2010 Report & Financial Statements

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Operational Summary

- £140.0m (before expenses) raised by the Company through an Open Offer. The net proceeds of the issue have been used to repurchase the Shareholder Loan (Note (i)).
- Adjusted NAV per share was 187p at 31 December 2010, an increase of 17p or 10.0% in comparison with the 30 June 2010 proforma adjusted NAV per share of 170p allowing for the completion of the Open Offer (Note (ii)).
- Net assets increased to £1,753.6m at 31 December 2010, an increase of £537.1m from £1,216.5m at 30 June 2010 and of £562.0m from £1,191.6m at 31 December 2009 (Note (ii)). These increases were primarily attributable to the share issue and the profit for the period.
- Adjusted NNNAV per share was 156p at 31 December 2010 compared with the 30 June 2010 proforma adjusted NNNAV per share of 141p (Note (ii)).
- Underlying profit before tax for the year was £28.8m (2009 – £110.7m) (Note (iii)). Profit after tax for the year was £420.9m (2009 – £202.4m).
- The market value of the retained investment portfolio increased by 4.7% to £4,638.5m over the 6 months ended 31 December 2010 and 9.7% since 31 December 2009 (Note (iv)).
- Including development sites, the market value of the retained property portfolio at 31 December 2010 was £4,907.0m, against £4,694.5m at 30 June 2010 and £4,448.0m at 31 December 2009 (Note (iv)).
- The weighted average initial yield for the office portfolio was 4.8% at 31 December 2010, an improvement of 20bps since 30 June 2010. The initial yield for the retail portfolio was 4.9%, an improvement of 30bps since 30 June 2010 (Note (iv)).
- The weighted average equivalent yield for the office portfolio was 5.2% at 31 December 2010, an improvement of 50bps for the 6 months since 30 June 2010. The equivalent yield for the retail portfolio was 5.4%, an improvement of 30bps since 30 June 2010 (Note (iv)).
- In December 2010 Canary Wharf Group completed the sale of 25 Bank Street to J.P. Morgan for a gross consideration of £495.0m. Canary Wharf Group also agreed terms with AIG for the termination of the rental cover facility on the building for a receipt of £144.5m. In January 2010 Canary Wharf Group also completed the sale of 5 Churchill Place for a total consideration of £208.0m (Note (v)).
- The weighted average unexpired lease term for the investment property portfolio was approximately 16.9 years (or 15.7 years assuming the exercise of all break options) (Note (vi)).
- At 31 December 2010 Canary Wharf Group's investment portfolio totalling 6.9m sq ft was 97.1% let (31 December 2009 – 8.0m sq ft of which 96.2% was let including the Lehman building as fully let) (Note (vi)).
- Canary Wharf Group restructured existing leases and granted new leases to Barclays Capital over a total of 1,152,000 sq ft. Canary Wharf Group also concluded lettings of approximately 187,000 sq ft to Shell and further lettings over an additional 200,000 sq ft during the period (Note (vii)).
- The Group entered into a joint venture with Land Securities for the development of 20 Fenchurch Street (Note (viii)).
- Canary Wharf Group acquired the substantial majority of the drawn balance under the Drapers Gardens construction loan facility for £112.8m. Subsequently, the joint venture entities which owned Drapers Gardens sold the property for a gross consideration of £242.5m reflecting an initial yield of 5.2% (Note (ix)).
- Canary Wharf Group acquired 1 Park Place, a building located adjacent to the Estate, for £17.5m with 2 alternative planning permissions for 214,000 sq ft and 950,000 sq ft. Canary Wharf Group also acquired the remaining interests on Heron Quays West in June 2010, a site which has planning consent for office space of 1.3m sq ft (Note (x)).
- Further progress made on the Crossrail station project which continues to be on schedule and within budget (Note (xi)).

Note:

(i) See Business Review – Open Offer.

(ii) See Business Review – Consolidated balance sheet and key performance indicators.

(iii) See Note 1 for basis of preparation and Note 4.

(iv) See Business Review – Valuations for a comparison with the carrying value for accounts purposes and details of movements in yields.

(v) See Business Review – Property sales.

(vi) See Business Review – Property portfolio for basis of calculation.

(vii) See Business Review – Leasing.

(viii) See Business Review – Fenchurch Street.

(ix) See Business Review – Drapers Gardens.

(x) See Business Review – Development properties.

(xi) See Business Review – Crossrail.

Results in Brief

	Note	**2010 £m**	2009 £m
Rental income (excluding tenant incentives adjustments)	(i)	**287.5**	318.4
Underlying operating profit	(ii)	**268.4**	370.8
Capital and other items:			
– write down of Lehman incentives	(i)	**(50.1)**	–
– movement in impairment of investments in associates	(iii)	**2.7**	3.6
– profit on sale of investment property	(iv)	**155.1**	–
– termination of AIG facility	(v)	**144.5**	–
– net revaluation movements	(vi)	**327.9**	(15.4)
– net derivatives and Preference Share (expense)/income	(vii)	**(127.1)**	164.5
– charges relating to repayment of secured debt	(vii)	**(18.0)**	–
– net gain on repurchase of securitised debt	(vii)	**–**	71.2
Underlying profit before tax	(ii), (ix)	**28.8**	110.7
Profit on ordinary activities before tax	(ii)	**463.8**	334.6
Tax	(viii)	**(42.9)**	(132.2)
Profit after tax	(ii)	**420.9**	202.4
Basic and diluted earnings per share	(ix)	**41.3p**	57.7p

Note:
(i) See Note 5.
(ii) See Consolidated Income Statement.
(iii) See Note 12.
(iv) See Note 11.
(v) See Note 21.
(vi) See Note 6.
(vii) See Note 7.
(viii) See Note 8.
(ix) See Note 4.

Chairman's Operational Review

INTRODUCTION

A strong operational performance from Canary Wharf Group and the conclusion to the Company's Open Offer marked 2010 as a successful year for both the Company and the Group.

The proceeds of the Open Offer were used to repay the Group's £135.0m shareholder loan facility, further improved its balance sheet and simplified the Company's capital structure. Canary Wharf Group completed transactions on over 2.5m sq ft during the year and also concluded a range of leasing and finance transactions together with asset disposals and acquisitions.

Canary Wharf Group was also active outside the Canary Wharf district. Firstly through the Drapers Gardens development joint venture and secondly entering into the joint venture on 20 Fenchurch Street with Land Securities. The subsequent syndication of 70.0% of Canary Wharf Group's commitment to the joint venture on 20 Fenchurch Street left Canary Wharf Group with a 15.0% interest. This allowed the Group to reduce its exposure to this development, whilst also facilitating the efficient use of capital.

FINANCIAL REVIEW

Adjusted NAV per share at 31 December 2010 was £1.87 in comparison with £1.70 at 30 June 2010 (proforma for the Open Offer in October 2010), an increase of 10.0%. Net assets increased from £1,216.5m at 30 June 2010 to £1,753.6m at the year end, an increase of £537.1m, or 44.2%. Over the full year, net assets increased by £562.0m or 47.2%. These increases were in part attributable to the net proceeds of the Open Offer and in part to the profit for the year.

The recovery in the property market continued into the second half of the year and at 31 December 2010, the weighted average equivalent yield for the office portfolio was 5.2%, an improvement of 50bps since 30 June 2010. The weighted average equivalent yield for the retail portfolio hardened by 30bps to 5.4%. These reductions in yields underpinned an increase in the market value of the retained investment portfolio to £4,638.5m, a rise of 4.7% since June 2010 and taking the increase for the year to 9.7%.

Overall, the Group's profit before tax for 2010 was £463.8m contrasting with £334.6m for 2009. The results for 2010 were robust and reflected a revaluation surplus of £327.9m, against a deficit in 2009 of £15.4m. The results for the year were also positively impacted by the profit realised on the sale of 25 Bank Street (£155.1m) and the amount received on termination of the related AIG facility (£144.5m). These profits were offset by the write off of Lehman incentives in the first half of the year (£50.1m) and financing costs of £145.1m (2009 – gain of £235.7m), including movements in the fair value of financial instruments and swap breakage costs.

At 31 December 2010, the Group had unsecured cash deposits of £899.8m, of which £879.1m are attributable to Canary Wharf Group. The weighted average cost of Canary Wharf Group debt was stable at 6.3% and the weighted average maturity was 14.9 years. The first loan refinancing (for £350.0m) of Canary Wharf Group's debt does not fall due until 2014.

The Company is debt free, other than the Preference Shares. Net of cash, the Group's look through LTV was 60.9% in comparison with a proforma LTV of 73.8% at 30 June 2010, reflecting completion of the Open Offer and the increase in the market value of the property portfolio since the half year.

The results for the year are covered in more detail in the Business Review – Operating Results.

OPERATIONAL REVIEW

At the start of the year, Barclays Capital restructured and entered into new leases with Canary Wharf Group in respect of 1.15m sq ft, consolidating and extending its occupation in 10 Cabot Square and 20 Cabot Square until 2032. The year closed with another 1m sq ft transaction, the disposal of 25 Bank Street to J.P. Morgan for a gross consideration of £495.0m. Canary Wharf Group also agreed terms with AIG for the termination of the rental cover facility on the building for a receipt of £144.5m, producing combined proceeds of £639.5m. 25 Bank Street will become the new European headquarters of J.P.Morgan's investment banking operations in 2012.

Between these 2 transactions, other related transactions linked to the disposal of 25 Bank Street such as the repayment of the £348.7m loan secured on 10 Cabot Square and 20 Cabot Square and the substitution in the securitisation of 25 Bank Street by both 10 and 20 Cabot Square were completed.

At the start of the year, Canary Wharf Group concluded the disposal of 5 Churchill Place for £208m. Subsequently,

Chairman's Operational Review continued

2 acquisitions were completed: firstly, 1 Park Place for £17.5m, a site which is centrally located at Canary Wharf, and has the benefit of 2 pre existing planning consents for 214,000 sq ft or 950,000 sq ft; and secondly, the last 2 units required to complete land assembly at Heron Quays West where there is planning consent for a 1.3m sq ft scheme.

Lettings on 387,000 sq ft were also concluded during the year to a variety of high quality tenants, further diversifying the tenant mix on the Estate. The most significant single letting was to Shell which took 187,000 sq ft of space in 40 Bank Street.

Retail at Canary Wharf also had a highly successful year with increases in rents, footfall and turnover. Reflecting these increases, the arrival of new names such as Tiffany & Co and Aquascutum and the successful opening of 7 new restaurants at Canary Wharf in the last 18 months, the value of the retail assets increased by 25.0% during the year. The success of the retail malls, now fully let, is such that consideration is being given to the further extension of retail units into the lower level car parking areas. Other opportunities to extend the retail offering are also being pursued, reflecting the high level of demand for shops and restaurants.

During the year, construction focused on the building of the Crossrail station at Canary Wharf, which remains on schedule and on budget. Outside the Canary Wharf district, construction was completed on the Drapers Gardens development and after a successful marketing campaign led by Canary Wharf Group, the building was let for a term of 25 years before subsequently being successfully sold to Evans Randall for a consideration of £242.5m reflecting a yield of 5.2%.

This success in Central London was followed up with the conclusion of a joint venture agreement with Land Securities on the 20 Fenchurch Street site. The Canary Wharf Group will act as sole construction manager and also joint development manager on this project where construction has already started. It is envisaged that joint venture structures are likely to form a template for future development activity.

CONCLUSION

The Group had a very positive 2010 and will be looking to continue development at Canary Wharf in 2011. Additionally we expect to see increasing involvement in Central London projects, either through joint ventures or as a construction or development manager. The Board believes that the Group is well placed to take advantage of the anticipated shortage of Grade A space in London to enable the Group to progress in 2011.

David Pritchard

DAVID PRITCHARD
Chairman

Business Review

The following Business Review aims to provide shareholders with a summary of the business of the Group both during the year ended, and as at, 31 December 2010.

A list of defined terms used throughout these financial statements is provided in Definitions.

OPEN OFFER

In October 2010 the Company raised, by way of the Open Offer, £140.0m (before expenses) through the issue of 109,375,000 new Ordinary Shares on the basis of 0.16685 new Ordinary Shares for every one Ordinary Share held on 21 September 2010 at an issue price of 128p per share. Approximately £135.0m of the total proceeds was used to repurchase the Shareholder Loan at par and approximately £5.0m to pay associated transaction costs.

The Open Offer meant the Company was able to avoid the future requirement to refinance the Company's short term loan facility. In addition the Company has strengthened its balance sheet and simplified its capital structure.

An interim dividend of 11.736p per share was paid by Canary Wharf Group on 4 October 2010 of which a total of £51.9m was received by SFL. This was used to pay accrued dividends on the Preference Shares as at 30 September 2010, the SG dividend (Note 24) and accrued interest on the Shareholder Loan facility to the repayment date. The balance was retained for general working capital purposes.

PROPERTY PORTFOLIO

The principal asset of the Company is its indirect investment in Canary Wharf Group which is engaged in property investment and development and is currently focused on the development of the Estate. Canary Wharf Group is also involved, through joint ventures, in the development of Wood Wharf and the redevelopment of 20 Fenchurch Street. At 31 December 2010 the retained investment portfolio comprised 16 completed properties (out of the 35 constructed on the Estate) totalling 6.9m sq ft of NIA. The properties included in Canary Wharf Group's investment portfolio at 31 December 2010 are shown in the table below.

Property address	NIA sq ft	Leased %	**External valuation £m**	Principal tenants and subtenants
One Churchill Place	1,014,400	100.0	**725.0**	Barclays Bank, BGC
10 Cabot Square/ 5 North Colonnade	639,000	99.6	**350.0**	Barclays Capital, WPP Group
20 Cabot Square/ 10 South Colonnade	562,000	99.8	**310.0**	Barclays Capital
One Canada Square	1,236,200	90.5	**647.2**	Bank of New York Mellon, Moody's, HSBC, Mirror Group, State Street, FSA, NYSE
33 Canada Square	562,700	100.0	**366.0**	Citi
20 Bank Street	546,500	100.0	**418.0**	Morgan Stanley
40 Bank Street	607,400	86.8	**350.0**	Shell, Skadden, Allen & Overy, ANZ, JLL
50 Bank Street	209,800	100.0	**152.5**	Northern Trust, Goldenberg Hehmeyer
10 Upper Bank Street	1,000,400	100.0	**715.0**	Clifford Chance, Infosys, FTSE, Total
Cabot Place Retail	139,600	100.0	**161.4**	Boots, Tesco, Zara and other retail tenants
Canada Place Retail	72,200	100.0	**166.2**	Gap, Next and other retail tenants
Jubilee Place Retail	89,400	100.0	**108.0**	Boots, M&S Food, Wagamama and other retail tenants
Churchill Place Retail	22,400	100.0	**19.3**	Barclays Bank, Jamie's Italian and other retail tenants
16-19 Canada Square	211,500	100.0	**68.8**	Waitrose Food & Home, Reebok, Plateau Restaurant
Reuters Plaza	8,900	100.0	**13.8**	Carluccio's, Smollensky's
Park Pavilion	22,000	100.0	**19.3**	Lloyds Bank, Canteen, The Parlour, Roka and Wahaca
Car parks	–	–	**48.0**	
Total	6,944,400	97.1	**4,638.5**	

Business Review continued

At 31 December 2010 the investment property portfolio was 97.1% let (31 December 2009 – 96.2%). In calculating the occupancy level at 31 December 2009, 25 Bank Street was treated as fully let because of the subleases in the building and the 4 years' cover provided by AIG.

As well as the rental income generated from completed properties, income is generated from managing the entire Estate which, in addition to the completed properties owned by Canary Wharf Group, includes 19 properties totalling 8.7m sq ft in other ownerships.

The properties of Canary Wharf Group are under lease to a range of tenants. At 31 December 2010 the weighted average unexpired lease term for the office investment portfolio was approximately 16.9 years, or 15.7 years assuming the exercise of outstanding break options (31 December 2009 – 15.8 years or 14.8 years respectively). At 31 December 2009 the calculation of the weighted average lease term took into account the restructuring of leases with Barclays Capital, excluded 5 Churchill Place, which was subject to an agreement for sale, and substituted the original term of the Lehman lease with the 4 years' cover provided by AIG. Of the office square footage under lease at 31 December 2010, 79.6% does not expire or cannot be terminated by tenants during the next 10 years.

PROPERTY SALES

In December 2010 Canary Wharf Group announced the sale of 25 Bank Street to J.P.Morgan for a gross consideration of £495.0m. The building, which comprises more than 1.0m sq ft, will become the new European headquarters of J.P.Morgan's investment banking operations in 2012. The building was valued at £360.0m at 31 December 2009, reducing to £350.0m at 30 June 2010. Prior to the sale of the building, Canary Wharf Group agreed terms with AIG for the termination of the rental cover facility relating to the building, in consideration for a receipt of £144.5m (See Business Review – Lehman). The combined receipt of £639.5m compares with a market valuation including the AIG arrangement of £550.0m at 30 June 2010 (Note 4). Following the sale of 25 Bank Street, the directors are of the view that the Group is in a strong position to respond to the anticipated tightening in the occupier market.

In January 2010, Canary Wharf Group completed the sale of 5 Churchill Place for a gross consideration of £208.0m reflecting an initial yield of 5.9%.

LEHMAN

In September 2008 Lehman went into administration but the Administrator continued to pay rent on 25 Bank Street until the first quarter of 2010. Following Lehman's administration Nomura subleased approximately 420,000 sq ft from the Administrator on a 2 year sublease, subject to a break option in September 2010. This break option was subsequently exercised.

At 31 December 2009 lease incentives included £50.1m attributable to Lehman's lease at 25 Bank Street. As the Administrator ceased paying rent on the building with effect from 31 March 2010, the remaining Lehman incentives were written off to the profit and loss account in the first half of the year and treated as a capital and other item.

A facility with AIG provided for payment of up to the full amount of the contracted rent at the election of Canary Wharf Group in the event of default, for a period of 4 years from the date of first drawdown following rental default. Any amounts drawn down under this facility were repayable from recoveries received from the Administrator, from Lehman's parent company guarantee, or from rentals in the property which exceed the contracted rents that would have been received from Lehman under its lease.

In November 2010 terms were agreed with AIG for the termination of the facility in consideration for a payment to Canary Wharf Group of £144.5m. This sum comprised the net present value of the available drawings under the facility, net of facility fees payable to AIG and anticipated recoveries from Lehman's parent company guarantee.

LEASING

In addition to the Barclays Capital restructuring and new leases in respect of 1,152,000 sq ft in 10 Cabot Square and 20 Cabot Square completed in January 2010, the terms of which were summarised in the 2009 Report & Financial Statements, Canary Wharf Group completed letting transactions totalling approximately 387,000 sq ft in the year as detailed below.

In June 2010 Canary Wharf Group completed the letting of approximately 187,000 sq ft of space to Shell in 40 Bank Street. Shell has taken a lease on 10 floors for a term of 15 years (subject to a tenant break option at the expiry of year 10) at a rent of £37.50 per sq ft for the office space. With the exception of one floor, all of the 187,000 sq ft is in shell and core condition and has a rent free period of 42 months. The leases have a 12 month penalty if the break option at year 10 of the term is exercised. This space was previously leased to Barclays Capital. A further 95,000 sq ft leased to Barclays Capital in 40 Bank Street was leased back to Canary Wharf Group with effect from October 2010.

In February 2010 KPMG exercised break options in relation to its leases over 4 floors in One Canada Square totalling approximately 109,800 sq ft and in addition exercised an option to sublease to Canary Wharf Group (for the remaining term of approximately 6.75 years) a further floor in the building comprising 28,600 sq ft. The options to determine these leases were granted in connection with KPMG's relocation to a new headquarters building constructed at 15 Canada Square. The leases on the 5 floors terminated on 30 June 2010. Of the 5 floors, 4 have subsequently been leased in their current condition, subject to minor restoration works.

Including these floors, the following leases were completed in the period in respect of space in One Canada Square:

- FSA took an additional 27,900 sq ft on level 25 bringing its current occupancy to over 136,000 sq ft in the building.
- HSBC leased 82,150 sq ft on levels 7 to 9, formerly occupied by KPMG, for 5 years subject to annual rolling break options.
- NYSE relocated from 25 Bank Street and leased 28,500 sq ft on level 38 for 10 years with a break option at the end of the fourth year.
- Regus renewed its lease over 14,445 sq ft on level 29 for a 10 year term subject to a 24 month rent free period.
- Samsung Electronics took a lease of 1,844 sq ft on level 34.
- Knight Frank renewed its lease of 981 sq ft on level 6.

In 40 Bank Street, levels 6 and 7 comprising 38,200 sq ft, have been taken by Jones Lang LaSalle on a lease to 2017. In addition Interquest has taken 2,650 sq ft on level 18 for a term of 10 years, subject to a 5 year break option, and Servcorp took a lease of 2,898 sq ft on the same floor for a similar term.

Subsequent to the year end, Servcorp took an additional 1,877 sq ft on level 18 and China Construction Bank has taken 1,997 sq ft adjacent to its existing unit on that floor.

A surrender was agreed of J.P. Morgan's space on floors 44 to 46 of One Canada Square totalling 87,500 sq ft. This space was previously leased to April 2013 and J.P. Morgan has paid a surrender premium equivalent to the foregone rent and service charges, together with dilapidations. Gaining this space early is of benefit to Canary Wharf Group given current limited availability on the owned Estate and will allow early leasing of the space combined with the benefit of the rental prepayment.

Expiries and break options over 44,500 sq ft in One Canada Square have been exercised by other tenants, of which 22,100 sq ft was with effect from March 2010 and the remainder from June 2010 or later.

All options on sublet space back to Canary Wharf Group have been exercised. At 31 December 2010, the estimated net present value of sublet liabilities was approximately £37.6m discounted at 6.3%, being Canary Wharf Group's weighted average cost of debt (31 December 2009 – £72.9m, discounted at 6.4%). These sublet commitments have been reflected in the market valuation of Canary Wharf Group's properties. The reduction in sublet liabilities reflects the letting to Shell of 187,000 sq ft of space in 40 Bank Street previously leased to Barclays Capital, the surrender of space sublet in 25 Bank Street prior to its sale to J.P. Morgan, and the expiry of certain other subleases.

DEVELOPMENT PROPERTIES

In January 2010 Canary Wharf Group acquired a long leasehold interest in 1 Park Place for £17.5m. This site, which is located adjacent to the Estate, benefits from 2 alternative planning consents for approximately 214,000 sq ft or 950,000 sq ft of development. Although Canary Wharf Group has yet to announce plans for this site it offers a significant opportunity for future development.

In addition, in June 2010 Canary Wharf Group acquired the remaining interests at Heron Quays West and as a result Canary Wharf Group has secured full control of this important development site with consent for office space of 1.3m sq ft. Consent has also been granted on the adjacent Newfoundland site for 0.2m sq ft of mixed use development.

Of the remaining development sites, 25 Churchill Place can accommodate up to approximately 0.5m sq ft of new development and North Quay has planning consent for 2.4m sq ft.

Business Review continued

In summary, the total development capacity at each of Canary Wharf Group's development sites is as follows:

	NIA m sq ft
Based on existing planning permissions:	
– 25 Churchill Place	0.53
– North Quay	2.39
– Heron Quays West	1.33
– Newfoundland	0.23
– Crossrail retail	0.11
– 1 Park Place (proposed development)	0.70
	5.29
Wood Wharf (25.0% share of 4.62m sq ft)	1.15
Sold to J.P. Morgan:	
– Riverside South (Canary Wharf Group acting as development and construction manager)	1.90

Canary Wharf Group has continued to work with Ballymore and BWB on the redevelopment of Wood Wharf. The master plan for the scheme, in which Canary Wharf Group has a 25.0% interest, sets a framework for approximately 7.0m sq ft gross of mixed commercial, residential and retail development. Outline consent for 4.6m sq ft net was granted in May 2009. Further design work has been carried out on the first phase of office buildings and related infrastructure and in July 2009 detailed consent was granted on 3 buildings totalling 1.5m sq ft.

The site at Riverside South was acquired by J.P. Morgan in November 2008 and Canary Wharf Group was appointed to act as development and construction manager under a contract with an original term to October 2013. In conjunction with J.P.Morgan's acquisition of 25 Bank Street, this contract has now been extended to October 2016. As part of this modification, Canary Wharf Group's option to purchase the site was changed to a right of first offer.

During the course of 2009 and 2010 design and infrastructure works were completed on site. J.P. Morgan has now given the go ahead to bring the development to street level.

Up to the end of 2010 Canary Wharf Group received £68.5m as an advance of developers' profit in conjunction with the scheme and a further £7.5m is receivable in May 2011. These sums will be set against Canary Wharf Group's entitlement to future profits if J.P. Morgan proceeds with full construction.

