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CORPORATE GOVERNANCE

BOARD OF DIRECTORS

1. Robert A. Rayne, 64
Non-executive Chairman
The Hon R.A. Rayne joined the Board in February 2007. He has been on the boards of a number of public companies, including First Leisure Corporation plc and Crown Sports plc, and is a non-executive Director of LMS Capital plc. He is also a non-executive Director of Weatherford International Inc., and was Chief Executive Officer of London Merchant Securities plc.

2. John D. Burns, 68
Chief Executive Officer
John has been a Director of the Company since 1984 and has overall responsibility for Group strategy, business development and day-to-day operations. He is a member of the strategic board of the New West End Company Limited. He is also a member of the Risk Committee.

3. Damian M.A. Wisniewski, 51
Finance Director
Damian is a chartered accountant and has overall responsibility for financial strategy, treasury, taxation and financial reporting. He joined the Board on 1 February 2010, prior to which he held senior finance roles at Treveria Asset Management, Wood Wharf Limited Partnership and Chelsfield plc. He is a member of the Risk Committee.

4. Simon P. Silver, 62
Executive Director
Simon has overall responsibility for the development and regeneration programme. He became a Director in 1986 and is an honorary fellow of the Royal Institute of British Architects.

5. Paul M. Williams, 52
Executive Director
Paul is a chartered surveyor and was appointed to the Board in 1998. His responsibilities include portfolio asset management, supervision of refurbishment and development projects and sustainability. He is a Director of The Paddington Waterside Partnership.

6. Nigel Q. George, 49
Executive Director
A chartered surveyor, Nigel was appointed to the Board in 1998. He has responsibility for acquisitions and investment analysis. He is a Director of the Chancery Lane Association.

7. David G. Silverman, 43
Executive Director
David joined the Board in January 2008. He is a chartered surveyor and is responsible for investment acquisitions and disposals. He is the immediate past Chairman of Westminster Property Association and sits on its General Council.

8. John C. Ivey, 71
Non-executive Deputy Chairman

A chartered accountant, John was a non-executive Director of RWS Holdings plc until January 2010 and was formerly Chief Executive of Berendsen plc. He has served on the Board since 1984 and is a member of the Nominations Committee.

9. Stuart A. Corbyn, 68
Senior Independent Director

Stuart is a chartered surveyor. He was appointed to the Board in 2006. Until December 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. He chairs the Nominations Committee and is a member of the Audit and Remuneration Committees.

10. Robert A. Farnes, 67
Non-executive Director

Robert is a chartered surveyor. He was previously the Chairman of CB Hillier Parker and joined the Board in 2003. He is a member of the Remuneration, Audit and Nominations Committees.

11. June de Moller, 65
Non-executive Director

June joined the Board in February 2007. She is a non-executive Director of Temple Bar Investment Trust plc. Previously, she was Managing Director of Carlton Communications Plc and a non-executive Director of Cookson Group plc, BT plc, AWG plc, J Sainsbury plc, Archant Limited and London Merchant Securities plc. She chairs the Remuneration Committee and is a member of the Audit, Risk and Nominations Committees.

12. Simon Fraser, 49
Non-executive Director

Simon joined the Board in September 2012 and is a member of the Audit and Remuneration Committees. From 1997 to his retirement at the end of 2011, he worked at Bank of America Merrill Lynch where he had been managing director and co-head of corporate broking since 2004.

13. Stephen G. Young, 57
Non-executive Director

Stephen is a chartered management accountant. He joined the Board in August 2010. He is Group Finance Director at Meggitt plc. Previously, he held the position of Group Finance Director at Thistle Hotels plc and the Automobile Association. He chairs the Audit and Risk Committees whilst serving on the Remuneration and Nominations Committees.

14. Timothy J. Kite
Company Secretary

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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 business review 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.

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
28 February 2013

DIRECTORS' REPORT

Corporate governance

The Directors present their report and the financial statements for the year ended 31 December 2012.

Chairman's letter on corporate governance

On behalf of the Board I am pleased to present the Group's Corporate Governance report for 2012.

The rules and regulations that define Corporate Governance continue to expand and best practice continues to evolve. Consequently, Governance in its broadest sense demands more time and resources. However, at Derwent London we see adhering to these requirements as not only an exercise in compliance but also essential to the running of a successful and sustainable business.

The Company is subject to the provisions of the UK Corporate Governance Code (the Code) which was introduced by the Financial Reporting Council (FRC) in 2010. During 2012 a number of revisions were made which we will be required to comply with for our year ending December 2013. For 2012, the Board believes that the Company has complied with the main and supporting principles of the Code except for provision B.1.1 which addresses the independence of non-executive Directors. This matter is discussed more fully in the following section. In addition we have complied with a number of the new requirements.

Developments in the corporate governance framework during the year mean that the Group's Board Committees have had to consider the implications of a number of new issues, some of which I comment on below:

Diversity

In overseeing the Board refreshment process, the Nominations Committee was conscious of the increased focus on diversity in the boardroom. As a Board we acknowledge the importance of all aspects of diversity including gender, ethnic origin, business skills and experience, not only because it is right to do so but also because it is good for business. However, to be successfully implemented, change cannot be forced but can only be made gradually to reflect the natural pace of Board succession and the desired rate of refreshment, without being unduly influenced by an aspiration to affect the diversity of the Board.

To ensure that a sufficiently diverse list of potential candidates is considered when a new non-executive Director is being sought, we use external recruitment consultants who subscribe to the "Voluntary Code of Conduct for Executive Search Firms" and request that female candidates of equal merit are included on the list of candidates.

Risk

The introduction of the Group's Risk Committee at the end of 2011 appears to have been well timed as the nature of risks to the business and the management thereof has become subject to increased scrutiny.

Social media is being used more and more in the business environment and the high velocity with which news, both good and bad, is propagated in this medium could pose a particular risk to the Group's reputation. To address this we have put in place measures to monitor the content of the various forums and established an agreed procedure which would be implemented in a case of adverse or false comments.

On a separate front, potential legislation currently being consulted upon may, if enacted, prevent private investors from acquiring shares in REITs with a consequent possible effect on the Group's share price. Along with others, we have lobbied on this proposal through the British Property Federation and wait to see the result of the industry's efforts.

Further details of the work of the Risk Committee are given on pages 102 and 103 and the Group's risk management processes are detailed on pages 30 to 33.

Remuneration

There has been much focus on executive remuneration over the last few years and 2012 saw the publication of wide reaching proposals on the subject by the Department for Business, Innovation and Skills (BIS). We agree with many of the proposals, in particular the requirement to publish a single figure for Directors' remuneration which will allow for more meaningful comparisons to be made. We have always published a single figure in our report of the Remuneration Committee albeit calculated on a different basis from that currently proposed by BIS. We have continued to use our method this year as the BIS basis has not yet been finalised.

Corporate Social Responsibility (CSR) continues to increase its prominence on the governance agenda and for the first time we have sought third party assurance of our figures. This will establish a firm base year for our reporting and allow us to monitor our performance and progress in this area more accurately in the future.

