





2

GOVERNANCE

BOARD OF DIRECTORS AND SENIOR MANAGEMENT	80
DIRECTORS' REPORT	86
REMUNERATION COMMITTEE	95
NOMINATIONS COMMITTEE	113
RISK COMMITTEE	114
AUDIT COMMITTEE	115
INDEPENDENT AUDITOR'S REPORT	118

At Derwent London, we have always appreciated the importance of setting the tone from the top and have strived to promote a collegiate, honest and open culture throughout the business.

9.5%
Dividend per
share growth

23.0%
Total return

BOARD OF DIRECTORS



1. ROBERT A. RAYNE, 67 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, 71 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, 54 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, 65 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, 55 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, 52 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, 46 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, 71 NON-EXECUTIVE 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 past president of the British Property Federation and former chairman of Pollen Estate Trustee Company.

Other current appointments: Non-executive Chairman of Get Living London.
Committees: Nominations, Audit, Remuneration.



9. RICHARD D.C. DAKIN, 52
NON-EXECUTIVE DIRECTOR

Appointed to the Board: 2013.
Skills and expertise: Richard has been Managing Director of Capital Advisors Limited, part of CBRE since 2014. Previously, he had been 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: Fellow of the Royal Institution of Chartered Surveyors and an Associate Member of Corporate Treasurers.

Committees: Risk (chairman), Audit, Nominations.



10. CLAUDIA I. ARNEY, 45
NON-EXECUTIVE DIRECTOR

Appointed to the Board: 2015.
Skills and expertise: Claudia was Group Managing Director of Emap until 2010. Prior to that she held senior roles at HM Treasury, Goldman Sachs and the Financial Times.

Other current appointments: Chair of the Remuneration Committee of Halfords PLC, a non-executive Director of the Premier League and Aviva plc and on the Advisory Board of the Shareholder Executive.
Committees: Remuneration and Audit.

11. CILLA D. SNOWBALL, 57
NON-EXECUTIVE DIRECTOR

Appointed to the Board: 2015.
Skills and expertise: Cilla is Group Chairman and Group CEO at AMV BBDO and a past Chairman of the Advertising Association.
Other current appointments: Director BBDO Worldwide, Comic Relief Trustee and member of the Women's Business Council.
Committees: Nomination and Risk.

12. SIMON W.D. FRASER, 52
SENIOR INDEPENDENT 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.

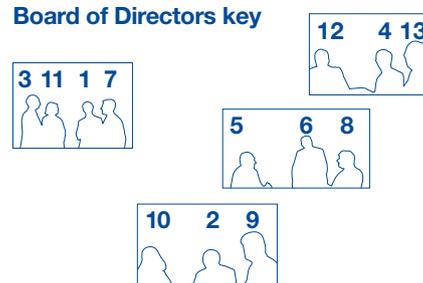
Committees: Remuneration (chairman), Audit, Nominations (chairman).

13. STEPHEN G. YOUNG, 60
NON-EXECUTIVE DIRECTOR

Appointed to the Board: 2010.
Skills and expertise: Stephen is a chartered management accountant and Chief Executive of Meggitt PLC. Previously 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: None.
Committees: Audit (chairman), Risk, Remuneration.

Board of Directors key



SENIOR MANAGEMENT



EXECUTIVE COMMITTEE

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

1. CELINE THOMPSON
HEAD OF LEASING
2. RICHARD BALDWIN
HEAD OF DEVELOPMENT
3. SIMON TAYLOR
HEAD OF ASSET MANAGEMENT
4. TIM KITE
COMPANY SECRETARY

Executive Committee key



SENIOR MANAGEMENT

1. DAVID WESTGATE
HEAD OF TAX
2. JOHN DAVIES
HEAD OF SUSTAINABILITY
3. KATY LEVINE
HEAD OF HUMAN RESOURCES
4. MARK MURRAY
HEAD OF INFORMATION TECHNOLOGY
5. QUENTIN FREEMAN
HEAD OF INVESTOR AND CORPORATE COMMUNICATIONS
6. RICK MEAKIN
GROUP FINANCIAL CONTROLLER



Senior management team key



STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report, the Annual Report on remuneration and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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 and the Group and enable them to ensure that the financial statements and the Annual Report on remuneration comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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 a company's position and performance, business model and strategy.

Each of the Directors, whose names and functions are listed on pages 80 and 81 confirm that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

On behalf of the board.

JOHN D. BURNS,
CHIEF EXECUTIVE OFFICER

DAMIAN M.A. WISNIEWSKI,
FINANCE DIRECTOR

25 FEBRUARY 2016



White Collar Factory EC1

CHAIRMAN'S LETTER ON CORPORATE GOVERNANCE

Dear Shareholder,

On behalf of the Board I am again pleased to introduce the Group's Corporate Governance report.

In terms of regulation, the Company is subject to the provisions of the UK Corporate Governance Code (the 'Code'), which was last updated in September 2014, and I am pleased to report that the Company has applied the main and supporting principles of the Code, and has complied with all provisions. The Company's position regarding the independence of Stuart Corbyn, is discussed on page 86.

However, in addition to the regulations represented by the Code, it is increasingly being questioned whether compliance with the Code is sufficient to ensure a viable and sustainable business. This revised perspective, nearly 25 years after the introduction of the original Cadbury Report, is demonstrated by the Culture Project launched by the Financial Reporting Council (FRC) last October, and signifies a greater emphasis being placed on the culture of a company. This is referred to in the preface to the Code but recent studies have emphasised its importance in underpinning a company's behaviour and also stressed that, to be truly embedded, it must be set by the Board.

At Derwent London, we have always appreciated the importance of setting the tone from the top and have strived to promote a collegiate, honest and open culture throughout the business. This is supported by the Group's Whistleblowing policy. The importance of our culture has become increasingly evident over the last year as we have formalised the Group's Risk Appetite Statement, reviewed the Group's Bribery Act procedures and considered the requirements under the new Modern Slavery Act. In all these instances the successful implementation of the new processes depends at least as much on the culture established throughout the business by the Board as the detailed procedures that are introduced.

Within this overall context, there are a number of governance issues that I would like to provide further details on.

Risk

One of the key risks to the Group's strategy that was identified last year and which has been carefully monitored by the Risk Committee during 2015 is cyber risk. This takes many different forms and has been the subject of guidance issued by the UK Government. The Group has adopted a three pronged approach to reduce the risk. The first was to improve the resilience of the IT infrastructure and to enhance the forensic capabilities of the business which will allow an attack to be identified and remedied more quickly. Secondly, staff awareness training has been increased with particular emphasis on 'social engineering' techniques. Finally, the Group's Business Continuity Plan was updated and fully tested at the disaster recovery suite.

Whilst in no way becoming complacent, these improvements to the controls and mitigating actions resulted in the Executive Committee lowering its assessment of this risk during its review of the Risk Register at the end of the year.

New legislation

The Modern Slavery Act 2015 came into force in October 2015. Whilst we do not have to report under this legislation in respect of this year end, we have completed an initial review of the requirements and carried out a risk assessment. As a result of this we have identified the high risk area of our business and supply chain and inserted compliance clauses into the contracts of our higher risk suppliers. During 2016 it is intended to prepare a formal policy dealing with slavery and human trafficking and to roll out a programme of staff training.

Future developments

Over the last few years I have commented on the volume of changes to the corporate governance environment and the introduction of the Modern Slavery Act shows that change is still happening. However, in January 2016 the FRC announced that it does not intend to make substantial changes to the Code for the next three years. Subject to changes arising from the EU Audit Regulation and Directive, this period of relative stability is to be welcomed.

As always, I would encourage you to attend the Group's Annual General Meeting on 13 May 2016. This important event gives you the opportunity to meet both the chairmen of the Board committees and members of senior management.

ROBERT A. RAYNE
CHAIRMAN

25 FEBRUARY 2016

DIRECTORS' REPORT



TIMOTHY KITE
COMPANY SECRETARY

The Directors present their annual report and audited financial statements for the year ended 31 December 2015.