DRAPERS GARDENS

Practical completion was achieved on Drapers Gardens in November 2009. The scheme comprised approximately 290,000 sq ft of prime commercial office space. Canary Wharf Group had a 20.0% interest in the property and acted as development manager with responsibility for the day to day management of the scheme. In January 2010 Canary Wharf Group purchased for a cash consideration of £112.8m the substantial majority of the drawn balance under the Drapers Gardens construction loan facility. Canary Wharf Group then provided funding under the terms of this facility for the remaining costs of completing the project.

In February 2010 Canary Wharf Group announced that BlackRock had taken a lease on the whole of Drapers Gardens for a term of 25 years at a rent of £49.00 per sq ft on the office accommodation, with a rent free period of 36 months. The rent is subject to open market reviews on every fifth anniversary of the term commencement and, in the case of the first rent review, subject to a floor of 2.5% and a cap of 4.5% compounded annually over the preceding 5 years. The net annual rent on the property will be £12.8m on expiry of the rent free period in March 2013.

In August 2010 the entities which own the Drapers Gardens property exchanged contracts to sell the property with completion occurring in November 2010. The gross aggregate consideration was £242.5m, reflecting an initial yield of 5.2%, prior to a deduction for the rent free period granted to BlackRock.

FENCHURCH STREET

In October 2010 Canary Wharf Group announced the formation of the 20 Fenchurch Street Limited Partnership, a 50:50 joint venture partnership with Land Securities to develop 20 Fenchurch Street. The existing property, which was acquired as a cleared site with some ancillary retail neighbouring holdings, has been sold by Land Securities to the partnership for a consideration of £90.2m, in line with the March 2010 valuation. After syndication, Canary Wharf Group has retained a 15.0% equity interest in the project.

Planning consent for the proposed 37 storey building was granted in October 2009. It will provide approximately 690,000 sq ft of world class space in floor plate sizes of 14,000 sq ft to 28,000 sq ft with a skygarden on the top 3 floors. Construction on the site commenced in January 2011.

Land Securities and Canary Wharf Group have been appointed as joint development managers and both are responsible for leasing, with Land Securities taking the lead. Canary Wharf Contractors Limited, a wholly owned subsidiary of Canary Wharf Group, has been appointed as construction manager.

CROSSRAIL

In December 2008 Canary Wharf Group concluded agreements with the Secretary of State for Transport and TfL's subsidiary, CLRL, to contribute £150.0m towards the cost of the new Crossrail station at Canary Wharf.

This agreement provides that Canary Wharf Group has responsibility for the design and construction of the Crossrail station at Canary Wharf, bearing the time and cost risks for a fixed price of £500.0m, of which £350.0m will be met from the Crossrail project's budget. Canary Wharf Group will bear the risk in relation to costs above the fixed price limit. Canary Wharf Group's anticipated contribution of £150.0m will be credited against any transport Section 106 contributions for certain agreed development sites on the Estate (comprising North Quay, Heron Quays West including Newfoundland and Riverside South) which may be required as part of proposed alterations to the London Plan. Accordingly, costs incurred on construction of the station are allocated to Canary Wharf Group's properties held for development.

Construction commenced on the Crossrail station at Canary Wharf in May 2009 and costs incurred to the end of 2010 totalled £105.4m. The station box is expected to be completed and handed over to CLRL by summer 2012 and the project is on schedule and on budget. The first trains are due to run in 2018 when Crossrail opens for passenger service. Planning permission has also been granted for a 100,000 sq ft retail area above the station which will be subject to a long lease to Canary Wharf Group.

VALUATIONS

The net assets of the Group, as stated in its Consolidated Balance Sheet at 31 December 2010, were £1,753.6m. In arriving at this total:

(i) properties held as investments were carried at £4,445.5m, which represents the market value of those properties of £4,638.5m at that date as determined by Canary Wharf Group's external valuers, CBRE, Savills or Cushman, less an adjustment of £184.4m for tenant incentives and £8.6m for deferred lease negotiation costs; and

(ii) properties held for development were carried at £268.5m, representing their market value as determined by Canary Wharf Group's external valuers.

In January 2010 Canary Wharf Group completed the sale of 5 Churchill Place for a gross consideration of £208.0m. The carrying value of the building at 31 December 2009 was £176.2m which was calculated by reference to the gross aggregate consideration adjusted for a fitout allowance and rental support to be provided by the Group in respect of 2 unlet floors of £2.2m per annum for 5 years.

In December 2010, 25 Bank Street was sold for a gross consideration of £495.0m. The market value of the building at 31 December 2009 was £360.0m, reducing to £350.0m at 30 June 2010.

The valuations at 31 December 2010 are based on assumptions which include future rental growth, anticipated void costs, the appropriate discount rate or yield and, in the case of development properties, the estimated costs of completion. In valuing the properties on the Estate the valuers also take account of market evidence which included the sale of 5 Churchill Place and 25 Bank Street, and the lettings completed in the year referred to earlier in this Business Review.

The valuation of the investment portfolio to be retained on the basis of market value, increased by £206.5m or 4.7% in the second half of the year. After allowing for additions and adjustments in respect of lease incentives, the carrying value of the retained investment portfolio increased by £190.0m or 4.5% over the 6 months. The increase was primarily driven by the reduction in yields in the market as detailed below. Over the full year, the market value of the retained investment portfolio increased by £411.5m or 9.7% and the carrying value increased by £332.6m or 8.1%.

At 31 December 2010 the weighted average initial yield for the office portfolio was 4.8% (30 June 2010 – 5.0%, 31 December 2009 – 6.3%) and the weighted average equivalent yield was 5.2% (30 June 2010 – 5.7%, 31 December 2009 – 5.7%). The weighted average initial yield for the retail portfolio was 4.9% (30 June 2010 – 5.2%, 31 December 2009 – 5.7%) and the weighted average equivalent yield was 5.4% (30 June 2010 – 5.7%, 31 December 2009 – 6.3%).

CBRE and Savills have provided a joint opinion as at 31 December 2010 that the market value of sites held for development, comprising those sites disclosed in the Business Review – Development, was £268.5m, in comparison with £221.0m at 31 December 2009. Taking into account capital expenditure in the year, this resulted in a reduction in value of £4.7m but an increase of £0.3m since 30 June 2010. At 31 December 2010 the market value of these sites was £6.6m below their historical cost to the Group which includes an allocation of £77.9m representing Canary Wharf Group's contribution to

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Crossrail to date. In valuing the properties held for development, the valuers have allowed for estimated costs to complete, including an allowance for fitout and developer's profit. In addition they have allowed for letting, disposal, marketing and financing costs.

The market value of the entire property portfolio to be retained increased by £191.3m or 4.1% in the second half of the year, adjusting for additions. For the full year market value increased by £327.6m or 7.2%, adjusting for additions. These movements were driven by the factors referred to above.

As previously disclosed, a number of properties are subject to leases back to Canary Wharf Group. These have been taken into account in the valuations summarised in the table below, which shows the carrying value of Canary Wharf Group's properties for accounts purposes in comparison with the supplementary valuations provided by the external valuers.

	Note	**31 December 2010** Carrying value £m	**31 December 2010** Market value in existing state £m	30 June 2010 Carrying value £m	30 June 2010 Market value in existing state £m	31 December 2009 Carrying value £m	31 December 2009 Market value in existing state £m
Retained portfolio:							
Investment properties	(i), (v)	**4,445.5**	**4,638.5**	4,241.8	4,432.0	4,087.1	4,227.0
Properties held for development		**268.5**	**268.5**	262.5	262.5	221.0	221.0
		4,714.0	**4,907.0**	4,504.3	4,694.5	4,308.1	4,448.0
Sold properties:							
Investment property held for sale	(ii), (v)	**–**	**–**	–	–	176.2	192.0
Investment property sold in year	(iii), (v)	**–**	**–**	346.7	350.0	306.0	360.0
		4,714.0	**4,907.0**	4,851.0	5,044.5	4,790.3	5,000.0
Property under construction:							
– Riverside South	(iv)	**74.6**	**127.3**	72.0	124.9	56.8	115.1
		4,788.6	**5,034.3**	4,923.0	5,169.4	4,847.1	5,115.1

Note:

(i) The carrying value represents market value less an adjustment for lease incentives and deferred lease negotiation costs. The tenant incentives and deferred lease negotiation costs adjustment at 31 December 2010 was £193.0m (30 June 2010 – £190.2m, 31 December 2009 – £139.9m). Market value in existing state is shown prior to these amounts.

(ii) The investment property held for sale comprised 5 Churchill Place which was sold in January 2010. Market value in existing state is shown before adjustment for tenant incentives and deferred lease negotiation costs totalling £15.8m.

(iii) The investment property sold in the year comprised 25 Bank Street which was sold in December 2010. Market value in existing state is shown before tenant incentives and deferred negotiation costs totalling £3.3m at 30 June 2010 and £54.0m at 31 December 2009.

(iv) Property under construction held for sale comprises Riverside South. The carrying value at 31 December 2010 is stated net of £55.6m of costs transferred to cost of sales (30 June 2010 – £51.9m, 31 December 2009 – £40.2m) and £19.0m transferred to payments on account (30 June 2010 – £20.1m, 31 December 2009 – £16.6m). Market value in existing state includes the present value of the minimum developer's profit from the sale of Riverside South discounted at 6.3% being Canary Wharf Group's weighted average cost of debt, calculated on the assumption that J.P. Morgan will not proceed with full build out, and excludes the profit recognised on the disposal of the site in 2008.

(v) The total carrying value of the investment property portfolio was £4,445.5m at 31 December 2010 (£4,588.5m at 30 June 2010, £4,569.3m at 31 December 2009). The total market value of the investment property portfolio was £4,638.5m at 31 December 2010 (30 June 2010 – £4,782.0m, 31 December 2009 – £4,779.0m).

OPERATING RESULTS

The following review of the Group's operating results relates to the year ended 31 December 2010. The comparatives relate to the year ended 31 December 2009.

Revenue is generated primarily by the rents and service charges earned by Canary Wharf Group from its property interests on the Estate and turnover recognised on construction contracts in accordance with IAS 11 and IFRIC 15. Revenue for 2010 was £359.6m, against £580.8m for 2009, of which rental income after spreading lease incentives reduced from £313.4m to £233.8m.

In the first quarter of 2010, the Administrator ceased paying rent on 25 Bank Street. Lease incentives attributable to Lehman's lease were previously being amortised over the period to the first open market rent review in November 2013 but, following the Administrator ceasing to pay rent, the remaining incentives totalling £50.1m were written off in the first half of the year to the Consolidated Income Statement and disclosed as a capital and other item. The impact of spreading lease incentives, excluding the accelerated charge relating to Lehman, was to reduce rental income by £3.6m in 2010 (2009 – £5.0m).

Excluding this accounting adjustment, rental income reduced from £318.4m to £287.5m, a reduction of 9.7%, primarily attributable to the exercise of break options and the cessation of rent on 25 Bank Street. During 2010 the Group recognised £18.3m of income in connection with the termination of certain leases on the Estate by tenants (2009 – £13.5m).

Service charge income increased from £73.8m for 2009 to £74.3m and miscellaneous income, including insurance, rents and the provision of tenant specific services outside the standard service charge, reduced from £20.9m for 2009 to £17.8m for 2010.

Revenue for 2010 also included £15.4m of turnover recognised on the construction of the presold development property at Riverside South which is accounted for as a construction contract. In 2009 turnover from construction contracts totalled £159.2m. The reduction in revenues recognised on presold property is attributable to the completion of 15 Canada Square (acquired by KPMG) and 30 North Colonnade (acquired for occupation by Fitch) in 2009.

Cost of sales includes rents payable and property management costs, movements on provisions for vacant leasehold properties and certain other lease commitments, as well as costs recognised on presold properties. Rents payable and property management costs were £98.9m for 2010 in comparison with £91.2m for 2009. Taking into account service charge and miscellaneous income totalling £92.1m (2009 – £94.7m), a deficit was recorded on property management of £6.8m (2009 – surplus of £3.5m). This deficit was attributable to space vacated by tenants, including Lehman and Barclays Capital, on which service charges were not recoverable.

Provisions and accruals relating to the remaining vacant leasehold property, rent support commitments entered into in prior years and certain other obligations of Canary Wharf Group reduced by £1.8m in 2010 (2009 – £1.5m). Cost of sales for 2010 included £2.4m of dilapidations and other costs attributable to the termination of leases in the year compared with £8.9m in 2009.

Cost of sales for 2010 also included £10.4m (2009 – £73.5m) of costs on construction of properties held for sale, net of a release of £5.0m of surplus accruals relating to properties completed in prior years. No profit has been recognised on the construction contract entered into in connection with the sale of Riverside South although the potential surplus has been taken into account in calculating adjusted NAV (see Note 4). The net profit of £5.0m recognised on construction contracts in 2010 compares with a profit of £85.7m in 2009.

For 2010 net development, rental and related income was £249.7m, a reduction of £159.0m over 2009, attributable to the factors referred to above.

In addition to its share of the operating loss of WWLP in the year of £0.2m, the Group has recognised reductions in the impairment against its investments in WWLP of £1.4m and Drapers Gardens of £1.3m. The total write back of £2.7m has been taken to the Consolidated Income Statement and classified as a capital and other item. This compared with a part release of £3.6m in 2009.

Administrative expenses for 2010 were £38.6m in comparison with £40.4m for 2009. The reduction in administrative expenses was primarily attributable to a reduction in payroll costs incurred by Canary Wharf Group.

Underlying operating profit (as defined in Note 4) for 2010 was £268.4m in comparison with £370.8m for 2009. Of the reduction of £102.4m, £80.7m was attributable to the timing of profit recognition on presold property and £30.9m to the reduction in rental income, partly offset by an increase in net proceeds from termination of leases of £11.3m.

A net revaluation surplus of £327.9m (Note 6) was recognised in the Consolidated Income Statement in the year compared with a deficit of £15.4m in 2009. The changes in the valuation of the property portfolio are explained in more detail in the Business Review – Valuations.

In December 2010 Canary Wharf Group completed the disposal of 25 Bank Street for a gross consideration of £495.0m which resulted in a profit of £155.1m (Note 11). In conjunction with the sale of 25 Bank Street, Canary Wharf Group agreed terms with AIG for the termination of the rental cover facility on this building for a net receipt of £144.5m.

Total operating profit for 2010 was £848.5m compared with £359.0m in 2009. The increase was attributable to revaluation movements and the other factors referred to earlier.

Underlying net financing costs (Note 7) for 2010 were £239.6m against £260.1m for 2009. The reduction in underlying net interest payable of £20.5m was primarily attributable to the repayment of certain loans (see below)

Business Review continued

and interest recognised on the Drapers Gardens construction loan.

Net financing costs classified as capital and other items includes movements in the market value of derivative financial instruments and gains/losses recorded on the repurchase of debt. Movements on derivative financial instruments and interest payable under the Preference Shares, but excluding the repurchase of debt, resulted in a net cost of £127.1m being recognised in the Consolidated Income Statement in 2010 compared with a gain of £164.5m in 2009.

The interest rate swap associated with the loan facility secured against the buildings at 10 Cabot Square and 20 Cabot Square was broken when the associated loan was repaid at a cost of £23.7m. Fees of £1.0m were also incurred on repayment of this loan. Accounting adjustments, comprising the write off of unamortised deferred fees and the recycling of the unamortised balance on the hedging reserve, have also been taken to the Consolidated Income Statement. This resulted in a charge to the Consolidated Income Statement of £18.0m, classified as a capital and other item.

In the previous year Canary Wharf Group repurchased an aggregate principal amount of £119.7m of certain of the Notes for a consideration, excluding accrued interest, of £35.5m (Note 21). After allowing for deferred fees and, where applicable, stepped interest rate accruals, the Group recognised a gain of £83.0m on the repurchase. The repurchased Notes that remain in issue, are held by a member of the Canary Wharf Group, and accordingly remain fully hedged. The fair value of the hedging instruments associated with the repurchased Notes, which had previously been recognised in equity within the hedging reserve, was taken to the Consolidated Income Statement resulting in a charge of £16.7m which was offset against the £83.0m gain on repurchase. The net gain of £66.3m was classified as a capital and other item.

Also in 2009 the Group repaid its Citi Loans at a 5.0% discount to the amount due to Citi under these facilities at the date of purchase. After allowing for expenses incurred of £2.7m, the write off of unamortised deferred expenses of £1.4m and recognising a charge of £34.9m in connection with the interest rate hedge, the Group reported a gain on the purchase of £4.9m.

The profit for the year before tax for 2010 was £463.8m in comparison with a profit of £334.6m for 2009. The results for 2010 and 2009 included certain capital and other profits and losses as described above. Underlying profit before tax for 2010 was £28.8m (2009 – £110.7m).

Tax for 2010 taken to the Consolidated Income Statement comprised a corporation tax charge of £35.7m and a deferred tax charge of £7.2m. In 2009 tax comprised a corporation tax charge of £30.7m and a deferred tax charge of £101.5m primarily attributable to deferred tax on the revaluation deficit and movements in the fair values of derivatives recognised in the Consolidated Income Statement.

The profit for the year after tax for 2010 was £420.9m in comparison with a profit of £202.4m for 2009.

The basic and diluted earnings per share (Note 4) for 2010 was 41.3p (2009 – 57.7p). There were no dilutive instruments at either 31 December 2010 or 31 December 2009.

TAX

In 2010 EZAs and plant and machinery capital allowances sheltered a small part of taxable profits.

The contingent tax payable if Canary Wharf Group was to dispose of its owned property portfolio at the market values disclosed in this Business Review is included in the revaluation surplus component of the net deferred tax balance recognised at each balance sheet date (Note 8).

CONSOLIDATED BALANCE SHEET AND KEY PERFORMANCE INDICATORS

Net assets in the Group's Consolidated Balance Sheet were £1,753.6m at 31 December 2010, in comparison with £1,216.6m at 30 June 2010 and £1,191.6m at 31 December 2009. The increase in net assets over the year was in part attributable to the Open Offer, which resulted in an increase in net assets of £135.0m, and to the profit after tax for the year of £420.9m which includes revaluation movements. The increase in net assets since 30 June 2010 was also primarily attributable to these factors.

The Company's objective is to manage its investment in Canary Wharf Group so as to maximise net asset values from its investment properties and property development, although the Group is impacted by movements in the wider property market. The Board considers that the most appropriate indicator of the Group's performance is the adjusted NAV per share attributable to members of the Company. This measure serves to capture the Board's judgements concerning, inter alia, letting strategy, redevelopment and financial structure.

Adjusted NAV includes the external valuation surplus on construction contracts and, prior to its settlement, the benefit of the arrangement with AIG but excludes deferred tax and fair value adjustments on derivatives. Adjusted NAV per share increased from £1.68 at 31 December 2009 to £1.87 at 31 December 2010, an increase of 19p or 11.3% per share attributable to the factors noted above.

In comparison with the 30 June 2010 proforma adjusted NAV of £1.70, which reflects the completion of the Open Offer in October 2010, adjusted NAV at 31 December 2010 was 17p per share or 10.0% higher.

The calculation of adjusted NAV per share is set out in Note 4. Adjusted NNNAV per share is set out in the following table:

	Note	**31 December 2010 £m**	Proforma 30 June 2010 £m	30 June 2010 £m	31 December 2009 £m
Adjusted net assets attributable to members of the Company	(i)	**1,429.7**	1,298.8	1,167.0	1,098.7
Fair value adjustment in respect of financial assets and liabilities net of tax thereon	(ii)	**(229.7)**	(250.4)	(250.4)	(6.0)
Deferred tax	(iii)	**(109.6)**	(63.8)	(63.8)	(88.7)
Non controlling interest in above adjustments		**104.3**	96.6	96.6	29.1
Adjusted NNNAV		**1,194.7**	1,081.2	949.4	1,033.1
Adjusted NAV per share	(i), (iv)	**£1.87**	£1.70	£1.78	£1.68
Adjusted NNNAV per share	(iv)	**£1.56**	£1.41	£1.45	£1.58

Note:

(i) Refer to Note 4.

(ii) The fair value adjustment comprises the mark to market of derivatives in Note 4 and the after tax difference between the market value and book value of debt (Note 21).

(iii) Refer to Note 8.

(iv) Calculation based on 764.9m Ordinary Shares in issue for 31 December 2010 and proforma 30 June 2010 calculations (30 June 2010 and 31 December 2009 – 655.5m).

PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainties facing the business of the consolidated Group are monitored through continuous assessment, regular and formal quarterly reviews and discussion at Audit Committee and Board level of both the Company and Canary Wharf Group. The boards and Audit Committees of the Group focus on the risks identified as part of the Group's systems of internal control which highlight, amongst others, key risks faced by the Group and allocate specific day to day monitoring and control responsibilities as appropriate. The current key risks of the consolidated Group include the cyclical nature of the property market, financing risk, concentration risk and policy and planning risks.

Cyclical nature of the property market

The valuation of the Group's assets is subject to many external economic and market factors. The turmoil in the financial markets during 2008 and 2009 was reflected in the property market by such factors as the oversupply of available space in the office market, a significant decline in tenant demand for space in London and a change in the market perception of property as an investment resulting in a negative impact on property valuations in general. In the latter half of 2009 and during the course of 2010 there have been signs of a tightening of supply which has resulted in an increase in valuation and a compression in yields. Changes in financial and property markets are kept under constant review so that the Group can react appropriately and tailor the business plans of the Group accordingly. The impact of the continuing uncertainty in the financial and property markets continues to be closely monitored.

Financing risk

The broader economic cycle inevitably leads to movements in inflation, interest rates and bond yields. The Group finances its operations largely through a mixture of surplus cash, secured borrowing and debentures. The Group borrows at both fixed and floating rates and uses interest rate swaps or caps to modify exposure to interest rate fluctuations. All of the Group's facilities are fixed after taking account of interest rate hedging and cash deposits held as cash collateral.

The ongoing financial markets' uncertainty continues to significantly limit the availability of funding. In common with other UK property companies, such lack of financing facilities may have an impact on the business of the Group if the lending markets remain limited for the foreseeable future.

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The Board continues to monitor the financial markets with the aim of identifying an appropriate financing arrangement for the Company. The weighted average maturity of the Group's loans excluding the Preference Shares is 14.9 years. Further detail on the management of treasury risk can be found in the Business Review – Treasury objectives and Note 21 which includes a summary of the key financial covenants applicable to each of the Group's facilities.

Concentration risk

The majority of the Group's real estate assets are currently located on or adjacent to the Estate with tenants mainly linked to the financial services industry. Wherever possible steps are taken to mitigate or avoid material consequences arising from this concentration. Although the focus of the Group continues to remain on and around the Estate, where value can be added Canary Wharf Group will also consider opportunities elsewhere.

Policy and planning risks

All of the Group's assets are currently located within London. Appropriate contact is maintained with local and national government, but changes in governmental policy on planning or tax could limit the ability of the Group to maximise the long term potential of its assets.

TREASURY OBJECTIVES

The principal objectives of the Group's treasury function are to ensure the availability of finance to meet the Group's current and anticipated requirements and to minimise the Group's cost of capital. The treasury function operates as a cost centre rather than a profit centre and does not engage in the trading of financial instruments.

The Group's financial instruments, other than derivatives, comprise borrowings, cash and liquid resources, and various items such as trade receivables and trade payables that arise directly from its operations. The Group enters into derivative transactions (principally interest rate swaps and caps) only in order to manage the interest rate risk arising from the Group's variable rate borrowings. Details of the financial risks facing the Group are disclosed earlier in this section and in Note 21.

BORROWINGS

As part of the Company's 2009 Refinancing Transactions, SFL entered into a £135.0m Shareholder Loan. At 31 December 2009, £113.1m had been drawn under the Shareholder Loan including interest and the loan was fully drawn down in August 2010. The loan facility had an original maturity of 23 September 2010, subject to the Company's option to extend. On 22 September 2010 the Shareholder Loan was amended and the repayment date was extended to 31 October 2010. The loan was repurchased on 11 October 2010. The repurchase was funded by the proceeds of the Open Offer.

As part of the 2009 Refinancing Transactions, the Company also issued £275.0m of Preference Shares which carry a quarterly coupon of 2.5% payable in arrears. On 11 October 2010 the Company paid the outstanding Preference Share dividend calculated to 30 September 2010 of £27.6m. At 31 December 2010 a liability of £6.9m was recognised in respect of the accrued unpaid coupon.

In January 2010 Canary Wharf Group sold 5 Churchill Place and repaid the drawn balance of £123.5m under its construction loan facility. At the same time Canary Wharf Group broke the interest rate swap associated with this facility at a cost of £15.9m.

In November 2010 Canary Wharf Group repaid the remaining balance of a bank loan of £348.7m secured against 10 Cabot Square and 20 Cabot Square. This loan had a scheduled repayment date of January 2013. The associated interest rate swap arrangement was broken at a cost of £23.7m and repayment fees of £1.0m were also incurred.

Following repayment of the loan referred to above, 10 Cabot Square and 20 Cabot Square were transferred to Canary Wharf Group's securitisation in substitution for 25 Bank Street and 40 Bank Street. 25 Bank Street was subsequently sold to J.P. Morgan and 40 Bank Street is currently held debt free.

