

# CHAIRMAN'S LETTER ON CORPORATE GOVERNANCE

Dear Shareholder,

On behalf of the Board, I am pleased to present the Group's 2013 Corporate Governance Report.

The Company is subject to the provisions and principles of the UK Corporate Governance Code (the Code) which was introduced by the Financial Reporting Council (FRC) in 2010 and revised in 2012. The Board believes that, in 2013, the Company has complied with the main and supporting principles of the Code except for provision B.1.1. This provision addresses the independence of non-executive Directors and the Company's approach to this matter is discussed on page 78.

The year has seen Corporate Governance remain high on the agenda for the business world both because of the high profile governance failures reported in the media and also because of the number of changes that became effective during 2013. This elevated profile means that both at the Board level and in the everyday operations of the Group, significant time and resource is committed to governance matters – not only to ensure compliance with the framework of regulations but also in order to deliver the sustainable and successful business which Derwent London aims for.

Many of the changes to the governance regulations that became effective this year were announced during 2012 and we complied, as far as possible, with these last year. During the year, the guidance issued by various bodies has clarified the requirements of the changes and in some cases this has led to us refining our disclosure and conduct to ensure compliance. At the same time, some of the measures that we have introduced over the last few years have been augmented as the matters concerned take on increasing importance. I have highlighted a number of these developing areas below.

## Risk

As risk management continues to move up the business agenda, the activity of our Risk Committee has become more important and increasingly embedded in the Group's activities. During the year the Committee oversaw the running of an on-line training course to improve staff knowledge of the Bribery Act and its implications. This new piece of wide-ranging legislation has necessitated the introduction of a number of new procedures; the Committee considered this to be an area where more comprehensive education was needed to ensure that staff understood the legislation and appreciated the importance of the additional procedures. The Committee also commissioned external advisers to advise on the Group's risk assessment and risk reporting procedures.

Further details of the work of the Risk Committee are given on page 111 and the Group's risk management processes are detailed on pages 28 to 32.

## Sustainability

The new requirement this year to report the Group's greenhouse gas emissions is indicative of the pressure to improve both practices and reporting within the sustainability arena. At the start of the year we recruited a Head of Sustainability, a new role in the Company, to coordinate and improve our performance in this increasingly important area. We were pleased when our efforts were externally recognised with a gold award in the EPRA Sustainability Reporting Awards 2013.

A summary of the Group's sustainability report is given on pages 58 to 61 and the full document is available on the Group's website, [www.derwentlondon.com](http://www.derwentlondon.com).

## Remuneration

Final guidance concerning the regulations of the Department for Business, Innovation and Skills (BIS) was issued by GC100 and Investor Group in September 2013 and our report of the Remuneration Committee is compliant with this guidance.

Whilst adapting to the new requirements and guidance, the Remuneration Committee updated the structure of the Directors' remuneration. This has involved consultation with the Group's major shareholders on the new structure. Details of this, together with information on the other work of the Committee, are set out in the report of the Remuneration Committee on pages 92 to 109.

## Audit

The Board has looked for guidance from the Audit Committee on whether the Group's report and accounts are fair, understandable and balanced – a requirement of the Code introduced in 2012. The work that the Committee undertook to advise the Board on this issue is set out in the report of the Audit Committee on pages 113 and 114. This report also provides the background to the audit tendering process which the Committee is conducting and which will be completed in March 2014. Given the length of tenure of BDO, the Committee had been considering tendering the audit for a number of years. With the increased focus on the subject it became convinced that the correct time had now arrived. One of the consequences of the recent EU guidelines on this matter is that our incumbent Auditor, BDO, declined to take part in the tender. On behalf of the Board I would like to thank them for their conscientious work and commitment during their time as our Auditor.

Whilst the other committees come to terms with the new regulations during 2013 the Nominations Committee continued to review the composition of the Board, having particular regard to its diversity, and to manage both the ongoing process of refreshment and the succession of senior management effectively.

As in previous years, I would encourage you to attend the Group's Annual General Meeting on 16 May 2014 and take the opportunity to meet the management team at this important event.

ROBERT A. RAYNE  
CHAIRMAN  
27 FEBRUARY 2014