

SONGBIRD ESTATES PLC

22 MARCH 2007

PRELIMINARY ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31 DECEMBER 2006

The board of Songbird Estates plc is pleased to announce its results for the year ended 31 December 2006.

The information in this announcement, which was approved by the board of directors on 21 March 2007, does not comprise statutory accounts within the meaning of the Companies Act 1985.

HIGHLIGHTS

- **Net assets increased** from £1,808.0 million at 31 December 2005 including the minority interest to **£2,379.0 million** at 31 December 2006, **an increase of £571.0 million or 31.6%** (Note (i)) net of the dividend paid.
- **Adjusted net asset value per share attributable to members of the company increased by 89p (48.1%)** from £1.85 to **£2.74** and adjusted triple net asset value ('NNNAV') per share **increased by 82p (50.6%)** from £1.62 to **£2.44** (Note (i)), net of the dividend paid of 18p per share.
- **The interim dividend of 18p per share was paid** on 19 April 2006 **totalling £110.9 million**. On 21 December 2006 **another interim dividend of 29.5p per share was declared which was paid on 14 February 2007** (Note (ii)). This brings the total paid since the acquisition of Canary Wharf Group to 64.11p per share.
- The **market value of Canary Wharf Group's property portfolio** at 31 December 2006 **was £6,737.4 million** against £5,658.5 million at 31 December 2005, **an increase of 17.6%**, disregarding additions in the year (Note (iii)).
- In 2006 **the group completed approximately 1.4 million sq ft of transactions**, including 690,000 sq ft of lettings or pre-lets and 700,000 sq ft of pre-sales (Note (iv) and Note (vi)).
- At 31 December 2006 **the estimated net present value of space sub-let** back to Canary Wharf Group had **reduced to approximately £43.8 million** (31 December 2005 - £149.0 million) (Note (iv)).
- **Construction commenced on four new buildings:**
 - **an approximately 300,000 sq ft building** at 20 Churchill Place under an agreement **for sale** to Prudential Retirement Income Limited ('Prudential') **for a consideration of £199.5 million** (Note (v)). Following completion the building will be occupied by SSB Realty LLC ('State Street').
 - **an approximately 400,000 sq ft building** at 15 Canada Square under an agreement **for sale** to KPMG **for a consideration of £260.0 million** (Note (v)).
 - **an adjacent building of approximately 300,000 sq ft** to be constructed concurrently (Note (v)).
 - **an approximately 300,000 sq ft building** to be constructed at 5 Churchill Place **of which 206,000 sq ft has been pre-let** to Bear Stearns Inc ('Bear Stearns') (Note (vi)).
 - in addition, **infrastructure works commenced** on the remaining site on Canary Wharf (0.4 million sq ft) and on Riverside (1.8 million sq ft) (Note (v)).
- At 31 December 2006 Canary Wharf Group's **investment portfolio** totalling 7.9 million sq ft was **95.6% let** (31 December 2005 – 7.9 million sq ft of which 89.6% was let) (Note (vi)).
- At 31 December 2006 **the weighted average unexpired lease term** for the investment portfolio **was 19.8 years** (or 17.1 years assuming exercise of break options) (Note (vi)).
- **Planning permission was granted on North Quay**, a site immediately north of the Estate for the development of **2.4 million sq ft** of office and retail space (Note (v)) and it is anticipated that application for the Wood Wharf scheme, in which Canary Wharf Group has a 25% interest, will be made during 2007.

Notes:

- (i) See 'Business and Financial Review - Balance sheet and key performance indicators' for details.
- (ii) Refer to Notes 5 and 22.
- (iii) See 'Business and Financial Review - Valuations' for details.
- (iv) See 'Business and Financial Review - Leasing' for details.
- (v) See 'Business and Financial Review - Construction' for details.
- (vi) See 'Business and Financial Review - Property portfolio' for details.

RESULTS IN BRIEF

	2006	2005
	£m	£m
Rental income (Note (i))	254.5	272.8
Exceptional item:		
– sale of long leasehold property (Note (ii))	–	12.1
Operating profit	212.5	240.0
Operating profit excluding exceptional item (Note (ii))	212.5	227.9
Exceptional items:		
– profit on disposal of investment properties (Note (ii))	–	204.9
– deemed loss on part disposal of investment	–	(27.7)
– gains/(charges) relating to repayment of debt (Note (ii))	123.3	(116.1)
Profit before taxation	77.2	3.6
Loss before taxation excluding exceptional items (Note (ii))	(46.1)	(69.6)
Taxation – deferred tax (Note (iii))	(61.9)	57.9
Profit after taxation	15.3	61.5
Minority interest	(35.2)	(77.7)
Loss on ordinary activities attributable to members of the company	(19.9)	(16.2)
Basic and diluted losses per share (Note (iv))	(4.6)p	(3.8)p
Dividends per share (Note (v))	18.0p	16.61p

Notes:

- (i) Refer to 'Business and Financial Review - Operating results' of the accompanying financial information.
- (ii) Refer to Note 7 for details of the profit on sale of properties and Note 2 for details of the gains or charges relating to repayment of debt.
- (iii) Refer to Note 3.
- (iv) Refer to Note 6.
- (v) Refer to Note 5.

CONTACT

John Garwood
Company Secretary

Songbird Estates plc
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CHAIRMAN'S STATEMENT

2006 was an excellent year for the company. Songbird continued to make progress towards achieving the strategy outlined at the time of its offer for Canary Wharf Group plc in 2004. During the year net assets increased by 31.6% to £2,379.0 million and adjusted net asset value per share increased by 89p from £1.85 to £2.74. Dividends were declared during 2006 totalling 47.5p per share on the three remaining classes of shares. The market value of the Canary Wharf Group property portfolio increased by 17.6% to £6,737.4 million. At Canary Wharf leasing or pre-sales transactions were concluded on approximately 1.4 million sq ft and construction started on four new buildings.

Financial Review

Net assets at 31 December 2006 increased by £571.0 million to £2,379.0 million. This increase in net assets was primarily driven by the revaluation of the group's property portfolio, which increased by 17.6% of which the increase in the valuation of the investment property portfolio was £751.5 million or 14.2%. This was offset by the loss attributable to members of the company of £19.9 million and the dividend paid on the A Shares and B Shares of £78.0 million. Adjusted net asset value per share increased by 48.1% from £1.85 to £2.74.

Rental income for the year was £254.5 million, against £272.8 million for the prior year, reflecting the sale of seven properties during the course of 2005.

During the year, Canary Wharf Group acquired three finance leases relating to properties on the Estate, in connection with which it recognised an exceptional gain of £123.3 million. Excluding this exceptional item, the loss on ordinary activities before tax for the year was £46.1 million (2005 - £69.6 million). After tax, the group recorded a loss for the year attributable to members of £19.9 million (2005 - loss of £16.2 million).

Further detail on the group's results can be found in the 'Business and Financial Review – Operating Results'.

Dividends

In April 2006, an interim dividend of 18p per share was paid to all SG, A and B shareholders. On 21 December 2006 the Board declared a further interim dividend of 29.5p per share payable to all SG, A and B shareholders. This was paid on 14 February 2007 and brings the total dividend paid by the company to date to 64.11p per SG, A and B Share.

Strategic Progress

During the year lettings of approximately 690,000 sq ft were concluded by Canary Wharf Group.

The most significant of these lettings was the pre-let to Bear Stearns of 206,000 sq ft in a new approximately 300,000 sq ft building now under construction at 5 Churchill Place; Bear Stearns also took call options over the remaining space in this building. A further 42,000 sq ft in One Canada Square was let to Bear Stearns, subject to break options in 2008. Lettings on over 48,000 sq ft were also concluded in One Canada Square to meet a number of smaller requirements.

In 1 Churchill Place approximately 130,000 sq ft was let to Barclays Wealth Management and in 25-30 Bank Street approximately 165,000 sq ft was let to five tenants. Finally, in 40 Bank Street new lettings of 102,000 sq ft were concluded during the year.

Taking into account certain of the lettings referred to above, lettings over a total of approximately 350,000 sq ft of sub-let space were concluded during the year. As a result all space previously sub-let back to the Canary Wharf Group has therefore now been re-let or, in relation to 11,000 sq ft, can be called by an existing tenant. The estimated net present value of the sub-let liabilities has fallen from £149 million at 31 December 2005 to £43.8 million, discounted at 6.1%. Taken together, these lettings mean that the vacancy rate in completed buildings at 31 December 2006 fell to 4.4%. These letting negotiations have also confirmed a trend of increasing headline rents and a reduction in lease incentives.

A second strategic element is the focus on the economic viability of each transaction and the realisation of value from undeveloped land.

In February 2006 the sale upon completion of 20 Churchill Place to Prudential was agreed by Canary Wharf Group for £199.5 million. This building will be occupied by State Street in early 2009. As a result of this transaction, State Street may surrender two floors in One Canada Square. The remaining space occupied by State Street in One Canada Square has break options in 2008.

More recently, in November 2006 it was announced that KPMG had entered into an agreement for sale upon completion of the 400,000 sq ft 15 Canada Square building. KPMG has also been granted call options over approximately 100,000 sq ft in the new building being constructed adjacent to 15 Canada Square. This building of approximately 300,000 sq ft will be known as 30 The North Colonnade. KPMG has options to sub-let back to the group approximately 103,000 sq ft which it currently occupies in One Canada Square.

CHAIRMAN'S STATEMENT (continued)

As mentioned above, construction has now been started on four separate buildings comprising 1.3 million sq ft, only 200,000 sq ft of which is neither let nor under option. The western end of Cabot Place Retail Mall is also being

redeveloped, which will increase the Cabot Place retail area by approximately 42,600 sq ft. New retailers such as Zara and River Island will open in this completed redevelopment in 2008.

Canary Wharf Group achieved planning permission for 2.4 million sq ft of office and retail space on North Quay, which is a site immediately to the north of the Estate. Development of this site, which is dependent on the progress of Crossrail, will add to the 1.8 million sq ft at Riverside where initial ground work has started. There is also additional capacity of approximately 600,000 sq ft on Heron Quays West. Together with the final site available on the original Canary Wharf Estate this adds up to approximately 5.2 million sq ft of potential additional development capacity. In line with our stated strategy, full development of these sites will only proceed when market conditions allow.

Away from the original Canary Wharf Estate, Canary Wharf Group is acting as construction manager for two of Ballymore's developments. First, at Millharbour, a 40 floor and a 50 floor residential development comprising approximately 700,000 sq ft, and secondly, at Crossharbour in a development containing 8 buildings ranging from 7 to 43 storeys scheduled to produce approximately 1.5 million sq ft.

At Wood Wharf, where Canary Wharf Group is a 25% partner, further progress is being made on the master plan for the redevelopment of approximately 6.5 million sq ft of mixed commercial and residential use.

On asset value realisation, the disposal programme conducted in 2005 resulted in the sale of seven buildings for an exceptional profit of £204.9 million. During 2006 the only disposals were the pre-sales to Prudential and KPMG which are described more fully above.

In financing, during 2005 Canary Wharf Group completed a resecuritisation and comprehensively refinanced its fixed rate long term debt with medium term bank debt. In March 2006, the group repaid the balance of a £750 million bridge facility put in place to refinance assets released from security as part of this securitisation. Canary Wharf Group's retail assets were also refinanced with a new £300 million facility. In October 2006, Canary Wharf Group hedged this loan by means of an interest rate swap which fixes the interest rate on the loan.

Following the conclusion of the loan facility in November 2005, Songbird Acquisition Limited entered into a hedging arrangement in August 2006 using an interest rate collar which caps interest payable on this loan and also provides a floor. Discussions are continuing on the loan structure, and consideration is currently being given to further restructuring of the loan finance at the Songbird level as part of the ongoing cash flow and capital structure optimisation strategy.

