

# Governance





# Board of directors

## **R.A. Rayne, 61**

### **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 currently chief executive officer of LMS Capital plc, a company listed on the London Stock Exchange. He is also a non-executive director of Weatherford International Inc., an international oil services company quoted on the New York Stock Exchange, and was chief executive officer of London Merchant Securities plc.

## **J.C. Ivey, 68**

### **Non-executive deputy chairman**

A chartered accountant, Mr Ivey was a director of RWS Holdings plc until January 2010 and was formerly chief executive of The Davis Service Group plc. He has served on the board since 1984 and is a member of the nominations committee.

## **J.D. Burns, 65**

### **Chief executive officer**

Mr Burns 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 non-executive director of The Davis Service Group plc and a partner in The Pilcher Hershman Partnership, estate agents.

## **S.P. Silver, 59**

### **Head of development**

Mr Silver 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. He is also a partner in The Pilcher Hershman Partnership.

## **D.M.A. Wisniewski, 48**

### **Finance director**

Mr Wisniewski joined the board on 1st February 2010. He is a chartered accountant and has overall responsibility for financial strategy, treasury, taxation and financial reporting. Previously, he was finance director of Treveria Asset Management. Prior to that, he was chief operating officer of the Wood Wharf Limited Partnership and group finance director of Chelsfield plc.

## **N.Q. George, 46**

### **Executive director**

A chartered surveyor, Mr George was appointed to the board in 1998. He has responsibility for acquisitions and investment analysis.

## **P.M. Williams, 49**

### **Executive director**

Mr Williams is a chartered surveyor and was appointed to the board in 1998. His responsibilities include portfolio management, supervision of refurbishment and development projects and sustainability.

## **D.G. Silverman, 40**

### **Executive director**

Mr Silverman joined the board in January 2008. He is a chartered surveyor and is responsible for investment acquisitions and disposals.

## **R.A. Farnes, 64**

### **Senior independent director**

Mr Farnes is a chartered surveyor. He was previously the chairman of CB Hillier Parker and joined the board in 2003. He chairs the remuneration committee and is a member of the audit and nominations committees.

## **S.J. Neathercoat, 61**

### **Non-executive director**

Mr Neathercoat is a chartered accountant. He joined the board in 1999 and chairs the audit committee whilst serving on the remuneration and nominations committees. He is chairman of London Medical Technologies plc and was previously a managing director of Dresdner Kleinwort Wasserstein.

## **S.A. Corbyn, 65**

### **Non-executive director**

Mr Corbyn 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.

## **J. de Moller, 62**

### **Non-executive director**

Mrs de Moller joined the board in February 2007. She is a non-executive director of Temple Bar Investment Trust plc and Archant Limited. 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 and London Merchant Securities plc. She is a member of the audit, remuneration and nominations committees.

## **D. Newell, 67**

### **Non-executive director**

Mr Newell is a chartered surveyor. He joined the board in February 2007. Previously, he was senior partner of Hillier Parker May & Rowden, chairman of the Europe, Middle East and Africa division of CB Richard Ellis Services Inc., a non-executive director of London Merchant Securities plc and a past president of the British Council of Offices. He is a member of the audit, remuneration and nominations committees.

# 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 (IFRSs) 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 that:

- 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; 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

J.D. Burns,  
Chief executive officer

D.M.A. Wisniewski,  
Finance director  
17th March 2010

# Directors' report

The directors present their report and the financial statements for the year ended 31st December 2009.

## Business review

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 6 to 43. 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 26 and 27 of the financial statements.

## Share capital

As at 17th March 2010, 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

Subject to applicable statutes, any resolution passed by the company and other shareholders' rights, shares may be issued with such rights and restrictions as the company may by ordinary resolution decide, or (if there is no such resolution or so far as it does not make specific provision) as the board may decide. Subject to the articles, the Companies Acts and other shareholders' rights, unissued shares are at the disposal of the board.

## Voting

Every member and every duly appointed proxy present at a general meeting or class meeting has, upon a show of hands, one vote and every member present in person or by proxy has, upon a poll, one vote for every share held by him. In the case of joint holders of a share the vote of the senior shareholder who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders and, for this purpose, seniority shall be determined by the order in which the names stand in the register in respect of the joint holding.

## Restrictions on voting

No member shall be entitled to vote at any general meeting or class meeting in respect of any share held by him if any call or other sum then payable by him in respect of that share remains unpaid or if a member has been served with a restriction notice (as defined in the articles of association) after failure to provide the company with information concerning interests in those shares required to be provided under the Companies Acts. 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

Subject to the Companies Acts, rights attached to any class of shares may be varied with the written consent of the holders of not less than three-quarters of the issued shares of that class (calculated excluding any shares held as treasury shares), or with the sanction of a special resolution passed at a separate class meeting of the holders of the relevant class of shares. At every such separate class meeting (except an adjourned meeting) the quorum shall be two persons holding or representing by proxy not less than one-third in amount of the issued shares of the class (calculated excluding any shares held as treasury shares).

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 annual general meeting (AGM) held in 2009 to allot relevant securities up to a nominal amount of £1,680,119. 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 £1,686,346, and (ii) comprising equity securities up to a nominal amount of £3,372,693 (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 £252,951.

