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 Remuneration Policy Report will be put to a binding shareholder vote at the 2014 AGM on 16 May 2014 and, subject to receiving shareholder support, will have an effective date from that point and the Committee intends for it to endure for a period of three years. However, in practice, policy will be applied to the current financial year and throughout the three year policy period that commences from the effective date.

The annual report on remuneration will be put to an advisory vote at the 2014 AGM on 16 May 2014.

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 that 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 executives 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 99 and the application of policy for 2014 on pages 100 to 109.

Director remuneration 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 (effective from 1 January 2014) detailed in note 1 below 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 positioning, 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.	In 2013, the maximum cost of providing benefits (based on taxable value of the benefits) was 11.3% of salary in total. However, the cost of some of these 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)[3].	None

REPORT OF THE REMUNERATION COMMITTEE
CONTINUED

Director remuneration policy table (continued)

	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. In 2013 this resulted in a maximum contribution of 21%. 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 Central London Office IPD TPR 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.

	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.

Director remuneration policy table (continued)

	Purpose and link to strategy	How operated	Maximum opportunity	Performance metrics
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
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)[2] 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

[1] The basic salaries effective from 1 January 2014 are John Burns £601,500, Simon Silver £516,000, Nigel George £383,000, Paul Williams £383,000, Damian Wisniewski £383,000, David Silverman £383,000.

[2] The fees effective from 1 January 2014 are Chairman £150,000 (additional benefits are provided as detailed on page 97), base fee £40,000, Committee Chairman fee £5,500, Senior Independent Director fee £5,500, Committee fee £3,750.

[3] 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 per annum.

Operation of the annual bonus plan and LTIP policy

The Committee will operate the annual bonus plan and PSP in accordance with their respective rules and in accordance with the Listing Rules 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 prior years' report of the Remuneration Committee (e.g. bonuses earned in relation to 2013 performance) 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 linked to 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. The move in 2014 to measuring Derwent London's TPR (as opposed to NAV growth) against the TPR of the IPD Central London Offices Index ensures the Group's performance is being assessed on a consistent basis and is, therefore, considered to result in an improved performance condition. 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.

Chairman and non-executive Directors

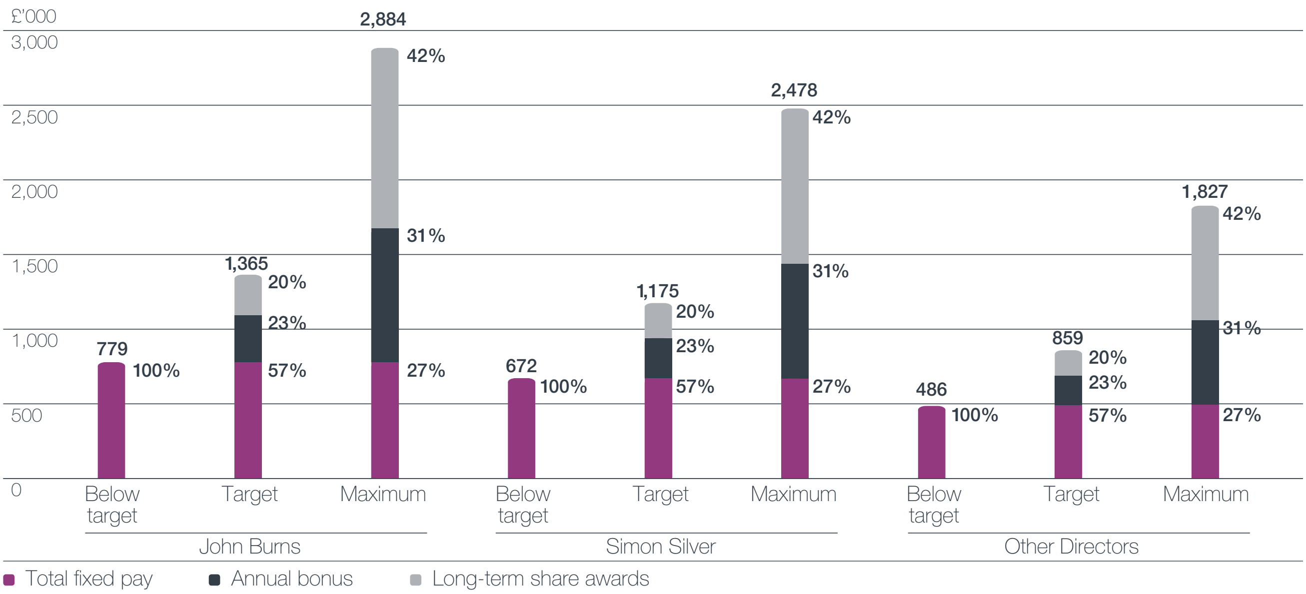
Neither the Chairman nor non-executive Directors are eligible for pension scheme membership and do not participate in the Company's bonus or equity-based incentive schemes although the Chairman has a number of unexercised options granted under the historical LMS Executive Share Option Scheme, details 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: Robert Farnes, 31 December 2014; Stuart Corbyn, 23 May 2015; Simon Fraser, 31 August 2015; June de Moller, 31 January 2016; Stephen Young, 31 July 2016 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.