At 31 December 2010, net debt (including derivative financial instruments at fair value and net of monetary deposits and cash and cash equivalents) stood at £2,877.4m, down by £654.0m from £3,531.4m at 31 December 2009. The components making up net debt are shown in Note 21.

The reduction in total borrowings, including derivatives, from £4,624.5m to £3,990.7m reflects the repayment of the loans referred to above and movements in the fair value of the Group's derivatives.

The reduction in total borrowings was accompanied by an increase in cash and cash equivalents from £1,074.8m to £1,108.2m. The increase in cash was primarily attributable to the proceeds from the Open Offer, the sales of 5 Churchill Place and 25 Bank Street and the termination of the AIG rental cover facility, partly offset by the loan repayments referred to earlier.

At 31 December 2010 the Group's weighted average cost of debt was 6.3% including credit wraps, but excluding the coupon on the Preference Shares (31 December 2008 – 6.4%).

CASH FLOW

Cash generated from operating activities for 2010 was £348.9m in comparison with £297.8m for 2009. This increase was primarily attributable to the settlement with AIG of £144.5m, partly offset by a reduction in net proceeds from construction contracts and working capital movements. 2010 included £32.9m of proceeds and £30.3m of costs on construction contracts compared with £147.9m and £105.2m respectively for 2009. Excluding the impact of construction contracts, cash generated from operations increased from £255.1m to £346.3m. Corporation tax of £5.4m was paid in the year, whereas £14.8m was paid in 2009.

Cash flows from investing activities resulted in a cash inflow of £515.4m for 2010 compared with an outflow of £226.3m for 2009. In 2010 cash inflows included £470.0m of proceeds from the sale of 25 Bank Street and £190.0m from the sale of 5 Churchill Place. These inflows were partly offset by £127.5m of development expenditure, a net investment in associates of £15.2m, including the investment in 20 Fenchurch Street, and £1.5m on the acquisition of Ordinary Shares by the Trust. In 2009 the net cash outflow from investing activities included £98.3m of development expenditure, the cost of acquiring additional Canary Wharf Group shares (including fees) of £113.4m and £9.2m on the acquisition of Ordinary Shares by the Trust.

Cash flows from financing activities for 2010 resulted in an outflow of £549.3m compared with an inflow of £128.0m for 2009. 2010 included the repayment of the loan facility secured on 10 Cabot Square and 20 Cabot Square of £348.7m and the repurchase of the Shareholder Loan for £135.0m, net of drawdowns during the year under this facility totalling £23.2m. 2010 also included the repayment of £123.5m drawn on the 5 Churchill Place construction loan facility and £77.2m of scheduled amortisation on Canary Wharf Group's securitisation and loans, together with the £23.1m dividend paid by Canary Wharf Group to its minority shareholders. These cash flows were partly offset by the £135.0m net proceeds from the Open Offer. The 2009 comparatives included certain of the cashflows connected to the refinancing of the Company comprising £619.7m from the issue of Ordinary Shares, £275.0m from the issue of Preference Shares and £113.1m from draw downs of the Shareholder Loan less fees for the equity issue of £24.3m. This caption also includes the repayment of the Citi Loans totalling £837.3m, offset by draw downs totalling £44.7m made in the prior year under the Citi Loans prior to the repayment, and £20.5m under the construction loan facility, together with the amortisation of secured loans and securitisation debt totalling £47.9m.

Directors' Report
for the year ended 31 December 2010

The directors present their report with the audited consolidated financial statements for 2010.

PRINCIPAL ACTIVITY AND BUSINESS REVIEW

The principal activity of the Company is the management of its investment in its main subsidiary, Canary Wharf Group, which specialises in integrated property development, investment and management focusing on the Estate and central London.

A detailed review of the business of the Group during the year, and of its position at 31 December 2010, can be found in the Chairman's Operational Review and the Business Review, which are to be treated as being part of this Directors' Report. The principal risks and uncertainties identified for the Group are summarised in the Business Review – Principal risks and uncertainties together with measures of the Group's performance by reference to appropriate key performance indicators (Business Review – Consolidated balance sheet and key performance indicators).

RESULTS AND VALUATIONS

The results for the year are set out in the Consolidated Income Statement. Changes in the market value of land and buildings during 2010 are reviewed in the Business Review – Valuations.

SHARE CAPITAL

On 11 October 2010 the Company issued a total of 109,375,000 Ordinary Shares at 128p per share under the Open Offer, representing 14.3% of the enlarged share capital raising £135.0m, net of fees. The Open Offer enabled the Company to avoid the future requirement to refinance the Company's short term Shareholder Loan facility, as well as strengthening its balance sheet and simplifying its capital structure. Full detail of the share capital changes which occurred during the year can be found in Note 23.

DIVIDENDS AND RESERVES

In accordance with the Articles, holders of the Preference Shares are entitled to receive in priority to any payment by way of dividend or other distribution to the holders of any other class of shares of the Company a fixed cumulative Preferential Dividend. The Preferential Dividend accrues from day to day commencing on the date of issue of that share and shall be paid in cash quarterly in arrears on 1 January, April, July and October in each year. Further detail on the Preferential Dividends can be found in Note 24. In addition, the dividend of £6.5m declared payable on the SG Shares on 24 September 2009 was paid on 11 October 2010 after the Preferential Dividend was paid.

A Preferential Dividend of £7.0m was declared on 24 March 2011 for payment on 31 March 2011.

The profit of £277.8m (2009 – £131.0m) attributable to the members of the Company has been transferred to reserves. No dividends were declared during the year ended 31 December 2010 other than the dividend in respect of the Preference Shares.

GOING CONCERN

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out elsewhere in the Business Review. The finances of the Group, its liquidity position and borrowing facilities are described in the Business Review – Borrowings and the risks faced by the Group are set out in the Business Review – Principal risks and uncertainties and Note 21.

The Group has considerable financial resources and at 31 December 2010 Canary Wharf Group had cash balances totalling £1,092.4m of which £879.1m was unsecured. In addition Canary Wharf Group enjoys the benefit of leases with a weighted average unexpired lease term of 15.7 years assuming the exercise of all break options, and the average maturity of the Group's debt at 31 December 2010 was 14.9 years. At 31 December 2010 the occupancy level was 97.1%. Accordingly, the directors believe that the Group is well placed to manage its business risks successfully despite the continuing uncertain economic climate.

Having made the requisite enquiries, the directors have a reasonable expectation that the Company and the Group will have adequate resources to continue their operations for the foreseeable future and, therefore, continue to adopt the going concern basis in preparing the Report and Financial Statements.

SUBSTANTIAL SHAREHOLDINGS

At the date of this report, 71.54% of the issued Ordinary Share capital of the Company was held by the Significant Shareholders, with the remaining 28.46% held publicly. All of the Ordinary Shares are listed on AIM.

At 25 March 2011 the Company had been notified of the following disclosable interests of 3.0% or more in the Ordinary Shares of the Company:

	No. of shares m	Issued capital %
Qatar Holding[1]	183.25	23.96
Glick Shareholders[2]	183.20	23.95
Land Breeze[3]	116.99	15.29
MS Shareholders[4]	63.16	8.26
Third Avenue Management LLC	23.07	3.02

Note:

(1) Also holds 150.0m Preference Shares and has an interest in Warrants representing 8,543,857 voting rights in issue.

(2) Investment vehicles and trusts connected with Simon Glick and his family. Also have interests in Warrants representing 8,543,857 voting rights in issue.

(3) A wholly owned subsidiary of CIC. Also holds 125.0m Preference Shares and has an interest in Warrants representing 10,893,419 of the current voting rights in issue.

(4) Comprises various MSREF Funds and the MSREI Fund. Also have interests in Warrants representing 854,384 voting rights in issue.

DIRECTORS

The following directors served on the board of the Company during the year.

David Pritchard
John Botts (appointed on 28 July 2010)
Faisal Al-Hamadi
Khalifa Al-Kuwari
Sheikh Mohammed Bin Hamad Bin Jassim Al-Thani
Peter Harned
Jonathan Lane
Sam Levinson
Alex Midgen
Brian Niles

In accordance with the Articles, David Pritchard and John Botts as independent directors of the Company will retire at the forthcoming annual general meeting and offer themselves for reappointment. Biographical details for all the directors are provided in Shareholders' Information.

DIRECTORS' INTERESTS

Sam Levinson has direct and indirect relationships with the Glick Shareholders and, accordingly, has an interest in 183,198,080 Ordinary Shares of the Company, being the Ordinary Shares held by the Glick Shareholders. Sam Levinson also has an interest in the Warrants held by Chichester Fund Limited which represent 8,543,857 voting rights in issue.

None of the remaining directors, or their families, had a beneficial interest in the shares of the Company or any of its subsidiary companies at 1 January 2010 or 31 December 2010. All of the directors are non executive directors, and the Company has not, therefore, adopted any share plan for the benefit of its directors.

Except as stated in Note 28 of the Notes to the consolidated financial statements, no other contract subsisted during the year in relation to the business of the Company in which any director was materially interested.

DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. The directors are required by the AIM rules to prepare the Group financial statements under IFRS as adopted by the EU and have elected to prepare the Company financial statements under UK GAAP. The financial statements are also required by law to be properly prepared in accordance with the Act.

International Accounting Standard 1 requires that IFRS financial statements present fairly for each financial year the Group'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. Directors are, however, also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in the IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's and the Group's ability to continue as a going concern.

Directors' Report continued
for the year ended 31 December 2010

The directors have elected to prepare the Company financial statements in accordance with UK GAAP and applicable law. The Company financial statements are required by law to give a true and fair view of the state of affairs of the Company. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the Company financial statements comply with the Act. The directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

DIRECTORS' INDEMNITY AND INSURANCE

The Company provides an indemnity to all directors of the Company and its associated companies (as defined in Section 256(b) of the Act), to the extent permitted by law, in respect of liabilities incurred as a result of their office. The indemnity was in force during the year ended 31 December 2010 and at the time of the approval of this Directors Report. The Group also has in place liability insurance covering the directors and officers of the Company and its subsidiary undertakings. Neither the indemnity or the insurance provide cover in the event that the director is proved to have acted dishonestly or fraudulently.

CORPORATE GOVERNANCE

Due to the concentrated shareholder base and shareholder representation on the Board, it is not practical for the Company to comply with all of the principles of the QCA Corporate Governance Guidelines for AIM Companies. However, the directors are mindful of their duties and responsibilities to all shareholders. The directors are aware of their statutory duties under the Act and, in particular, the core duty to act in good faith and in a way most likely to promote the success of the Company for the benefit of its members as a whole.

The following principles of corporate governance apply:

- The Board includes 2 independent directors who must retire and stand for reappointment at each annual general meeting;
- The Board meets at least 4 times a year and has formally adopted a schedule of powers which are reserved to the Board. The Board has full and timely access to all relevant information to enable it to discharge its duties effectively;
- Committees of the Board, which have adopted formalised terms of reference, have been established to deal with the day to day matters of the Board and specific areas of responsibility. All of the committees' terms of reference were reviewed and amended as appropriate following the 2009 Refinancing Transactions;
- A formal process has been adopted by the Board to manage directors' conflicts of interest;
- Independent advisers have been appointed by the Company;
- All directors have direct access to the advice and services of the Company Secretary and are able to seek independent professional advice at the expense of the Company if required in connection with their duties;
- Formal agreements are in place between the Company, Significant Shareholders (as appropriate) and their associates and Canary Wharf Group in relation to the dissemination of information, provision of services and consultancy arrangements;
- The Board retains responsibility for the maintenance of a sound system of internal control and for reviewing its effectiveness. All risks identified by this process have been reviewed and amended as appropriate to reflect the current market conditions; and
- A share dealing code has been adopted by the Company.

Committees

Announcement, Audit and Executive Committees have been established with formally delegated duties and responsibilities. Formal terms of reference for all 3 committees have been adopted by the Board.

The Announcement Committee, which has 2 members, in addition to the chairman, meets as required to consider information that should or may be required to be disseminated to the market having regard to the Company's and the directors' continuing obligations. The Announcement Committee is chaired by David Pritchard.

The Audit Committee meets at least 4 times a year and has at least 2 members, in addition to the chairman, who are not members of the Canary Wharf Group Audit Committee. The auditors are invited to Audit Committee meetings on a regular basis. The Audit Committee is chaired by John Botts.

Powers to oversee the implementation of decisions of the Board and for frequent interaction with the management of the Company and its subsidiaries, are delegated to the Executive Committee which meets on an ad hoc basis. The Executive Committee comprises significant shareholder appointed directors and the chairman of the Company.

During 2010, in view of any actual or potential conflicts during the Open Offer and repayment of the Shareholder Loan, a committee comprising the 2 independent directors, David Pritchard and John Botts, was convened to discuss the long term financing requirements of the Company and its wholly owned subsidiaries.

Conflicts of interest

A formal process to manage directors' conflicts of interest has been adopted by the Board and provides a framework within which the directors who are not conflicted can manage potential conflict situations to protect the interests of the Company. This process is operating effectively and an annual review is conducted of the conflicts disclosed during the preceding 12 months in order to identify any necessary changes required to the process.

POLICIES

Environmental

Due to the nature of the Company's business (being the management of its investment in Canary Wharf Group), and its management structure, it is not feasible for the Company to adopt an environmental and social policy in its own right. However, the directors are conscious of environmental issues and adhere, as appropriate, to Canary Wharf Group's environmental policy.

Canary Wharf Group is committed to applying environmental best practice wherever practical in the design, construction and management of the Canary Wharf Estate and to properties situated elsewhere, for the benefit of the environment, tenants, employees, the community and stakeholders. A summary of the Canary Wharf Group Environmental Policy is set out below and the full Environmental Policy is available on the website www.canarywharf.com.

Canary Wharf Group targets the reduction of energy, water and resource use, and the re-use and the recycling of waste where possible during the design, construction and management of properties. The minimisation of disruption and disturbance to the environment and local community is also targeted during the construction and management of buildings. Canary Wharf Group is also committed to preventing pollution, monitoring and to reducing any emissions which may have an adverse impact on the environment and/or local community.

Canary Wharf Group endeavours to raise awareness and promote effective management of environmental and social issues with staff, designers, suppliers and contractors and works with suppliers and contractors to establish effective environmental supply chain management and to promote the procurement of sustainable products and materials. Canary Wharf Group works with other parties to identify key environmental and social issues and to share solutions and best practice in managing environmental impact.

Information on Canary Wharf Group environmental and corporate responsibility performance is published annually with third party verification.

Employment

As neither the Company, nor its wholly owned subsidiaries, have employees an employment policy has not been adopted by the Company. However, Canary Wharf Group has adopted a detailed employment policy, details of which can be found in the report and financial statements of Canary Wharf Group.

Treasury

Details of the Group's treasury objectives and financial risks, together with the fair value of the Group's debt and the position under its lending covenants can be found in Note 21 of the Notes to the consolidated financial statements.

Payment of suppliers

It is the Group's policy to settle the terms of payment with its suppliers when agreeing the terms of each transaction

Directors' Report continued
for the year ended 31 December 2010

to ensure that suppliers are made aware of, and then to abide by the terms of payment.

Further disclosure on consolidated trade and other payables can be found in Note 17 of the Notes to the consolidated financial statements and on the Company only trade creditors in Note (f) to the Company financial statements.

DONATIONS

No political donations or expenditure (as defined by the Act) or charitable donations were made by the Company during 2010 or 2009.

Canary Wharf Group made charitable donations of £576,455 in 2010 (2009 – £686,998), primarily in support of local community initiatives. This included £250,000 (2009 – £250,000) contributed to the Isle of Dogs Community Foundation under the Section 106 Agreement for Riverside South.

Political donations and political expenditure (as defined by the Act and which include donations in kind) made by Canary Wharf Group during the year comprised £47,571 to the Labour Party, £13,000 to the Conservative Party and £3,435 to the Liberal Democrat Party (2009 – £49,218 to the Labour Party, £20,400 to the Conservative Party and £nil to the Liberal Democrat Party). Canary Wharf Group did not incur any political expenditure (as defined by the Act) in either 2010 or 2009.

AUDITORS AND DISCLOSURE OF INFORMATION TO AUDITORS

A resolution to reappoint Deloitte LLP as the Company's auditors will be proposed at the annual general meeting.

So far as the directors are aware, there is no relevant audit information of which the auditors are unaware. Each director has taken all reasonable steps to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418(2) of the Act.

ANNUAL GENERAL MEETING

The annual general meeting will be held at 2.00 pm on Tuesday 17 May 2011 at 10 Upper Bank Street, Canary Wharf, London E14 5JJ. The Notice of Meeting, together with explanations of the items of special business to be considered at the meeting, are enclosed with this report.

By order of the Board

JOHN GARWOOD
Secretary
Songbird Estates plc
Registered number: 5043352

24 March 2011

Independent Auditors' Report to the Members of Songbird Estates plc

We have audited the Group financial statements of Songbird Estates plc for the year ended 31 December 2010 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement and the related notes 1 to 28. 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.

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 AUDITOR

As explained more fully in the Directors' Responsibilities statement, the directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Group 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 (APB's) 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 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. In addition we read all the financial and non financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report.

OPINION ON FINANCIAL STATEMENTS

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2010 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the Group financial statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- 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.

OTHER MATTER

We have reported separately on the parent company financial statements of Songbird Estates plc for the year ended 31 December 2010.

Mark Beddy

Mark Beddy (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
London, UK

24 March 2011

Consolidated Income Statement
for the year ended 31 December 2010

	Note	2010 Underlying* £m	2010 Capital and other £m	2010 Total £m	2009 Underlying* £m	2009 Capital and other £m	2009 Total £m
Gross development, rental and related income	5	**409.7**	**(50.1)**	**359.6**	580.8	–	580.8
Cost of sales		**(109.9)**	**–**	**(109.9)**	(172.1)	–	(172.1)
Net development, rental and related income	5	**299.8**	**(50.1)**	**249.7**	408.7	–	408.7
Share of associates and joint ventures after tax	12	**(0.2)**	**2.7**	**2.5**	(0.3)	3.6	3.3
Administrative expenses		**(38.6)**	**–**	**(38.6)**	(40.4)	–	(40.4)
Other income		**7.4**	**–**	**7.4**	2.8	–	2.8
Net revaluation movements	6	**–**	**327.9**	**327.9**	–	(15.4)	(15.4)
Profit on sale of investment property	11	**–**	**155.1**	**155.1**	–	–	–
Termination of AIG facility	21	**–**	**144.5**	**144.5**	–	–	–
Operating profit/(loss)	3	**268.4**	**580.1**	**848.5**	370.8	(11.8)	359.0
Net financing costs							
– investment revenues	7	**25.8**	**–**	**25.8**	14.2	–	14.2
– financing costs	7	**(265.4)**	**(127.1)**	**(392.5)**	(274.3)	164.5	(109.8)
– debt repurchase (costs)/ gains	7	**–**	**(18.0)**	**(18.0)**	–	71.2	71.2
		(239.6)	**(145.1)**	**(384.7)**	(260.1)	235.7	(24.4)
Profit for the year before tax		**28.8**	**435.0**	**463.8**	110.7	223.9	334.6
Tax	8			**(42.9)**			(132.2)
Profit for the year after tax	4			**420.9**			202.4
Attributable to:							
Equity holders of the Company				**277.8**			131.0
Non controlling interest				**143.1**			71.4
				420.9			202.4
Earnings per share							
– basic and diluted	4			**41.3p**			57.7p

* As defined in Notes 1(y) and 4.

Consolidated Statement of Comprehensive Income
for the year ended 31 December 2010

	2010 £m	2009 £m
Profit after tax	**420.9**	202.4
Other comprehensive income:		
Gains on cash flow hedges	**–**	11.7
Net income recognised directly in or transferred to equity	**–**	11.7
Transferred from equity in respect of cash flow hedges	**44.4**	60.1
Tax on items transferred from equity	**(13.7)**	(8.0)
	30.7	52.1
Total comprehensive income for the year	**451.6**	266.2
Attributable to:		
Equity holders of the Company	**299.1**	175.4
Non controlling interest	**152.5**	90.8
	451.6	266.2

Consolidated Statement of Changes in Equity

for the year ended 31 December 2010

	Share premium £m	Treasury shares £m	Revaluation reserve £m	Cancelled share reserve £m	Hedging reserve £m	**Total other reserves £m**	Minority interests £m	Retained earnings £m	Share capital £m	**Total £m**
1 January 2009	**379.2**	**(0.2)**	**77.4**	**–**	**(132.4)**	**324.0**	**532.0**	**(479.6)**	**45.4**	**421.8**
Profit for the year after tax	–	–	–	–	–	**–**	–	202.4	–	**202.4**
Gain on effective hedges	–	–	–	–	11.7	**11.7**	–	–	–	**11.7**
Net income recognised	–	–	–	–	11.7	**11.7**	–	202.4	–	**214.1**
Transferred to non controlling interests	–	–	–	–	(19.4)	**(19.4)**	90.8	(71.4)	–	–
Transferred to income:										
– cash flow hedges	–	–	–	–	60.1	**60.1**	–	–	–	**60.1**
Tax on transfers	–	–	–	–	(8.0)	**(8.0)**	–	–	–	**(8.0)**
Total comprehensive income and expense for the year	–	–	–	–	44.4	**44.4**	90.8	131.0	–	**266.2**
Issue of Ordinary Share capital (net of expenses)	533.6	–	–	–	–	**533.6**	–	–	65.1	**598.7**
Cancellation of deferred shares	–	–	–	44.9	–	**44.9**	–	–	(44.9)	**–**
Reserves transfer on conversion of SG Shares	158.2	–	–	14.6	–	**172.8**	–	(145.3)	–	**27.5**
Transfer on acquisition of shares in Canary Wharf Group	–	–	–	–	–	–	(110.2)	(3.2)	–	**(113.4)**
Reserve movements in respect of treasury shares	–	(9.2)	–	–	–	**(9.2)**	–	–	–	**(9.2)**
Reserves transfer	–	–	(77.4)	–	–	**(77.4)**	–	77.4	–	**–**
31 December 2009	**1,071.0**	**(9.4)**	**–**	**59.5**	**(88.0)**	**1,033.1**	**512.6**	**(419.7)**	**65.6**	**1,191.6**
Profit for the year after tax	–	–	–	–	–	**–**	–	420.9	–	**420.9**
Net income recognised	–	–	–	–	–	**–**	–	420.9	–	**420.9**
Transferred to non controlling interests	–	–	–	–	(9.4)	**(9.4)**	152.5	(143.1)	–	**–**
Transferred to income:										
– cash flow hedges	–	–	–	–	44.4	**44.4**	–	–	–	**44.4**
Tax on transfers	–	–	–	–	(13.7)	**(13.7)**	–	–	–	**(13.7)**
Total comprehensive income and expense for the year	–	–	–	–	21.3	**21.3**	152.5	277.8	–	**451.6**
Issue of Ordinary Share capital (net of expenses)	124.1	–	–	–	–	**124.1**	–	–	10.9	**135.0**
Reserve movements in respect of treasury shares	–	(1.5)	–	–	–	**(1.5)**	–	–	–	**(1.5)**
Dividends paid by subsidiary undertaking	–	–	–	–	–	**–**	(23.1)	–	–	**(23.1)**
31 December 2010	**1,195.1**	**(10.9)**	**–**	**59.5**	**(66.7)**	**1,177.0**	**642.0**	**(141.9)**	**76.5**	**1,753.6**

Description of the nature and purpose of each reserve

The treasury shares reserve represents the cost of Ordinary Shares held in Trust.

The revaluation reserve previously represented the surplus of market value over historical cost of development properties and properties under construction to be retained by the Group. Development properties and properties under construction were previously accounted for under IAS 16, but are now accounted for under IAS 40 and as a result movements in the valuations of such properties are required to be taken to the Consolidated Income Statement. The brought forward balance on the revaluation reserve was transferred to retained earnings at the start of 2009.

The cancelled share reserve comprises the nominal value of 601,068,076 deferred shares cancelled as part of the 2009 Refinancing Transactions.

The hedging reserve comprises the amounts deferred in equity under previously effective hedges which are recognised in the Consolidated Income Statement in the same period in which the hedged item affects net profit or loss.

Retained earnings includes, inter alia, revaluation surpluses in respect of the Group’s properties that are recognised in the Consolidated Income Statement.

