DERWENT LONDON

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Derwent London plc

("Derwent London" / "group")

INTERIM MANAGEMENT STATEMENT FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2009

Highlights

- Lettings:
  - In the year to date, the group has concluded 258,500 sq ft (24,000 sq m) of lettings at an annual rental income of £7.9 million
  - Letting successes in the third quarter totalled 48,900 sq ft (4,540 sq m), generating a rental income of £1.3 million per annum
  - Further progress since the quarter end with 54,300 sq ft (5,000 sq m) of floorspace let (£2.0 million per annum) and 51,900 sq ft (4,800 sq m) placed under offer
  - Vacancy rate remains low at 4.0%
- Projects:
  - Completion of the 47,100 sq ft (4,400 sq m) Charlotte Building, 17 Gresse Street where 42% of the floorspace has been let recently at rents in line with estimated rental values at June
- Disposals:
  - Disposals of £99.9 million during the third quarter
  - In the year to date, the group has either sold, or exchanged contracts on, disposals of £190 million, after costs
- Financial:
  - Reduction in group debt from £849.3 million to £798.1 million over the quarter
  - Committed unutilised bank facilities of £352 million

Commenting on the period under review, John Burns, chief executive of Derwent London, said:

"Our continued strong letting performance demonstrates that our particular brand of design led, affordable space is in demand. Despite the difficult economic conditions, the group continues to maintain a low vacancy rate and to preserve income through active portfolio management. In recent months, there has been a substantial increase in investor demand, particularly for central London properties. We have taken advantage of this improved sentiment with sales of non-core, mature properties which has further strengthened our balance sheet. This puts us in an excellent position to act quickly either in developing opportunities from within our portfolio or to make acquisitions."

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Overview

Although the movement in UK GDP in the third quarter of the year was unexpectedly negative, with a provisional figure of -0.4%, this was the smallest decline in five quarters. Since the half year, sentiment has improved with a positive impact on the central London investment and occupational markets. An increase in investor confidence, a rise in transactional activity and an easing in the lending markets led to a rise in capital values during the quarter. In our occupier market, we are seeing clear signs of rents and incentives stabilising as supply decreases. Despite 2009 being a difficult year, our design led, good value space has continued to let well.

Portfolio management

Following our successful letting activity in the first half of the year, we concluded 18 leasing transactions in the third quarter. These totalled 48,900 sq ft (4,540 sq m) with an annual rent of £1.3 million. Overall, the rental levels achieved were in line with the estimated rental values at the end of June, although 13.1% below those of December 2008. The principal transaction was at 45 Whitfield Street, Fitzrovia, where the entire 12,200 sq ft (1,130 sq m) building was pre-let at a rent of £345,000 per annum.

Since the quarter-end, 54,300 sq ft (5,000 sq m) of floorspace has been let at a rent of £2.0 million. This included a pre-let at the newly completed Charlotte Building, 17 Gresse Street, where Unanimis (part of Orange France Telecom) took 13,100 sq ft (1,220 sq m) over two floors at a rent of £578,500 per annum. A further floor of 6,800 sq ft (630 sq m) has subsequently been let to Icon Entertainment International at a rent of £297,000 per annum. Both lettings are in line with the estimated rental values at June.

In the year to date, the group's letting activity totals 258,500 sq ft (24,000 sq m) at a rental income of £7.9 million per annum.

The group's vacancy rate (by estimated rental value) now stands at 4.0%, or just over 240,400 sq ft (22,300 sq m), a slight increase from 3.9% at the half year. However, this includes the recently completed Charlotte Building and, if this project is excluded, the vacancy rate would be 3.1%.

During the quarter, we continued to capture the reversion in the portfolio. We concluded 14 rent reviews that increased the annual rental income from £4.0 million to £4.4 million whilst 9 lease renewals were completed with an income of £0.3 million per annum. Overall, the rents achieved in these transactions were 3% above the June estimated rental values.

In the third quarter, 97% of the group's rent was collected within 14 days of the quarter day. Three tenants have gone into administration since the half year with a combined rental income of £0.4 million. However, due to subsequent re-letting and the lease security in place, the group suffered no loss in income.

Projects

In October, practical completion was achieved at the 47,100 sq ft (4,400 sq m) Charlotte Building in Noho, and three of its seven floors have been let. This elegant, modern office building has helped regenerate this unique location just off Oxford Street.

The group has two major schemes underway which are 65% pre-let.

- Angel Building, 407 St John Street, Islington – The external cladding on this 263,000 sq ft (24,400 sq m) six-storey office redevelopment was completed in October and the internal fit-out is progressing well. The project is due to complete in the summer of 2010. It is on time and 53% pre-let at a rent of £5.6 million per annum.

- Arup Phase III, 8 Fitzroy Street, Fitzrovia – The construction of this 85,000 sq ft (7,900 sq m) office building is on schedule to complete in December. The entire building is pre-let to Arup at a rent of £3.6 million per annum on a 25-year lease with no break options.