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 Strategic Report earlier in this report.

The Board

At the end of the year the Board consisted of:

Seven non-executive Directors:

Robert Rayne	Chairman
Stuart Corbyn ¹	
Stephen Young	
Simon Fraser	Senior Independent Director
Richard Dakin	
Claudia Arney	
Cilla Snowball	

Six executive Directors:

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

¹ Stuart Corbyn was the Group's Senior Independent Director until 31 December 2015.

As noted in the Chairman's letter on Corporate Governance above, Stuart Corbyn is not deemed independent under the criteria set out in provision B.1.1. of the Code having served on the Board for more than nine years.

Whilst the Board, together with a number of institutional investors, does not consider length of service alone to be an accurate guide to a Director's independence, in view of Stuart's tenure it has specifically considered his independence.

As part of its review, the Board noted that Stuart had no relationships with management that might compromise his independence and that he had demonstrated commitment and diligence in carrying out his duties during the year. Given these factors, together with the robust challenge that he consistently presented to the executives and the manner with which he exercised his judgement, the Board was satisfied that Stuart maintained an independent state of mind.

However, despite this conclusion, in the interest of good governance, Stuart has stepped down from his positions as the Group's Senior Independent Director and Chairman of the Nomination Committee on 31 December 2015. In both of these roles he has been replaced by Simon Fraser.

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 constructively test the views of the executive Directors.

A key element of this monitoring process relates to the diversity of the Board having due regard to the requirements of the UK Corporate Governance Code and the requests made by Lord Davies of Abersoch through the Department for Business, Innovation & Skills. Whilst the Board does not consider quotas to be an appropriate determinant of its composition, it notes Lord Davies' original 25% target for women's representation on boards and the progress made towards this as set out in the 'Women on Boards – Five year summary' paper published in October 2015. The Board's policy in this regard is to avoid positive discrimination and continue to make appointments based purely on merit with the aim of ensuring that the Board has the correct balance of skills, experience, length of service and knowledge of the Group to meet the requirements of the business.

The appointments of Claudia Arney and Cilla Snowball during 2015 met last year's aim of the Nomination Committee to recruit an additional female director but, more importantly, the skills and experience that they bring to the Board enhance its diversity on a much broader basis.

The Board currently includes two females (15%) and the gender mix throughout the Group is illustrated in the diagrams on page 70.

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 Nominations Committee also considers the Group's succession planning on a regular basis to ensure that changes to the Board are properly planned and co-ordinated and that, in the event of unforeseen circumstances, the Group would be able to continue to deliver its long-term strategy.

The development of the executive management team below the Board is also monitored to ensure that there is an appropriate and diverse supply of senior executives and potential future Board members.

Responsibilities

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 2016. 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	6	–
Stuart Corbyn	6	–
Richard Dakin	6	–
June de Moller	5	–
Robert Farnes (until 30 June 2015)	2	–
Simon Fraser	6	–
Stephen Young	6	–
Claudia Arney (from 18 May 2015)	4	–
Cilla Snowball (from 1 Sept 2015)	2	–

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.

Board Committees

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 2015.

Remuneration Committee

Membership and attendance:

Simon Fraser	Chairman	•	•	•	•
Stuart Corbyn		•	•	•	•
June de Moller	(until Dec 2015)	•	•	•	0
Stephen Young		•	•	•	•
Claudia Arney	(from May 2015)	–	–	–	•

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 2015 and the report of its activities is set out on pages 96 to 112.

Nominations Committee

Membership and attendance:

Stuart Corbyn	Chairman (until Dec 2015)	•	•
June de Moller	(until Dec 2015)	•	•
Simon Fraser	Chairman (from Jan 2016)	•	•
Richard Dakin		•	•
Cilla Snowball	(from Sept 2015)	–	–

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 twice during 2015 and the report of the Nominations Committee is on page 113.

Risk Committee

Membership and attendance:

Richard Dakin	Chairman	•	•	•
June de Moller	(until Dec 2015)	•	•	•
Stephen Young		•	•	•
John Burns		•	•	•
Damian Wisniewski		•	•	•
Cilla Snowball	(from Jan 2016)	–	–	–

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 114.

Audit Committee

Membership and attendance:

Stephen Young	Chairman	•	•	•	•
Stuart Corbyn		•	•	•	•
Richard Dakin		•	•	•	•
Simon Fraser		•	•	•	•
Claudia Arney	(from Jan 2016)	–	–	–	–

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 2015 and the report of the Audit Committee is on pages 116 and 117.

- – attended
- 0 – not attended

DIRECTORS' REPORT

CONTINUED

Performance evaluation

The Company again used Lintstock, an independent third party, to facilitate the annual review of the effectiveness of the Board and its Committees required by Code provision B.6.2.

As a result of last year's review, measures were taken during 2015 to make the Group's board papers more focused. This has enabled the Directors to identify and address the key issues more easily.

The responses also showed that the work undertaken by the Risk Committee on the Group's risk management process had improved performance in this area.

This year's 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, its Committees and the Chairman. In view of the new Directors who joined the Board during the year, particular focus was given to the Group's induction process. The performance of individual Directors was assessed by the Remuneration Committee as part of the salary review process.

The facilitator consolidated the responses and prepared reports for the Chairman as well as the chairmen of the relevant Committees.

As a result of this evaluation, the Board is satisfied that the structure, balance 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 Annual General Meeting (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

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 Company's next AGM 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 an employment or executive office for such period and on such terms as they may determine and may also revoke or terminate any such appointment.

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 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 will retire and, being eligible, offer themselves for re-election. Biographies of all the Directors are given on pages 80 and 81.

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;
- 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.

The Company provides new Directors with a comprehensive induction process which includes visiting a number of the Group's properties with senior management, meetings with the Group's audit partner and corporate lawyer together with meetings with members of the management team.

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 25 February 2016.

During the year, a conditional grant of 157,505 shares was made to Directors under the Performance Share Plan (PSP) whilst 115,463 shares vested to the Directors from an earlier conditional award at a zero exercise price. The remaining 115,462 shares of this award made to Directors lapsed.

The Directors do not participate in the Executive Share Option Scheme.

Other than as disclosed in note 36 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, through presentations and 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 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 Annual Report, which is available to all shareholders, reinforces this communication.

The AGM provides an opportunity for shareholders to question the Directors and, in particular, the Chairman of each of the Board Committees. An alternative channel of communication to the Board is available to shareholders through the Senior Independent Director.

Directors' interests in the Company's share capital

	Ordinary shares of 5p each		Options and deferred shares	
	31 Dec 15	31 Dec 14	31 Dec 15	31 Dec 14
R.A. Rayne ¹	4,194,703	4,409,295	–	–
J.D. Burns	694,498	738,244	139,545	163,203
S.P. Silver	239,887	294,887	119,717	139,963
N.Q. George	47,550	47,550	82,855	89,222
P.M. Williams	44,551	44,551	83,286	90,084
D.G. Silverman	16,469	16,469	81,733	85,737
D.M.A. Wisniewski	21,781	21,781	83,286	90,084
S.A. Corbyn	1,000	1,000	–	–
R.D.C. Dakin	–	–	–	–
J. de Moller (retired Dec 2015)	n/a	2,985	–	–
R.A. Farnes (retired May 2015)	n/a	5,628	–	–
S.W.D. Fraser	–	–	–	–
S.G. Young	1,000	1,000	–	–
C.I. Arney (appointed May 2015)	–	n/a	–	n/a
P.D. Snowball (appointed Sept 2015)	–	n/a	–	n/a

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

DIRECTORS' REPORT CONTINUED

Risk management and internal control

The principal risks and uncertainties facing the Group in 2016 together with the controls and mitigating factors are set out on pages 72 to 77. The Board has carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. Details of the price, credit, liquidity and cash flow risks that are inherent in the Group's business are given in note 23 on pages 148 to 155. 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 which forms part of the risk management process; and
- a formal Whistleblowing Policy which includes access to an external help line.