Following our EGM in January 2007 14,478,260 B Shares in the company were issued to British Land (Joint Ventures) Limited as holder of the Class D Share in exchange for the cancellation of all dividend rights on the D Share. This transaction presented an opportunity to simplify the capital structure, and the D share has since been redeemed.

Conclusion

This overview of our performance demonstrates that 2006 represented very strong progress towards the strategy outlined at the time of the offer for Canary Wharf Group. We are committed to making further progress towards achieving our goals to the benefit of our shareholders.

David Pritchard
Chairman

BUSINESS AND FINANCIAL REVIEW

Property portfolio

The principal asset of the company is its direct and indirect investment in Canary Wharf Group plc and its subsidiaries ('Canary Wharf Group'). The activities of Canary Wharf Group are focused on the development of the Estate (including Heron Quays and the adjacent sites at Canary Riverside and North Quay) and, through a joint venture with the British Waterways Board ('BWB') and Ballymore, land adjacent to the Estate known as Wood Wharf. Canary Wharf Group is involved in both property investment and property development. At 31 December 2006 and 31 December 2005, the investment arm comprised 16 completed properties (out of the 30 constructed on the Estate) totalling 7.9 million sq ft of net internal area ('NIA'). The properties included in the total at 31 December 2006 are shown in the table below:

Property Address	Approx. NIA (sq ft)	% Leased	External Valuation £m	Principal Tenants
One Churchill Place	1,014,400	100.0	850.0	Barclays, BGC, LOCOG
10 Cabot Square	639,000	100.0	333.0	Barclays Capital, WPP Group
20 Cabot Square	562,000	100.0	260.0	Morgan Stanley, Barclays Capital
One Canada Square	1,236,200	99.5	857.6	Daily Telegraph, KPMG, Mirror Group Newspapers, State Street, Bear Stearns, Bank of New York
33 Canada Square	562,700	100.0	427.5	Citigroup
20 Bank Street	546,500	100.0	500.0	Morgan Stanley
25-30 Bank Street	1,023,300	98.9	975.0	Lehman Brothers
40 Bank Street	607,400	45.3	328.0	Skadden Arps Slate Meagher & Flom (‘Skadden’), Allen & Overy, BGC, ANZ
50 Bank Street	209,800	100.0	175.0	Northern Trust, Goldenberg Hehmeyer
10 Upper Bank Street	1,000,400	100.0	800.0	Clifford Chance LLP (‘Clifford Chance’), Infosys, FTSE, Total
Cabot Place Retail	95,700	100.0	154.4	Various retail tenants
Canada Place Retail	72,200	100.0	169.9	Various retail tenants
Jubilee Place Retail	89,400	100.0	100.0	Various retail tenants
Churchill Place Retail	22,400	100.0	10.2	Barclays and various retail tenants
16-19 Canada Square	204,500	100.0	46.7	Waitrose Food & Home, Canada Square Health & Fitness, Conran Restaurants
Nash Court	8,900	100.0	12.4	Smollenskys, Carluccios
Car Parks	-	-	58.7	
Total	7,894,800	95.6	6,058.4	

At 31 December 2006 the investment property portfolio was 95.6% let (31 December 2005 – 89.6%), net of sub-lets back to Canary Wharf Group.

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 in the ownership of Canary Wharf Group, includes 14 properties totalling 6.3 million sq ft in other ownerships.

The properties of Canary Wharf Group are under lease to high quality tenants which provide a diversified income stream. At 31 December 2006 the weighted average unexpired lease term for the investment property portfolio was 19.8 years, or 17.1 years assuming exercise of outstanding break options (31 December 2005 – 21.0 years or 18.0 years respectively). Of the square footage under lease, 71.0% does not expire or cannot be terminated by tenants during the next ten years.

Leasing

During the course of 2006 Canary Wharf Group announced transactions over a total of 1.4 million sq ft including lettings totalling approximately 690,000 sq ft. The lettings concluded during the year comprised the following:

- Bear Stearns agreed to pre-let 206,000 sq ft in a new 300,000 sq ft building to be constructed at 5 Churchill Place for occupation in 2009 (see 'Business and Financial Review – Construction' below). In addition Bear Stearns has been granted call options over the remaining space in the building exercisable in stages up to practical completion.
- Bear Stearns also agreed to lease a further 22,100 sq ft on level 50 of One Canada Square on a 7 year term and renewed its lease of 19,900 sq ft on level 25 until April 2013. These leases are subject to break options exercisable after July 2008 in the case of level 50 and, on three months' notice, at any time in relation to level 25. Bear Stearns has other leases over 87,500 sq ft in One Canada Square, expiring in April 2013.

BUSINESS AND FINANCIAL REVIEW (continued)

- In One Churchill Place, Barclays Bank PLC ('Barclays') agreed to lease 97,100 sq ft to July 2014 and 33,400 sq ft to July 2019. These lettings were of part of space originally sub-let back to Canary Wharf Group by Barclays.
- In 40 Bank Street Saxo Bank agreed to lease a total of 19,500 sq ft for a 7 year term; Duff & Phelps leased 7,300 sq ft, Language Line leased 6,000 sq ft and Iflex leased 5,000 sq ft, all until July 2010; and Skadden Arps Slate Meagher & Flom ('Skadden') leased 19,500 sq ft to March 2008. These lettings were of space previously sub-let back to Canary Wharf Group by Skadden. In addition, Australia and New Zealand Banking Group Limited leased approximately 39,000 sq ft for 15 years and Situs Realty Services leased 6,100 sq ft for 10 years. As a result of these lettings, occupancy in the building has increased to 45.3%.
- In 25-30 Bank Street, Morgan Stanley agreed to lease 25,200 sq ft for an 18 month term; Atos Euronext Market Solutions agreed to lease approximately 40,000 sq ft until 2013 and has a call option over a further 10,800 sq ft; Jones Lang LaSalle Incorporated leased 51,000 sq ft on a 7 year term; State Street leased 24,100 sq ft until July 2009 and the FSA took a further 25,200 sq ft until July 2008. These lettings were of space previously sub-let back to Canary Wharf Group by Lehman Brothers.
- In One Canada Square, SWX Swiss Exchange renewed its lease over 13,000 sq ft and further lettings totalling 34,700 sq ft were achieved, including 11,000 sq ft let to Metlife on a 5 year term. Alvarez & Marsal, CFA Institute, Atkins, City University, Coutts & Company, Diligence and Satyam took the remainder of the space on terms ranging from 5 to 10 years.

Reflecting these lettings, the vacancy rate in completed buildings at 31 December 2006 reduced to 4.4%.

All space previously sub-let back to Canary Wharf Group has now been re-let or is subject to a call option. The estimated net present value of the sub-let liabilities has reduced markedly over the year. At 31 December 2005 the net present value in respect of 713,900 sq ft of sub-let space was estimated at approximately £149.0 million, discounted at 5.5% being Canary Wharf Group's weighted average cost of debt at that date. At 31 December 2006 the estimated net present value had reduced to approximately £43.8 million, discounted at 6.1%, being Canary Wharf Group's weighted average cost of debt at that date. This reduction was primarily attributable to the lettings achieved during the year over 353,000 sq ft of the sub-let space. These sub-let commitments have been reflected in the market valuation of Canary Wharf Group's properties.

Construction

Properties under construction at 31 December 2006 comprised the following:

Property address	Approx. NIA (sq ft)	Expected completion date	Status
20 Churchill Place	300,000	September 2008	Agreement to sell on completion
15 Canada Square	400,000	April 2009	Agreement to sell on completion
	700,000		
5 Churchill Place	300,000	May 2009	206,000 sq ft let to Bear Stearns
30 North Colonnade	300,000	July 2009	Available to lease
	1,300,000		

On 27 February 2006 Canary Wharf Group announced it had entered into an agreement for the sale, upon completion, of 20 Churchill Place to Prudential for £199.5 million for occupation by State Street in early 2009. When completed in 2008 the building will comprise approximately 300,000 sq ft, excluding ancillary space. State Street currently occupies approximately 114,700 sq ft in One Canada Square. The new building will enable State Street to consolidate its offices in the West End, the City and Canary Wharf into one location. In connection with the sale agreement Canary Wharf Group may take a surrender from State Street of two floors in One Canada Square totalling 57,000 sq ft, which have break options in 2013. The remaining space occupied by State Street has break options in 2008.

On 6 November 2006 Canary Wharf Group announced it had entered into an agreement for the sale to KPMG, upon completion, of 15 Canada Square, an approximately 400,000 sq ft building, for £260.0 million. KPMG currently occupies 140,800 sq ft in One Canada Square, of which 38,000 sq ft is subject to a break option on 31 December 2008. KPMG has been granted options to sub-let back to Canary Wharf Group the remaining space on practical completion of 15 Canada Square. In conjunction with the construction of this building, Canary Wharf Group has agreed to construct the adjacent building totalling approximately 300,000 sq ft. KPMG has been granted call options over approximately 100,000 sq ft in this building exercisable up to August 2007.

BUSINESS AND FINANCIAL REVIEW (continued)

As noted under 'Leasing' above, Bear Stearns has entered into an agreement to lease 206,000 sq ft in 5 Churchill Place.

In addition to the construction of new office buildings, Canary Wharf Group is currently re-developing the western end of the Cabot Place retail mall, with completion scheduled for March 2008. This will increase the existing Cabot Place retail area by approximately 42,600 sq ft and will introduce new retailers to the Estate including Zara, Massimo Dutti, River Island and Leon.

The remaining development site on the original Estate could accommodate approximately 0.4 million sq ft of new development and piling works have commenced on site. In addition, Canary Wharf Group has development sites at North Quay and Riverside. At Riverside, initial ground works are underway which will serve to reduce the completion time for development by approximately 18 months. At North Quay, in December 2006 the local authority granted consent for an increase in the permitted density to 2.4 million sq ft, adding to the 1.8 million sq ft of capacity at Riverside. There is further development capacity on Heron Quays West subject to planning consent. Construction of new buildings on these sites will commence as and when market conditions allow.

The following table summarises the development capacity at each of the above sites:

	NIA (million sq ft)
Based on existing planning permissions:	
- Canary Wharf	0.4
- Riverside South	1.8
- North Quay	2.4
	4.6
Subject to planning application:	
- Heron Quays West	0.6
Total ⁽¹⁾	5.2

Notes:

(1) Total for development sites which are wholly in the ownership of the group.

In addition to the above, Canary Wharf Group is working with Ballymore and BWB on the redevelopment of the Wood Wharf site which is immediately adjacent to the Estate. The master plan for the scheme, in which Canary Wharf Group has a 25.0% interest, sets a framework for 6.5 million sq ft (gross) of mixed commercial, residential and retail development.

Valuations

The net assets of the group, as stated in its consolidated balance sheet as at 31 December 2006, were £2,379.0 million including the minority interest. In arriving at this total:

- (i) properties held as investments were carried at £5,958.8 million, which represents the market value of those properties of £6,058.4 million at that date as determined by Canary Wharf Group's external valuers, CB Richard Ellis Limited, Surveyors and Valuers ('CBRE'), Savills Commercial Limited, Chartered Surveyors ('Savills'), or Cushman & Wakefield Healey & Baker, Real Estate Consultants ('CWHB'), less an adjustment of £99.6 million for tenant incentives as required by UITF 28;
- (ii) properties held for development were carried at £192.0 million, representing their cost to the group; and
- (iii) properties under construction to be retained by Canary Wharf Group were carried at £53.1 million, representing their cost to the group.

Excluding additions, the valuation of the investment portfolio on the basis of market value increased by £751.5 million or 14.2% over the year. The increase in valuation over the six months to 31 December 2006 was £312.5 million or 5.4%. After allowing for adjustments in respect of UITF 28, the carrying value of the investment property portfolio increased by £748.7 million in 2006, of which £310.6 million arose in the six months ended 31 December 2006. This increase was driven by a combination of new lettings achieved in the period, an increase in headline rents and further yield shift in the market for properties let on long leases to creditworthy tenants.

