

SONGBIRD ESTATES PLC

27 MARCH 2008

PRELIMINARY ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31 DECEMBER 2007

The board of Songbird Estates plc is pleased to announce its results for the year ended 31 December 2007.

The information in this Announcement, which was approved by the board of directors on 26 March 2008, does not comprise statutory accounts within the meaning of the Companies Act 1985.

HIGHLIGHTS

- The **market value of the property portfolio** at 31 December 2007 was **£7,274.3m** against £7,465.0m at 30 June 2007 and £6,737.4m at 31 December 2006, **a reduction of 4.3%** compared with 30 June 2007 (after additions in the period) but an increase of 4.8% compared with 31 December 2006 (Note (i)).
- **Net assets fell** from £2,380.1m at 31 December 2006 to **£2,347.7m** at 31 December 2007, **a reduction of £32.4m or 1.4%** (Note (ii)), after dividends to equity shareholders of £319.7m.
- **Net assets fell by £272.6m or 10.4% from £2,620.3m at 30 June 2007** (Note (iii)) as a result of a fall in the value of the property portfolio.
- **Adjusted net asset value per share reduced by 18.6%** from £2.64 at 31 December 2006 to **£2.15** in the year (Note (ii)) following the payment of dividends.
- **Adjusted net asset value per share reduced by 34p (13.7%) from £2.49 at 30 June 2007** (Note (iii)) due to the fall in the value of the property portfolio.
- **Refinancing** of the company's loan facility completed **raising initial net proceeds of £279.1m at lower margins** (Note (iv)).
- **Dividends paid during 2007 totalling 70.5p per share** (Note (v)).
- In 2007 **transactions over 755,000 sq ft were achieved, including an agreement for sale upon completion of a new 320,000 sq ft building** to Fimalac (Note (vi)).
- At 31 December 2007 **Canary Wharf Group's investment portfolio totalling 7.9m sq ft was 99.6% let** (31 December 2006 – 7.9m sq ft of which 95.6% was let). **The weighted average unexpired lease term was approximately 18.7 years** (or 15.8 years assuming exercise of break options) (Note (vi)).
- **Heads of terms agreed for the design, build, financing and leasing of the Crossrail station at Canary Wharf** (Note (vii)).
- **1.32m sq ft is under construction**, of which **1.02m sq ft has been pre-sold and 86% of the remainder has been pre-let** (Note (vii)).
- **Redevelopment of Cabot Place Retail Mall** completed. **Infrastructure work under way on Riverside South** (1.9m sq ft of potential development) **and phased development has commenced at 25 Churchill Place** (350,000 sq ft of potential development) (Note (vii)).
- In June 2007 Canary Wharf Group entered into a joint venture for the **redevelopment of Drapers Gardens** (Note (vii)).

Note:

- (i) See 'Business Review – Valuations' for a comparison with the carrying value for accounts purposes.
- (ii) See Note 2.
- (iii) See 'Business Review – Balance sheet and key performance indicators' for further details.
- (iv) See 'Business Review Borrowings' for further details.
- (v) See Note 20.
- (vi) See 'Business Review – Property portfolio' for further details.
- (vii) See 'Business Review – Construction' for further details.

RESULTS IN BRIEF

	Note	2007 £m	2006 £m
Rental income	(i)	275.3	255.7
Underlying operating profit	(ii)	340.3	245.8
Capital and other items:			
- other income	(ii)	19.2	-
- net revaluation gains	(iii)	110.4	722.1
- financing costs/(income) relating to derivatives	(iv)	(35.5)	19.1
- refinancing (charges)/gains relating to repayment of debt	(iv)	(14.3)	123.3
Taxation – deferred tax	(v)	23.8	(179.1)
Profit on ordinary activities before taxation	(ii)	182.0	884.1
Profit after tax	(ii)	205.8	705.0
Basic and diluted earnings per share	(vi)	22.3p	92.3p
Dividends per share	(vii)	70.5p	18.0p

Note:

- (i) See Note 3.
- (ii) See Consolidated Income Statement and Note 2.
- (iii) See Note 4.
- (iv) See Note 5.
- (v) See Note 6.
- (vi) See Note 2.
- (vii) See Note 20.

CONTACT

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Company Secretary

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CHAIRMAN'S STATEMENT

Progress by Canary Wharf Group which is the core operating subsidiary of the group, continued throughout 2007. Canary Wharf Group concluded 755,000 sq ft of transactions, which included the pre-sale of a new London Headquarters building for Fitch. Construction also continued on 1.4m sq ft of office space on the Estate and infrastructure works commenced on a further 2.3m sq ft. Coupled with the expansion of the Canary Wharf Group business into the City of London through the redevelopment of Drapers Gardens, all of this activity is a clear indication of the ability of Canary Wharf Group to support development both on and off the Estate. At the company level, we have refinanced our debt, made two dividend payments and completed a capital restructuring, which removed the D Share dividend liability,

Weakness in global financial markets has forced a slowdown in activity in the UK commercial property market which has been reflected in a softening of real estate values. The group's property portfolio has not been immune, but the high quality of our real estate assets, long average length of unexpired leases (18.7 years before breaks) and low vacancy rates is reflected in a 4.8% (excluding additions) valuation increase over the year, notwithstanding a 4.3% decrease in the latter half.

Outlook

The challenging market conditions experienced in the second half of 2007 have continued into the first three months of 2008 but the high quality of our assets, the low level of vacancy and focus on active asset management mean we look to the future with confidence.

Financial Review

Financials

The results for the year ended 31 December 2007 represent the group's first full year of results presented in accordance with IFRS. Comparatives for the year ended 31 December 2006, previously presented in accordance with UK GAAP, have been restated to comply with IFRS.

Net assets at 31 December 2007 were down over the year to £2,347.7m, reflecting the payment of two dividends totalling £319.7m. This served to offset the upward revaluation of the group's properties held as non current assets by £133.2m and the underlying profit before tax for the year of £102.2m. In comparison with 30 June 2007 the carrying value of such properties fell by 4.3% to £6,570.7m. Whilst the property portfolio was impacted by the increase in yields experienced across the market in the second half of the year, this was mitigated by new lettings, growth in rents and expansion of retail on the Estate.

Adjusted net asset value per share reduced during the year from £2.64 to £2.15 at 31 December 2007. Adjusted net asset value includes the revaluation surplus on construction contracts but excludes deferred tax and fair value adjustments on derivative financial instruments, and treats the SG Shares as equity. The external revaluation surplus on all properties for the year as a whole, which amounted to 21.1p per share excluding the minority interest, was offset by the dividends of 70.5p per share paid during the year and the issue of B Shares to BL as outlined below.

Rental income for the year increased by 7.7% to £275.3m reflecting the increased occupancy on the Estate and the uplifts achieved on review. The underlying profit before taxation for 2007 of £102.2m compares with £19.6m for the previous year, the increase being largely attributable to the profits achieved on pre-sold properties of £89.1m. Total profit before tax for the year, which in accordance with IFRS included the surplus on revaluation of investment properties, was £182.0m in comparison with £884.1m for the previous year.