A special resolution will also 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 10,118,080 ordinary shares and sets the minimum and maximum prices which may be paid.

### Substantial shareholders

In addition to those of the directors disclosed on page 52, the company has been notified of the following interests in the issued ordinary share capital as at 17th March 2010.

	Number of shares	Percentage of issued share capital
Withers Trust Corporation	6,217,444	6.16
Withers Trust Corporation Ltd and James McCarthy	5,548,731	5.50
Blackrock Investment Management (UK) Ltd	5,183,709	5.13
Cohen & Steers Capital Management Inc	4,970,225	4.92
Standard Life Investment Ltd	4,284,390	4.24
Third Avenue Management LLC	3,944,764	3.91
Lady Jane Rayne	3,593,838	3.56
Legal & General Investment Management	3,482,391	3.45

### Amendment of articles of association

Unless expressly specified to the contrary in the articles of association of the company, the company's articles of association may be amended by a special resolution of the company's shareholders. A special resolution will be proposed at this year's AGM making a number of changes to the company's articles arising from the Companies Act 2006 and the Companies (Shareholders' Rights) Regulations 2009.

### 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 of association 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.

### Fixed assets

The group's freehold and leasehold investment properties were professionally revalued at 31st December 2009, resulting in a deficit of £72.5m, before deducting the lease incentive adjustment of £8.6m. The freehold and leasehold investment properties are included in the group balance sheet at a carrying value of £1,888.6m. Further details are given in note 17 of the financial statements.

### Post balance sheet events

Details of post balance sheet events are given in note 39 of the financial statements.

### Corporate Governance

#### Compliance

The board supports the principles of good governance and believes that the company has, except as noted, complied with the main and supporting principle of the Combined Code on Corporate Governance published by the Financial Reporting Council. The company has not complied with code provision A.2.2, concerning the independence of the chairman on appointment. The company's position is described in the following section. A number of other code provisions were not applicable in the current year.

#### The board

At the start of the year, the board comprised Mr Rayne, the non-executive chairman, six executive directors, Messrs Burns, Silver, Odom, George, Williams and Silverman, and six non-executive directors, Mrs de Moller and Messrs Ivey, Neathercoat, Farnes, Corbyn and Newell. On 1st February 2010, Mr Odom resigned as a director and was replaced as finance director by Mr Wisniewski.

The board assesses the independence of the non-executive directors with regard to the guidance on independence contained in code provision A.3.1, and notes that Messrs Rayne, Ivey and Neathercoat cannot automatically be deemed independent. The board is also aware that code provision A.2.2 requires a new chairman to be independent on appointment. In accordance with principle A.6 of the code, the board has carried out the annual review of the roles and performance of all directors which included reconsidering the independence of the non-executive directors.

Mr Rayne served in an executive capacity at London Merchant Securities plc prior to the acquisition and consequently is not deemed independent. However, in view of his significant contribution as chairman of the board, the board continues to consider that his position is justified.

Mr Ivey has served on the board for more than nine years and is therefore not deemed independent. Having considered his expertise and the manner in which he carried out his duties during the year, the board has no concern that his independent judgement is in any way impaired. Mr Neathercoat is also not deemed independent, having served as a non-executive director for more than nine years. The board has reviewed his independence and concluded that he continues to show strong independence in both judgement and in the performance of his duties as a director. Neither director has any association with management that might compromise his independence.

The directors also considered the composition of the board and continue to believe that it is suitably structured to satisfy the requirements of good corporate governance. In addition, during the year the nominations committee reviewed the timing and other issues relating to potential changes to the composition of the board and its committees with a view to ensuring an orderly change process. As a result of this review, on 1st January 2010, Mr Corbyn became chairman of the nominations committee replacing Mr Ivey and Mr Farnes took over as senior independent director from Mr Neathercoat. In addition, the committee agreed to commence a process of refreshment. This is likely to run for three years and will commence by recruiting a new, independent non-executive director during 2010 who, in due course, will take over as chairman of the audit committee. At the AGM in 2011, one of the group's long-serving non-executive directors will retire.

A formal schedule, which has been approved by the board, sets out the division of responsibilities between the Chairman, who is responsible for the effectiveness of the board, and the chief executive officer, who is responsible for the day-to-day operations of the business. Biographies of the directors are given on page 46.

The board is responsible for setting the company's strategic aims, ensuring that adequate resources are available to meet its objectives and reviewing management performance. The 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 2010. Extra meetings will be arranged if necessary. Additionally, the executive board, which consists of the executive directors met 10 times in 2009. The board is provided with comprehensive papers in a timely manner to ensure that the directors are fully briefed on matters to be discussed at these meetings.

Since 1993, the board has maintained 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 three principal committees:

#### Remuneration committee

The committee comprises of Mrs de Moller and Messrs Neathercoat, Corbyn and Newell under the chairmanship of Mr Farnes. It is responsible for establishing the company's remuneration policy and individual remuneration packages for the executive directors. There were four meetings of the committee in 2009. The report on directors' remuneration is set out on pages 55 to 62.

#### Audit committee

This committee is chaired by Mr Neathercoat and is served by Messrs Corbyn, Farnes and Newell and Mrs de Moller. The committee is responsible for considering the application of financial reporting and internal control principles and for maintaining an appropriate relationship with the company's auditors. The committee met four times during 2009. The report of the audit committee is on page 63.

