Derwent London plc

Derwent London plc ("Derwent London" / "group")

INTERIM MANAGEMENT STATEMENT FOR THE THREE MONTHS ENDED 31 MARCH 2008

Derwent London is the largest central London focused Real Estate Investment Trust with an investment portfolio at 31 March 2008 of £2.7 billion, based on year end values, comprising 5.6 million sq ft (520,000 sq m). The first quarter of the year saw a wide range of activity across all areas of the group's business. In particular, despite tougher economic conditions, the latter part of the quarter saw an increase in occupier demand for our accommodation.

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

> *"Through the ownership of a portfolio with reversionary rents, an average unexpired lease length of just under nine years and a flexible development pipeline underpinned by income, we are well positioned for these uncertain economic conditions. Additionally, we continue to be in excellent financial health with a strong balance sheet and low gearing of 44.7%. With over £300 million of unutilised bank facilities, we are well placed to make acquisitions if the right opportunities become available."*

Highlights

- Three valuable planning consents for future developments were granted totalling 673,000 sq ft (62,600 sq m) – North Wharf Road, Paddington, the Angel Building, Clerkenwell and 40 Chancery Lane, Holborn.
- At 1-3 Grosvenor Place, Belgravia, a lease surrender was negotiated with the tenant, facilitating the future redevelopment of both this 83,500 sq ft (7,800 sq m) building and the adjacent property at 4-5 Grosvenor Place.
- Good progress with lettings:
    - During the quarter, lettings totalled 20,500 sq ft (1,900 sq m), generating a rental income of £0.6 million per annum.
    - Since the quarter-end, a further 36,800 sq ft (3,400 sq m) has been let with a rental income of £1.0 million per annum.
    - Additionally, the group has 230,000 sq ft (21,300 sq m) of floorspace under offer which will ultimately produce a rental income of £8.7 million per annum.
- A strategic acquisition on our Fitzrovia estate of 53-65 Whitfield Street, (29,400 sq ft, 2,700 sq m) for £13.5 million, excluding costs.

- Disposals of £30.7 million, including £19.0 million from the sale of the Southampton properties. The proceeds were in line with the December book values.

Asset values

During the quarter, CB Richard Ellis ("CBRE") reported that central London prime office yields increased by 25 basis points to 5.0% in the West End and 5.5% in the City. This would imply a fall in capital values of around 5%. Over the same period, the IPD Monthly Index for central London offices, which analyses a broader spectrum of property, showed a decline in capital values of 4.4%.

Although we have not revalued our portfolio this quarter, after consulting our external valuers, CBRE, we believe that the Derwent London portfolio equivalent yield has risen by approximately 20 basis points in the same period. This slightly lower movement is due to the portfolio's defensive low average passing rents (£24.78 per sq ft (£266.74 per sq m) in central London), which offer good prospects for rental growth, a limited exposure to the City office market and significant latent development opportunities.

Letting activity

The group has continued to make good progress in its letting activity in 2008 and there was a noticeable increase in occupier interest towards the end of the quarter.

- 20,500 sq ft (1,900 sq m) of lettings were completed during the quarter, followed by a further 36,800 sq ft (3,400 sq m) since the quarter end. Combined, these 16 lettings will produce an annual rental income of £1.6 million, showing modest rental growth since the year end.
- The largest of these transactions was the 22,300 sq ft (2,100 sq m) short term letting of Victory House, 163/170 Tottenham Court Road at £0.7 million per annum. Arup are occupying this space whilst we are constructing Phase III of their new office accommodation in Fitzroy Street.
- The group has a further 230,000 sq ft (21,300 sq m) of space, with a rental income of £8.7 million per annum, under offer. This includes 22,800 sq ft (2,100 sq m) at the Qube, Fitzrovia, together with pre-lets of 140,000 sq ft (13,000 sq m) at the Angel Building, Clerkenwell, and 24,200 sq ft (2,250 sq m) at 151 Rosebery Avenue, Clerkenwell.
- Space immediately available for letting within our portfolio now stands at 4.7% of the portfolio rental value.

