00
Benefits	**192.2**	176.9	8.65
Bonus	**835.7**	832.2	0.40
Average employee (£'000)			
Salary	**63.3**	55.2	14.67
Benefits	**10.5**	10.4	0.96
Bonus	**18.0**	17.1	5.26

The table above shows the movement in the salary, benefits and annual bonus for the Chief Executive Officer between the current and previous financial year compared to that for an average employee.

Relative importance of the spend on pay

	2014	2013	% change
Staff costs (£m)	**22.4**	21.3	5.2
Distributions to shareholders (£m)	**38.4**	35.2	9.1
Net asset value[1] (£m)	**3,012**	2,304	30.7

[1] The net asset value of the Group is shown for both years as it is the primary measure by which investors measure the success of the Group.

Statement of shareholder voting

At the Company's 2014 AGM, the report of the Remuneration Committee received the following votes from shareholders:

	Annual report on remuneration		Directors' remuneration policy	
2014 AGM	m	%	m	%
Votes cast in favour	**83.1**	**98.1**	**85.2**	**99.5**
Votes cast against	**1.6**	**1.9**	**0.4**	**0.5**
Total votes cast	**84.7**	**–**	**85.6**	**–**
Votes withheld	**1.7**	**–**	**0.8**	**–**

The disclosure on Directors' remuneration in tables 1 to 6 on pages 102 to 108 has been audited as required by the Companies Act 2006.

Approved by the Board of Directors and signed on behalf of the Board

SIMON W.D. FRASER
CHAIRMAN OF THE REMUNERATION COMMITTEE

26 FEBRUARY 2015

LETTER FROM THE CHAIRMAN OF THE NOMINATIONS COMMITTEE

STUART CORBYN
CHAIRMAN OF THE NOMINATIONS COMMITTEE

Dear Shareholder,

I am pleased to present the report of the Nominations Committee for 2014.

One of the main responsibilities of the Committee is to manage the ongoing refreshment of the Board whilst maintaining the necessary degree of stability and an appropriate composition throughout.

During the year, the business community has focussed on the importance of a company having an effective succession plan in place and the role of the Nominations Committee in developing such a plan. The Committee considers the question of succession at least once a year paying particular attention to the skills and experience required in future non-executive Directors given the retirements envisaged by the refreshment process.

This year we have been planning for the retirement of Robert Farnes who will be retiring after the AGM in May having served on the Board for in excess of nine years. I referred to the recruitment of his replacement in last year's report and stated the Board's aim to appoint at least one additional female Director by 2015. The recruitment process is again being led by Spencer Stuart, who were selected after a number of executive search agencies were interviewed, and they were instructed to provide a list of high-calibre candidates which took account of this objective. The recruitment process is entering its later stages and I look forward to announcing the result by the time of the AGM.

STUART A. CORBYN
CHAIRMAN OF THE NOMINATIONS COMMITTEE

26 FEBRUARY 2015

REPORT OF THE NOMINATIONS COMMITTEE

At the start of the year the Committee consisted of Robert Farnes, June de Moller and Simon Fraser under the chairmanship of Stuart Corbyn. Richard Dakin joined the Committee in July 2014 and Robert Farnes stepped down at the end of the year. All members are considered independent by the Company having no day-to-day involvement with the Company.

Roles and responsibilities
The terms of reference for the Committee are available on the Company's website.

Meetings
The Committee meets at least once a year to arrange for the annual appraisal of the Board and its Committees. Further meetings are arranged, as required, to discharge the Committee's responsibilities in connection with identifying and nominating new Board members. The Committee met four times in 2014.

Work of the Committee
During the year the Committee has carried out the following tasks:

- Led the annual appraisal of the Board, its Committees and the Chairman. The appraisal was carried out by Lintstock, an independent corporate advisory firm which provides no other services to the Group.
- Reviewed the Group's succession planning for executive and non-executive Directors and senior management.
- Initiated the recruitment process for a non-executive Director having regard to the skills and experience required of a new non-executive Director.
- Ensured that the appointed executive search agency, Spencer Stuart, was independent and had no other connections with the Group.
- Identified areas of experience that a new non-executive Director should possess in order to further strengthen the Board.
- Considered whether the Committee's recruitment procedure was adequate given the gender diversity matters raised by Lord Davies.
- Reviewed the terms of reference for the Committee.