Refinancing

In the first half of 2007 we concluded a restructuring and refinancing exercise which resulted in the replacement of the existing financing arrangements. The new £880.0m 3 year term and revolving facilities have lower margins which range from 120 bps to 170 bps over LIBOR depending on the financial position of the Canary Wharf Group. The new facilities provide an increased draw down facility for the group and greater flexibility on dividend payments, which are obviously dependent on sufficient cashflows and reserves and the general business needs of the group. The restructuring also introduced a new wholly owned subsidiary of the company, SFL, which acquired the interests of the company and SAL in the shares of Canary Wharf Group. The introduction of this new holding company has enabled the company to refine the group structure by amalgamating the entire Canary Wharf Group interest into one intermediate holding company.

Dividends and Restructuring

In February 2007 the company completed a share capital restructuring removing all past and future D Share dividend liabilities in consideration for the issue of 14,478,260 B Shares to BL, the D shareholder. At the same time, the company paid a dividend of 29.5p per A, B and SG Share. Following the refinancing in April 2007 (as mentioned above) the company declared a further dividend of 41.0p per A, B and SG Share which was paid on 18 June 2007. A regular dividend policy has not been adopted by the company as the board feels it is in the best interests of the company as a whole to maintain a position whereby it can review and consider the general business needs of the group on a case by case basis when considering future dividend payments. Earlier today, Canary Wharf Group declared the payment of an interim dividend of 16p per ordinary share payable on 9 April 2008 of which £62.2m will be receivable by SFL. Bearing in mind the previous sentiments, there is no current intention for a dividend payment by the company.

Recent letting and sale activity

Progress continued during 2007 on achieving the strategy of the group with the pre-sale to Fimalac of a new London Headquarters for Fitch which will comprise 320,000 sq ft of office accommodation. Lettings over 435,000 sq ft were also agreed on the Estate during the year, which included the letting of 301,575 sq ft to Barclays Capital, an existing tenant.

Subsequent to the year end, over 200,000 sq ft of lettings were agreed of which 170,000 sq ft of space, primarily surrendered by the Telegraph Media Group in One Canada Square, was let to Moody's at a rent of £45.50 per sq ft. This latest transaction suggests rental rates are holding up on the Estate despite the turmoil in the financial markets. The most recent lettings have brought further new tenants to the Estate, such as Moody's and Abbey Business Centres, as well as extending existing relationships. Despite the recent challenging market conditions, the rents achieved on these lettings, ranging from £45.50 to £49.00 per sq ft, are positive and reflect the high quality of the Canary Wharf Group property portfolio.

Following the latest transactions, the vacancy rate for Canary Wharf Group is down to 0.4%, with the overall vacancy rate on the Estate at approximately 2.5%. Recent developments in the financial markets have obviously caused nervousness in the leasing market as a whole; however, the group remains positive with the protection of high occupancy on the Estate and the strong tenant covenants in place.

Development

As previously mentioned, 1.4m sq ft of construction is currently underway on four buildings on the Estate with completion due on all by 2010, including construction of the building at 5 Churchill Place, for Bear Stearns who are in the process of being acquired by JPMorgan Chase, which is continuing to the original timetable. In addition, infrastructure works have also commenced on a 350,000 sq ft building at 25 Churchill Place and on the 1.9m sq ft Riverside South development. The revised planning application for Riverside South, which is in line with the Mayor of London's sustainability requirements and meets new market demands, has been approved by LBTH. In light of the current market conditions Canary Wharf Group has stated that it will not pursue speculative development in the absence of a pre-let/sale, and therefore, these infrastructure works will only continue up to ground level. Consent has also been obtained for increased density of 2.4m sq ft of office and retail space at North Quay. However, construction cannot commence until completion of the Canary Wharf Crossrail station, which obtained initial agreement to proceed in late 2007 and is currently awaiting parliamentary approval and Royal Assent for the Crossrail project. Crossrail will form an important part of London's future infrastructure and future prosperity. The Canary Wharf Group will construct the new Crossrail station (adjacent to the North Quay site) on the Estate and negotiations have already commenced on the detail of the project. It is Canary Wharf Group policy to continuously look at sustainability in both construction and occupancy.

In addition to continuing development on the Estate, 2007 saw continued focus by Canary Wharf Group on new projects in Central London where value can be added. It is a natural extension of the Canary Wharf Group skill and expertise to expand operations off the Estate. The provision of management services on the Ballymore Millharbour and Crossharbour projects is continuing and the development of the Wood Wharf site, where Canary Wharf Group is managing the process through the planning application stage, is progressing well. A draft planning application was lodged for Wood Wharf with LBTH in early 2008 for review and comment. In June 2007 Canary Wharf Group entered into a joint venture arrangement for the redevelopment of Drapers Gardens which is expected to complete in Autumn 2009. In addition to managing the construction of this project, Canary Wharf Group has also taken a 20.0% equity stake in the companies that own the properties. Canary Wharf Group continues to look at projects outside of the Estate where value can be added.

Retail

Following the successes in 2006, retail on the Estate continued to grow with turnover up 8.5% in 2007 despite a difficult market. Certain prime retail rents on the Estate have increased by up to 100% on reviews completed during 2007. The redeveloped Cabot Place retail mall opened on 13 March 2008 increasing the Cabot Place retail area by approximately 40.0%. This redevelopment has brought new well known retail tenants to the Estate, such as Zara, Massimo Dutti, River Island and Leon, to name but a few. Due to the success of the retail to date, Canary Wharf Group is currently looking to extend further with planning applications approved, subject to conditions, for three retail extensions primarily linked to One Canada Square and the existing Churchill Place retail area. Upon completion, these extensions will increase the retail areas on the Estate by a further 38,500 sq ft. All of the above reflect the high demand for retail space on the Estate, which at 740,000 sq ft, is already the second largest shopping centre within the M25.

Conclusion

This overview of the business of the group is a clear indication of the progress made during 2007 in line with the strategy of the group. The company will continue to evaluate further opportunities through the application of the skills and expertise of the Canary Wharf Group team both on the Estate and in Central London.

Finally, as announced at the time, we have had a number of changes to the board during the year with Brian Niles and Tim Roberts being appointed directors to replace Bob Gray and Eugene Doyle respectively. On behalf of my fellow

directors I would like to take this opportunity to thank both Eugene and Bob for their contribution and support during their time on the board.

BUSINESS REVIEW

A list of defined terms is provided in Definitions at the end of this announcement.

