

DIRECTORS' REPORT



TIMOTHY KITE
COMPANY SECRETARY

The Directors present their annual report and audited financial statements for the year ended 31 December 2013.

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

The Board

Following the retirement of John Ivey at the end of the year the Board consisted of:

A non-executive Chairman:	Robert Rayne
Six non-executive Directors:	Stuart Corbyn Robert Farnes Stephen Young June de Moller Simon Fraser Richard Dakin
Six executive Directors:	John Burns Simon Silver Damian Wisniewski Nigel George Paul Williams David Silverman

Richard Dakin joined the Board on 1 August 2013.

As noted in the Chairman's letter on corporate governance on page 74, Robert Farnes is not deemed independent under the criteria given in provision B.1.1. of the Code. The Board has therefore specifically considered his independence.

At the year end Robert is not deemed independent having served on the Board for more than nine years. However, the Board does not believe that length of service is necessarily a complete guide to the degree of independence of a Director's state of mind and therefore has reviewed the manner in which he carried out his duties during the year. In the Board's opinion, Robert has continued to demonstrate commitment to his role and to exercise his expertise in an effective and independent manner.

His period of service as a non-executive Director reached nine years on 31 March 2012 and in accordance with best practice, he ceased to be a member of both the Remuneration and Audit Committees on 30 June 2013. He has no association with management that might compromise his independence and is standing for re-election at the Company's Annual General Meeting (AGM) on 16 May 2014.

The process of Board refreshment was continued through 2013 with the appointment of Richard Dakin in August. Richard was the second non-executive Director identified by Spencer Stuart, the independent executive search agency which was appointed in 2011 to assist with the recruitment of two new independent non-executive Directors. Following this appointment, John Ivey retired from the Board at the end of the year.

Whilst the independence issues that were originally identified in 2010 have now been addressed, the Group's Nominations Committee continues to monitor the composition and independence of the Board and has recently started the process of recruiting another non-executive Director.

An important element of assessing the composition of the Board involves considering its diversity, having particular regard to the new requirements concerning gender diversity introduced by the 2012 revision of the Code. The Board's overriding aim is to have a balance of skills, experience, length of service and knowledge of the Group but it recognises the importance of this matter and notes the requests made by Lord Davies of Abersoch through the BIS on the third anniversary of his original report on the subject. Following one of these requests, the Directors aim to appoint at least one additional female Director by 2015. However, the Board does not intend this to suggest that 'positive discrimination' will be exercised in future appointments and would stress that these will continue to be made based purely on merit having given due regard to the benefits of diversity in its widest sense and reflecting the extent to which the applicant can provide the set of required skills identified at the start of the recruitment process.

The Board has also made the Group's senior women aware of a series of external workshops aimed at helping them find and navigate the route to the boardroom.

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

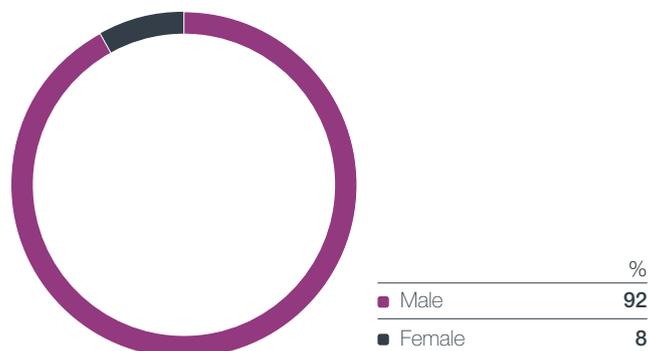
Taking all factors into account the Directors believe that the Board has an appropriate balance of skills, experience, knowledge and independence to satisfy the requirements of good corporate governance.