STUART A. CORBYN
CHAIRMAN OF THE NOMINATIONS COMMITTEE

26 FEBRUARY 2015

LETTER FROM THE CHAIRMAN OF THE RISK COMMITTEE

RICHARD DAKIN
CHAIRMAN OF THE RISK COMMITTEE

Dear Shareholder,

I am pleased to present this year's report of the Risk Committee having taken over as Chairman of the Committee from June de Moller in August 2014.

Whilst market conditions generally have remained strong throughout the year, our increased activity, putting greater emphasis on appropriate internal controls, and other emerging external risks have all served to keep the overall risk profile elevated. Given the political landscape both in the UK with the general election and in Europe where renewed uncertainty over the stability of the Eurozone remains, we would expect limited change to this heightened risk profile in the coming year.

During the year the Committee continued to draw on the recommendations in last year's review of the Group's risk assessment process. One of these was to formalise the assessment process and this resulted in the Committee overseeing the preparation of documents which set out the Group's risk appetite and its risk management policy and process. These were subsequently adopted by the Board.

One of the changes introduced in the latest update of the UK Corporate Governance Code is focused on risk management and internal control. This, together with the publication of the FRC's guidance on Risk Management, Internal Control and Related Financial and Business Reporting demonstrates the increased attention being given by investors to companies' risk management processes and reporting. In the light of this, we reviewed the Committee's procedures to ensure that the Group continues to comply with the guidance where applicable and the requirements of the UK corporate Governance Code.

RICHARD D.C. DAKIN
CHAIRMAN OF THE RISK COMMITTEE

26 FEBRUARY 2015

REPORT OF THE RISK COMMITTEE

Throughout the year the Committee was served by Stephen Young, John Burns and Damian Wisniewski under the chairmanship of June de Moller until August 2014 when Richard Dakin took over the chair.

Rules and responsibilities
The Committee's terms of reference are available on the Company's website.

Meetings
Three meetings are scheduled for the year with extra meetings convened if necessary for the Committee to discharge its duties.

Work of the Committee
During the year the Committee undertook the following tasks:

- Reviewed the Group's risk register.
- Approved the Group's risk appetite statement, risk management policy and risk management process prior to their consideration and adoption by the Board.
- Received presentations from senior management concerning the controls over certain parts of the business or specific risks.
- Considered the operation of the Group's risk management process and non-financial internal controls.
- Facilitated an online training course for all employees to increase staff awareness of cybercrime.
- Considered a report from the Group's legal advisors concerning potential regulatory risks over the next 12 months.
- Reviewed the Group's register of hospitality and gifts maintained under the Group's Bribery Act procedures.
- Reviewed the Group's register of potential conflicts of interest.
- Reviewed the Committee's terms of reference.

RICHARD D.C. DAKIN
CHAIRMAN OF THE RISK COMMITTEE

26 FEBRUARY 2015

LETTER FROM THE CHAIRMAN OF THE AUDIT COMMITTEE

STEPHEN YOUNG
CHAIRMAN OF THE AUDIT COMMITTEE

Dear Shareholder,

I am pleased to present the report of the Audit Committee for the year to 31 December 2014.

The year started with the Committee completing the tendering process for the appointment of the Group's auditor. The final phase, which took place after last year's report was published, involved a presentation by each of the candidate firms to the Committee and executive management. Following this, based on the quality of the audit being offered, the Committee recommended to the Board that PricewaterhouseCoopers (PwC) be appointed. The Board accepted the recommendation and PwC were duly appointed auditor of the Group at the AGM in May 2014. The Committee welcomes PwC to the role and is looking forward to an effective and efficient relationship with them.

A number of high profile governance failures has directed attention towards the level of transparency and openness in companies. One element of establishing an effective culture in this area is a company's whistleblowing procedure and the Committee reviewed the Group's policy and procedure to ensure that it still accorded with best practice and was an effective channel for the raising of any issues. This resulted in an updating of the policy and the introduction of an independent helpline.

There continues to be considerable work by a number of institutions aimed at improving the value and perception of the annual audit. This led to the publication at the end of 2014 of a discussion paper by the Department for Business, Innovation and Skills (BIS) on the implementation of the new EU Audit Directive and Regulation. The Regulations impose new requirements on a number of matters including the composition of the Audit Committee and the use of auditors for non-audit work. The Committee will monitor the effect that these have on its form and procedures as it proceeds through the legislative process over the next year.

