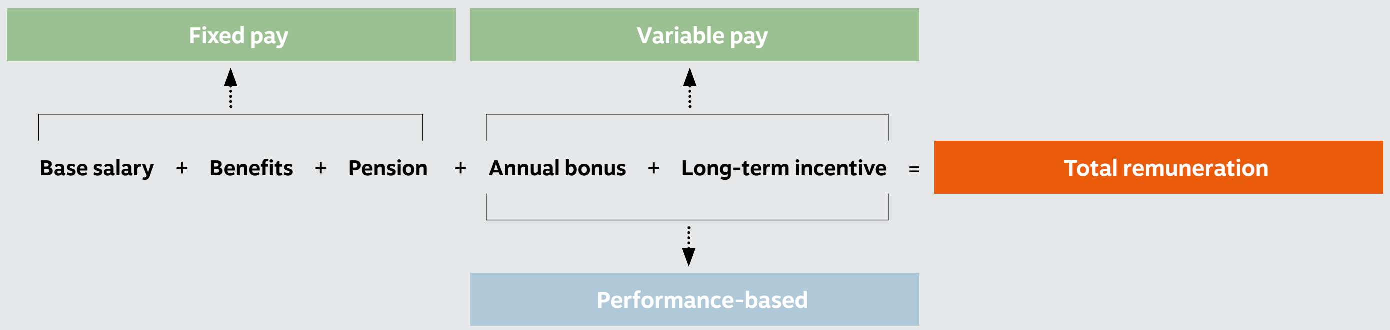
Remuneration Policy report

Derwent London's Remuneration Policy remains unchanged from that approved by shareholders at the AGM on 19 May 2017 (which was approved by 98.40% of those shareholders who voted). For convenience, extracts from the policy are included below (with numbers and dates appropriately updated) to provide context for how decisions were made during the year. Our full Remuneration Policy can be found on our website at: www.derwentlondon.com/investors/governance/board-committees

Remuneration for executive Directors comprises the following elements:



A summary of our policy on fixed pay is on page 131
Fixed pay in 2017 is on page 121

A summary of our policy on variable pay is on page 132
Variable pay in 2017 is on pages 122 and 123

Details on the total remuneration paid to our Directors in 2017 is on page 120

Our aims

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 through 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, while also having broad regard to the level of remuneration in FTSE 350 companies of a similar size. 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 performance measures under incentive schemes support the Company's strategy, have appropriately stretching performance conditions attached and are 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.

Summary of remuneration elements for executive Directors

Fixed pay		
Base salary	**Benefits**	**Pension**
Purpose and link to strategy To help recruit, retain and motivate high calibre executives. Reflects experience and importance to the business.	Purpose and link to strategy To provide a market-competitive benefits package to help recruit and retain high-calibre executives. Medical benefits to help minimise disruption to business.	Purpose and link to strategy To help recruit and retain high-calibre executives and reward continued contribution to the business.
Operation Normally reviewed annually. Any increase is normally effective from 1 January. Factors taken into account in the review include: • The role, experience and performance of the individual and the Company; • Economic conditions; • Increases throughout the rest of the business; and • Levels in companies with similar business characteristics. Salaries are set after having due regard to the salary levels operating in companies of a broadly similar size and complexity, the responsibilities of each individual role, individual performance and an individual's experience.	Operation Benefits include, but are not limited to, private medical insurance, car and fuel allowance and life assurance. In certain circumstances, the Committee may also approve additional allowances relating to relocation of an executive Director or other expatriate benefits required to perform the role. The Committee may provide other employee benefits to executive Directors on broadly similar terms to the wider workforce. The Committee has the ability to reimburse reasonable business related expenses and any tax thereon.	Operation 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.
Maximum The current salary levels are detailed in the Annual Report on Remuneration on page 125 and will be eligible for increases during the period that the Directors' Remuneration Policy operates. During this time, to the extent that salaries are increased, increases will normally be consistent with the policy applied to the workforce generally (in a percentage of salary terms). Increases beyond those linked to the workforce generally (in a percentage of salary terms) may be awarded in certain circumstances such as where there is a change in responsibility, experience or a significant increase in the scale of the role and/or size, value and/or complexity of the Group. The Committee retains the flexibility to set the salary of a new hire at a discount to the market level initially, and to implement a series of planned increases over the subsequent few years, potentially higher than for the wider workforce, in order to bring the salary to the desired position, subject to individual performance.	Maximum 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). The only benefit which is considered to be significant in value terms is the provision of a company car (or the provision of cash in lieu of providing a company car). The value of the benefit will be either the taxable value assessed according to HMRC rules when a company car is provided or the cash amount in the case of cash in lieu of a company car. In either case, the provision of this benefit is limited to a cost of £50,000 per annum. The Committee has discretion to approve a higher cost in exceptional circumstances (such as relocation), or where factors outside of the Committee's control have changed materially (such as increases in insurance premiums).	Maximum Directors receive a contribution or cash supplement (or a mix of both) 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.
Performance framework A broad assessment of personal and corporate performance is considered as part of the salary review.	Performance framework None.	Performance framework None.