Property portfolio

The principal asset of the company is its indirect investment in Canary Wharf Group and its subsidiaries which is engaged in property investment and property development. The activities of Canary Wharf Group are currently focused on the development of the Estate. Canary Wharf Group is also engaged in development, through joint ventures, of Wood Wharf and Drapers Gardens. At 31 December 2007 Canary Wharf Group's investment portfolio comprised 16 completed properties (out of the 30 constructed on the Estate) totalling 7.9m sq ft NIA, of which 99.6% was let (31 December 2006 – 7.9m sq ft of which 95.6% was let). As well as the rental income generated from properties, income is generated from managing the entire Estate which, in addition to the completed properties owned by Canary Wharf Group, includes a further 14 properties totalling 6.3m sq ft which are in other ownerships.

Property address	NIA sq ft	Leased %	External valuation £m	Principal tenants
One Churchill Place	1,014,400	100.0	800.0	Barclays, BGC, LOCOG
10 Cabot Square	639,000	100.0	332.0	Barclays Capital, WPP Group
20 Cabot Square	562,000	100.0	250.0	Morgan Stanley, Barclays Capital
One Canada Square	1,236,200	99.0	873.7	KPMG, Mirror Group Newspapers, State Street, Bear Stearns, Bank of New York
33 Canada Square	562,700	100.0	425.0	Citigroup
20 Bank Street	546,500	100.0	500.0	Morgan Stanley
25-30 Bank Street	1,023,300	98.9	955.0	Lehman Brothers
40 Bank Street	607,400	96.9	472.5	Barclays Capital, Skadden, Allen & Overy, BGC, ANZ
50 Bank Street	209,800	100.0	167.5	Northern Trust, Goldenberg Hehmeyer
10 Upper Bank Street	1,000,400	100.0	850.0	Clifford Chance, Infosys, FTSE, Total
Cabot Place Retail	95,700	100.0	166.0	Various retail tenants
Canada Place Retail	72,200	100.0	175.0	Various retail tenants
Jubilee Place Retail	89,400	100.0	106.1	Various retail tenants
Churchill Place Retail	22,400	100.0	5.9	Barclays Bank and various retail tenants
16-19 Canada Square	204,500	100.0	57.8	Waitrose Food & Home, Reebok, Plateau Restaurant
Reuters Plaza	8,900	100.0	11.9	Smollenskys, Carluccios
Car Parks	–	–	62.9	
Total	<u>7,894,800</u>	<u>99.6</u>	<u>6,211.3</u>	

Canary Wharf Group's properties are under lease to high quality tenants which provide a diversified income stream. At 31 December 2007 the weighted average unexpired lease term for the office portfolio was approximately 18.7 years (or 15.8 years assuming the exercise of outstanding break options) (31 December 2006 – 19.8 years or 17.1 years assuming the exercise of break options). Of the square footage under lease, 68.6% does not expire or cannot be terminated by tenants during the next ten years.

Leasing

During 2007 Canary Wharf Group announced transactions over a total of 755,000 sq ft, including lettings totalling approximately 435,000 sq ft. The lettings concluded during the year comprised the following:

- Barclays Capital agreed to lease a total of 301,575 sq ft in 40 Bank Street on three separate leases expiring in April 2023. Barclays Capital will take up the space on a phased basis over the next year at rents ranging from £44.00 per sq ft to £47.50 per sq ft. In addition Damac Properties and Mirae Asset Global Investment Management took a total of 11,485 sq ft in this building for terms of 5 and 10 years respectively.
- Bear Stearns took a further 28,780 sq ft in One Canada Square for a 5 year term with break options to coincide with the completion of their new headquarters building at 5 Churchill Place. Bear Stearns also exercised an option over approximately 52,600 sq ft in 5 Churchill Place taking their total contractual commitment to approximately 259,000 sq ft.

BUSINESS REVIEW (Continued)

- In One Canada Square, Michael Page took 6,548 sq ft for a 5 year term, Bank of New York renewed a lease of 6,463 sq ft for one year and Primus Telecommunications exercised a break over 8,800 sq ft. In December 2007 Canary Wharf Group took a surrender of 27,231 sq ft on the 18th floor from Mirror Group Newspapers and simultaneously re-let the space to the Financial Services Authority for a term of 10 years. Subsequent to the year end, Canary Wharf Group announced that it had entered into an agreement for lease with Moody's, the international credit rating agency, for approximately 170,000 sq ft on a 15 year lease which includes space formerly occupied by Telegraph Media Group on floors 11-16. The group also took a surrender of the 37th floor (28,435 sq ft) from Burlington Resources and re-let the space to Abbey Business Centres for a term of 15 years. The rents achieved on these recent lettings have been in the range of £45.50 to £49.00 per sq ft.

As a result of these lettings, vacancy on the Estate in the completed buildings owned by Canary Wharf Group reduced to 0.4%.

All space previously sub-let back to Canary Wharf Group has now been re-let or is subject to call options. At 31 December 2007 the estimated net present value of the remaining sub-let liabilities had reduced to approximately £32.8m discounted at 6.1%, Canary Wharf Group's weighted average cost of debt at that date (31 December 2006 – £43.8m discounted at 6.1%). The remaining sub-let commitments have been reflected in the market valuation of Canary Wharf Group's properties.

Construction

On 29 June 2007 Canary Wharf Group agreed terms with Fimalac for the sale, and an agreement for the construction, of a new £290.0m headquarters for Fitch. The new building under construction at 30 North Colonnade will comprise approximately 320,000 sq ft and is scheduled for completion in the second half of 2010. On exchange, Canary Wharf Group received an initial payment of £165.4m from Fimalac in respect of the site.

The following properties were under construction at 31 December 2007:

Property address	NIA sq ft	Expected completion date	Status
20 Churchill Place	300,000	October 2008	Pre-sold to Prudential on completion for occupation by State Street.
5 Canada Square	400,000	April 2009	Pre-sold to KPMG.
5 Churchill Place	300,000	May 2009	259,000 sq ft pre-let to Bear Stearns.
30 North Colonnade	320,000	October 2010	Pre-sold to Fimalac for occupation by Fitch on completion.
	1,320,000		

In addition to the construction of new office buildings, Canary Wharf Group has redeveloped the western end of the Cabot Place Retail Mall, with practical completion achieved in March 2008. This redevelopment has increased the existing retail area by approximately 40,400 sq ft (approximately 7.3%) and has introduced new retailers to the Estate including Zara, River Island and Leon.

The remaining development site on the Estate at BP4 could accommodate approximately 0.4m sq ft of new development. Following the sale of 30 North Colonnade to Fimalac, Canary Wharf Group has decided to proceed with the staged construction of BP4. In addition, Canary Wharf Group has development sites at North Quay and Riverside South. At Riverside South, a revised planning consent in respect of 1.9m sq ft was agreed and initial ground works are under way which will accelerate the completion time for the development for any prospective occupant. At North Quay, the local authority granted consent for an increase in the permitted density to 2.4m sq ft, and there is further development capacity at Heron Quays West.