Both these schemes are on budget and the total cost to complete them is approximately £43.9 million. We also continue to upgrade our portfolio through smaller refurbishments. We are on site with 10 such projects which total 87,000 sq ft (8,100 sq m). The total cost of these is £12.2 million with £7.2 million yet to be incurred.

The group has an extensive supply of future developments within the portfolio with a potential redeveloped floor area of over two million sq ft. The commencement of these schemes is in the group's control as the existing buildings are income producing and let on flexible lease terms.

Disposals and acquisitions

The group continued to dispose of non-core / mature assets during the third quarter of the year with the sale of 16 properties for £99.9 million, after costs. This took disposals for the first nine months of the year to £139.0 million, with an income of £10.1 million per annum. The principal disposal was the sale of the Arup Phase I office building at 13 Fitzroy Street for £59.5 million. The compulsory purchase of 135-155 Charing Cross Road, as part of the Crossrail project, accounted for £28.5 million of the total. This is only an initial payment with the final proceeds to be determined after a formal valuation process. Excluding this transaction, net sales proceeds were in line with the June valuation.

Since the quarter end, the group has either sold, or exchanged contracts for the disposal of, a further 12 properties for £50.6 million, after costs. The largest of these transactions was the exchange of contracts for the sale of The Rotunda, Kingston-Upon-Thames for £41.6 million, after costs. Completion is due at the end of November. Overall, these sales were 5.1% above the June valuation. No material acquisitions were made during the quarter.

Asset values

Since the half year, there has been a marked improvement in investment sentiment, especially in central London, which has not been solely focussed on long-dated income streams, as was the case earlier in the year. Whilst debt finance remains scarce, there are signs of easing and there has been increased demand from equity buyers. Both national and international investors have been attracted back to the sector by the relatively high property yields in comparison to alternative investments. These improvements, allied with a lack of available buying opportunities, have resulted in capital values in our operating area generally improving over the quarter. This was illustrated by the IPD Quarterly Property Index for Central London Offices, where capital values increased by 1.4% in the third quarter, contrasting with the 4.4% decrease in the previous quarter. This is the first valuation increase in the Index since the third quarter of 2007.

Our portfolio is not valued on a quarterly basis. Having consulted with our principal external valuers, CB Richard Ellis, and from the high level of investment enquiries we have received, we are confident that our portfolio, with its characteristics of competitive rents, West End locations and asset management opportunities, will have benefited from this market improvement.

Debt and cash flow

With limited capital expenditure and no significant acquisitions, the continuation of the disposal programme has meant that net debt has fallen from the half year level. To the end of the third quarter, the group's operating activities generated a cash inflow of £45.7 million to which disposal proceeds added £111.5 million. Capital expenditure was £71.9 million, and after the payment of the final dividend for 2008, the net cash inflow for the nine months was £66.2 million. Net debt at 30th September 2009 was £798.1 million compared with £849.3 million at June which in turn showed a reduction of £16.1 million from the December 2008 year end. The group's total debt facilities of £1,145.5 million remain unchanged from the half year as repayments have been made to the group's revolving facilities which remain available. Committed unutilised facilities at 30th September 2009 of £352 million give the group substantial capacity to invest.

There have been no changes to the group's financing arrangements since the half year so that the next maturity remains December 2011. With lower debt levels, individual bank loan to value (LTV) coverage on the secured loans is comfortable. The group LTV at 30th September 2009 based on the June 2009 valuation was 43.4% and balance sheet gearing likewise was 81.3%. The group continues to reduce its interest rate risk out into the future, and at the end of the third quarter 75.7% of drawn debt was either fixed or hedged, using mostly interest rate swaps. The group's average weighted cost of debt is currently 4.74% inclusive of margins and costs. This is slightly higher than at the half year with the cheaper floating rate debt being repaid from the disposal proceeds.

Outlook

Over the last two years, market conditions have dictated that we concentrate on preserving income throughout our portfolio, whilst carefully managing our capital resources and financial ratios. This has ensured that we have retained a strong balance sheet capable of funding new opportunities as the economy recovers. Whilst this strategy will continue, the recent signs of improvement in the central London market have meant that we are now preparing for the next stage of the property cycle. This has seen us progressing a number of schemes from our extensive pipeline of projects so that the next generation of our distinctive brand of office space could be delivered to the market from late 2011.

Notes to editors

Derwent London plc

Derwent London plc is the largest central London focussed REIT with an investment portfolio of £1.9 billion as at 30 June 2009. The group is one of London's most innovative office specialist property regenerators and investors and is well known for its established design-led philosophy and creative management approach to development. In April, Derwent London was awarded the Property Week Property Company of the Year 2009.

Derwent London's core strategy is to acquire and own a portfolio of central London property that has reversionary rents and significant opportunities to enhance and extract value through refurbishment and redevelopment. The group owns and manages an investment portfolio of 5.5 million sq ft, as of 30 June 2009, of which 93% is located in central London, with a specific focus on the West End and the areas bordering the City of London. Landmark schemes by Derwent London include: Qube W1, Horseferry House SW1, Johnson Building EC1, Davidson Building WC2 and Tea Building E1.