Asset management

- In order to unlock the potential value at one of the group's major property holdings, £8.0 million was paid for the surrender of Hanson's lease at 1-3 Grosvenor Place, Belgravia, which will be charged to net property income. This transaction facilitates the future redevelopment of this 83,500 sq ft (7,800 sq m) building and our adjoining property at 4-5 Grosvenor Place, the timing of which will reflect our view of market conditions. The deal also enhances the group's income by £1.2 million per annum by way of inheriting the under-tenants who occupy 75% of the building on leases that expire by 2010. Our planning studies continue and indicate that the redevelopment of these properties could yield a significant increase to the existing floor area of 162,000 sq ft (15,000 sq m).
- Despite deteriorating economic conditions, there has been no impact on our rent collection with over 97% of rent collected within two weeks of the last quarter day.

Project update

- Three major schemes have been granted planning permission:
    - 55-65 North Wharf Road, Paddington - In January, planning consent was granted for the redevelopment of two low-rise 1960s buildings comprising 84,000 sq ft (7,800 sq m). This major project, which occupies a prime Paddington Basin location, will provide a 240,000 sq ft (22,300 sq m) office building, a 73,000 sq ft (6,800 sq m) 100 unit residential block and 2,900 sq ft (270 sq m) of retail space, giving an increase in total floor area of 276%. Subject to detail design and tenure restructuring, the development could commence in 2010 until when the property remains income producing.
    - Angel Building, 411 St. John Street, Clerkenwell - Planning consent was granted in February for the remodelling and extension of this 162,000 sq ft (15,000 sq m) building which will increase the floor area by 58% to 255,000 sq ft (23,700 sq m). The detailed design is progressing well and construction is underway with completion expected in mid 2010 when the current income of £4.2 million per annum expires.
    - 40 Chancery Lane, Holborn - Planning consent was obtained in February for a 102,000 sq ft (9,500 sq m) new office building. This will replace three buildings of 71,000 sq ft (6,600 sq m) of which the group owns two, one as a freehold and the other leasehold. The freeholder of the latter is the owner of the third property, 9,700 sq ft (900 sq m). The existing buildings are multi-let on leases that expire by 2012.
- The 163,000 sq ft (15,200 sq m) Horseferry House office development has recently completed and is pre-let to Burberry at a rent of £5.3 million per annum, offering significant reversionary potential.
- In addition, Phase II of the Arup development (57,000 sq ft / 5,300 sq m) in Fitzrovia was completed in April and handed over to the tenant. Consequently, the rental income from

Arup on this development has increased from £2.7 to £3.6 million per annum. The 85,000 sq ft (7,900 sq m) Phase III will start on site later this month with construction due to finish in late 2009. Upon completion, the rental income for the combined phases will increase to £6.0 million per annum and be subject to review in 2011.

- The mixed-use Portobello Dock canal-side project, totalling 69,000 sq ft (6,400 sq m), completed at the beginning of May.
- At the 47,400 sq ft (4,400 sq m) Charlotte Building, 16-19 Gresse Street, construction is continuing and is expected to complete in early 2009.

Disposals

The group continues its disposal of non-core assets, with £30.7 million of sales completed during the quarter and contracts exchanged on a further £18.9 million:

- The sale of the Southampton holdings, predominantly retail units, realised £19.0 million.
- At Portobello Dock, we pre-sold the entire residential element of the scheme for £12.6 million.
- The disposals were all made close to December 2007 values.

Acquisitions

The group continues its strategy of making selective acquisitions, where it identifies assets offering low passing rents with significant scope for asset management and future planning potential.

- 53-65 Whitfield Street (29,400 sq ft / 2,700 sq m) in Fitzrovia was acquired in February for £13.5 million, excluding costs. The property is let at an annual income of £0.75 million and complements our existing Fitzrovia holdings, being adjacent to 43 and 45-51 Whitfield Street, which were acquired in December 2007.

Finance

The group's financial position remains sound with a high level of unutilised committed bank facilities, a substantial value of unsecured property and low gearing levels.