Consolidated Balance Sheet
at 31 December 2010

	Note	**2010 £m**	2009 £m
Assets:			
Non current assets			
Investment properties	11	**4,445.5**	4,393.1
Investment property held for sale	11	**–**	176.2
Development properties	11	**268.5**	221.0
Plant and equipment	11	**1.0**	1.5
		4,715.0	4,791.8
Other non current assets			
Investments	12	**43.0**	25.5
Tenant incentives and other non current assets	14	**193.0**	209.7
		4,951.0	5,027.0
Current assets			
Trade and other receivables	13	**67.6**	51.9
Monetary deposits	15	**5.1**	18.3
Cash and cash equivalents	16	**1,108.2**	1,074.8
		1,180.9	1,145.0
Total assets		**6,131.9**	6,172.0
Liabilities:			
Current liabilities			
Current portion of long term borrowings	18	**(98.7)**	(105.9)
Trade and other payables	17	**(267.8)**	(264.1)
		(366.5)	(370.0)
Non current liabilities			
Borrowings	19	**(3,595.0)**	(4,249.6)
Derivative financial instruments	20	**(297.0)**	(269.0)
Deferred tax liabilities	8	**(109.6)**	(88.7)
Provisions	22	**(10.2)**	(3.1)
		(4,011.8)	(4,610.4)
Total liabilities		**(4,378.3)**	(4,980.4)
Net assets		**1,753.6**	1,191.6
Equity			
Share capital		**76.5**	65.6
Other reserves		**1,177.0**	1,033.1
Retained earnings		**(141.9)**	(419.7)
Total equity attributable to members of the Company		**1,111.6**	679.0
Non controlling interests		**642.0**	512.6
Total equity		**1,753.6**	1,191.6

Approved by the Board and authorised for issue on 24 March 2011 and signed on its behalf by:

DAVID PRITCHARD
Chairman

Consolidated Cash Flow Statement
for the year ended 31 December 2010

	Note	**2010 £m**	2009 £m
Net cash flows from operating activities	26	**348.9**	297.8
Interest paid		**(266.3)**	(277.6)
Interest received		**25.7**	16.5
Interest element of finance lease rentals		**(0.5)**	(0.2)
Financing expenses		**–**	(20.7)
Breakage costs		**(40.5)**	(4.0)
Net cash inflow from operating activities		**67.3**	11.8
Cash flows from investing activities			
Development expenditure		**(127.5)**	(98.3)
Purchase of property, plant and equipment		**(0.1)**	(0.2)
Sale of investment property		**659.7**	–
Investment in and net loans to associates		**(15.2)**	(5.2)
Acquisition of own shares		**(1.5)**	(9.2)
Acquisition of shares in Canary Wharf Group		**–**	(113.4)
Net cash inflow/(outflow) from investing activities		**515.4**	(226.3)
Cash flows from financing activities			
Dividends paid to minority shareholders		**(23.1)**	–
Draw down of construction loan		**–**	20.5
Repayment of construction loan		**(123.5)**	–
Repurchase of securitised debt		**–**	(35.5)
Redemption of securitised debt		**(59.0)**	(32.2)
Redemption of secured loan		**(18.2)**	(15.7)
Repayment of secured loans		**(348.7)**	–
Draw down of Citi Loans		**–**	44.7
Repayment of Citi Loans		**–**	(837.3)
Issue of Ordinary Share capital		**140.0**	619.7
Fees on issue of Ordinary Share capital		**(5.0)**	(24.3)
Issue of Preference Shares		**–**	275.0
Draw down of Shareholder Loan		**23.2**	113.1
Repurchase of Shareholder Loan		**(135.0)**	–
Net cash (outflow)/inflow from financing activities		**(549.3)**	128.0
Net increase/(decrease) in cash and cash equivalents		**33.4**	(86.5)
Cash and cash equivalents at start of year		**1,074.8**	1,161.3
Cash and cash equivalents at end of year	16	**1,108.2**	1,074.8

Notes to the Consolidated Financial Statements
for the year ended 31 December 2010

1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

The financial information presented in this report has been prepared in accordance with IFRS and IFRIC interpretations as adopted by the EU and therefore complies with the AIM rules.

The following new and revised accounting standards and interpretations have been adopted by the Group in 2010, none of which had a material impact on the current or prior year reported results:

- IFRS 1 (amended)/IAS 27 (amended): Cost of an investment in a subsidiary, jointly controlled entity or associate;
- IFRS 2 (amended): Share based payment, group cash settled share based payment transactions;
- IFRS 3 (revised 2008): Business combinations;
- IAS 27 (revised 2008): Consolidated and separate financial statements;
- IAS 39 (amended): Financial instruments: recognition and measurement: eligible hedged items;
- IFRIC 12: Service concession arrangements;
- IFRIC 17: Distributions of non cash assets to owners;
- IFRIC 18: Transfer of assets from customers; and
- Improvements to IFRSs (April 2009).

At the date of authorisation of these financial statements, the following standards and interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

- IFRS 9: Financial instruments;
- IAS 24 (amended): Related party disclosures;
- IAS 32 (amended): Classification of rights issues;
- IFRIC 19: Extinguishing financial liabilities with equity instruments;
- IFRIC 14 (amended): Repayments of a minimum funding requirement; and
- Improvements to IFRSs (May 2010).

The directors are in the process of assessing the impact, if any, of adopting the above standards and interpretations.

The financial statements have been prepared on a going concern basis as stated in the Directors' Report – Going Concern.

Accounting policies

These financial statements have been prepared under the historical cost convention as modified by the revaluation of land and buildings and certain financial instruments. A summary of the more important Group accounting policies, which have been applied consistently in all material respects throughout the year and for the comparative year, is set out below.

(a) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the periods reported. For the purposes of preparing these consolidated accounts, subsidiaries are those entities where the Company controls in excess of 50.0% of the voting share capital of an entity. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date control ceases.

Where there is a change in the Company's direct or indirect interest in a subsidiary, which does not alter the classification of the entity as a subsidiary, this is accounted for as an equity transaction. When such a change occurs, the carrying amounts of the controlling and non controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. The difference between the amount paid (or received) and the book value of the non controlling interest eliminated (or recognised) is taken directly to retained earnings.

Associated undertakings and joint ventures are accounted for under the equity method, whereby the Consolidated Balance Sheet incorporates the Group's share of the net assets of the relevant entities. The Consolidated Income Statement incorporates the Group's share of associated and joint venture undertakings' profits or losses after tax. Where the Group's share of the losses of an associated and joint venture undertaking exceeds the historic cost of the Group's investment in that entity, the investment is written down to nil and a provision is recognised for the Group's legal or constructive obligations at the Consolidated Balance Sheet date in respect of that entity. An entity is classified as an associated undertaking when the Group has significant influence over the economic activity of an undertaking but does not have control. An entity is classified as a joint venture where the contractual arrangement by which the Group undertook to join an economic activity provides joint control.

Intra group balances and any unrealised gains and losses arising from intra group transactions are eliminated in preparing the consolidated financial statements.

(b) Acquisitions and business combinations

Where properties are acquired through corporate acquisitions and there are no significant assets or liabilities other than property and related debt, the acquisition is treated as an asset acquisition. In all other cases the acquisition is accounted for as a business combination in accordance with IFRS 3 in which case the assets and liabilities of a subsidiary, joint venture or associated undertaking are measured at their estimated fair value at the date of acquisition. The results of such business combinations are included from the effective date of acquisition to the effective date of disposal. The excess of acquisition costs over the Group's interest in the fair value of the identifiable assets and liabilities of the new entity at the date of acquisition is recognised as goodwill.

(c) Investment properties and properties occupied by Canary Wharf Group

Investment properties are those properties that are held either to earn rental income or for capital appreciation or both.

Property occupied by the Group is carried at fair value based on a professional valuation made as of each reporting date. Where the value of such property is not material it is included in investment properties. Additions consist of costs of a capital nature.

Acquired investment properties are measured initially at cost, including related transaction costs. After initial recognition at cost, investment properties are carried at their fair values based on a professional valuation made as of each reporting date. Properties are treated as acquired at the point when the Group assumes the significant risks and returns of ownership; and as disposed when these are transferred to the buyer. Additions to investment properties consist of costs of a capital nature.

The difference between the fair value of an investment property at the reporting date and its carrying amount prior to remeasurement is included in the Consolidated Income Statement as a valuation gain or loss. When the Group begins to redevelop an existing investment property for continued future use as an investment property, the property remains an investment property and is accounted for as such.

(d) Non current assets held for sale

Non current assets classified as held for sale are measured at the lower of the carrying amount and fair value less costs to sell. As investment properties are exempt from the measurement criteria of IFRS 5, any such assets which are classified as held for sale continue to be carried at fair value.

Non current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification. 5 Churchill Place was classified as a non current asset held for sale at 31 December 2009 but there were no properties so classified at 31 December 2010.

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(e) Development properties and properties under construction for investment

Development properties are those properties held with the intention to develop for future use as an investment property. When construction commences on such development properties, they are reclassified at fair value as a property under construction for investment. Such properties are recognised at fair value at each reporting date. Any gain or loss on remeasurement is taken direct to the Consolidated Income Statement. On completion, the property is transferred to investment properties.

Finance costs associated with direct expenditure on properties under construction to be held as an investment property or undergoing major refurbishment are capitalised. The interest capitalised is calculated using the Group's weighted average cost of borrowings after adjusting for borrowings associated with specific developments. Where borrowings are associated with specific developments, the amount capitalised is the gross interest incurred on those borrowings less any investment income arising on their temporary investment. Interest is capitalised as from the commencement of the development work until the date of practical completion. The capitalisation of finance costs is suspended if there are prolonged periods when development activity is interrupted.

(f) Plant and equipment

Plant and equipment comprises computers, furniture, fixtures and fittings and improvements to Group offices. These assets are stated at cost less accumulated depreciation and any recognised impairment, and are depreciated on a straight line basis over their estimated useful lives of between 3 and 4 years.

(g) Construction contracts

Construction contracts consist of properties that are being constructed in accordance with long term development contracts and for which the detailed design specification of each building is agreed with the purchaser. Where applicable the contracts are split into 3 component parts: sale of land; completed construction works at the date of entering into the contracts; and ongoing construction contracts.

Revenue on the sale of land and completed construction works is recognised at the point that the significant risks and rewards of ownership are transferred to the buyer.

Revenue on construction contracts is recognised according to the stage reached in the contract by reference to the value of work completed using the percentage of completion method. The percentage of completion is calculated by reference to costs incurred on the building compared with the estimated total costs. The gross amount due comprises costs incurred plus recognised profits less the sum of recognised losses and progress billings. Where the sum of recognised losses and progress billings exceeds costs incurred plus recognised profits, the amount is shown as payments on account.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised immediately as an expense.

(h) Trade receivables

Trade receivables are recognised initially at fair value. A provision for impairment is established where there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables concerned.

(i) Cash and cash equivalents

Cash and cash equivalents comprise cash balances, deposits held with banks and other short term highly liquid investments with original maturities of 3 months or less, which are held for the purpose of meeting short term cash commitments.

(j) Monetary deposits

Amounts held on deposit, which do not meet the criteria to be classified as cash and cash equivalents, are classified as monetary deposits and accounted for at amortised cost.

(k) Trade and other payables

Trade and other payables are stated at cost.

(l) Provisions

A provision is recognised in the Consolidated Balance Sheet when the Group has a present obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(m) Borrowings

Borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in the Consolidated Income Statement over the period of the borrowings, using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows (including all fees that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability.

Warrants were issued in connection with the Shareholder Loan. The fair value of the equity component attached to the Warrants was assessed upon initial recognition as negligible by reference to the fair value of the Shareholder Loan with which they were issued. Accordingly no separate equity component has been recognised in respect of the Warrants.

(n) Pension benefits

Contributions to defined contribution schemes are expensed as they fall due.

(o) Share capital

The Ordinary Shares are classed as equity. External costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

The terms of the Preference Shares require these shares to be treated as a liability and consequently they are included in amounts payable in more than one year. The costs of issuing the Preference Shares have also been taken to borrowings and will be amortised over the term of the Preference Shares. The finance cost of the Preference Shares is classified as a financing expense in the Consolidated Income Statement.

The SG Shares had an equity component and a liability component. The fair value of the equity component was assessed as negligible upon initial recognition and accordingly the SG Shares were, until converted, classified wholly as a liability and included in amounts payable in more than one year.

The finance cost of the SG Shares was classified as a financing expense in the Consolidated Income Statement and, when accrued, included in amounts payable within one year. The excess of amounts paid over interest accrued, in accordance with the shareholders' rights, served to reduce the carrying value of the liability included in amounts payable.

The consideration paid, including any directly attributable incremental costs, by any Group entity to acquire Treasury Shares, is deducted from equity until the shares are cancelled, reissued or disposed of. Where Treasury Shares are sold or reissued, the net consideration received is included in equity.

Notes to the Consolidated Financial Statements continued

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(p) Share based payments

Ordinary Shares held by the Trust may be allocated to employees under the terms of share schemes adopted from time to time by Canary Wharf Group. The terms of the allocation may allow the employee to opt for a cash settlement calculated at the end of the vesting period linked to the market price of the Ordinary Shares at that date.

For cash settled share allocations, a liability is recorded based on the market value of the shares at each Balance Sheet date. The cost of equity settled share allocations is measured at the allocation date and based on the market value of the Ordinary Shares at that date. The associated cost is charged to the same expense category as the employment cost of the relevant employee, spread on a straight line basis over the relevant vesting period.

(q) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is stated net of discounts and VAT.

Revenue comprises rental income, service charges and other recoveries from tenants of the Group's properties, and income arising on long term contracts. Service charges and other recoveries include directly recoverable expenditure together with any chargeable management fees and are recognised as they fall due.

Revenue from construction contracts is recognised in accordance with the Group's accounting policy on construction contracts.

Rental income from investment property leased out under an operating lease is recognised in the Consolidated Income Statement on a straight line basis over the term of the lease. Lease incentives granted, including rent free periods, are recognised as an integral part of the net consideration for the use of the property and are therefore also recognised on the same, straight line basis. An adjustment is made to ensure that the carrying value of the related property, including the accrued rent, amortised lease incentives and negotiation costs, does not exceed the external valuation.

Contingent rents, being those lease payments that are not fixed at the inception of a lease, for example turnover rents, are recorded as income in the periods in which they are earned.

Where revenue is obtained by the sale of assets, it is recognised when significant risks and returns have been transferred to the buyer. In the case of the sale of properties, this is on completion.

(r) Expenses

Property and contract expenditure incurred prior to the exchange of a contract is expensed as incurred.

Direct costs incurred in negotiating and arranging a new lease are amortised on a straight line basis over the period from the date of lease commencement to the earliest termination date.

(s) Impairment of tangible and intangible assets

The carrying amounts of the Group's non financial assets, other than investment, development and construction property (see (c) and (e)), are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised in the Consolidated Income Statement whenever the carrying amount of an asset exceeds its recoverable amount.

The recoverable amount of an asset is the greater of its net selling price and its value in use. The value in use is determined as the net present value of the future cash flows expected to be derived from the asset, discounted using a pre tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount of an asset. An impairment loss is reversed only to the extent that the asset's carrying amount after the reversal does not exceed the amount which would have been determined, net of applicable depreciation, if no impairment loss had been recognised.

(t) Derivatives

The Group uses interest rate derivatives to help manage its risk of changes in interest rates. In accordance with its treasury policy, the Group does not hold or issue derivatives for trading purposes.

In order for a derivative to qualify for hedge accounting, the Group is required to document the relationship between the item being hedged and the hedging instrument. The Group is also required to demonstrate an assessment of the relationship between the hedged item and the hedging instrument which shows that the hedge will be effective on an ongoing basis. The effectiveness testing is performed at each Balance Sheet date to ensure that the hedge remains highly effective.

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity with any ineffective portion recognised immediately in the Consolidated Income Statement. If the cash flow hedge of a firm commitment or forecasted transaction results in the recognition of a non financial asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in equity are included in the initial measurement of the asset or liability. For hedges that do not result in the recognition of a non financial asset or a liability, amounts deferred in equity are recognised in the Consolidated Income Statement in the same period in which the hedged item affects net profit or loss.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the Consolidated Income Statement as they arise.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net profit or loss for the period.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value, with gains or losses reported in the Consolidated Income Statement.

(u) Tax

Current tax is provided at amounts expected to be paid or recovered using the tax rates and laws that have been enacted or substantively enacted at the Balance Sheet date.

Deferred tax is provided in full using the balance sheet liability method on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

A deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying temporary differences can be deducted. The deferred tax effect of fair value adjustments arising from business combinations is incorporated in the Consolidated Balance Sheet.

No provision is made for temporary differences (i) arising on the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and (ii) relating to investments in subsidiaries to the extent that the Group is able to control the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future.

Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2010

Deferred tax is calculated at the tax rate that is expected to apply to the period when the asset is realised or the liability is settled based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited in the Consolidated Income Statement, except where it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

(v) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

(i) Finance leases – are capitalised at the lease's commencement at the lower of the fair value of the asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of costs incurred in establishing the finance lease obligation, are included in borrowings. The finance charges are charged to the Consolidated Income Statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

(ii) Operating leases – payments, including prepayments, made under operating leases (net of any incentives received from the lessor) are charged to the Consolidated Income Statement on a straight line basis over the period of the lease.

The Group as lessor

All leases operated by the Group are tested to determine whether they qualify as operating leases or finance leases. No finance leases have been identified as a result of these tests.

Operating leases – rental income from operating leases is recognised on a straight line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are deferred and recognised on a straight line basis over the lease term.

(w) Dividends

Dividend distributions to the Company's shareholders are recognised in the Group's financial statements in the period in which the dividends are paid or approved by the Company's shareholders.

(x) Segmental analysis

The Group is managed as a single entity in one geographical area with internal management reporting prepared on this basis and as such has not prepared a segmental analysis in accordance with IFRS 8.

(y) Underlying earnings

The directors are of the opinion that analysing profit before tax between underlying earnings and capital and other items provides additional useful information for members of the Company. The term underlying earnings is not a defined term under IFRS and may not therefore be comparable with similarly titled profit measurements reported by other companies. The adjustments made to reported results are as follows:

(i) Profit on sale of property and termination of AIG facility

The Group has reclassified from underlying earnings profits on disposal, together with the termination of the AIG facility, due to the quantum and the fact that these events occur infrequently.

(ii) Net revaluation movements

The revaluation movements on investment properties are included in the Consolidated Income Statement but have been reclassified separately from the underlying results to enable members to better appreciate the operating performance.

(iii) IAS 39 and IAS 32 adjustments

The commercial effect of the Group's hedging arrangements is that all the Group's financial liabilities are at fixed rates. However, certain of the hedges are deemed ineffective and the Consolidated Income Statement reflects the effects of movements in the fair values of these hedging instruments. As this introduces volatility in the Consolidated Income Statement which will not be reflected in the cash flows of the Group, the IAS 39 adjustments have been reclassified separately from the underlying results. The finance costs associated with the Preference Shares have also been reclassified separately from underlying earnings, reflecting the fact that this expense relates to share capital that has been classified as debt in accordance with IAS 32.

(iv) Refinancing costs and gains

These items have been reclassified from underlying earnings due to their size and infrequent occurrence.

(v) Lehman tenant incentive write off

Lease incentives attributable to Lehman's lease were written off following the Administrator ceasing to pay rent. The Group has reclassified this cost due to the quantum and the fact that such events occur infrequently.

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

(i) Valuation of investment and development properties

The Group uses the valuations performed by its independent valuers as the fair value of its properties. The valuations are based upon assumptions including future rental income, anticipated void costs, the appropriate discount rate or yield, and, in the case of development properties, the estimated costs to completion. The valuers also make reference to market evidence of transaction prices for similar properties.

(ii) Outstanding rent reviews

Where the rent review date has passed, and the revised annual rent has not yet been agreed, rent is accrued from the date of the rent review based upon an estimation of the revised annual rent. The estimate is derived from knowledge of market rents for comparable properties.

(iii) Financial instruments

The fair values of financial instruments are determined by reference to the prices available on the markets on which they are traded or by reference to valuations provided by counter party financial institutions.

(iv) Construction contracts

IFRIC 15 requires the Group's pre sale property contracts to be split into 3 component parts: sale of land; completed construction works at the date of entering into the contracts; and ongoing construction contracts. The proceeds receivable under such contracts are required to be allocated to each of these components. The allocation of revenue to completed construction works and ongoing construction contracts is calculated by reference to the market rates applicable for such independently performed construction work. The remaining revenue component is allocated to the sale of land.

Construction contracts are carried at the lower of cost and net realisable value. The latter is assessed by the Group having regard to suitable external advice and knowledge of recent comparable transactions.

Revenue on construction contracts is recognised using the percentage of completion method. The directors have estimated the outcome of each contract on an individual basis based on the proportion of costs incurred compared with the estimated total costs and reconsider these estimates at each balance sheet date.

Notes to the Consolidated Financial Statements continued
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3. OPERATING PROFIT

Operating profit represents the consolidated profit of the Group, including the Group's share of results of associates, but before net financing costs and tax.

	2010 £'000	2009 £'000
The operating profit is stated after charging:		
– depreciation (Note 11)	**607**	645
– directors' emoluments (Note 10)	**370**	392
– operating lease rentals:		
– land and buildings	**–**	360

The operating lease rentals relate to the vacant leasehold properties referred to in Note 22. Additional disclosure on operating leases is given in Note 9.

Remuneration of the auditors

	2010 £'000	2009 £'000
– audit fees	**58**	58
– audit of subsidiaries	**475**	537
Total audit fees	**533**	595
Fees pursuant to legislation	**329**	621
Audit and audit related services	**862**	1,216
Fees to the auditors for other services:		
– tax	**683**	1,045
– other services	**86**	44
– pension fund audit	**10**	19
Total fees	**1,641**	2,324

Audit fees

Audit fees of £58,000 were incurred in 2010 of which £52,000 related to the audit of the consolidated accounts of Canary Wharf Group (2009 – £58,000 and £52,000 respectively). In 2009, services pursuant to legislation primarily related to work on the prospectus and shareholders' circular issued as part of the 2009 Refinancing Transactions. In 2010, services pursuant to legislation primarily related to work on the prospectus issued in connection with the Open Offer.

4. PERFORMANCE MEASURES

Basic earnings per share

	2010		2009	
	Earnings £m	**Per share p**	Earnings £m	Per share p
Underlying profit for the year before tax	**28.8**	**4.3**	110.7	48.8
Capital and other items	**435.0**	**64.7**	223.9	98.7
Tax	**(42.9)**	**(6.4)**	(132.2)	(58.3)
Profit after tax	**420.9**	**62.6**	202.4	89.2
Less: non controlling interest	**(143.1)**	**(21.3)**	(71.4)	(31.5)
Profit after tax attributable to members of the Company	**277.8**	**41.3**	131.0	57.7

Underlying earnings exclude the write down of unamortised Lehman incentives (Note 14), profits on sale of property, termination of the AIG facility, movements on property revaluations, movements in the fair value of ineffective hedging instruments and other derivatives, interest payable on the SG Shares and Preference Shares, refinancing gains and losses and tax.

Earnings per share for 2010 has been calculated by reference to the profit attributable to equity shareholders of £277.8m for 2010 (2009 – £131.0m) and on the weighted average of 672.5m Ordinary Shares in issue for 2010 (2009 – 226.9m). The number of Ordinary Shares excludes the shares held in trust in connection with Canary Wharf Group's employee share benefit plan. The number of Ordinary Shares reflects the transactions described below.

On 14 October 2009 the Company issued a total of 65,553,896,186 new ordinary shares of 0.1p through a placing and compensatory open offer and as a result of the conversion of the A Shares and SG Shares and the renaming of the B Shares. This issue of ordinary shares has the same effect for the purpose of calculating the number of shares as a rights issue. The issue of shares was priced at 1p per ordinary share of 0.1p and represented a discount to the fair value of the existing shares. The shares were subsequently consolidated on a 100 to 1 basis.

On 11 October 2010 the Company issued a total of 109,375,000 Ordinary Shares through the Open Offer of which 1,174,972 shares were acquired by the Trust. These shares were not issued at a discount and therefore there is no requirement to adjust the comparative year's earnings per share.

Warrants were issued in connection with the Shareholder Loan for a total of 2,836,666,668 ordinary shares with a strike price of 1.5p. If exercised at the date of this report the Warrants would equate to an additional 28,835,517 Ordinary Shares with an exercise price of 150p each. No dilution arises from the Warrants as the average market price of Ordinary Shares during the year of 154p did not sufficiently exceed the exercise price to affect the earnings per share figure.

Notes to the Consolidated Financial Statements continued
for the year ended 31 December 2010

The impact of the Open Offer on the share capital of the Company is disclosed in more detail in Note 23.

	31 December 2010 £m	Proforma 30 June 2010 £m	30 June 2010 £m	31 December 2009 £m
Balance sheet net assets	**1,753.6**	1,325.2	1,216.5	1,191.6
Adjustment for: deferred tax	**109.6**	63.8	63.8	88.7
Mark to market of derivatives	**297.0**	372.2	372.2	269.0
Add: uplift in value of investment property	**–**	200.0	200.0	190.0
Add: surplus arising on construction contracts	**52.7**	52.9	52.9	58.3
	2,212.9	2,014.1	1,905.4	1,797.6
Non controlling interest in Consolidated Balance Sheet	**(642.0)**	(503.5)	(526.6)	(512.6)
Non controlling interest on adjustments above	**(141.2)**	(211.8)	(211.8)	(186.3)
Adjusted net assets	**1,429.7**	1,298.8	1,167.0	1,098.7
Adjusted NAV per share	**187p**	170p	178p	168p
Number of shares (m)	**764.9**	764.9	655.5	655.5

Adjusted NAV per share includes the valuation surplus on construction contracts of £52.7m at 31 December 2010 (30 June 2010 – £52.9m, 31 December 2009 – £58.3m), and excludes fair value adjustments on derivatives and deferred tax.