CBRE and Savills have provided a joint opinion as at 31 December 2006 that the market value of properties held for development was £415.0 million, in comparison with a carrying value for accounts purposes of £192.0 million. In valuing the properties held for development, the valuers have allowed for estimated costs to complete, including an allowance for fit-out. In addition, they have allowed for letting, disposal, marketing and financing costs. The market value of £415.0 million represents an increase of 49.5%, excluding additions and transfers, over the market value at 31 December 2005 which reflects the improving prospects for new development.

BUSINESS AND FINANCIAL REVIEW (continued)

The valuers also provided an opinion as at 31 December 2006 that the market value of properties under construction was £264.0 million, in comparison with historical cost of £131.0 million.

The market value of the entire property portfolio, including investment properties, properties held for development and properties under construction, increased by £1,007.5 million or 17.6% over the year, excluding additions and transfers and by £483.3 million or 7.7% for the six months ended 31 December 2006. This increase was 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.

	31 December 2006		31 December 2005	
	Carrying value £m	Market value in existing state £m	Carrying value £m	Market value in existing state £m
Investment properties	5,958.8 ⁽¹⁾	6,058.4 ⁽²⁾	5,204.7 ⁽¹⁾	5,301.5 ⁽²⁾
Properties under construction	53.1	95.0	–	–
Properties held for development	192.0	415.0	259.1	357.0
	6,203.9	6,568.4	5,463.8	5,658.5
Properties under construction held for sale	77.9 ⁽³⁾	169.0	–	–
	6,281.8	6,737.4	5,463.8	5,658.5

Notes:

- (1) The carrying value of investment properties represents market value less an adjustment for UITF 28.
- (2) Stated at market value in existing state before adjustment for UITF 28. The UITF 28 adjustment attributable to investment properties at 31 December 2006 was £99.6 million (31 December 2005 – £96.8 million).
- (3) Represents historical cost to the group. The carrying value in the balance sheet at 31 December 2006 is stated net of £76.4 million transferred to cost of sales, £3.3 million transferred from payments on account and costs of £1.8 million accrued in accordance with Statement of Standard Accounting Practice 9 (Stocks and long term contracts) ('SSAP 9').

Taxation

Canary Wharf Group has Enterprise Zone Allowances ('EZAs') available to shelter future operating profits and taxable profits and gains arising on the sale of properties.

There is no uplift in the value of Canary Wharf Group's investment properties attributable to EZAs because, as a result of an internal property restructuring in 2005, the interests to which the EZAs attach are of negligible value. Whereas Canary Wharf Group can claim EZAs on the qualifying expenditure originally incurred, a third party purchaser would only be able to claim EZAs by reference to these negligible values. The £nil uplift in market value does not therefore represent the value of EZAs to the group.

In addition, as the assets to which the EZAs attach are of negligible value, a disposal of property will not trigger a clawback of any EZAs previously claimed. As a result, there is no longer any deferred tax liability provided in respect of prior year claims made by Canary Wharf Group. However, as a result of the acquisition of two companies from a third party in the period, a deferred tax liability of £61.1 million has been recognised in respect of EZA claims made by those companies in prior years (Note 3).

If Canary Wharf Group were to dispose of its property portfolio at the market value disclosed in this 'Business and Financial Review', a tax liability of £129.1 million would arise (31 December 2005 – £nil) after taking into account all available losses including capital losses of £6.9 million. This amount includes tax on trading profits and net chargeable gains that would arise on the sale of properties under construction and properties held for development, including land interests. In addition, had the group disposed of its property portfolio at the balance sheet date, the benefit of the remaining EZAs would have been crystallised as a balancing allowance. This benefit has been taken into account in calculating the tax liability of £129.1 million. In line with Financial Reporting Standard 19 (Deferred tax) ('FRS 19') neither the benefit of these allowances nor the capital losses has been recognised through the creation of a deferred tax asset in the balance sheet.

BUSINESS AND FINANCIAL REVIEW (continued)**Operating results**

The following review of the group's operating results relates to the year ended 31 December 2006 ('2006'). The comparatives relate to the year ended 31 December 2005 ('2005').

The group's turnover is generated primarily by the rents and service charges earned from Canary Wharf Group's property interests on the Estate. Turnover for 2006 was £411.2 million compared with £348.6 million in 2005, of which rental income was £254.5 million (2005 – £272.8 million). The impact of UITF 28 was to reduce rental income by £1.2 million in 2006 (2005 – increase of £3.4 million). Excluding the impact of UITF 28, rental income reduced from £269.4 million in 2005 to £255.7 million in 2006, a reduction of £13.7 million or 5.1%, primarily attributable to rent foregone on the buildings sold in 2005, partly offset by the benefit of rent reviews. Turnover for 2006 also included £76.4 million recognised on the construction of 20 Churchill Place and 15 Canada Square in accordance with SSAP 9 (Note 7).

Service charge income increased from £50.2 million for 2005 to £53.6 million in 2006, an increase of £3.4 million or 6.8%. The increase over 2005 was attributable to higher occupancy on the Estate. Miscellaneous income, which includes insurance rents and the provision of tenant specific services (outside the standard service charge), increased from £25.6 million in 2005 to £26.7 million.

Cost of sales includes rents payable, property management costs, movements on provisions for vacant leasehold properties and certain other lease commitments, as well as costs allocated to cost of sales on the construction of 20 Churchill Place and 15 Canada Square. Rents payable and property management costs were £82.2 million for 2006 in comparison with £84.0 million for 2005. Taking into account service charge and miscellaneous income totalling £80.3 million for 2006 (2005 – £75.8 million), void costs were £1.9 million (2005 – £8.2 million). The reduction in void costs relates to recent lettings and the consequent increase in occupancy on the Estate.

In 2006, Canary Wharf Group sub-let a vacant leasehold resulting in a net release of a provision held in respect of this liability of £2.1 million which was taken to cost of sales. The group also released £2.0 million of a provision held against rent support commitments (Note 14). Cost of sales for 2006 included £76.4 million of costs recognised on the construction of the two buildings subject to agreements for sale.

For 2006 gross profits were £257.3 million compared with £263.9 million for 2005. The reduction in gross profit was attributable to property sales in 2005.

Administrative expenses for 2006 were £46.7 million in comparison with £39.5 million in 2005, of which £41.7 million (2005 – £34.1 million) related to Canary Wharf Group. The increase in administrative costs incurred by Canary Wharf Group was partly attributable to costs associated with lettings achieved and partly to fees relating to internal property restructurings undertaken in the year. The increase in administrative costs also reflects the payment of higher bonuses to management and staff in recognition of the group's strong performance during the year. Included in the company's administration expenses is amortisation of goodwill of £4.0 million (2005 – £3.8 million).

For 2006 operating profit was £212.5 million in comparison with £240.0 million for 2005. Included within the total for 2005 was a net profit of £12.1 million on the disposal by Canary Wharf Group of its long leasehold interests in Aldersgate Street (Note 7) which was recorded as an exceptional item. Excluding this exceptional item the operating profit for 2006 of £212.5 million compared with £227.9 million for 2005. The reduction in operating profit excluding the exceptional item was in part attributable to the reduction in net property income and in part to the increase in administrative expenses.

In 2005 the group recorded a net profit of £204.9 million on the disposal of seven properties by Canary Wharf Group (Note 7). This was shown as an exceptional item after operating profit in accordance with Financial Reporting Standard 3 (Reporting Financial Performance).

Also in 2005, IPC Advisors Limited exercised warrants to subscribe for 54,007,620 ordinary shares in Canary Wharf Group. The exercise of warrants was accounted for as a deemed partial disposal of the interest in Canary Wharf Group resulting in a charge to the group's profit and loss account of £27.7 million.

Net interest payable excluding exceptional items for 2006 was £258.6 million (2005 – £297.5 million) including the finance cost of non-equity shares of £33.0 million (2005 – £44.7 million). In 2006 the group recognised a gain of £123.3 million in connection with the acquisition of three finance leases by Canary Wharf Group which was treated as an exceptional item (Note 13(2)). In 2005 there were exceptional charges of £116.1 million incurred in respect of the early repayment of debt by Canary Wharf Group (refer to 'Business and Financial Review – Borrowings'). Excluding these exceptional items, the reduction in net interest payable of £38.9 million was attributable in part to lower levels of debt resulting from property sales during 2005, in part to a restructuring of debt undertaken by SAL in November 2005 and in part to the reduced charge in respect of non-equity shares. Net interest payable is stated after the capitalisation of £0.7 million of interest (2005 – £nil).

BUSINESS AND FINANCIAL REVIEW (continued)

The profit on ordinary activities before tax for 2006 was £77.2 million (2005 – £3.6 million). The results for 2006 and 2005 included certain exceptional profits and losses as described above. Excluding exceptional items, the loss on ordinary activities before tax for 2006 was £46.1 million (2005 – £69.6 million).

Taxation for 2006 was attributable to an increase in the deferred tax provision of £61.9 million primarily arising from the acquisition of three finance leases by Canary Wharf Group in the period (Note 13(2)). In 2005 the deferred tax provision reduced by £57.9 million.

The profit after taxation for 2006 was £15.3 million (2005 – £61.5 million), of which a profit of £35.2 million was attributable to the minority interest (2005 – £77.7 million).

On 19 April 2006, the company paid an interim dividend of 18p per share on the SG 10p shares ('SG Shares'), ordinary class A 10p shares ('A Shares') and ordinary class B 10p shares ('B Shares') totalling £110.9 million. Of this amount, £32.9 million was attributable to the preferred dividend payable to the SG shareholders which has been treated as a finance cost of non-equity shares.

Balance sheet and key performance indicators

On the basis of the group's statutory balance sheet, which does not reflect any revaluation of properties held for development or under construction, net assets at 31 December 2006 were £1,254.5 million excluding the minority interest, equivalent to £2.86 per equity share calculated on the basis of the number of shares in issue excluding the SG Shares and the D Share (31 December 2005 – £892.0 million equivalent to £2.06 per equity share). The increase in net asset value over 31 December 2005 was primarily attributable to the revaluation surplus attributable to members of the company of £455.3 million (£1.04 per equity share) partly offset by the loss for the period of £19.9 million attributable to members of the company (5p per equity share) and the dividend paid of £78.0 million (18p per equity share).

The group's objective is to manage its investment in Canary Wharf Group so as to maximise growth in net assets from increases in investment property values and property development activities. Accordingly the board considers that the most appropriate indicator of the group's performance is growth in adjusted net asset value per share attributable to members of the company prior to the payment of dividends. This measure serves to capture the board's judgements concerning, inter alia, letting strategy, redevelopments and financial structure.

Adjusted net asset value takes into account the market value of properties under construction and held for development which are held in the balance sheet at cost. It also adds back the provision for deferred tax required by accounting standards but which, in the board's judgement, is unlikely to crystallise. In calculating adjusted net asset value, minority interests have been deducted and the SG Shares and the D Share are treated as equity, whereas for statutory purposes Financial Reporting Standard 25 (Financial Instruments: Disclosure and Presentation) ('FRS 25') requires these classes of shares to be treated as debt.

Adjusted net asset value per share is set out in the table below which, for comparison purposes, also includes adjusted NNNAV per share.