#### Nominations committee

Mr Ivey chaired this committee until 1st January 2010 when Mr Corbyn took over this role. The committee consists of all of the non-executive directors, except the chairman. Its responsibilities include identifying external candidates for appointment as directors and, subsequently, recommending their appointment to the board and, if requested, making a recommendation concerning an appointment to the board from within the company. The committee also carries out the annual appraisal of the performance and effectiveness of the board and its three committees. The committee met only once during the period under review. The nominations committee report is on page 64.

The directors' attendance at board and committee meetings during the year was as follows:

	Full board	Executive board	Remuneration committee	Audit committee	Nominations committee
No. of meetings	6	10	4	4	1
<b>Executive directors</b>					
J.D. Burns	6	10	–	–	–
S.P. Silver	6	8	–	–	–
C.J. Odom	6	9	–	–	–
P.M. Williams	6	10	–	–	–
N.Q. George	6	9	–	–	–
D.G. Silverman	6	9	–	–	–
<b>Non-executive directors</b>					
R.A. Rayne	6	–	–	–	–
J.C. Ivey	6	–	–	–	1
S.J. Neathercoat	6	–	4	3	1
R.A. Farnes	6	–	4	4	1
S.A. Corbyn	6	–	4	4	1
D. Newell	6	–	4	4	1
J. de Moller	6	–	3	4	1

### Performance evaluation

During the year, the nominations committee carried out a formal appraisal of the performance of the board and its committees. The remuneration committee performed appraisals of each of the executive directors, as part of the salary review process. The performance of the chairman was evaluated by the non-executive directors under the chairmanship of the senior independent director. All of the appraisals were conducted internally based on the guidance contained in the Higgs Report.

### 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.

### Appointment and replacement of directors

The directors shall be not less than two and not more than 15 in number. The company may by ordinary resolution vary the minimum and/or maximum number of directors. 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.

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. 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 compounds with his creditors generally;
- he is prohibited by law from being a director;
- he ceases to be a director by virtue of the Companies Acts; or
- he is removed from office pursuant to the company's articles.

If considered appropriate, new directors are sent on an external training course addressing 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.

#### Powers of the directors

Subject to the company's memorandum of association, its articles, the Companies Acts and any directions given by the company by special resolution, the business of the company will be managed by the board who may exercise all the powers of the company, whether relating to the management of the business of the company or not. In particular, the board may exercise all the powers of the company to borrow money, to guarantee, to indemnify, to mortgage or charge any of its undertaking, property, assets (present and future) and uncalled capital and to issue debentures and other securities and to give security for any debt, liability or obligation of the company or of any third party.

#### Directors

The directors of the company during the year and their interests in the share capital of the company, including 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.

	Ordinary shares of 5p each		Options	
	31 Dec 2009	31 Dec 2008	31 Dec 2009	31 Dec 2008
R.A. Rayne	4,350,017	4,350,017	382,746	382,746
J.C. Ivey	79,072	79,072	–	–
J.D. Burns	784,669	775,201	243,800	187,740
S.P. Silver	377,687	377,687	171,240	102,700
C.J. Odom (resigned 1st February 2010)	47,952	41,867	137,075	137,995
N.Q. George	24,482	22,820	162,955	132,645
P.M. Williams	29,302	25,977	140,455	132,395
D.G. Silverman	–	–	97,450	54,750
D.M.A. Wisniewski (appointed 1st February 2010)	–*	n/a	–*	n/a
S.J. Neathercoat	8,000	8,000	–	–
R.A. Farnes	6,838	6,838	–	–
S.A. Corbyn	1,000	1,000	–	–
J. de Moller	2,985	2,985	–	–
D. Newell	1,492	1,492	–	–

\*As at date of appointment

On 18th January 2010 directors exercised options over 118,000 shares following which the number of options held by those directors was as follows: Mr Odom 111,075; Mr George 105,705 and Mr Williams 105,705. There have been no other changes in any of the directors' interests between the year-end and 17th March 2010.

During the year, directors exercised options over 105,250 shares. The exercise prices were as follows: 13,000 shares at £5.015; 8,750 shares at £5.53; 39,000 at £6.725 and 44,500 at £7.235. No new options were granted to directors under the Executive Share Option Scheme. A conditional grant of 405,100 shares was made to directors under the Performance Share Plan whilst 34,713 shares vested to the directors from an earlier conditional award at a zero exercise price. The remaining 60,387 shares of this award lapsed.

In accordance with the articles of association, at the next AGM Messrs Rayne, George, Corbyn and Newell retire by rotation and, being eligible, offer themselves for re-election. In addition, having been appointed since the last AGM and being eligible, Mr Wisniewski offers himself for re-election. In accordance with the principles of good corporate governance, Messrs Neathercoat and Ivey retire, both having served on the board for more than nine years and, being eligible, offer themselves for re-election. Biographies of all the directors are given on page 46.

Other than as disclosed in note 41, the directors have no interest in any material contracts of the company.