Canary Wharf Group entered into an option deed with BWB in November 2007 which allows for the group to elect for the draw down of a 999 year lease of additional land south of Heron Quays West. The option deed is for a period of 5 years from November 2007. An initial option payment of £2.25m was made and is followed by annual payments of £250,000 on each anniversary of the option deed. If the group exercises the option, BWB has the right to receive a fixed stream of rental payments throughout the duration of the lease or to commute the rental payments into a capital sum payable on the fifth anniversary of the option deed. Subsequent to the option deed, an application was made to increase the permitted density at Heron Quays West to 1.25m sq ft. Construction of new buildings on this and other sites will commence as and when market conditions allow.

In October 2007, Canary Wharf Group signed heads of terms in relation to the Crossrail development with the Secretary of State for Transport. The Government subsequently announced its commitment to the Crossrail project, subject to parliamentary approval and Royal Assent. Under the agreement, Canary Wharf Group will design, build and finance construction of a station on the Estate and on completion lease the station to TFL. It is anticipated this contribution will be funded by way of a construction facility, in conjunction with an equity contribution from Canary Wharf Group. Subject to planning, Canary Wharf Group will be granted the right to develop a retail complex above the station. Royal Assent is expected in July 2008.

BUSINESS REVIEW (Continued)

The development capacity at each of the aforementioned sites is as follows:

	NIA m sq ft
Based on existing planning permissions:	
- BP4	0.4
- Riverside South	1.9
- North Quay	2.4
	4.7
Subject to planning application:	
- Heron Quays West	1.3
	6.0

In addition to the above, Canary Wharf Group is working with Ballymore and BWB on the redevelopment of the Wood Wharf site. The master plan for the scheme, in which Canary Wharf Group has a 25.0% interest, sets a framework for 6.5m sq ft gross of mixed commercial, residential and retail development. An initial planning application was submitted in January 2008.

On 15 June 2007 Canary Wharf Group announced a joint venture with MSREF V and Exemplar to undertake the redevelopment of Drapers Gardens. The scheme comprises approximately 300,000 sq ft of prime commercial development and is scheduled for completion in the autumn of 2009. Canary Wharf Group acquired 20.0% of the share capital in the companies that own the property and has assumed the role of development manager with day to day running of the scheme. This represents Canary Wharf Group's first involvement in a scheme away from the Estate and, coupled with involvement as construction manager on Ballymore's Crossharbour and Millharbour developments, demonstrates that the skills of Canary Wharf Group are transferrable to other developments away from the Estate.

Valuations

The net assets of the group, as stated in its consolidated balance sheet as at 31 December 2007, were £2,347.7m. In arriving at this total:

- (i) properties held as investments were carried at £6,019.4m, which represents the market value of those properties of £6,211.3m at that date as determined by Canary Wharf Group's external valuers, CBRE, Savills or Cushman, less an adjustment of £186.5m for tenant incentives and £5.4m for deferred negotiation costs;
- (ii) properties held for development were carried at £452.0m, representing their market value; and
- (iii) properties under construction to be retained by Canary Wharf Group were carried at £99.3m, representing their market value less an adjustment of £0.7m for deferred negotiation costs.

Excluding additions, the valuation of the investment portfolio on the basis of market value increased by £136.2m or 2.2% during 2007. After allowing for adjustments in respect of lease incentives, the carrying value of the investment portfolio increased by £110.4m over the year. This increase was primarily driven by the benefit of new lettings which was partially offset by the softening in yields in the market. In comparison with 30 June 2007, the valuation of the portfolio in the second half of the year reduced by £270.8m or 4.2% as a result of an increase in yields. The group is of the view that the low vacancy rate on the Estate and the long average unexpired lease term puts the group in a strong position to weather the more uncertain economic outlook.

CBRE and Savills have provided a joint opinion as at 31 December 2007 that the market value of properties held for development was £452.0m, in comparison with £415.0m at 31 December 2006, which resulted in a revaluation increase of £8.9m in the period, net of additions. 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 £452.0m represents a reduction of 15.1%, excluding additions, since 30 June 2007, which reflects a more uncertain outlook for development in the second half of the year.

The valuers also provided an opinion at 31 December 2007 that the market value of the property under construction to be retained was £100.0m which, after transfers to properties under construction and held for sale, resulted in a revaluation surplus of £13.9m in the year. The properties under construction held for sale had a market value of £511.0m compared with a carrying value of £255.2m before the transfers required by IAS 11.

BUSINESS REVIEW (Continued)

The market value of the entire property portfolio including investment properties, properties held for development and properties under construction, increased by £330.3m or 4.8% over the year, excluding additions. For the six months ended 31 December 2007 the portfolio reduced in value by £323.5m, or 4.3%, excluding additions. As noted earlier, this reduction in value has been driven by the softening in yields in the second half of the year.

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 2007		30 June 2007		31 December 2006	
	Carrying value £m	Market value in existing state £m	Carrying value £m	Market value in existing state £m	Carrying value £m	Market value in existing state £m
Investment properties	6,019.4 ⁽¹⁾	6,211.3 ⁽²⁾	6,288.6 ⁽¹⁾	6,470.6 ⁽²⁾	5,895.6 ⁽¹⁾	6,058.4 ⁽²⁾
Properties under construction	99.3 ⁽¹⁾	100.0 ⁽²⁾	64.3 ⁽¹⁾	65.0 ⁽²⁾	94.3 ⁽¹⁾	95.0 ⁽²⁾
Properties held for development	452.0	452.0	511.0	511.0	414.9	415.0
	6,570.7	6,763.3	6,863.9	7,046.6	6,404.8	6,568.4
Properties under construction held for sale	255.2 ⁽³⁾	511.0	181.1 ⁽³⁾	418.4	84.6 ⁽³⁾	169.0
	6,825.9	7,274.3	7,045.0	7,465.0	6,489.4	6,737.4

Note:

- (1) The carrying value of investment and construction properties represents market value less an adjustment for lease incentives and deferred negotiation costs.
- (2) Stated at market value in existing state before adjustment for tenant incentives and deferred negotiation costs. The tenant incentives and deferred negotiation costs adjustment attributable to investment properties at 31 December 2007 was £191.9m (31 December 2006 – £162.8m).
- (3) The carrying value in the balance sheet at 31 December 2007 is stated net of £225.7m transferred to cost of sales (30 June 2007 – £179.8m, 2006 – £76.4m), £29.5m transferred to payments on account (30 June 2007 – £9.4m, 31 December 2006 – £8.2m) and costs accrued of £nil (30 June 2007 – £8.1m, 31 December 2006 – £nil) in accordance with IAS 11.

Taxation

Canary Wharf Group has EZAs available to shelter future operating profits and taxable profits and gains arising on the sale of properties.

Substantially all EZAs available to Canary Wharf Group in future periods are attached to assets that are now of negligible market value following an internal property restructuring in the year ended 31 December 2005. As a result there is no uplift in the value of the group's investment properties attributable to the EZAs available to the group. Whereas Canary Wharf Group can claim these EZAs based on the original qualifying expenditure, a third party purchaser would only be able to claim EZAs by reference to the post restructuring values. Furthermore, as these assets to which the EZAs attach are negligible in value, a disposal of the property to which the qualifying expenditure relates would not result in a material clawback of EZAs claimed prior to 31 December 2007. As a result there is no deferred tax liability recognised in respect of such claims.

