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.

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.

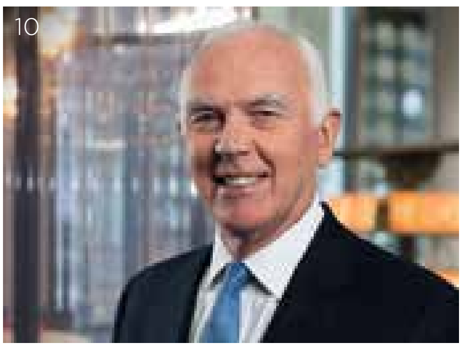
Whilst the other committees come to terms with the new regulations during 2013 the Nominations Committee continued to review the composition of the Board, having particular regard to its diversity, and to manage both the ongoing process of refreshment and the succession of senior management effectively.

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

Previous pages:
White Collar Factory, Old Street EC1

BOARD OF DIRECTORS



1. ROBERT A. RAYNE, 65
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, 69
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, 52
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, 63
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, 53
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 Waterside Partnership

6. NIGEL Q. GEORGE, 50
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, 44
EXECUTIVE DIRECTOR

Appointed to the Board: 2008
Skills and expertise: David is a chartered surveyor who joined the Company 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. JOHN C. IVEY, 72
FORMER NON-EXECUTIVE DEPUTY CHAIRMAN

Appointed to the Board: 1984
Retired: 31 December 2013
Skills and expertise: A chartered accountant, John was a non-executive Director of RWS Holdings plc until January 2010 and was formerly Chief Executive of Berendsen plc.

9. STUART A. CORBYN, 69
SENIOR INDEPENDENT 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 former president of the British Property Federation.
Other current appointments: Non-executive Chairman of Get London Living and of Pollen Estate Trustee Company
Committees: Nominations (chairman), Audit, Remuneration

10. ROBERT A. FARNES, 68
NON-EXECUTIVE DIRECTOR

Appointed to the Board: 2003
Skills and expertise: Robert is a chartered surveyor and was previously the Chairman of CB Hillier Parker.
Committees: Nominations

11. JUNE F. DE MOLLER, 66
NON-EXECUTIVE DIRECTOR

Appointed to the Board: 2007
Skills and expertise: June was Managing Director of Carlton Communications Plc and has also served as a non-executive Director of Cookson Group plc, BT plc, AWG plc, J Sainsbury plc, Archant Limited and London Merchant Securities plc.
Other current appointments: Non-executive Director of Temple Bar Investment Trust plc.
Committees: Risk (chairman), Remuneration, Nominations

12. STEPHEN G. YOUNG, 58
NON-EXECUTIVE DIRECTOR

Appointed to the Board: 2010
Skills and expertise: Stephen is a chartered management accountant. 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: Chief Executive of Meggitt PLC.
Committees: Audit (chairman), Risk, Remuneration

13. SIMON W.D. FRASER, 50
NON-EXECUTIVE DIRECTOR

Appointed to the Board: 2012
Skills and expertise: From 1997 to his retirement in 2011, Simon 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 and advised company boards on a range of issues.
Other current appointments: Non-executive Director of Lancashire Holdings Limited.
Committees: Remuneration (chairman), Audit, Nominations

14. RICHARD D.C. DAKIN, 50
NON-EXECUTIVE DIRECTOR

Appointed to the Board: August 2013
Skills and expertise: Richard is an Associate Member of Corporate Treasurers and an Associate of the Chartered Institute of Bankers. He has been employed at Lloyds Bank since 1982 where he has undertaken 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: Managing Director & Head of Corporate Real Estate, Business Support, Lloyds Bank plc
Committees: Audit, Risk

15. TIMOTHY J. KITE
COMPANY SECRETARY

Appointed: 1996
Skills and expertise: Tim is a chartered accountant with a comprehensive knowledge of corporate governance and risk management. His responsibilities include compliance matters.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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, for safeguarding the assets of the Company, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a Directors' report and Directors' remuneration report which comply with the requirements of the Companies Act 2006.

The Directors are responsible for preparing the annual report and the financial statements in accordance with the Companies Act 2006. The Directors are also required to prepare financial statements for the Group in accordance with International Financial Reporting Standards, as adopted by the European Union (IFRS) and Article 4 of the IAS Regulation. The Directors have chosen to prepare financial statements for the Company in accordance with IFRSs.

Group financial statements

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Group's and Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. A fair presentation also requires the Directors to:

- consistently select and apply appropriate accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

The Directors confirm to the best of their knowledge:

- they have complied with the above requirements in preparing the financial statements which give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the adoption of a going concern basis for the preparation of the financial statements continues to be appropriate based on the foregoing and having reviewed the forecast financial position of the Group; and
- the strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

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 the Group's performance, business model and strategy.

Financial statements are published on the Group's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Group's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

On behalf of the Board.

JOHN D. BURNS,
CHIEF EXECUTIVE OFFICER

DAMIAN M.A. WISNIEWSKI,
FINANCE DIRECTOR

27 FEBRUARY 2014

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.

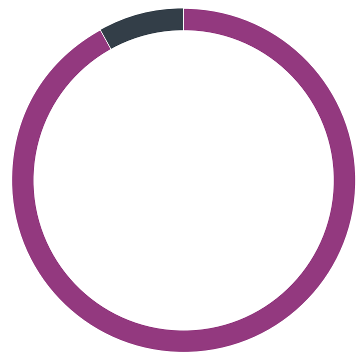
Taking all factors into account the Directors believe that the Board has an appropriate balance of skills, experience, knowledge and independence to satisfy the requirements of good corporate governance.

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.

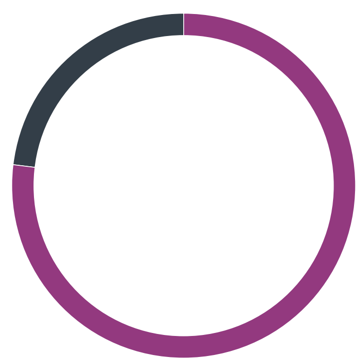
The Board maintains a number of Board committees. The terms of reference of each committee are available on the Group's website. Details of the membership and duties of the four principal committees that operated throughout 2013 are set out overleaf.

Board



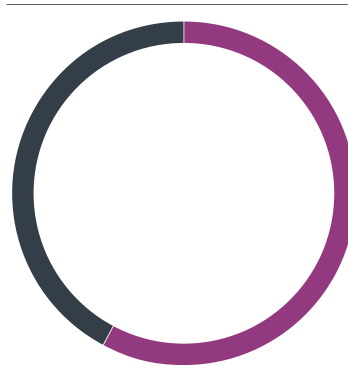
	%
Male	92
Female	8

Senior management (excluding Directors)



	%
Male	77
Female	23

Employees



	%
Male	58
Female	42

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.

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.

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 CO_2e/m^2 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 tCO_2e	2012 tCO_2e	% 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_2e/£m turnover (Scopes 1 and 2 only, excluding Scope 1 fugitive emissions)	83.80	78.82	6.3
tCO_2e/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.

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

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

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 UK Corporate Governance Code 2012 and the Listing Rules.