REPORT OF THE REMUNERATION COMMITTEE
CONTINUED

Remuneration scenarios for executive Directors

The Committee aims to provide a significant part of the Directors' total remuneration through variable pay and the following diagram illustrates the remuneration opportunity provided to the Directors by the new remuneration structure at minimum, target and maximum levels of performance.



Assumptions:
Below target = fixed pay only (base salary, benefits and pension).
On-target = 35% of annual bonus payable and 22.5% vesting of the LTIP awards.
Maximum = 100% of annual bonus payable and full vesting of LTIP awards.
Salary based on those applying on 1 January 2014.
Benefits value is based on the cost of supplying those benefits (using the annualised value of benefits in 31 December 2013 as a proxy).
Pension value set at 20% of the salary.
Amounts have been rounded to the nearest £1,000.
Share price growth on vesting has been ignored.
Other Directors are: Damian Wisniewski, Paul Williams, Nigel George and David Silverman, whose salary, annual bonus and LTIP arrangements for 2014 are identical.

Existing service contracts and compensation for loss of office

The service contracts of John Burns and Simon Silver are dated 20 May 1997 whilst those of Nigel George and Paul Williams are dated 31 March 1999 and that of David Silverman 2 January 2008. These contracts have no stated termination date but require 12 months' notice of termination by the Company or six months' notice by the executive. They include a provision whereby the Company will pay, by way of liquidated damages, a cash amount equivalent to 12 months' salary, benefits in kind and a pension contribution or salary supplement of at least 20% of basic salary. No defined contractual entitlement to compensation arises from a change of control of the Company. Damian Wisniewski's service contract is dated 2 February 2010. In addition to terms similar to those of the other Directors, his contract includes certain post termination restrictions and a mitigation clause. Under this mitigation clause, instead of paying the liquidated damages provision outlined above, the Company can, at its discretion, alternatively make monthly payments throughout the notice period until the executive obtains an alternative employment at which point (except in the event of the Company giving notice following a change of control) monthly payments cease or are reduced depending upon the value of remuneration arising from the alternative role. If this clause is used by the Company, monthly payments would comprise one-twelfth of the total of his annual basic salary, annual pension contribution, annual value of benefits in kind and 20% of his maximum bonus potential.

Outside of the legacy arrangements of the Company's current executive Directors, the Company's policy for new appointments will be for service contracts to be terminable by the Company on one year's notice and to contain a payment in lieu of notice clause providing for monthly phased payments throughout the notice period to include pro-rated salary, benefits and pension only, until alternative employment is found, at which point payments will cease or be reduced accordingly (i.e. payments are subject to mitigation).

New service contracts

As part of the major review of the Directors' remuneration structure, new service contracts have been agreed with the executives. 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. There is no change to the notice periods.