BUSINESS AND FINANCIAL REVIEW (continued)

	31 December 2006 £m	31 December 2005 £m	Change %
Net assets per statutory balance sheet	2,379.0	1,808.0	
Add back deferred tax provision/(asset)	32.9	(29.0)	
Net assets prior to deferred tax provision	<u>2,411.9</u>	<u>1,779.0</u>	
Revaluation of property portfolio:			
– properties held for development ⁽¹⁾	223.0	97.9	
– properties under construction ⁽¹⁾	133.0	–	
	<u>2,767.9</u>	<u>1,876.9</u>	
Minority interest per statutory balance sheet	(1,124.5)	(916.0)	
Minority interest in adjustments above	(152.4)	(27.0)	
Reclassify D Share and SG Shares as equity ⁽²⁾	142.6	174.6	
Add back accrued interest on shares ⁽²⁾	57.5	30.1	
Adjusted net assets attributable to members of the company	<u>1,691.1</u>	<u>1,138.6</u>	<u>48.5</u>
Further adjustments:			
Fair value adjustments in respect of financial assets and liabilities net of tax relief thereon ⁽³⁾	(92.2)	(255.7)	
Contingent tax on property disposals ⁽⁴⁾	(129.1)	–	
Undiscounted deferred taxation ⁽⁵⁾	(84.5)	28.7	
Minority interest in further adjustments	119.9	89.0	
Adjusted NNNAV	<u>1,505.2</u>	<u>1,000.6</u>	<u>50.4</u>
Cumulative dividend ⁽⁶⁾	179.9	95.2	
	<u>1,685.1</u>	<u>1,095.8</u>	<u>53.8</u>
Adjusted net assets per share⁽⁷⁾	£2.74	£1.85	48.1
Adjusted net assets per share before dividends ⁽⁷⁾	£3.04	£2.00	52.0
Adjusted NNNAV per share⁽⁷⁾	£2.44	£1.62	50.6
Adjusted NNNAV per share before dividends ⁽⁷⁾	£2.74	£1.78	53.9

Notes:

- (1) Stated at market value in existing state.
- (2) The reclassifications required by FRS 25 have been reversed in order that net assets per share can be calculated on all shares in issue.
- (3) Refer to Note 13(11).
- (4) Refer to 'Business and Financial Review – Taxation'.
- (5) Refer to Note 14.
- (6) Total dividend paid of £213.2 million of which £33.3 million (31 December 2005 – £102.3 million of which £7.1 million) was accounted for as a reduction in the liability recorded in respect of the SG Shares (Note 4).
- (7) Calculated by reference to the closing number of shares of 616.1 million in issue at 31 December 2006 and 31 December 2005. There were no dilutive instruments outstanding at either date.

Subsequent to the year end, 14,478,260 B Shares were issued to British Land (Joint Ventures) Limited in exchange for the cancellation of the dividend and distribution rights attached to the D Share. The impact of this share issue was to reduce adjusted net asset value per share by 6p to £2.68 and to reduce adjusted NNNAV per share by 5p to £2.39.

On 14 February 2007, a dividend of 29.5p was paid on each of the SG Shares, A Shares and B Shares. This dividend served to reduce adjusted NAV per share, reflecting the conversion of the D Share to B Shares, from £2.68 to £2.38 and to reduce adjusted NNNAV per share from £2.39 to £2.09.

In arriving at adjusted net asset value per share, the deferred tax adjustment recognised in accordance with FRS 19 has been added back. FRS 19 requires, inter alia, recognition of deferred tax on capital allowances claimed, notwithstanding that no tax would become payable unless the related properties were disposed of. In contrast, no provision is required for the tax which would become payable if the group were to dispose of its properties at their revalued amount. This inconsistency in the standard has therefore been reversed in calculating the adjusted net asset value per share. In calculating NNNAV per share, however, the full undiscounted deferred tax adjustment has been taken into account along with the contingent tax payable (if any) on disposal of properties at their revalued amount.

NNNAV per share also factors in the fair value of financial assets and liabilities and any tax payable in the event of disposing of the property portfolio.

BUSINESS AND FINANCIAL REVIEW (continued)

Borrowings

In February 2006, Canary Wharf Group acquired three finance leases secured on certain properties on the Estate, funded by the release of charges over £836.7 million of cash deposits as described in Note 13(2). As a result, the group recognised a gain of £123.3 million which has been included in interest payable and treated as an exceptional item.

During 2005 Canary Wharf Group completed a comprehensive refinancing exercise, the objective of which was to refinance fixed rate long term debt with medium term bank debt. In connection with this refinancing Canary Wharf Group entered into a three year £750.0 million bridge facility to refinance the assets released from the securitisation structure. At 31 December 2005, £546.4 million of this loan had been repaid, primarily following the sale of certain properties. In March 2006 the remainder of the loan was repaid and Canary Wharf Group's retail assets were refinanced with a new £300.0 million facility (Note 13(4)).

The refinancing completed in March 2006 resulted in initial net proceeds of approximately £95.0 million net of financing expenses. The new loan initially carried interest at LIBOR plus a variable margin subject to, inter alia, prevailing loan to value and interest cover ratio tests. In October 2006 the loan was hedged by means of an interest rate swap which serves to fix the interest rate on the loan at 5.15% until maturity in March 2011.

In November 2006 Canary Wharf Group extended the maturity of its £369.4 million loan facility secured against 10 Cabot Square and 20 Cabot Square from April 2008 to January 2013.

In November 2005 SAL concluded a refinancing of its loan facility and in August 2006 SAL entered into a hedging arrangement utilising an interest rate collar whereby the LIBOR element of the interest rate payable on its loan will be capped at 5.75% with a floor of 4.63%. At 31 December 2006, £45.0 million remained available to draw under the facility.

At 31 December 2006, net debt (after cash in hand and cash collateral) stood at £3,593.5 million, down from £3,703.2 million at 31 December 2005, comprising:

	31 December 2006 £m	31 December 2005 £m
Securitised debt	2,563.2	2,582.9
SAL loans	522.9	542.4
Other secured loans	1,290.7	1,201.1
Finance lease obligations	42.0	1,002.0
Total borrowings	4,418.8	5,328.4
Less: cash collateral for borrowings	(288.2)	(985.6)
Less: other cash collateral	(24.7)	(2.3)
	4,105.9	4,340.5
Less: cash deposits	(712.5)	(842.0)
Net debt excluding non-equity share capital and financing	3,393.4	3,498.5
Non-equity share capital and financing	200.1	204.7
	3,593.5	3,703.2

The reduction in total borrowings from £5,328.4 million at 31 December 2005 to £4,418.8 million at 31 December 2006 primarily reflects the acquisition of three finance leases and the repayment of the remainder of the £750.0 million loan facility referred to above, partially offset by Canary Wharf Group's draw-down under the new retail facility. The reduction in total borrowings was accompanied by a reduction in cash and term deposits from £1,829.9 million to £1,025.4 million, primarily as a result of the cash used to acquire the finance leases described above and dividends paid, partially offset by the net proceeds from the draw-down of the new retail loan facility and amounts received under the agreements to sell 5 Churchill Place and 15 Canada Square.

The weighted average interest rate on the outstanding facilities (including credit wraps) was 6.2% at 31 December 2006 (31 December 2005 – 5.6%). These facilities are guaranteed by the company and by charges over the assets of the company and SAL. The facilities contain detailed covenants, representations and warranties and events of default which apply to the company and SAL. The increase in the group's weighted average cost of debt is attributable to the acquisition of finance leases by Canary Wharf Group which were previously fully cash collateralised and incurred interest at a rate linked to LIBID.

BUSINESS AND FINANCIAL REVIEW (continued)

At 31 December 2006 the fair value adjustment in respect of the group's financial assets and liabilities (excluding debtors and creditors falling due within one year) calculated in accordance with Financial Reporting Standard 13 (Derivatives and other financial instruments) ('FRS 13') was £131.6 million before tax relief (31 December 2005 – £365.3 million).

Cash flow

Net cash inflow from operating activities for 2006 was £221.6 million, in comparison with £178.1 million for 2005. The increase in net cash inflow was attributable to changes in working capital partly offset by rental income foregone on buildings sold in 2005. Dividends of £78.0 million were paid to the company's A and B shareholders in 2006 in comparison with £72.0 million in 2005.

Returns on investments and servicing of finance totalled £354.1 million for 2006 compared with £785.2 million for 2005. 2006 included £4.5 million of fees on loans drawn-down and repaid in the year compared with £227.4 million of breakage costs and fees in respect of the restructuring of financing facilities in 2005. In 2006 dividends totalling £120.1 million were paid to the minority interest shareholders in Canary Wharf Group compared with £268.3 million in 2005.

Capital expenditure and financial investment for 2006 resulted in a cash inflow of £215.5 million compared with £1,161.6 million for 2005. 2006 included £274.8 million of payments on account received in connection with the agreements to sell 20 Churchill Place and 15 Canada Square and £27.0 million deferred consideration received in January 2006 from the sale of 30 South Colonnade in 2005. These inflows were partly offset by development expenditure of £68.5 million, property acquisition expenditure of £7.2 million and funding of Canary Wharf Group's associated undertaking of £10.5 million. 2005 included proceeds of £1,175.6 million on the disposal of seven properties, development expenditure of £68.5 million and the acquisition of Aldersgate Street for a cash consideration of £52.8 million and its subsequent disposal for £110.0 million.

The financing cash outflow for 2006 was £809.5 million compared with an inflow of £246.1 million for 2005. 2006 included £836.6 million expended on the acquisition of three finance leases by Canary Wharf Group, funded by the removal of restrictions over certain cash collateral accounts (Note 13(2)) and a net repayment of £23.6 million under SAL's loan facility. 2006 also included repayment by Canary Wharf Group of £203.6 million remaining on its £750.0 million loan facility (Note 13(4)) funded by the draw-down of a new £300.0 million retail facility (Note 13(4)). 2005 included draw-downs under Canary Wharf Group's new bank facilities totalling £1,728.2 million, draw-downs under SAL's loan facilities of £549.4 million and the issue of notes under Canary Wharf Group's securitisation of £360.4 million. These were partially offset by the redemption of certain notes, the repayment of the acquisition loans and the repayment of certain finance leases and other loans totalling £2,563.1 million. In addition the financing cash inflow for 2005 included proceeds from the exercise of warrants in Canary Wharf Group of £142.7 million.

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2006

	Note	2006 £m	2005 £m
Turnover		411.2	348.6
Cost of sales		(153.9)	(84.7)
GROSS PROFIT		257.3	263.9
Administrative expenses		(46.7)	(39.5)
Other operating income:			
– before exceptional item		1.9	3.5
– exceptional item: net profit on sale of long leasehold property		–	12.1
OPERATING PROFIT		212.5	240.0
Exceptional items:			
– net profit on sale of properties	7	–	204.9
– loss on deemed part disposal of investment		–	(27.7)
Interest receivable		46.1	91.1
Interest payable:	2		
– before exceptional item			
– group		(304.4)	(388.6)
– associated undertaking		(0.3)	–
– exceptional item: gains/(charges) relating to repayment of debt	2	123.3	(116.1)
		(181.4)	(504.7)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		77.2	3.6
Taxation	3	(61.9)	57.9
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		15.3	61.5
Minority interest	16	(35.2)	(77.7)
LOSS ON ORDINARY ACTIVITIES ATTRIBUTABLE TO MEMBERS OF THE COMPANY		(19.9)	(16.2)
Basic and diluted loss per share	6	(4.6)p	(3.8)p

**CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED
31 DECEMBER 2006**

	Note	2006 £m	2005 £m
Loss on ordinary activities after taxation attributable to members of the company			
- group		(19.6)	(16.2)
- share of associated undertaking		(0.3)	-
Unrealised surplus on revaluation of investment properties attributable to members of the company	7	455.3	547.2
TOTAL RECOGNISED GAINS AND LOSSES RELATING TO THE YEAR		435.4	531.0

NOTE OF HISTORICAL COST PROFITS AND LOSSES

	2006 £m	2005 £m
Reported profit on ordinary activities before taxation	77.2	3.6
Realisation of property revaluation gains of the previous period	-	22.5
HISTORICAL COST PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	77.2	26.1
HISTORICAL COST LOSS FOR THE YEAR AFTER TAXATION AND MINORITY INTERESTS	(19.9)	(2.5)