STEPHEN G. YOUNG
CHAIRMAN OF THE AUDIT COMMITTEE

26 FEBRUARY 2015

REPORT OF THE AUDIT COMMITTEE

Membership
Throughout 2014 the Committee consisted of Stuart Corbyn, Simon Fraser and Richard Dakin under the chairmanship of Stephen Young. All Committee members are considered independent by the Board, having no day-to-day involvement with the Company and not having been with the Company for more than nine years. Stephen Young is a qualified accountant and is considered to have appropriate recent and relevant financial experience. The Committee has access to further financial expertise, at the Company's expense, if required.

Roles and responsibilities
The terms of reference for the Committee are available on the Company's website.

Meetings
The Committee met four times during the year to discharge its responsibilities. These were attended by the Group's external auditor and members of the Group's senior management when invited. Two additional meetings are held each year with the Group's independent property valuers (CBRE) to consider the valuation of the property portfolio.

Work of the Committee
During the year, the Committee has carried out the following:

- Reviewed the Group's interim and annual financial statements and the published interim management statements to consider whether, taken as a whole, they were each fair, balanced and understandable and whether they provided the information necessary for shareholders to assess the Company's performance, business model and strategy.

  In carrying out this review, and subsequently reporting its opinion to the Board, the Committee had regard to the following:

  - The adequacy of the systems for bringing all the relevant information to the attention of the preparers of the report and accounts and the adequacy of the controls operating over the system.
  - Whether the procedures for obtaining assurance over the accuracy of the information were sufficient.
  - The consistency of the reports within themselves and with each other and whether they are in accordance with the information received by the Board during the year.
  - Whether the statements were written in straightforward language with the use of any 'adjusted' measures adequately explained.

- Considered the appropriateness of the accounting policies, assumptions, judgements and estimates used in the preparation of the financial statements.

  In discharging this responsibility, the Committee identified the following significant issues and carried out the procedures set out below:

  - Valuation of the Group's property portfolio

    The Committee considers this to be the major area of judgement in determining the accuracy of the financial statements. In view of this, meetings were held with the Group's external valuers before both the interim results and the final results to consider the portfolio valuation contained therein. These meetings were led by members of the Committee with relevant and current expertise in property valuation. Key matters discussed during the meetings include the assumptions underlying the valuation, any valuation which required a greater level of judgement than normal, for example, development properties and any valuation movements that were not broadly In line with that of the IPD benchmark. The assumptions were also discussed with the auditors who have their own valuation experts.

    These procedures enabled the Committee to be satisfied with the assumptions and judgements used in the valuation of the Group's property portfolio.

  - Compliance with REIT guidelines

    The Committee noted that, should the Group not comply with the REIT regulations, it could incur tax penalties or ultimately be expelled from the REIT regime which would have a significant effect on the financial statements. The Committee noted the frequency with which compliance with the regulations was reported to the Board and considered the margin by which the Group complied.

    Based on this and the level of headroom shown in the latest Group forecasts, the Committee agreed that no further action was required for the current year.

  - Accounting for borrowings and derivatives

    The Committee considered this to be an area of increased risk for the current year due to the option to redeem the Group's 2.75% convertible bond 2016 being exercised over the year end.

    Management explained the conversion process and accounting treatment to the Committee and it was noted that the Group's lawyers were advising on the transaction. Management also advised the Committee that the Auditor concurred with the proposed accounting treatment. This was subsequently confirmed by the Auditor.

    The Committee was satisfied with the level of assurance gained from these additional procedures.

- Revenue recognition
  Revenue recognition is a presumed significant risk under International Standards on Auditing (UK and Ireland) and the Committee had, in previous years, considered two treatments where the level of risk might have been elevated. Having discussed both treatments with management and established that the treatments and assumptions were consistent with previous years, the Committee decided that no additional procedures were required in the current year.
- Management override of internal control
  In the absence of an internal audit function, the Committee looks for external assurance on the operation of certain controls in the business. This is achieved by instructing third parties (which may include the external Auditor) to review the control environment in a particular area. The Committee remains satisfied with the level of assurance gained from this process.