At 30 June 2010 and 31 December 2009, adjusted NAV included the uplift in value of 25-30 Bank Street attributable to the arrangement with AIG which provided for the payment of any shortfall on 4 years of contracted rent from first draw down following a default by Lehman (see Business Review – Lehman). For balance sheet purposes the market value of the building, which was £350.0m at 30 June 2010 and £360.0m at 31 December 2009, excluded the benefit of the arrangement with AIG as this could not be transferred to a purchaser of the property. The market value adjusted for the arrangement with AIG was £550.0m at both dates. A fee of approximately £3.6m per annum was payable in relation to this arrangement which was charged to the Consolidated Income Statement as a financing cost. 25 Bank Street was sold in December 2010 (see Note 11) and the arrangement with AIG was terminated (see Note 21).

At 31 December 2010 the number of shares in issue was 764.9m Ordinary Shares. The 30 June 2010 proforma adjusted net assets and NAV per share set out above are based on information which was provided in the prospectus issued in September 2010 in connection with the Open Offer, and adjusts for the effects of the Open Offer, Shareholder Loan repayment and the Canary Wharf Group and Preference Share dividends as if these transactions had happened on 30 June 2010. At 31 December 2009 and 30 June 2010 there were 655.5m Ordinary Shares in issue, which has been used as the denominator in calculating adjusted NAV per share at those dates.

5. REVENUE

	2010 £m	2009 £m
Rent receivable	**287.5**	318.4
Write off of Lehman incentives and deferred leasing costs (Note 14)	**(50.1)**	–
Recognised incentives and committed rent increases	**(3.6)**	(5.0)
	233.8	313.4
Service charge income	**74.3**	73.8
Miscellaneous income	**17.8**	20.9
Receivable on termination of leases	**18.3**	13.5
Construction contract revenue	**15.4**	159.2
Gross development, rental and related income	**359.6**	580.8
Service charge and other direct property expenses	**(98.9)**	(91.2)
Movement in accruals and provisions for leasehold commitments	**1.8**	1.5
Payments on termination of leases	**(2.4)**	(8.9)
Construction contract expenditure	**(10.4)**	(73.5)
Net development, rental and related income	**249.7**	408.7

Rent receivable included contingent rents of £1.3m (2009 – £0.9m).

In 2010 the Group had 2 major customers contributing £80.6m and £43.7m of Group revenue (2009 – 2 major customers contributing £71.9m and £116.0m).

6. NET REVALUATION MOVEMENTS ON PROPERTY AND INVESTMENTS

	2010 £m	2009 £m
In Consolidated Income Statement		
Revaluation of investment properties	**332.6**	71.3
Revaluation of development properties	**(4.7)**	(86.7)
	327.9	(15.4)

In accordance with IAS 40 (amended), the revaluation movement on development properties is recognised in the Consolidated Income Statement. At 31 December 2010, a cumulative revaluation deficit on development properties of £6.6m has been recognised (31 December 2009 – £1.9m).

The revaluation deficit for development properties of £4.7m recognised in 2010 compared with £86.7m in 2009. This movement comprised a deficit of £5.6m for properties where market value is less than historical cost (2009 – £37.6m) and a surplus of £0.9m on properties where market value exceeds historical cost (2009 – deficit of £49.1m).

Notes to the Consolidated Financial Statements continued

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7. NET FINANCING COSTS

	2010 £m	2009 £m
Interest revenue		
Deposits, other loans and securities	**25.8**	14.2
Interest expense		
Notes and debentures	**(152.3)**	(149.6)
Songbird Loans	**(34.0)**	(51.1)
Other bank loans and overdrafts	**(78.5)**	(76.8)
Obligations under finance leases	**(0.6)**	(1.6)
	(265.4)	(279.1)
Development interest capitalised at 6.525%	**–**	4.8
	(265.4)	(274.3)
Underlying net financing costs	**(239.6)**	(260.1)
Other financing (costs)/income		
Valuation movements on fair value of derivatives	**(67.4)**	184.0
Finance costs of non equity shares (Note 21)	**(30.6)**	(7.4)
Hedging reserve recycling	**(29.1)**	(12.1)
	(127.1)	164.5
Net financing expenses	**(366.7)**	(95.6)
(Costs)/gains on repurchase or repayment of debt		
– Securitised debt	**–**	66.3
– Citi Loans	**–**	4.9
– Secured debt	**(18.0)**	–
	(18.0)	71.2
Net financing costs	**(384.7)**	(24.4)
Total financing income	**25.8**	85.4
Total financing expenses	**(410.5)**	(109.8)
Net financing costs	**(384.7)**	(24.4)

Financing fees included in interest payable totalled £12.6m in 2010 (2009 – £14.4m).

The financing expenses of the construction loan facility were capitalised as incurred from first draw down in 2007 to practical completion of the building in August 2009.

The interest rate swap associated with the loan facility secured against the buildings at 10 Cabot Square and 20 Cabot Square was broken when the associated loan was repaid at a cost of £23.7m. Fees of £1.0m were also incurred on repayment of this loan. Accounting adjustments, comprising the write off of unamortised deferred fees and the recycling of the unamortised balance on the hedging reserve, have also been taken to the Consolidated Income Statement. This resulted in a charge to the Consolidated Income Statement of £18.0m, classified as a capital and other item.

8. TAX

	2010 £m	2009 £m
Tax charge		
Current tax charge to income	**(35.7)**	(30.7)
Deferred tax	**(7.2)**	(101.5)
Group total tax	**(42.9)**	(132.2)
Tax reconciliation		
Group profit on ordinary activities before tax	**463.8**	334.6
Tax on profit on ordinary activities at UK corporation tax rate of 28.0% (2009 – 28.0%)	**(129.9)**	(93.7)
Effects of:		
Change in tax rate	**4.1**	–
Adjustments in respect of prior years	**2.4**	1.1
Indexation of capital gains, restriction of losses and movement on deferred tax provisions	**93.4**	(23.3)
Expenses not deductible for tax purposes	**(9.0)**	(0.9)
Deferred tax assets not recognised on losses	**(3.9)**	(15.4)
Group total tax	**(42.9)**	(132.2)

	Losses & tax credits £m	Revaluation deficits £m	Fair value of derivatives £m	Financial instruments £m	Other £m	Total £m
Deferred tax assets						
1 January 2009 (as restated)	1.1	68.9	120.3	31.0	0.7	222.0
(Charge)/credit to income	(0.5)	(37.5)	(55.7)	(2.3)	1.8	(94.2)
Credit to equity	–	–	0.3	–	–	0.3
31 December 2009	0.6	31.4	64.9	28.7	2.5	128.1
(Charge)/credit to income	(0.5)	(19.0)	11.3	(3.1)	0.4	(10.9)
Credit to equity	–	–	0.3	–	–	0.3
31 December 2010	**0.1**	**12.4**	**76.5**	**25.6**	**2.9**	**117.5**

	Potential EZA clawback £m	Revaluation surpluses £m	Fair value of derivatives £m	Financial instruments £m	Other £m	Total £m
Deferred tax liabilities						
1 January 2009 (as restated)	(76.4)	(101.8)	–	(23.0)	–	(201.2)
Credit/(charge) to income	0.6	4.8	8.3	(21.0)	–	(7.3)
Charge to equity	–	–	(8.3)	–	–	(8.3)
31 December 2009	(75.8)	(97.0)	–	(44.0)	–	(216.8)
Credit/(charge) to income	3.7	(12.9)	14.0	3.3	(4.4)	3.7
Charge to equity	–	–	(14.0)	–	–	(14.0)
31 December 2010	**(72.1)**	**(109.9)**	**–**	**(40.7)**	**(4.4)**	**(227.1)**

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All deferred tax assets and liabilities may potentially be offset. The amount at which deferred tax is stated, after offsetting for financial reporting purposes, comprises:

	£m
Net assets at 1 January 2009	20.8
Credit to income	(101.5)
Credit to equity	(8.0)
Net liability at 31 December 2009	(88.7)
Charge to income	(7.2)
Charge to equity	(13.7)
Net liability at 31 December 2010	**(109.6)**

It is not possible to determine the amounts which will crystallise within one year as required by IFRS as it is not possible to determine which properties, if any, will be sold in the next financial year other than those for which an agreement to sell already exists.

A deferred tax asset has been recognised on the mark to market of debt and other adjustments relating to Canary Wharf Group's tax position at the date of acquisition. These deferred tax balances will be amortised to the Consolidated Income Statement in line with the amortisation of the fair value adjustments which gave rise to them.

Deferred tax assets of £99.0m (31 December 2009 – £94.4m) have not been recognised as it is not currently considered probable that they will be utilised.

Deferred tax has currently been provided for at 27.0%, the rate enacted as of the balance sheet date. Following the announcement on 23 March 2011 that Corporation Tax will be reduced to 26.0% from April 2011, the deferred tax will be provided for at the reduced rate in future periods, when the rates have been substantively enacted. This is expected to reduce the deferred tax liability by approximately £5.0m. The Government has also indicated that it intends to enact future reductions in the main tax rate over the next 3 years down to 23.0% by 1 April 2014. The future 1.0% main rate reductions are expected, when substantively enacted, to have a similar impact on the financial statements as outlined above, however the actual impact will be dependent on the deferred tax position at that time.

9. OPERATING LEASES

Operating leases with the Group as lessor

Canary Wharf Group leases out its investment properties under operating leases as defined by IAS 17.

At 31 December 2010 the weighted average unexpired lease term under non cancellable operating leases for the entire investment property portfolio was 15.7 years (31 December 2009 – 17.4 years). The calculation of the weighted average lease term at 31 December 2009 took account of the restructuring of the leases with Barclays Capital announced in January 2010, excluded 5 Churchill Place held for sale and assumed the 25 Bank Street Lehman lease would remain in place.

The future aggregate minimum rentals receivable under non cancellable operating leases at the balance sheet dates are as follows:

	31 December 2010 £m	31 December 2009 £m
Within one year	**267.7**	287.1
Between two and five years	**990.2**	1,400.6
After five years	**2,807.7**	3,919.6
	4,065.6	5,607.3

The above analysis does not include any contingent rental income and at 31 December 2009 included the Lehman lease for its full term.

10. DIRECTORS AND EMPLOYEES

With the exception of fees paid to the non executive chairman and non executive directors, all other staff costs relate to employees of Canary Wharf Group.

Staff costs – all employees of the Group, including directors:

	2010 £m	2009 £m
Wages and salaries	**56.0**	59.8
Social security costs	**5.8**	6.5
Other pension costs	**3.8**	4.1
	65.6	70.4

The average monthly number of employees, including Canary Wharf Group, during 2010 was 879 (2009 – 966) as set out below:

	2010	2009
Construction	**145**	208
Property management	**593**	605
Administration	**141**	153
	879	966

Directors' remuneration

	2010 £'000	2009 £'000
Emoluments paid	**370**	392

No pension plan is operated by the Company and none of the directors participate in Canary Wharf Group's pension plan.

Highest paid director

	2010 £'000	2009 £'000
David Pritchard	**130**	392

David Pritchard's emoluments included a bonus of £30,000.

Other directors

During the year it was agreed that non executive directors would receive an annual fee of £50,000. This fee had been paid to a number of directors by the year end and arrangements are currently being put in place to facilitate payment to those directors or, as applicable, their employers who have not yet received a fee. Any amounts not paid have been accrued.

It was also agreed that John Botts would receive an additional £10,000 in respect of his role as chairman of the Audit Committee. As reflected above, separate fee arrangements have been agreed with the chairman of the Board.

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Other non executive directors

	Fees £'000
Faisal Al-Hamadi	50
Khalifa Al-Kuwari	50
Sheikh Mohammed Bin Hamad Bin Jassim Al-Thani	50
John Botts*	40
Peter Harned	50
Jonathan Lane	50
Sam Levinson	50
Alex Midgen	50
Brian Niles	50

* John Botts was appointed during the year.

The above table shows the fees paid or payable to the non executive directors or, as applicable, their employers.

Directors' share options

No executive share option plan has been adopted by the Company and none of the directors of the Company participate in Canary Wharf Group's share plan.

Key management

The business of the Company is the management of its investment in Canary Wharf Group. The overall business decisions of the Company are managed by the Board and its committees, in particular the Executive Committee, with authority for day to day planning, directing and controlling activities dealt with by the directors on this committee. Remuneration of the directors is as disclosed above.

Pension schemes

Canary Wharf Group currently operates a defined contribution pension scheme. The assets of the scheme are held in an independently administered fund. The pension cost, which amounted to £3.8m in the year (2009 – £4.1m), represents contributions payable by Canary Wharf Group to the scheme.

11. INVESTMENT, DEVELOPMENT AND CONSTRUCTION PROPERTIES AND PLANT AND EQUIPMENT

Non current assets and construction contracts at 31 December 2009 comprised:

	Investment properties £m	Investment property held for sale £m	Development properties £m	Properties under construction £m	Construction contracts £m	**Total £m**	Plant & equipment £m	**Total £m**
Market value at 1 January 2009	4,483.0	–	260.0	182.5	–	**4,925.5**		
Adjust for brought forward:								
– tenant incentives*	(200.1)	–	–	–	–	**(200.1)**		
– unamortised lease negotiation costs*	(6.3)	–	–	(0.7)	–	**(7.0)**		
Carrying value at 1 January 2009	4,276.6	–	260.0	181.8	–	**4,718.4**	1.9	**4,720.3**
Additions	41.3	–	47.7	6.5	89.0	**184.5**	0.2	**184.7**
Transfer to debtors due in more than one year	–	(8.2)	–	–	–	**(8.2)**	–	**(8.2)**
Revaluation movement	75.2	(3.9)	(86.7)	–	–	**(15.4)**	–	**(15.4)**
Transfer	–	188.3	–	(188.3)	–	**–**	–	**–**
Transfer to cost of sales	–	–	–	–	(73.5)	**(73.5)**	–	**(73.5)**
Transfer to payments on account	–	–	–	–	(8.6)	**(8.6)**	–	**(8.6)**
Accrued in accordance with IAS 11	–	–	–	–	(6.9)	**(6.9)**	–	**(6.9)**
Depreciation	–	–	–	–	–	**–**	(0.6)	**(0.6)**
Carrying value at 31 December 2009	4,393.1	176.2	221.0	–	–	**4,790.3**	1.5	**4,791.8**
Adjust for:								
– tenant incentives*	188.2	15.1	–	–	–	**203.3**		
– unamortised lease negotiation costs*	5.7	0.7	–	–	–	**6.4**		
Market value at 31 December 2009	4,587.0	192.0	221.0	–	–	**5,000.0**		

* Refer to Note 14 for further details.

No property interests were held under operating leases and classified as investment properties.

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Non current assets and construction contracts at 31 December 2010 comprised:

	Investment properties £m	Investment property held for sale £m	Development properties £m	Construction contracts £m	**Total £m**	Plant & equipment £m	**Total £m**
Market value at 1 January 2010	4,587.0	192.0	221.0	–	**5,000.0**		
Adjust for brought forward:							
– tenant incentives*	(188.2)	(15.1)	–	–	**(203.3)**		
– unamortised lease negotiation costs*	(5.7)	(0.7)	–	–	**(6.4)**		
Carrying value at 1 January 2010	4,393.1	176.2	221.0	–	**4,790.3**	1.5	**4,791.8**
Additions	79.5	(1.0)	52.2	17.8	**148.5**	0.1	**148.6**
Transfer to debtors due in more than one year	(53.4)	–	–	–	**(53.4)**	–	**(53.4)**
Revaluation movement	332.6	–	(4.7)	–	**327.9**	–	**327.9**
Sold property	(306.3)	(175.2)	–	–	**(481.5)**	–	**(481.5)**
Transfer to cost of sales	–	–	–	(15.4)	**(15.4)**	–	**(15.4)**
Transfer to payments on account	–	–	–	(2.4)	**(2.4)**	–	**(2.4)**
Depreciation	–	–	–	–	**–**	(0.6)	**(0.6)**
Carrying value at 31 December 2010	**4,445.5**	**–**	**268.5**	**–**	**4,714.0**	**1.0**	**4,715.0**
Adjust for:							
– tenant incentives*	184.4	–	–	–	**184.4**		
– unamortised lease negotiation costs*	8.6	–	–	–	**8.6**		
Market value at 31 December 2010	**4,638.5**	**–**	**268.5**	**–**	**4,907.0**		

* Refer to Note 14 for further details.

No property interests were held under operating leases and classified as investment properties.

In January 2010 Canary Wharf Group completed the disposal of 5 Churchill Place for a gross aggregate consideration of £208.0m. The market value of the property at 31 December 2009 was £192.0m and the adjustment attributable to tenant incentives and deferred negotiation costs was £15.8m. Allowing for adjustments in construction costs recognised in the period of £1.0m, the carrying value at the date of sale was £175.2m.

5 Churchill Place achieved practical completion in August 2009 and £4.8m of interest was capitalised in 2009 up to its practical completion. Cumulative interest capitalised in development properties at 31 December 2009 amounted to £12.9m. There is no capitalised interest in the carrying amount of the development properties at 31 December 2010.

In December 2010 Canary Wharf Group completed the disposal of 25 Bank Street for a gross aggregate consideration of £495.0m. The market value of the property at 31 December 2009 was £360.0m, reducing to £350.0m at 30 June 2010, and the carrying value after adjusting for tenant incentives was £306.0m at 31 December 2009 and £346.7m at 30 June 2010. After taking into account costs associated with selling the building, including relocating existing sub tenants, legal and professional fees, certain other allowances and the write off of unamortised tenant incentives, the Group recorded a profit on disposal of £155.1m.

As disclosed in Note 14, in the first half of the year unamortised lease incentives attributable to Lehman's lease were written off to the Consolidated Income Statement and treated as a capital and other item within revenue. This treatment has not been changed as a result of the sale of 25 Bank Street. Unamortised tenant incentives attributable to the sub tenants in the building at the date of disposal totalled £2.7m.

In November 2008 Canary Wharf Group entered into an agreement with J.P. Morgan for the development of the Riverside South site on the Estate. Further to this agreement Canary Wharf Group acts as development and construction manager in relation to the site and is entitled to £76.0m as an advance of developer's profit of which £67.5m had been received by 31 December 2010. These sums will be set against the Canary Wharf Group's entitlement to future profits arising from the development. Income earned on this project subsequent to the sale of the site in 2008 has been deferred and is recognised over the term of the contract in accordance with IFRIC 15. As a result, no profit has been recognised on this project since its disposal. The 2008 agreement, which was previously expiring in 2013, has been modified and extended to October 2016. As part of this modification, Canary Wharf Group's option to purchase the site has been changed to a right of first offer.

On 24 December 2008 Canary Wharf Group entered into agreements with the Secretary of State for Transport and CLRL for the design and construction of the Crossrail station at Canary Wharf for a fixed price of £500.0m of which Canary Wharf Group will contribute £150.0m and the balance of £350.0m will be met from the Crossrail project's budget. The anticipated £150.0m cost to Canary Wharf Group will be accounted for when incurred as additions to development properties and the Riverside South construction contract and allocated to each property on a sq ft basis. Canary Wharf Group's contribution of £150.0m will be applied against any Section 106 contributions for certain agreed development sites on the Estate which may be required as part of proposed alterations to the London Plan. At 31 December 2010, such costs totalled £105.4m, of which £27.5m has been allocated to the Riverside South construction contract and £77.9m to development properties.

Valuation

The fair value of Canary Wharf Group's properties has been arrived at on the basis of valuations carried out by external valuers, CBRE, Savills or Cushman as at 31 December 2010. The valuations, which conform to International Valuation Standards, were arrived at by reference to market evidence of transaction prices for similar properties.

The assumptions on which the valuations are based are summarised in the Business Review – Valuations.

The properties have been valued individually and not as part of a portfolio and no allowance has been made for expenses of realisation or for any tax which might arise. The valuations reflect usual deductions in respect of purchaser's costs and, in particular, full liability for UK stamp duty as applicable at the valuation date.

Included in investment properties is an amount of approximately £24.6m (31 December 2009 – £24.5m) in respect of property occupied by Canary Wharf Group, which in the opinion of the directors is not material for separate classification.

The historical cost of properties held as non current assets was £3,878.0m (31 December 2009 – £4,653.4m). The carrying value of property subject to finance leases was approximately £76.8m at 31 December 2010 (31 December 2009 – £74.7m).

Direct operating expenses arising from investment properties that did not generate rental income in the year totalled £8.3m in 2010 (2009 – £5.4m).

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Construction contracts

Construction contracts comprise amounts recoverable under long term development contracts less payments on account. The amounts for payments on account at the Balance Sheet date are as follows:

	Completed buildings £m	Riverside South £m	Total £m
1 January 2009	44.2	0.2	44.4
Advances received	76.9	64.2	141.1
Contract revenue recognised as revenue in the Consolidated Income Statement	(133.4)	(25.8)	(159.2)
Offset from construction contracts	7.6	(16.2)	(8.6)
Deferred interest	4.7	–	4.7
31 December 2009	–	22.4	22.4
Advances received	–	32.9	32.9
Contract revenue recognised as revenue in the Consolidated Income Statement	–	(15.4)	(15.4)
Offset from construction contracts	–	(2.4)	(2.4)
Gross amount due to customers for contract work at 31 December 2010	**–**	**37.5**	**37.5**

Cumulative amounts accounted for as construction contracts are as follows:

	£m
Advances received	112.1
Recognised as revenue	(55.6)
Offset from construction contracts	(19.0)
Payments on account (Note 17)	37.5

No retentions were held by customers for contract work at either 31 December 2010 or 31 December 2009.

12. INVESTMENTS

The investments balance comprises:

	31 December 2010 £m	31 December 2009 £m
Shares	**9.7**	10.7
Loans	**42.0**	26.0
	51.7	36.7
Fees on acquisition	**2.6**	2.6
Share of post acquisition losses	**(0.6)**	(1.8)
Share of fair value movement on derivatives	**–**	(2.5)
Impairment of investment	**(10.7)**	(9.5)
	43.0	25.5

The fair values of all equity securities are based on the net assets of those companies as adjusted for the fair values of assets and liabilities.

Investments comprise:

	31 December 2010 £m	31 December 2009 £m
Associates and joint ventures	**42.8**	25.3
Other investments	**0.2**	0.2
	43.0	25.5

The carrying value of the investment in associates and joint ventures comprised:

At 31 December 2010	WWLP £m	Drapers Gardens £m	20 Fenchurch Street £m	Total £m
Initial investment	–	6.7	0.1	6.8
Fees on acquisition	1.9	0.7	–	2.6
Equity funding	–	2.3	–	2.3
Loan funding	25.7	–	16.3	42.0
Recognised share of losses	(5.8)	(5.1)	–	(10.9)
	21.8	**4.6**	**16.4**	**42.8**

The share of associates' and joint venture's profits and losses recognised in the Consolidated Income Statement in 2010 comprised:

	WWLP £m	Drapers Gardens £m	20 Fenchurch Street £m	Total £m
Other expenses	(0.2)	(1.4)	–	(1.6)
Movement in recognised impairment losses	1.4	2.7	–	4.1
	1.2	**1.3**	**–**	**2.5**

Associates and joint ventures

Details of the Group's associates and joint ventures at 31 December 2010 are as follows:

	Date of acquisition	Country of incorporation	Ownership interest %
WWLP	April 2005	UK	25.0
20 Fenchurch Street	October 2010	UK/Jersey	15.0

In April 2005 BWB appointed Canary Wharf Group, together with Ballymore, as its partner for the development of Wood Wharf. WWLP has been established to oversee the development of an approximately 7.0m sq ft (gross) mixed use scheme in which Canary Wharf Group has a 25.0% effective interest. Canary Wharf Group has subscribed for £2,000 of equity share capital in the partners of WWLP and has provided, in addition, interest free long term loans to fund the working capital requirements of WWLP which are repayable out of development profits. The funding of WWLP has been accounted for as an investment in an associated undertaking.

The carrying value of the Group's investment in WWLP includes an initial entry premium (plus expenses) of £1.9m together with the Group's share of the net assets of WWLP. At 31 December 2010 the Group's investment in WWLP was written up by £1.4m to £21.8m by reference to a valuation undertaken by CBRE. The total provision at 31 December 2010 was £4.2m (31 December 2009 – £5.6m).