The contingent tax payable if Canary Wharf Group was to dispose of its owned property portfolio at the market values disclosed in this Business Review is included in the net deferred tax provision recognised for IFRS purposes at each balance sheet date (Note 6).

Operating results

The following review of the group's operating results relates to the year ended 31 December 2007. The comparatives relate to the year ended 31 December 2006.

Revenue is generated primarily by the rents and service charges earned by Canary Wharf Group from its property interests on the Estate and turnover recognised on construction contracts in accordance with IAS 11. Revenue for 2007 was £624.8m, against £436.8m for 2006. Rental income increased from £280.1m to £299.4m, an increase of 6.9%. The impact of spreading lease incentives was to increase rental income by £24.1m in 2007 (2006 – £24.4m). Excluding this accounting adjustment, rental income increased from £255.7m to £275.3m, an increase of 7.7%, primarily attributable to the benefit of recent lettings and rent reviews. Service charge income increased from £53.6m to £62.2m and miscellaneous income, including insurance rents, reduced from £26.7m to £24.8m over the year. 2007 also included £238.4m of turnover recognised on construction contracts (2006 – £76.4m).

BUSINESS REVIEW (Continued)

Cost of sales includes rents payable and property management costs, movements on provisions for vacant leasehold properties, as well as costs recognised on construction contracts. Rents payable and property management costs were £84.4m in comparison with £82.2m for 2006. Taking into account service charge and miscellaneous income totalling £87.0m (2006 – £80.3m), a profit on estate management of £2.6m was achieved (2006 – loss of £1.9m). The reduction in void costs relates to recent lettings and the consequent increase in occupancy on the Estate.

In 2007 Canary Wharf Group paid £6.3m to surrender its obligations relating to a vacant leasehold property acquired in connection with a leasing transaction in 2004. As a result of this transaction a surplus provision of £0.2m was released to cost of sales. Provisions relating to the remaining vacant leasehold property, rent support commitments and certain other obligations of Canary Wharf Group increased by £2.6m in 2007, whereas there was a net release of such provisions totalling £4.7m in 2006. In addition, cost of sales for 2007 included £2.9m associated with restructuring certain retail tenancy agreements and £149.3m of costs recognised on construction contracts (2006 – £76.4m), resulting in £89.1m of profit being recognised in the year (2006 – £nil).

For 2007 net property income was £385.6m, an increase of £102.7m over 2006, attributable to the factors referred to above.

Administrative expenses for 2007 were £47.0m in comparison with £38.7m for 2006. The increase in administrative expenses was in part attributable to the payment of deferred bonuses by Canary Wharf Group to its management triggered by the achievement of certain performance goals during the year. In addition, feasibility study costs were incurred in connection with the review of potential development and investment opportunities. In 2006 an accrual relating to the acquisition of Canary Wharf Group was released to administrative expenses, which served to reduce the total for the year by £2.2m.

Underlying operating profit (as defined in Note 2) for 2007 was £340.3m in comparison with £245.8m for 2006. Of the increase of £94.5m, £89.1m was attributable to the recognition of profit on construction contracts and £19.3m to increased rental income, partly offset by an increase of £8.3m in administrative expenses.

In addition to the underlying operating profit, Canary Wharf Group received deferred proceeds totalling £8.3m relating to the sale of two buildings in 2003 and released surplus accruals and deferred income of £10.9m relating to previously disposed properties. Total operating profit for 2007 was £469.9m, which included £110.4m of revaluation gains, against £967.9m for 2006, including revaluation gains of £722.1m.

Underlying net financing costs (Note 5) for 2007 were £238.1m against £226.2m for 2006. In 2007, Canary Wharf Group restructured its securitised debt, resulting in refinancing charges of £14.3m (Note 5) and recognised a gain of £123.3m in 2006 in connection with the acquisition of three finance leases. Movements on derivative financial instruments resulted in a net loss of £35.5m being recognised in the income statement in 2007 compared with a gain of £19.1m in 2006. The increase in underlying net interest payable of £11.9m was primarily attributable to an increase in borrowings.

The profit for the year before taxation for 2007 was £182.0m in comparison with a profit of £884.1m for 2006. The results for 2007 and 2006 included certain capital and other profits and losses as described above. Underlying profit before taxation for 2007 was £102.2m (2006 – £19.6m) (Note 2).

Taxation for 2007 is wholly attributable to deferred tax. In 2007 a deferred tax credit of £23.8m was recognised through the income statement. In 2006, a deferred tax charge of £179.1m primarily arose from the requirement to provide for deferred tax on revaluation surpluses and on movements in the fair values of derivative financial instruments.

The profit for the year after taxation for 2007 was £205.8m in comparison with a profit of £705.0m for 2006.

The basic and diluted earnings per share for 2007 was 22.3p (2006 – 92.3p) (Note 2).

Balance sheet and key performance indicators

Net assets in the group's balance sheet were £2,347.7m at 31 December 2007, in comparison with £2,380.1m at 31 December 2006 and £2,620.3m at 30 June 2007. The reduction in net assets over the year was principally attributable to the dividends paid to equity shareholders during the first half of the year of £319.7m and partly offset by the increase in the carrying value of properties of £133.5m (Note 4). The reduction in net assets since 30 June 2007 was attributable to the reduction in the carrying value of properties by £348.6m after recognition of profits on construction contracts.

The company'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, redevelopment and financial structure.

BUSINESS REVIEW (Continued)

Adjusted NAV includes the external valuation surplus on construction contracts but excludes deferred tax and fair value adjustments on derivatives. In addition, in calculating adjusted NAV the SG Shares and until it was redeemed, the D Share are treated as equity rather than as, respectively, a debt instrument and a derivative for balance sheet purposes in accordance with accounting standards. The calculation of adjusted NAV is disclosed in Note 2 which indicates that adjusted NAV per share reduced from £2.64 at 31 December 2006 to £2.15 at 31 December 2007, after 70.5p of dividends per A, B and SG Share.

Adjusted NAV per share at 30 June 2007 was £2.49 and the reduction to £2.15 at 31 December 2007 was primarily attributable to the fall in the carrying value of properties.