Once again, I would like to stress the importance of the Annual General Meeting (AGM) as an opportunity for shareholders to meet the management team and encourage you to attend on 17 May 2013.

Robert A. Rayne
Chairman
28 February 2013

Business review
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, performance and sustainability sections of the report and accounts. The information required by section 417 of the Companies Act 2006 and by rules 4.1.8 to 4.1.11 of the Disclosure and Transparency Rules is given on pages 14 to 73. These sections should be read in conjunction with this report and are incorporated into the Directors' report by reference. The disclosures in respect of the use of financial instruments are given in notes 27 and 28 of the financial statements.

The Board and Board Committees
Following the retirement of Simon Neathercoat at the end of the year the Board consisted of:

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

Simon Fraser joined the board on 1 September 2012.

As noted above, John Ivey and Robert Farnes do not qualify to be deemed independent using the criteria set out in provision B.1.1. of the Code. The Board has therefore specifically considered their independence.

At the year end both had served on the board for more than nine years and are therefore not deemed independent. The Board does not believe that length of service is necessarily an accurate indication of the degree of independence of a Director and therefore has reviewed the manner in which both Directors carried out their duties during the year. In the Board's opinion, they both continue to demonstrate commitment to their roles and to exercise their expertise in an effective and independent manner.

Robert Farnes' period of service as a non-executive Director reached nine years on 31 March 2012 and in accordance with best practice, on 1 April 2012 he handed over the chairmanship of the Remuneration Committee to June de Moller and was replaced by Stuart Corbyn as the Group's Senior Independent Director.

Neither John Ivey nor Robert Farnes has any association with management that might compromise their independence and both are standing for re-election at the Company's AGM on 17 May 2013.

During the year the process of refreshment which was introduced in 2010 was continued. This was instigated to address the independence issues that had been identified at that time, through an orderly process of change. In 2011, the independent executive search agency, Spencer Stuart, was appointed to assist with the recruitment of two new independent non-executive Directors over a period of 18 months. Simon Fraser, who was appointed to the Board on 1 September 2012, is the first new director under this initiative, and this was followed by the retirement of Simon Neathercoat at the end of the year. It is anticipated that another non-executive Director will be appointed during 2013 and that John Ivey will retire shortly thereafter.

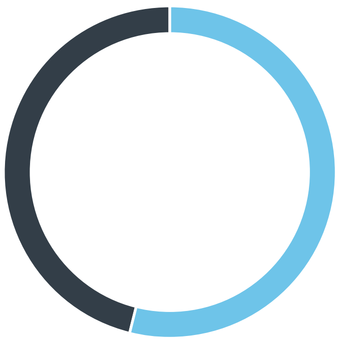
As part of the refreshment process, the Directors continue to assess the composition and diversity of the Board having particular regard to its gender diversity and the enhanced requirements in this area due to be introduced in the 2012 revision of the Code. One of these requirements is to publish an aspirational target for the number of women on the board. The Board currently includes one female (8%) and remains reluctant to publish such a target as it is convinced that future appointments should be based solely on the merit of the candidates. The gender mix throughout the company is illustrated in the diagrams opposite.

Taking all factors into account, the Directors continue to 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 operation of the business.

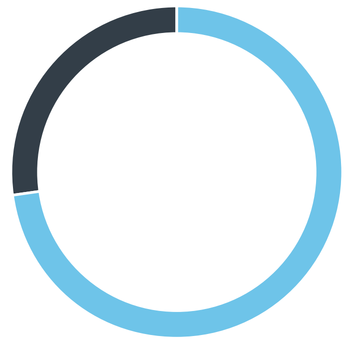
The Board is responsible for setting the company's strategic aims, for ensuring that adequate resources are available to meet its objectives and for reviewing management performance. A formal list of matters reserved for the full Board's approval is maintained and reviewed periodically. The full Board met six times during the year and six meetings are scheduled for 2013. Extra meetings will be arranged if necessary. During the year, the executive Board was expanded to create an executive committee. This committee consists of the executive Directors plus three of the Group's senior managers and met 12 times throughout the year. Both bodies are provided with comprehensive papers in a timely manner to ensure that the members are fully briefed on matters to be discussed at these meetings.

Gender diversity – Whole company %



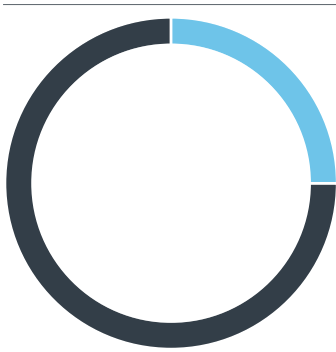
Male	**54**
Female	**46**

Gender diversity – Senior management (excluding Directors) %



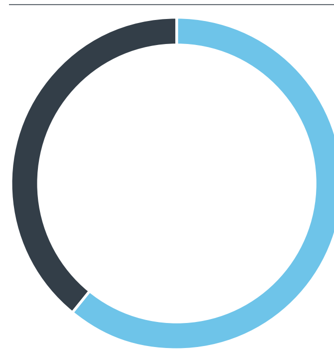
Male	**73**
Female	**27**

Gender diversity – Support staff %



Male	**25**
Female	**75**

Gender diversity – Professional staff %



Male	**61**
Female	**39**

The Board maintains a number of Board Committees. The terms of reference of each Committee are available on the Group's website. Set out below are details of the membership and duties of the four principal Committees that operated throughout 2012.

Remuneration Committee
At the start of the year the Committee comprised of June de Moller, Stuart Corbyn and Stephen Young under the chairmanship of Robert Farnes. June de Moller took over as Chairman on 1 April 2012 and Simon Fraser joined the Committee on 1 January 2013, slightly later than originally planned. He will become Chairman of the Committee after the Group's AGM in May 2013 and, in order to ensure a smooth transition, it has been decided that Robert Farnes will remain on the Committee until that date. The Committee is responsible for establishing the Company's remuneration policy and individual remuneration packages for the executive Directors. There were six meetings of the Committee in 2012 and the report of its activities is set out on pages 89 to 99.

Audit Committee
This Committee is chaired by Stephen Young and was served throughout the year by Stuart Corbyn, Robert Farnes and June de Moller. Simon Fraser joined the Committee on 1 September 2012 and Robert Farnes will step down following the Group's AGM in May 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 Company's auditor. The Committee met four times during 2012 and the report of the Audit Committee is on page 105.

Nominations Committee
The Committee consists of John Ivey, Robert Farnes, June de Moller, Simon Neathercoat and Stephen Young and is chaired by Stuart Corbyn. Its 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 Company. The Committee met three times during 2012. The report of the Nominations Committee is on page 101.

Risk Committee
The Risk Committee was established in November 2011. It is chaired by Stephen Young and was served throughout the year by June de Moller, John Burns and Damian Wisniewski. The Committee's main responsibility is to review the effectiveness of the Company's internal control and risk management systems. It met three times during the year and the Committee report is on page 103.