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, for which shareholder approval is being sought at the 2014 AGM, 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.

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.

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 buy out 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.

REPORT OF THE REMUNERATION COMMITTEE
CONTINUED

Annual report on remuneration

Remuneration Committee

At the start of the year, the Remuneration Committee (the Committee) consisted of Stuart Corbyn, Simon Fraser, June de Moller (chairman) and Stephen Young. In July 2013 Simon Fraser took over as chairman of the Committee. 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 determines entitlements under the bonus scheme and the extent of vesting of the conditional share awards and ensure that the measures used for both schemes are comparable and consistent. During 2013 NBS also assisted with the remuneration review and replacement of the PSP. The fees paid to NBS for these services amount to £60,000. NBS did not provide any other services to the Group during the year.

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 2014

Base salaries

The base salaries that are applicable from 1 January 2014, after allowing for a 3% increase with the exception of David Silverman who has been increased by 7.3%, are as follows:

- John Burns – £601,500
- Simon Silver – £516,000
- Damian Wisniewski – £383,000
- Paul Williams – £383,000
- Nigel George – £383,000
- David Silverman – £383,000

The salary increases of 3% are in line with those offered to the wider workforce. The additional increase for David Silverman will position his salary on a consistent level with the other executive Directors and reflects his strong performance and development in the role.

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 increase in bonus potential to the executive Directors from 125% of salary to 150% of salary (other than John Burns and Simon Silver who are currently subject to a 150% of salary maximum) is being proposed at the same time as a broader restructuring of the annual bonus.

The bonus will operate subject to the following metrics:

- 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 Central London Office IPD Index; and
- 25% of bonus will be earned subject to other performance objectives tailored to the delivery of the Group's short-term strategy.

The main change in the metrics is that in the past growth in Derwent London's NAV against the growth in the properties included in the Central London Office IPD Index was used for 37.5% of the bonus. For 2014, Derwent London's TPR will be used against the Index to ensure we are comparing performance on a fully consistent basis (i.e. TPR will now be compared against TPR as opposed to NAV growth). The rebalancing on the weightings also reflects the priority that total return has in terms of the Group's KPIs.

Historically bonuses have started to accrue at the 40th percentile for relative measures of performance (TPR/NAV or total return). From 2014 onwards, the bonus targets will be toughened so that no bonus will be earned below the median/ Index performance level both in terms of TPR and total return. 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 (previously 40%). Full pay-outs are earned, on a straight-line basis for total return from achieving the threshold performance target through to the upper quartile. 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.

As a result, the revised targets can be seen to be materially tougher than the targets operated in prior years which is considered appropriate in light of the revised potential bonus opportunity.

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 first anniversary of the deferral of the bonus and the remaining half released on the second anniversary of the deferral.

Clawback provisions will continue to operate in the event of a misstatement or misconduct for a period of two years from the payment of a bonus.

Long-term incentives

The Committee identified the previous plan at Derwent London to be below a number of the Company's sector peers which is the group against which Derwent competes for the best executive talent. As a result, it is considered necessary to address this issue at the same time as introducing an extended holding period for vesting shares which reflects recent developments in a number of institutional investors' 'best practice' expectations. There is no change to the vesting threshold performance requirements.

Furthermore, while the Committee is sensitive to investors' preferences for continued restraint in quantum, increasing long-term incentives is considered the preferred mechanism to addressing the perceived shortfall against comparator companies since this aspect of remuneration only delivers reward to the extent that long-term shareholder value is created and serves to aid retention. In addition, the Committee believes that enabling executives to increase their shareholding in the Company over time is beneficial to all shareholders. Following consultation with the Group's largest shareholders, the maximum award under the LTIP has been set at 200% of salary. In addition, in response to the feedback received, the proportion of the award vesting at threshold performance, has been set at 22.5% compared with 25% under the current scheme.