WWLP entered into a non recourse loan facility of £9.0m of which £5.8m had been drawn down at 31 December 2009. The loan matured in February 2010 and the lender agreed to rollover the £5.8m drawn under the facility until

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2013. Canary Wharf Group has also loaned £25.7m (31 December 2009 – £25.0m) to WWLP in the form of redeemable notes which are interest free and redeemable at par in 2030. The £5.8m loan referred to must first be repaid before the loan provided to WWLP by Canary Wharf Group can be repaid. All loans must have been repaid in full prior to any dividends being declared.

In June 2007 Canary Wharf Group entered into a joint venture with MSREF V and Omega to undertake the redevelopment of Drapers Gardens. At 31 December 2009 the Group had invested £11.1m and incurred fees of £0.7m in consideration for a 20.0% stake in the joint venture. In the current year a total of £5.8m of the equity investment, of which £2.1m had been provided by the Group, was reclassified as a subordinated loan. The property achieved practical completion in November 2009 and in February 2010 it was announced that the building had been let in its entirety to BlackRock.

The Drapers Gardens entities entered into a £172.5m construction loan facility with Lehman which was subsequently syndicated to certain other banks resulting in Lehman retaining a minority share. Following it being placed into administration, there was an interruption to the funding being provided by Lehman and Canary Wharf Group made additional loans totalling £1.0m to the joint venture to fund its 20.0% share of the shortfall. Lehman subsequently recommenced funding and all of its lending obligations were satisfied up to 31 May 2009. Funding for the project was then provided by one member of the syndicate on a super senior basis.

In January 2010, Canary Wharf Group purchased for a consideration of £112.8m the substantial majority of the drawn balance of the construction loan facility. From January 2010 to April 2010 Canary Wharf Group provided funding for the project on a super senior loan basis. Subsequently, the project was funded by way of subordinated loans from Canary Wharf Group to the Drapers Gardens Unit Trust.

In November 2010, the joint venture entities which owned the Drapers Gardens development completed the sale of the property for £242.5m, excluding a deduction for the rent free period granted to BlackRock. The purchase price reflected an initial yield of 5.2% on expiry of the rent free period in March 2013. All loans from Canary Wharf Group to the Drapers Gardens entities have now been repaid. Drapers Gardens Unit Trust also paid £14.7m to break an interest rate swap.

At 31 December 2009 Canary Wharf Group recognised an impairment of its investment in the Drapers Gardens entities of £6.4m including £2.5m for the Group's share of the loss on a derivative financial instrument, of which a net total of £1.3m was released in the period after taking into account other losses of £1.4m.

In October 2010 the Group announced that it had entered into a joint venture with Land Securities to develop 20 Fenchurch Street. The property has been sold by Land Securities to the joint venture at a price of £90.2m, in line with the March 2010 valuation. After syndication, Canary Wharf Group retains a 15% equity interest in the joint venture and will act as construction manager and joint development manager. Canary Wharf Group's investment was stated at £16.4m at 31 December 2010, representing the initial investment plus associated fees, together with subsequent funding.

WWLP and Drapers Gardens have a 31 December year end and 20 Fenchurch Street has a 31 March year end. The results of WWLP, Drapers Gardens and 20 Fenchurch Street attributable to Canary Wharf Group have been derived from their management accounts after making any necessary adjustments. The Group's share of profits and losses of associated and joint venture undertakings is as follows:

Summarised profit and loss accounts for 2010:

	20 Fenchurch Street £m	WWLP £m	Drapers Gardens £m
Other income	–	6.0	3.4
Net financing costs	–	(1.0)	(20.7)
Profit/(loss) before and after tax	–	5.0	(17.3)
Group share	–	1.2	1.3

Summarised balance sheets at 31 December 2010:

	20 Fenchurch Street £m	WWLP £m	Drapers Gardens £m
Total assets	103.7	130.7	16.5
Total liabilities	(4.9)	(43.3)	(5.3)
Net assets	98.8	87.4	11.2
Group share	16.4	21.8	4.6

Summarised profit and loss accounts for 2009:

	WWLP £m	Drapers Gardens £m
Other expenses	(14.4)	107.9
Net financing costs	(1.3)	–
Net underlying loss before and after tax	(15.7)	107.9
Group share	(4.0)	21.6

Summarised balance sheets at 31 December 2009:

	WWLP £m	Drapers Gardens £m
Total assets	115.4	203.9
Total liabilities	(36.0)	(181.6)
Net assets	79.4	22.3
Group share	19.9	4.4

Other investments

Canary Wharf Group owns 52,079 B preferred ordinary shares of 0.1p and 112,220 ordinary shares of 0.1p in HSO, an unlisted company registered in England and Wales, being approximately 13.0% of its nominal share capital. The principal activity of HSO is the provision of broadband telecommunications services. The fair value of this investment on acquisition of Canary Wharf Group was £0.6m. During 2006, the carrying value of the investment was written down to £0.2m (after a total provision of £0.4m), based on the net asset value of HSO at that date and continues to be carried at that amount.

13. TRADE AND OTHER RECEIVABLES

	2010 £m	2009 £m
Trade receivables	**3.4**	4.1
Other receivables	**18.6**	24.0
Contract balances (Note 11)	**2.4**	4.7
Prepayments and accrued income	**43.2**	19.1
Total trade and other receivables	**67.6**	51.9

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In determining the recoverability of trade receivables, the Group considers any change in the credit quality of the receivables on an individual basis from the date the trade receivable was created to the date the accounts were approved. Credit risk is reduced due to Canary Wharf Group's properties being under lease to high quality tenants. In addition rents and service charges are invoiced quarterly in advance.

No amount owed by any trade debtor exceeded £1.0m at 31 December 2010. At 31 December 2009 trade receivables included one trade debtor of £1.7m representing 29.8% of gross trade receivables which was provided against in full. Trade receivables more than 61 days past due date at 31 December 2010 totalled £2.0m (31 December 2009 – £3.7m). At 31 December 2010 provisions against bad or doubtful debts totalled £0.1m (31 December 2009 – £2.4m).

Prepayments and accrued income exclude the cumulative adjustment in respect of lease incentives (Note 14).

14. TENANT INCENTIVES AND OTHER NON CURRENT ASSETS

Lease incentives include rent free periods and other incentives given to lessees on entering into lease arrangements.

	Rent free periods £m	Other tenant incentives £m	**Total tenant incentives £m**	Deferred negotiation costs £m	Lease termination agreements £m	**Total £m**
1 January 2009	140.4	59.7	**200.1**	7.0	6.2	**213.3**
Transfer from investment properties (Note 11)	–	8.2	**8.2**	–	–	**8.2**
Recognition of rent during rent free periods	14.8	–	**14.8**	–	–	**14.8**
Amortisation	(16.1)	(3.7)	**(19.8)**	(0.8)	–	**(20.6)**
Deferred lease negotiation costs	–	–	**–**	0.2	–	**0.2**
Paid under lease termination agreements	–	–	**–**	–	(6.2)	**(6.2)**
31 December 2009	139.1	64.2	**203.3**	6.4	–	**209.7**
Transfer from investment properties (Note 11)	–	53.4	**53.4**	–	–	**53.4**
Recognition of rent during rent free periods	11.0	–	**11.0**	–	–	**11.0**
Write off of Lehman incentives	(50.1)	–	**(50.1)**	–	–	**(50.1)**
Amortisation	(9.0)	(5.6)	**(14.6)**	(0.4)	–	**(15.0)**
Deferred lease negotiation costs	–	–	**–**	3.3	–	**3.3**
Written off on sale of property	(9.3)	(9.3)	**(18.6)**	(0.7)	–	**(19.3)**
31 December 2010	**81.7**	**102.7**	**184.4**	**8.6**	**–**	**193.0**

At 31 December 2009 lease incentives included £50.1m attributable to Lehman's lease of 25 Bank Street. The Administrator ceased paying rent on the building with effect from 31 March 2010. Accordingly, the remaining Lehman incentives were written off to the Consolidated Income Statement in the 6 months ended 30 June 2010 and disclosed as a capital and other item.

15. MONETARY DEPOSITS

Monetary deposits comprise amounts held on deposit with original maturities in excess of 3 months or not held for the purpose of meeting short term cash commitments. These deposits are charged, relate to Canary Wharf Group's construction contracts and mature over the life of those contracts.

	2010 £m	2009 £m
Monetary deposits held at bank	**5.1**	18.3
	5.1	18.3

The effective interest rate on monetary deposits was 0.6% (31 December 2009 – 0.6%).

16. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise:

	2010 £m	2009 £m
Unsecured cash	**899.8**	925.2
Collateral for borrowings	**194.4**	139.4
Security for obligations	**14.0**	10.2
	1,108.2	1,074.8

The effective interest rate on short term deposits at 31 December 2010 was 0.7% (31 December 2009 – 0.6%) and the deposits had an average maturity of 49 days (31 December 2009 – 60 days).

Cash and cash equivalents comprise cash held by the Group and short term bank deposits with an original maturity of 3 months or less. The carrying amount of these assets approximates their fair value.

The Group's collateral for borrowings can be analysed by the borrowings to which it relates as follows:

	2010 £m	2009 £m
Securitised debt	**133.2**	72.3
Secured loans	**18.8**	24.7
Finance leases	**42.4**	42.4
	194.4	139.4

Of the cash collateral disclosed above, all of the secured loans balance and £20.7m of the securitised debt balance (31 December 2009 – £40.6m) represents rental payments from tenants received in advance.

The balance of cash collateral for borrowings disclosed above is held to reduce the exposure of the lenders to certain risks such as cash collateralising the Group's exposure on vacant property. These amounts are released from charge as and when such risks are eliminated in accordance with the terms of the loans.

The finance lease liability is fully cash collateralised and the cash collateral balance compares with a carrying value of the finance lease liability for accounts purposes of £41.6m (31 December 2009 – £41.3m).

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17. TRADE AND OTHER PAYABLES

	2010 £m	2009 £m
Trade payables	**12.6**	23.4
Tax and social security costs	**7.4**	5.2
Corporation tax	**55.0**	24.8
Other payables	**20.7**	13.8
Other accruals	**66.5**	72.0
Deferred income	**68.1**	102.5
Payments on account (Note 11)	**37.5**	22.4
Total trade and other payables	**267.8**	264.1

Trade and other payables includes £82.0m of financial liabilities at 31 December 2010 (31 December 2009 – £99.7m). These amounts are all payable on demand.

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and construction costs. The average credit period taken for trade purchases is 18 days (31 December 2009 – 25 days). For those suppliers that do charge interest, no interest is charged on the trade payables for the first 28 days from the date of the invoice. Thereafter interest is charged on the outstanding balances at various interest rates which are determined by reference to the terms of each such agreement. The Group has financial risk management policies in place which seek to ensure that all payables are paid within the credit timeframe. The directors consider that the carrying amount of trade payables approximates their fair value.

18. CURRENT PORTION OF LONG TERM BORROWINGS

The current portion of long term borrowings comprises:

	2010 £m	2009 £m
Accrued interest payable	**32.7**	27.0
Repayable within one year:		
– securitised debt	**57.5**	57.5
– secured loans	**8.5**	14.9
Financing costs of SG Shares	**–**	6.5
Long term borrowings repayable within one year	**98.7**	105.9

The terms of the Group's loan facilities are summarised in Note 21.

19. BORROWINGS

Non current liability borrowings comprise:

	2010 £m	2009 £m
Securitised debt	**2,384.8**	2,447.3
Shareholder Loan	**–**	108.3
Secured loans	**899.7**	1,256.6
Construction loan	**–**	123.4
Finance lease obligations	**41.6**	41.3
	3,326.1	3,976.9
Preference Shares	**268.9**	272.7
	3,595.0	4,249.6

The terms of the Group's loan facilities are summarised in Note 21.

20. DERIVATIVE FINANCIAL INSTRUMENTS

Hedge accounting

The Group uses interest rate swaps and interest rate caps to hedge exposure to the variability in cash flows on floating rate debt, including its bank facilities and floating rate bonds, caused by movements in market rates of interest. At 31 December 2010 the fair value of these derivatives resulted in the recognition of a liability of £297.0m (31 December 2009 – £269.0m). None of these amounts were in respect of interest rate swaps and collars which qualify for hedge accounting.

	2010 £m	2009 £m
Liabilities:		
Securitisation	**(126.4)**	(86.4)
Songbird Loans	**–**	(21.0)
Other secured loans	**(170.6)**	(145.9)
Construction loan	**–**	(15.7)
	(297.0)	(269.0)

Maturity of the Group's financial derivatives

The following tables show the undiscounted cash (inflows) and outflows in relation to the Group's derivative financial instruments based on the Group's prediction of future movements in interest rates.

	Securitised debt £m	Songbird Loans £m	Other secured loans £m	Construction loan £m	Total derivative liabilities £m
Within one year	28.3	20.9	48.1	7.6	104.9
In one to two years	16.9	–	30.6	5.2	52.7
In two to five years	14.2	–	27.7	5.1	47.0
In five to ten years	(0.9)	–	17.2	–	16.3
In ten to twenty years	12.0	–	30.3	–	42.3
In twenty to thirty years	44.2	–	18.4	–	62.6
31 December 2009	114.7	20.9	172.3	17.9	325.8

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	Securitised debt £m	Songbird Loans £m	Other secured loans £m	Construction loan £m	**Total derivative liabilities £m**
Within one year	26.8	–	36.5	–	**63.3**
In one to two years	23.8	–	31.5	–	**55.3**
In two to five years	35.4	–	48.1	–	**83.5**
In five to ten years	10.0	–	24.5	–	**34.5**
In ten to twenty years	23.2	–	34.8	–	**58.0**
In twenty to thirty years	28.5	–	12.0	–	**40.5**
31 December 2010	**147.7**	**–**	**187.4**	**–**	**335.1**

The impact of changes in interest rates would be on interest receivable since substantially all borrowings are subject to interest rate swaps or collars and all cash deposits are at floating rates. However, the Consolidated Income Statement is also impacted by changes in the fair value of derivatives that are not considered effective for accounting purposes. A 0.5% higher/(lower) parallel shift in the interest rate curve used to value the derivatives, with all other variables held constant, would have increased/(decreased) the Group's profit for 2010 by £101.0m/£(110.6)m (2009 – £105.2m/£(114.7)m). Other equity reserves would have been unchanged as none of the Group's derivatives qualify for hedge accounting. The 0.5% sensitivity has been selected based on the directors' view of a reasonable interest rate curve movement assumption.

21. NET DEBT

	2010 £m	2009 £m
Securitised debt	**2,591.1**	2,613.4
Songbird Loans	**–**	129.3
Other secured loans	**1,082.2**	1,561.3
Finance lease obligations	**41.6**	41.3
	3,714.9	4,345.3
Non equity shares and associated financing costs	**275.8**	279.2
Gross debt	**3,990.7**	4,624.5
Current liabilities	**98.7**	105.9
Non current liabilities:		
– borrowings	**3,595.0**	4,249.6
– derivatives included in non current liabilities	**297.0**	269.0
Gross debt	**3,990.7**	4,624.5
Cash and cash equivalents	**(1,108.2)**	(1,074.8)
Monetary deposits	**(5.1)**	(18.3)
Net debt	**2,877.4**	3,531.4

As a result of the terms and conditions of the Preference Shares, such shares have been classified as borrowings and the Consolidated Income Statement includes a charge to profit in respect of the coupon payable calculated at 2.5% per quarter. The accrued finance charge for the Preference Shares was £6.9m at 31 December 2010 and is classified as part of current liabilities.

Further to the redemption rights attaching to the SG Shares, such shares were, until converted, classified as borrowings and the Consolidated Income Statement included a charge to profit in respect of the SG Shares accumulated at 8.0% per annum, subject to increases in the coupon to a maximum of 10.0%. The accrued finance charge (comprising dividends accrued or declared in respect of this class of share) was included in the current portion of long term liabilities as interest payable (Note 18). At 31 December 2009, £6.5m was accrued in respect of the SG Shares dividend. This amount was paid in October 2010.

The amounts at which borrowings are stated, including share capital classified as debt, comprise:

	Securitised debt £m	Shareholder Loan £m	Other secured loans £m	Construction loan £m	Finance lease obligations £m	Total borrowings £m	Non equity shares £m	**Total £m**
1 January 2010	2,613.4	129.3	1,422.2	139.1	41.3	4,345.3	279.2	**4,624.5**
Drawn down in year	–	23.2	–	–	–	23.2	–	**23.2**
Effective interest rate adjustment	(4.7)	3.5	3.4	–	–	2.2	1.6	**3.8**
Accrued finance charges	1.4	–	(1.2)	0.1	0.3	0.6	29.1	**29.7**
Repaid in year	(59.0)	(135.0)	(366.9)	(123.5)	–	(684.4)	(34.1)	**(718.5)**
Movements in fair value of derivatives	40.0	(21.0)	24.7	(15.7)	–	28.0	–	**28.0**
31 December 2010	**2,591.1**	**–**	**1,082.2**	**–**	**41.6**	**3,714.9**	**275.8**	**3,990.7**
Payable within one year or on demand	79.9	–	11.9	–	–	91.8	6.9	**98.7**
Payable in more than one year	2,384.8	–	899.7	–	41.6	3,326.1	268.9	**3,595.0**
Derivatives classified as:								
– non current liabilities	126.4	–	170.6	–	–	297.0	–	**297.0**
	2,591.1	**–**	**1,082.2**	**–**	**41.6**	**3,714.9**	**275.8**	**3,990.7**

All the borrowings of Canary Wharf Group are secured against designated property interests of Canary Wharf Group.

(1) SFL entered into a £135.0m Shareholder Loan in September 2009 as part of the 2009 Refinancing Transactions. The Shareholder Loan carried an interest rate fixed at 7.0% and was originally repayable on 23 September 2010. The loan providers agreed an extension of the facility to 31 October 2010 and the loan was subsequently repurchased at par from the proceeds of the Open Offer.

(2) At 31 December 2010 the following notes issued by CWF II, a subsidiary of Canary Wharf Group, were outstanding:

Tranche	Principal £m	Interest	Repayment
A1	1,139.1	6.455%	By instalment from 2009 to 2030
A3	400.0	5.952%	By instalment from 2032 to 2035
A7	222.0	Floating	In 2035
B	197.0	6.800%	By instalment from 2005 to 2030
B3	104.0	Floating	In 2035
C2	275.0	Floating	In 2035
D2	125.0	Floating	In 2035
	2,462.1		

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In April 2009 Canary Wharf Group repurchased certain floating rate Notes with an aggregate principal amount of £119.7m for an aggregate consideration, excluding accrued interest, of £35.5m. The Notes repurchased have not been cancelled, remain in issue and, in accordance with the requirements of the securitisation, continue to be fully hedged. The repurchase has been accounted for as an extinguishment of debt.

As a result of the repurchase, the related derivatives no longer qualify for hedge accounting. This resulted in a loss of £16.7m, representing the fair value of that element of the derivatives relating to the repurchased notes, being recycled to the Consolidated Income Statement in 2009. The overall gain on the transaction of £66.3m, being the difference between the aggregate principal amount repurchased and the aggregate consideration paid, adjusting for unamortised deferred fees on issue, stepped interest accruals and hedge reserve recycling, was taken to the Consolidated Income Statement and shown within the capital and other column (Note 7). As a result of this transaction, a deferred tax charge of £23.4m was recognised.

Interest on the floating rate Notes is at 3 month LIBOR plus a margin. The margins on these Notes are: A7 Notes – 0.19% p.a. increasing to 0.475% in January 2017; B3 Notes – 0.28% p.a. increasing to 0.7% p.a. in January 2017; C2 Notes – 0.55% p.a. increasing to 1.375% in April 2014; and D2 Notes – 0.84% p.a. increasing to 2.1% in April 2014.

All of the floating rate Notes are hedged by means of interest rate swaps and the hedged rates plus the margins are: A7 Notes – 5.1135%; B3 Notes – 5.1625%; C2 Notes – 5.4416%; and D2 Notes – 5.8005%. These swaps expire in 2035 concurrent with the Notes.

In addition to the 3 classes of floating rate Notes referred to above, the following classes of fixed rate Notes remained outstanding at 31 December 2010, carrying the interest rates stated: £1,139.1m of A1 Notes – 6.455%; £400.0m of A3 Notes – 5.952%; £197.0m of B Notes – 6.800%.

The principal amount of the Notes outstanding at 31 December 2010 was £2,462.1m, or £2,342.4m excluding the Notes repurchased. The Notes are secured on certain property interests of Canary Wharf Group and the rental income stream there from.

Prior to withdrawing 25 Bank Street, the CWF II securitisation had the benefit of an agreement with AIG which provided at the election of Canary Wharf Group for the payment of the contracted rent under the lease following a default by Lehman, either in its entirety or to cover any shortfall. The agreement was for a period of 4 years from the first draw down and any amounts claimed were repayable by Canary Wharf Group if subsequent recoveries made in respect of amounts claimed or subsequent rentals in the properties exceeded the rents that would have been received from Lehman. The annual fee payable in respect of this arrangement was £3.6m. In November 2010, terms were agreed with AIG for the termination of the facility in consideration for a payment to Canary Wharf Group of £144.5m. This sum represented the net present value of the amounts anticipated to be drawn under the facility, net of the fees payable to AIG and the anticipated recovery from the Lehman administration process.

Separately, the securitisation has the benefit of an arrangement with AIG which covers the rent in the event of a default by the tenant of 33 Canada Square, over the entire term of the lease. AIG has posted approximately £258.7m as cash collateral in respect of this obligation. The annual fee payable in respect of the arrangement is £2.2m.

CWF II also has the benefit of a £300.0m liquidity facility provided by Lloyds, under which drawings may be made in the event of a cash flow shortage under the securitisation. This facility is renewable annually.

The weighted average maturity of the debentures at 31 December 2010 was 16.1 years. The debentures may be redeemed at the option of the issuer in an aggregate amount of not less than £1.0m on any interest payment date subject to the current rating of the debentures not being adversely affected and certain other conditions affecting the amount to be redeemed.

(3) In February 2007 Canary Wharf Group entered into a £155.0m 3 year construction loan facility secured on 5 Churchill Place. Interest was charged at LIBOR plus a margin of 0.9% hedged at 5.625%. At 31 December 2009, £123.4m including interest had been drawn down under this facility. Practical completion of the building was achieved in August 2009 and the loan was repaid in January 2010 upon completion of the sale of the building. As a result of repaying the loan Canary Wharf Group paid £15.9m to cancel its liability under the associated interest rate swap arrangements.

(4) Canary Wharf Group has a £350.0m loan facility which is secured against Canary Wharf Group's retail properties and car parking interests.

The loan facility carries interest at LIBOR plus a margin of 2.75%. Canary Wharf Group has entered into an arrangement whereby the exposure to the movement in 3 month LIBOR rates in the facility is fully hedged with fixed interest rate swaps at a weighted average, including margins, of 7.2%. The loan is repayable in December 2014.

(5) A bank loan with an outstanding principal amount of £348.7m secured against 10 Cabot Square and 20 Cabot Square was repaid in November 2010. The related interest rate swap was broken at a cost of £23.7m, of which £20.1m was provided in the hedging reserve at 31 December 2009. The related unamortised balance on the hedging reserve of £15.3m and unamortised deferred fees of £1.7m have been written off to the Consolidated Income Statement. Fees of £1.0m were incurred in connection with the repayment.

(6) A bank loan comprising an initial principal of £608.8m is secured against One Churchill Place. The loan amortises with a balloon payment of £155.0m on maturity in July 2034. The loan carries a hedged interest rate of 5.82%. In 2010, £8.1m of loan principal was repaid in accordance with the loan agreement reducing the principal at 31 December 2010 to £568.1m.

(7) Canary Wharf Group's obligations under its finance lease are secured by first ranking fixed and floating charges over the property which is the subject of the finance lease and over certain cash deposits (Note 16). The rate of interest implicit in the finance lease was 0.7% at 31 December 2010 (31 December 2009 – 1.0%). The present value of minimum finance lease payments was £41.6m at 31 December 2010 (31 December 2009 – £41.3m). The finance lease is repayable in more than 5 years.