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.

This review did not reveal any significant weaknesses in the Group's system of controls.

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 position and performance, business model and strategy.

Share capital

As at February 2016, 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 26 to the financial statements.

Derwent London shares held by the Group

At 31 December 2015 the Group held 44,803 Derwent London shares in order to deliver the deferred bonus shares to the Directors and other senior executives 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 2014	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	27.34	794,555
Maximum holding during 2014 and holding as at 31 December 2014	38,223	0.037		625,557
Disposal on 26 March 2015	(23,693)	(0.021)	34.65	(820,962)
Acquired on 26 March 2015	30,273	0.027	34.65	1,048,959
Maximum holding during 2015 and holding as at 31 December 2015	44,803	0.043		853,554

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.
- 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).
- 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 2015 AGM to allot relevant securities up to a nominal amount of £1,844,402. 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 £1,852,868 and (ii) up to a nominal amount of £3,705,736 (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 £555,860. 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 11,117,210 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 89, the Company has been notified of the following interests in the issued ordinary share capital as at 25 February 2016.

	Number of shares	Percentage of issued share capital
Blackrock Investment Management (UK) Ltd	6,906,835	6.21
Norges Bank	5,547,762	4.99
Invesco Inc	5,242,406	4.72
Standard Life Investments	4,284,390	3.85
Lady Jane Rayne	3,593,838	3.23

DIRECTORS' REPORT CONTINUED

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 2015, resulting in a surplus of £672.2m, before accounting adjustments of £20.8m. The freehold and leasehold properties are included in the Group balance sheet at a carrying value of £4,832m. Further details are given in note 16 of the financial statements.

Additional information

For the purposes of Listing Rule (LR) 9.8.4C R, the information required to be disclosed by LR 9.8.4 R can be found in the following locations:

Section in LR 9.8.4 R	Topic	Location in the annual report and accounts
1	Interest capitalised	Note 7 Page 134
2	Publication of unaudited financial information	n/a
3	Requirement subsequently deleted from the listing rules	–
4	Details of long-term incentive schemes	Page 108
5	Waiver of emoluments by a director	n/a
6	Waiver of future emoluments by a director	n/a
7	Non pre-emptive issues of equity for cash	n/a
8	Item (7) in relation to major subsidiary undertakings	n/a
9	Parent participation in a placing by a listed subsidiary	n/a
10	Contracts of significance	Page 92
11	Provision of services by a controlling shareholder	n/a
12	Shareholder waivers of dividends	n/a
13	Shareholder waivers of future dividends	n/a
14	Agreements with controlling shareholders	n/a

Post balance sheet events

Details of post balance sheet events are given in note 34 of the financial statements.

Going concern

Under Provision C.1.3 of the UK Corporate Governance Code, the Board is required 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 Group's risks and risk management processes are set out on pages 72 to 77 where the key risks in the Group's Risk Register that could be a threat to the Group's business model and capital adequacy together with the Group's Viability Statement are also presented.

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 until at least 25 February 2017. 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 auditor is 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

PricewaterhouseCoopers LLP, which was appointed in 2014 following a competitive tender process, has expressed its willingness to continue in office as the Group's auditor and accordingly, resolutions to reappoint it and to authorise the Directors to determine its remuneration will be proposed at the AGM. These are resolutions 17 and 18 set out in the notice of meeting.

Our carbon footprint

We present below our annual GHG (greenhouse gas) emissions footprint for 2015 compared to our 2014 footprint. We also include a set of intensity ratios appropriate for our business, both of which fulfil the requirements of the Companies Act 2006 (Strategic and Directors' Report Regulations 2013).

We have seen reductions in our corporate carbon generation by 1.38% and overall CO₂e/m² intensity reduction of 11%.

For further analysis and detail on our GHG emissions please see our Annual Sustainability Report, which can be found at www.derwentlondon.com/sustainability.

Total managed portfolio including corporate based emissions

			Whole year (Q1-4)		
			Years		
			2015	% change 2014 to 2015	2014
Scope 1	Energy-use	Gas (total building)	2,700	17.6	2,295
		Oil (total building)	48	(38.7)	78
	Travel	Fuel use in Derwent London company cars for business travel	11	(40.4)	19
	Fugitive emissions	Refrigerant emissions	427	(44.9)	774
Scope 2	Energy-use	Electricity use – generation (landlord-controlled areas and Derwent London occupied floor area)	5,406	(2.2)	5,527
Scope 3	Energy-use	Electricity use – WTT Generated Scope 3 Indirect GHG (landlord-controlled areas and Derwent London occupied floor area)	806	(4.3)	842
		Electricity use – T&D Direct & WTT T&D Indirect (landlord-controlled areas and Derwent London occupied floor area)	513	(7.9)	557
		Gas (total building)	363	17.9	308
		Oil (total building)	10	(38.3)	16
	Travel	Fuel use in Derwent London company cars for business travel WTT	2	(41.3)	4
		Business air travel WTT	3	(46.0)	5
		Business air travel	23	(43.7)	41
Water	Water use (total building)	55	19.4	46	
Total (Landlord only)	All	All	10,367	(1.38)	10,512
Out of scope	Energy-use	Biomass use (total building)	31	18.8	26
Tenant emissions Scope 1 + 2 + 3			15,562	8.7	14,316

Intensity

tCO ₂ e/£m turnover (Scopes 1 and 2 only, including Scope 1 fugitive emissions)	56.53	(10.0)	62.81
Intensity (tCO ₂ e/m ²) including Scope 1 fugitive emissions	0.025	(11.0)	0.028

Data notes

Reporting period	1 January 2015 to 31 December 2015
Baseline year	2014
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. 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. The percentage movements are calculated using the figures before rounding.
Reporting method	The Greenhouse Gas (GHG) Protocol Corporate Accounting and Reporting Standard.
Emissions factor source	DEFRA, 2015 – www.ukconversionfactorscarbonsmart.co.uk .
Independent assurance	Public limited assurance (using ISAE 3000) provided by Deloitte LLP over all Scope 1, 2 and 3 GHG emissions data.
Data changes and restatements	No data changes or restatements in 2014.

DIRECTORS' REPORT CONTINUED

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 19 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 £1,852,868 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 £3,705,736, 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 13 August 2017.

Resolution 20 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 £555,860 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 19 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 13 August 2017.

Resolution 21 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 13 August 2017.

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 21, 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 25 February 2016 was 893,190 which represented 0.8% 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 25 February 2016 would represent 1.0% of the issued share capital (excluding treasury shares).

Resolution 22 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

25 FEBRUARY 2016

LETTER FROM THE CHAIRMAN OF THE REMUNERATION COMMITTEE



SIMON FRASER
CHAIRMAN OF THE REMUNERATION COMMITTEE

Dear Shareholder,

I am pleased to present the report of the Remuneration Committee for the year ended 31 December 2015.

The Group's objective remains to be to deliver above average long-term returns to shareholders. In order to deliver this through the successful operation of our business model we need to recruit, retain and motivate the best people. At a senior level, the Remuneration Committee is responsible for this and aims to achieve it by implementing and maintaining a remuneration structure that meets this requirement and promotes long-term sustainable performance whilst ensuring that the structure does not create incentives for management to operate outside the Group's risk appetite.

Our remuneration policy supports the Group's objective by linking a majority of variable pay to targets which require outperformance of our competitors. Payments under these arrangements only begin to be made if we achieve at least average performance against the relevant peer group.

The Committee has considered the long-term aspects of the remuneration structure and is satisfied that the deferral part of the annual bonus, additional holding periods for vested Long-term Incentive Plan (LTIP) awards, clawback provisions and shareholding guidelines adequately promote long-term, sustainable performance.