In light of the above, it was proposed that long-term incentive awards in 2014 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	–
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 plc
Great Portland Estates plc
Hammerson plc
Intu Properties plc
Land Securities Group 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 performance versus the constituents of the IPD Central London Offices Index with the following vesting profile:

Derwent London's annualised TPR versus the Central London Offices IPD Index tested over three years	Vesting (% of TPR part of award)
Below the Index (median)	–
At the Index	22.5
Index +2.5% p.a.	75
Index +5% p.a.	100
Straight-line vesting occurs between these points	

Historically, Derwent London's NAV growth was compared against the performance of the properties in the IPD Central London Offices Index portfolio. To improve comparability, as detailed above for annual bonus purposes, Derwent London's NAV growth is being replaced with Derwent London's TPR to ensure performance is being measured on a like-for-like basis.

Performance periods will run over financial years. At the same time as increasing long-term incentive opportunity, as noted above, the Committee is to take account of recent developments in 'best practice' and require a minimum holding period to be observed on vested share awards. 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.

In addition, clawback provisions will also apply that enable the Committee to reclaim excess vesting in the event of a misstatement of financial results or misconduct for a period of two years from the award vesting.

Directors' remuneration summary

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

Table 1

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 £'000	Total £'000
Executive								
J.D. Burns	584	51	115	584	248	1,582	906	2,488
S.P. Silver	501	35	99	501	213	1,349	778	2,127
D.M.A. Wisniewski	372	20	74	372	93	931	480	1,411
N.Q. George	372	16	77	372	70	907	494	1,401
P.M. Williams	372	20	79	372	93	936	494	1,430
D.G. Silverman	357	19	72	357	67	872	423	1,295
Non-executive								
R.A. Rayne	150	30	–	–	–	180	–	180
J.C. Ivey	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	18	–	–	–	–	18	–	18
	3,055	**191**	**516**	**2,558**	**784**	**7,104**	**3,575**	**10,679**

The gains from equity-settled shares are in respect of the 2011 award which will vest in April 2014 and for which the performance conditions were complete or substantially complete at 31 December 2013.

2012	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 £'000	Total £'000
Executive								
J.D. Burns	567	50	112	567	160	1,456	1,265[1]	2,721
S.P. Silver	486	35	96	486	137	1,240	1,084[1]	2,324
D.M.A. Wisniewski	361	20	72	361	24	838	651[1]	1,489
N.Q. George	361	16	75	361	24	837	692[1]	1,529
P.M. Williams	361	20	76	361	24	842	692[1]	1,534
D.G. Silverman	335	19	67	335	23	779	568[1]	1,347
Non-executive								
R.A. Rayne	150	32	–	–	–	182	–	182
J.C. Ivey	58	–	–	–	–	58	–	58
S.J. Neathercoat	43	–	–	–	–	43	–	43
R.A. Farnes	55	–	–	–	–	55	–	55
S.A. Corbyn	60	–	–	–	–	60	–	60
J. de Moller	54	–	–	–	–	54	–	54
S.G. Young	56	–	–	–	–	56	–	56
S.W.D. Fraser	15	–	–	–	–	15	–	15
	2,962	192	498	2,471	392	6,515	4,952	11,467

[1] Restated from prior year's figures to accord with BIS regulations.

The gains from equity-settled schemes are in respect of the 2010 award which vested in April 2013 and for which the performance conditions were complete or substantially complete at 31 December 2012.

Simon Fraser joined the Board on 1 September 2012 and Richard Dakin on 1 August 2013. Simon Neathercoat retired from the Board on 31 December 2012 and John Ivey retired on 31 December 2013.

Taxable benefits relates to car and fuel allowance and private medical insurance.

Determination of 2013 annual bonus outcome

Provision has been made for 2013 bonuses of between 95% and 100% (2012: 85%) of the maximum potential.

Performance Measure	Weighting % of bonus	Basis of calculation	Threshold %	Maximum %	Actual %	% payable
Growth in NAV	37.5	Relative to IPD Central London Offices Total Return Index	13.6	18.6	20.0	37.5
Total return	37.5	Total return of major real estate companies	12.7	21.6	21.9	37.5

In addition, 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;
- rent collection and the level of arrears;
- delivery of projects both in terms of timing and costs;
- health and safety performance; and
- staff retention.