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	12	6	4	3	3
Executive						
J.D. Burns	6	12	–	–	–	3
S.P. Silver	6	10	–	–	–	–
D.M.A. Wisniewski	6	12	–	–	–	3
P.M. Williams	6	12	–	–	–	–
N.Q. George	6	12	–	–	–	–
D.G. Silverman	6	11	–	–	–	–
Non-executive						
R.A. Rayne	6	–	–	–	–	–
J.C. Ivey	6	–	–	–	2	–
S.J. Neathercoat	6	–	–	–	3	–
R.A. Farnes	6	–	6	4	3	–
S.A. Corbyn	6	–	6	4	3	–
J. de Moller	6	–	6	4	3	3
S.G. Young	6	–	6	4	3	3
S. Fraser (from 1 September 2012)	2	–	–	1	–	–

Performance evaluation

With regard to the requirement of provision B.6.2 of the Code and having used an independent third party to facilitate the annual review of the effectiveness of the Board last year, the Board undertook an internal assessment in 2012.

The review was initiated by all Directors completing a questionnaire prepared by the Chairman, Senior Independent Director and Company Secretary which covered the processes and performance of the Board, its Committees and the Chairman. It was decided that the performance of individual Directors would be assessed by means of one-to-one meetings between the Chairman and the Directors.

The anonymous responses were summarised by the Company Secretary and reviewed by the Chairman, the Senior Independent Director or the Committee chairmen as appropriate. Any significant matters were discussed with the individual Directors by the Chairman.

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 Company. 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 part of the questionnaire. As part of this review, we identified an opportunity to further enhance the breadth and depth of our communication with shareholders by increasing the number of meetings that the Chairman has with investors. This matter will be addressed in the first half of 2013.

Directors

Appointment and replacement of Directors

The appointment of a Director from outside the Company 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, Provision B.7.1 of the Code requires that all Directors are subject 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 pages 76 and 77.

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

All Directors have access to the services of the Company Secretary and any Director may instigate an agreed procedure whereby independent professional advice may be sought at the Company's expense. Directors' and Officers' Liability Insurance is maintained by the Company.

Directors' interests

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, either under the Executive Share Option Scheme or the Performance Share Plan, are shown below. All of these interests are held beneficially.

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.

There have been no changes in any of the Directors' interests between the year-end and 28 February 2013.

The Directors do not participate in the Group's Executive Share Option Scheme. Details of the options exercised by Directors are given in the report of the Remuneration Committee (pages 89 to 99). A conditional grant of 230,925 shares was made to Directors under the Performance Share Plan (PSP) whilst 173,925 shares vested to the Directors from an earlier conditional award at a zero exercise price. The remaining 173,925 shares of this award made to Directors lapsed.

Other than as disclosed in note 40, 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 12	31 Dec 11	**31 Dec 12**	31 Dec 11
R.A. Rayne[1]	**4,409,295**	4,409,295	**91,730**	157,345
J.C. Ivey	**79,072**	79,072	**–**	–
J.D. Burns	**760,031**	737,127	**199,543**	241,683
S.P. Silver	**364,939**	346,465	**171,120**	206,521
N.Q. George	**33,846**	20,348	**103,695**	125,122
P.M. Williams	**35,622**	35,168	**103,695**	125,122
D.G. Silverman	**8,879**	6,821	**89,705**	108,543
D.M.A. Wisniewski	**816**	–	**100,352**	67,221
S.J. Neathercoat (retired 31 December 2012)	**–**	8,000	**–**	–
R.A. Farnes	**6,838**	6,838	**–**	–
S.A. Corbyn	**1,000**	1,000	**–**	–
J. de Moller	**2,985**	2,985	**–**	–
S.G. Young	**1,000**	1,000	**–**	–
S. Fraser (joined 1 September 2012)	**–**	–	**–**	–

[1] Includes shares held by the Rayne Foundation of which he is a trustee

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. Communication with shareholders will be further enhanced by the increase in the number of meetings between the Chairman and investors discussed above. The annual report, which is available to all shareholders, reinforces this communication. During the year, the Group's website www.derwentlondon.com has been updated so as to provide a more functional source of information for shareholders and the presentations made to analysts at the time of the Group's interim and full year results are made available on the website. The AGM provides an opportunity for shareholders to question the Directors and, in particular, the chairman of each of the Board Committees. An alternative channel of communication to the Board is available through Stuart Corbyn, the Senior Independent Director.

Risk management and internal control
The principal risks and uncertainties facing the Group in 2013 together with the controls and mitigating factors are set out on pages 30 to 33. 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 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.

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 28 February 2013, 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 29 to the financial statements.

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 Services 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 2012 to allot relevant securities up to a nominal amount of £1,694,567. 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 £1,699,522 and (ii) up to a nominal amount of £3,399,044 (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 £254,928. 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 10,197,134 ordinary shares and the resolution sets the minimum and maximum prices which may be paid.

Treasury shares

At 31 December 2012 the Company held 42,895 shares as treasury shares in order to deliver the deferred bonus shares to the Directors when the deferral period expires. Movements on the holding of treasury shares are detailed in the table below.

Treasury shares	Number of 5p ordinary shares	Percentage of issued share capital %	Price £	Aggregate consideration £
Acquired on 25 March 2011	25,322	0.025	15.55	393,757
Holding at 31 December 2011	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**

Substantial shareholders

In addition to those of the Directors disclosed on page 83, the Company has been notified of the following interests in the issued ordinary share capital as at 28 February 2013.

	Number of shares	Percentage of issued share capital
Cohen & Steers Capital Management Inc	5,231,757	5.13
Ameriprise Financial Inc	5,132,584	5.03
BlackRock Investment Management (UK) Ltd	5,035,211	4.94
Standard Life Investments	4,284,390	4.20
Third Avenue Management LLC	3,944,764	3.87
Withers Trust Corporation Ltd	3,942,641	3.86
Lady Jane Rayne[1]	3,593,838	3.52

[1] Includes shares held by the Rayne Foundation of which she is a trustee

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.

Creditor payment policy

The Group's policy is to agree terms of business with suppliers prior to the supply of goods or services. In the absence of any dispute, invoices are paid in accordance with these terms. For the year ended 31 December 2012, the average payment period was 24 days (2011: 24 days).

Charitable donations

The Group made charitable donations of £0.1m during the year (2011: £0.1m).

Fixed assets

The Group's freehold and leasehold investment properties were professionally revalued at 31 December 2012, resulting in a surplus of £183.3m, before deducting the lease incentive adjustment of £8.0m. The freehold and leasehold properties are included in the Group balance sheet at a carrying value of £2,807.0m. 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 37 of the financial statements.

Going concern

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

i) 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
ii) The headroom under the Group's financial covenants
iii) The risks included on the Group's Risk Register that could impact on the Group's liquidity and solvency over the next 12 months.
iv) 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 risk and risk management processes are set out on pages 30 to 33.