- Assessed the effectiveness of the external audit
  In assessing the effectiveness of the external audit the Committee took into account the views of both management and the Auditor. It also reviewed the audit plan and considered the quality of the planning, the extent to which it was tailored to the business and its ability to respond to any changes in the business. Having considered these factors the Committee has recommended the re-appointment of PwC to the Board.
- Considered the adequacy of the Group's procedures for safeguarding the objectivity and independence of the external Auditor.
  In assessing this matter the Committee noted the following:-
  - Each year the Auditor issues the Committee with an Independence Letter which confirms their independence and compliance with the Auditing Practices Board (APB) Ethical Standards. This is provided after the Auditor has considered the following matters:
    – Any relationships of which they are aware that, in their professional judgement, may reasonably be thought to bear on their independence and the objectivity of the audit engagement partner and staff;
    – Any services that the Auditor has provided to the Group in addition to the audit of the consolidated financial statements;
    – The total amount of fees that the Auditor has charged the Group for the provision of services during the reporting period; and
    – The amounts of any future services that have been contracted for, or where a written proposal has been submitted.
  - The Company operates a policy under which the Auditor cannot be appointed for any non-audit work where the fee exceeds £25,000 without the appointment being approved by the Audit Committee. There have been no such appointments since PwC were appointed in May 2014.
- Completed the tendering process for the 2014 audit of the Group.
  The tendering process was started in December 2013 with participating firms preparing and submitting proposals against a number of specific criteria. The final phase of the tendering process involved presentations to the Committee and executive management in March 2014. Following these presentations, a recommendation was made to the Board based on the quality of the audit being offered, and subsequently a resolution to appoint PwC as the Group's Auditor was passed at the 2014 AGM. In accordance with the current regulations, the Group will re-tender the audit after 10 years.
- Reviewed the terms of reference for the Committee.
- Considered the need for an internal audit function and concluded that one was not needed given the scale and complexity of the business, but that external assurance may be sought in particular areas identified as higher risk.
- Noted that the accounts for the Group's pension schemes had been audited and no matters raised.
- Reviewed the Group's whistleblowing policy and procedure and introduced improvements to ensure that it continued to meet best practice.

STEPHEN G. YOUNG
CHAIRMAN OF THE AUDIT COMMITTEE

26 FEBRUARY 2015

INDEPENDENT AUDITOR'S REPORT

Independent Auditor's report to the members of Derwent London plc
Report on the financial statements

Our opinion

In our opinion:

- Derwent London plc's Group financial statements and Company financial statements (the 'financial statements') give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2014 and of the Group's profit and the Group's and the Company's cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

What we have audited

Derwent London plc's financial statements comprise:

- the balance sheets as at 31 December 2014;
- the Group income statement and Group statement of comprehensive income for the year then ended;
- the cash flow statements for the year then ended;
- the statements of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union and, as regards the Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Certain required disclosures have been presented elsewhere in the annual report rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

Our audit approach

Materiality

- Overall Group materiality: £42.0m which represents 1% of total assets.
- Specific Group materiality: £2.9m which represents 5% of profit before tax excluding investment property valuation movements and profit on disposal of investment properties. The specific Group materiality has been applied to property and other income, administrative expenses, provisions and working capital balances.

Audit scope

- This is our first audit of Derwent London plc (the 'Group') so the scope included gaining comfort over opening balances.
- The Group audit team carries out the statutory audits of all components within the Group and the consolidation.

Areas of focus

- Valuation of investment properties due to significance and subjectivity.
- Compliance with the REIT guidelines on which the Group's tax status is based due to the consequences of any breach.
- Accounting for borrowings and the associated interest rate swaps, including the conversion of the 2.75% convertible bonds 2016 in January 2015.

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)').