### **Communication with shareholders**

The company has always recognised the importance of clear communication with shareholders. Regular contact with institutional shareholders and fund managers is maintained, principally by the executive directors, through the giving of presentations and organising visits to the group's property assets. The board receives regular reports of these meetings. The annual report, which is available to all shareholders, reinforces this communication. 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 the senior independent director.

### **Risk management and internal control**

The principal risks and uncertainties facing the group in 2010, together with the controls and mitigating factors are set out on pages 42 and 43. The systems that control the risks form the group's system of internal control. The key elements of the group's financial 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 and regular review and updating 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.

### **Going concern**

Having made due enquiries, the directors have reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Therefore, the board continues to adopt the going concern basis in preparing the accounts.

### **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 auditors are unaware; and 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.

### **Auditors**

BDO LLP have expressed their 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 11 and 12 set out in the notice of meeting that accompanies the report and accounts.

### **Annual general meeting**

The notice of meeting contained in the circular to shareholders that accompanies the report and accounts includes five special resolutions to be considered.

Resolution 13 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 £1,686,346 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 £3,372,693, 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 or on the vesting of shares under the company's performance share plan. 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 25th August 2011.

Resolution 14 is a special resolution, proposed annually, and will renew the directors' authority under section 571 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 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 £252,951 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 13 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 25th August 2011.

Resolution 15 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 Companies Act 2006 permits the company to hold any such repurchased shares as treasury shares 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 15, the company may cancel those shares or hold them in treasury. Such a decision will be made by the directors at the time of purchase on the basis of the company's and shareholders' best interests. As at the date of the notice of meeting, the company held no treasury shares.

The total number of options to subscribe for ordinary shares outstanding at 17th March 2010 was 1,374,166, which represented 1.36% 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 17th March 2010 would represent 1.68% of the issued share capital (excluding treasury shares).

Resolution 16 is proposed to adopt new articles of association in order to update the company's current articles of association primarily to take account of the coming into force of the Companies (Shareholders' Rights) Regulations 2009 and the implementation of the last parts of the Companies Act 2006.

Resolution 17 is required to reflect the implementation of the Shareholder Rights Directive, which 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 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

T.J. Kite ACA  
Secretary  
17th March 2010

# Report of the remuneration committee

## Remuneration committee

The remuneration committee is chaired by Mr Farnes with Messrs Neathercoat, Corbyn and Newell and Mrs de Moller serving throughout the year. 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 committee's responsibilities include determining remuneration packages for the executive directors and selected other senior executives. It also oversees the operation of the group's bonus scheme and performance share plan and considers whether the schemes encourage the taking of excessive business risk. The full terms of reference of the committee are available on the company's website.

Hewitt New Bridge Street (HNBS) – a trading name of Hewitt Associates – was retained to provide independent assistance to the committee regarding the operation of the performance share plan and bonus scheme. In particular, HNBS determine the extent of vesting of outstanding share awards and ensure that the measures used for both schemes are comparable and consistent. Hewitt Associates provided no 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 Mr Burns. The company secretary acted as secretary to the committee.

## Remuneration policy

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

- to ensure that the company attracts, retains and motivates executives that have the skills and experience necessary to make a significant contribution to the delivery of the group's objectives;
- to incentivise key executives by use of a remuneration package that is appropriately competitive with other real estate companies taking into account the experience and importance to the business of the individuals involved, whilst also having broad regard to levels of remuneration in similar sized FTSE 350 companies and that of the company's senior management;
- 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; and
- to ensure that incentive schemes are subject to appropriately stretching performance conditions and designed so as to be consistent with best practice.

## Elements of remuneration package

A full review of executive remuneration arrangements was carried out by HNBS during 2007 and a revised remuneration structure applied from 2008. The committee is satisfied that this structure remains appropriate for 2010. The key elements of this structure are outlined below:

## a) Base salary and benefits

Base salaries for executive directors are reviewed annually by the committee with changes being effective from 1st January. At the review carried out in December 2009, the committee agreed a basic increase of approximately 5% for 2010 which took into account the excellent performance of the management team over the past year and the increasingly competitive market in the sector for top performing executives. This follows the decision in 2008 to award no basic increase. The increase for 2010 does not apply to Mr Wisniewski who has only been recently appointed as finance director or to Mr Odom, who retired from the board in February 2010 and who will cease to be an employee following the AGM.

Messrs George, Williams and Silverman joined the board with below market salaries. The committee has, over a number of years, been awarding them additional salary increases above the basic increase, as a reflection of their increasing experience and importance to the business, so as to move them over time to an appropriate market benchmark. At the December 2009 review, the committee agreed an additional £20,000 increase for Messrs George and Williams. In respect of Mr Silverman, who joined the board more recently, the committee agreed an additional £30,000 increase which begins to close the gap between his salary and that of the other directors but which still leaves a significant differential. These amounts are in addition to the 5% basic increase awarded by the committee.

Resultant salaries effective from 1st January 2010, or the date of appointment if later, (2009 equivalents in brackets) are:  
J.D. Burns £525,000 (£500,000),  
S.P. Silver £450,000 (£425,000),  
N.Q. George £335,000 (£300,000),  
P.M. Williams £335,000 (£300,000),  
D.M.A. Wisniewski £315,000 (n/a),  
D.G. Silverman £275,000 (£235,000).