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 is 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

BDO LLP have expressed the willingness to continue in office and accordingly, resolutions to re-appoint them and to authorise the Directors to determine their remuneration will be proposed at the AGM. These are resolutions 17 and 18 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 four resolutions to be considered as special business.

Resolution 19 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 £1,699,253 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 £3,398,506, 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 2014.

Resolution 20 is a special resolution, proposed annually, and will renew the Directors' authority under Sections 570 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 £255,040 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 three-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 19 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 2014.

Resolution 21 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 2014.

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 21, 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 61,211 shares in treasury.

The total number of options to subscribe for ordinary shares outstanding at 28 February 2013 was 1,098,880 which represented 1.08% of the issued share capital (excluding treasury shares) at that date. If the Company were to purchase the maximum number of ordinary shares permitted by this resolution, the options outstanding at 28 February 2013 would represent 1.33% of the issued share capital (excluding treasury shares).

Resolution 22 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
28 February 2013

LETTER FROM THE CHAIRMAN OF THE REMUNERATION COMMITTEE

Dear Shareholder

I am pleased to present the Remuneration Committee's report on Director's remuneration for 2012.

As you may be aware, the Government has tabled proposals to reform the way Directors' remuneration is voted upon and reported. In particular, the Department for Business, Innovation and Skills (BIS) has produced two consultation papers, the results of which, amongst other things, will have an impact on the content and presentation of information in the report of the Remuneration Committee.

The new legislative requirements will not come into effect until October 2013 but, although not mandatory for this report, the Committee has decided to adopt some of these changes early. Consistent with the proposals, the report has been split into two sections: a Policy Section, which sets out the policy on the remuneration of the executive and non-executive Directors, and an Implementation Section, which discloses how the remuneration policy has been implemented for the year ending 31 December 2012. We will be seeking your support for both parts of the report by way of a single advisory vote at the forthcoming AGM on 17 May 2013.

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 right people. At a senior level, the Remuneration Committee is responsible for maintaining a remuneration structure that achieves this.

Performance and reward

As discussed in the Business Review, the Group has delivered an increase in EPRA net assets per share of 10.9% and a total return of 12.7%. This strong performance in two of the Group's key KPIs resulted in a bonus entitlement of 85.41% once the Committee's discretionary element was added to the mathematical result.

The current economic climate has led to a debate about the "correct" amount of tax that should be paid as opposed to the legal amount. It is against this background that the Committee has decided to pay the Directors' bonuses in March, as in previous years, rather than delay the payment into April when tax rates will be lower. The Committee believes that this is in keeping with the governance standards expected of the Company by its investors.

Awards made under the PSP in 2009 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 during the year and 50% of the total awards vested as a result of upper quartile positioning against the TSR peer group. Awards made under the PSP in 2010 are subject to the same performance conditions with the net asset value part of the award measured to 31 December 2012 and the TSR part measured to 1 April 2013. The Committee believes the annual bonus outturn and PSP vesting during the year fairly represents the Group performance over their respective performance periods.

Remuneration Policy for 2013

We are committed to ensuring that rewards for executives are closely 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.

The Committee is satisfied with the current structure of incentive arrangements – being an annual bonus plan (with a portion deferred in shares) and awards under a PSP. Moreover, we believe the current mix of targets under both incentive schemes is appropriate for the year ahead. That said, the Group's PSP expires in 2014 and we will be taking this opportunity to undertake a full review of the remuneration structure over the coming year. The Remuneration Committee encourages dialogue with the Company's leading shareholders and will consult with major shareholders ahead of any significant changes to the remuneration policy.

The Committee reviewed executive Directors' salary levels in December 2012 and agreed a basic increase of 3% for 2013 which took into account another excellent year of performance by the management team over all areas of the business in 2012, 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 made a further award to one recently appointed Director in recognition of his increased experience and importance to the business.

The Committee is committed to ensuring that an appropriate balance is struck between the rewards made available to our executives and the risk profile of the Company and keeps the impact of remuneration on risk under review. As part of our considerations on risk, and in line with emerging best practice, the Committee introduced clawback provisions into the annual bonus plan and PSP during 2012. Following these changes the Committee remains satisfied that the Company's remuneration policy is fully aligned with the risk profile of the Company.

In times when companies' remuneration policies are subject to a high level of scrutiny, it is pleasing to note that at last year's AGM, the Directors' remuneration report was approved by 95% of the votes cast. This level of support from shareholders reinforces the Committee's view that the current remuneration structure accords with best practice and that the performance measures used in the variable pay elements of the structure are suitably aligned to the Company's overall performance.

June de Moller
Chairman of the Remuneration Committee
28 February 2013

REPORT OF THE REMUNERATION COMMITTEE

Policy report
This part of the report of the Remuneration Committee sets out the remuneration policy for the Company with effect from 1 January 2013. There are no changes to the policy compared to 2012, which the Committee considers still supports the Group's philosophy and is directly aligned with the business strategy.

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 who 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 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 areas covered in this policy report comprise:

- A table setting out the remuneration policy for executive Directors.
- Remuneration scenarios for executive Directors.
- Description of key remuneration related aspects of service contracts.
- Chairman's and non-executive Directors' fees.

2013 executive Director policy table

	Purpose and link to strategy	How operated	Maximum opportunity	Performance metrics	Changes in the year
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; and ■ levels in companies with similar characteristics.	Annual increases generally linked to those of the wider workforce though the Remuneration Committee retain discretion to award increases to individuals above this level where appropriate. For promotions, role changes or where a Director gains experience of being in the role, salary increases may be higher than that of the workforce.	None	Directors' salaries increased by approximately 3% for 2013[1]. An additional increase of £12,000 was awarded to Mr Silverman which continues to move his salary towards the market benchmark.
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.	n/a	None	None
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 payments in lieu are made.	Directors receive a contribution of 20% of salary.	None	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. Measures and targets for the year ahead are reviewed by the Committee at the start of each financial year. 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. Bonus payments are not pensionable. Clawback provisions apply in the event of misstatement or misconduct.	Maximum bonus potential, for the achievement of stretching performance conditions: John Burns and Simon Silver – 150% of salary. Other executive directors – 125% of salary.	37.5% of the maximum is based on Group's net asset value performance against IPD Central London Offices Total Return Index. 37.5% based on Group's total return against that of major real estate companies. 25% based on personal performance objectives. Total return is one of the KPIs used to measure the Group's overall success and its use in calculating a significant part of the Directors' bonus ensures an alignment between delivery of the Group's strategy and Directors' remuneration.	Clawback provisions were implemented during 2012.