The Remuneration Policy Report will be put to a binding shareholder vote at the 2014 AGM on 16 May 2014 and, subject to receiving shareholder support, will have an effective date from that point and the Committee intends for it to endure for a period of three years. However, in practice, policy will be applied to the current financial year and throughout the three year policy period that commences from the effective date.

The annual report on remuneration will be put to an advisory vote at the 2014 AGM on 16 May 2014.

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 whether the schemes encourage the taking of excessive business risk.

The key aims of the Committee's remuneration policy for senior executives are:

- to ensure that the Company attracts, retains and motivates executives that 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 executives 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 below 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 promotions policy on page 99 and the application of policy for 2014 on pages 100 to 109.

Director remuneration 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.	Reviewed annually, with effect from 1 January. Review reflects: ■ Role, experience and performance. ■ Economic conditions. ■ Increases throughout the rest of the business. ■ Levels in companies with similar characteristics. 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.	The current salary levels (effective from 1 January 2014) detailed in note 1 below 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 percentage of salary terms). 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. 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 positioning, subject to individual performance.	A broad assessment of personal and corporate performance is considered as part of the salary review.
Benefits	To provide a market competitive benefits package to help recruit and retain high calibre executives. Medical benefits to help minimise disruption to business.	Directors are entitled to private medical insurance, car and fuel allowance and life assurance. The Committee may provide other employee benefits to executive Directors on broadly similar terms to the wider workforce.	In 2013, the maximum cost of providing benefits (based on taxable value of the benefits) was 11.3% of salary in total. However, the cost of some of these 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)[3].	None

Director remuneration 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. In 2013 this resulted in a maximum contribution of 21%. The continuation of these arrangements for existing employees means that their maximum pension will be up to 21%.	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: ■ total return against other major real estate companies (up to 50% of the maximum bonus opportunity); ■ total property return versus the Central London Office IPD TPR 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). 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. 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. 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. Details of the bonus structure operating each year will be provided in the relevant annual report on remuneration.

	Purpose and link to strategy	How operated	Maximum opportunity	Performance metrics
Long-term incentive plan	To align the long-term interests of the Directors with those of the Group's shareholders. To incentivise value creation over the long-term. To aid retention.	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. A further holding period of two years is required on the after tax number of vested shares. Dividends may be payable on vested shares. Clawback provisions apply in the event of misstatement or misconduct. 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.	Annual award limit: up to 200% of salary.	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. 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. 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. 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. 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.

REPORT OF THE REMUNERATION COMMITTEE
CONTINUED

Director remuneration policy table (continued)

	Purpose and link to strategy	How operated	Maximum opportunity	Performance metrics
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.	John Burns – 200% of salary. Other executive Directors – 125% of salary. Non-executive Directors – No guideline.	None
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.	The remuneration for the Chairman is set by the full Board. The remuneration for non-executive Directors, is also set by the whole Board. Periodic fee reviews will set a base fee and, where relevant, fees for additional services such as chairing a Board Committee. 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.	The current non-executives' fees (and benefits where applicable)[2] 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

[1] The basic salaries effective from 1 January 2014 are John Burns £601,500, Simon Silver £516,000, Nigel George £383,000, Paul Williams £383,000, Damian Wisniewski £383,000, David Silverman £383,000.

[2] The fees effective from 1 January 2014 are Chairman £150,000 (additional benefits are provided as detailed on page 97), base fee £40,000, Committee Chairman fee £5,500, Senior Independent Director fee £5,500, Committee fee £3,750.

[3] 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 per annum.

Operation of the annual bonus plan and LTIP policy

The Committee will operate the annual bonus plan and PSP in accordance with their respective rules and in accordance with the Listing Rules 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 above);
- 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); and
- 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 105 and 107 will remain eligible to vest based on their original award terms. In addition, all arrangements previously disclosed in prior years' report of the Remuneration Committee (e.g. bonuses earned in relation to 2013 performance) 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 linked to 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. The move in 2014 to measuring Derwent London's TPR (as opposed to NAV growth) against the TPR of the IPD Central London Offices Index ensures the Group's performance is being assessed on a consistent basis and is, therefore, considered to result in an improved performance condition. 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 is introducing both option and bonus schemes to more 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.

Chairman and non-executive Directors

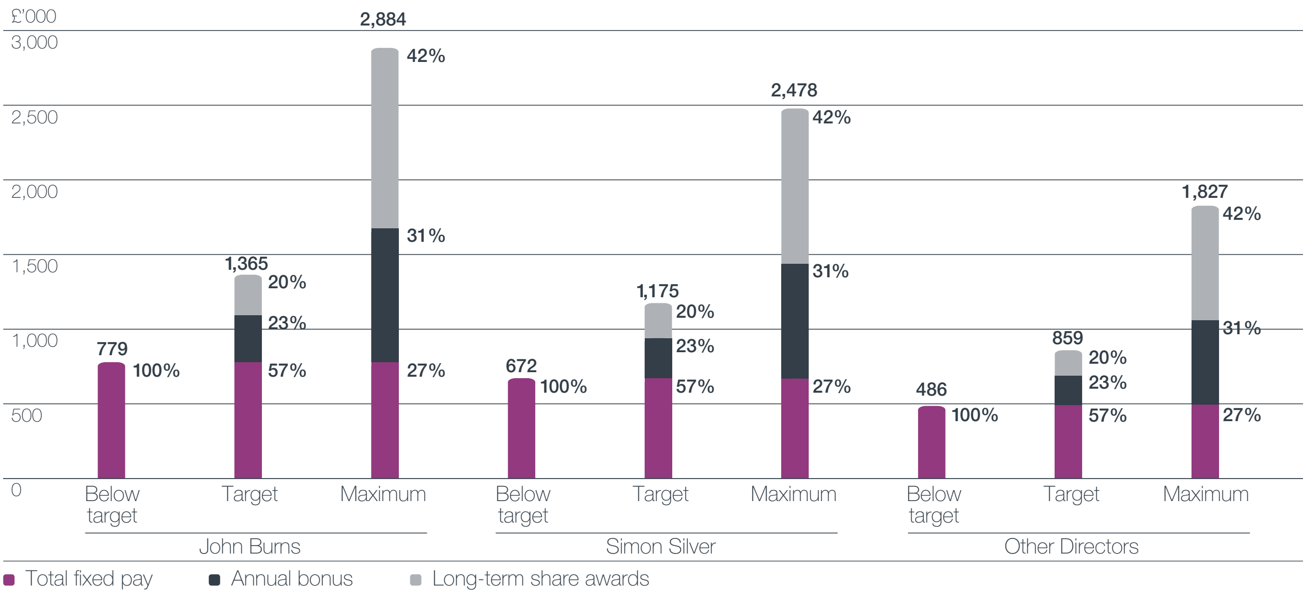
Neither the Chairman nor non-executive Directors are eligible for pension scheme membership and do not participate in the Company's bonus or equity-based incentive schemes although the Chairman has a number of unexercised options granted under the historical LMS Executive Share Option Scheme, details of which are given in table 4 on page 107.