The executive directors receive a pension contribution worth 20% of base salary to a defined contribution scheme or a salary supplement in lieu of this contribution. The principal benefits in kind comprise a company car and medical insurance.

### b) Annual bonus

The annual bonus structure remained unchanged in 2009 from 2008 and will be applied again in 2010. The scheme offers a maximum bonus potential for Messrs Burns and Silver of 150% of salary and for the other executive directors, 125% of salary.

Any bonus worth up to 100% of salary is paid in cash. Any bonus earned above 100% of salary is compulsorily deferred in shares with half released 12 months after award and the remainder released 24 months after award. These shares will be potentially forfeitable if the executive leaves prior to the share release date.

The bonus is based 75% on two financial measures, namely net asset value (NAV) growth compared to the total return of the properties in the IPD Central London Offices Index and total return (being NAV growth plus dividends) measured against that of other major real estate companies. An additional 25% is available for the committee to award at its discretion.

Provision has been made for an estimated bonus for 2009 of 62.5% of the maximum potential. In making this estimate, the committee has given due regard to the group's total return performance which placed it in the upper quartile of the comparator group together with the other achievements outlined earlier in the report and accounts.

### c) Long-term incentives

The group's Performance Share Plan (PSP) was established in 2004, with a number of changes approved by shareholders at the 2008 AGM.

The maximum permitted annual award of shares under the plan is 200% of salary (with a higher limit of 300% of salary for use in the event of exceptional circumstances such as recruitment). The committee's

policy for 2010, consistent with 2009, is to limit awards to no more than 175% of salary for Messrs Burns and Silver and 150% of salary for other directors.

Vesting of awards under the PSP will normally occur to the extent that pre-set performance targets have been satisfied provided that the executive is still employed at the end of the three-year vesting period. Performance targets for awards granted in 2010 will be as follows:

– 50% of an award will be determined by the company's total shareholder return (TSR) compared to that of the companies listed below:

Big Yellow Group plc  
Capital & Regional plc  
Great Portland Estates plc  
Hammerson plc  
Land Securities plc  
Liberty International plc  
Minerva plc  
Quintain Estates and Development plc  
St Modwen Properties plc  
Segro plc  
Shaffesbury plc  
The British Land Company plc  
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 HNBS; and

– 50% of an award will be determined by the company's NAV growth compared to the total return from properties in the IPD Central London Offices Index over the performance period. Performance will be measured over a single three-year period from the start of the financial year in which the award is granted.

Vesting will be on the basis outlined below:

TSR performance	NAV growth performance	Vesting percentage %
Below median	Below median	0
Median	Median	25
Upper quartile	Out-perform median by 5% pa	100
Intermediate	Intermediate	Pro-rata between 25 and 100

This mix of measures is felt by the committee to be appropriate as it rewards executives for achieving above market levels of growth in asset value and above market returns to shareholders.

The committee will have discretion to reduce the extent of vesting in the event that it feels that performance against the relevant measure of performance (whether TSR or NAV growth) is inconsistent with underlying financial performance.

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.

Details of outstanding share entitlements under the scheme, along with associated performance conditions, are set out in table 2 on page 59.

#### **Shareholding guideline**

Following the independent review in 2007, and in line with best practice, the company has a share ownership guideline for executive directors requiring them to retain at least half of any share awards vesting from 1st January 2009 as shares (after paying any tax due on the shares) until they have a shareholding worth at least 100% of their salary (200% of salary for the CEO).

#### **Service contracts**

The service contracts of Messrs Burns and Silver are dated 20th May 1997 whilst those of Messrs George and Williams are dated 31st March 1999 and that of Mr Silverman 2nd 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. A provision is included 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. Mr Wisniewski's service contract is dated 1st February 2010. His contract reflects the latest developments in employment law and practice, as advised by Slaughter and May and, in addition to terms similar to those of the other directors, 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.

#### **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 set by the whole board. Neither the chairman nor non-executive directors are eligible for pension scheme membership and do not participate in the company's bonus or share-based incentive schemes.

The non-executive directors do not have service contracts and are appointed for three-year terms which expire as follows: Mr Neathercoat, 28th February 2011; Mr Ivey, 12th December 2011; Mr Corbyn, 23rd March 2012; Mr Farnes, 31st March 2012; and Mrs de Moller and Mr Newell, 31st January 2013. Mr Rayne has a letter of appointment, which runs for three years, expiring on 31st January 2013. 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.

## Details of directors' remuneration

Table 1

2009	Salary and fees £'000	Estimated bonus £'000	Benefits in kind £'000	Gains from equity settled schemes £'000	Total £'000	Pension and life assurance £'000
<b>Executive</b>						
J.D. Burns	500	469	42	249	<b>1,260</b>	<b>107</b>
S.P. Silver	425	398	22	97	<b>942</b>	<b>96</b>
C.J. Odom	315	246	18	328	<b>907</b>	<b>80</b>
N.Q. George	300	234	15	83	<b>632</b>	<b>70</b>
P.M. Williams	300	234	19	238	<b>791</b>	<b>69</b>
D.G. Silverman	235	184	15	–	<b>434</b>	<b>52</b>
<b>Non-executive</b>						
R.A. Rayne	150	–	31	–	<b>181</b>	–
J.C. Ivey	62	–	–	–	<b>62</b>	–
S.J. Neathercoat	53	–	–	–	<b>53</b>	–
R.A. Farnes	49	–	–	–	<b>49</b>	–
S.A. Corbyn	44	–	–	–	<b>44</b>	–
J. de Moller	44	–	–	–	<b>44</b>	–
D. Newell	44	–	–	–	<b>44</b>	–
	<b>2,521</b>	<b>1,765</b>	<b>162</b>	<b>995</b>	<b>5,443</b>	<b>474</b>