	Purpose and link to strategy	How operated	Maximum opportunity	Performance metrics	Changes in the year
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. The Committee considers the appropriateness of measures, their relative weightings and targets prior to each grant. Clawback provisions apply in the event of misstatement or misconduct. Where an employee retires during the three-year vesting period, their award will be adjusted in accordance with the scheme rules. 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.	Normal limit – 200% of salary. Limit in exceptional circumstances (e.g. recruitment) – 300% of salary. Working policy limits currently set at: John Burns and Simon Silver – 175% of salary. Other executive directors – 150% of salary.	50% determined by the Group's total shareholder return compared to a bespoke comparator group of real estate companies[2]. 25% vests at median performance with full vesting at upper quartile performance. No awards vest for below median performance. 50% determined by the Group's net asset value growth compared to the IPD Central London Offices Total Return Index. 25% vests at median performance with full vesting for exceeding the median by 5%. No awards vest for below median performance. Vesting is on a straight line basis between threshold and maximum. The Committee has discretion to reduce the extent of vesting in the event that it considers that performance against the relevant measure of performance (whether TSR or NAV growth) is inconsistent with underlying financial performance.	Clawback provisions were implemented during 2012.
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 – 100% of salary.	None	None
New appointments	Base salary levels will be set to reflect the experience of the individual, appropriate market data and internal relativities. If it is considered appropriate to appoint a new director on a below market salary through external recruitment or internal promotion, they may be the subject of a series of increases to a desired salary over an appropriate time frame, (e.g. two to three years), subject to performance in post. Normal policy will be for the new director to participate in the remuneration structure detailed above. 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 an exceptional performance related LTIP award).				
Exit payment policy	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 mitigation 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. 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, standard "good leaver" definitions are included in the plan rules which also include the facility to reduce vested awards pro-rata for time served in the relevant period.				

[1] The basic salaries effective from 1 January 2013 (2012 equivalents in brackets) are: John Burns £584,000 (£567,000), Simon Silver £501,000 (£486,000), Nigel George £372,000 (£361,000), Paul Williams £372,000 (£361,000), Damian Wisniewski £372,000 (£361,000), David Silverman £357,000 (£335,000).

[2] The TSR Comparator Group for 2013 awards remains unchanged from the prior year. The peer companies are:
Big Yellow Group plc, British Land plc, Capital & Regional plc, Capital Shopping Centres Group plc, Great Portland Estates plc, Hammerson plc, Intu Properties plc, Land Securities plc, Quintain Estates and Development plc, St Modwen Properties plc, Segro plc, Shaftesbury plc and Workspace Group plc.
TSR will be measured over a single three-year performance period from the date of grant and will be calculated by comparing average performance over three months prior to the start and the end of the performance period. TSR calculations are performed independently for the Committee by NBS.

REPORT OF THE REMUNERATION COMMITTEE CONTINUED

Service contracts

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.

As mentioned in the policy table, 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 mitigation 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.

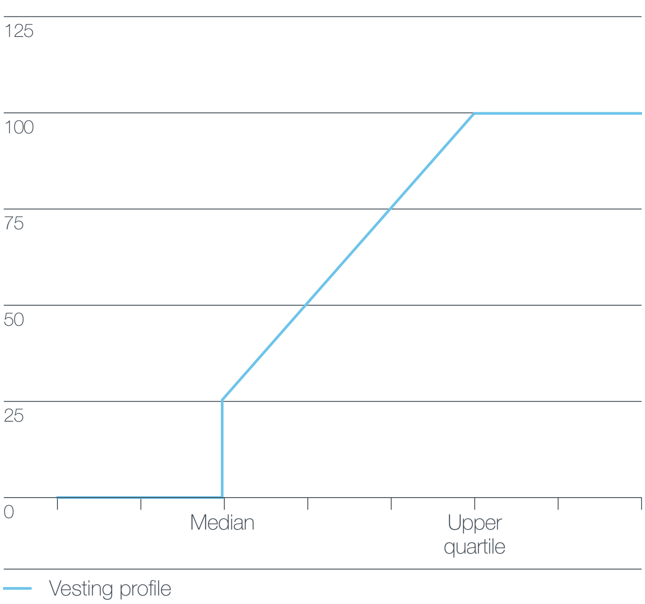
Chairman and non-executive Directors

The remuneration for the Chairman is set by the full Board. The remuneration for non-executive Directors, which consists of fees for their services in connection with Board and Board committee meetings and, where relevant, for additional services such as chairing a Board committee, is also set by the whole Board. As part of the recruitment process, the remuneration of the non-executive Directors was reviewed during 2012 to ensure that the fees were at an appropriate level. 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 historic LMS Executive Share Option Scheme, details of which are given in table 4 on page 97.

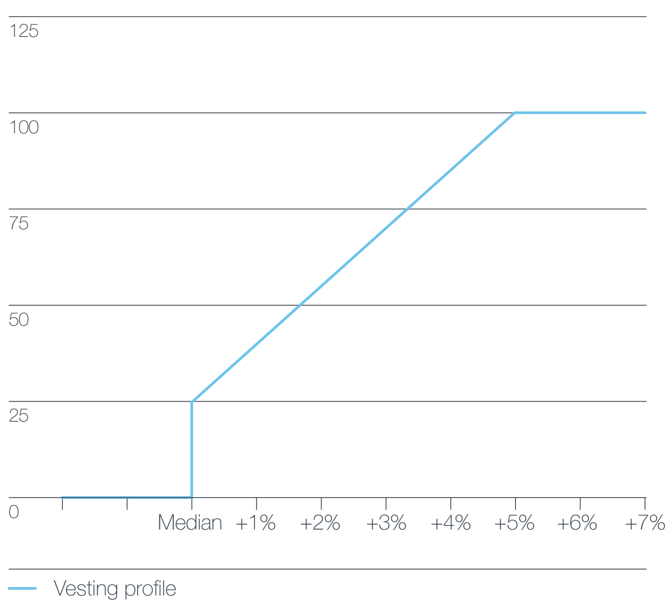
The non-executive Directors do not have service contracts and are appointed for three-year terms which expire as follows: Stuart Corbyn, 23 May 2015; June de Moller, 31 January 2016; Stephen Young, 9 July 2013; John Ivey, 12 December 2014 and Robert Farnes, 31 December 2014. Mr Rayne has a letter of 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, which are similar to those for the executive Directors.

The vesting profiles of the two elements of the LTIP are illustrated in the diagrams below:

Vesting profile of LTIP element measured against comparator group
vesting percentage



Vesting profile of LTIP element measured against IPD
vesting percentage



How the pay of employees is taken into account

In determining the remuneration policy for executive Directors, the Committee takes account of the policy for employees across the workforce. The remuneration policy is broadly consistent for executive Directors and the remainder of the workforce. It should be noted that the constituent parts of the employees' remuneration package, which includes both an option and bonus scheme, were similar to those of the Directors and that the average pay increase awarded for 2013 was in line with the basic increase made to the Directors.