The non-executive Directors do not have service contracts and are appointed for three year terms which expire as follows: Robert Farnes, 31 December 2014; Stuart Corbyn, 23 May 2015; Simon Fraser, 31 August 2015; June de Moller, 31 January 2016; Stephen Young, 31 July 2016 and Richard Dakin 31 July 2016. Mr Rayne has a letter of appointment, which runs for three years, expiring on 31 January 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.

REPORT OF THE REMUNERATION COMMITTEE
CONTINUED

Remuneration scenarios for executive Directors

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 new remuneration structure at minimum, target and maximum levels of performance.



Assumptions:
Below target = fixed pay only (base salary, benefits and pension).
On-target = 35% of annual bonus payable and 22.5% vesting of the LTIP awards.
Maximum = 100% of annual bonus payable and full vesting of LTIP awards.
Salary based on those applying on 1 January 2014.
Benefits value is based on the cost of supplying those benefits (using the annualised value of benefits in 31 December 2013 as a proxy).
Pension value set at 20% of the salary.
Amounts have been rounded to the nearest £1,000.
Share price growth on vesting has been ignored.
Other Directors are: Damian Wisniewski, Paul Williams, Nigel George and David Silverman, whose salary, annual bonus and LTIP arrangements for 2014 are identical.

Existing service contracts and compensation for loss of office

The service contracts of John Burns and Simon Silver are dated 20 May 1997 whilst those of Nigel George and Paul Williams are dated 31 March 1999 and that of David Silverman 2 January 2008. These contracts have no stated termination date but require 12 months' notice of termination by the Company or six months' notice by the executive. They include a provision whereby the Company will pay, by way of liquidated damages, a cash amount equivalent to 12 months' salary, benefits in kind and a pension contribution or salary supplement of at least 20% of basic salary. No defined contractual entitlement to compensation arises from a change of control of the Company. Damian Wisniewski's service contract is dated 2 February 2010. In addition to terms similar to those of the other Directors, his contract includes certain post termination restrictions and a mitigation clause. Under this mitigation clause, instead of paying the liquidated damages provision outlined above, the Company can, at its discretion, alternatively make monthly payments throughout the notice period until the executive obtains an alternative employment at which point (except in the event of the Company giving notice following a change of control) monthly payments cease or are reduced depending upon the value of remuneration arising from the alternative role. If this clause is used by the Company, monthly payments would comprise one-twelfth of the total of his annual basic salary, annual pension contribution, annual value of benefits in kind and 20% of his maximum bonus potential.

Outside of the legacy arrangements of the Company's current executive Directors, the Company's policy for new appointments will be for service contracts to be terminable by the Company on one year's notice and to contain a payment in lieu of notice clause providing for monthly phased payments throughout the notice period to include pro-rated salary, benefits and pension only, until alternative employment is found, at which point payments will cease or be reduced accordingly (i.e. payments are subject to mitigation).

New service contracts

As part of the major review of the Directors' remuneration structure, new service contracts have been agreed with the executives. 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 have been brought up to date. There is no change to the notice periods.

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 service year for awards granted before 1 January 2013) to reduce vested awards for time served in the relevant period.

The 2014 LTIP, for which shareholder approval is being sought at the 2014 AGM, 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 his award will vest when he 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.

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.

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	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. 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.
Benefits	Benefits as provided to current executive Directors. The Committee may pay relevant relocation and legal expenses in order to facilitate a recruitment.
Pension	A defined contribution or cash supplement at the level provided to current executive Directors.
Annual bonus	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. 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.
Long-term incentives	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. 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.
Buy-out awards	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.

REPORT OF THE REMUNERATION COMMITTEE CONTINUED

Annual report on remuneration

Remuneration Committee

At the start of the year, the Remuneration Committee (the Committee) consisted of Stuart Corbyn, Simon Fraser, June de Moller (chairman) and Stephen Young. In July 2013 Simon Fraser took over as chairman of the Committee. 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 determines entitlements under the bonus scheme and the extent of vesting of the conditional share awards and ensure that the measures used for both schemes are comparable and consistent. During 2013 NBS also assisted with the remuneration review and replacement of the PSP. The fees paid to NBS for these services amount to £60,000. NBS did not provide any other services to the Group during the year.

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 2014

Base salaries

The base salaries that are applicable from 1 January 2014, after allowing for a 3% increase with the exception of David Silverman who has been increased by 7.3%, are as follows:

- John Burns – £601,500
- Simon Silver – £516,000
- Damian Wisniewski – £383,000
- Paul Williams – £383,000
- Nigel George – £383,000
- David Silverman – £383,000

The salary increases of 3% are in line with those offered to the wider workforce. The additional increase for David Silverman will position his salary on a consistent level with the other executive Directors and reflects his strong performance and development in the role.

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 increase in bonus potential to the executive Directors from 125% of salary to 150% of salary (other than John Burns and Simon Silver who are currently subject to a 150% of salary maximum) is being proposed at the same time as a broader restructuring of the annual bonus.

The bonus will operate subject to the following metrics:

- 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 Central London Office IPD Index; and
- 25% of bonus will be earned subject to other performance objectives tailored to the delivery of the Group's short-term strategy.

The main change in the metrics is that in the past growth in Derwent London's NAV against the growth in the properties included in the Central London Office IPD Index was used for 37.5% of the bonus. For 2014, Derwent London's TPR will be used against the Index to ensure we are comparing performance on a fully consistent basis (i.e. TPR will now be compared against TPR as opposed to NAV growth). The rebalancing on the weightings also reflects the priority that total return has in terms of the Group's KPIs.

Historically bonuses have started to accrue at the 40th percentile for relative measures of performance (TPR/NAV or total return). From 2014 onwards, the bonus targets will be toughened so that no bonus will be earned below the median/ Index performance level both in terms of TPR and total return. 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 (previously 40%). Full pay-outs are earned, on a straight-line basis for total return from achieving the threshold performance target through to the upper quartile. 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.

As a result, the revised targets can be seen to be materially tougher than the targets operated in prior years which is considered appropriate in light of the revised potential bonus opportunity.

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 of the bonus and the remaining half released on the second anniversary of the deferral.

Clawback provisions will continue to operate in the event of a misstatement or misconduct for a period of two years from the payment of a bonus.

Long-term incentives

The Committee identified the previous plan at Derwent London to be below a number of the Company's sector peers which is the group against which Derwent competes for the best executive talent. As a result, it is considered necessary to address this issue at the same time as introducing an extended holding period for vesting shares which reflects recent developments in a number of institutional investors' 'best practice' expectations. There is no change to the vesting threshold performance requirements.

Furthermore, while the Committee is sensitive to investors' preferences for continued restraint in quantum, increasing long-term incentives is considered the preferred mechanism to addressing the perceived shortfall against comparator companies since this aspect of remuneration only delivers reward to the extent that long-term shareholder value is created and serves to aid retention. In addition, the Committee believes that enabling executives to increase their shareholding in the Company over time is beneficial to all shareholders. Following consultation with the Group's largest shareholders, the maximum award under the LTIP has been set at 200% of salary. In addition, in response to the feedback received, the proportion of the award vesting at threshold performance, has been set at 22.5% compared with 25% under the current scheme.