Adjusted NNNAV per share is set out in the table below:

	Note	31 December 2007 £m	30 June 2007 £m	31 December 2006 £m
Adjusted net assets attributable to members of the company	(i)	1,354.9	1,571.8	1,624.6
Fair value adjustment in respect of financial assets and liabilities net of tax thereon	(ii)	4.8	95.0	(113.4)
Deferred tax	(iii)	(168.6)	(324.6)	(181.4)
Minority interest in above adjustments		64.2	90.0	115.6
Adjusted NNNAV		<u>1,255.3</u>	<u>1,432.2</u>	<u>1,445.4</u>
Cumulative dividends	(iv)	512.3	512.3	179.9
		<u>1,767.6</u>	<u>1,944.5</u>	<u>1,625.3</u>
Adjusted NAV per share	(i)	£2.15	£2.49	£2.64
Adjusted NNNAV per share	(v)	£1.99	£2.27	£2.35
Adjusted NNNAV per share before dividends	(v)	£2.80	£3.08	£2.65

Note:

- (i) Refer to Note 2.
- (ii) The fair value adjustment comprises the mark to market of derivatives in Note 2 and the after tax difference between the market value and book value of debt (Note 17), excluding the SG Shares which are treated as equity in the NNNAV calculation.
- (iii) Refer to Note 6.
- (iv) Total dividends paid since the acquisition of Canary Wharf Group in 2004 of £657.6m, £1.05 per share (31 December 2006 – £213.2m, 34.6p per share) of which £145.3m (31 December 2006 – £33.3m) was accounted for as a reduction in the liability recorded in respect of the SG Shares (Note 17).
- (v) Calculation based on 630.6m shares in issue at 31 December 2007 (31 December 2006 – 616.1m).

On 14 February 2007, an interim dividend of 29.5p was paid on each of the SG, A and B Shares. Subsequently on 18 June 2007, a further interim dividend of 41.0p was paid. These dividends, in addition to dividends paid up to 31 December 2006, served to reduce adjusted NNNAV per share from £2.80 to £1.99.

In January 2007, 14,478,260 B Shares were issued in exchange for the cancellation of the dividend and distribution rights attaching to the D Share. Had this issue of shares occurred by 31 December 2006, the impact would have been to reduce NNNAV per share by 6p to £2.29.

Borrowings

In May 2007, £800.0m was drawn down under a new £880.0m Songbird loan facility by SFL, which was used to fund the repayment of £520.9m plus interest outstanding under an existing loan. The balance was used to pay the dividend totalling £258.4m declared in June 2007.

In April 2007 Canary Wharf Group completed a restructuring of its securitisation involving the redemption of £572.6m of FRNs and the issue of £726.0m new non-amortising FRNs. Additional proceeds raised of £153.0m were represented principally by £51.0m of Class C2 notes, rated A, and £100.0m of Class D2 notes, rated BBB. All of the new notes issued mature in October 2037.

During the year, Canary Wharf Group also entered into a £155.0m 3 year construction loan facility secured on 5 Churchill Place. A total of £36.6m including interest had been drawn down under this facility at 31 December 2007.

At 31 December 2007, net debt (including derivative financial instruments at fair value and net of monetary deposits and cash and cash equivalents) stood at £3,861.8m, up by £217.2m from £3,644.6m at 31 December 2006. The components making up net debt are shown in Note 17.

BUSINESS REVIEW (Continued)

The increase in total borrowings including derivatives from £4,674.5m to £5,000.7m primarily reflects the draw down under the Songbird loan, the effect of restructuring Canary Wharf Group's securitisation and draw downs made by Canary Wharf Group under its new construction loan facility, as referred to above.

The increase in total borrowings was accompanied by an increase in cash and cash equivalents from £882.4m to £1,020.5m, primarily as a result of the draw downs and payments on account on construction contracts referred to above, partially offset by the dividends paid.

At 31 December 2007 the group's weighted average cost of debt was 6.4% including credit wraps (31 December 2006 – 6.2%).

Cash flow

Cash generated from operations for 2007 was £454.1m in comparison with £326.3m for 2006. This increase was primarily attributable to net proceeds from construction contracts and increased rental income. 2007 included £316.1m of payments received arising from agreements to sell 30 North Colonnade, 15 Canada Square and 20 Churchill Place (compared with 2006 – which included £131.8m from the sale of 20 Churchill Place and 15 Canada Square).

Cash flows from investing activities resulted in a cash outflow of £104.3m for 2007 compared with £32.2m for 2006. 2007 included £91.6m of development expenditure on properties to be retained by Canary Wharf Group (2006 – £41.4m). 2006 also included a deferred receipt of £27.0m from an investment property sold in 2005.

Cash flows from financing activities for 2007 resulted in an inflow of £50.3m compared with an outflow of £1,007.6m for 2006. Dividends were paid totalling £444.4m in 2007, of which £319.7m was paid to the A and B shareholders, compared with £78.0m in 2006. 2007 included net proceeds of £148.0m arising from restructuring Canary Wharf Group's securitisation, £279.1m on the restructuring of the Songbird loan and a further £30.2m drawn down subsequently and £34.9m drawn down under Canary Wharf Group's construction loan facility. Dividends paid on the SG Shares in excess of the finance charge accrued totalled £112.0m in 2007 (2006 – £27.3m). 2006 included £836.6m expended on the acquisition of finance leases by Canary Wharf Group, funded by the removal of restrictions over certain cash collateral accounts totalling £836.7m. 2006 also included repayment of £203.6m remaining on Canary Wharf Group's £750.0m loan facility, funded by the proceeds of the £300.0m retail loan facility.

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2007

	Note	2007			2006		
		Underlying* £m	Capital and other £m	Total £m	Underlying* £m	Capital and other £m	Total £m
Revenue:							
Gross development, rental and related income	3	624.8	–	624.8	436.8	–	436.8
Cost of sales		(239.2)	–	(239.2)	(153.9)	–	(153.9)
Net development, rental and related income	3	385.6	–	385.6	282.9	–	282.9
Share of associates and joint ventures (after taxation)	8	(1.4)	–	(1.4)	(0.3)	–	(0.3)
Administrative expenses		(47.0)	–	(47.0)	(38.7)	–	(38.7)
Other income	3	3.1	19.2	22.3	1.9	–	1.9
Net revaluation gains	4	–	110.4	110.4	–	722.1	722.1
Operating profit		340.3	129.6	469.9	245.8	722.1	967.9
Net financing costs							
- investment revenues	5	53.4	–	53.4	46.1	–	46.1
- financing costs	5	(291.5)	(35.5)	(327.0)	(272.3)	19.1	(253.2)
- refinancing (costs)/gains	5	–	(14.3)	(14.3)	–	123.3	123.3
		(238.1)	(49.8)	(287.9)	(226.2)	142.4	(83.8)
Profit for the year before taxation		102.2	79.8	182.0	19.6	864.5	884.1
Taxation							
- deferred tax	6			23.8			(179.1)
Profit for the year after taxation	2			205.8			705.0
Attributable to:							
Equity holders of the company				100.4			403.1
Minority interest				105.4			301.9
				205.8			705.0
Earnings per share							
- basic and diluted	2			22.3p			92.3p