Maturity profile of borrowings

	Securitised debt £m	Shareholder Loan £m	Other secured loans £m	Construction loan £m	Finance lease obligations £m	Preference Shares £m	Total £m
Contractual undiscounted cash flows at 31 December 2009:							
Within one year	179.2	7.9	39.8	1.7	0.5	–	229.1
In one to two years	185.0	118.4	60.4	3.9	0.5	–	368.2
In two to five years	575.5	–	876.2	130.2	1.5	–	1,583.4
In five to ten years	929.5	–	189.7	–	2.5	549.5	1,671.2
In ten to twenty years	1,466.4	–	383.5	–	26.6	–	1,876.5
In twenty to thirty years	1,448.9	–	322.3	–	9.7	–	1,780.9
	4,784.5	**126.3**	**1,871.9**	**135.8**	**41.3**	**549.5**	**7,509.3**
Comprising:							
Principal repayments	2,399.8	111.8	1,285.0	123.4	41.3	275.0	4,236.3
Interest payments	2,384.7	14.5	586.9	12.4	–	274.5	3,273.0
	4,784.5	**126.3**	**1,871.9**	**135.8**	**41.3**	**549.5**	**7,509.3**

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	Securitised debt £m	Shareholder Loan £m	Other secured loans £m	Construction loan £m	Finance lease obligations £m	Preference Shares £m	Total £m
Contractual undiscounted cash flows at 31 December 2010:							
Within one year	176.9	–	28.1	–	0.2	–	**205.2**
In one to two years	175.4	–	32.7	–	0.2	–	**208.3**
In two to five years	556.1	–	470.5	–	0.7	–	**1,027.3**
In five to ten years	900.3	–	182.4	–	1.1	499.4	**1,583.2**
In ten to twenty years	1,544.7	–	378.9	–	34.4	–	**1,958.0**
In twenty to thirty years	1,201.2	–	287.5	–	9.8	–	**1,498.5**
	4,554.6	**–**	**1,380.1**	**–**	**46.4**	**499.4**	**6,480.5**
Comprising:							
Principal repayments	2,342.4	–	918.1	–	42.4	275.0	**3,577.9**
Interest payments	2,212.2	–	462.0	–	4.0	224.4	**2,902.6**
	4,554.6	**–**	**1,380.1**	**–**	**46.4**	**499.4**	**6,480.5**

The above tables contain undiscounted cash flows (including interest) and therefore result in higher balances than the carrying values or fair values of the borrowings.

Debt service

The weighted average interest rates paid during the year were as follows:

	2010 %	2009 %
Securitisation	**6.22**	6.23
Shareholder Loan	**–**	7.00
Other secured loans	**6.33**	6.05
Construction loan	**–**	6.54
Finance lease	**0.66**	1.02

Comparison of market values and carrying amount

	31 December 2010			31 December 2009		
	Market value £m	**Carrying amount £m**	**Difference £m**	Market value £m	Carrying amount £m	Difference £m
Securitisation	**(2,371.2)**	**(2,464.7)**	**93.5**	(2,161.7)	(2,527.0)	365.3
Shareholder Loan	**–**	**–**	**–**	(108.3)	(108.3)	–
Secured loans	**(911.6)**	**(911.6)**	**–**	(1,276.3)	(1,276.3)	–
Construction loan	**–**	**–**	**–**	(123.4)	(123.4)	–
Finance lease	**(41.6)**	**(41.6)**	**–**	(41.3)	(41.3)	–
Non equity shares	**(275.8)**	**(275.8)**	**–**	(279.2)	(279.2)	–
	(3,600.2)	**(3,693.7)**	**93.5**	(3,990.2)	(4,355.5)	365.3
Other financial liabilities:						
– interest rate derivatives	**(297.0)**	**(297.0)**	**–**	(269.0)	(269.0)	–
Cash and monetary deposits	**1,113.3**	**1,113.3**	**–**	1,093.1	1,093.1	–
Total	**(2,783.9)**	**(2,877.4)**	**93.5**	(3,166.1)	(3,531.4)	365.3

The differences above are shown before any tax relief. Short term receivables and payables have been excluded from these disclosures as their carrying amount approximates fair value. The fair value of the sterling denominated fixed rate bonds has been determined by reference to the prices available on the markets on which they are traded. The fair values of other debt instruments have been calculated by discounting cash flows at the relevant zero coupon LIBOR interest rates prevailing at the balance sheet date. The fair value of the Preference Shares is considered to be their carrying value. The fair values of interest rate derivative instruments have been determined by reference to market values provided by the relevant counter parties.

Carrying value of categories of financial instruments

	2010 £m	2009 £m
Financial assets		
Loans and receivables	**1,150.8**	1,121.7
Available for sale	**0.2**	0.2
	1,151.0	1,121.9
Assets not classified as financial assets	**4,980.9**	5,050.1
Total assets	**6,131.9**	6,172.0
Financial liabilities		
FVTPL	**(297.0)**	(269.0)
Amortised cost	**(3,785.5)**	(4,457.3)
	(4,082.5)	(4,726.3)
Liabilities not classified as financial liabilities	**(295.8)**	(254.1)
Total liabilities	**(4,378.3)**	(4,980.4)
Net assets	**1,753.6**	1,191.6

All the derivative instruments held by the Group (categorised as FVTPL) are classified as Level 2 as defined in accordance with IFRS 7.

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Financial risks

Interest rate risk

The Group finances its operations through a mixture of surplus cash, bank borrowings and debentures. The Group borrows principally in sterling at both fixed and floating rates of interest and then uses interest rate swaps, caps or collars to generate the desired interest profile and to manage the Group's exposure to interest rate fluctuations. The Group's policy is to keep the majority of its borrowings at fixed rates and all of the Group's borrowings at 31 December 2010 and 31 December 2009 were fixed after taking account of interest rate hedging and cash deposits held as cash collateral (Note 16).

Liquidity risk

The Group's policy is to ensure continuity of funding and at 31 December 2010 the average maturity of Canary Wharf Group's debt was 14.9 years (31 December 2009 – 14.0 years). Shorter term flexibility has historically been achieved by holding cash on deposit and through construction facilities with a term of typically 3 to 6 years arranged to fund the development of new properties.

Loan covenants

Canary Wharf Group's loan facilities are subject to financial covenants which include maximum LTV ratios and minimum ICRs. The key covenants for each of Canary Wharf Group's facilities are as follows:

(i) CWF II securitisation, encompassing 7 investment properties representing 70.5% of the investment property portfolio by value. The principal amount outstanding at 31 December 2010 was £2,462.1m or £2,342.4m excluding the repurchased Notes.

Maximum LMCTV ratio of 100%. Based on the valuations at 31 December 2010, the LMCTV ratio at the interest payment date in January 2011 would have been 73.7%.

The securitisation has no minimum ICR covenant. Canary Wharf Group has the ability to remedy a breach of covenant by depositing eligible investments (including cash). The final maturity date of the securitisation is 2035, subject to earlier amortisation on certain classes of Notes.

(ii) Loan of £568.1m secured against One Churchill Place, representing 15.6% of the investment property portfolio by value.

This facility is not subject to any LTV or ICR covenants. The facility has a final maturity of 2034, subject to amortisation over that term.

(iii) Loan of £350.0m secured against the principal retail and infrastructure parking properties of Canary Wharf Group, representing 13.9% of the investment property portfolio by value.

Maximum LTV ratio of 70.0%. Based on the valuations at 31 December 2010, the LTV was 54.6%.

Maximum ICR covenant of 120.0%. The maximum ICR covenant was satisfied throughout the year. Canary Wharf Group has the ability to remedy any potential breach of covenant by depositing cash.

Exchange rate risk

The Group's policy is to maximise all financing in sterling and it has no plans to raise financing in currencies other than sterling.

Capital risk

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns. The capital structure of the Group consists of debt, cash and cash equivalents and monetary assets, as disclosed elsewhere in this Note, and equity, including reserves, as disclosed in Note 23 and the Consolidated Statement of Changes in Equity.

Credit risk

Credit risk associated with trade receivables is disclosed in Note 13.

Swap counterparties for the Group's derivative financial instruments are all rated A or better on the S&P rating system. Cash deposits are placed on the money market for varying periods of time with banks that are all A rated or above, or remain on deposit with major UK clearing banks.

The carrying amount of financial assets recorded in the financial statements represents the Group's maximum exposure to credit risk.

Externally imposed capital requirements

The Group is not subject to externally imposed capital requirements.

22. PROVISIONS

Provisions have been made in respect of the following liabilities:

	Vacant leasehold properties £m	Other lease commitments £m	Commitments to associates £m	Total £m
1 January 2009	3.0	2.3	5.6	10.9
Utilisation of provision	(0.5)	(0.1)	–	(0.6)
Unwind of discount	–	(0.1)	–	(0.1)
Change in provision	(1.5)	–	–	(1.5)
Liability for share of associated undertakings commitments	–	–	(5.6)	(5.6)
31 December 2009	1.0	2.1	–	3.1
Utilisation of provision	–	(2.5)	–	(2.5)
Unwind of discount	–	0.5	–	0.5
Change in provision	(0.6)	0.1	–	(0.5)
Initial provision	–	9.6	–	9.6
31 December 2010	**0.4**	**9.8**	**–**	**10.2**

Vacant leasehold properties

At 31 December 2010 the provision for the estimated net liability in respect of vacant leasehold properties was £0.4m (31 December 2009 – £1.0m discounted at 6.4%). A break notice was served on the landlord in respect of the final leasehold property and as a result this lease was determined in July 2009. At 31 December 2010, £1.3m (31 December 2009 – £1.0m) was held as cash collateral to fund any remaining costs on the property.

Other lease commitments

In connection with the sale of 5 Churchill Place, Canary Wharf Group has agreed to pay rents and other costs incurred on the 2 unlet floors for a period of 5 years from the date of sale. Canary Wharf Group recognised a provision of £9.6m discounted at 6.4% which was deducted from the profit on disposal of the building. At 31 December 2010 the provision totalled £7.7m discounted at 6.3%, with the movement reflecting a combination of changes in potential future letting assumptions, the discount unwind and utilisation.

In connection with the sale of certain properties during 2005 Canary Wharf Group agreed to provide rental support either in respect of unexpired rent free periods or until the next rent review date. A provision in respect of these commitments was recognised at the date of disposal. The remaining provision at 31 December 2010 was £2.1m calculated on the basis of a discount rate of 6.3% (31 December 2009 – £2.1m discounted at 6.4%). This commitment relates to the lease back of certain car parking spaces which will expire in 2028.

Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2010

23. SHARE CAPITAL

Issued share capital comprises:

	2010 £m	2009 £m
Equity shares:		
– Ordinary Shares	**76.5**	65.6
Shares not classified as equity:		
– Preference Shares	**275.0**	275.0
Total	**351.5**	340.6

As at 31 December 2010 a total of 764,913,962 Ordinary Shares and 275,000,000 Preference Shares were in issue (31 December 2009 – 655,538,962 Ordinary Shares and 275,000,000 Preference Shares).

During the previous year the Company completed the 2009 Refinancing Transactions which included a placing, compensatory open offer and share capital reorganisation. This exercise entailed a series of steps involving the share capital of the Company, which resulted in the conversion of the SG and the A Shares, and the B Shares being renamed ordinary shares.

On 11 October 2010 the Company issued a total of 109,375,000 Ordinary Shares at 128p per share through the Open Offer.

The rights attaching to each class of shares can be summarised as follows:

Ordinary Shares

- One vote per share.
- The Ordinary Shares, together with any other shares issued by the Company, rank behind the Preference Shares in respect of dividend entitlements. Until the Preference Shares have been redeemed no dividends or distributions may be paid or declared by the Company on any shares, other than the Preference Shares, including the Ordinary Shares without the consent of persons holding at least 75% of the Preference Shares in issue.
- In the event of a liquidation, the Ordinary Shares rank behind the Preference Shares in respect of any payments to holders of the Ordinary Shares.
- There is no right of redemption attaching to the Ordinary Shares.

Preference Shares

- Non voting and non convertible shares.
- Fixed cumulative dividend entitlement at a rate of 2.5% per quarter (payable in arrears and compounding quarterly to the extent not paid) of the aggregate amount of the nominal value and any share premium paid up on such shares from time to time.
- In the event of a Liquidation Event (as defined in the Articles) the Preference Shares carry the right to a return of the aggregate amount of the nominal value and share premium paid up on such shares from time to time plus the amount of any unpaid but accrued dividend entitlement in priority to any payment to holders of Ordinary Shares.
- Not redeemable until at least 2 years after the date of issue at which point they are redeemable by the Company.
- If redeemed on or before the fifth anniversary of the date of issue, they will be redeemed at a premium to the redemption amount, being the aggregate amount of the nominal value and share premium paid up on such

shares from time to time plus the amount of any unpaid but accrued dividend entitlement. The amount of the premium depends upon the time at which the Preference Shares are redeemed.

- Preference Shares are redeemable by the holders at any time after the fifth anniversary of the date of issue. However, if a holder of the Preference Shares elects to redeem them prior to the seventh anniversary of the date of issue, the Company may elect not to redeem prior to the seventh anniversary in which instance the dividend entitlement on the Preference Shares concerned will increase.

- In the event the Indebtedness (as defined in the Articles) of the Company, and its wholly owned subsidiaries, exceeds £300.0m plus the aggregate redemption monies paid on Preference Shares previously redeemed, each holder of Preference Shares is entitled to require the Company to redeem Preference Shares held by that holder having an aggregate redemption value equal to that excess (pro rata to the number of Preference Shares held by the holder).

- Each of the following is deemed to be a variation of the rights of the Preference Shares:

  - the making, declaration or payment of any dividend or other distribution (other than the payment of the SG dividend (Note 21)) in respect of any share (other than a Preference Share);

  - the variation of the rights of any other class of share which is adverse to the rights of the Preference Shares;

  - the allotment or issue of any share on economic terms which rank pari passu with or in priority to the Preference Shares;

  - the allotment or issue of any share on economic terms more favourable to the holders thereof than the terms of the Preference Shares (excluding the allotment or issue of the Ordinary Shares);

  - the allotment or issue of further Preference Shares which, when aggregated with the Preference Shares issued on 14 October 2009, total in excess of £375.0m;

  - without prejudice to the redemption rights attaching to the Preference Shares, the purchase by the Company of any Preference Shares; and

  - the incurrence by the Company, or any of its wholly owned subsidiaries, of Indebtedness which would result in the total Company Indebtedness exceeding £300.0m.

Warrants

On 24 September 2009 the Company entered into a warrant instrument pursuant to which it agreed to issue 2 tranches of Warrants to the original lenders of the £135.0m Shareholder Loan entered into by the Company and summarised in Note 21.

The first tranche of Warrants (over 2,127,333,334 ordinary shares of 0.1p) was issued on 19 October 2009 and the second tranche was issued on 19 November 2009 (over 709,333,334 ordinary shares of 0.1p).

As a result of the Open Offer, the number of shares into which the warrants are convertible has been adjusted. The pre Open Offer conversion ratio was 0.01 but following the prescribed adjustment this has now increased to 0.01016528. This means that the total number of shares issuable on exercise of the Warrants has increased from 28,366,661 to 28,835,517 (an increase of 1.7%).

The Warrants are freely transferable (subject to certain securities law restrictions) and can be exercised at any time in the 3 year period following 19 October 2009. The warrant instrument contains anti dilution and adjustment provisions (as referred to above).

Notes to the Consolidated Financial Statements continued
for the year ended 31 December 2010

24. DIVIDENDS

On 24 September 2009 the Board declared a dividend of £6.5m to reflect the accrued rights to the preferential dividend on the SG Shares up to the date of conversion of such shares. This dividend was paid on 11 October 2010 together with £27.6m owed on the Preference Shares. The amount of dividend accrued on the Preference Shares at 31 December 2010 was £6.9m. A Preference Share dividend of £7.0m was declared on 24 March 2011 in respect of this liability.

25. SHARE BASED PAYMENTS

The Trust holds Ordinary Shares which may be used to satisfy any allocations of shares or options granted under any share plan Canary Wharf Group may adopt. The assets of the Trust are held separately from those of Canary Wharf Group and the trustee of the Trust is EES Trustees International Limited.

Where a participant has the right to take a cash alternative sum in substitution for taking shares, Canary Wharf Group has agreed to loan the necessary sum to the trustee and the trustee has agreed to sell such shares as may be necessary to repay the loan unless determined otherwise by the board of Canary Wharf Group.

In December 2010 Canary Wharf Group allocated 2,165,000 Ordinary Shares to certain directors and senior employees of Canary Wharf Group who may elect to have the shares released to them at any time between 30 June 2011 and 31 December 2013 subject to any dealing restrictions. When the beneficiary of the allocation elects to redeem the shares he or she may choose to sell any or all of their allocated shares. In this event Canary Wharf Group has the option to pay the equivalent amount in cash.

In September 2009, the Company announced a proposed placing, compensatory open offer and reorganisation of its share capital which was approved by shareholders on 13 October 2009. As part of this exercise, the Trust took up its entitlement under the compensatory open offer and participated in a rump placing in respect of lapsed open offer entitlements. The Trust's original interest in the B Shares became an interest in 237,626 Ordinary Shares. As a result of its participation in the rump placing the Trust also acquired a further 6,804,572 Ordinary Shares.

In connection with the Open Offer in October 2010, the Trust took up its entitlement and acquired a further 1,174,972 Ordinary Shares.

At 31 December 2010, the trustee of the Trust held 8,217,170 Ordinary Shares (31 December 2009 – 7,042,198).

26. NOTES TO THE CASH FLOW STATEMENT

Reconciliation of profit on ordinary activities before tax to cash generated from operations.

	2010 £m	Restated 2009 £m
Profit on ordinary activities before tax	**463.8**	334.6
Non cash movements		
Net valuation movements on properties	**(327.9)**	15.4
Profit on disposal of investment property	**(155.1)**	–
Share of profit after tax of associates	**(2.5)**	(3.3)
Spreading of tenant incentives, committed rent increases and letting fees	**50.8**	5.6
Depreciation	**0.6**	0.6
Profit recognised on construction contracts	**(5.0)**	(85.7)
	(439.1)	(67.4)
	24.7	267.2
Changes to working capital and other cash movements		
Net financing costs	**384.7**	95.6
Refinancing gains (Note 7)	**–**	(71.2)
Utilisation of and other movements in provisions	**(2.9)**	(2.0)
Increase in receivables	**(17.3)**	(1.5)
Decrease in payables	**(37.5)**	(18.2)
Proceeds from construction contracts	**32.9**	147.9
Construction contract expenditure	**(30.3)**	(105.2)
Cash generated from operations	**354.3**	312.6
Income tax paid	**(5.4)**	(14.8)
Net cash from operating activities	**348.9**	297.8

27. CONTINGENT LIABILITIES AND FINANCIAL COMMITMENTS

At 31 December 2010 certain members of the Group had given fixed and floating charges over substantially all of their assets as security for certain of the Group's borrowings as referred to in Note 21. In particular, various members of the Group had at 31 December 2010 given fixed first ranking charges over cash deposits totalling £194.4m (31 December 2009 – £139.4m).

As security for the issue of up to £2,462.1m of securitised debt (Note 21), Canary Wharf Group has granted a first fixed charge over the shares of CWF II and a first floating charge has been given over all of the assets of CWF II.

Commitments of Canary Wharf Group for future expenditure:

	2010 £m	2009 £m
Crossrail station	**44.6**	80.0
Other construction projects	**85.0**	99.0
	129.6	179.0

Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2010

Of this commitment for future expenditure, £41.4m related to investment properties (31 December 2009 – £21.9m).

The commitments for future expenditure relate to work on development projects where construction was committed at 31 December 2010. Any costs accrued or provided for in the Consolidated Balance Sheet at 31 December 2010 have been excluded.

Canary Wharf Group entered into an option deed with BWB in November 2007 which allows for Canary Wharf Group to elect for the draw down of a 999 year lease of additional land south of Heron Quays West. The option deed is for a period of 5 years from November 2007. An initial option payment of £2.25m was made and is followed by annual payments of £0.25m on each anniversary of the option deed until 2012. The option may be extended by a further 2 years on payment of £1.2m per annum. If Canary Wharf Group exercises the option, BWB has the right to receive a fixed stream of rental payments throughout the duration of the lease or to commute the rental payments into a capital sum.

Canary Wharf Group has, in the normal course of its business, granted limited warranties or indemnities to its tenants in respect of building defects (and defects on the Estate or in the car parks) caused through breach of its obligations as developer contained in any prelet or other agreement. Offsetting this potential liability Canary Wharf Group benefits from warranties from the trade contractors and suppliers who worked on such buildings.

Sublet commitments

Under the terms of certain agreements for lease Canary Wharf Group has committed to take back certain space on the basis of short term subleases at the end of which the space reverts to the relevant tenants. This space has been securitised but, insofar as the securitisations are concerned, the tenants are contracted to pay rent on the entire amount of space leased, whilst taking the covenant of Canary Wharf Group's subsidiaries on the sublet space. The existence of the sublet commitments has been taken into account in arriving at the market valuation of the Group's properties at 31 December 2010.

The table below summarises these sublets, including the rent payable for the next financial year, net of any rent receivable.

Property	Leaseholder	Original sublet sq ft	Relet sq ft	Net rent[1] £m	Rent review date	Rent review basis	Term commence-ment	Expiry or first break
10 Upper Bank Street	Clifford Chance	52,100	52,100	0.78	–	–	Jul 2003	Jul 2013
One Churchill Place	Barclays	133,400	133,400	0.13	Jul 2014	OMR up only	Jul 2004	Jul 2019
One Churchill Place	Barclays	129,700	129,700	0.55	–	–	Jul 2004	Jul 2014
40 Bank Street	Skadden	19,500	19,500	0.31	–	–	Mar 2003	Mar 2013
40 Bank Street	Barclays	38,200	–	1.68	Jul 2012	OMR up only	Nov 2009	Dec 2017
40 Bank Street	Barclays	76,400	38,222	0.84	Jul 2012	OMR up only	Oct 2010	Dec 2017
One Canada Square	State Street	26,200	26,200[2]	0.98	Jun 2013	OMR up only	May 2009	Jun 2018
One Canada Square	KPMG	28,600	28,600[3]	1.09	Jul 2011	OMR up only	Jun 2010	Dec 2016
		504,100	**427,722**	**6.36**				

Note:

(1) The net annual sublet rental obligations will decrease over time with the expiration of reletting rent free periods.

(2) Level 24 occupied by FSA on a short term basis pending completion of fitout of floors 26 and 27.

(3) Level 38 leased back from KPMG upon their relocation to 15 Canada Square and sublet to NYSE Euronext.

28. RELATED PARTY TRANSACTIONS

Under the Provision of Services Agreement, Canary Wharf Group agreed to provide certain business and corporate administration services for a time based fee to the Company for an initial period of 12 months and to continue thereafter until terminated by either party on 3 months' notice. No such notice has been served to date. During 2010 £600,000 plus VAT was charged to the Company for the provision of services and £1,300,000 plus VAT has been accrued at 31 December 2010.

During 2010 Canary Wharf Group billed HSO, a company in which it holds an equity investment equivalent to approximately 13.0% of the issued share capital, £51,195 plus VAT for access to the Estate's telecommunications infrastructure. At 31 December 2010 the outstanding amount was £5,375.

During 2010 Canary Wharf Group billed and received £36,588 plus VAT for the provision of development management services to WWLP in which it holds a 25.0% effective interest. In addition Canary Wharf Group billed WWLP £8,213 in respect of rent and service charges for office space occupied for part of the year. At 31 December 2010, £14,062 was outstanding.

In June 2007 Canary Wharf Group entered into joint venture arrangements with MSREF V and Omega for the redevelopment of Drapers Gardens. During 2010 Canary Wharf Group billed £160,000 for construction management services to Drapers Gardens Unit Trust, in which it held a 20.0% interest. At 31 December 2010 no amounts were outstanding.

In October 2010, the Canary Wharf Group entered into a 50:50 joint venture with Land Securities to develop 20 Fenchurch Street. Simultaneously Canary Wharf Group entered into syndication arrangements with the Syndication Partners. Each of the Syndication Partners is related to a shareholder in the Company. Under these arrangements Canary Wharf Group retains a 15.0% economic interest in the joint venture partnership and each of the Syndication Partners retains an 11.66% interest. At 31 December 2010, the Syndication Partners had each subscribed £12.8m and Canary Wharf Group had subscribed £16.4m. During 2010 Canary Wharf Group billed £948,412 plus VAT for construction and development management services to the 20 Fenchurch Street Limited Partnership all of which had been paid.

In September 2010, the Company entered into a letter of engagement with Rothschild as financial advisor of the Company. This appointment was specific to the then impending maturity of the Company's £135.0m Shareholder Loan and for issues relating to the Open Offer. The fee paid for this advice was £850,000, with an additional £6,056 paid for out of pocket expenses.

In connection with the Open Offer the Company entered into the following agreements during 2010:

(a) The Subscription and Repurchase Agreement entered into on 22 September 2010, the parties to which are the Company and its wholly owned subsidiaries; Qatar Holdings LLC; Qatar Holding Luxembourg II Sarl; GF Investments II, LLC; Chichester Luxembourg Sarl; Land Breeze Sarl; and the real estate private equity funds managed by MSREV IV International-GP, LLC; and

(b) The Bank Agreement entered into on 23 September 2010, the parties to which are the Company; J.P. Morgan; Morgan Stanley and Rothschild.

All of the parties mentioned in (a) and (b) above have been defined in the prospectus issued by the Company on 23 September 2010 within which a summary of the agreements can be found.

