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