DERWENT
LONDON

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Derwent London plc

("Derwent London" / "the group")

INTERIM MANAGEMENT STATEMENT FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2010

Highlights

- Acquisition:
    - £146.0m purchase of Central Cross, 18-30 Tottenham Court Road, W1 – a 251,000 sq ft (23,300m^2) office and retail property with a rental income of £8.1m pa offering significant opportunities to add value.
- Lettings:
    - 35 lettings in the third quarter totalled 149,800 sq ft (13,920m^2) that will generate rental income of £2.9m pa.
    - 89 transactions completed in the year to date, with a floorspace of 302,400 sq ft (28,100m^2), at an annual rent of £7.1m. A further 30,200 sq ft (2,810m^2) is under offer at £0.5m pa.
    - Central London lettings, excluding short-term transactions, were 7.9% above estimated rental values at 31 December 2009 and 2.6% above 30 June 2010 values.
- Projects:
    - The 263,000 sq ft (24,400m^2) Angel Building, EC1 was completed in September.
    - Resolution to grant planning obtained for a 121,500 sq ft (11,290m^2) mixed-use scheme at 60 Commercial Road, E1 and planning applications submitted for three further schemes totalling 605,000 sq ft (56,200m^2).
- Financial:
    - Net debt increased to £902.0m from £749.2m during the quarter due to acquisitions and investment in the group's portfolio.
    - Interest cover remains strong at 318% and the group's overall loan-to-value ratio is modest at 38.1%.

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

"Although economic conditions remain uncertain, we are encouraged by the continued improvement of the central London office market and our letting successes. It was a notable quarter for Derwent London with the completion and launch of our largest project to date, the Angel Building. We are confident that the space at this innovative regeneration scheme will prove attractive to tenants. We are on-site at nine refurbishments and continue to progress the design and planning for our pipeline of schemes. Our balance sheet remains strong and our portfolio, with its low average rents, is well positioned to benefit from the improvements in our market."

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Overview

In the third quarter of 2010, economic growth in the UK was higher than expected at 0.8%, taking growth in the first nine months to 2.5%. London has continued to outperform the broader economy, which has benefited the central London office market. Demand has remained steady and with vacancy rates, which remain low for this point in the cycle, continuing to fall, there was further rental improvement. On the investment side, investor appetite was strong, especially from overseas buyers. However, after approximately 15 months of yield compression, levels seem to have stabilised. Since the summer, we have noticed a marginal increase in the number of buying opportunities and we expect this trend to continue as certain banks become more active in reducing their property exposure.

Portfolio management

During the quarter, we completed 35 lettings at an annual rent of £2.9m over 149,800 sq ft (13,920m^2) of floorspace which, at June, was producing £0.8m pa. Excluding short-term transactions, where we were preserving development flexibility, the rental levels achieved on the central London lettings were 7.9% higher than the estimated rental values at December 2009 and 2.6% above June 2010 estimated rental values. These lettings take activity in the first nine months of the year to 82 transactions with an annual rental income of £6.4m and a floorspace of 275,500 sq ft (25,600m^2). In the comparable period last year, 68 lettings were concluded at a rent of £5.9m pa.

As recently reported, the final floor at the Charlotte Building, W1 was let at £0.4m pa (£47.50 per sq ft or £510 per m^2). At 1-5 Grosvenor Place, SW1, we concluded five short-term lettings at a combined rent of £0.5m pa, averaging £45 per sq ft (£485 per m^2).

There has also been considerable progress in our non-core portfolio over the quarter. At the Strathkelvin Retail Park near Glasgow, we have successfully widened the planning use from Class 1 “bulky goods” retail to Class 1 “open” retail on the majority of units. This enabled us to let 87,100 sq ft (8,090m^2) to five established retailers – Matalan, DSG Retail, SportsDirect, Boots and Pets at Home – at a rent of £1.1m pa on leases with terms ranging from 10 to 15 years.

Since the quarter end, 26,900 sq ft (2,500m^2) of central London space has been let at a rent of £0.7m pa bringing to 89 the total number of transactions for the year to date. A further 30,200 sq ft (2,810m^2) is under offer throughout the portfolio at £0.5m pa. The group’s vacancy rate now stands at 5.6% (2.2% prior to the Angel Building completion) compared to 3.6% at the start of the year and 2.2% in June 2010.

Projects

We completed our 263,000 sq ft (24,400m^2) six-storey Angel Building during the quarter. Following the pre-let to Cancer Research UK, we are marketing the remaining 137,000 sq ft (12,700m^2) of office and retail space and have received good initial occupier interest. We also completed the refurbishment of 65 Whitfield Street in Fitzrovia – a 30,000 sq ft (2,800m^2) five-storey office building. This is now over 60% let.

At the close of the quarter, we were on-site at nine projects with a combined floorspace of 107,400 sq ft (9,980m^2). Over two-thirds of these schemes were in Fitzrovia and included Victory House on Tottenham Court Road, Maple Place/Fitzroy Street, and 9-10 Rathbone Place.