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2006

	Note	2006 £m	2005 £m
FIXED ASSETS			
Investment properties	7	5,958.8	5,204.7
Properties under construction	7	53.1	–
Properties held for development	7	192.0	259.1
Other tangible fixed assets		0.4	2.4
Investments	8	12.8	2.8
Goodwill	9	66.4	72.6
		<u>6,283.5</u>	<u>5,541.6</u>
CURRENT ASSETS			
Debtors: due in more than one year	10	99.6	96.8
Debtors: due within one year	10	53.5	104.0
Cash at bank and in hand	11	1,025.4	1,829.9
		<u>1,178.5</u>	<u>2,030.7</u>
CREDITORS: Amounts falling due within one year	12	(492.3)	(245.5)
NET CURRENT ASSETS		<u>686.2</u>	<u>1,785.2</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>6,969.7</u>	<u>7,326.8</u>
CREDITORS: Amounts falling due after more than one year	13	(4,517.2)	(5,462.4)
Provisions for liabilities	14	(73.5)	(56.4)
NET ASSETS		<u>2,379.0</u>	<u>1,808.0</u>
CAPITAL AND RESERVES			
Called up share capital	15	43.9	43.3
Reserves:			
– share premium	16	380.7	375.5
– revaluation reserve	16	1,059.8	604.5
– own shares	16	(0.6)	(1.0)
– profit and loss account	16	(229.3)	(130.3)
SHAREHOLDERS' FUNDS		<u>1,254.5</u>	<u>892.0</u>
Minority interest	16	1,124.5	916.0
TOTAL CAPITAL EMPLOYED		<u>2,379.0</u>	<u>1,808.0</u>

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2006

	Note	2006 £m	2005 £m
NET CASH INFLOW FROM OPERATING ACTIVITIES	18	221.6	178.1
Returns on investments and servicing of finance	19	(354.1)	(785.2)
Capital expenditure and financial investment	19	215.5	1,161.6
Dividends		(78.0)	(72.0)
Acquisitions		-	(1.3)
		(216.6)	303.1
Cash inflow before management of liquid resources and financing		5.0	481.2
Management of liquid resources		675.0	(528.3)
Financing	19	(809.5)	246.1
(DECREASE)/INCREASE IN CASH IN THE YEAR	20	(129.5)	199.0

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

1 BASIS OF PREPARATION

The financial information for 2006 and 2005 does not constitute statutory accounts for the purposes of s240 of the Companies Act 1985. The statutory accounts for the year ended 31 December 2005 have been delivered to the Registrar of Companies and received an unqualified auditors' report and did not contain a statement under s237 (2) or (3) of the Companies Act 1985. The statutory accounts for the year ended 31 December 2006 form the basis of the financial information presented by the directors in this preliminary announcement and will be delivered to the Registrar of Companies following the company's annual general meeting.

The financial information is prepared on the basis of the accounting policies set out in the group's statutory accounts for the year ended 31 December 2005, all of which have been consistently applied throughout this and the preceding year save for the adoption of Financial Report Standard 20 (Share-based Payments) ('FRS 20') which now has effect.

Accounting for share options

Ordinary class B shares in the company ('B Shares') are held in trust in connection with Canary Wharf Group's share scheme. Under some of the options outstanding at 31 December 2006 holders may opt for a cash settlement at the end of the vesting period, linked to the market price of the B Shares at that date. For cash-settled options, a liability is recorded based on the market value of the shares at each balance sheet date. The cost of equity-settled share options is measured at the grant date and is based on the market value of B Shares at that date. In both cases 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. Previously the historical cost of the B Shares was amortised over the vesting period of relevant schemes on a straight-line basis. The carrying value of the B Shares held in trust continues to be presented as a deduction in arriving at shareholders' funds.

The change in accounting policy did not give rise to a material adjustment to the carrying value of the B Shares or the liabilities of the group at 31 December 2005.

2 INTEREST PAYABLE

	2006 £m	2005 £m
Notes and debentures	150.3	164.4
SAL loans	39.1	55.0
Bank loans and overdrafts	78.3	79.3
Finance lease charges	4.4	45.2
Share of associated undertaking	0.3	-
Finance costs of non-equity shares (Note 4)	33.0	44.7
	<u>305.4</u>	<u>388.6</u>
Less:		
Interest at 6.2% on development financings transferred to development properties	(0.7)	-
	<u>304.7</u>	<u>388.6</u>
Exceptional items:		
- gains relating to repayment of finance leases	(123.3)	-
Charges relating to early repayment of debt:		
- prepayment and breakage costs	-	194.1
- write-off of deferred financing costs, fair value adjustments and other accounting adjustments	-	(78.0)
	<u>(123.3)</u>	<u>116.1</u>

During 2006, the group recognised gains on the acquisition of finance leases totalling £123.3 million as detailed in Note 13(2). These gains have been taken to the profit and loss account as an exceptional item. As a result of the property interests acquired, the group has recognised a deferred tax provision at 31 December 2006 of £61.1 million (Note 14).

During 2005 Canary Wharf Group incurred prepayment and breakage costs totalling £194.1 million in relation to the prepayment and refinancing of certain loans, principally Canary Wharf Group's first securitisation. These costs were charged to the profit and loss account as an exceptional item.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (Continued)

Financing costs relating to the inception of the group's borrowings are deferred and amortised to the profit and loss account over the term of the debt at a constant rate based on the carrying amount of the debt in accordance with FRS 4. As a result of prepaying certain of Canary Wharf Group's borrowings early, the unamortised portion of the financing costs relating to the debt prepaid was written-off to the profit and loss account in 2005. The repayment of debt by Canary Wharf Group in 2005 also resulted in the release of certain fair value adjustments together with the related deferred tax provision which was recognised at the time of the acquisition of Canary Wharf Group in May 2004. The net amount written-off totalling £116.1 million was taken to the profit and loss account and shown as an exceptional item.

In 2006 interest payable of £0.7 million was transferred to properties under construction (Note 7). This amount was attributable to the cost of funds forming part of the group's general borrowings which were utilised in financing construction on the property under construction held for investment. At 31 December 2005 there were no properties under construction and no such transfer was made in 2005.

There was no deferred tax as a result of any of the transactions in 2005.

3 TAXATION

	2006 £m	2005 £m
Current tax:		
UK corporation tax (see below)	-	-
Deferred tax:		
Origination and reversal of timing differences in the current year	(62.0)	58.0
Net effect of discount	0.1	(0.1)
Total deferred tax (Note 14)	<u>(61.9)</u>	<u>57.9</u>
Total tax on profit on ordinary activities	<u>(61.9)</u>	<u>57.9</u>
Tax reconciliation:		
Group profit on ordinary activities before tax	77.2	3.6
Tax on profit on ordinary activities at UK corporation tax rate of 30%	23.2	1.1
Effects of:		
- tax losses and other timing differences	(34.5)	(14.7)
- expenses not deductible for tax purposes	11.3	13.6
Current tax charge for the year	<u>-</u>	<u>-</u>

The tax (charge)/credit for 2006 and 2005 relates solely to deferred tax.

In accordance with FRS 19 the group provides for the potential clawback of EZAs claimed in the event of the sale of the property interest to which those claims relate. In connection with certain refinancings during 2005, certain property interests were restructured and transferred between companies within the Canary Wharf Group. As a result of this property restructuring the potential for clawback of EZAs was reduced and provisions for deferred tax totalling £158.4 million, net of a discount of £68.7 million, were released to the profit and loss account.

As a result of the acquisitions referred to in Note 13(2) Canary Wharf Group has acquired property interests where it is possible that a clawback of EZAs may arise in the event that those property interests are sold. Under FRS 19 a provision was required in respect of this potential liability of £185.4 million, net of a discount of £75.1 million, resulting in a charge to the profit and loss account of £110.3 million. As a result of an internal lease restructuring, the potential clawback of EZAs was subsequently reduced by £72.7 million, net of a discount of £23.5 million. Other movements in deferred tax of £0.8 million resulted in a total charge to the profit and loss account for the year of £61.9 million.

No provision for corporation tax has been made in the consolidated results of the group for 2006 or 2005 due to tax losses arising in the period, the availability of tax losses brought forward from previous periods and other tax reliefs available. It is anticipated that remaining capital losses and other tax reliefs, including EZAs, will reduce future tax charges.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (Continued)

4 FINANCE COSTS OF SHARES

As a result of the redemption rights attaching to the SG Shares, and in accordance with FRS 25, the profit and loss account reflects an appropriation of profit shown as interest payable in respect of the SG Shares accumulated at a rate of 8% per annum subject to escalation in certain circumstances.

On 25 November 2005 a dividend of 16.61p per SG Share, totalling £30.3 million, was paid to the SG shareholders and accounted for as £23.2 million of interest payable with the remaining £7.1 million serving to reduce the liability recorded in respect of the SG Shares. On 19 April 2006, a dividend of 18.00p per SG Share, totalling £32.9 million, was paid to the SG shareholders which was accounted for as £5.6 million of interest payable with the remaining £27.3 million serving to reduce the liability recorded in respect of the SG Shares.

On 28 April 2006 5,813,470 SG Shares were converted into B Shares. As a result of this conversion, £1.1 million of dividends paid to the SG shareholders and previously classified as a reduction in the liability recorded in respect of this class of shares was reclassified as an appropriation of profit (Note 16).

At 31 December 2006, £8.7 million was accrued in respect of interest accumulated on the SG Shares (31 December 2005 – £1.4 million).

In accordance with FRS 25, the terms of the dividends payable on the D Share require the classification of this share within creditors falling due in more than one year and the recognition of dividends as interest payable. This resulted in an accrual in respect of D Share dividends of £48.8 million at 31 December 2006 (31 December 2005 – £28.7 million). Subsequent to the year end, the dividend rights on the D Share were cancelled in exchange for B Shares (Note 22), and on 26 February 2007 the D Share was redeemed by the company.

No appropriation of profit is required to be recognised in respect of the other classes of shares under FRS 4 or FRS 25. Net of dividends paid (Note 5), the appropriation of profit accruing for 2006, but not recognised in these financial statements, was £12.1 million on the A Shares (2005 - £2.0 million) and £9.0 million on the B Shares (2005 - £1.3 million).

5 DIVIDENDS

	2006	2005
	£m	£m
Dividends paid at 16.61p per ordinary share	–	72.0
Dividends paid at 18.00 p per ordinary share	78.0	–
The amount recognised as dividend paid comprised:		
Payment on A Shares	47.0	43.3
Payment on B Shares	31.0	28.7
	78.0	72.0

An interim dividend of 18p per share was paid on 19 April 2006 totalling £110.9 million of which £32.9 million was paid to the SG shareholders and accounted for as described in Note 4.

On 25 November 2005 the company paid an interim dividend of 16.61p per share totalling £102.3 million, of which £30.3 million was paid to the SG shareholders.

6 BASIC AND DILUTED LOSS PER SHARE

The basic and diluted loss per share are calculated by reference to the loss attributable to ordinary shareholders for 2006 of £19.9 million (2005 – £16.2 million) and on the weighted average of 436.5 million ordinary shares in issue (31 December 2005 – 430.7 million) excluding the SG Shares, the D Share and the B Shares held in trust in connection with the Canary Wharf 2004 Deferred Share Plan.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (Continued)

7 INVESTMENT PROPERTIES, PROPERTIES HELD FOR DEVELOPMENT AND PROPERTIES UNDER CONSTRUCTION

Freehold properties held as tangible fixed assets

	Investment properties £m	Properties held for development £m	Property under construction held for investment £m	Properties under construction held for sale £m
1 January 2006 pre-adjustment for UITF 28	5,301.5	259.1	-	
Adjustment for UITF 28	(96.8)	-	-	
1 January 2006	5,204.7	259.1	-	
Additions (net of adjustment for UITF 28)	5.4	25.4	5.5	
Transferred	-	(92.5)	47.6	
Revaluation	748.7	-	-	
31 December 2006	5,958.8	192.0	53.1	
Adjustment for UITF 28 (Note 10)	99.6			
Market value at 31 December 2006	6,058.4			

Of which, subject to lease and finance leaseback arrangements	101.8
Historical cost	4,215.5

Freehold property under construction held for sale

Transferred	46.8
Additions	31.1
Transferred to cost of sales	(76.4)
Transferred from payments on account	(3.3)
Accrued costs	1.8
31 December 2006	-

Investment properties are recorded at valuation less the cost of unamortised tenant incentives incurred at the balance sheet date in accordance with UITF 28. The remaining unamortised tenant incentives are held within debtors falling due in more than one year (Note 10).