Since the year end, net debt has risen £40.1 million from £782.8 million to £822.9 million. Net asset gearing at 31st March 2008 was 44.7% compared with 42.5% at December 2007 and property gearing (nominal value of debt excluding leasehold liabilities divided by the fair value of investment properties) rose similarly to 31% from 28% over the same period. The more important profit and loss gearing for the quarter was 1.80 compared with that for 2007 of 1.81. One of the main contributors to the increase in debt levels was the tax payment in January of £36.4 million, which included the first instalment of the REIT conversion charge of £27.5 million. During the first quarter, capital expenditure totalled £17.3 million and a further £15.7

million was spent on acquisitions, effectively funded by £30.2 million realised from property disposals. Despite the rise in debt, committed, undrawn facilities were £321 million at the quarter end.

The group has two facilities totalling £128 million due for repayment in 2008. The terms for the refinancing of the smaller of these, £28 million, have been agreed with the bank and approved by its credit committee and are now subject only to agreement of documentation. Given the well publicised problems in the banking sector, this shows the value of the group's strong ongoing relationships with its banks. The refinancing of the other facility, due for repayment in November, is already under advanced discussion with the existing lender.

The net debt includes the fixed rate secured bond (nominal value £175 million), at its amortised, acquired fair value of £194.7 million. In addition, the group has £320 million of hedging, mainly interest rate swaps. Therefore, 62% of the nominal value of debt, excluding leasehold liabilities, was either fixed or hedged at the quarter end. This is the same figure as at the year end, due to additional hedging being undertaken, at a rate of approximately 5% for five years, to match the rise in borrowings. As noted at the year end, a further tranche of debt is protected from the current mismatch between LIBOR and base rates due to the nature of the facility. This means that only about 25% of the quarter end debt is subject to floating LIBOR rates. The average weighted cost of debt at the end of April 2008 was 6.0%.

Outlook

With a slowdown in economic growth expected this year, demand for central London office space is likely to weaken over the short term. Although we do not expect the West End to be immune from the current market turbulence, we do believe that it will prove to be more robust. This is due to its low vacancy rate, demand from a diverse range of tenants and a limited construction pipeline as a result of the restrictive West End planning regulations. We anticipate the strongest rental performance is likely to be achieved outside of the expensive Mayfair/St James's core markets, as many occupiers may look to relocate to the more cost effective neighbouring villages such as Victoria, Fitzrovia, Baker Street, Covent Garden and Paddington. The group focuses on these villages, targeting occupiers in the mid rental levels of £40-65 per sq ft (£430-700 per sq m), in contrast to the prime rental levels (£120+ per sq ft / £1,290+ per sq m) seen in the core.

Outside the City core, the surrounding villages, such as Shoreditch, Clerkenwell and Holborn, are likely to be more resilient than the City itself as a result of their wide tenant base, modest vacancy rates and less speculative construction. These locations, where some of the group's holdings are situated, have become new and vibrant areas in which to live and work.

Looking forward, we continue to retain our confidence in the central London market, particularly the West End, as a preferred location for investors. However, with the general availability of finance being restricted, we expect transactions to be limited for the remainder of 2008.

With strong finances, limited exposure to the City market and a focus on the mid market rental levels, we are well positioned for these uncertain economic conditions. Additionally, we are well placed to take advantage of selective opportunities that we see.

J D Burns
19 May 2008

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Disclaimer

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Notes to editors

Derwent London plc

Derwent London plc is one of London's most innovative office specialist property developers and investors and is well known for its established design-led philosophy and creative management approach to development. Derwent London won the RIBA Client of the Year Award 2007.

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 over £2.7 billion, of which £2.5 billion or 94% 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; Johnson Building, EC1; Davidson Building, WC2 and Horseferry House, SW1.

Approximately 50% of the London portfolio is identified as having the opportunity, through development, to achieve significant gains in floor area and, thereby, increases in value. The existing pipeline of development and refurbishment projects is extensive, which could result in additional floorspace of over 1.4 million sq ft (135,000 sq m).