LETTER FROM THE CHAIRMAN OF THE REMUNERATION COMMITTEE

SIMON FRASER
CHAIRMAN OF THE REMUNERATION COMMITTEE

Dear Shareholder,

I became chairman of the Committee in July and am pleased to present the report of the Remuneration Committee's for 2013 under the new reporting regulations. We will be seeking your support for both parts of the report by way of a binding vote on the Directors' Remuneration Policy Report and an advisory vote on the Annual Report on Remuneration at the forthcoming AGM on 16 May 2014.

Derwent London's continued objective is to deliver above average long-term returns to shareholders. In an industry where relatively few people manage a large and complicated business this can only be achieved by recruiting and retaining the best people. At a senior level, the Remuneration Committee is responsible for maintaining a remuneration structure that achieves this.

Performance and reward for 2013

As discussed in the strategic report, the Group has delivered an increase in EPRA net assets per share of 20.0% and a total return of 21.9%. This strong performance in two of the Group's key KPIs resulted in a bonus entitlement of between 95% and 100% once the Committee assessed the personal element of each individual's bonus which was then added to the mathematical result.

Awards made under the Performance Share Plan (PSP) in 2011 were subject to two conditions, one half based on relative total shareholder return (TSR) performance against a group of other real estate companies and the other half based on net asset value growth compared to the return from properties in the IPD Central London Offices Total Return Index. The performance criteria were measured at the end of the year and 55% of the total awards are expected to vest as a result of current 6th positioning against the TSR peer group and net asset value growth of 54% against the IPD Index of 43%. The net asset value part of the award was measured to 31 December 2013 and the TSR part will be measured to 1 April 2014. The Committee believes the annual bonus outturn and anticipated PSP vesting during the year fairly represents Group performance over their respective performance periods.

Remuneration policy for 2014

As a Committee we are committed to ensuring that rewards for executives are aligned to the interests of shareholders through having all our incentive arrangements linked to challenging performance targets. These targets focus our management team on growing the Group's net asset value and increasing total return which in turn should deliver above market returns to shareholders.

During 2013, the Committee undertook a major review of the current structure of incentive arrangements to determine if they remain effectively aligned to the corporate strategy and reflect best practice. Whilst the Committee is satisfied the remuneration structure remains fit for purpose overall – being an annual bonus plan (with a portion deferred in shares) and awards under a PSP – a number of changes to the operation of incentive arrangements are to be made along with an update of the executives' service contracts. In addition, the Committee believes that enabling executives to increase their shareholdings in the Company over time is beneficial to all shareholders. A summary of the key changes arising as a result of the above to our policy from 2014 is set out below:

- Equalisation of the maximum annual bonus opportunity at 150% of salary for all executive Directors.
- Better alignment of our annual incentive plan performance metrics with our key performance indicators. From 2014 onwards the bonus metrics will be rebalanced so that 50% of the bonus is subject to a total return measure, 25% is subject to a total property return (TPR) measure relative to the IPD Central London Offices Index and 25% remains subject to other objectives linked to corporate strategy.
- Tougher annual bonus targets. A lower proportion of bonus is to accrue for achieving the threshold performance targets in relation to the financial targets.
- Increase long-term incentive awards levels. There will be an increase in long-term incentive opportunity to bring the Company into line with market practice among sector peers. It is proposed that all executive Directors will be eligible to receive awards at up to 200% of salary.
- Better alignment of our long-term incentive plan performance metrics with our key performance indicators. For 2014 long-term incentive awards, 50% of awards will be subject to Derwent's TPR measured relative to the IPD Central London Offices Index (previously Derwent's NAV growth was measured relative to the IPD Central London Offices Index). The remaining 50% of long-term incentive awards will continue to vest subject to challenging relative TSR performance measured against our sector peers.
- Adoption of an additional two year holding period for vested shares. A holding period of two years will operate and apply to the after tax number of vested shares for long-term incentive awards granted from 2014.
- Increased shareholding guidelines will operate for all but the Chief Executive Officer. The minimum guideline will be increased from 100% to 125% of salary for all executive Directors. John Burns' guideline will remain at 200% of salary.
- Introduced consistent service contracts for executive Directors. These will exclude any unearned bonus from payments made in lieu of notice and enable the Committee to phase payments which would then be reduced proportionately to the extent that alternative employment was commenced (i.e. payments in lieu of notice may be mitigated).

The Committee believes that these changes will help retain, motivate and reward the executive Directors at a market competitive level, but only for continued market leading performance over the short, medium and long-term, whilst remaining within an acceptable risk profile.

We have sought to align the Company's remuneration with continuous improvements in our key performance indicators of total return, total property return and total shareholder return.

Further, the Committee reviewed executive Directors' salary levels in December 2013 and agreed a basic increase of 3% for 2014 which took into account another excellent year of performance by the management team over all areas of the business in 2013, the competitive nature of the market for top performing executives in the real estate sector and the increases awarded throughout the rest of the Company. The Committee awarded an additional salary increase to David Silverman to align his salary with Nigel George, Paul Williams and Damian Wisniewski which concludes a process that started when he joined the Board six years ago.

Shareholder engagement

As part of the remuneration review the Committee has actively consulted with our largest shareholders. The views expressed were considered by the Committee and helped formulate the final policy to be operated from 2014 onwards. In particular, the maximum award that may be granted under the Group's LTIP and the award vesting threshold for both the LTIP and the annual bonus have been set to reflect the feedback received from shareholders.

The Committee and I will continue to maintain an open and constructive dialogue with investors and their representative bodies. We will engage in appropriate dialogue with our major shareholders on any material changes to the remuneration policy.

SIMON W.D. FRASER
CHAIRMAN OF THE REMUNERATION COMMITTEE

27 FEBRUARY 2014