2008	Salary and fees £'000	Estimated bonus £'000	Benefits in kind £'000	Gains from equity settled schemes £'000	Total £'000	Under-provision of 2008 bonus £'000	Revised total £'000	Pension and life assurance £'000
<b>Executive</b>								
J.D. Burns	500	117	39	304	960	74	1,034	110
S.P. Silver	425	99	23	255	802	64	866	98
C.J. Odom	315	62	17	181	575	39	614	82
N.Q. George	300	58	15	156	529	38	567	71
P.M. Williams	300	58	19	165	542	38	580	71
D.G. Silverman	220	43	15	–	278	27	305	49
<b>Non-executive</b>								
R.A. Rayne	150	–	30	–	180	–	180	–
J.C. Ivey	62	–	–	–	62	–	62	–
S.J. Neathercoat	53	–	–	–	53	–	53	–
R.A. Farnes	49	–	–	–	49	–	49	–
S.A. Corbyn	44	–	–	–	44	–	44	–
J. de Moller	44	–	–	–	44	–	44	–
D. Newell	44	–	–	–	44	–	44	–
	<b>2,506</b>	<b>437</b>	<b>158</b>	<b>1,061</b>	<b>4,162</b>	<b>280</b>	<b>4,442</b>	<b>481</b>

Under the rules of the group's bonus scheme the level of the 2009 bonus entitlement can only be ascertained once the results of all the comparator companies have been announced.

The under-provision of the 2008 bonus, which has been recognised in the 2009 results, is the amount by which the final award under the bonus scheme exceeded the estimated amount included in the 2008 results. This revision was required because the committee could not determine the final bonus payments until the results of all the comparator companies had been announced (which followed the publication

of last year's remuneration report) and the group's final ranking was higher than anticipated at the time that the estimate was prepared.

The total remuneration for 2008, which was previously disclosed as £4,162,000, has been revised to allow a correct comparison to be made between the two years.

Mr Burns received fees of £40,000 (2008: £40,000) in respect of his position as a non-executive director of The Davis Service Group. In accordance with the committee's policy, the fees are retained by Mr Burns.

## Performance Share Plan

Details of the conditional share awards held by directors and employees under the group's performance share plan at 31st December 2009 are given in table 2 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	Employees	Total
10.70	21/03/08	37,250	31,250	23,250	20,000	21,250	–	11,500	144,500
16.19	06/04/09	25,940	21,610	16,670	15,440	15,440	–	8,640	103,740
22.30	03/04/10	20,175	16,815	13,000	12,330	12,330	–	7,395	82,045
Interest as at 1st January 2008		83,365	69,675	52,920	47,770	49,020	–	27,535	330,285

Shares conditionally awarded during the year:

Market price at award date £	Earliest vesting date								
11.57	05/06/11	75,625	64,275	40,825	38,875	38,875	28,500	15,550	302,525

Shares vested or lapsed during the year:

Market price at award date £	Market price at date of vesting £								
10.70	11.36	(26,797)	(22,481)	–	–	–	–	–	(49,278)
10.70	10.82	–	–	(16,726)	(14,388)	(15,287)	–	(8,273)	(54,674)
10.70	Lapsed	(10,453)	(8,769)	(6,524)	(5,612)	(5,963)	–	(3,227)	(40,548)
		(37,250)	(31,250)	(23,250)	(20,000)	(21,250)	–	(11,500)	(144,500)
Interest as at 31st December 2008		121,740	102,700	70,495	66,645	66,645	28,500	31,585	488,310

Shares conditionally awarded during the year:

Market price at award date £	Earliest vesting date								
8.25	15/04/12	106,000	90,150	57,250	54,500	54,500	42,700	23,000	428,100

Shares vested or lapsed during the year:

Market price at award date £	Market price at date of vesting £								
16.19	11.74	–	–	–	(5,636)	(5,636)	–	–	(11,272)
16.19	12.20	(9,468)	–	(6,085)	–	–	–	(3,154)	(18,707)
16.19	12.28	–	(7,888)	–	–	–	–	–	(7,888)
16.19	Lapsed	(16,472)	(13,722)	(10,585)	(9,804)	(9,804)	–	(5,486)	(65,873)
		(25,940)	(21,610)	(16,670)	(15,440)	(15,440)	–	(8,640)	(103,740)
<b>Interest as at 31st December 2009</b>		<b>201,800</b>	<b>171,240</b>	<b>111,075</b>	<b>105,705</b>	<b>105,705</b>	<b>71,200</b>	<b>45,945</b>	<b>812,670</b>

For all awards granted under the PSP:

- half of the shares vest based on TSR performance relative to a comparator group of companies. This element will only vest if the committee is also satisfied that the TSR performance reflects underlying financial performance; and
- half of the shares vest based on NAV performance compared to the total return of the properties in the IPD Central London Offices Index.