The total bonus estimated for each executive Director is therefore:

	Bonus payable			Deferred bonus	
	% of maximum	% of salary	Cash bonus payable	£	% of salary
J.D. Burns	95	143	584,000	248,200	43
S.P. Silver	95	143	501,000	212,925	43
D.M.A. Wisniewski	100	125	372,000	93,000	25
N.Q. George	95	119	372,000	69,750	19
P.M. Williams	100	125	372,000	93,000	25
D.G. Silverman	95	119	357,000	66,938	19

Vesting of the deferred bonus is not subject to any performance measure other than continued employment.

Performance share plan

Half the awards granted in 2011 were subject to a relative TSR performance measure and half subject to a growth in net asset value. 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 bonus	Basis of calculation	Threshold %	Maximum %	Actual %	% vesting/ estimated vesting
Growth in NAV	50	Relative to IPD Central London Offices Total Return Index	42.8	62.7	53.6	33.3
Total shareholder return (TSR)	50	TSR of major real estate companies	63.9	141.0	73.0	21.9

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 2011 awards with measurement periods ending in 2013, this was the case.

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

	Number of awards vesting	Value of award on vesting[1] £
J.D. Burns	32,325	906,070
S.P. Silver	27,743	777,636
D.M.A. Wisniewski	17,115	479,733
N.Q. George	17,640	494,449
P.M. Williams	17,640	494,449
D.G. Silverman	15,100	423,253

[1] Based on the share price on February 25, 2014 and the vesting percentage of 55.2%.

Awards made during the year

On 8 April 2013 the Committee made a PSP award 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	175	21.20	48,200	1,021,840	25
S.P. Silver	Nil-cost option	175	21.20	41,350	876,620	25
D.M.A. Wisniewski	Nil-cost option	150	21.20	26,320	557,984	25
N.Q. George	Nil-cost option	150	21.20	26,320	557,984	25
P.M. Williams	Nil-cost option	150	21.20	26,320	557,984	25
D.G. Silverman	Nil-cost option	150	21.20	25,250	535,300	25

If threshold performance is not achieved, none of the award will vest.

The outstanding PSP 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	C.J. Odom	N.Q. George	P.M. Williams	D.G. Silverman	D.M.A. Wisniewski	Employees	Total
8.25	15/04/2012	106,000	90,150	57,250	54,500	54,500	42,700	–	23,000	428,100
13.66	01/04/2013	67,250	57,650	–	36,780	36,780	30,190	34,590	14,640	277,880
16.43	01/04/2014	58,550	50,250	–	31,950	31,950	27,350	31,000	12,750	243,800
Interest as at 1 January 2012		231,800	198,050	57,250	123,230	123,230	100,240	65,590	50,390	949,780
Shares conditionally awarded during the year:										
Market price at award date £	Earliest vesting date									
17.19	12/04/2015	57,720	49,475	–	31,500	31,500	29,230	31,500	12,620	243,545
Shares vested or lapsed during the year:										
Market price at award date £	Market price at date of vesting £									
8.25	17.57	(53,000)	(45,075)	(19,083)	(27,250)	(27,250)	(21,350)	–	(11,500)	(204,508)
8.25	Lapsed	(53,000)	(45,075)	(38,167)	(27,250)	(27,250)	(21,350)	–	(11,500)	(223,592)
Interest as at 31 December 2012		183,520	157,375	–	100,230	100,230	86,770	97,090	40,010	765,225
Shares conditionally awarded during the year:										
Market price at award date £	Earliest vesting date									
21.20	08/04/2016	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**

	31 December 2013	31 December 2012	1 January 2012
Weighted average exercise price of PSP awards	–	–	–
Weighted average remaining contracted life of PSP awards	1.21 years	1.21 years	1.08 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 2013 was £nil (2012: £nil). The weighted average market price at the date of vesting in 2013 was £22.44 (2012: £17.57).