In light of the above, it was proposed that long-term incentive awards in 2014 will be granted at 200% of salary to all executive Directors.

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	–
At median	22.5
Upper quartile	100
Straight-line vesting occurs between these points	

The peer companies are:

Big Yellow Group plc
The British Land Company plc
Capital & Regional plc
Capital & Counties plc
Great Portland Estates plc
Hammerson plc
Intu Properties plc
Land Securities Group plc
Quintain Estates and Development plc
St Modwen Properties plc
Segro plc
Shaftesbury plc
Workspace Group plc

The other half of an award vests according to the Group's relative TPR performance versus the constituents of the IPD Central London Offices Index with the following vesting profile:

Derwent London's annualised TPR versus the Central London Offices IPD Index tested over three years	Vesting (% of TPR part of award)
Below the Index (median)	–
At the Index	22.5
Index +2.5% p.a.	75
Index +5% p.a.	100
Straight-line vesting occurs between these points	

Historically, Derwent London's NAV growth was compared against the performance of the properties in the IPD Central London Offices Index portfolio. To improve comparability, as detailed above for annual bonus purposes, Derwent London's NAV growth is being replaced with Derwent London's TPR to ensure performance is being measured on a like-for-like basis.

Performance periods will run over financial years. At the same time as increasing long-term incentive opportunity, as noted above, the Committee is to take account of recent developments in 'best practice' and require a minimum holding period to be observed on vested share awards. 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.

In addition, clawback provisions will also apply that enable the Committee to reclaim excess vesting in the event of a misstatement of financial results or misconduct for a period of two years from the award vesting.

Directors' remuneration summary

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

Table 1

2013	Salary and fees £'000	Benefits in kind £'000	Pension and life assurance £'000	Bonus Cash £'000	Bonus Deferred £'000	Sub total £'000	Gains from equity-settled schemes £'000	Total £'000
Executive								
J.D. Burns	584	51	115	584	248	1,582	906	2,488
S.P. Silver	501	35	99	501	213	1,349	778	2,127
D.M.A. Wisniewski	372	20	74	372	93	931	480	1,411
N.Q. George	372	16	77	372	70	907	494	1,401
P.M. Williams	372	20	79	372	93	936	494	1,430
D.G. Silverman	357	19	72	357	67	872	423	1,295
Non-executive								
R.A. Rayne	150	30	–	–	–	180	–	180
J.C. Ivey	58	–	–	–	–	58	–	58
R.A. Farnes	49	–	–	–	–	49	–	49
S.A. Corbyn	62	–	–	–	–	62	–	62
J. de Moller	53	–	–	–	–	53	–	53
S.G. Young	55	–	–	–	–	55	–	55
S.W.D. Fraser	52	–	–	–	–	52	–	52
R.D.C. Dakin	18	–	–	–	–	18	–	18
	3,055	**191**	**516**	**2,558**	**784**	**7,104**	**3,575**	**10,679**

The gains from equity-settled shares are in respect of the 2011 award which will vest in April 2014 and for which the performance conditions were complete or substantially complete at 31 December 2013.

2012	Salary and fees £'000	Benefits in kind £'000	Pension and life assurance £'000	Bonus Cash £'000	Bonus Deferred £'000	Sub total £'000	Gains from equity-settled schemes £'000	Total £'000
Executive								
J.D. Burns	567	50	112	567	160	1,456	1,265[1]	2,721
S.P. Silver	486	35	96	486	137	1,240	1,084[1]	2,324
D.M.A. Wisniewski	361	20	72	361	24	838	651[1]	1,489
N.Q. George	361	16	75	361	24	837	692[1]	1,529
P.M. Williams	361	20	76	361	24	842	692[1]	1,534
D.G. Silverman	335	19	67	335	23	779	568[1]	1,347
Non-executive								
R.A. Rayne	150	32	–	–	–	182	–	182
J.C. Ivey	58	–	–	–	–	58	–	58
S.J. Neathercoat	43	–	–	–	–	43	–	43
R.A. Farnes	55	–	–	–	–	55	–	55
S.A. Corbyn	60	–	–	–	–	60	–	60
J. de Moller	54	–	–	–	–	54	–	54
S.G. Young	56	–	–	–	–	56	–	56
S.W.D. Fraser	15	–	–	–	–	15	–	15
	2,962	192	498	2,471	392	6,515	4,952	11,467

[1] Restated from prior year's figures to accord with BIS regulations.

The gains from equity-settled schemes are in respect of the 2010 award which vested in April 2013 and for which the performance conditions were complete or substantially complete at 31 December 2012.

Simon Fraser joined the Board on 1 September 2012 and Richard Dakin on 1 August 2013. Simon Neathercoat retired from the Board on 31 December 2012 and John Ivey retired on 31 December 2013.

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

Determination of 2013 annual bonus outcome

Provision has been made for 2013 bonuses of between 95% and 100% (2012: 85%) of the maximum potential.

Performance Measure	Weighting % of bonus	Basis of calculation	Threshold %	Maximum %	Actual %	% payable
Growth in NAV	37.5	Relative to IPD Central London Offices Total Return Index	13.6	18.6	20.0	37.5
Total return	37.5	Total return of major real estate companies	12.7	21.6	21.9	37.5

In addition, 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;
- rent collection and the level of arrears;
- delivery of projects both in terms of timing and costs;
- health and safety performance; and
- staff retention.

The total bonus estimated for each executive Director is therefore:

	Bonus payable			Deferred bonus	
	% of maximum	% of salary	Cash bonus payable	£	% of salary
J.D. Burns	95	143	584,000	248,200	43
S.P. Silver	95	143	501,000	212,925	43
D.M.A. Wisniewski	100	125	372,000	93,000	25
N.Q. George	95	119	372,000	69,750	19
P.M. Williams	100	125	372,000	93,000	25
D.G. Silverman	95	119	357,000	66,938	19

Vesting of the deferred bonus is not subject to any performance measure other than continued employment.

Performance share plan

Half the awards granted in 2011 were subject to a relative TSR performance measure and half subject to a growth in net asset value. 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 bonus	Basis of calculation	Threshold %	Maximum %	Actual %	% vesting/ estimated vesting
Growth in NAV	50	Relative to IPD Central London Offices Total Return Index	42.8	62.7	53.6	33.3
Total shareholder return (TSR)	50	TSR of major real estate companies	63.9	141.0	73.0	21.9

As required by the scheme rules, before allowing any vesting, the Committee considered whether the Group's TSR performance reflected its 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 2011 awards with measurement periods ending in 2013, this was the case.

Therefore, the vesting for each executive Director is estimated to be:

	Number of awards vesting	Value of award on vesting[1] £
J.D. Burns	32,325	906,070
S.P. Silver	27,743	777,636
D.M.A. Wisniewski	17,115	479,733
N.Q. George	17,640	494,449
P.M. Williams	17,640	494,449
D.G. Silverman	15,100	423,253

[1] Based on the share price on February 25, 2014 and the vesting percentage of 55.2%.