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

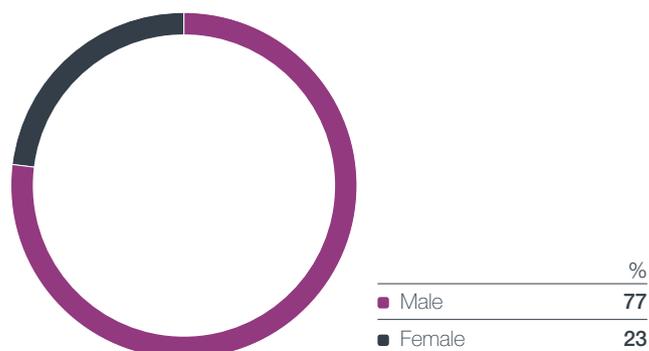
The Board is responsible for setting the Group's strategic aims, for ensuring that adequate resources are available to meet its objectives and for reviewing management performance. A formal list of matters reserved for the full Board's approval is maintained and reviewed periodically. The full Board met six times during the year and six meetings are scheduled for 2014. Extra meetings will be arranged if necessary. The Executive Committee which consists of the executive Directors plus three 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.

The Board maintains a number of Board committees. The terms of reference of each committee are available on the Group's website. Details of the membership and duties of the four principal committees that operated throughout 2013 are set out overleaf.

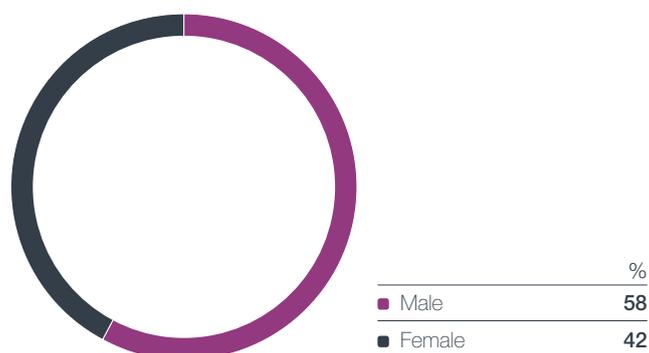
Board



Senior management (excluding Directors)



Employees



DIRECTORS' REPORT CONTINUED

Remuneration Committee

At the start of the year, the Remuneration Committee was chaired by June de Moller and served on by Stuart Corbyn, Stephen Young, Simon Fraser and Robert Farnes. As planned, Simon Fraser took over the chairmanship in July 2013 and Robert Farnes left the Committee at the same time. The Committee is responsible for establishing the Group's remuneration policy and individual remuneration packages for the executive Directors. There were three meetings of the Committee in 2013 and the report of its activities is set out on pages 92 to 109.

Audit Committee

This Committee is chaired by Stephen Young and was served throughout the year by Stuart Corbyn, Simon Fraser and June de Moller. Robert Farnes stepped down from the Committee in July 2013 and Richard Dakin joined in August 2013. 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 2013 and the report of the Audit Committee is on pages 113 and 114.

Nominations Committee

At the start of the year, the Nominations Committee consisted of John Ivey, Robert Farnes, June de Moller and Stephen Young and was chaired by Stuart Corbyn. In August, Stephen Young left the Committee and was replaced by Simon Fraser and John Ivey left the Committee when he retired on 31 December 2013. 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 three times during 2013 and the report of the Nominations Committee is on page 110.

Risk Committee

The Risk Committee was established in November 2011. It was chaired by Stephen Young until August 2013 when June de Moller took over the chairmanship. Throughout the year, it was served by John Burns and Damian Wisniewski and Richard Dakin joined the Committee in August 2013. The Committee's main responsibility is to review the effectiveness of the Group's internal control and risk management systems. It met twice during the year and the Committee's report is on page 111.

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

	Full Board	Executive Committee	Remuneration Committee	Audit Committee	Nominations Committee	Risk Committee
Number of meetings	6	11	3	4	3	2
Executive						
J.D. Burns	6	11	–	–	–	2
S.P. Silver	6	9	–	–	–	–
D.M.A. Wisniewski	6	11	–	–	–	2
P.M. Williams	6	11	–	–	–	–
N.Q. George	6	11	–	–	–	–
D.G. Silverman	6	11	–	–	–	–
Non-executive						
R.A. Rayne	6	–	–	–	–	–
J.C. Ivey	6	–	–	–	3	–
R.A. Farnes	6	–	–	2	3	–
S.A. Corbyn	6	–	3	4	3	–
J. de Moller	6	–	3	2	3	2
S.G. Young	6	–	3	3	3	2
S.W.D. Fraser	6	–	3	4	2	–
R.D.C. Dakin (from 1 August 2013)	2	–	–	2	–	1

Performance evaluation

With regard to the requirement of provision B.6.2 of the Code an independent third party was used to facilitate the annual review of the effectiveness of the Board and its Committees this year following an internal assessment in 2012.