Company Balance Sheet at 31 December 2010

	Note	**2010 £m**	2009 £m
FIXED ASSETS			
Investments	(c)	**2,299.9**	2,093.9
CURRENT ASSETS			
Debtors due in less than one year	(d)	**19.2**	19.1
Cash at bank and in hand	(e)	**5.7**	2.1
		24.9	21.2
CREDITORS: Amounts falling due within one year	(f)	**(406.8)**	(405.5)
NET CURRENT LIABILITIES		**(381.9)**	(384.3)
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,918.0**	1,709.6
CREDITORS: Amounts falling due after more than one year	(g)	**(268.9)**	(272.7)
NET ASSETS		**1,649.1**	1,436.9
CAPITAL AND RESERVES			
Called up share capital	(h)	**76.5**	65.6
Reserves:			
– share premium	(i)	**1,195.1**	1,071.0
– profit and loss account	(i)	**14.2**	6.0
– other reserves	(i)	**363.3**	294.3
SHAREHOLDERS' FUNDS	(j)	**1,649.1**	1,436.9

Notes (a) to (j) on the following pages form an integral part of these financial statements.

Approved by the Board on 24 March 2011 and signed on its behalf by:

David Pritchard

DAVID PRITCHARD

Chairman

Notes to the Company's Financial Statements

for the year ended 31 December 2010

(a) STATEMENT OF ACCOUNTING POLICIES

The principal accounting policies are set out below. They have all been applied consistently throughout the current and previous years.

Basis of preparation

The Company's financial statements are prepared in accordance with applicable UK accounting standards and under the historical cost convention.

The separate financial statements of the Company are presented as required by the Act. They have been prepared under the historical cost convention and in accordance with applicable United Kingdom law and United Kingdom Generally Accepted Accounting Standards. The principal accounting policies are presented below and have been applied consistently throughout the current and prior periods. They have also been prepared on the going concern basis as described in the going concern statement in the Directors' Report contained in the consolidated financial statements.

Investments in subsidiary undertakings

Investments in subsidiary undertakings are stated in the Company's Balance Sheet at cost less any provision for impairment.

Interest receivable and interest payable

Interest receivable and payable are recognised in the period in which they fall due.

Accounting for share capital

The fair value of the equity component of the SG Shares was assessed as negligible upon initial recognition and therefore, in accordance with FRS 25, the SG Shares were classified wholly as liabilities and included in creditors payable in more than one year until their conversion into Ordinary Shares as part of the 2009 Refinancing Transactions.

The finance cost of the SG Shares was classified as interest payable and included in creditors due within one year. The excess of amounts paid over interest accrued in accordance with the shareholders' rights served to reduce the carrying value of the liability included in creditors payable in more than one year.

As a result of the terms and conditions of the Preference Shares, such shares have been classified as debt. Consequently they are initially stated at their net proceeds with the finance costs allocated to periods over their term at a constant rate on their carrying amount. The profit and loss account includes a charge in respect of the coupon payable calculated at 2.5% per quarter.

The fair value of the Warrants issued in connection with the Shareholder Loan was assessed upon initial recognition as negligible. Accordingly no equity balance has been recognised in respect of the Warrants.

(b) PROFIT FOR THE FINANCIAL YEAR

The profit recorded by the Company in 2010 was £77.2m (2009 – profit of £170.4m). A dividend of £40.0m was received from SFL in the year (2009 – £nil). The Company has written down its investment in SFL to the estimated recoverable amount. As permitted by Section 408 of the Act, no profit and loss account is presented for the Company in respect of either year.

Notes to the Company's Financial Statements continued

for the year ended 31 December 2010

(c) INVESTMENTS

Investments comprise shares held directly and indirectly in the following subsidiaries:

Name	Description of shares	%	Principal activities
Songbird Finance Limited*	£1 Ordinary	100.0	Investment company
Songbird Finance (Two) Limited*	£1 Ordinary	100.0	Investment company
Songbird Acquisition Limited*	10p Ordinary	100.0	Investment company
Canary Wharf Group	1p Ordinary	69.3	Holding company

*Directly held

All of these companies are incorporated in England and Wales and registered in Great Britain. SFL holds the Group's investment in Canary Wharf Group.

A complete list of the subsidiary undertakings of Canary Wharf Group will be attached to that company's, and its core intermediate holding subsidiaries', annual returns when they are submitted to the Registrar of Companies.

Cost and net book value:

	£m	£m
Cost at 1 January 2010		2,224.2
Additions in year		137.0
Provision for impairment at 1 January 2010	(130.3)	
Release of provision in year	69.0	
		(61.3)
Net book value at 31 December 2010		**2,299.9**

In October 2010 the Company acquired an additional 137,012,055 ordinary shares in SFL at par. The issue of shares was in consideration for the cancellation of an intragroup loan of the same value following the purchase by the Company of the Shareholder Loan from the loan providers.

(d) DEBTORS

	2010 £m	2009 £m
Due within one year:		
Amounts owed by subsidiary undertakings	**19.1**	19.0
Prepayments and accrued income	**0.1**	0.1
	19.2	19.1

(e) FINANCIAL ASSETS

The Company's financial assets comprise short term cash deposits. Cash deposits totalled £5.7m at 31 December 2010 (31 December 2009 – £2.1m), comprising deposits placed on deposit at call and term rates.

(f) CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2010 £m	2009 £m
Amounts owed to subsidiary undertakings	**396.6**	396.6
Accruals	**3.3**	2.4
Financing costs of non equity share capital	**6.9**	6.5
	406.8	405.5

The Company had no purchases outstanding at either 31 December 2010 or 31 December 2009.

Financing costs of non equity shares at 31 December 2010 comprises the accrued coupon payable under the terms of the Preference Shares. Financing costs of non equity share capital at 31 December 2009 comprised £6.5m of dividends which had been declared but not paid in respect of the SG Shares. This dividend was paid in October 2010.

The amount owed to subsidiary undertakings is on an interest free basis with no defined redemption date.

(g) CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

Creditors due after more than one year comprise:

	2010 £m	2009 £m
Non equity share capital:		
Preference Shares	**268.9**	272.7
	268.9	272.7

As a result of the terms and conditions of the Preference Shares, such shares have been classified as borrowings and the profit and loss account includes a charge in respect of the coupon payable calculated at 2.5% per quarter.

(h) SHARE CAPITAL

At 31 December 2010 a total of 764,913,962 Ordinary Shares were in issue. Details of the rights attaching to each class of shares as at 31 December 2010, together with details of the Warrants in issue, are set out in Note 23.

Notes to the Company's Financial Statements continued

for the year ended 31 December 2010

(i) RESERVES

	Share premium account £m	Cancelled share reserve £m	Other reserve £m	Profit and loss account £m	Total £m
1 January 2010	1,071.0	59.5	234.8	6.0	1,371.3
Profit for the year	–	–	–	77.2	77.2
Issue of Ordinary Share capital (net of £5.0m fees)	124.1	–	–	–	124.1
Transfer of impairment release	–	–	69.0	(69.0)	–
31 December 2010	**1,195.1**	**59.5**	**303.8**	**14.2**	**1,572.6**

The other reserve arose from an intra group reorganisation undertaken during 2007 and is considered by the directors to be non distributable. The impairment of the Company's investment in SFL (Note (c)) represents a partial realisation of this amount and accordingly the cumulative impairment loss has been transferred from the profit and loss account to the other reserve.

(j) RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	£m
1 January 2010	1,436.9
Profit for the year excluding impairment release	8.2
Release of impairment of investment in subsidiary	69.0
Issue of Ordinary Share capital – Open Offer	10.9
Open Offer share premium (net of fees)	124.1
31 December 2010	**1,649.1**

Independent Auditors' Report for the Company to the Members of Songbird Estates plc

We have audited the parent company financial statements of Songbird Estates plc for the year ended 31 December 2010 which comprise the Company Balance Sheet and the related Notes (a) to (j). The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 auditors' 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 AUDITOR

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent company 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 (APB's) 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 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. In addition we read all the financial and non financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report.

OPINION ON FINANCIAL STATEMENTS

In our opinion the parent company financial statements:

- give a true and fair view of the state of the parent company's affairs as at 31 December 2010;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion:

- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the parent company financial statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements 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.

OTHER MATTER

We have reported separately on the Group financial statements of Songbird Estates plc for the year ended 31 December 2010.

Mark Beddy

Mark Beddy (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
London, UK

24 March 2011

Shareholders' Information

DIRECTORS

All directors of the Company are non executive directors

David Pritchard: Independent Chairman appointed to the Board in September 2005. Currently non executive chairman of AIB Group (UK) plc and a non executive director of Allied Irish Banks plc, Motability Tenth Anniversary Trust and Euromoney Institutional Investor PLC. Previously non executive deputy chairman of Lloyds TSB Group plc, chairman of Cheltenham & Gloucester plc and Morgan Stanley Card Services Limited and director of the Dutton-Forshaw Motor Company Limited, LCH Clearnet Group Limited and Scottish Widows plc. + #

In accordance with the Articles, Mr Pritchard will stand for reappointment at each annual general meeting.

John Botts: Independent director appointed to the Board in April 2010. Currently a senior adviser to Allen & Company Advisors Limited, a subsidiary of the New York based investment banking company and chairman of UBM PLC and Glyndebourne Arts Trust and a non executive director of Euromoney Institutional Investor PLC and the Tate Foundation. Previously held worldwide positions within Citi including Chief Executive Officer of Citi's investment banking division in Europe. *

In accordance with the Articles, Mr Botts will stand for reappointment at each annual general meeting.

Faisal Al-Hamadi: Director of the Asset Management Group of Qatar Investment Authority, First Finance Company, Epicure Berlin Property Company Limited and Al-Hosn Investment Company. Appointed to the Board in January 2010 by Qatar Holding.

Khalifa Al-Kuwari: Deputy chief operating officer of Qatar Investment Holdings, member of Al-Hosn Investment Company, Oman Investment Company and Qatar Exchange. Appointed to the Board in January 2010 by Qatar Holding.

Sheikh Mohammed Bin Hamad Bin Jassim Al-Thani: Chairman of Barwa Bank since August 2010, board member of Gulf Investment Group, Qatar Securities Group and First Finance Company. Appointed to the Board in January 2010 by Qatar Holding.

Peter Harned: Managing director of Morgan Stanley European Real Estate Investing Business. Appointed to the Board in June 2009 by the MS Shareholder Group. *

Jonathan Lane: Consultant and senior adviser to Morgan Stanley and chairman of EMEA Real Estate Investment Banking at Morgan Stanley. Also an independent non executive director of Grosvenor Liverpool Limited, a member of the Advisory Board of Resolution Property Advisors, member of the British Property Federation, where he is on the Policy Committee, member of the UK Government's Property Advisory Board, member of the Bank of England's Commercial Property Forum, member of the Investment Property Forum and the Urban Land Institute. Appointed to the Board in August 2008 by the MS Shareholder Group. #

Sam Levinson: Adviser to the Glick entities and managing director of Levinson Capital Management LLC, where he oversees investments for a private equity fund. Serves as a member of the Board of Coleman Cable Inc. Appointed to the Board in April 2004 by the Glick Shareholders.

Alex Midgen: Managing director of the investment banking division of Rothschild and global co-head of Rothschild's real estate advisory business. Appointed to the Board in May 2004 by the Glick Shareholders. * + #

Brian Niles: Managing director and deputy head of European Investing – Morgan Stanley Real Estate and a director of Multi Corporation B.V. Appointed to the Board in September 2007 by the MS Shareholder Group. + #

* *Audit Committee*
\+ *Announcement Committee*
\# *Executive Committee*

Shareholder Enquiries

All enquiries relating to holdings of shares in the Company should be addressed to the Company's registrars:

Capita Registrars
The Registry
34 Beckenham Road
Beckenham, Kent
BA3 4TU

Telephone: 0871 664 0300*
Facsimile: 020 8639 2220
e-mail: ssd@capitaregistrars.com
Website: www.capitaregistrars.com

**Currently calls cost 10p per minute plus network extras.*

Other Enquiries

If you would like more information about the Company please contact John Garwood, Company Secretary.

Registered Office and Registered Number

One Canada Square
Canary Wharf
London E14 5AB

Registered Number: 5043352
Website: www.songbirdestates.com
Telephone: 020 7477 1000
Facsimile: 020 7477 1001

ADVISERS

Auditors

Deloitte LLP
2 New Street Square
London EC4A 3BZ

Bankers

The Royal Bank of Scotland Plc
London Corporate SC
PO Box 39952
21/2 Devonshire Square
London EC2M 4XJ

Broker and Nominated Adviser

J.P. Morgan Securities Ltd
125 London Wall
London
EC2Y 5AJ

Financial PR Consultants

Brunswick Group LLP
16 Lincoln's Inn Fields
London EC2V 7JD

Solicitors

Slaughter and May
One Bunhill Row
London EC1Y 8YY

Weil, Gotshal & Manges
One South Place
London EC2M 2WG

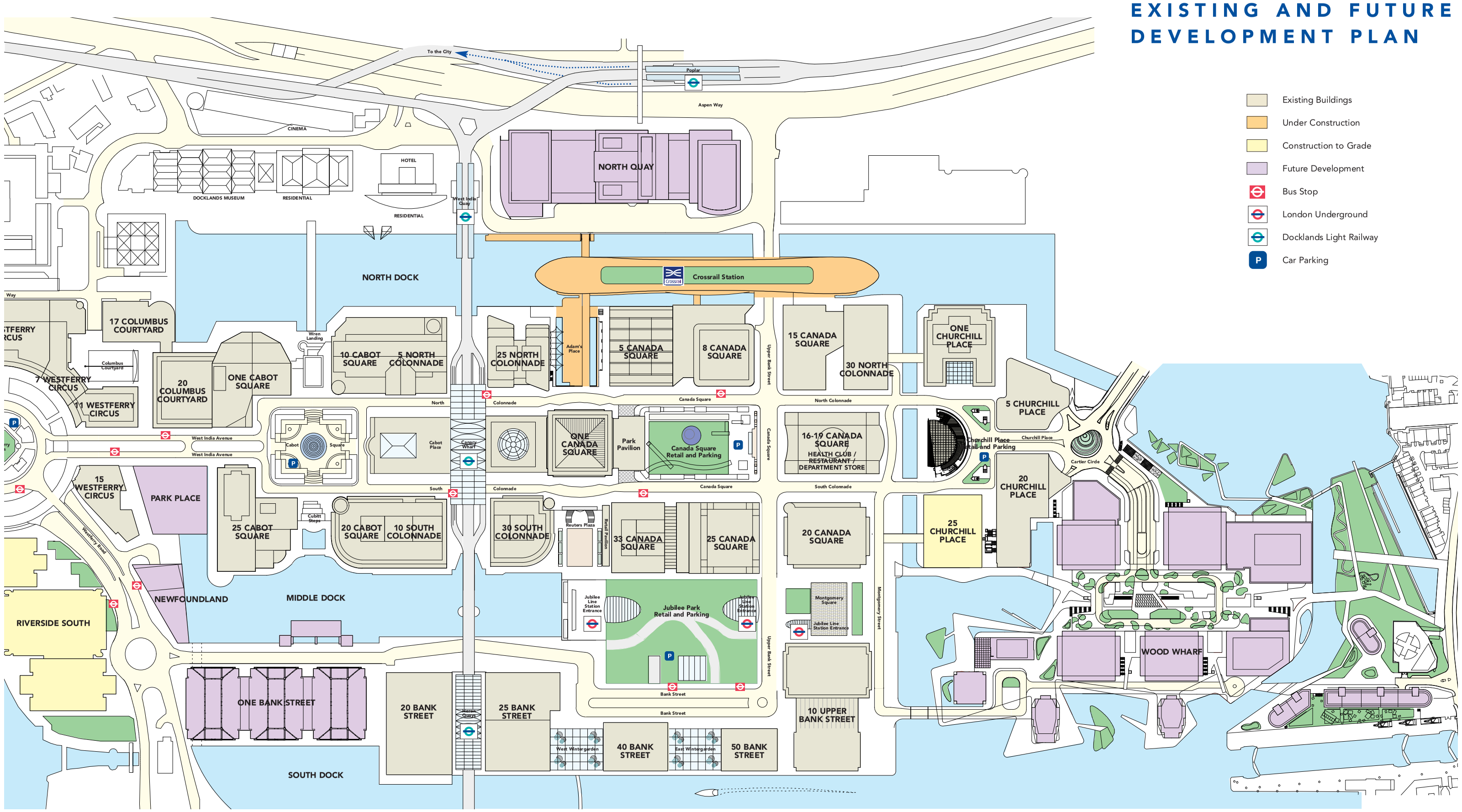
Definitions

2009 Refinancing Transactions	£620.0m placing and compensatory open offer in 2009, £275.0m issue of Preference Shares and £135.0m Shareholder Loan facility
Act	The Companies Act 2006
Administrator	PricewaterhouseCoopers, administrator of Lehman
AIG	American International Group, Inc
A Shares	Ordinary Class A Shares of 10p each
AIM	London Stock Exchange Alternative Investment Market
Articles	Articles of Association of Songbird Estates plc
B Shares	Ordinary Class B Shares of 10p each
Ballymore	Ballymore Properties Limited
Barclays	Barclays Bank plc
BlackRock	BlackRock Investment Management (UK) Limited
Board	Board of directors of the Company
BWB	British Waterways Board
Canary Wharf Group	Canary Wharf Group plc and its subsidiaries
CBRE	CB Richard Ellis Limited, Surveyors and Valuers
CIC	China Investment Corporation
Citi	Citigroup
Citi Loans	The £880.0m loan facilities entered into by SFL and Citi
CLRL	Cross London Rail Links Limited
Company	Songbird Estates plc
Cushman	Cushman & Wakefield, Real Estate Consultants
CWF II	Canary Wharf Finance II plc
Drapers Gardens	Drapers Gardens scheme in the City of London
Estate	Canary Wharf Estate including Heron Quays West, Riverside South and North Quay
EU	European Union
EZAs	Enterprise Zone Allowances
Fitch	Fitch Ratings Limited
FRS 25	Financial Reporting Standard 25 (Financial Instruments: Disclosure and Presentation)
FVTPL	Fair Value Through Profit and Loss
Glick Shareholders	Investment vehicles and Trusts connected with Simon Glick and his family
Group	The Company, its wholly owned subsidiaries and Canary Wharf Group
HSO	HighSpeed Office Limited
IAS 11	International Accounting Standard 11 'Construction Contracts'
IAS 16	International Accounting Standard 16 'Property, Plant and Equipment'
IAS 17	International Accounting Standard 17 'Leases'
IAS 32	International Accounting Standard 32 'Financial Instruments: Presentation'
IAS 39	International Accounting Standard 39 'Financial Instruments: Recognition and Measurement'
IAS 40	International Accounting Standard 40 'Investment Property'
ICR	Interest Cover Ratio
IFRIC	International Financial Reporting Interpretations Committee
IFRIC 15	International Financial Reporting Interpretations Committee 15 'Agreements for the Construction of Real Estate'
IFRS	International Financial Reporting Standards
IFRS 3	International Financial Reporting Standard 3 'Business Combinations'
IFRS 5	International Financial Reporting Standard 5 'Non current Assets Held for Sale and Discontinued Operations'
IFRS 7	International Financial Reporting Standard 7 'Financial Instruments: Disclosures'
IFRS 8	International Financial Reporting Standard 8 'Operating Segments'
J.P. Morgan	J.P. Morgan Chase & Co
Land Breeze	Land Breeze S.a.r.l.
Land Securities	Land Securities Group PLC
Lehman	Lehman Brothers Limited (in administration)

Lloyds	Lloyds Banking Group
LMCTV	Loan Minus Cash to Value
London Plan	Mayor of London planning document published by the Greater London Authority
LTV	Loan to Value
m	Million
Morgan Stanley	Morgan Stanley & Co Limited including all related funds, entities and associates
MS	Morgan Stanley Real Estate Fund IV International GP LLC and Morgan Stanley European Real Estate Special Situations II Offshore Inc
MSREF V	Morgan Stanley Real Estate Fund V
NAV	Net Asset Value
NIA	Net Internal Area
NNNAV	Triple Net Asset Value
Nomura	Nomura International plc
Notes	Notes of Canary Wharf Group's securitisation
Omega	Omega Land Holding II BV
OMR	Open Market Rent
Open Offer	An open offer for the issue of 109,375,000 new Ordinary Shares completed in October 2010
Ordinary Shares	Ordinary shares of 10p each
Preference Shares	Preference shares of £1.00 each
Preferential Dividend	Fixed cumulative dividend of 2.5% per quarter of aggregate amount of nominal value and any share premium paid up on Preference Shares
Provision of Services Agreement	A provision of services agreement between the Company and Canary Wharf Group
Qatar Holding	Qatar Holding, LLC
Rothschild	NM Rothschild & Sons Limited
S&P	Standard & Poors
Savills	Savills Commercial Limited, Chartered Surveyors
SFL	Songbird Finance Limited
SG Shares	SG Shares of 10p each
Shareholder Loan	£135.0m loan facility entered into by SFL and certain significant shareholders
Shell	Shell International Limited
Significant Shareholders	Glick Shareholders, Land Breeze, MS Shareholders and Qatar Holding
Skadden	Skadden Arps Slate Meagher & Flom LLP
Songbird Loans	Loans drawn down by SFL comprising the Citi Loans and the Shareholder Loan
sq ft	Square foot/square feet
Syndication Partners	Entities relating to Canary Wharf Group, Chengdong Investment Corporation, Morgan Stanley and Qatar Holding
TfL	Transport for London
Treasury Shares	Shares acquired by any Group entity and not cancelled
Trust	Canary Wharf Employees' Share Ownership Plan Trust
UK	United Kingdom of Great Britain and Northern Ireland
UK GAAP	United Kingdom Generally Accepted Accounting Practice
VAT	Value Added Tax
Warrants	Warrants over Ordinary Shares
WWLP	Wood Wharf Limited Partnership

EXISTING AND FUTURE DEVELOPMENT PLAN

- Existing Buildings
- Under Construction
- Construction to Grade
- Future Development
- Bus Stop
- London Underground
- Docklands Light Railway
- Car Parking



17 Columbus Courtyard
CREDIT SUISSE

20 Columbus Courtyard
CREDIT SUISSE

One Cabot Square
CREDIT SUISSE

10 Cabot Square
OGILVY & MATHER

5 North Colonnade
BARCLAYS CAPITAL

25 North Colonnade
FINANCIAL SERVICES AUTHORITY

30 North Colonnade
FIMALAC
FITCH RATINGS

25 Cabot Square
MORGAN STANLEY

20 Cabot Square
BARCLAYS CAPITAL

10 South Colonnade
BARCLAYS CAPITAL

30 South Colonnade
THOMSON REUTERS

One Canada Square
ABBEY BUSINESS CENTRES
CANARY WHARF GROUP PLC
CFA INSTITUTE
CITIHUB LTD
CLEARSTREAM BANKING
COUTTS & CO
CLYDESDALE BANK
DILIGENCE
EULER HERMES
FINANCIAL SERVICES AUTHORITY
GLOBAL SAGE
IBTIMES
INTERNATIONAL GRAINS COUNCIL
INTERNATIONAL SUGAR ORGANIZATION
J.P. MORGAN
KNIGHT FRANK
MAHINDRA SATYAM
METLIFE
MOODY'S INVESTORS SERVICE
NATWEST
NYSE EURONEXT
PREMIER FX
REGUS
SAMSUNG
STATE STREET
THE BANK OF NEW YORK MELLON
TRINITY MIRROR

5 Canada Square
CREDIT SUISSE
BANK OF AMERICA

8 Canada Square
HSBC

15 Canada Square
KPMG

20 Canada Square
MCGRAW HILL
BP

25 Canada Square
CAREER ACADEMIES
CITI
CHINA UNICOM
CROSSRAIL
GFT GLOBAL MARKETS
HATFIELD PHILIPS
INSTINET
INVALDI CAPITAL
LEHMAN BROTHERS - IN ADMINSTRATION
LNR
LOCOG
MUNICH RE
MWB
PRESTIGE TICKETING
RICOH UK
SUNGARD
THINK LONDON
3i INFOTECH

33 Canada Square
CITI

20 Bank Street
MORGAN STANLEY

25 Bank Street
J.P. MORGAN

40 Bank Street
ANZ BANK
ALLEN & OVERY
CHINA CONSTRUCTION BANK
DUFF & PHELPS
ESPEED
JONES LANG LASALLE
LANGUAGE LINE
MIRAE ASSET GLOBAL INVESTMENTS
ORACLE FINANCIAL SERVICES
PREMIER FX INVESTING
SAXO BANK
SERVCORP
SHELL INTERNATIONAL
SITUS
SKADDEN, ARPS, SLATE, MEAGHER & FLOM

50 Bank Street
GOLDENBERG HEHMEYER & CO.
NORTHERN TRUST

10 Upper Bank Street
CLIFFORD CHANCE
FTSE
INFOSYS
MASTERCARD
TOTAL

One Churchill Place
BARCLAYS
BARCLAYS WEALTH MANAGEMENT
BGC INTERNATIONAL
LOCOG

5 Churchill Place
J.P. MORGAN
MF GLOBAL

20 Churchill Place
STATE STREET

CANARY WHARF

Songbird
Estates plc

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London E14 5AB
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