Awards made during the year

On 8 April 2013 the Committee made a PSP award 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	Nil-cost option	175	21.20	48,200	1,021,840	25
S.P. Silver	Nil-cost option	175	21.20	41,350	876,620	25
D.M.A. Wisniewski	Nil-cost option	150	21.20	26,320	557,984	25
N.Q. George	Nil-cost option	150	21.20	26,320	557,984	25
P.M. Williams	Nil-cost option	150	21.20	26,320	557,984	25
D.G. Silverman	Nil-cost option	150	21.20	25,250	535,300	25

If threshold performance is not achieved, none of the award will vest.

The outstanding PSP 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	C.J. Odom	N.Q. George	P.M. Williams	D.G. Silverman	D.M.A. Wisniewski	Employees	Total
8.25	15/04/2012	106,000	90,150	57,250	54,500	54,500	42,700	–	23,000	428,100
13.66	01/04/2013	67,250	57,650	–	36,780	36,780	30,190	34,590	14,640	277,880
16.43	01/04/2014	58,550	50,250	–	31,950	31,950	27,350	31,000	12,750	243,800
Interest as at 1 January 2012		231,800	198,050	57,250	123,230	123,230	100,240	65,590	50,390	949,780
Shares conditionally awarded during the year:										
Market price at award date £	Earliest vesting date									
17.19	12/04/2015	57,720	49,475	–	31,500	31,500	29,230	31,500	12,620	243,545
Shares vested or lapsed during the year:										
Market price at award date £	Market price at date of vesting £									
8.25	17.57	(53,000)	(45,075)	(19,083)	(27,250)	(27,250)	(21,350)	–	(11,500)	(204,508)
8.25	Lapsed	(53,000)	(45,075)	(38,167)	(27,250)	(27,250)	(21,350)	–	(11,500)	(223,592)
Interest as at 31 December 2012		183,520	157,375	–	100,230	100,230	86,770	97,090	40,010	765,225
Shares conditionally awarded during the year:										
Market price at award date £	Earliest vesting date									
21.20	08/04/2016	48,200	41,350	–	26,320	26,320	25,250	26,320	10,560	204,320
Shares vested or lapsed during the year:										
Market price at award date £	Market price at date of vesting £									
13.66	22.44	(56,369)	(48,322)	–	(30,829)	(30,829)	(25,305)	(28,993)	(12,271)	(232,918)
13.66	Lapsed	(10,881)	(9,328)	–	(5,951)	(5,951)	(4,885)	(5,597)	(2,369)	(44,962)
Interest as at 31 December 2013		**164,470**	**141,075**	**–**	**89,770**	**89,770**	**81,830**	**88,820**	**35,930**	**691,665**

	31 December 2013	31 December 2012	1 January 2012
Weighted average exercise price of PSP awards	–	–	–
Weighted average remaining contracted life of PSP awards	1.21 years	1.21 years	1.08 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 2013 was £nil (2012: £nil). The weighted average market price at the date of vesting in 2013 was £22.44 (2012: £17.57).

For all awards granted under the PSP:

- half of the shares vest based on TSR performance relative to a comparator group of companies; and
- half of the shares vest based on NAV performance compared to properties in the IPD Central London Offices Total Return Index.

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.

The TSR comparator group consists of a defined group of real estate companies. The comparator group for 2013 comprises the following: Big Yellow Group plc, The British Land Company plc, Capital & Regional plc, Capital & Counties plc, Great Portland Estates plc, Hammerson plc, Intu Properties plc, Land Securities Group plc, Quintain Estates and Development plc, St Modwen Properties plc, Segro plc, Shaftesbury plc and Workspace Group plc. 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.

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 outperforming the median performing property by 5% per annum.

Share option schemes

Details of the options held by Directors and employees under the Group's 1997 Executive Share Option Scheme at 31 December 2013 are given in table 3 below. Disclosure relating to a further share option scheme in which the Directors do not participate is given in note 14.

Table 3

Exercise price £	Date from which exercisable	Expiry date	D.G. Silverman	Employees	Total
10.71	26/04/2008	25/04/2015	–	7,000	7,000
13.63	08/06/2009	07/06/2016	6,750	4,500	11,250
Outstanding at 1 January 2012			6,750	11,500	18,250
No options were granted or lapsed in 2012					
Options exercised during 2012					
Exercise price £	Market price at date of exercise £				
13.63	17.57		–	(7,000)	(7,000)
10.71	19.70		(6,750)	–	(6,750)
			(6,750)	(7,000)	(13,750)
Outstanding at 31 December 2012			–	4,500	4,500
No options were granted or lapsed in 2013					
Options exercised during 2103					
Exercise price £	Market price at date of exercise £				
13.63	24.89		–	(4,500)	(4,500)
			–	(4,500)	(4,500)
Outstanding at 31 December 2013			**–**	**–**	**–**

The weighted average exercise price of options exercised in 2013 was £13.63 (2012: £12.14) and the weighted average market price at the date of exercise was £24.89 (2012: £18.65).

	31 December 2013	31 December 2012	1 January 2012
Number of exercisable share options	–	4,500	18,250
Weighted average exercise price of exercisable share options	–	£13.63	£12.51
Weighted average remaining contracted life of exercisable share options	–	3.44 years	4.01 years
There were no non-exercisable share options at any of the year ends shown			

The exercise of options granted under the 1997 Executive Share Option Scheme is subject to a three-year performance criteria. This states that a year's options can only be exercised once the growth of the Group's net asset value per share over a subsequent three-year period exceeds the increase of the IPD Central London Office Capital Growth Index over the same period by 6% or more. All outstanding options have met this criterion.

Following the acquisition of LMS, options that had already vested under the LMS Executive Share Option Scheme were converted to options over Derwent London shares. Details of these options, all of which are exercisable, are given in table 4 below:

Table 4

Exercise price £	Expiry date	R.A. Rayne
7.54	29/08/2013	65,615
9.92	01/09/2014	50,274
12.03	28/06/2015	41,456
Outstanding at 1 January 2012		157,345
No options were granted, or lapsed in 2012		
Options exercised during 2012		
Exercise price £	**Market price at date of exercise £**	
7.54	17.79	(65,615)
Outstanding at 31 December 2012		91,730
No options were granted or lapsed in 2013		
Options exercised during 2013		
Exercise price £	**Market price at date of exercise £**	
9.92	22.81	(25,000)
Outstanding at 31 December 2013		**66,730**

The weighted average exercise price of options exercised during 2013 was £9.92 (2012: £7.54) and the weighted average market price at the date of exercise £22.81 (2012: £17.79).

In respect of the options outstanding at 31 December 2013 in table 4 the weighted average exercise price was £11.23 (2012: £10.87) and the weighted average remaining contracted life is 1.2 years (2012: 2.0 years).

The market price of the 5p ordinary shares at 31 December 2013 was £24.95 (2012: £21.06). During the year, they traded in a range between £21.20 and £25.74 (2012: £15.35 and £21.50).

R.A. Rayne made a gain of £322,000 (2012: £672,000) on the options exercised during the year.