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as 'areas of focus' in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Area of focus	How our audit addressed the area of focus
Valuation of investment properties Refer to pages 114 and 115 (Report of the Audit Committee), pages 138 to 140 (Notes to the financial statements – note 16) and pages 165 to 168 (Significant accounting policies). The Group's investment properties were carried at £4,041.0m as at 31 December 2014 and a revaluation gain of £667.1m was accounted for under revaluation surplus in the Group income statement. In excess of 98% of the value of the Group's investment property portfolio comprises offices and other commercial space within central London. The remainder of the portfolio represents a retail park, cottages and strategic land in Scotland. Valuations are carried out by third party valuers in accordance with The RICS Valuation – Professional Standards and IAS 40. There are significant judgements and estimates to be made in relation to the valuation of the Group's investment properties. Where available, the valuations take into account evidence of market transactions for properties and locations comparable to those of the Group. The central London investment property includes: - Standing investments: These are existing properties that are currently let. They are valued using the income capitalisation method. - Development projects: These are properties currently under development or identified for future development. They have a different risk and investment profile to the standing investments. These are valued using the residual appraisal method (i.e. by estimating the fair value of the completed project using the income capitalisation method less estimated costs to completion and a market based profit margin providing a return on development risk). The most significant judgements and estimates affecting all the valuations include yields and estimated rental value (ERV) growth (as described in note 16 of the financial statements). For development projects, other assumptions including costs to completion and risk premium assumptions are also factored into the valuation. Yields and ERVs have moved favourably reflecting the buoyancy of the central London property market which has driven a significant increase in valuation over the year. The revaluation gain was also boosted by new lettings and significant progress on a number of development projects where further costs have been incurred and the risk weighting applied to the valuation has decreased – hence increasing the capitalised value. The existence of significant estimation uncertainty, coupled with the fact that only a small percentage difference in individual property valuations when aggregated could result in material misstatement, is why we have given specific audit focus and attention to this area.	The external valuers used by the Group are CBRE Limited for the majority of the Group's portfolio. Smiths Gore value a small amount of investment property portfolio in Scotland. We assessed the competence, capabilities and objectivity of the firms and verified their qualifications by discussing the scope of their work and reviewing the terms of their engagements for unusual terms or fee arrangements. Based on this work, we are satisfied that the firms remain independent. We agreed the property information in the valuation by tracing a sample of inputs to the underlying property records held by the Group (which were also tested during the audit). We tested the data inputs underpinning the valuation for a sample of properties, including rental income, acquisitions and capital expenditure, by agreeing them back to supporting documentation. For the properties currently under development, we traced the costs included within development appraisals to quantity surveyor reports. In addition, we visited a number of the key properties in central London that are under development to confirm the status of developments and a selection of assets within the Scottish portfolio. We met with the external valuers both with management and independently of management and obtained the valuation reports to discuss and challenge the methodology and assumptions. We identified the following assets for further testing: ongoing and planned development projects; high value assets over £100m; acquisitions; and standing investments where the valuation fell outside the expected range. In relation to these assets, we found that yield rates and ERVs were predominantly consistent with comparable information for central London offices and assumptions appropriately reflected comparable market information. Where assumptions did not fall within our expected range, we assessed whether additional evidence presented in arriving at the final valuations was appropriate, and, whether this was robustly challenged by the external independent valuers where appropriate. Variances were predominantly due to property specific factors such as new lettings at higher rents or the de-risking of development projects nearing completion. We verified the movements to supporting documentation including evidence of comparable market transactions where appropriate. We challenged the Directors and Audit Committee on the upward movements in the valuations and found that they were able to provide explanations and refer to appropriate supporting evidence.

Area of focus	How our audit addressed the area of focus
Compliance with REIT guidelines Refer to pages 114 and 115 (Report of the Audit Committee) and pages 165 to 168 (Significant accounting policies). The UK REIT regime grants companies tax exempt status provided they meet the rules within the regime. The rules are complex and the tax exempt status has a significant impact on the financial statements. The complexity of the rules creates a risk of inadvertently breaching and the Group's profit becoming subject to tax.	We confirmed our understanding of management's approach to ensuring compliance with the REIT regime rules. We obtained management's calculations and supporting documentation, checking their accuracy by verifying the inputs, calculation and application of the rules. We found that the assessment prepared was free from material error and consistent with the UK REIT guidelines.
Accounting for borrowings and derivatives Refer to pages 114 and 115 (Report of the Audit Committee), pages 145 to 152 (Notes to the financial statements – note 24) and pages 165 to 168 (Significant accounting policies). The Group has secured and unsecured debt totalling £1,019.8m (2013: £953.5m). The debt includes unsecured convertible debt of £308.0m (2013: £302.7m) with an option for the Group to convert the debt when certain criteria have been met. It is the bondholder's decision when the option has been exercised to either convert the bonds to shares or redeem for cash. The Group uses interest rate swaps on a portion of its debt. The interest rate swaps were valued at 31 December 2014 by external valuers and the fair value was £25.2m (2013: £15.9m). The valuation of the swaps is based on market movements which can fluctuate significantly in the year and could have a material impact on the Group financial statements. The valuation also involves judgement and therefore is considered an area of audit focus. On 17 December 2014, the Group exercised its option to redeem its £175m 2.75% convertible bonds 2016 on 30 January 2015 at their principal amount together with any accrued interest. As at 31 December 2014, no bondholder had indicated whether it would redeem its Bonds or elect to exercise its alternative to convert to shares. Subsequent to year end, all bondholders have elected to convert their debt to shares. This was the Group's first debt conversion and accounting for convertible debt can be complex, including the need to identify potential embedded derivatives. We therefore made this an area of audit focus.	We obtained and reviewed every loan contract to understand the terms and conditions. Where debt covenants were identified, we reperformed management's calculations to verify compliance with the contracts. The carrying value of all debt was agreed to third party confirmations. As this was our first audit, we checked that the initial recognition and subsequent measurement of debt was in accordance with IAS 39 and we also evaluated the disclosures in the financial statements to confirm that the presentation met the requirements of IAS 32. We obtained the convertible bond documentation to understand each of the clauses and the impact of the exercise of the option to redeem. We obtained management's proposed accounting treatment and were satisfied that it was consistent with the convertible bond documentation and accounting standards. We assessed and agreed the classification of the debt as current due to the conversion in January 2015. For all derivatives, we agreed the carrying value to valuations obtained directly from the third party valuers, JC Rathbone Associates. We assessed the competence and capabilities of the external valuers by considering their qualifications and market experience. We also performed independent valuations to recalculate the value using independent market data. From our work on the terms of the debt arrangements in place as at 31 December 2014, we considered that the borrowings and derivatives were accounted for line with the technical requirements, valued correctly in the context of materiality, and disclosed appropriately.