Remuneration Policy report
continued

Variable pay

Annual bonus	Long-term incentives	Share ownership guidelines
Purpose and link to strategy To incentivise the annual delivery of stretching financial targets and strategic goals. Financial performance measures reflect KPIs of the business.	**Purpose and link to strategy** To align the long-term interests of the Directors with those of the Group's shareholders, to incentivise value creation over the long term and to aid retention.	**Purpose and link to strategy** To provide alignment between executives and shareholders.
Operation Bonus payments are determined by the Committee after the year end, based on performance against the targets set at the start of the year. Bonuses up to 100% of salary are paid as cash. Amounts in excess of 100% are deferred into shares of which 50% are 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. Dividend equivalents accrue on vested deferred shares. The bonus is not pensionable. 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, error in calculation or for gross misconduct.	**Operation** The Committee makes an award of performance shares each year. Vesting is determined by the Group's achievements against stretching performance targets over three years and continued employment. The Group's performance against the targets is independently verified on behalf of the Committee. A further holding period of two years is required on the after-tax vested shares. Dividend equivalents may accrue on performance shares to the extent that performance conditions have been met, payable at the end of the vesting or, if applicable, the end of the holding period. Clawback and malus provisions apply in the event of misstatement, an error in calculation 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 vesting. 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.	**Operation** Executive Directors are required to retain at least half of any deferred bonus share awards or performance shares vesting (net of tax) until the guideline is met. Only wholly-owned shares will count towards the guideline.
Maximum Maximum bonus potential, for the achievement of stretching performance conditions is 150% of salary for all Directors.	**Maximum** Annual award limit: up to 200% of salary in any financial year.	**Maximum** All executive Directors – 200% of salary. Non-executive Directors – no guideline.

Variable pay continued

Annual bonus	Long-term incentives	Share ownership guidelines
Performance framework At least 75% of the annual bonus will be based on financial measures with up to 25% based on strategic objectives. Metrics may include but are not limited to: • Total return against other comparable real estate companies; • Total property return versus an appropriate IPD index; and • Performance objectives tailored to the delivery of the Group's short- and medium-term strategy. Up to 22.5% of the relevant bonus element will be payable for threshold performance against the financial measures, with full pay-out for achieving challenging stretch performance targets. The performance measures will be reviewed annually by the Committee and the Committee retains discretion to vary measures and weightings as appropriate (subject to the minimum financial measures weighting set out above) to ensure they continue to be linked to the delivery of Company strategy. The Committee has discretion to adjust the payment outcome if it is not deemed to reflect appropriately the overall business performance of the Company over the performance period. Any exercise of discretion will be detailed in the following year's Annual Report on Remuneration. Details of the bonus targets will be disclosed retrospectively in the following year's Annual Report on Remuneration when they are no longer deemed commercially sensitive by the Board.	**Performance framework** Long-term incentive awards vest based on three-year performance against a challenging range of performance targets, with at least one third of an award based on TSR. Other metrics may include, but are not limited to, total property return relative to an appropriate IPD (or equivalent) index, total return and NAV or earnings growth. Up to 22.5% of each part of an award vests for achieving the threshold performance level with full vesting for achieving challenging stretch performance targets. No awards vest for below threshold performance levels. The performance criteria will be reviewed annually by the Committee prior to each grant and the Committee has discretion to vary measures and weightings as appropriate to ensure they continue to be linked to the delivery of Company strategy subject to the minimum weighting on TSR as set out above. The Committee has discretion to adjust the vesting outcome in exceptional circumstances to ensure that vesting outcomes are a true reflection of the overall performance of the Company over the performance period. Any use of discretion will be fully explained in the following year's Annual Report on Remuneration.	**Performance framework** None.