The TSR comparator group comprises the constituents, as at the date of grant, of the FTSE All-Share Real Estate Index for awards granted up to 2007 and a defined comparator group of real estate companies for awards in 2008 and 2009. The comparator group for 2010 is set out on page 57. 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 matching the return from the upper quartile performing property in the index (awards up to 2007) or for out-performing the median performing property by 5% per annum (awards in 2008 and 2009).

The performance criteria in respect of the 2006 award were measured on 5th April 2009 and showed a vesting percentage of 36.5%. The balance of the awards lapsed. As required, before allowing any vesting, the committee considered whether the group's TSR performance reflected its underlying financial performance. Having considered a range of key financial indicators, including profits and NAV performance, the committee concluded that this was the case.

### Share option schemes

Details of the options held by directors and employees under the group's executive share option schemes at 31st December 2009 are given in table 3 below.

No options were granted or lapsed during 2009 or 2008 and no options were exercised during 2008. The weighted average exercise price of options exercised in 2009 was £6.63 and the weighted average market price at the date of exercise was £12.03.

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 options other than those that become exercisable on 8th June 2009, have met this criteria.

**Table 3**

Exercise price £	Date from which exercisable	Expiry Date	J.D. Burns	S.P. Silver	C.J. Odom	N.Q. George	P.M. Williams	D.G. Silverman	Employees	Total number of shares
5.530	16/04/02	15/04/09	–	–	–	8,750	–	–	–	8,750
5.015	14/04/03	13/04/10	–	–	–	11,000	13,000	–	–	24,000
7.235	12/04/04	11/04/11	42,000	–	26,500	15,000	18,000	–	–	101,500
6.725	15/04/05	14/04/12	24,000	–	15,000	10,750	12,250	–	6,500	68,500
4.265	22/04/06	21/04/13	–	–	26,000	20,500	22,500	–	11,500	80,500
8.590	05/07/07	04/07/14	–	–	–	–	–	9,500	10,500	20,000
10.710	26/04/08	25/04/15	–	–	–	–	–	10,000	10,000	20,000
13.630	08/06/09	07/06/16	–	–	–	–	–	6,750	7,500	14,250

Outstanding at 1st January 2008

and 1st January 2009

Options exercised during the year

Exercise price £	Market price at date of exercise £	J.D. Burns	S.P. Silver	C.J. Odom	N.Q. George	P.M. Williams	D.G. Silverman	Employees	Total
5.530	7.13	–	–	–	(8,750)	–	–	–	(8,750)
5.015	11.74	–	–	–	–	(13,000)	–	–	(13,000)
7.235	11.74	–	–	–	–	(18,000)	–	–	(18,000)
7.235	13.16	–	–	(26,500)	–	–	–	–	(26,500)
6.725	13.16	–	–	(15,000)	–	–	–	–	(15,000)
6.725	12.25	(24,000)	–	–	–	–	–	–	(24,000)
		(24,000)	–	(41,500)	(8,750)	(31,000)	–	–	(105,250)
<b>Outstanding at 31st December 2009</b>		<b>42,000</b>	<b>–</b>	<b>26,000</b>	<b>57,250</b>	<b>34,750</b>	<b>26,250</b>	<b>46,000</b>	<b>232,250</b>

**Table 3 (continued)**

	31st December 2009	31st December 2008	1st January 2008
Number of shares:			
Exercisable	218,000	323,250	303,250
Non-exercisable	14,250	14,250	34,250
Weighted average exercise price of share options			
Exercisable	£6.40	£6.48	£6.20
Non-exercisable	£13.63	£13.63	£11.92
Weighted average remaining contracted life of share options			
Exercisable	2.78 years	3.32 years	4.12 years
Non-exercisable	6.44 years	7.44 years	7.79 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 table 4 below:

**Table 4**

Exercise price £	Expiry date	R. A. Rayne	N. R. Friedlos	Employees	Total
9.54	05/11/11	225,401	–	–	225,401
7.54	29/08/13	65,615	–	–	65,615
9.92	01/03/08	–	–	7,163	7,163
9.92	01/09/14	50,274	–	–	50,274
12.03	28/12/08	–	12,780	1,081	13,861
12.03	28/06/15	41,456	–	–	41,456
Outstanding at 1st January 2008		382,746	12,780	8,244	403,770
Options exercised or lapsed during 2008					
Exercise price £	Market price at date of exercise £				
9.92	14.02	–	–	(2,326)	(2,326)
9.92	14.14	–	–	(4,837)	(4,837)
12.03	14.43	–	(12,780)	–	(12,780)
12.03	Lapsed	–	–	(1,081)	(1,081)
		–	(12,780)	(8,244)	(21,024)
<b>Outstanding at 31st December 2008 and 31st December 2009</b>		<b>382,746</b>	<b>–</b>	<b>–</b>	<b>382,746</b>

No options were granted, exercised or lapsed during 2009 and no options were granted during 2008. The weighted average exercise price of options exercised during 2008 was £11.27 and the weighted average market price at the date of exercise was £14.31.

In respect of the options outstanding at 31st December 2009 in table 4 the weighted average exercise price is £9.52 (2008: £9.52) and the weighted average remaining contracted life is 2.4 years (2008: 3.4 years).