Additions to properties for 2006 totalled £71.4 million. In the above table additions are stated net of £4.0 million of tenant works which have been classified as other tenant incentives for the purposes of UITF 28 and included within debtors falling due after one year (Note 10).

Canary Wharf Group's investment properties have been revalued externally at 31 December 2006 on the basis of market value. The valuation of office investment properties was undertaken by either CBRE or Savills. The valuation of retail investment properties was undertaken by CWHB. Each property has been valued individually on a free and clear basis and not as part of a portfolio and no account has been taken of any intragroup leases or arrangements. Whilst allowance has been made for any purchaser's expenses, no allowance has been made for any seller's expenses of realisation nor for any taxation that might arise in the event of disposal. The surplus arising on the valuations at 31 December 2006 of £748.7 million has been transferred to the revaluation reserve. Of the total revaluation surplus of £748.7 million, £293.4 million is attributable to the minority interest and £455.3 million to the members of the company.

Properties held for development at 31 December 2006, which are to be retained as investment properties, are carried at their fair value at the time of acquisition of the Canary Wharf Group in May 2004, less subsequent disposals plus additions at cost, subject to any provision for impairment.

In February 2006 Canary Wharf Group entered into an agreement for the sale of 20 Churchill Place upon completion for a consideration of £199.5 million (see 'Business Review – Construction'). As a result, the historical cost to the group of this site of £14.9 million has been transferred from properties held for

development to freehold property under construction held as a current asset. At 31 December 2006 the carrying value is stated net of £35.6 million taken to cost of sales in accordance with SSAP 9 as Canary Wharf Group fulfils its obligations under the sale agreement. The remaining balance of £3.3 million after additions in the year of £24.0 million has been offset against payments on account in creditors falling due within one year.

In November 2006 Canary Wharf Group entered into an agreement for the sale of 15 Canada Square for an initial consideration of £260.0 million (see 'Business Review – Construction'). As a result the historical cost to the group of this site of £31.9 million has been transferred from properties held for development to freehold property under construction held as a current asset. At 31 December 2006 the carrying value is stated net of £40.8 million taken to cost of sales in accordance with SSAP 9. The remaining balance of £1.8 million after additions in the period of £7.1 million has been accrued for.

Utilisation of the payments on account received in connection with the agreements for sale of 20 Churchill Place and 15 Canada Square:

	20 Churchill Place £m	15 Canada Square £m	Total £m
Amounts received	182.3	92.5	274.8
Recorded as turnover	(35.6)	(40.8)	(76.4)
Applied as an offset against long term contract balances	(3.3)	-	(3.3)
Deferred interest	5.2	0.2	5.4
31 December 2006 (Note 12)	<u>148.6</u>	<u>51.9</u>	<u>200.5</u>

At 31 December 2006 the property under construction held for investment included £0.7 million in respect of financing costs.

During 2005 Canary Wharf Group completed the sale of seven properties which resulted in a total profit on disposal of £204.9 million shown as an exceptional item. There was no deferred tax charge as a result of these disposals.

In April 2005 Canary Wharf Group acquired the long leasehold interests in Aldersgate Street. The valuation at the date of acquisition on this basis, ignoring intragroup leases, was £97.0 million. On 2 December 2005, Canary Wharf Group disposed of its long leasehold interests in Aldersgate Street for a total consideration of £110.0 million and recognised a profit of £12.1 million after expenses attributable to the sale, which was taken to the profit and loss account and shown as an exceptional item. There was no deferred tax charge as a result of this transaction.

8 INVESTMENTS

	2006 £m	2005 £m
Associated undertakings	12.6	2.5
Other investments	0.2	0.3
	<u>12.8</u>	<u>2.8</u>

In April 2005, British Waterways Board appointed Canary Wharf Group, together with Ballymore, as its partner for the development of Wood Wharf, a site adjacent to the Estate. The Wood Wharf Limited Partnership ('WWLP') has been established to oversee the development of an approximately 6.5 million sq ft (gross) mixed use scheme in which Canary Wharf Group has a 25.0% effective interest. Canary Wharf Group has subscribed £1,000 of equity share capital in the partners of WWLP and has, in addition, provided interest free long-term loans totalling £11.0 million to fund the working capital requirements of the partnership, which are repayable out of development profits.

The funding of WWLP has been accounted for as an investment in an associated undertaking and comprises an initial entry premium (plus expenses) of £1.9 million together with the group's share of the net assets of WWLP. The results of WWLP attributable to the group have been derived from WWLP's management accounts for 2006.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (Continued)

9 GOODWILL

The cost of the investment in Canary Wharf Group included provision for certain fees payable by the company or SAL in connection with the acquisition of Canary Wharf Group in May 2004. In 2006 a fee totalling £2.2 million was waived. The revised amount of goodwill is being amortised on a straight line basis over the remainder of the period of 20 years to May 2024.

The movements in goodwill during 2006 comprise:

	£m
1 January 2006	72.6
Waived fees	(2.2)
Amortisation in the year	(4.0)
31 December 2006	66.4

10 DEBTORS

	2006 £m	2005 £m
Due within one year:		
Trade debtors	6.0	5.7
Deferred taxation (Note 14)	–	29.0
Other debtors	10.5	43.2
Prepayments and accrued income	37.0	26.1
	<u>53.5</u>	<u>104.0</u>

At 31 December 2006, there was an unprovided deferred tax asset of £41.9 million relating to tax losses (31 December 2005 – £30.7 million).

	Rent-free periods £m	Other tenant incentives £m	Total £m
Due in more than one year:			
1 January 2006	47.6	49.2	96.8
Transferred from properties held as fixed assets (Note 7)	–	4.0	4.0
Recognition of rent during rent-free periods	12.6	–	12.6
Amortisation of lease incentives	–	(13.8)	(13.8)
31 December 2006	<u>60.2</u>	<u>39.4</u>	<u>99.6</u>

11 FINANCIAL ASSETS

The group's financial assets comprise short term trade debtors (Note 10) and cash deposits. Cash deposits totalled £1,025.4 million at 31 December 2006 (31 December 2005 – £1,829.9 million), comprising deposits placed on money market at call and term rates. Total cash deposits included £288.2 million (31 December 2005 – £985.6 million) held by third parties as cash collateral for the group's borrowings and a further £24.7 million (31 December 2005 – £2.3 million) charged to third parties as security for the group's obligations.

All cash deposits were invested at floating rates.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (Continued)

12 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2006 £m	2005 £m
Borrowings (Note 13)	44.2	40.6
Trade creditors	13.5	18.3
Taxation and social security costs	5.3	4.5
Other creditors	30.8	15.9
Accruals	85.5	92.8
Deferred income	55.0	43.3
Payments on account (Note 7)	200.5	–
Financing costs of non-equity share capital (Note 4)	57.5	30.1
	<u>492.3</u>	<u>245.5</u>

13 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2006 £m	2005 £m
SAL Loans	518.6	542.4
Securitised debt	2,544.3	2,561.9
Secured loans	1,269.7	1,181.5
Finance lease obligations	42.0	1,002.0
Non-equity share capital	142.6	174.6
	<u>4,517.2</u>	<u>5,462.4</u>

In accordance with FRS 25, the D Share and SG Shares have been classified as creditors falling due in more than one year, and the dividends accrued (but not declared or paid) in respect of these shares are included in creditors due in less than one year (Note 12). At 31 December 2006 £48.8 million had been accrued in respect of the D Share (31 December 2005 – £28.7 million), and £8.7 million in respect of the SG Shares (31 December 2005 – £1.4 million).

The amounts at which borrowings are stated, including share capital reclassified in accordance with FRS 25, comprise:

	Securitised debt £m	SAL loans £m	Secured loans £m	Finance lease obligations £m	Total borrow- ings £m	Non- equity share capital £m	Total £m
1 January 2006	2,582.9	542.4	1,201.1	1,002.0	5,328.4	204.7	5,533.1
Drawn-down in year	–	175.2	300.0	–	475.2	–	475.2
Deferred financing expenses	(2.7)	4.6	(1.5)	(3.2)	(2.8)	–	(2.8)
Accrued finance charges	(5.1)	(0.5)	1.2	3.1	(1.3)	27.4	26.1
Reclassified in year	–	–	–	–	–	(4.7)	(4.7)
Repaid in period	(11.9)	(198.8)	(210.1)	(836.6)	(1,257.4)	(27.3)	(1,284.7)
Exceptional gain on acquisition of finance leases	–	–	–	(123.3)	(123.3)	–	(123.3)
31 December 2006	<u>2,563.2</u>	<u>522.9</u>	<u>1,290.7</u>	<u>42.0</u>	<u>4,418.8</u>	<u>200.1</u>	<u>4,618.9</u>
Payable within one year or on demand	18.9	4.3	21.0	–	44.2	57.5	101.7
Payable in more than one year	2,544.3	518.6	1,269.7	42.0	4,374.6	142.6	4,517.2
	<u>2,563.2</u>	<u>522.9</u>	<u>1,290.7</u>	<u>42.0</u>	<u>4,418.8</u>	<u>200.1</u>	<u>4,618.9</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (Continued)

The disclosures in this note should be read in conjunction with the 'Borrowings' section of the 'Business and Financial Review'.

- (1) In November 2005 SAL entered into a new loan facility, of which £544.5 million had been drawn-down at 31 December 2005. The amount of the facility drawn at 31 December 2006 was £520.9 million and a further £45.0 million was available to be drawn at that date. The loan is repayable in full in November 2007, although repayment of the amount drawn at 31 December 2006 may be extended by six months at the option of SAL. Interest is payable at three month LIBOR plus 1.771%. The weighted average interest rate on the outstanding facilities was 7.4% at 31 December 2006. In August 2006, SAL entered into a hedging arrangement using an interest rate collar under which the LIBOR element of the interest rate payable is capped at 5.75% with a floor of 4.63%. These facilities are guaranteed by the company and by charges over the assets of the company and SAL.
- (2) On 1 February 2006, Canary Wharf Group concluded the acquisition from Barclays of CWCB Finance Leasing (DS7B) Limited (formerly Barclays Capital Leasing (No 165) Limited) ('BCL (165)') and Canary Wharf Finance Leasing (BP1/DS6) Limited (formerly Barclays Capital Leasing (No 166) Limited) ('BCL (166)') for a consideration of £0.1 million in excess of net assets acquired. In September 1997 BCL (165) entered into an agreement for lease in respect of certain floors in One Canada Square which were immediately leased back to Canary Wharf Group from the date of acquisition on finance lease terms. As a result of the acquisition of BCL (165), cash deposits totalling £112.0 million held by Canary Wharf Group as security for the finance lease were released from charge. BCL (165) has been consolidated in the accounts of Canary Wharf Group from the date of acquisition, the effect of which was that finance lease receivables and payables totalling £111.9 million were offset.