Summary of remuneration elements for non-executive Directors and the Chairman

Performance framework	Maximum
To help recruit and retain high-calibre non-executive Directors with relevant skills and experience. Reflects time commitments and scope of responsibility. **Operation** The remuneration for the Chairman is set by the full Board (excluding the Chairman). The remuneration for non-executive Directors is set by the executive Directors. The Chairman receives benefits limited to a company car and driver, secretarial provision and office costs. Periodic fee reviews will set a base fee and, where relevant, fees for additional services such as serving on a Board Committee, chairing a Board Committee or holding the position of Senior Independent Director. 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. 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.	Non-executives Directors' 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. **Performance framework** None.

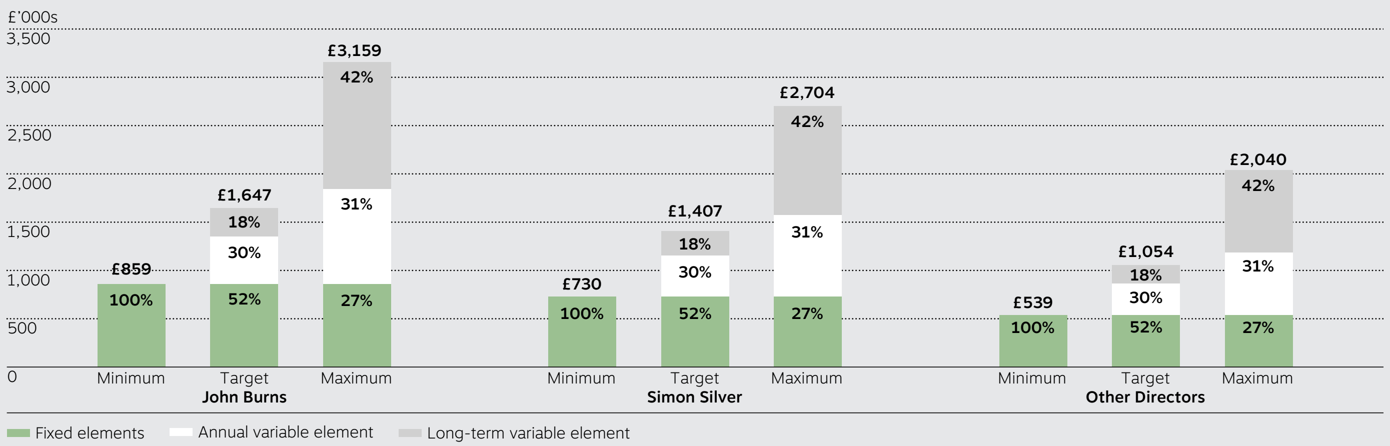
Remuneration Policy report

continued

Illustrating the application of the Remuneration Policy

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

Remuneration scenarios for executive Directors



The potential reward opportunities illustrated above were calculated using base salaries effective from 1 January 2018 (full details of remuneration for 2018 can be found on pages 125 to 126). The assumptions set out below have been made in compiling the above charts:

Assumptions	Minimum	Target	Maximum
Fixed pay	Base salary effective 1 January 2018. The value of benefits relates to taxable benefits and is based on the cost of supplying those benefits in the year ended 31 December 2017, as a proxy. Pension value set at 20% of salary.	Base salary effective 1 January 2018. The value of benefits relates to taxable benefits and is based on the cost of supplying those benefits in the year ended 31 December 2017, as a proxy. Pension value set at 20% of salary.	Base salary effective 1 January 2018. The value of benefits relates to taxable benefits and is based on the cost of supplying those benefits in the year ended 31 December 2017, as a proxy. Pension value set at 20% of salary.
Annual bonus	No annual bonus payable.	50% of annual bonus payable (equivalent to 75% of base salary).	Maximum annual bonus (100% of bonus potential equivalent to 150% of base salary).
PSP	No LTIP awards vest.	22.5% vesting of the LTIP awards.	Full vesting (100% of award equivalent to 200% of base salary).