* As defined in Note 2

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

for the year ended 31 December 2007

	2007	2006
	£m	£m
Profit for the period after taxation	205.8	705.0
Transferred from equity in respect of cash flow hedges	35.8	7.4
Tax on items transferred from equity	(10.0)	(2.2)
	25.8	5.2
Revaluation of development property	22.8	172.9
Share of revaluation of associated undertakings' development property	0.3	–
(Losses)/gains on cash flow hedges	(19.7)	22.5
Deferred tax on items taken directly to equity	(1.0)	(58.5)
Net income recognised directly in equity	28.2	142.1
Total recognised income and expense for the year	234.0	847.1
Attributable to:		
Equity holders of the company	112.8	489.4
Minority interest	121.2	357.7
	234.0	847.1

CONSOLIDATED BALANCE SHEET

at 31 December 2007

	Note	31 December 2007 £m	31 December 2006 £m
Assets:			
Non current assets			
Investment properties	7	6,019.4	5,895.6
Properties under construction	7	99.3	94.3
Development properties	7	452.0	414.9
Plant and equipment	7	0.9	0.4
		<u>6,571.6</u>	<u>6,405.2</u>
Other non current assets			
Investments	8	23.6	12.8
Derivative financial instruments	16	0.3	11.5
Tenant incentives and deferred negotiation costs	10	192.6	163.6
		<u>6,788.1</u>	<u>6,593.1</u>
Current assets			
Trade and other receivables	9	67.2	49.0
Monetary deposits	11	118.4	147.5
Cash and cash equivalents	12	1,020.5	882.4
		<u>1,206.1</u>	<u>1,078.9</u>
Total assets		<u>7,994.2</u>	<u>7,672.0</u>
Liabilities:			
Current liabilities			
Current portion of long term borrowings	14	(61.8)	(103.5)
Trade and other payables	13	(449.7)	(383.9)
		<u>(511.5)</u>	<u>(487.4)</u>
Non current liabilities			
Borrowings	15	(4,844.9)	(4,427.5)
Derivative financial instruments	16	(94.3)	(155.0)
Deferred tax liabilities	6	(168.6)	(181.4)
Provisions	18	(27.2)	(40.6)
		<u>(5,135.0)</u>	<u>(4,804.5)</u>
Total liabilities		<u>(5,646.5)</u>	<u>(5,291.9)</u>
Net assets		<u>2,347.7</u>	<u>2,380.1</u>
Equity			
Share capital	19	45.4	43.9
Other reserves	20	464.7	453.6
Retained earnings	20	564.7	730.9
Total equity attributable to members of the company		<u>1,074.8</u>	<u>1,228.4</u>
Minority interests	20	1,272.9	1,151.7
Total equity		<u>2,347.7</u>	<u>2,380.1</u>

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2007

	Note	2007 £m	2006 £m
Cash flows from operating activities			
Cash generated from operations	21	454.1	326.3
Interest paid		(297.0)	(270.7)
Interest received		54.7	46.3
Interest element of finance lease rentals		(2.1)	(5.1)
Financing expenses		(17.0)	(4.0)
Breakage costs		(0.6)	(0.5)
Net cash inflow from operating activities		192.1	92.3
Cash flows from investing activities			
Development expenditure		(91.6)	(41.4)
Purchase of property, plant and equipment		(0.9)	(7.3)
Sale of investment properties		–	27.0
Investment in and loans to joint ventures		(11.8)	(10.5)
Net cash outflow from investing activities		(104.3)	(32.2)
Cash flows from financing activities			
Dividends paid		(319.7)	(78.0)
Dividends paid to minority shareholders		–	(120.1)
Repayment of SG Shares liability		(112.0)	(27.3)
Draw down of construction loan		34.9	–
Draw down of securitised debt		726.0	–
Redemption of securitised debt		(581.4)	(11.9)
Repayment of finance leases		–	(836.6)
Draw down of secured loans		–	300.0
Repayment of secured loans		(6.8)	(210.1)
Draw down of Songbird loans		830.2	175.2
Repayment of Songbird loans		(520.9)	(198.8)
Net cash inflow/(outflow) from financing activities		50.3	(1,007.6)
Net decrease in cash and cash equivalents		138.1	(947.5)
Cash and cash equivalents at start of year		882.4	1,829.9
Cash and cash equivalents at end of year	12	1,020.5	882.4

Cash flows resulting from construction contracts have been reclassified from investing activities to operating activities to provide a more appropriate presentation of the group's cash flow.

NOTES TO THE PRELIMINARY ANNOUNCEMENT

for the year ended 31 December 2007

1. BASIS OF PREPARATION

The financial information presented in this Announcement has been prepared in accordance with IFRS and IFRIC interpretations as adopted by the EU and therefore complies with AIM rules. The financial information contained in this Announcement does not constitute a complete set of financial statements (including all comparative figures and all required notes). While the financial information included in this Announcement has been prepared in accordance with the recognition and measurement of IFRS, this Announcement does not itself contain sufficient information to comply with IFRS. The financial information does not therefore constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985 and does not purport to show a true and fair view of the group's financial position and results of operations in accordance with IFRS for the year ended 31 December 2007. The company expects to publish full financial statements that comply with IFRS by May 2008.

This Announcement has been prepared under the historical cost convention as modified by the revaluation of land and buildings and certain financial instruments and the deferred tax thereon and in accordance with the accounting policies set out in the company's announcement 'IFRS Restatement' dated 15 August 2007. Such accounting policies have been applied consistently in all material respects throughout the current and the previous year save for the early adoption of IFRS 8, as a result of which no segmental analysis has been disclosed. The IFRS Restatement included audited results for the year ended 31 December 2006 and the comparative information for the year ended 31 December 2006 has been extracted from the IFRS Restatement. The full financial statements for the year ended 31 December 2006, which were prepared under UK GAAP and received an unqualified audit report, and did not contain a statement under S237(2) or (3) of the Companies Act 1985, have been filed with the Registrar of Companies.

The principal impacts of adopting IFRS and the disclosures required by IFRS 1 concerning the transition from UK GAAP to IFRS were given in Note 19 to the IFRS Restatement.

2. PERFORMANCE MEASURES

Earnings per share

	2007		2006	
	Earnings £m	Per share p	Earnings £m	Per share p
Underlying profit before taxation	102.2	22.6	19.6	4.5
Capital and other items	79.8	17.7	864.5	198.0
Taxation	23.8	5.3	(179.1)	(41.0)
Total profit for the year after taxation	205.8	45.6	705.0	161.5
Less: minority interest	(105.4)	(23.3)	(301.9)	(69.2)
Profit after taxation	100.4	22.3	403.1	92.3

Underlying earnings exclude gains on investment property revaluations, deferred income on buildings sold in prior periods, movements in the fair value of ineffective hedging instruments and other derivatives, interest payable on the SG Shares, exceptional refinancing costs and gains and deferred taxation.

Earnings per share has been calculated by reference to the profit attributable to equity shareholders of £100.4m for 2007 (2006 - £403.1m) and on the weighted average of 451.8m ordinary shares in issue for 2007 (436.5m ordinary shares in issue for 2006). The numbers of ordinary shares exclude the SG Shares, D Share and B Shares held in trust in connection with Canary Wharf Group's share option plan. There were no dilutive instruments in issue at either date.