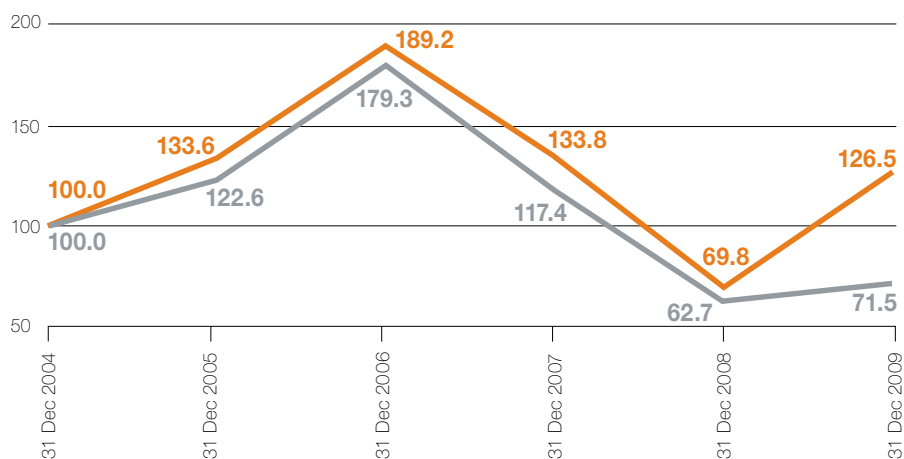
The market price of the 5p ordinary shares at 31st December 2009 was £13.20 (2008: £7.25). During the year, they traded in a range between £4.60 and £13.89 (2008: £6.07 and £16.01).

## Performance graph

### Net investment (Total shareholder return)

2004–2009

£



— Derwent London  
— FTSE All-Share Real Estate Index/  
All-Share Real Estate Investment Trust Indices

Source: Thomson Reuters

This graph shows the value, by the end of 2009, of a return over five years of £100 invested in Derwent Valley Holdings / Derwent London compared to that of £100 invested in the FTSE All-Share Real Estate Index (up until 30th November 2009) and the FTSE All-Share Real Estate Investment Trusts Index (from 1st December 2009). These indices have been chosen by the committee as they are considered the most appropriate benchmarks 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

R.A. Farnes  
Chairman of the remuneration committee  
17th March 2010

# Report of the audit committee

## Membership

The committee is chaired by Mr Neathercoat and was served throughout 2009 by Messrs Corbyn, Farnes and Newell and Mrs de Moller. All members are considered independent by the company having no day-to-day involvement with the company. Mr Neathercoat is a member of the Institute of Chartered Accountants of England and Wales and 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 meets at least three times a year to discharge its responsibilities. Meetings are attended by the group's external auditors and members of the group's senior management when invited. During 2009, four meetings were held.

## Work of the committee

During the year, the committee has carried out the following:

- reviewed the interim and annual financial statements and considered the appropriateness of the accounting policies used, assumptions adopted and estimates made;
- reviewed the group's published interim management statements;
- held meetings with the group's external valuers;
- reviewed the scope of the annual audit and the level of associated fees;
- considered the adequacy of the auditor's statement of independence and monitored the operation of the group's policy regarding the use of the external auditors for non-audit work which helps to protect the auditors' independence and objectivity;
- after due consideration of the conduct of the audit and the matters raised in the management letter, recommended the re-appointment of the group's external auditors;
- liaised with the company over the appointment of a new audit partner;
- considered the need for an internal audit function;
- reviewed the group's conflict of interest register;
- reviewed, commented upon and approved the preparation of the group's risk register; and
- reviewed an external report regarding the operation of the group's property management department.

S.J. Neathercoat  
Chairman of the audit committee  
17th March 2010

# Report of the nominations committee

## **Membership**

The nominations committee comprised the independent, non-executive directors, Messrs Neathercoat, Corbyn, Newell and Farnes and Mrs de Moller. Mr Ivey chaired the committee until 1st January 2010 when Mr Corbyn took over this role.

## **Roles and responsibilities**

The terms of reference for the committee are available on the company's website.

## **Meetings**

The committee will meet at least once a year to 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 to the board suitable candidates to fill vacancies for non-executive directors and, if requested, executive directors.

## **Work of the Committee**

During the year, the committee has carried out the following:

- appraised the board and its committees;
- discussed the composition, independence and refreshment of the board and consequently introduced a policy of change and refreshment. This will commence with the appointment of a new non-executive director during 2010 and be followed by a programme of refreshment over a number of subsequent years; and
- at the request of the company, met with and provided feedback on the candidates for the new finance director.

S.A. Corbyn  
Chairman of the nominations committee  
17th March 2010

# 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 31st December 2009 which comprise the group income statement, group and parent company balance sheets, the group and company statements of comprehensive income, the group and parent company cash flow statements, the group and parent company statements of changes in equity 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 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 (APBs) Ethical Standards for Auditors.

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

## 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 31st December 2009 and of the group's loss 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 47, in relation to going concern; and
- the part of the corporate governance statement relating to the company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

Richard Kelly  
(senior statutory auditor)  
For and on behalf of BDO LLP,  
statutory auditor  
London  
United Kingdom  
17th March 2010

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