Performance and reward in 2015

The Group's strong results for 2015 are discussed in the Strategic Report and include a 21.6% increase in EPRA net asset value per share and a total return of 23.0%. Both these KPIs are measures of performance used in assessing the level of performance related pay for the Directors. To ensure that remuneration reflects a balanced performance, a scorecard of additional metrics are taken into account by the Committee when considering the non-financial element of the Group's annual bonus scheme. Taking all these measures into account resulted in a bonus entitlement of 74.2% of entitlement being earned.

Conditional awards made in 2013 under the Group's 2004 Performance Share Scheme (PSP) will vest in April 2016. These awards were subject to two performance conditions each over 50% of the award. The first element was based on total shareholder return (TSR) performance compared with that of a group of other real estate companies. This measure will be finalised in April 2016 and was estimated at the year end. The second part was based on net asset value growth compared to properties in the IPD Central London Offices Total Return Index and was measured to 31 December 2015. The combined assessment of the two performance measures as at 25 February 2016 was that 65% of the total award was expected to vest. The final vesting percentage will be ascertained in April 2016.

The Committee believes that the outturn of both the annual bonus and the PSP fairly represents the Group's performance over their respective performance periods.

Implementation of remuneration policy for 2016

The Committee reviewed the executive Directors' salaries in December 2015 and agreed a basic increase of 3% for 2016. This increase is in line with the average salary increase across the rest of the Group and reflects another year of excellent performance by the management team as demonstrated by the achievements discussed in the Strategic Report.

During 2016 the Committee will make a conditional award of shares under the Group's PSP equivalent in value to 200% of the Directors' 2016 salary and confirm that the maximum entitlement under the Group's annual bonus scheme will be 150% of salary for 2016, both unchanged from 2015.

As a Committee we are committed to ensuring that rewards for executives are aligned with the interests of shareholders and other stakeholders through having all their incentive arrangements linked to stretching performance targets that are rigorously applied. These targets focus the management team on increasing net asset value and total return whilst also having regard to a number of non-financial and sustainability targets.

The current remuneration policy was approved by shareholders in 2014 and the Committee is aware that since then the executive remuneration landscape has continued to evolve and that in particular there has been a move towards simplifying structures.

The Committee has reviewed the existing policy in the light of these changes and remains confident that it continues to meet its objectives. Consequently, no changes are proposed to the remuneration policy and therefore the Committee will not be seeking any new approval for the Directors' Remuneration Policy Report at the forthcoming AGM on 13 May 2016.

SIMON W.D. FRASER
CHAIRMAN OF THE REMUNERATION COMMITTEE

25 FEBRUARY 2016

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 2014 UK Corporate Governance Code 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 re-presented, 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 in the approved policy) 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 2016 AGM on 13 May 2016.

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 the level of business risk that the remuneration structure encourages the executives to accept.

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 opposite 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 promotion policy on page 102 and the application of policy for 2016 on pages 103 to 112.

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.	<p>Reviewed annually, with effect from 1 January. Review reflects:</p> <ul style="list-style-type: none"> ■ Role, experience and performance. ■ Economic conditions. ■ Increases throughout the rest of the business. ■ Levels in companies with similar characteristics. <p>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.</p>	<p>The current salary levels are detailed in the Annual Report on Remuneration on page 105 and will be eligible for increases during the period that the Directors' remuneration policy operates.</p> <p>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).</p> <p>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.</p> <p>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.</p>	A broad assessment of personal and corporate performance is considered as part of the salary review.
Benefits	<p>To provide a market competitive benefits package to help recruit and retain high calibre executives.</p> <p>Medical benefits to help minimise disruption to business.</p>	<p>Directors are entitled to private medical insurance, car and fuel allowance and life assurance.</p> <p>The Committee may provide other employee benefits to executive Directors on broadly similar terms to the wider workforce.</p>	<p>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</p>	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.

REPORT OF THE REMUNERATION COMMITTEE

CONTINUED

Executive Director 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. The continuation of these arrangements for existing employees means that their maximum pension will be up to 21% of salary.	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: <ul style="list-style-type: none"> ■ 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). <p>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.</p> <p>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.</p> <p>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.</p> <p>Details of the bonus structure operating each year will be provided in the relevant annual report on remuneration.</p>

	Purpose and link to strategy	How operated	Maximum opportunity	Performance metrics
Long-term incentive plan	<p>To align the long-term interests of the Directors with those of the Group's shareholders.</p> <p>To incentivise value creation over the long-term.</p> <p>To aid retention.</p>	<p>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.</p> <p>A further holding period of two years is required on the after tax number of vested shares.</p> <p>Dividends may be payable on vested shares.</p> <p>Clawback provisions apply in the event of misstatement or misconduct.</p> <p>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.</p>	Annual award limit: up to 200% of salary.	<p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>
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.	<p>John Burns – 200% of salary.</p> <p>Other executive Directors – 125% of salary.</p> <p>Non-executive Directors – No guideline.</p>	None.

REPORT OF THE REMUNERATION COMMITTEE

CONTINUED

Executive Director policy table (continued)

	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.	<p>The remuneration for the Chairman is set by the full Board.</p> <p>The remuneration for non-executive Directors, is also set by the whole Board.</p> <p>Periodic fee reviews will set a base fee and, where relevant, fees for additional services such as chairing a Board Committee.</p> <p>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.</p>	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 on pages 98 and 99).
- 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).
- 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 108 and 110 will remain eligible to vest based on their original award terms. In addition, all arrangements previously disclosed in the 2014 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 operates both option and bonus schemes for 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 in 2013/2014, 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 were 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

REPORT OF THE REMUNERATION COMMITTEE

CONTINUED

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 the award will vest when he/she 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.

The non-executive Directors listed below do not have service contracts but are appointed for three year terms which expire as follows:

Stephen Young	31 July 2016
Richard Dakin	31 July 2016
Claudia Arney	31 May 2018
Simon Fraser	31 August 2018
Cilla Snowball	31 August 2018

Stuart Corbyn's appointment was extended for one year to expire on 23 May 2016.

Mr Rayne has a letter of appointment, which runs for three years, expiring on 25 March 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	<p>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.</p> <p>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.</p>
Benefits	<p>Benefits as provided to current executive Directors.</p> <p>The Committee may pay relevant relocation and legal expenses in order to facilitate a recruitment.</p>
Pension	A defined contribution or cash supplement at the level provided to current executive Directors.
Annual bonus	<p>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.</p> <p>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.</p>
Long-term incentives	<p>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.</p> <p>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.</p>
Buy-out awards	<p>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.</p>

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

At the start of 2015, the Remuneration Committee (the 'Committee') consisted of Simon Fraser (Chairman), Stuart Corbyn, June de Moller and Stephen Young. Claudia Arney joined the Committee in May 2015 and June de Moller left it in December 2015. 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 under the PSP 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 £16,500. 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 2016

Base salaries

The base salaries that are applicable from 1 January 2016, after allowing for a 3% increase are as follows:

- John Burns – £638,000
- Simon Silver – £547,500
- Damian Wisniewski – £406,500
- Paul Williams – £406,500
- Nigel George – £406,500
- David Silverman – £406,500

The salary increases of 3% are in line with those of 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.
- 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 first anniversary of the deferral and the remaining half released on the second 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 2016 will be granted at 200% of salary to all executive Directors.

REPORT OF THE REMUNERATION COMMITTEE

CONTINUED

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 for the 2016 award are:

Big Yellow Group plc	Intu Properties plc
The British Land Company plc	Land Securities plc
Capital & Regional plc	St Modwen Properties plc
Capital & Counties Properties plc	Segro plc
Great Portland Estates plc	Shaftesbury plc
Hammerson 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 Directors' fees

The fees effective from 1 January 2016 are: Chairman £150,000 (additional benefits are provided as detailed on page 102); base fee £42,500; Committee Chairman fee £7,500; Senior Independent Director fee £5,500; and Committee fee £4,000.