For all awards granted under the PSP:

– 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 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.

The TSR comparator group consists of a defined group of real estate companies. The comparator group for 2013 comprises the following: Big Yellow Group plc, The British Land Company plc, Capital & Regional plc, Capital & Counties plc, Great Portland Estates plc, Hammerson plc, Intu Properties plc, Land Securities Group plc, Quintain Estates and Development plc, St Modwen Properties plc, Segro plc, Shaftesbury plc and Workspace Group plc. 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.

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 outperforming the median performing property by 5% per annum.

Share option schemes
Details of the options held by Directors and employees under the Group's 1997 Executive Share Option Scheme at 31 December 2013 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 14.

Table 3

Exercise price £	Date from which exercisable	Expiry date	D.G. Silverman	Employees	Total
10.71	26/04/2008	25/04/2015	–	7,000	7,000
13.63	08/06/2009	07/06/2016	6,750	4,500	11,250
Outstanding at 1 January 2012			6,750	11,500	18,250
No options were granted or lapsed in 2012					
Options exercised during 2012					
Exercise price £	Market price at date of exercise £				
13.63	17.57		–	(7,000)	(7,000)
10.71	19.70		(6,750)	–	(6,750)
			(6,750)	(7,000)	(13,750)
Outstanding at 31 December 2012			–	4,500	4,500
No options were granted or lapsed in 2013					
Options exercised during 2103					
Exercise price £	Market price at date of exercise £				
13.63	24.89		–	(4,500)	(4,500)
			–	(4,500)	(4,500)
Outstanding at 31 December 2013			**–**	**–**	**–**

The weighted average exercise price of options exercised in 2013 was £13.63 (2012: £12.14) and the weighted average market price at the date of exercise was £24.89 (2012: £18.65).

	31 December 2013	31 December 2012	1 January 2012
Number of exercisable share options	–	4,500	18,250
Weighted average exercise price of exercisable share options	–	£13.63	£12.51
Weighted average remaining contracted life of exercisable share options	–	3.44 years	4.01 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 is subject to a 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. All outstanding options have met this criterion.

Following the acquisition of LMS, 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
7.54	29/08/2013	65,615
9.92	01/09/2014	50,274
12.03	28/06/2015	41,456
Outstanding at 1 January 2012		157,345

No options were granted, or lapsed in 2012

Options exercised during 2012

Exercise price £	Market price at date of exercise £	
7.54	17.79	(65,615)
Outstanding at 31 December 2012		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**

The weighted average exercise price of options exercised during 2013 was £9.92 (2012: £7.54) and the weighted average market price at the date of exercise £22.81 (2012: £17.79).

In respect of the options outstanding at 31 December 2013 in table 4 the weighted average exercise price was £11.23 (2012: £10.87) and the weighted average remaining contracted life is 1.2 years (2012: 2.0 years).

The market price of the 5p ordinary shares at 31 December 2013 was £24.95 (2012: £21.06). During the year, they traded in a range between £21.20 and £25.74 (2012: £15.35 and £21.50).

R.A. Rayne made a gain of £322,000 (2012: £672,000) on the options exercised during the year.

REPORT OF THE REMUNERATION COMMITTEE CONTINUED

Deferred bonus shares

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

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 2012		9,883	8,471	1,631	1,892	1,892	1,553	25,322
Deferred in 2012:								
Date of deferment	Value per share on deferment							
29.03.12	£17.37	11,082	9,510	2,447	2,519	2,519	2,159	30,236
Vested in 2012:								
Date of vesting	Value per share on vesting							
02.04.12	£17.31	(4,942)	(4,236)	(816)	(946)	(946)	(777)	(12,663)
Interest at 31 December 2012		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**

Directors' interests in shares and shareholding guideline

Details of the Directors' interests in shares and shareholding guidelines are as follows.