In March 1998 BCL (166) entered into an agreement for lease in respect of certain floors in 33 Canada Square and in September 2003 it entered into an agreement for lease of One Churchill Place. In each case the respective property was subject to an agreement to lease back to Canary Wharf Group from the date of acquisition on finance lease terms. As a result of the acquisition of BCL (166), cash deposits totalling £724.6 million held by Canary Wharf Group as security for the finance leases were released from charge. BCL (166) has been consolidated in the accounts of Canary Wharf Group from the date of acquisition, the effect of which was that finance lease receivables totalling £728.0 million were offset against finance lease payables totalling £852.2 million resulting in a gain of £123.3 million after fees which has been recorded as an exceptional item.

The consideration payable on acquisition of the two companies has been treated as a charge required to restructure the finance leases and shown as a component within interest payable in 2006. As a result of these acquisitions a deferred tax provision of £110.3 million was recognised (Note 3).

- (3) In March 2005 Canary Wharf Group drew-down £369.4 million under a new bank loan facility secured against 10 Cabot Square and 20 Cabot Square. The loan carried interest at a rate of 5.82% and was originally repayable in 2008. In December 2006 Canary Wharf Group extended the repayment date of this loan from April 2008 to January 2013 upon payment of an arrangement fee of £2.4 million. The loan remains on a fixed interest basis until April 2008 when it becomes floating rate. Canary Wharf Group has entered into a forward starting interest rate swap from April 2008 to January 2013 at a fixed rate of 5.031%.
- (4) In May 2005, Canary Wharf Group completed a refinancing of its securitised properties which involved the repayment of all debt outstanding under its first securitisation, the repayment of a bank loan facility of £85.0 million and repayment of £135.0 million of notes from its second securitisation. These repayments were funded by a bank loan facility of £750.0 million and a tap issue of £360.0 million of floating rate notes on Canary Wharf Group's second securitisation.

The £750.0 million facility was drawn in full and carried interest at an initial rate of LIBOR plus 1%. During the course of 2005 £546.4 million of this facility was repaid primarily as a result of the disposal of four properties. Following these loan repayments, the margin on the loan reduced to LIBOR plus 85 bps by March 2006 when the remainder of the loan was refinanced with a new £300.0 million facility secured against Canary Wharf Group's principal retail properties. The retail loan facility carries interest at LIBOR plus a variable margin rate, subject to, inter alia, prevailing loan to value and interest cover ratio tests. At 31 December 2006 the margin was set at 70 bps. In October 2006 the group entered into an arrangement whereby the exposure to the movement in three month LIBOR rates on the facility was fully hedged with a fixed interest rate swap at 5.15%.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (Continued)

- (5) At 31 December 2005 the following notes issued by a subsidiary of Canary Wharf Group were outstanding:

Tranche	£m	Interest	Repayment
A1	1,215.0	6.455%	By instalment 2009 to 2033
A3	400.0	5.952%	By instalment 2032 to 2037
A5	221.5	Floating	By instalment 2012 to 2033
B	224.6	6.800%	By instalment 2005 to 2033
B2	104.1	Floating	By instalment from 2005 to 2027
C1	224.0	Floating	By instalment from 2006 to 2027
D1	25.0	Floating	By instalment from 2011 to 2030
	2,414.2		

The carrying value of the outstanding notes at 31 December 2006 was £2,563.2 million.

The notes are secured on certain property interests of the group and the rental income stream therefrom.

Interest on the B2 notes is payable at three month LIBOR plus 0.35% and hedged at 5.032%. There is a step up in the margin on the B2 notes to 0.875% in July 2012. Interest on the C1 notes is payable at three month LIBOR plus 0.6% and hedged at 5.278%. There is a step up in the margin to 1.5% in July 2012. Interest on the D1 notes is payable at three month LIBOR plus 0.9% and there is a step up in the margin to 2.25% in July 2012. There is an interest rate collar on the D1 notes with a notional principal of £25.0 million, a floor of 5.0% and a cap of 9.0%.

The remaining A5 notes are in a principal amount of US\$315.1 million with interest payable at three month US\$ LIBOR plus a margin of 0.39% to July 2010 and thereafter 0.975%. These notes are hedged via cross currency swaps, whereby principal and interest liabilities are swapped into sterling providing a principal of £221.5 million. The weighted average interest rate payable under the A5 notes is 6.289% to July 2010 and 6.556% thereafter. The margin step up to 0.975% is not hedged.

The weighted average maturity of the debentures at 31 December 2006 was 15.9 years. The debentures may be redeemed at the option of the issuer in an aggregate amount of not less than £1.0 million (except the A5 notes which may not be less than \$1.0 million) 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.

- (6) In December 2002, Canary Wharf Group entered into a loan facility secured against One Churchill Place which was drawn-down in January 2005. The loan is fully amortising with a final maturity in July 2034. The loan carries a hedged interest rate of 5.82%. In 2006, £6.4 million of the loan was amortised in accordance with the loan agreement.
- (7) In accordance with Financial Reporting Standard 7 (Fair values in acquisition accounting), a fair value adjustment was made to the carrying value of Canary Wharf Group's debt on the acquisition of Canary Wharf Group by the company and SAL in May 2004 which gave rise to an increased liability of £207.5 million. This amount is amortised to the profit and loss account over the life of the relevant debt instrument. As a result of the restructuring of Canary Wharf Group's financing in 2005, £94.9 million of the fair value adjustment was released. At 31 December 2006 £92.2 million remained unamortised (31 December 2005 – £97.3 million). The fair value adjustment initially gave rise to a deferred tax asset of £55.9 million of which £28.4 million remained unamortised at 31 December 2006 (31 December 2005 – £29.2 million).
- (8) Canary Wharf Group's obligations under its remaining 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 21). The rate of interest implicit in the finance lease, linked to LIBOR, was 4.9% at 31 December 2006 (31 December 2005 – 4.3%).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (Continued)

- (9) Loans and finance lease obligations (excluding accrued interest payable):

	2006		2005	
	Loans £m	Finance leases £m	Loans £m	Finance leases £m
In less than one year or on demand	21.6	-	18.3	-
In more than one year but less than two years	538.6	-	564.0	-
In more than two years but not more than five years	500.4	-	728.3	-
In more than five years	3,297.9	42.0	2,952.7	1,002.0
	4,358.5	42.0	4,263.3	1,002.0

- (10) After taking into account interest rate hedging and currency swaps entered into by Canary Wharf Group, the interest rate profile of the group's borrowings (including accrued interest payable) was:

	2006			2005		
	Floating rate borrowings £m	Fixed rate borrowings £m	Total £m	Floating rate borrowings £m	Fixed rate borrowings £m	Total £m
Securitised debt	25.3	2,537.9	2,563.2	25.3	2,557.6	2,582.9
SAL loans	-	522.9	522.9	542.4	-	542.4
Secured loans	-	1,290.7	1,290.7	204.1	997.0	1,201.1
Finance leases	42.0	-	42.0	1,002.0	-	1,002.0
	67.3	4,351.5	4,418.8	1,773.8	3,554.6	5,328.4
Less: Cash collateral for borrowings (Note 11)	(42.4)	(245.8)	(288.2)	(890.2)	(95.4)	(985.6)
	24.9	4,105.7	4,130.6	883.6	3,459.2	4,342.8

The group's floating rate liabilities comprise sterling denominated notes and finance leases which bear interest at rates linked to LIBOR.

In respect of the group's fixed rate financial liabilities:

	2006		2005	
	Weighted average interest rate %	Weighted average period fixed Years	Weighted average interest rate %	Weighted average period fixed Years
Securitised debt	6.2	15.9	6.2	17.1
Secured loans	6.3	13.0	5.9	16.4

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (Continued)

- (11) The fair values of the group's financial assets and liabilities (excluding debtors and creditors falling due within one year) other than amounts relating to loans at 31 December 2006 were £131.6 million before tax relief (31 December 2005 – £365.3 million) and comprised the following:

	2006		2005	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Primary financial instruments held or issued to finance the group's operations:				
- cash on deposit earning floating rates of interest	1,025.4	1,025.4	1,829.9	1,829.9
- short term financial liabilities and current portion of long term borrowings	(44.2)	(44.2)	(40.6)	(40.6)
- long term borrowings	(4,235.0)	(4,328.0)	(4,186.9)	(4,447.5)
- finance leases	(42.0)	(42.0)	(1,002.0)	(1,002.0)
Derivative financial instruments held to manage interest rate and exchange rate profile:				
- interest rate swaps	(21.4)	(48.3)	(22.3)	(121.4)
- interest rate caps/collars	(0.9)	(1.9)	(1.2)	(3.3)
- currency swaps	(75.3)	(86.0)	(75.3)	(78.8)

The fair values of the interest rate swaps and sterling denominated fixed rate debt and deposits have been determined by reference to prices available on the markets on which they are traded. All other fair values shown have been calculated by discounting cash flows at the relevant zero coupon LIBOR interest rates prevailing at the balance sheet date.

No gains or losses on instruments were recognised in 2006.

- (12) Other than certain tranches of notes which have been swapped into sterling, the group has no material monetary assets or liabilities in currencies other than pounds sterling.

14 PROVISIONS FOR LIABILITIES

	Vacant leasehold properties £m	Other lease commitments £m	Deferred taxation £m	Total £m
1 January 2006	21.9	34.5	-	56.4
Utilisation of provision	(6.8)	(6.6)	-	(13.4)
Unwind of discount	0.7	0.9	-	1.6
Release of provision	(2.1)	(1.9)	-	(4.0)
Transferred from debtors	-	-	(29.0)	(29.0)
Charge to profit and loss account	-	-	61.9	61.9
31 December 2006	13.7	26.9	32.9	73.5

Vacant leasehold properties

In February 2004 Canary Wharf Group announced that it had signed agreements for lease relating to the pre-let to Reuters of approximately 283,000 sq ft of space in the building at 30 South Colonnade. As part of this transaction Canary Wharf Group agreed to take over three of Reuters' leasehold properties from commencement of the lease on 30 South Colonnade in May 2005. In September 2005, Canary Wharf Group paid a £3.1 million surrender premium in respect of one of these properties. In December 2006 break notices were served on the landlords of the two remaining properties and as a result, Canary Wharf Group's obligation in respect of these properties will expire in July 2009.

In January 2006, £24.0 million was placed in cash collateral to fund these liabilities as a result of the sale of 30 South Colonnade. At 31 December 2006, £17.5 million remained in cash collateral after drawings to fund costs incurred on the properties.

At 31 December 2006 the provision for the estimated net liability, discounted at 6.2% being the group's weighted average cost of debt at that date, was stated at £13.7 million (31 December 2005 – £21.9 million).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (Continued)

Other lease commitments

In March 2001 Lehman Brothers signed an agreement for lease in respect of 25-30 Bank Street, comprising 1,023,300 sq ft. The incentive package agreed with Lehman Brothers in connection with this lease included the following elements:

- (1) a contribution of £30.00 per sq ft towards the cost of refitting the 408,728 sq ft occupied by Lehman Brothers at Broadgate, capped at £12.0 million. This has been accrued for at 31 December 2006.
- (2) a rent support commitment with Lehman Brothers under which Canary Wharf Group may contribute a maximum of £10.00 per sq ft per annum towards the difference between the passing rent payable by Lehman Brothers on its leases at Broadgate and the rent achievable on any sub-lease.

The maximum amount payable in respect of the remaining space leased by Lehman Brothers at Broadgate has reduced to £26.6 million (nominal) with a present value of £20.7 million calculated on the basis of a discount rate of 6.2%. This amount has been provided for in full and will be subject to review at each subsequent balance sheet date.

In connection with the sale of certain properties during 2005, Canary Wharf Group agreed to provide rental support in respect of either the unexpired rent-free periods or, where there is a fixed uplift in rent, until the next rent review date. Canary Wharf Group recognised a provision in respect of these commitments and at 31 December 2006 the remaining provision was £6.2 million calculated on the basis of a discount rate of 6.2%.