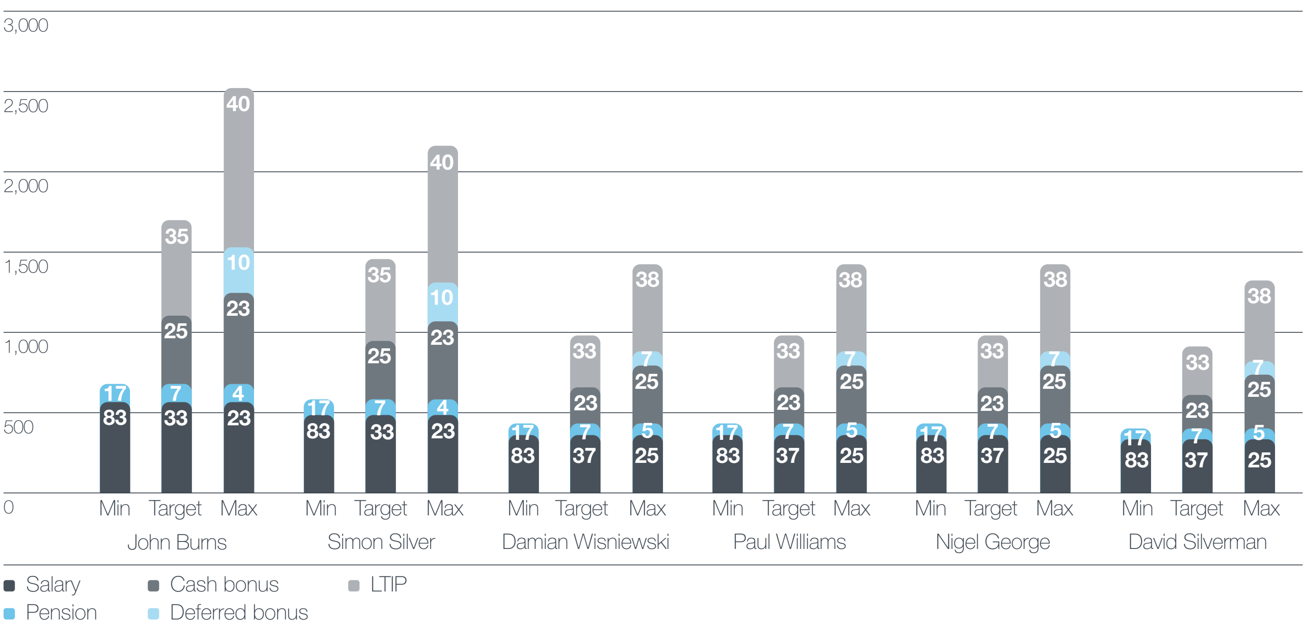
How the views of shareholders are taken into account

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.

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

Total remuneration opportunity[1] £'000



[1] The figures in this graph represent the percentages of total remuneration for each given scenario

The target figures reflect the Committee's intention that, on average, the LTIP will deliver 60% of the maximum potential and the bonus scheme 50% of potential.

Implementation report

Remuneration Committee

At the start of the year, the Remuneration Committee (the Committee) consisted of Stuart Corbyn, June de Moller and Stephen Young under the chairmanship of Robert Farnes. On 1 April 2012 June de Moller took over as chairman of the Committee because Robert Farnes had reached nine years of service on this date. Simon Fraser joined the Committee on 1 January 2013. 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.

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

New Bridge Street (NBS) – a trading name of Aon Hewitt Limited (an Aon plc company) – 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 determined entitlements under the bonus scheme and the extent of vesting of the conditional share awards and ensures that the measures used for both schemes are comparable and consistent. During 2012 NBS received fees amounting to £28,000 for advising the Committee and 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 were discussed with John Burns. The Company Secretary acted as secretary to the Committee.

Table 1

2012	Salary and fees £'000	Bonus Cash £'000	Bonus Deferred £'000	Benefits in kind £'000	Sub total £'000	Gains from equity-settled schemes £'000	Total £'000	Pension and life assurance £'000
Executive								
J.D. Burns	567	567	160	50	1,344	931	2,275	112
S.P. Silver	486	486	137	35	1,144	792	1,936	96
D.M.A. Wisniewski	361	361	24	20	766	–	766	72
N.Q. George	361	361	24	16	762	479	1,241	75
P.M. Williams	361	361	24	20	766	479	1,245	76
D.G. Silverman	335	335	23	19	712	402	1,114	67
Non-executive								
R.A. Rayne	150	–	–	32	182	672	854	–
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. Fraser	15	–	–	–	15	–	15	–
	2,962	**2,471**	**392**	**192**	**6,017**	**3,755**	**9,772**	**498**

2011	Salary and fees £'000	Bonus Cash £'000	Bonus Deferred £'000	Benefits in kind £'000	Sub total £'000	Gains from equity-settled schemes £'000	Total £'000	Pension and life assurance £'000
Executive								
J.D. Burns	550	550	192	48	1,340	689	2,029	116
S.P. Silver	472	472	165	34	1,143	585	1,728	105
D.M.A. Wisniewski	340	340	43	20	743	–	743	74
N.Q. George	350	350	44	18	762	354	1,116	80
P.M. Williams	350	350	44	20	764	354	1,118	80
D.G. Silverman	300	300	37	19	656	260	916	65
Non-executive								
R.A. Rayne	150	–	–	31	181	–	181	–
J.C. Ivey	58	–	–	–	58	–	58	–
S.J. Neathercoat	48	–	–	–	48	–	48	–
R.A. Farnes	58	–	–	–	58	–	58	–
S.A. Corbyn	52	–	–	–	52	–	52	–
J. de Moller	47	–	–	–	47	–	47	–
D. Newell	20	–	–	–	20	–	20	–
S.G. Young	51	–	–	–	51	–	51	–
	2,846	**2,362**	**525**	**190**	**5,923**	**2,242**	**8,165**	**520**

Donald Newell retired in May 2011 and Simon Fraser joined the Board on 1 September 2012.

The gains from equity-settled schemes are based on i) the TSR element of the 2009 PSP award which vested on 2 May 2012 based on a performance period which ended on 15 April 2012 and a share price of £17.57 (being the share price at the date of vesting), and ii) the NAV element of the 2009 PSP award which was based on a performance period which ended on 31 December 2011 and also vested on 2 May 2012 with the same share price.

This approach is not in accordance with the latest BIS proposals and will be reviewed over the next year once the proposals and their related guidance have been finalised.

Determination of 2012 annual bonus outcome

Provision has been made for a bonus for 2012 of 85.41% (2011: 90.00%) of the maximum potential. In making this award, the Committee has given due regard to the performance measures mentioned above, the Group's total shareholder return for the year and the other achievements outlined earlier in the report and accounts in particular the further diversification of the Group's sources of finance, the progress made with the development pipeline, the level of lettings achieved and the astute acquisitions and disposals.