Table 6

	£'000			Number of shares			
	2014 salary	Shareholding guideline	Value of beneficially held shares[1]	Beneficially held	Deferred	Conditional	Total
J.D. Burns	601	1,202	22,151	790,272	12,990	164,470	967,732
S.P. Silver	516	645	9,883	352,576	11,140	141,075	504,791
D.M.A. Wisniewski	383	479	387	13,794	2,365	88,820	104,979
P.M. Williams	383	479	1,098	39,180	2,401	89,770	131,351
N.Q. George	383	479	1,042	37,179	2,401	89,770	129,350
D.G. Silverman	383	479	437	15,585	2,139	81,830	99,554

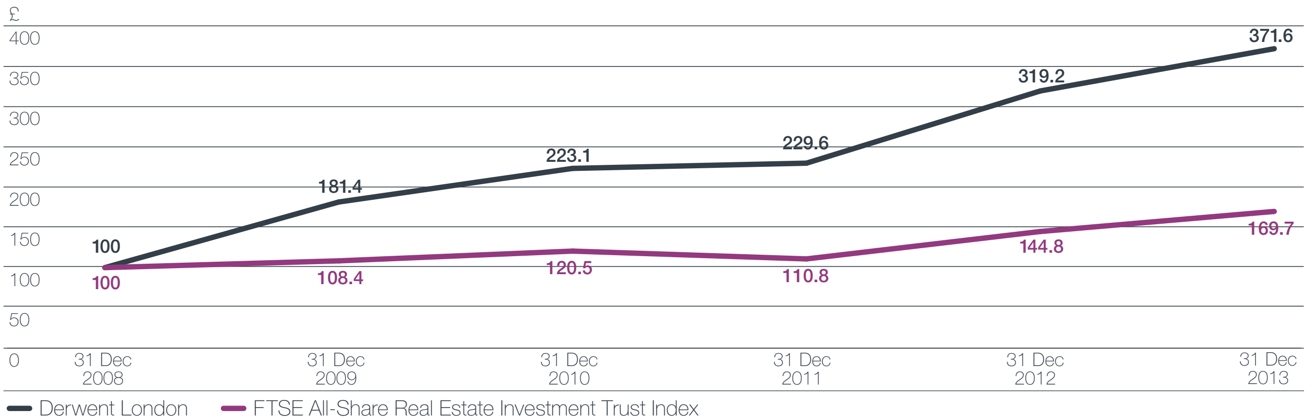
[1] Valued at £28.03 the value of a 5p ordinary share in the Company on 25 February 2014.

Details of non-executive Directors shareholdings are given on page 82.

Performance graph

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

Total shareholder return



Source: Thomson Reuters

This graph shows the value, by 31 December 2013, 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 – 2013

Year ended	Executive	Total remuneration £'000	Annual bonus % of max	LTIP vesting % of max
31/12/13	John Burns	2,488	95.0%	55.2%
31/12/12	John Burns	2,721	90.0%	83.8%
31/12/11	John Burns	2,387	87.5%	50.0%
31/12/10	John Burns	2,060	62.5%	50.0%
31/12/09	John Burns	1,251	25.6%	47.6%
31/12/08	John Burns	951	25.6%	36.5%

Percentage increase in elements of the remuneration of the Chief Executive Officer

	2013 £'000	2012 £'000	% change
Chief Executive			
Salary	584.0	567.0	3.00
Benefits	176.9	169.7	4.24
Bonus	832.2	726.4	14.56
Average employee			
Salary	55.2	52.7	4.74
Benefits	10.4	10.2	2.00
Bonus	17.1	12.5	36.8

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

Relative importance of the spend on pay

	2013 £m	2012 £m	% change
Staff costs	21.3	19.9	7.0
Distributions to shareholders	35.2	32.5	8.3
Net asset value	2,304	1,860	23.8

Statement of shareholder voting

At the Company's 2013 AGM, the report of the Remuneration Committee received the following votes from shareholders:

2013 AGM	m	%
Votes cast in favour	75.9	96.8
Votes cast against	2.5	3.2
Total votes cast	78.4	–
Votes withheld	5.2	–

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

27 FEBRUARY 2014