Deferred bonus shares

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

Table 5

		J.D. Burns	S.P. Silver	D.M.A. Wisniewski	P.M. Williams	N.Q. George	D.G. Silverman	Total
Interest at 1 January 2012		9,883	8,471	1,631	1,892	1,892	1,553	25,322
Deferred in 2012:								
Date of deferment	Value per share on deferment							
29.03.12	£17.37	11,082	9,510	2,447	2,519	2,519	2,159	30,236
Vested in 2012:								
Date of vesting	Value per share on vesting							
02.04.12	£17.31	(4,942)	(4,236)	(816)	(946)	(946)	(777)	(12,663)
Interest at 31 December 2012		16,023	13,745	3,262	3,465	3,465	2,935	42,895
Deferred in 2013:								
Date of deferment	Value per share on deferment							
25.03.13	£21.40	7,449	6,385	1,141	1,141	1,141	1,059	18,316
Vested in 2013:								
Date of vesting	Value per share on vesting							
04.04.13	£21.50	(4,941)	(4,235)	(815)	(946)	(946)	(776)	(12,659)
04.04.13	£21.50	(5,541)	(4,755)	(1,223)	(1,259)	(1,259)	(1,079)	(15,116)
Interest at 31 December 2013		**12,990**	**11,140**	**2,365**	**2,401**	**2,401**	**2,139**	**33,436**

Directors' interests in shares and shareholding guideline

Details of the Directors' interests in shares and shareholding guidelines are as follows.

Table 6

	£'000			Number of shares			
	2014 salary	Shareholding guideline	Value of beneficially held shares[1]	Beneficially held	Deferred	Conditional	Total
J.D. Burns	601	1,202	22,151	790,272	12,990	164,470	967,732
S.P. Silver	516	645	9,883	352,576	11,140	141,075	504,791
D.M.A. Wisniewski	383	479	387	13,794	2,365	88,820	104,979
P.M. Williams	383	479	1,098	39,180	2,401	89,770	131,351
N.Q. George	383	479	1,042	37,179	2,401	89,770	129,350
D.G. Silverman	383	479	437	15,585	2,139	81,830	99,554

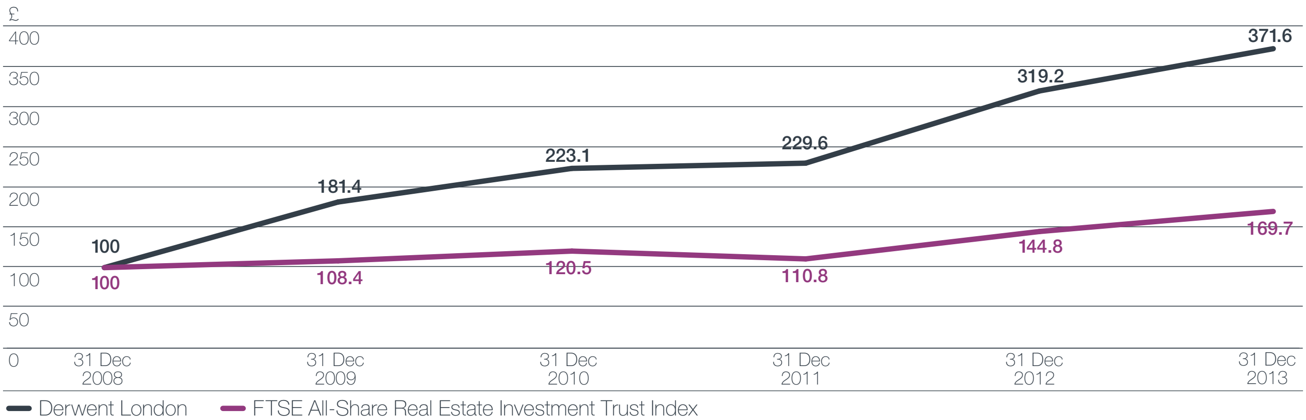
[1] Valued at £28.03 the value of a 5p ordinary share in the Company on 25 February 2014.

Details of non-executive Directors shareholdings are given on page 82.

Performance graph

Total shareholder return compared to the FTSE All-Share Real Estate Investment Trusts Indices.

Total shareholder return



Source: Thomson Reuters

This graph shows the value, by 31 December 2013, 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 – 2013

Year ended	Executive	Total remuneration £'000	Annual bonus % of max	LTIP vesting % of max
31/12/13	John Burns	2,488	95.0%	55.2%
31/12/12	John Burns	2,721	90.0%	83.8%
31/12/11	John Burns	2,387	87.5%	50.0%
31/12/10	John Burns	2,060	62.5%	50.0%
31/12/09	John Burns	1,251	25.6%	47.6%
31/12/08	John Burns	951	25.6%	36.5%

Percentage increase in elements of the remuneration of the Chief Executive Officer

	2013 £'000	2012 £'000	% change
Chief Executive			
Salary	584.0	567.0	3.00
Benefits	176.9	169.7	4.24
Bonus	832.2	726.4	14.56
Average employee			
Salary	55.2	52.7	4.74
Benefits	10.4	10.2	2.00
Bonus	17.1	12.5	36.8

The table above shows the movement in the salary, benefits and annual bonus for the Chief Executive between the current and previous financial year compared to that for an average employee.

Relative importance of the spend on pay

	2013 £m	2012 £m	% change
Staff costs	21.3	19.9	7.0
Distributions to shareholders	35.2	32.5	8.3
Net asset value	2,304	1,860	23.8

Statement of shareholder voting

At the Company's 2013 AGM, the report of the Remuneration Committee received the following votes from shareholders:

2013 AGM	m	%
Votes cast in favour	75.9	96.8
Votes cast against	2.5	3.2
Total votes cast	78.4	–
Votes withheld	5.2	–

The disclosure on Directors' remuneration in tables 1 to 6 on pages 102 to 108 has 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

27 FEBRUARY 2014

LETTER FROM THE CHAIRMAN OF THE NOMINATIONS COMMITTEE

STUART CORBYN
CHAIRMAN OF THE NOMINATIONS COMMITTEE

Dear Shareholder,

I am pleased to present the Nominations Committee's report for 2013.

In last year's report I noted that it was the Committee's intention to appoint a further independent non-executive Director in 2013. This was achieved in August with the appointment of Richard Dakin. The appointment followed a rigorous recruitment process initiated by Spencer Stuart, the independent executive search agency, providing the Committee with a comprehensive and diverse list of high quality candidates. The Committee reduced this to a shortlist of potential applicants and a series of interviews was undertaken which resulted in Richard being identified as the strongest candidate.

Whilst this completes a process started in 2010, the size of the Board means that there is a continuous need for refreshment. An important aspect of this process is to consider the diversity of the Board paying particular attention to its gender diversity and, as noted in the Directors' report, the Board aims to appoint at least one additional female Director by 2015. To this end the Committee will again stress the need for a diverse list of capable candidates to the executive search agency to be used in recruiting a further non-executive Director in 2014.

In planning the refreshment of the Board, the Committee also has to consider and address the need for a smooth and effective succession process at a senior level.

REPORT OF THE NOMINATIONS COMMITTEE

At the start of the year the Committee consisted of John Ivey, Robert Farnes, June de Moller and Stephen Young under the chairmanship of Stuart Corbyn. Stephen Young left the Committee in August 2013. All members are considered independent by the Company having no day-to-day involvement with the Company.