Notes:

Amounts have been rounded to the nearest £1,000.

Share price growth on vesting and any dividends payable on vesting shares have been ignored.

Non-taxable benefits (life assurance) are excluded.

Other Directors are: Damian Wisniewski, Paul Williams, Nigel George and David Silverman, whose salary, annual bonus and LTIP arrangements for 2018 are identical. The benefit value for the 'other Directors' is based on the highest benefit received in the year ended 31 December 2017.

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. Executive Directors' service contracts are terminable either by the Company providing 12 months' notice or by the executive providing six months' notice. Contracts 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. In addition, the Company may also make payments in relation to any statutory claim against the Company or make a modest provision in respect of legal costs or outplacement fees. The new service contracts have no change of control provisions and all other elements were brought up-to-date in line with best practice.

With regard to annual bonus for a departing executive Director, if employment ends by reason of death, retirement, injury, ill-health, disability, redundancy or transfer of employment outside the Group, or any other reason as determined by the Committee, i.e. the individual is a 'good leaver', the executive Director may be considered for a bonus payment. If the termination is for any other reason, any entitlement to bonus would normally lapse. Under any circumstance, it is the Committee's policy to ensure that any bonus payment reflects the departing executive Director's performance. Any bonus payment will normally be delayed until the performance conditions have been determined for the relevant period and be subject to a pro-rata reduction for the portion of the relevant bonus year that the individual was employed. Deferred bonus share awards will normally lapse on cessation of employment, however, in the case of good leavers, awards typically vest on the normal vesting date (or on cessation in the event of death).

With regards to PSP awards, if a participant resigns voluntarily, the award lapses. The 2014 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 to reduce vested awards for time served in the relevant period. 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 on cessation 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 would apply albeit with performance tested over the shortened performance period, and early vesting (if appropriate).

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

Non-executive Director	Date of latest appointment letter	Expiry date
Claudia Arney	17 April 2015	31 May 2018
Simon Fraser	27 July 2016	31 August 2018
Cilla Snowball	26 May 2015	31 August 2018
Robert Rayne	25 March 2016	25 March 2019
Stephen Young	2 February 2017	31 July 2019
Richard Dakin	2 February 2017	31 July 2019
Helen Gordon	8 November 2017	1 January 2021

Note: Helen Gordon's appointment commenced on 1 January 2018.

Robert Rayne has a letter of appointment, which runs for three years, expiring on 25 March 2019. In addition to his fee as Chairman, it provides for a car (and fuel allowance), 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

The complete policy on recruitment and promotion is contained in the Policy Report on our corporate website and in the 2016 Annual Report and Accounts. Below is an abbreviated version of our policy.

When facilitating an external recruitment or an internal promotion the Committee will apply the same principles as contained in the 'Executive Director policy table' on pages 131 to 133 of this report. In addition to these elements, the Committee may pay relevant relocation and legal expenses in order to facilitate a recruitment. Annual bonus payments will be pro-rated for the period of employment and, 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 appropriate. In respect to an internal hire, existing long-term incentive awards would continue over their original vesting period and remain subject to their terms as at the date of grant.

Should it be the case that the Remuneration Committee considers it necessary to buy out remuneration which an individual would forfeit on leaving their current employer, such compensation would be structured so that the terms of the buy-out would have a fair value no higher than that of what is being forfeited and would generally be determined on a comparable basis taking into account the form, structure and vesting schedule of the remuneration being replaced as well as the probability of vesting. The Committee has the discretion to determine the type of replacement award (cash, shares), the vesting period and whether or not performance conditions apply. 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 in the following year's Annual Report on Remuneration.