

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

DIRECTORS' REPORT CONTINUED

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.

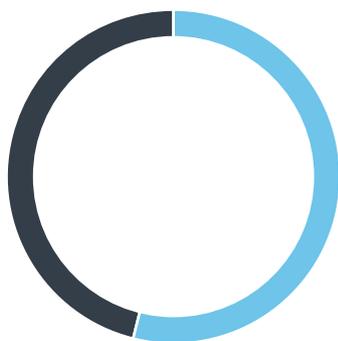
As part of the refreshment process, the Directors continue to assess the composition and diversity of the Board having particular regard to its gender diversity and the enhanced requirements in this area due to be introduced in the 2012 revision of the Code. One of these requirements is to publish an 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.

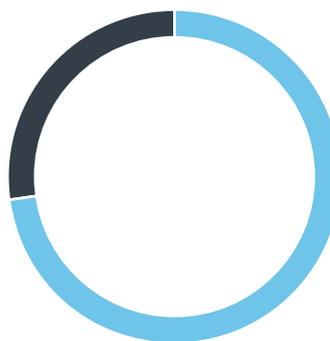
The Board is responsible for setting the company's strategic aims, for ensuring that adequate resources are available to meet its objectives and for reviewing management performance. A formal list of matters reserved for the full Board's approval is maintained and reviewed periodically. The full Board 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 %



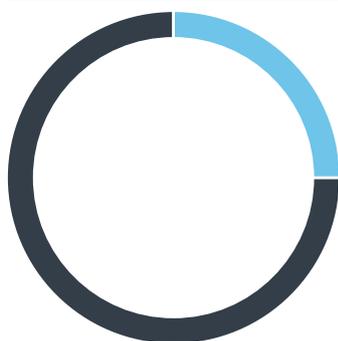
■ Male **54**
■ Female **46**

Gender diversity – Senior management (excluding Directors) %



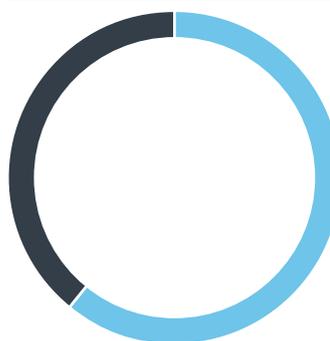
■ Male **73**
■ Female **27**

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' REPORT

CONTINUED

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

DIRECTORS' REPORT CONTINUED

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.

	Number of 5p ordinary shares	Percentage of issued share capital %	Price £	Aggregate consideration £
Treasury shares				
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

DIRECTORS' REPORT CONTINUED

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