Performance Share Plan

Details of the conditional share awards held by Directors and employees under the Group's PSP at 31 December 2012 are given 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
11.57	05/06/11	75,625	64,275	40,825	38,875	38,875	28,500	–	15,550	302,525
8.25	15/04/12	106,000	90,150	57,250	54,500	54,500	42,700	–	23,000	428,100
13.66	01/04/13	67,250	57,650	–	36,780	36,780	30,190	34,590	14,640	277,880
Interest as at 1 January 2011		248,875	212,075	98,075	130,155	130,155	101,390	34,590	53,190	1,008,505
Shares conditionally awarded during the year:										
Market price at award date £	Earliest vesting date									
16.43	01/04/14	58,550	50,250	–	31,950	31,950	27,350	31,000	12,750	243,800
Shares vested or lapsed during the year:										
Market price at award date £	Market price at date of vesting £									
11.57	18.22	(37,813)	(32,138)	–	(19,438)	(19,438)	(14,250)	–	(7,775)	(130,852)
11.57	18.06	–	–	(13,608)	–	–	–	–	–	(13,608)
11.57	Lapsed	(37,812)	(32,137)	(27,217)	(19,437)	(19,437)	(14,250)	–	(7,775)	(158,065)
Interest as at 31 December 2011		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**

	31 December 2012	31 December 2011	1 January 2011
Weighted average exercise price of PSP awards	–	–	–
Weighted average remaining contracted life of PSP awards	1.21 years	1.08 years	1.30 years

REPORT OF THE REMUNERATION COMMITTEE
CONTINUED

At each year end, none of the outstanding awards were exercisable. The weighted average exercise price of awards that either vested or lapsed in 2012 was £nil (2011: £nil). The weighted average market price at the date of vesting in 2012 was £17.57 (2011: £18.20).

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 TSR comparator group consists of a defined group of real estate companies. The comparator group for 2012 comprised the following – Big Yellow Group plc, British Land plc, Capital & Regional plc, Capital Shopping Centres Group plc, Great Portland Estates plc, Hammerson plc, Intu Properties plc, Land Securities 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 out-performing the median performing property by 5% per annum.

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.

Determination of PSP awards vesting
The performance criteria in respect of the 2009 award were measured on 16 April 2012 and showed an overall vesting percentage of 50% as a result of the group achieving upper quartile TSR performance against the comparator group and that part of the award thus vesting in full. The balance of the 2009 award (based on NAV performance measured to 31 December 2011) lapsed.

As required by the scheme rules, before allowing any vesting, the Committee considered whether the Group's TSR and NAV performance reflected its underlying financial performance. Having considered a range of key financial indicators, including profits and total return, the Committee concluded that, for the parts of the 2009 and 2010 awards with measurement periods ending in 2012, this was the case.

Share option schemes
Details of the options held by Directors and employees under the Group's share option schemes at 31 December 2012 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
10.710	26/04/08	25/04/15	–	7,000	7,000
13.630	08/06/09	07/06/16	6,750	4,500	11,250
Outstanding at 1 January 2011			6,750	11,500	18,250
No options were granted, exercised or lapsed in 2011					
Outstanding at 31 December 2011			6,750	11,500	18,250

Options exercised during 2012

Exercise price £	Market price at date of exercise £	D.G. Silverman	Employees	Total
13.63	17.57	(6,750)	–	(6,750)
10.71	19.70	–	(7,000)	(7,000)
		(6,750)	(7,000)	(13,750)
Outstanding at 31 December 2012		**–**	**4,500**	**4,500**

The weighted average exercise price of options exercised in 2012 was £12.14 (2011: £nil) and the weighted average market price at the date of exercise was £18.65 (2011: £nil).

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.

	31 December 2012	31 December 2011	1 January 2011
Number of shares:			
Exercisable	4,500	18,250	18,250
Weighted average exercise price of share options:			
Exercisable	£13.63	£12.51	£12.51
Weighted average remaining contracted life of share options:			
Exercisable	3.44 years	4.01 years	5.01 years

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 the table below:

Table 4

Exercise price £	Expiry date	**R.A. Rayne**
7.54	29/08/13	65,615
9.92	01/09/14	50,274
12.03	28/06/15	41,456
Outstanding at 1 January 2011		157,345
No options were granted, exercised or lapsed in 2011		
Outstanding at 31 December 2011		157,345
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**

The weighted average exercise price of options exercised during 2012 was £7.54 (2011: £nil) and the weighted average market price at the date of exercise £17.79 (2011: £nil).

In respect of the options outstanding at 31 December 2012 in table 4 the weighted average exercise price is £10.87 (2011: £9.48) and the weighted average remaining contracted life is 2.0 years (2011: 2.5 years).

The market price of the 5p ordinary shares at 31 December 2012 was £21.06 (2011: £15.60). During the year, they traded in a range between £15.35 and £21.53 (2011: £14.00 and £18.80).

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	N.Q. George	P.M. Williams	D.G. Silverman	Total
Interest at 1 January 2011		–	–	–	–	–	–	–
Deferred in 2011:								
Date of deferment	Value per share on deferment £							
25/03/11	16.60	9,883	8,471	1,631	1,892	1,892	1,553	25,322
Interest at 31 December 2011		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**

Directors' interests and shareholding guideline

	£'000			Number of shares			
	2012 salary	Shareholding guideline	Value of beneficially held shares[1]	Beneficially held	Deferred	Conditional	**Total**
J.D. Burns	567	1,134	16,363	760,031	16,023	183,520	**959,574**
S.P. Silver	486	486	7,857	364,939	13,745	157,375	**536,059**
D.M.A. Wisniewski	361	361	18	816	3,262	97,090	**101,168**
N.Q. George	361	361	729	33,846	3,465	100,230	**137,541**
P.M. Williams	361	361	767	35,622	3,465	100,230	**139,317**
D.G. Silverman	335	335	191	8,879	2,935	86,770	**98,584**

[1] Valued at £21.53 the value of a 5p ordinary share in the Company on 26 February 2013

Performance graph

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

Source: Thomson Reuters

This graph shows the value, by the end of 2012, of a return over five years of £100 invested in Derwent London compared to that of £100 invested in the FTSE All-Share Real Estate Investment Trusts Index. 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.

The disclosure on Directors' remuneration in tables 1, 2, 3 and 4 above has been audited as required by the Companies Act 2006.

On behalf of the Board.

June de Moller
Chairman of the Remuneration Committee
28 February 2013

LETTER FROM THE CHAIRMAN OF THE NOMINATIONS COMMITTEE

Dear Shareholder

I am pleased to present the report of the Nominations Committee for 2012.

The year started with an external appraisal of the Board being undertaken for the first time and I was pleased that the overall conclusion on the balance and performance of the Board was positive.

This was the third year of the Board refreshment process that was commenced in 2010. The process was introduced to ensure that a number of independence issues that were identified at that time were addressed in an orderly manner. It has seen the appointment of Stephen Young in 2010 and Simon Fraser in 2012 and it is intended that a further independent non-executive Director will be appointed in 2013. At this point the issues identified back in 2010 will have been resolved but with seven non-executive Directors on the Board the process of change and refreshment is continuous.

A major consideration for the Committee when identifying new directors is the overall diversity of the Board and, in particular, its gender diversity. We were therefore pleased to note that the list of candidates provided by Spencer Stuart, the independent executive search agency appointed by the Committee to assist with the recruitment process, contained a number of high quality female candidates. The Board remains of the opinion that an appointment to the Board must be based primarily on merit and not tainted by any suggestion of positive discrimination. Accordingly, a comprehensive programme of interviews was undertaken involving both Committee members and other Directors, which resulted in the appointment of Simon Fraser in September.