The review took the form of a confidential, on-line survey which was completed by all the Directors and the Company Secretary. The survey covered the processes and performance of the Board, the Committees and the Chairman. The performance of individual Directors was assessed by the Remuneration Committee as part of the salary review process.

The facilitator prepared a report for each body. These were then considered by the Chairman and the chairmen of the relevant Committees. As a result of the review, the Board is looking at ways to further increase the opportunities available to the non-executive Directors to contribute to and challenge the strategy of the Group.

As a result of the evaluation, the Board is satisfied that the structure, mix of skills and operation of the Board continues to be satisfactory and appropriate for the Group. In addition, the Chairman is satisfied that the non-executive Directors standing for re-election at the AGM continue to be effective and show a high level of commitment to their roles.

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. Last year's review resulted in the Chairman offering to meet a number of major shareholders and this initiative will be repeated in 2014.

Appointment and replacement of Directors

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

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

The articles provide that at every AGM of the Company any Director who has been appointed by the Board since the last AGM, or who held office at the time of the two preceding AGMs and who did not retire at either of them, or who has held office with the Company, other than employment or executive office, for a continuous period of nine years or more at the date of the meeting, shall retire from office and may offer himself for re-appointment by the members. However, in accordance with Provision B.7.1 of the Code the Company subjects all Directors to annual re-election and therefore at the next AGM all the Directors will retire and, being eligible, offer themselves for re-election. Biographies of all the Directors are given on page 76.

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

If considered appropriate, new Directors are provided with external training that addresses their role and duties as a Director of a quoted public company. Existing Directors monitor their own continued professional development and are encouraged to attend courses that keep their market and regulatory knowledge up to date.

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.

DIRECTORS' REPORT CONTINUED

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 27 February 2014.

The Directors do not participate in the Executive Share Option Scheme. During the year, a conditional grant of 204,320 shares was made to Directors under the Performance Share Plan (PSP) whilst 232,918 shares vested to the Directors from an earlier conditional award at a zero exercise price. The remaining 44,962 shares of this award made to Directors lapsed.

Other than as disclosed in note 41, 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.

	Ordinary shares of 5p each		Options	
	31 Dec 13	31 Dec 12	31 Dec 13	31 Dec 12
R.A. Rayne ¹	4,409,295	4,409,295	66,730	91,730
J.C. Ivey (retired 31 December 2013)	–	79,072	–	–
J.D. Burns	790,272	760,031	177,460	199,543
S.P. Silver	352,576	364,939	152,215	171,120
N.Q. George	37,179	33,846	92,171	103,695
P.M. Williams	39,180	35,622	92,171	103,695
D.G. Silverman	15,585	8,879	83,969	89,705
D.M.A. Wisniewski	13,794	816	91,185	100,352
R.A. Farnes	6,138	6,838	–	–
S.A. Corbyn	1,000	1,000	–	–
J. de Moller	2,985	2,985	–	–
S.G. Young	1,000	1,000	–	–
S.W.D. Fraser	–	–	–	–
R.D.C. Dakin	–	–	–	–

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

Risk management and internal control

The principal risks and uncertainties facing the Group in 2014 together with the controls and mitigating factors are set out on pages 28 to 32. The systems that control the risks form the Group's system of internal control. The key elements of the Group's internal control framework are:

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

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

The Board 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.

Communication with shareholders

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

Report and accounts

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

Share capital

As at 27 February 2014, the Company's issued share capital comprised a single class of 5p ordinary shares. Details of the ordinary share capital and shares issued during the year can be found in note 30 to the financial statements.