Deferred taxation

	31 December 2006 £m	31 December 2005 £m
Accelerated capital allowances claimed	(113.0)	(0.9)
Other timing differences	28.5	29.6
Undiscounted deferred tax liability	(84.5)	28.7
Discount	51.6	0.3
Transferred to debtors due in more than one year	-	(29.0)
Discounted deferred tax liability	(32.9)	-
At start of period	-	(28.9)
Released to the profit and loss account	(61.9)	57.9
Transferred from/(to) debtors (Note 10)	29.0	(29.0)
At end of year	(32.9)	-

In accordance with FRS 19, no provision has been made for deferred tax on gains relating to properties which are revalued in the balance sheet to their market values. If the group's investment properties had been sold at the balance sheet date at the amounts stated in Note 7, the amount of tax payable by the group would have been £59.0 million (31 December 2005 – £nil) after taking into account available tax losses and provisions. Corporation tax on chargeable gains in relation to the sale of completed properties held by group investment companies of £212.5 million (31 December 2005 – £133.7 million) has been reduced to £59.0 million (31 December 2005 – £nil) by EZA balancing allowances and capital losses. There is no corporation tax on development surpluses in relation to completed properties that are held by the group's property development companies (31 December 2005 – £nil).

The group has received legal advice and is of the opinion that the capital losses brought forward are available to set-off against capital gains arising. In line with FRS 19, the benefit of the losses has not been recognised in the deferred tax provided in the balance sheet.

As a result of the acquisitions referred to in Note 13(2), a deferred tax liability of £112.7 million, stated net of a discount of £51.6 million, was recognised at 31 December 2006 in respect of EZA claims made by these companies in prior years.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (Continued)

15 SHARE CAPITAL

	Authorised		Issued, allotted and fully paid	
	2006	2005	2006	2005
	£'000	£'000	£'000	£'000
Equity shares:				
– A Shares	88,664	88,664	26,085	26,085
– B Shares	71,259	71,259	17,851	17,270
– C Shares	15,000	15,000	–	–
	174,923	174,923	43,936	43,355
Non-equity shares:				
– D Share	–	–	–	–
– SG Shares	25,076	25,076	17,676	18,257
	199,999	199,999	61,612	61,612

At 31 December 2006 a total of 616,117,548 shares were in issue. During the year, 5,813,470 SG Shares were converted into 5,813,470 B Shares at the election of the holder. After the year-end, 14,478,260 B Shares were issued to British Land (Joint Ventures) Limited on 26 January 2007 and the D Share was redeemed by the company on 26 February 2007.

Share based payments

During the year Canary Wharf Group operated, in conjunction with the Canary Wharf Employees' Share Ownership Plan Trust ('the Trust'), the Canary Wharf 2004 Deferred Share Plan ('the Deferred Plan').

The Deferred Plan is a discretionary plan, which does not benefit from approved status for income tax purposes. Under the terms of the Deferred Plan, options over B Shares are granted to participants at the discretion of the Remuneration Committee of Canary Wharf Group plc (the 'Remuneration Committee'). No consideration is payable for the grant of an option under the Deferred Plan, and an exercise price of £1 is payable upon exercise in full or in part of the option. Unless the Remuneration Committee determines otherwise, an option may normally be exercised on or after the first anniversary of the grant date in respect of 50% of the B Shares to which it relates. The balance of the option may normally be exercised on or after the second anniversary of the grant date. Options normally lapse on the third anniversary of the date of grant. Upon exercise or part-exercise of an option, the participant also receives a distribution equating to the net dividend received since the date of grant by the trustee of the Trust on the corresponding number of B Shares. The trustee of the Trust waives its entitlement to dividend (save for 0.01p per share) on any shares in excess of those required to satisfy outstanding options. In December 2005, the rules of the Deferred Plan were amended to allow participants who were granted options in or after December 2005 to elect to take a cash equivalent value in substitution for exercising their options.

During the year, options over 1,279,200 B Shares were exercised under the Deferred Plan, and participants with options over a further 121,750 B Shares elected to take a cash sum in substitution for exercising their options. An option over 23,000 B Shares lapsed during the year, whereupon options over these same 23,000 B Shares were granted to two new participants on 5 December 2006. At 31 December 2006, options over 938,970 B Shares were outstanding.

At 31 December 2006, the trustee of the Trust held 1,124,973 B Shares (2005 – 2,562,631).

At 31 December 2006 the group had accrued £1.0 million in respect of its liability under the Deferred Plan. Of this amount £0.5 million related to shares which had vested but had not been exercised at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (Continued)

16 RESERVES

	Share premium account £m	Revaluation reserve £m	Profit & loss account £m	Own shares £m	Total £m	Minority interest £m
1 January 2006	375.5	604.5	(130.3)	(1.0)	848.7	916.0
Revaluation of investment properties	-	748.7	-	-	748.7	-
Transfer from creditors due in more than 1 year	5.2	-	(1.1)	-	4.1	-
Reserve movements in respect of share option scheme	-	-	-	0.4	0.4	-
Transfer to minority interest	-	(293.4)	(35.2)	-	(328.6)	328.6
Profit for the financial year	-	-	15.3	-	15.3	-
Dividend	-	-	(78.0)	-	(78.0)	(120.1)
31 December 2006	380.7	1,059.8	(229.3)	(0.6)	1,210.6	1,124.5

The transfer from creditors due in more than one year relates to the conversion of SG Shares to B Shares in the year (Note 15). In respect of the shares converted the accounting treatment requiring the SG Shares to be treated as debt was reversed and the new B Shares are shown at their notional paid-up value of £5.8 million, of which £0.6 million is share capital and £5.2 million is share premium. The dividend paid to SG shareholders in excess of the preferred dividend was treated as a repayment of debt. On conversion to B Shares £1.1 million classified as a repayment of debt in respect of the converted shares has been reclassified as an appropriation of profit, and accordingly a transfer has been reflected in reserves.

17 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	£m
1 January 2006	892.0
Conversion of SG Shares to B Shares	4.7
Revaluation surplus	455.3
Movement in respect of share option schemes	0.4
Loss for the financial year	(19.9)
Dividend paid (Note 5)	(78.0)
31 December 2006	1,254.5

18 RECONCILIATION OF OPERATING PROFIT TO OPERATING CASH FLOWS

	2006 £m	2005 £m
Operating profit	212.5	240.0
Depreciation charges	0.2	0.6
Provision against investment	0.1	0.1
Amortisation of share option costs	0.5	1.7
Profit on disposal of Aldersgate Street ⁽¹⁾	-	(12.1)
Increase in debtors	(0.2)	(8.4)
Increase/(decrease) in creditors	20.6	(22.7)
Amortisation of goodwill	4.0	3.8
Utilisation of provisions	(13.4)	(23.0)
Amortisation of lease incentives	1.2	(3.4)
Movements in provisions	(3.9)	1.5
Net cash inflow from operating activities	221.6	178.1

Notes:

(1) For 2005, operating profit included an exceptional profit of £12.1 million in respect of the profit on sale of Canary Wharf Group's long leasehold interests in Aldersgate Street. There were no pre-operating profit exceptional items in 2006.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (Continued)

19 ANALYSIS OF CASH FLOWS	2006 £m	2005 £m
Returns on investments and servicing of finance		
Interest received	46.3	91.1
Interest paid	(270.7)	(333.9)
Interest element of finance lease rentals	(5.1)	(46.7)
Financing expenses	(4.0)	(33.3)
Financing expenses and breakage costs on loans repaid ⁽¹⁾	(0.5)	(194.1)
Dividends paid to minority shareholders	(120.1)	(268.3)
Net cash outflow	<u>(354.1)</u>	<u>(785.2)</u>

Note:

(1) For 2005 financing expenses of £194.1 million related to the breakage costs referred to in Note 2.

	2006 £m	2005 £m
Capital expenditure and financial investment		
Additions to properties	(68.5)	(68.5)
Acquisition of property interest	(7.2)	(52.8)
Purchase of tangible fixed assets	(0.1)	(0.2)
Sale of leasehold property interest	-	110.0
Sale of investment properties ⁽¹⁾	27.0	1,175.6
Deferred income from sale of properties under construction	274.8	-
Loans to associated undertaking	(10.5)	(2.5)
Net cash inflow	<u>215.5</u>	<u>1,161.6</u>

Note:

(1) 2005 included £1,175.6 million of proceeds from the sale of investment properties by Canary Wharf Group (Note 7). A further £27.0 million deferred consideration from the sale of 30 South Colonnade was received in January 2006.

	2006 £m	2005 £m
Financing		
Repayment of securitised debt	(11.9)	(628.3)
Repayment of SG Shares	(27.3)	(7.1)
Draw-down of acquisition loans	-	30.6
Repayment of acquisition loans	-	(674.2)
Draw-down of SAL loans	175.2	549.4
Repayment of SAL loans	(198.8)	-
Proceeds from exercise of Canary Wharf Group warrants	-	142.7
Repayment of secured loans	(210.1)	(1,015.3)
Repayment of finance lease	(836.6)	(245.3)
Draw-down of secured loans	300.0	1,728.2
Draw-down of securitised debt	-	360.4
Finance lease premiums	-	5.0
Net cash (outflow)/inflow	<u>(809.5)</u>	<u>246.1</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (Continued)

20 ANALYSIS AND RECONCILIATION OF NET DEBT

	1 January 2006 £m	Cash flow £m	Other non- cash changes £m	31 December 2006 £m
Cash at bank	1,829.9	(804.5)	-	1,025.4
Amounts on deposit not available on demand	(987.9)	675.0	-	(312.9)
	842.0	(129.5)	-	712.5
Debt due after 1 year	(4,285.8)	(72.8)	26.0	(4,332.6)
Debt due within 1 year	(40.6)	40.6	(44.2)	(44.2)
Finance leases	(1,002.0)	837.9	122.1	(42.0)
	(5,328.4)	805.7	103.9	(4,418.8)
Non-equity share capital	(174.6)	27.3	4.7	(142.6)
Financing costs of non-equity shares	(30.1)	5.6	(33.0)	(57.5)
	(5,533.1)	838.6	75.6	(4,618.9)
Amounts on deposit not available on demand	987.9	(675.0)	-	312.9
Net debt	(3,703.2)	34.1	75.6	(3,593.5)

21 CONTINGENT LIABILITIES AND FINANCIAL COMMITMENTS

At 31 December 2006 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 13. In particular, various members of the group had, at 31 December 2006, given fixed first ranking charges over cash deposits totalling £288.2 million.

As security for the issue of up to £2,414.2 million of securitised debt (Note 13(5)) Canary Wharf Group has granted a first fixed charge over the shares of Canary Wharf Finance II plc ('CWFII') and a first floating charge has been given over all of the assets of CWFII.

Commitments of Canary Wharf Group for future expenditure:

	31 December 2006 £m	31 December 2005 £m
Under contract	387.0	16.0

The commitments for future expenditure relate to the completion of development projects where construction was committed at 31 December 2006. Any costs accrued or provided for in the balance sheet at 31 December 2006 have been excluded.

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 pre-let or other agreement. Off-setting this potential liability Canary Wharf Group benefits from warranties from the trade contractors and suppliers who worked on such buildings.

Sub-let 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 sub-leases 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 sub-let space. The existence of the sub-let commitments has been taken into account in arriving at the market valuation of the group's properties at 31 December 2006.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006 (Continued)

22 POST BALANCE SHEET EVENTS

On 26 January 2007, pursuant to a special resolution passed at an extraordinary general meeting of the company held on 24 January 2007, 14,478,260 B Shares were issued to British Land (Joint Ventures) Limited in exchange for the cancellation of all dividend and distribution rights attaching to the D Share. The issue of the B Shares was funded by the capitalisation of £1,447,826 from the company's share premium account.

On 14 February 2007 the company paid an interim dividend of 29.5p on each of the SG Shares, A Shares and B Shares.

On 26 February 2007, the D Share formerly held by British Land (Joint Ventures) Limited was redeemed by the company for a consideration of £1.