Directors' remuneration summary (audited)

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

Table 1

2015	Salary and fees £'000	Benefits in kind £'000	Pension and life assurance £'000	Bonus		Sub total £'000	Gains from equity-settled schemes ¹ £'000	Total £'000
				Cash £'000	Deferred £'000			
Executive								
J.D. Burns	619	63	142	620	70	1,514	1,161	2,675
S.P. Silver	531	40	135	532	60	1,298	996	2,294
D.M.A. Wisniewski	395	22	87	394	45	943	634	1,577
N.Q. George	395	19	92	394	45	945	634	1,579
P.M. Williams	395	21	91	394	45	946	634	1,580
D.G. Silverman	395	20	87	394	45	941	608	1,549
Non-executive								
R.A. Rayne	150	42	–	–	–	192	–	192
S.A. Corbyn	67	–	–	–	–	67	–	67
J. de Moller	54	–	–	–	–	54	–	54
S.G. Young	62	–	–	–	–	62	–	62
S.W.D. Fraser	62	–	–	–	–	62	–	62
R.A. Farnes ²	21	–	–	–	–	21	–	21
R.D.C. Dakin	62	–	–	–	–	62	–	62
C.I. Arney ³	27	–	–	–	–	27	–	27
P.D. Snowball ⁴	15	–	–	–	–	15	–	15
	3,250	227	634	2,728	310	7,149	4,667	11,816

¹ The gains from equity-settled shares are in respect of the 2013 award which will vest in April 2016 and for which the performance conditions were complete or substantially complete at 31 December 2015. The value is based on an estimate of expected vesting and the average share price over the last three months of 2015 of £37.05. As at 23 February 2016, the share price was £29.57.

² Robert Farnes retired from the Board in May 2015.

³ Claudia Arney joined the Board in May 2015.

⁴ Cilla Snowball joined the Board in September 2015.

2014	Salary and fees £'000	Benefits in kind £'000	Pension and life assurance £'000	Bonus		Sub total £'000	Gains from equity-settled schemes ¹ £'000	Total £'000
				Cash £'000	Deferred £'000			
Executive								
J.D. Burns	602	53	139	602	234	1,630	1,018	2,648
S.P. Silver	516	37	131	516	201	1,401	873	2,274
D.M.A. Wisniewski	383	21	85	383	149	1,021	555	1,576
N.Q. George	383	18	90	383	149	1,023	555	1,578
P.M. Williams	383	21	89	383	149	1,025	555	1,580
D.G. Silverman	383	20	85	383	149	1,020	516	1,536
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	5,268	12,877

¹ The value of gains from equity settled schemes presented in last year's report was based on an estimate of vesting and the average share price over the last three months of 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.

REPORT OF THE REMUNERATION COMMITTEE

CONTINUED

No payments were made to past Directors or in respect of loss of office during 2015 or 2014.

Benefits

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

Determination of 2015 annual bonus outcome

Provision has been made for a bonus for 2015 of 74.2% (2014: 92.6%) 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	20.6	25.4	23.0	30.0
Total property return	25.0	Relative to IPD Central London Offices Total Return Index	17.2	22.2	19.9	19.2

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 72 to 77.

- **Design**

This is key to maintaining and developing the Group's brand.

The total bonus estimated for each executive is therefore:

	Bonus payable		Cash bonus payable	Deferred bonus	
	% of maximum	% of salary		£	% of salary
J.D. Burns	74.2	111.3	619,500	70,189	11.3
S.P. Silver	74.2	111.3	531,500	60,219	11.3
D.M.A. Wisniewski	74.2	111.3	394,500	44,697	11.3
N.Q. George	74.2	111.3	394,500	44,697	11.3
P.M. Williams	74.2	111.3	394,500	44,697	11.3
D.G. Silverman	74.2	111.3	394,500	44,697	11.3

Long-term incentive plan

Half the awards granted in 2013 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	65.4	80.4	87.4	50.0
Total shareholder return	50	TSR of major real estate companies	45.9	103.6	49.8	15.0

As required by the scheme rules, before allowing any vesting, the Committee considered whether these performance measures reflected the Group's 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 2013 awards with measurement periods ending in 2015, 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	31,330	1,160,777
S.P. Silver	26,877	995,793
D.M.A. Wisniewski	17,108	633,851
N.Q. George	17,108	633,851
P.M. Williams	17,108	633,851
D.G. Silverman	16,412	608,065

¹ Based on the average share price over the last three months of the financial year of £37.05 and the estimated vesting percentage of 65.0%.

On 30 March 2015 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	200	34.65	35,750	1,238,738	22.5%
S.P. Silver	200	34.65	30,675	1,062,889	22.5%
D.M.A. Wisniewski	200	34.65	22,770	788,981	22.5%
N.Q. George	200	34.65	22,770	788,981	22.5%
P.M. Williams	200	34.65	22,770	788,981	22.5%
D.G. Silverman	200	34.65	22,770	788,981	22.5%

If threshold performance is not achieved over the three-year performance period, none of the award will vest. The performance conditions are described in more detail on page 103.

REPORT OF THE REMUNERATION COMMITTEE

CONTINUED

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
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
21.20	08/04/16	48,200	41,350	26,320	26,320	25,250	26,320	10,560	204,320
Interest as at 1 January 2014		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 2014:

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

Shares conditionally awarded on 30 March 2015:

Market price at award date £	Earliest vesting date								
34.65	30/03/18	35,750	30,675	22,770	22,770	22,770	22,770	10,280	167,785
34.65	22/05/18	–	–	–	–	–	–	20,510	20,510

Shares vested or lapsed during 2015:

Market price at award date £	Market price at date of vesting £								
17.19	35.27	(28,860)	(24,738)	(15,750)	(15,750)	(14,615)	(15,750)	(6,310)	(121,773)
17.19	Lapsed	(28,860)	(24,737)	(15,750)	(15,750)	(14,615)	(15,750)	(6,310)	(121,772)
Interest as at 31 December 2015		128,305	110,075	77,335	77,335	76,265	77,335	54,095	600,745

	31 December 2015	31 December 2014	1 January 2014
Weighted average exercise price of PSP awards	–	–	–
Weighted average remaining contracted life of PSP awards	1.29 years	1.26 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 2015 was £nil (2014: £nil). The weighted average market price of awards vesting in 2015 was £35.27 (2014: £27.26).

Awards made in 2013 and previous years were made under the Group's 2004 PSP whilst those made subsequently 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
- for awards granted up to 2013, half of the shares vest based on NAV performance compared to properties in the IPD Central London Offices Total Return Index;
- for awards granted from 2014, half of the shares vest based on TPR performance compared to the 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 2015 comprises the following – 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, 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 awards granted up to 2013 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. For awards granted in 2014 and beyond median performance results in 22.5% of the award subject to the TPR 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

Disclosure relating to a share option scheme in which the Directors do not participate is given in note 13 on page 136.

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 are given in table 3 below:

Table 3

Exercise price £	Expiry date	R.A. Rayne
9.92	01/09/14	25,274
12.03	28/06/15	41,456
Interest as at 1 January 2014		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)
Interest as at 31 December 2014		–
No options were granted, exercised or lapsed in 2015		
Interest as at 31 December 2015		–

R.A. Rayne made a gain of £nil on options exercised during the year (2014: £1,196,000).

The weighted average exercise price of options exercised during 2015 was £nil (2014: £11.23) and the weighted average market price at the date of exercise £nil (2014: £29.16).

REPORT OF THE REMUNERATION COMMITTEE

CONTINUED

Deferred bonus shares

Details of the deferred bonus shares held by the Directors are given in table 4.