Roles 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 plan and, if appropriate, carries out 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 three times in 2013.

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.
- Reviewed the Group's succession planning for executive and non-executive Directors and senior management.
- Completed the recruitment process for a non-executive Director having regard to the qualities that had been identified as required at the start of the process. Subsequently the Committee made a recommendation to the Board that Richard Dakin be appointed based on his property finance and real estate experience.
- Completed the policy of change and refreshment of the Board which was commenced in 2010.
- Adjusted the size and membership of the Board Committees following the appointment of Richard Dakin in August 2013.
- Identified areas of experience that a new non-executive Director should possess in order to further strengthen the Board.
- Considered whether the Committee's recruitment procedure was adequate given the gender diversity matters raised by Lord Davies.
- Reviewed the terms of reference for the Committee.

STUART A. CORBYN
CHAIRMAN OF THE NOMINATIONS COMMITTEE

27 FEBRUARY 2014

LETTER FROM THE CHAIRMAN OF THE RISK COMMITTEE

JUNE DE MOLLER
CHAIRMAN OF THE RISK COMMITTEE

Dear Shareholder,

I took over as Chairman of the Committee from Stephen Young in August and am pleased to present the report of the Risk Committee for 2013.

The Committee has seen certain risks that were identified last year diminish in importance over the year such as Eurozone concerns and the state of the UK economy where, particularly in London, growth appears to have taken root. However, these risks have been replaced by some equally significant ones namely the potential effect of both the Scottish independence vote, the UK referendum on EU membership and cyber risk. These serve to keep the perceived level of risk in the economy high.

Within this environment the Committee has kept under review the effectiveness of the controls that the Group operates. This has seen an increase in the size of the health and safety team and an overhaul of its reporting framework together with an external review of the Group's risk assessment process and external training on the requirements of the 2010 Bribery Act.

Whilst the results of the review of the risk assessment process were generally favourable, a number of improvements were identified and these will be built into the Group's procedures over the next 12 months.

REPORT OF THE RISK COMMITTEE

At the start of the year the Committee consisted of June de Moller, John Burns and Damian Wisniewski and was chaired by Stephen Young. In August 2013, Richard Dakin joined the Committee and June de Moller took over the chairmanship.

Roles and responsibilities
The Committee's terms of reference are available on the Company's website.

Meetings
It is intended that the Committee meet twice a year with extra meetings convened if necessary for it to discharge its duties.

Work of the Committee
During the year the Committee:

- Reviewed the Group's risk register.
- Received presentations from senior management concerning the controls over certain parts of the business.
- Commissioned an external review of the Group's risk assessment process and its internal and external risk management reporting.
- Facilitated an online training course for all employees to increase staff knowledge of the 2010 Bribery Act.
- Considered a report from the Group's legal advisors concerning potential regulatory risks over the next 12 months.
- Reviewed the Group's register of hospitality and gifts maintained under the Group's Bribery Act procedures.
- Reviewed the Group's register of potential conflicts of interest.
- Reviewed the Committee's terms of reference.

JUNE F. DE MOLLER
CHAIRMAN OF THE RISK COMMITTEE

27 FEBRUARY 2014

To read more about our risk management activities see pages 28 to 32

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 to 31 December 2013.

One of the main changes made to the UK Corporate Governance Code in 2012 was the introduction of the requirement that the Group's report and accounts present a fair, understandable and balanced view of the business. The Board asked the Committee to advise on this aspect of the report and accounts and how this duty has been discharged is set out in the report of the Audit Committee on pages 113 and 114.

During the year there was increased scrutiny on the effect that the length of an Auditor's tenure might have on the independence of the Auditor and the quality of the audit. The Committee took this into account, together with the planned rotation of the Group's audit partner in 2014, when deciding that the 2014 year end audit should be put out to tender. The process was started in December 2013 and will be concluded in March 2014. The result, together with a resolution for the appointment of the new Auditor, will be set out in the Notice of Annual General Meeting.

The main agenda item for the four meetings that the Committee holds each year is to review the regular financial reports made to shareholders. Details of the further work carried out by the Committee are given in the report that follows. The Group's Finance Director is invited to all the meetings although time is also allocated for the Committee to meet the Auditor with no executive present. In addition, as Chairman of the Committee, I have separate meetings with the audit partner. Members of the Committee also meet with the external valuers twice a year to discuss the valuation of the Group's portfolio, which is the key judgement required in determining the accuracy of the financial statements.

STEPHEN G. YOUNG
CHAIRMAN OF THE AUDIT COMMITTEE

27 FEBRUARY 2014

REPORT OF THE AUDIT COMMITTEE

Membership
Stephen Young was Chairman of the Committee throughout 2013. At the start of the year other members of the Committee were Stuart Corbyn, June de Moller, Robert Farnes and Simon Fraser. On 1 July 2013 Robert Farnes left the Committee and on 1 August 2013 June de Moller was replaced by Richard Dakin. All current members are considered independent by the Board, having no day-to-day involvement with the Company and not having been with the Company for more than nine years. 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. Meetings were attended by the Group's external Auditor, independent property valuers (CBRE) and members of the Group's senior management when invited.

Work of the Committee
During the year, the Committee has carried out the following:

- Reviewed the Group's interim and annual financial statements and the published interim management statements to consider whether, taken as a whole, they were fair, balanced and understandable and provided the information necessary for shareholders to assess the Company's performance, business model and strategy.

  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 and controls that exist for bringing all the relevant information to the attention of the preparers of the report and accounts.
  - Whether the procedures for obtaining assurance over the accuracy of the information were sufficient.
  - The consistency of the reports within themselves and with each other and whether they are in accordance with the information provided to 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 addressed them in the manner described.

  - 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, the external Auditor was asked to prepare a separate report on the procedures carried out in auditing the valuation and the results thereof. In addition, the Committee met with the Group's external valuers before both the interim results and the final results. These meetings were led by members of the Committee with relevant and current expertise in property valuation.

    These procedures enabled the Committee to be satisfied with the assumptions and judgements used in the valuation of the properties.
  - Revenue recognition
    Revenue recognition is a presumed significant risk under International Standards on Auditing (UK and Ireland) and the Committee considered two specific treatments where risk may arise for the Group. These involved the treatment of lease incentives and the recognition of profit arising from a transaction where the profit is conditional on future performance. The Committee sought explanations from management for the treatments adopted and was satisfied with the response. 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 presentation.
  - Going concern
    The Committee noted that this was a matter reserved for the full Board. Having considered those factors that the Board uses in its judgement such as the Group's two year cash flow forecasts, the level of unutilised, committed bank facilities and the projected capital expenditure the Committee concluded that no additional procedures were necessary.
  - 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 so gained.
  - Compliance with the REIT regulations
    The Committee noted that, should the Group not comply with the REIT regulations, it could be expelled from the REIT regime which would have a significant effect on the financial statements. The Committee considered the frequency with which compliance with the regulations was reported to the Board and the margin by which the Group complied and agreed that no further action was required for the current year.