Stuart A. Corbyn
Chairman of the Nominations Committee
28 February 2013

REPORT OF THE NOMINATIONS COMMITTEE

Throughout the year the Committee consisted of Simon Neathercoat, John Ivey, Robert Farnes, June de Moller and Stephen Young under the chairmanship of Stuart Corbyn. 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, carry 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 2012.

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

- Reviewed the terms of reference for the Committee.
- Led the annual appraisal of the Board, its Committees and the Chairman.
- Reviewed the Group's succession planning for both executive and non-executive Directors.
- Continued with the policy of change and refreshment of the board through the introduction of new non-executive Directors which was commenced in 2010.
- Coordinated a series of interviews with candidates for appointment as a non-executive Director, having regard to the qualities required that had been identified at the start of the process before making a recommendation to the Board that Simon Fraser be appointed based on his extensive corporate broking and financial services experience.
- Reviewed the size and membership of the Board Committees following the appointment of Simon Fraser.
- Following the retirement of Simon Neathercoat, considered what areas of experience additional non-executive Directors should possess in order to further strengthen the Board.
- Continued to liaise with Spencer Stuart over the appointment of a further independent non-executive Director in 2013. Spencer Stuart provides no other services to the Group.

Stuart A. Corbyn
Chairman of the Nominations Committee
28 February 2013

LETTER FROM THE CHAIRMAN OF THE RISK COMMITTEE

Dear Shareholder

I am pleased to present the first report of the Risk Committee which covers its activities up to 31 December 2012.

The Committee was established in November 2011 with a mandate to keep under review the effectiveness of the Company's internal (non-financial) controls and risk management systems.

Since then, the perceived level of risk in the economy has remained high with continuing concerns over the Eurozone, the UK economy threatening to revert to recession and the "shareholder spring" reflecting a level of discontent amongst investors, principally around pay and governance. This environment saw risks arising from many sources, be it European driven regulation or the increased use of social media in the business world.

The Committee has reviewed and agreed the major risks faced by the Company and the relevant controls and mitigation plans. In 2012 this included, in particular, a review of the adequacy of new procedures introduced in response to the 2010 Bribery Act. However, new risks, especially those arising from new regulations, pose a continuous business risk and therefore we have decided to commission, on an annual basis, a report from the Group's legal advisors that looks at the year ahead and highlights any potential areas of risk. This will enable the Company's risks to be managed in a proactive manner.

Stephen G. Young
Chairman of the Risk Committee
28 February 2013

REPORT OF THE RISK COMMITTEE

The Committee was chaired by Stephen Young and served throughout the year by June de Moller, John Burns and Damian Wisniewski.

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

Meetings
The Committee met three times in its inaugural year but will in future meet twice a year unless extra meetings are deemed necessary for it to discharge its duties.

Work of the Committee
During the year the Committee:

- Reviewed the terms of reference of the Committee paying particular attention to the demarcation in duties between the Audit Committee and the Risk Committee.
- Conducted a detailed review of the controls and mitigation plans operating over the top ten risks on the Group's risk register.
- Facilitated an external review of the procedure introduced by the Group in order to comply with the "adequate procedures" requirements of the 2010 Bribery Act.
- Received presentations from senior management concerning controls over key parts of the business.
- Commissioned a report from the Group's legal advisors concerning potential regulatory risks that may arise over the next 12 months.
- Regularly reviewed the register of hospitality and gifts maintained under the group's Bribery Act procedures.
- Reviewed the Group's register of potential conflicts of interest.

Stephen G. Young
Chairman of the Risk Committee
28 February 2013

LETTER FROM THE CHAIRMAN OF THE AUDIT COMMITTEE

Dear Shareholder

I am pleased to present the report of the Audit Committee which covers the year to 31 December 2012.

The Committee's primary responsibility is to review the financial information provided to shareholders on behalf of the Board, to review the Group's internal financial controls and to oversee the Company's relationship with the external auditor. In previous years, the Committee was also responsible for reviewing the Company's system of internal (non-financial) controls and risk management but, with the formation of the Risk Committee, this duty has been passed to that Committee.

The main agenda item at the four meetings of the Committee 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 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.

Following its review of the UK Corporate Governance Code in 2012 the Financial Reporting Council (FRC) issued updated guidance for audit committees in respect of the new requirements. Whilst these requirements are not mandatory for the Company until next year, the report of the Audit Committee that follows has been expanded to include more detail on the specific matters raised by the FRC.

Stephen G. Young
Chairman of the Audit Committee
28 February 2013

REPORT OF THE AUDIT COMMITTEE

Membership
The Committee is chaired by Stephen Young. Stuart Corbyn, Robert Farnes and June de Moller served on the Committee throughout the year and Simon Fraser joined on 1 September 2012. Robert Farnes will step down from the Committee after the Group's AGM in May 2013. All members are considered independent by the Board, having no day-to-day involvement with the Company. 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 are 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 terms of reference for the Committee ensuring that they correctly reflect the change in responsibilities now that a Risk Committee had been established.
- Reviewed the Group's interim and annual financial statements and the published interim management statements considering 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 assessing this requirement, and subsequently reporting 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.
  - The adequacy of the procedures for obtaining sufficient assurance over the accuracy of the information.
  - Whether the reports were consistent throughout and with each other and in accordance with the information provided to the Board during the year.

- 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 two significant issues which are set out below together with an explanation of how each was addressed:

  - Valuation of the Group's property portfolio
    The Committee includes members who have relevant and current expertise in property valuation and these Directors led two meetings with the Group's external valuer, one before the interim results and another before the final results, at which the portfolio valuation was reviewed on a property by property basis.

    The Committee also requested that the external auditor focus on this area and report to the Committee on the procedures they carried out and the results thereof.
  - Accounting controls
    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.

- 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 and reviewed the content of the management letter issued by the external auditor together with 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.

- Considered the implication of the new requirement to put the external audit out to tender at least every 10 years. Having regard to the transitional measures proposed by the FRC the Committee currently plans to put the audit of the Group out to tender when the current audit partner reaches the end of his five-year term in 2014. BDO have been the Company's auditor since 1985.
- Reviewed the scope of the annual audit and the level of associated fees and considered the conduct of the audit before recommending the re-appointment of the Group's external auditor.
- Considered the need for an internal audit function and concluded that one was not needed given the scale and complexity of the business.
- 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
28 February 2013

INDEPENDENT AUDITOR'S REPORT

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

We have audited the financial statements of Derwent London plc for the year ended 31 December 2012 which comprise 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 cashflow 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 Auditing Practices Board's (APB'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 APB's website at www.frc.org.uk/apb/scope/private.cfm

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 2012 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as 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.

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 Directors' report for 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
We have nothing to report in respect of the following:

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

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements and the part of the Directors' remuneration report 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 78, in relation to going concern;
- 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; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

Richard Kelly
(Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London
United Kingdom
28 February 2013

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Spread overleaf:
Morelands Buildings EC1