Table 4

		J.D. Burns	S.P. Silver	N.Q. George	P.M. Williams	D.G. Silverman	D.M.A. Wisniewski	Total	
Interest as at 1 January 2014		12,990	11,140	2,401	2,401	2,139	2,365	33,436	
Deferred in 2014									
	Date of deferment	Value per share on deferment £							
	25/03/14	26.97	9,203	7,895	2,586	3,448	2,482	3,448	29,062
Vested in 2014									
	Date of vesting	Value per share on vesting £							
	02/04/14	27.34	(5,541)	(4,755)	(1,260)	(1,260)	(1,080)	(1,224)	(15,120)
	02/04/14	27.34	(3,724)	(3,192)	(570)	(570)	(529)	(570)	(9,155)
Interest at 31 December 2014			12,928	11,088	3,157	4,019	3,012	4,019	38,223
Deferred in 2015									
	Date of deferment	Value per share on deferment £							
	25/03/15	35.27	6,639	5,695	4,227	4,227	4,227	4,227	29,242
Vested in 2015									
	Date of vesting	Value per share on vesting £							
	26/03/15	34.65	(3,725)	(3,193)	(571)	(571)	(530)	(571)	(9,161)
	26/03/15	34.65	(4,602)	(3,948)	(1,293)	(1,724)	(1,241)	(1,724)	(14,532)
Interest at 31 December 2015			11,240	9,642	5,520	5,951	5,468	5,951	43,772

The market price of the 5p ordinary shares at 31 December 2015 was £36.72 (2014: £30.18). During the year, they traded in a range between £30.02 and £38.80 (2014: £24.58 and £30.73).

Directors' interests in shares and shareholding guideline

Details of the Directors' interests in shares and shareholding guidelines are given in table 5.

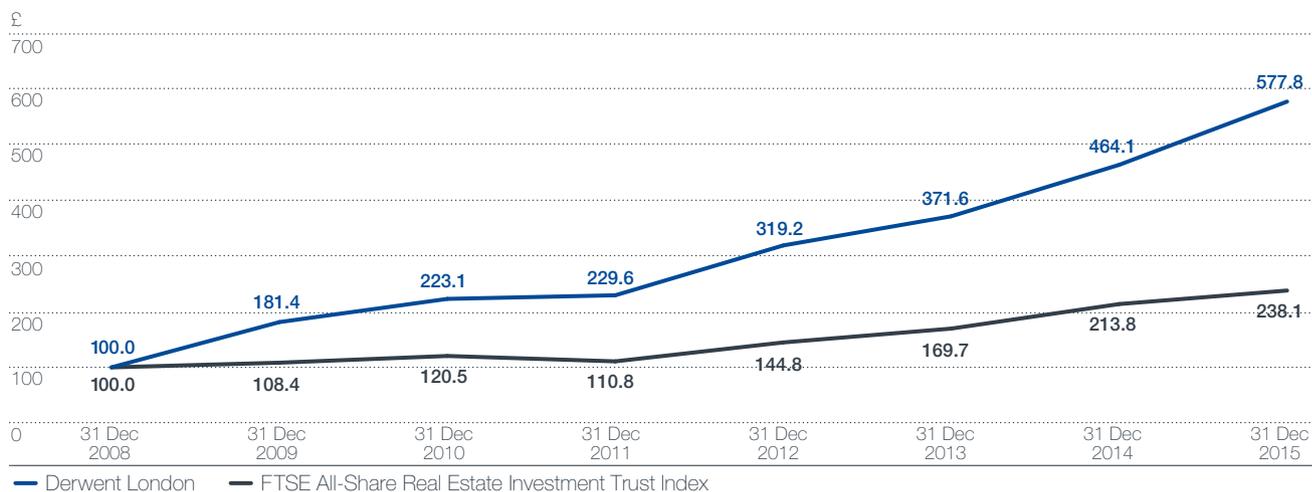
Table 5

	£'000			Number of shares			Total
	2016 salary	Shareholding guideline	Value of beneficially held shares ¹	Beneficially held	Deferred	Conditional	
J.D. Burns	638	1,276	20,536	694,498	11,240	128,305	834,043
S.P. Silver	547	684	7,093	239,887	9,642	110,075	359,604
D.M.A. Wisniewski	406	508	644	21,781	5,951	77,335	105,067
P.M. Williams	406	508	1,317	44,551	5,951	77,335	127,837
N.Q. George	406	508	1,406	47,550	5,520	77,335	130,405
D.G. Silverman	406	508	487	16,469	5,468	76,265	98,202

¹ Valued at £29.57, the value of a 5p ordinary share in the Company on 23 February 2016.

Details of non-executive Directors shareholdings are given on page 89.

Total shareholder return



Source: Thomson Reuters.

This graph shows the value, by 31 December 2015, 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 – 2015

Year Ending	Executive	Total remuneration £'000	Annual bonus (% of max)	LTIP vesting (% of max)
31/12/15	J.D. Burns	2,675	74.2%	65.0% ¹
31/12/14	J.D. Burns	2,648	92.6%	50.0%
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

	2015	2014	% change
Chief Executive (£'000)			
Salary	619.5	601.5	3.0
Benefits	205.2	192.2	6.8
Bonus	690.0	835.7	(17.4)
Average employee (£'000)			
Salary	66.8	63.4	5.4
Benefits	13.6	13.8	(1.4)
Bonus	23.0	18.6	23.6

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

	2015	2014	% change
Staff costs (£m)	24.0	22.4	7.1
Distributions to shareholders (£m)	45.0	38.4	17.2
Net asset value ¹ (£m)	3,923	3,012	30.2

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 2015 AGM, the report of the Remuneration Committee received the following votes from shareholders:

2014 AGM	Annual report on remuneration	
	m	%
Votes cast in favour	84.3	99.5
Votes cast against	0.4	0.5
Total votes cast	84.7	–
Votes withheld	0.6	–

The Directors' remuneration policy was not voted on at the 2015 AGM.

The disclosures on Directors' remuneration in tables 1 to 5 on pages 105 to 110 have 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

25 FEBRUARY 2016

LETTER FROM THE CHAIRMAN OF THE NOMINATIONS COMMITTEE



SIMON FRASER
CHAIRMAN OF THE NOMINATIONS COMMITTEE

Dear Shareholder,

I am pleased to present the Committee's report for 2015.

During the year, the Committee's main activity was the recruitment of two non-executive Directors. This brought into focus a number of the Committee's key responsibilities relating to the maintenance of a stable and appropriately constituted Board. The first was to identify the skills that the new non-executives would need to possess for the Board to retain both the necessary skills and the required level and breadth of knowledge.

The second matter to consider was the diversity of the Board. The Committee had previously made a commitment to appoint at least one additional female director to the Board by 2015. Fulfilling this undertaking whilst preserving the Board's policy of only recruiting on merit was largely dependent on the candidates put forward by the executive search agency. In this instance the Committee appointed Spencer Stuart who subscribe to the Voluntary Code of Conduct for Executive Search Firms and they were instructed accordingly. Spencer Stuart has no other connection with the Company.

Once the new non-executives had been identified, the final matter to consider was their induction to the Company and its culture. Together with the Company's executives, the Committee arranged a comprehensive process that included meetings with the Group's auditor and corporate lawyer as well as visits to some of the Group's properties with members of staff. It is rewarding to note that in the latest Board and Committee appraisal exercise, the recruitment process was judged to have achieved its objectives.

Looking to next year, we expect the performance of Nominations Committees to receive more attention from the FRC following the publication of its discussion paper on UK Board Succession Planning and the launch of its Culture Project, both in October 2015. Guidance arising from these two projects is expected to be issued during 2016.

SIMON W.D. FRASER
CHAIRMAN OF THE NOMINATIONS COMMITTEE

25 FEBRUARY 2016

REPORT OF THE NOMINATIONS COMMITTEE

At the start of the year the Committee consisted of June de Moller, Simon Fraser and Richard Dakin under the chairmanship of Stuart Corbyn. Cilla Snowball joined the Committee in September 2015 and June de Moller stepped down at the end of the year. In January 2016, Simon Fraser took over chairmanship of the Committee. All members are considered independent by the Company having no day-to-day involvement with the Company.

Rules 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 twice in 2015.

