

LETTER FROM THE CHAIRMAN OF THE REMUNERATION COMMITTEE



SIMON W.D. FRASER
CHAIRMAN OF THE REMUNERATION COMMITTEE

Dear Shareholder,

I am pleased to present the report of the Remuneration Committee for 2014. The Committee was very satisfied with the level of support received from shareholders for the revised remuneration structure introduced in 2014. This resulted in 99.5% votes being cast in favour of the Directors' Remuneration Policy Report and 98.1% in favour of the annual report of the Remuneration Committee at the Group's 2014 AGM.

Derwent London's objective continues to be to deliver above average long-term returns to shareholders. In an industry where relatively few people manage a large and complicated business this can only be achieved by recruiting and retaining the best people. At a senior level, the Remuneration Committee is responsible for maintaining a remuneration structure that achieves this without incentivising management to run excessive levels of risk.

The Committee believes that certain elements of the structure such as: the deferral of part of the annual bonus; extended holding periods for vested LTIP awards; clawback provisions; and shareholding guidelines ensure that the policy promotes long-term sustainable performance as required by the updated UK Corporate Governance Code.

Performance and reward for 2014

As discussed in the strategic report, the Group has delivered an increase in EPRA net assets per share of 28.4% and a total return of 30.1%. The structure of the Group's bonus scheme was adjusted as part of last year's review of the Directors' remuneration arrangements, so this strong performance was assessed against a revised balance of performance measures. The outcome derived from this measurement combined with the discretionary element assessed by the Committee to reflect other corporate objectives, resulted in a bonus entitlement of 92.6% of maximum potential.

Awards made under the Group's 2004 Performance Share Plan (PSP) in 2012 were subject to two conditions, each covering 50% of the award. One was based on relative total shareholder return (TSR) performance against a group of other real estate companies and the other was based on net asset value growth compared to the return from properties in the IPD Central London Offices Total Return Index. The performance criteria were measured at the end of the year and 50% of the total awards are expected to vest. The net asset value part of the award was measured to 31 December 2014 and the TSR part will be measured to 12 April 2015.

The Committee believes the annual bonus outturn and anticipated PSP vesting during the year fairly represents Group performance over their respective performance periods.

Remuneration policy for 2015

As a Committee we are committed to ensuring that rewards for executives are aligned to the interests of shareholders through having all our incentive arrangements linked to challenging performance targets. These targets focus our management team on growing the Group's net asset value and increasing total return which in turn should deliver above market returns to shareholders. The Committee is confident that the structure implemented during 2014 continues to meet these objectives.

The Committee reviewed executive Directors' salary levels in December 2014 and agreed a basic increase of 3% for 2015. This took into account another excellent year of performance by the management team over all areas of the business in 2014 and the competitive nature of the market for top performing executives in the real estate sector. The executive salary increases are below the average salary increases for the rest of the Group.

The Committee is not proposing to make any changes to the remuneration policy and therefore we will not be seeking any new approval for the Directors' Remuneration Policy Report at the forthcoming AGM on 15 May 2015.

SIMON W.D. FRASER
CHAIRMAN OF THE REMUNERATION COMMITTEE

26 FEBRUARY 2015