Substantial shareholders

In addition to those of the Directors disclosed on page 82, the Company has been notified of the following interests in the issued ordinary share capital as at 27 February 2014.

	Number of shares	Percentage of issued share capital
Ameriprise Financial Inc	5,108,656	4.99
Standard Life Investments	4,284,390	4.18
Withers Trust Corporation Ltd	3,908,012	3.81
Lady Jane Rayne	3,593,838	3.51

DIRECTORS' REPORT CONTINUED

Derwent London shares held by the Group

At 31 December 2013 the Group held 33,436 Derwent London shares in order to deliver the deferred bonus shares to the Directors when the deferral period expires. Movements in 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 2012	25,322	0.025		393,757
Acquired on 29 March 2012	30,236	0.029	17.38	525,502
Maximum holding during 2012	55,558	0.054		919,259
Disposed on 2 April 2012	(12,663)	(0.012)	17.31	(219,196)
Holding at 31 December 2012	42,895	0.042		700,063
Acquired on 27 March 2013	18,316	0.018	21.39	391,779
Maximum holding during 2013	61,211	0.060		1,091,842
Disposed on 4 April 2013	(27,775)	(0.027)	21.50	(597,162)
Holding on 31 December 2013	33,436	0.033		494,680

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 shareholder rights, unissued shares are at the disposal of the Board.

Voting

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

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

Restrictions on voting

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

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

Restrictions on transfer of securities in the Company

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

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

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

Variation of rights

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

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

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

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

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

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

Powers in relation to the Company issuing or buying back its own shares

The Directors were granted authority at the last AGM held in 2013 to allot relevant securities up to a nominal amount of £1,699,253. 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 £1,707,960 and (ii) up to a nominal amount of £3,415,919 (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 £256,194. 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 10,247,758 ordinary shares and the resolution sets the minimum and maximum prices which may be paid.

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 2013, resulting in a surplus of £352.5m, before accounting adjustments of £15.0m. The freehold and leasehold properties are included in the Group balance sheet at a carrying value of £3,285.2m. Further details are given in note 18 of the financial statements.

Post balance sheet events

Details of post balance sheet events are given in note 38 of the financial statements.

Our GHG emissions

The new greenhouse gas (GHG) emission reporting regulations (enacted through the Companies Act 2006 (Strategic and Directors' Reports) Regulations 2013) now require quoted companies to disclose their annual GHG emissions. In 2012 we adopted these requirements early and we reported our GHG emissions (our carbon footprint) in full across Scopes 1, 2 and 3.

We present opposite our annual GHG emissions profile for 2013 compared to our 2012 baseline, together with a set of intensity ratios appropriate for our business.

With the widening of our carbon reporting by including new aspects such as fugitive emissions and a larger portfolio our carbon footprint has grown this year by 10%. However, we have seen reductions in our overall CO₂e/m² intensity of 3% (this excludes Scope 1 fugitive emissions). Please see our 2013 Annual Sustainability Report for further details and analysis.

Our carbon footprint

			2013	2012	
			tCO ₂ e	tCO ₂ e	% change
Scope 1	Energy use	Gas (total building)	3,673	3,526	4.2
		Oil (total building)	64	67	(4.5)
	Travel	Fuel use in Derwent London company cars for business travel	20	16	25.0
	Fugitive emissions	Refrigerant emissions	1,000	–	n/a
Scope 2	Energy use	Electricity – generation (landlord-controlled areas and Derwent London occupied floor area)	6,289	6,220	1.1
Scope 3	Energy use	Electricity – WTT Generated Scope 3 Indirect GHG (landlord-controlled areas and Derwent London occupied floor area)	993	982	1.1
		Electricity – T&D Direct & WTT T&D Indirect (landlord-controlled areas and Derwent London occupied floor area)	623	615	1.3
		Gas (total building)	561	538	4.3
		Oil (total building)	12	13	(7.7)
	Travel	Fuel use in Derwent London company cars for business travel WTT	4	3	33.3
		Business air travel WTT	3	4	(25.0)
		Business air travel	26	40	(35.0)
	Water	Water use (total building)	44	48	(8.3)
Total			13,312	12,072	10.2
Out of scope	Energy use	Biomass use (total building)	22	22	–