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.
- Completed the recruitment of two non-executive Directors.
- Arranged a comprehensive induction process for the new non-executive Directors.
- Considered whether the Committee's recruitment procedure was adequate given the gender diversity matters raised in the UK Corporate Governance Code and by Lord Davies.
- Reviewed the Group's succession planning for executive and non-executive Directors and senior management.
- Reviewed the terms of reference for the Committee.
- Considered the results of the annual appraisal of the Committee's performance.

SIMON W.D. FRASER
CHAIRMAN OF THE NOMINATIONS COMMITTEE

25 FEBRUARY 2016

LETTER FROM THE CHAIRMAN OF THE RISK COMMITTEE



RICHARD DAKIN
CHAIRMAN OF THE RISK COMMITTEE

Dear Shareholder,

I am pleased to present the report of the Risk Committee for 2015.

Conditions in our central London market remained strong throughout 2015 and the political uncertainty caused by the pending UK general election that I mentioned last year was resolved. However, in terms of political risk, this has been replaced by the uncertainty now being created by the Brexit referendum and this, together with a number of external global factors, has caused the overall risk level to increase over the year. The nature of these external factors which include, amongst others, terrorism, a hard landing for the Chinese economy and cyber-attacks, means that we expect this level of risk to persist for at least the next year.

The Committee's work during the year was concentrated on two areas. The first of these was cyber security and the second was the Group's business continuity plan. At the start of the year an external firm of consultants produced a review of the Group's exposure to cyber security risk. This included a roadmap towards further improving our resilience to this type of risk. A timetable was agreed with the IT department for the implementation of these improvements and the Committee was kept informed of progress. At the year end, all of the key enhancements were in hand.

The update of the Group's business continuity plan was again facilitated by a third party. The exercise was initiated by a full business interruption assessment which formed the basis for the updated plan and the recovery times included therein. In November the plan was subject to a full live test which included successfully switching the Group's IT systems over to the back-up suite.

These risks are likely to remain at the top of the agenda through 2016 but in the first half of the year the Committee will be reviewing the internal reporting that is being introduced in response to the new monitoring requirements of the UK Corporate Governance Code following the 2014 update.

RICHARD D.C. DAKIN
CHAIRMAN OF THE RISK COMMITTEE

25 FEBRUARY 2016

REPORT OF THE RISK COMMITTEE

The Committee was chaired by Richard Dakin and served by Stephen Young, June de Moller, John Burns and Damian Wisniewski throughout 2015. At the end of the year, June de Moller retired and Cilla Snowball joined the Committee.

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 twice during the year and considered the top ten risks at each meeting.
- Received presentations from senior management concerning the controls over certain parts of the business or specific risks. The areas of focus were determined by the review of the top ten risks and key presentations covered cyber risk and cost control. The latter was considered particularly important by the Committee due to the level of capital expenditure planned for the next few years on the Group's development pipeline.
- Considered the operation of the Group's risk management process and non-financial internal controls.
- Oversaw the development and testing of the Group's Business Continuity Plan.
- Considered a report from the Group's legal advisers concerning potential regulatory risks over the next 12 months.
- Regularly reviewed the Group's quarterly register of hospitality and gifts maintained under the Group's Bribery Act procedures.
- Reviewed the Group's register of potential conflicts of interest.
- Received training on the objectives and operation of Risk Committees in the light of the recent FRC guidance.
- Reviewed the Committee's terms of reference.
- Considered the content of the annual appraisal of the Committee's performance.

RICHARD D.C. DAKIN
CHAIRMAN OF THE RISK COMMITTEE

25 FEBRUARY 2016

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 ended 31 December 2015.

One of the Committee's key roles is to provide the Board with assurance that the financial statements give a true and fair view of the Group's financial affairs. This requires the Committee to consider a range of matters which evolve as changes are made to the UK Corporate Governance Code or as best practice develops. This year has seen two additions to the requirements.

First, this year the Committee has been required to consider and conclude on the Group's disclosure regarding the monitoring of its risk management and internal controls system. This requirement originated from the 2014 update of the Code and necessitated the Group implementing a number of additional procedures. One of these was to identify a number of key risk indicators which will be regularly reported upon and facilitate better continuous monitoring of the operation of the key controls.

The second new requirement originated from the same review of the Code and was adopted early by the Group last year. This involved publishing a viability statement. In forming its advice to the Board on this statement, the Committee has again reviewed the assumptions underlying this statement but also took into account the comments made by external advisers on last year's disclosure.

Long standing items for the Committee to review are the significant issues and areas of judgement which have the potential to have a material impact on the financial statements. Details of the Committee's work in this area can be found on page 116.

Finally, following their appointment in 2014, PricewaterhouseCoopers have now completed two audits of the Group. The Committee has carried out its assessment of the effectiveness of the audit as required by provision C.3.8 of the Code and concluded that they have again delivered a focused, challenging and high quality audit. Based on this review and that of PwC's independence, the Committee has recommended to the Board that the external auditor is reappointed for the year ending 31 December 2016.

STEPHEN G. YOUNG
CHAIRMAN OF THE AUDIT COMMITTEE

25 FEBRUARY 2016

REPORT OF THE AUDIT COMMITTEE

Membership

Throughout 2015, the Committee consisted of Stuart Corbyn, Simon Fraser and Richard Dakin under the chairmanship of Stephen Young. Claudia Arney joined the Committee in January 2016. All committee members are considered independent by the Board, having no day-to-day involvement with the Company and, with the exception of Stuart Corbyn, not having been with the Company for more than nine years. The Board's position regarding Stuart is discussed on page 85. Due to his position as Managing Director of Capital Advisors Limited, a wholly owned subsidiary of CBRE Limited, Richard Dakin does not take part in the Committee's considerations regarding the valuation of the Group's property portfolio.

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 annual report and accounts to consider whether, taken as a whole, they were fair, balanced and understandable and whether they provided the information necessary for shareholders to assess the Company's position and performance, business model and strategy and advised the Board accordingly.
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 other reports 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 and carry out their own independent tests.
These procedures enabled the Committee to be satisfied with the assumptions and judgements used in the valuation of the Group's property portfolio.
- Revenue recognition
Review recognition is a presumed significant risk under International Standards on Auditing (UK and Ireland) and the Committee identified that the recognition of profit arising from a transaction where profit is conditional on future performance could represent a transaction with elevated risk. The Committee sought explanations from management for both the treatment and assumptions adopted and was satisfied with the answers given. The Committee also discussed these with the auditor who concurred with the treatment.
Taking all factors into consideration, the Committee was satisfied with management's approach, estimates and presentation.
- Management override of internal control
In the absence of an internal audit function, the Committee looks for external assurance on the operation of controls over certain parts of 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 approach.

- **Taxation and REIT compliance**
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.
- **Borrowings and derivatives**
This was considered an area of elevated risk due to the conversion of the Group's 2.75% convertible bonds 2016 in January 2015. The Committee sought assurance from management regarding the accounting treatment of the conversion and was advised that the Group's corporate lawyers had advised both on the initial structure of the convertible bonds and the effect on the Group's reserves at the time of conversion. In addition, being a first half transaction, the accounting had been discussed and agreed with the auditor at the time of the Group's interim reporting. This was subsequently confirmed by the auditor. The Committee was satisfied with the level of assurance gained from these procedures.
- **Monitored the integrity of the Group's interim and annual financial statements and the two business updates published during the year and reviewed the significant financial reporting judgements contained in them.**
- **Assessed the effectiveness of the external audit taking 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 all these matters the Committee has recommended to the Board that PwC be re-appointed as auditor to the Group.**
- **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.
 - 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 during 2015.
- **Reviewed the terms of reference for the Committee.**
- **Considered the appropriateness of the Group's viability statement and going concern assumption and advised the Board accordingly.**
- **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 that no matters had been raised.**

The Company confirms that it has complied with the provisions of the Competition and Markets Authority's Order for the financial year under review.