How we tailored the audit scope

This was our first year audit of the Group so we carried out procedures to gain comfort over opening balances including a review of the predecessor auditor's working papers.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group's properties are spread across 43 statutory entities with the Group financial statements being a consolidation of these entities, the Company and the Group's joint venture. The Group audit team performed all of this work by applying overall Group materiality and specific materiality, together with additional procedures performed on the consolidation. This gave us sufficient appropriate audit evidence for our opinion on the Group financial statements as a whole.

Materiality
The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall Group materiality	£42.0m
How we determined it	1% of total assets
Specific materiality	£2.9m
How we determined it	5% of profit before tax excluding investment property valuation movements and profit on disposal of investment properties.
Rationale for benchmark applied	The key driver of the business and determinant of the Group's value is direct property investments. Due to this, the key area of focus in the audit is the valuation of investment properties. On this basis, we set an overall Group materiality level based on total assets. In addition, a number of key performance indicators of the Group are driven by income statement items and we therefore also applied a lower specific materiality to test property and other income, administrative expenses, provisions and working capital balances.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £2.0m as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern
Under the Listing Rules we are required to review the Directors' statement, set out on page 89, in relation to going concern. We have nothing to report having performed our review.

As noted in the Directors' statement, the Directors have concluded that it is appropriate to prepare the financial statements using the going concern basis of accounting. The going concern basis presumes that the Group and Company have adequate resources to remain in operation, and that the Directors intend them to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate.

However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's and Company's ability to continue as a going concern.

INDEPENDENT AUDITOR'S REPORT
CONTINUED

Other required reporting
Consistency of other information
Companies Act 2006 opinion

In our opinion, the information given in the strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

ISAs (UK & Ireland) reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:	
■ Information in the annual report is: – materially inconsistent with the information in the audited financial statements; or – apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group and Company acquired in the course of performing our audit; or – otherwise misleading.	We have no exceptions to report arising from this responsibility.
■ the statement given by the Directors on page 87, in accordance with provision C.1.1 of the UK Corporate Governance Code ('the Code'), that they consider the annual report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's and Company's performance, business model and strategy is materially inconsistent with our knowledge of the Group and Company acquired in the course of performing our audit.	We have no exceptions to report arising from this responsibility.
■ the section of the annual report on pages 114 and 115, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.	We have no exceptions to report arising from this responsibility.

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration
Directors' remuneration report – Companies Act 2006 opinion

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Other Companies Act 2006 reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made, and under the Listing Rules we are required to review certain elements of the report to shareholders by the Board on Directors' remuneration. We have no exceptions to report arising from these responsibilities.

Corporate governance statement

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the Company's compliance with ten provisions of the UK Corporate Governance Code. We have nothing to report having performed our review.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' responsibilities set out on page 81, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

This includes an assessment of:

- whether the accounting policies are appropriate to the Group's and the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

CRAIG HUGHES
(SENIOR STATUTORY AUDITOR)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

26 FEBRUARY 2015