Intensity

tCO ₂ e/£m turnover (Scopes 1 and 2 only, excluding Scope 1 fugitive emissions)	83.80	78.82	6.3
tCO ₂ e/m ² (Scopes 1 and 2 only, excluding Scope 1 fugitive emissions)	0.029	0.030	(3.3)

Data notes

Reporting period	1 January 2013 to 31 December 2013
Baseline year	2012 (restated)
Boundary (consolidation approach)	Operational control
Alignment with financial reporting	The only variation is that the GHG emission data presented does not account for single-let properties or properties for which we do not have management control, and therefore are not responsible for. However, the rental income of these properties is included in our consolidated financial statements.
Reporting method	The Greenhouse Gas (GHG) Protocol Corporate Accounting and Reporting Standard
Emissions factor source	DEFRA, May 2013 – www.ukconversionfactorscarbonsmart.co.uk
Data changes and restatements	We have restated our 2012 baseline figures reflect DEFRA's new 2013 emission factors. We have reclassified some of our reporting scopes to align with the new factor changes and best practice e.g. we have removed our biomass reporting from Scope 3 to report it as 'out of scope'. In 2013 for the first time we have included fugitive emissions from our managed air conditioning and chilling equipment to our Scope 1 reporting figures. Note that these fugitive emissions are excluded from our intensity calculations.

DIRECTORS' REPORT CONTINUED

Going concern

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

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

The Group's risks and risk management processes are set out on pages 28 to 32.

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

Disclosure of information to auditors

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

Auditor

The Company's Audit Committee is currently conducting a tender process for the 2014 audit. This process will be completed during March 2014 and a resolution to appoint the Group's new Auditor, as recommended by the Audit Committee, together with a resolution to authorise the Directors to determine its remuneration will be proposed at the AGM. These are resolutions 18 and 19 set out in the notice of meeting.

Annual General Meeting

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

Resolution 18 is an ordinary resolution to appoint a new Auditor for the Group. The appointment is the result of a tendering process overseen by the Audit Committee which is described in the report of the Audit Committee on pages 113 and 114.

Resolution 20 is an ordinary resolution to provide the Company with the authority to introduce the Derwent London plc

Performance Share Plan 2014 the main features of which are summarised in the Notice of Annual General Meeting that accompanies the report and accounts. The new Performance Share Plan replaces the existing plan which expires in 2014 and forms part of a revised remuneration structure, details of which are given in the report of the Remuneration Committee on pages 92 to 109.

Resolution 21 is an ordinary resolution which will 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 £1,707,960 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 Association of British Insurers, 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 £3,415,919, 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 the next AGM after the passing of the resolution or, if earlier, the close of business on 16 August 2015.

Resolution 22 is a special resolution, proposed annually, and will renew the Directors' authority under Sections 571 and 573 of the Companies Act 2006. The resolution empowers the Directors to allot or, now that the Company may hold shares as treasury shares (as further described below), sell 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 £256,194 which is equivalent to approximately 5% of the issued share capital as at the latest practicable date prior to the publication of this document.

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 3 year period where the Principles provide that usage in excess of 7.5% should not take place without prior consultation with shareholders.

Allotments made under the authorisation in paragraph (B) of resolution 20 would be limited to allotments by way of a rights issue only (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 the next AGM after the passing of the resolution or, if earlier, the close of business on 16 August 2015.

Resolution 23 is proposed 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 the next AGM after the passing of the resolution or, if earlier, the close of business on 16 August 2015.

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 (as had previously been required under the relevant legislation). Accordingly, if the Company purchases any of its shares pursuant to resolution 23, 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 27 February 2014 was 1,062,755 which represented 1.04% of the issued share capital at that date. If the Company were to purchase the maximum number of ordinary shares permitted by this resolution, the options outstanding at 27 February 2014 would represent 1.28% of the issued share capital.

Resolution 24 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.

By order of the Board.

TIMOTHY J. KITE ACA
COMPANY SECRETARY

27 FEBRUARY 2014