STEPHEN G. YOUNG
CHAIRMAN OF THE AUDIT COMMITTEE

25 FEBRUARY 2016

INDEPENDENT AUDITOR'S REPORT

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 2015 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

The financial statements, included within the Report and Accounts (the 'Annual Report'), comprise:

- the balance sheets as at 31 December 2015;
- the Group income statement and Group statements 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 Overview



Materiality

- Overall Group materiality: £46.4 million (2014: £42.0 million) which represents 1% of total assets.
- Specific materiality: £4.0 million (2014: £4.0 million) applied to property and other income, administrative expenses, provisions and working capital balances.

Audit scope

- 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% 2016 convertible bonds 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**Valuation of investment properties**

Refer to page 116 (Report of the Audit Committee), pages 141 to 143 (Notes to the financial statements – Note 16) and page 170 (Significant accounting policies).

The Group's investment properties were carried at £4,832.3 million as at 31 December 2015 and a revaluation gain of £650.0 million was accounted for under 'revaluation surplus' in the Group income statement. In excess of 99% of the value of the Group's investment property portfolio comprises offices and 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 portfolio mainly features office accommodation and 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 because of the different assumptions applied. 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 judgments and estimates affecting the valuations using both the income capitalisation and residual value methods included 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.

Consistent with last year, yields and ERVs have moved favourably reflecting the buoyancy of the central London property market which has driven the 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.

How our audit addressed the area of focus

The valuers used by the Group are CBRE Limited for the central London portfolio and Savills for the remaining investment property portfolio in Scotland. They are well-known firms, with considerable experience of the Group's market. We assessed the competence and capabilities of the firms and verified their qualifications. We also assessed their independence 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 and competent and that the scope of their work was appropriate.

We tested the data in the investment property valuation for a sample of properties, including rental income, acquisitions and capital expenditure, by agreeing them to the underlying property records held by the Group. The underlying property records were themselves tested back to signed and approved lease contracts or sale/purchase contracts and approved third party invoices as applicable. For the properties currently under development, we traced the costs to date included within development appraisals to quantity surveyor reports and confirmed that they were comparable to costs incurred on similar completed projects. We also agreed a sample of costs included in the quantity surveyor reports to supporting documentation.

We met with the external valuers independently of management and obtained the valuation reports for all properties. We read the valuation reports and confirmed that the valuation approach for each was in accordance with RICS Valuation – Professional Standards and IAS 40 and suitable for use in determining the carrying value for the purpose of the financial statements. We involved our internal valuation specialists to compare the valuations of each property to our independently formed market expectations and to discuss and challenge the valuation methodology and assumptions. In doing this we used evidence of comparable market transactions and focused in particular on properties where the growth in capital values was higher or lower than our expectations based on market indices.

Consistent with last year, we identified the following assets for further testing: standing investments where the valuation fell outside the expected range; ongoing and planned development projects; high value assets over £100m; and acquisitions.

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 fell outside of 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, movements in ERV or yield to reflect market transactions in close proximity 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 on the upward movements in the valuations and found that they were able to provide explanations and refer to appropriate supporting evidence.

INDEPENDENT AUDITOR'S REPORT

CONTINUED

Area of focus	How our audit addressed the area of focus
<p>Compliance with REIT guidelines Refer to page 117 (Report of the Audit Committee) and page 131 (Significant judgements, key assumptions and estimates).</p> <p>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.</p>	<p>We confirmed our understanding of management's approach to ensuring compliance with the REIT regime rules.</p> <p>We obtained management's calculations and supporting documentation, checking their accuracy by verifying the inputs, which included the underlying financial information, and calculation. We involved our internal specialists to verify the accuracy of the application of the rules.</p> <p>We found that the assessment prepared was free from material error and consistent with the UK REIT guidelines.</p>
<p>Accounting for borrowings and derivatives Refer to page 117 (Report of the Audit Committee), pages 148 to 155 (Notes to the financial statements – Note 23) and page 171 (Significant accounting policies).</p> <p>The Group has secured and unsecured debt totalling £895.0 million (2014: £1,019.8 million). The debt includes unsecured convertible debt of £140.2 million (2014: £308.0 million) with an option for the Group to convert the debt when certain criteria have been met. On 17 December 2014, the Group exercised its option to redeem its £175m 2.75% 2016 convertible bonds, and on 30 January 2015 all bond holders elected to convert their debt to shares. The accounting for convertible debt can be complex and therefore is considered an area of audit focus.</p> <p>The Group uses interest rate swaps on a portion of its debt. The interest rate swaps were valued at 31 December 2015 by external valuers and the fair value was £17.6 million (2014: £25.2 million). 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.</p>	<p>We read the loan contracts to understand the terms and conditions. The carrying value of all debt was agreed to third party confirmations.</p> <p>In 2014, we obtained the convertible bond documentation and reviewed it to ensure we understood each of the clauses and the accounting impact of conversion. We obtained management's proposed accounting treatment for the Group and Company and checked that it was consistent with the convertible bond documentation and accounting standards. In 2015, we confirmed the proposed accounting treatment had been correctly applied.</p> <p>For 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 involved our internal specialists who performed independent valuations to recalculate the value using independent market data.</p> <p>No material issues were identified in our work on the debt arrangements in place as at 31 December 2015.</p>

How we tailored the audit scope

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 26 statutory entities with the Group financial statements being a consolidation of these entities, the Company and the Group's joint ventures. All parts of the Group, with the exception of one of the joint ventures, were identified as requiring an audit of their complete financial information, either due to their size or their risk characteristics or statutory requirement. This work, all of which was carried out by the Group audit team, together with additional procedures performed on the consolidation, 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 on the individual financial statement line items and disclosures and in evaluating 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	£46.4 million (2014: £42.0 million).
How we determined it	1% of total assets.
Specific materiality	£4.0 million (2014: £4.0 million)
How we determined it	Based on 5% of profit before tax excluding investment property valuation movements and profit on disposal of investment properties.
Rationale for benchmark applied	<p>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.</p> <p>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 for testing property and other income, administrative expenses, provisions and working capital balances.</p>

We agreed with the Audit Committee to cap specific materiality at £4.0 million and that we would report to them misstatements identified during our audit above £2.3 million (2014: £2.1 million) for financial statement line items where overall materiality applied and £0.2 million (2014: £0.2 million) for line items where specific materiality applied, as well as misstatements below those amounts 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 92, in relation to going concern. We have nothing to report having performed our review.

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the Directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

As noted in the Directors' statement, the Directors have concluded that it is appropriate to prepare the financial statements using the going concern basis in preparing the financial statements. 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 opinions

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:

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| <ul style="list-style-type: none"> information in the Annual Report is: <ul style="list-style-type: none"> – 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. | <p>We have no exceptions to report.</p> |
| <ul style="list-style-type: none"> the statement given by the Directors on page 90, 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 position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and Company acquired in the course of performing our audit. | <p>We have no exceptions to report.</p> |
| <ul style="list-style-type: none"> the section of the Annual Report on page 116, 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. | <p>We have no exceptions to report.</p> |

The Directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:

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| <ul style="list-style-type: none"> the Directors' confirmation on page 90 of the Annual Report, in accordance with provision C.2.1 of the Code, that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. | <p>We have nothing material to add or to draw attention to.</p> |
| <ul style="list-style-type: none"> the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated. | <p>We have nothing material to add or to draw attention to.</p> |
| <ul style="list-style-type: none"> the Directors' explanation on page 77 of the Annual Report, in accordance with provision C.2.2 of the Code, as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions. | <p>We have nothing material to add or to draw attention to.</p> |

Under the Listing Rules we are required to review the Directors' statement that they have carried out a robust assessment of the principal risks facing the Group and the Directors' statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.

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. We have no exceptions to report arising from this responsibility.

Corporate governance statement

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to ten further provisions of the 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 83, 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

25 FEBRUARY 2016