On the planning front, Tower Hamlets has resolved to grant planning permission for a 121,500 sq ft (11,290m^2) mixed-use development at 60 Commercial Road, E1. The scheme comprises 417 student accommodation units and 26,500 sq ft (2,460m^2) of offices. Vacant possession can be obtained in 2012. In addition, we submitted planning applications at 132-142 Hampstead Road, NW1, 2-14 Pentonville Road, N1 and City Road Estate, EC1. We will obtain possession of the former two properties next year with the latter in 2012. These three schemes have a proposed floor area of 605,000 sq ft (56,200m^2) – an uplift of over 60% from the existing floor area. We will shortly be submitting a planning application for the 320,000 sq ft (29,730m^2) redevelopment of 80 Charlotte Street, W1.

Acquisitions and disposals

As reported in the group's half year results, we completed the acquisition of Central Cross, 18-30 Tottenham Court Road, W1 in August for £146.0m, before costs. This 251,000 sq ft (23,300m^2) property has an annual rental income of £8.1m, equating to an average rent of £34 per sq ft (£366 per m^2). The building comprises 216,000 sq ft (20,100m^2) of offices, 24,000 sq ft (2,200m^2) of retail space fronting onto Tottenham Court Road and an 11,000 sq ft (1,000m^2) cinema. Both the office and retail elements lack identity and offer refurbishment opportunities to create our brand of high quality space. Our studies are well advanced and we intend to submit a planning application early next year for the reconfiguration of the existing ground floor entrance and offices. We are aiming to commence the upgrade of the entrance and the refurbishment of up to 75,000 sq ft (6,970m^2) of offices in the latter half of 2011.

No other significant acquisitions or disposals were made in the quarter.

Asset values

As anticipated, with yields stabilising, the IPD All UK Property Quarterly Index showed capital growth of 0.7% in the third quarter 2010 compared to 1.8% in the second quarter and 4.3% in the first. In comparison, driven by rental improvement, our market outperformed, with the IPD Central London Office Index recording capital growth of 2.0% in the quarter. Since the bottom of the market in mid-2009, central London office capital values have recovered by 25% compared to 17% for all UK property. Taking account of the rental levels achieved in our third quarter letting activity, our external valuers, CB Richard Ellis, consider that the group's portfolio continued to perform broadly in line with the IPD Central London Office Index.

Finance

The acquisition of Central Cross contributed to a net cash outflow for the third quarter of 2010 of £152.7m taking the total outflow for the first nine months of the year of £182.2m. This was in contrast to the corresponding three quarters of 2009 when the property disposal programme was still underway and there was a net cash inflow of £66.2m. Capital expenditure on projects during the three month period of £12.6m brought the total invested in the portfolio during the first three quarters to £42.2m. This combined level of acquisition and investment gave rise to an increase in the group's net debt, after amortisation of £0.1m, to £902.0m at 30 September 2010 from £749.2m at 30 June 2010. The loan to value ratio has risen accordingly but remains modest at 38.1% at 30 September 2010 compared with 33.8% at 30 June 2010, both figures based on June 2010 asset values. Overall interest cover remains strong at 318%.

As at 30 September 2010, there was no change to the group's committed debt facilities though a new five year £100m secured revolving loan facility has subsequently been signed and we are also documenting credit-approved terms for an additional £90m seven year part-revolving secured facility.

These two facilities will be drawn before the end of 2010 to refinance the £200m revolving credit facility that expires in December 2011.

As at 30 September 2010, the group had £259m of undrawn committed bank facilities of which £225m was immediately available. In addition, there was £517m of unencumbered property should further security be required in the future.

The UK economy is only now starting a period of rebalancing to address the unsustainable deficit that has been built up over recent years. Measures to reduce government spending and increase taxation have been announced but their impact will be gradual. The UK economy has, so far, held up fairly well and recent growth figures have been rather better than expected. Earlier in the summer, interest rate swaps and gilt rates reflected the market's caution on economic growth and fell close to all-time lows. We felt this was the right time to lock in and extend some of our interest rate hedging. Together with the larger proportion of floating rate loans following the Central Cross purchase, this reduced the weighted average cost of group debt facilities to 4.31% at 30 September 2010 from 4.92% at 30 June 2010. The average cost will rise by about 0.2% upon the drawing of the new loans due to the impact of higher margins.

Outlook

With the steady improvement in our operating market, and the positive early interest generated by our projects, we are progressing our refurbishments and developments with confidence. In addition, we await the outcome of a number of substantial planning applications and continue to advance our significant development pipeline. Recently, we were pleased that the government's Comprehensive Spending Review announced that the future of Crossrail is secure thereby benefiting our proposed Charing Cross Road/Oxford Street development and our surrounding Fitzrovia properties. We continue to look for buildings that offer significant asset management and refurbishment potential, similar to those at Central Cross.

Notes to editors

Derwent London plc

Derwent London plc is the largest central London focused REIT with an investment portfolio of £2.15bn as at 30 June 2010. 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 2010, our recently completed Charlotte Building won the British Council for Offices award for Best Commercial Workplace in London and the South East.

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, regeneration and redevelopment. The group owns and manages an investment portfolio of 5.1m sq ft, as of 30 June 2010, of which 95% 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: Angel Building EC1, Arup Phases II & III W1, Qube W1, Horseferry House SW1, Johnson Building EC1, Davidson Building WC2 and Tea Building E1.