REPORT OF THE AUDIT COMMITTEE
CONTINUED

- Assessed the effectiveness of the external audit
  In carrying out this task the Committee took into account the views of both management and the Auditor. It reviewed the audit plan and considered the quality of the planning, the extent to which it was tailored to the business and its responsiveness to any changes in the business. The Committee also reviewed the content of the external Auditor's management letter and the responses of management to the comments made therein.
- 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:
    - The level of the audit fee.
    - The nature of other services provided to the Group and the fees derived from them.
    - The existence and influence of any associated parties.
    - The duration of the appointment both of the audit firm and of any individuals involved on the audit.
    - Any participation in client affairs.
    - Any financial relationships including share ownership.
    - Any threatened or actual litigation involving the client.
  - 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 were no such appointments in the last two years.
- Conducted a tendering process for the 2014 audit of the Group.

  This was anticipated in last year's report and took into account emerging best practice, the fact that BDO had been the Group's Auditor since 1985 and that the current audit partner reaches the end of his five-year term in 2014.

  The Committee commenced the tendering process in December 2013 and participating firms were asked to submit proposals against a number of specific criteria. In the course of preparing the proposals each firm was given access to members of the Company's senior management and shown a selection of the Group's properties. The final phase of the tendering process will be a presentation to the Committee and executive management in March 2014. Assuming that all the firms meet the criteria for appointment and satisfy the Committee as to their independence, a recommendation will be made to the Board based on the quality of the audit offered. An appropriate resolution will then be put to shareholders at the AGM of the Company to be held on 16 May 2014.
- Reviewed the terms of reference for the Committee.
- 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 no matters raised.

STEPHEN G. YOUNG
CHAIRMAN OF THE AUDIT COMMITTEE

27 FEBRUARY 2014

INDEPENDENT AUDITOR'S REPORT

Independent Auditor's report to the members of Derwent London plc

Opinion on financial statements
In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the parent Company's affairs as at 31 December 2013 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs adopted by the European Union;
- the parent 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.

The financial statements of Derwent London plc for the year ended 31 December 2013 comprise the Group income statement, Group statement of comprehensive income, Group and parent Company balance sheets, Group and parent Company statements of changes in equity, Group and parent Company cash flow statements and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an Auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors
As explained more fully in the statement of Directors' responsibilities, 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 International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

Scope of the audit of the financial statements
A description of the scope of an audit of financial statements is provided on the FRC's website at www.frc.org.uk/auditscopeukprivate.

Our assessment of risks of material misstatement
The following risks have had the greatest impact on our audit strategy and scope:

- the assessment of the carrying value of investment property. The Group uses the valuation carried out by independent valuers as the fair value of its property portfolio. The valuation is based upon assumptions including future rental income, anticipated maintenance costs, future development costs and the appropriate discount rate. The valuers also make reference to market evidence of transaction prices for similar properties;
- revenue recognition, which is a presumed fraud risk under International Standards on Auditing (UK & Ireland). Rental income is recognised on a straight line basis over the lease term. The most significant accounting estimate concerning revenue recognition is management's assessment of the lease term over which incentives are recognised. The lease term is the non-cancellable period for which a lessee has contracted to lease a property together with any further terms for which a lessee has an option to continue to lease the property, with or without further payment, when at the inception of the lease it is reasonably certain that a lessee will exercise the option. Management assess the most appropriate period over which to recognise revenue based on their assessment of lease terms and whether lessees will exercise break options. Management also calculate the fair value of amounts recoverable from property disposals where those amounts are variable depending on future overage calculations. These fair values are sensitive to assumptions around future sales prices, costs and discount rates; and
- compliance with the real estate investment trust (REIT) taxation regime, exempting the Group from tax on both rental profits and chargeable gains.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. For planning, we consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

We determined planning materiality for the financial statements as a whole to be £40,000,000 which reflects the underlying level of precision within the valuation of the investment property portfolio. International Standards on Auditing (UK & Ireland) also allow the Auditor to set a lower materiality for particular classes of transaction, balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. In this context, we set a lower level of materiality of £5,000,000 to apply to those classes of transactions and balances which impact on pre-tax earnings excluding revaluation surpluses and deficits. On the basis of our risk assessment, together with our assessment of the Group's control environment, our judgement is that performance materiality for the financial statements should be 75% of planning materiality, namely £30,000,000 for the financial statements as a whole and £3,750,000 for items affecting adjusted pre-tax earnings. We agreed with the Audit Committee that we would report to the Committee all individual audit differences in excess of £400,000, as well as those individually in excess of £50,000 where the difference affected adjusted pre-tax earnings. We also agreed to report differences below these thresholds that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

The way in which we scoped our response to the risks identified above was as follows:

Carrying value of investment property

- We evaluated the competence, capability and objectivity of the external valuer which included making inquiries regarding interests and relationships that may have created a threat to the external valuer's objectivity. We met with the external valuer to discuss their approach to the valuation and their findings and we reviewed management's instructions to the external valuer and determined whether there were any limitations of scope or restrictions placed upon their work.
- We reviewed the underlying data provided to the external valuer and agreed a sample of data back to source documentation, including title deeds and tenancy agreements.
- We established our own range of expectations for the changes in the valuation of investment property based on externally available metrics, comparable organisations and wider economic and commercial factors. We considered whether the overall movement in the investment property valuation indicated potential management bias to either overstate or understate the valuation. We assessed the movement of all properties against our own expectation and challenged those valuations which fell outside of our range of expectation. Explanations received from the external valuer and management supporting these valuations were corroborated to third party evidence where appropriate.
- We reviewed and challenged management initiated adjustments to the valuations and the appropriateness of these changes with the external valuer. We ensured that any management initiated changes to the valuation were based on relevant matters of fact and corroborated the basis of these changes. We assessed the process adopted by the Board and Audit Committee in meeting with the externals valuer and reviewing and approving the year end valuation.
- In order to further assess the risk of bias in the valuations, we performed a retrospective review of property disposals and compared prices achieved with the most recent valuation. Where significant realised gains were achieved we determined why such differences arose, considered the impact on the year end valuation and corroborated those explanations received.

Revenue recognition

- We carried out testing relating to controls over revenue recognition and undertook analytical and other substantive testing over rental income including reviewing underlying lease documentation. We reviewed all leases where management had determined that it was likely that tenants would exercise break options, thereby amortising the incentive to the lease break point. For each such lease we challenged the determination and ensured that it was based upon a reasonable assessment of the characteristics of the tenant and lease.

  We identified and challenged those assumptions that had the greatest affect on the fair value of the amounts recoverable from previous property disposals under overage agreements and re-performed the calculations made by the Directors.

REIT compliance

- We carried out testing relating to the effectiveness of controls over continuing REIT compliance and conducted tests to detect any breach of the Group's REIT status.

The Audit Committee's consideration of these judgements is set out on pages 113 and 114.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the strategic report and Directors' report or the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit; or
- is otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed.

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the report of the Remuneration Committee to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 88, in relation to going concern; and
- the part of the corporate governance statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review.

We have nothing to report in respect of these matters.

RICHARD KELLY
SENIOR STATUTORY AUDITOR

For and on behalf of BDO LLP, statutory auditor
55 Baker Street
London W1U 7EU
United Kingdom
27 February 2014

Following pages:
1-2 Stephen Street W1