NOTES TO THE PRELIMINARY ANNOUNCEMENT

for the year ended 31 December 2007

Adjusted NAV is calculated as follows:

	31 December 2007	31 December 2006
	£m	£m
Balance sheet net assets	2,347.7	2,380.1
Add back: deferred tax	168.6	181.4
Mark to market of derivatives	72.5	53.8
Add: surplus arising on construction contracts	166.7	84.4
	2,755.5	2,699.7
Minority interest in balance sheet	(1,272.9)	(1,151.7)
Minority interest on adjustments above	(159.8)	(125.3)
Reclassify: SG Shares and D Share as equity	30.6	142.6
Add back: accrued finance charges on SG Shares and D Share	1.5	59.3
Adjusted net assets	1,354.9	1,624.6
Adjusted NAV per share	£2.15	£2.64

Adjusted NAV per share includes the external valuation surplus on construction contracts of £255.8m (31 December 2006 - £84.4m), less the profit recognised on such contracts of £89.1m (31 December 2006 - £nil) and fair value adjustments on derivatives and deferred taxation. In addition, in arriving at adjusted net assets, the SG Shares, and until it was redeemed, the D Share, are treated as equity whereas in the balance sheet the SG Shares are treated as a debt instrument and the D Share as a derivative.

At 31 December 2007 the number of shares in issue was 630.6m (31 December 2006 - 616.1m).

In January 2007 14,478,260 B Shares were issued in exchange for the cancellation of the dividend and distribution rights attaching to the D Share. The impact of this issue on NAV per share at 31 December 2006 would have been to reduce adjusted NAV per share by 6p to £2.58.

3. REVENUE

	2007	2006
	£m	£m
Rent receivable	275.3	255.7
Recognised incentives, committed rent increases and letting fees	24.1	24.4
	299.4	280.1
Service charge income	62.2	53.6
Miscellaneous income	24.8	26.7
Construction contract revenue	238.4	76.4
Gross development, rental and related income	624.8	436.8
Service charge and other direct property expenses	(87.3)	(82.2)
Movement in provisions relating to leasehold commitments	(2.6)	4.7
Construction contract expenditure	(149.3)	(76.4)
Net development, rental and related income	385.6	282.9

In 2007 Canary Wharf Group received deferred proceeds totalling £8.3m relating to the sale of two buildings in 2003 and released surplus accruals and deferred income of £10.9m relating to previously disposed properties. These amounts have been classified as other income within capital and other in the consolidated income statement.

NOTES TO THE PRELIMINARY ANNOUNCEMENT

for the year ended 31 December 2007

4. NET REVALUATION GAINS ON PROPERTY AND INVESTMENTS

	2007 £m	2006 £m
In income statement		
Revaluation of investment properties	110.4	722.1
In consolidated statement of recognised income and expense		
Revaluation of development and construction properties	22.8	172.9
	<u>133.2</u>	<u>895.0</u>
Share of associated undertakings' revaluation of development properties	0.3	–
	<u>133.5</u>	<u>895.0</u>

5. NET FINANCING COSTS

	2007 £m	2006 £m
Interest revenue		
Deposits and securities	53.4	46.1
Interest expense		
Notes and debentures	(157.0)	(151.2)
Songbird loans	(55.6)	(39.1)
Other bank loans and overdrafts	(78.6)	(78.3)
Obligations under finance leases	(2.1)	(4.4)
	<u>(293.3)</u>	<u>(273.0)</u>
Development interest capitalised	1.8	0.7
	<u>(291.5)</u>	<u>(272.3)</u>
Underlying net financing costs	<u>(238.1)</u>	<u>(226.2)</u>
Other financing (costs)/income relating to derivatives		
Valuation movements on fair value of derivatives	4.7	33.7
Valuation movements on translation of foreign currency debt	3.3	22.9
Valuation movement on fair value of D Share	(2.5)	(17.2)
Finance costs of SG Shares (Note 17)	(5.2)	(12.9)
Hedging reserve recycling	(35.8)	(7.4)
	<u>(35.5)</u>	<u>19.1</u>
Net financing expenses	<u>(273.6)</u>	<u>(207.1)</u>
Refinancing (costs)/gains		
Refinancing fees	(14.3)	–
Gains relating to finance lease repayment	–	123.3
Net financing costs	<u>(287.9)</u>	<u>(83.8)</u>
Total financing income	53.4	46.1
Total financing expenses	(341.3)	(129.9)
Net financing costs	<u>(287.9)</u>	<u>(83.8)</u>

Financing fees included in interest payable totalled £18.1m in 2007 (2006 – £17.1m).

The financing expenses of the construction loan facility have been capitalised as incurred since first drawn down in 2007. In 2006 interest on development expenditure financed from general funds was capitalised to properties under construction at a rate of 6.2% being the weighted average cost of debt of the relevant loan facilities and included in additions to properties under construction in Note 7.

NOTES TO THE PRELIMINARY ANNOUNCEMENT

for the year ended 31 December 2007

Refinancing fees in 2007 comprised the write-off of £13.6m deferred fees on certain of the notes repaid on the restructuring of Canary Wharf Group's securitisation and breakage fees paid totalling £0.7m.

During 2006 Canary Wharf Group recognised gains on the acquisition of finance leases totalling £123.3m.

6. TAXATION

	2007	2006
	£m	£m
Tax charge		
Origination and reversal of temporary differences	23.8	(179.1)
Group total taxation	23.8	(179.1)
Tax reconciliation		
Group profit on ordinary activities before taxation	182.0	884.1
Tax on profit on ordinary activities at UK corporation tax rate of 30%	(54.6)	(265.2)
Effects of:		
Indexation of capital gains and movement on deferred tax provisions	70.2	96.5
Effect of change in corporation tax rate	9.4	–
Expenses not deductible for tax purposes	(1.2)	(10.4)
Group total taxation	23.8	(179.1)

The tax charge for both periods relates solely to deferred tax.

No provision for corporation tax has been made in the consolidated results of the group for 2007 or 2006 due to tax losses arising in the year, 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.

Deferred tax assets	Losses & tax credits £m	Revaluation deficits £m	Fair value of derivatives £m	Financial instruments £m	Other £m	Total £m
1 January 2007	155.6	19.1	46.5	38.2	1.0	260.4
(Charge)/credit to income	(49.2)	3.0	(23.7)	(4.9)	–	(74.8)
Credit to equity	–	–	0.3	–	–	0.3
31 December 2007	106.4	22.1	23.1	33.3	1.0	185.9
Deferred tax liabilities	Potential EZA clawback £m	Revaluation surpluses £m	Fair value of derivatives £m	Financial instruments £m	Other £m	Total £m
1 January 2007	(113.1)	(277.2)	(3.5)	(48.0)	–	(441.8)
Credit to income	36.7	24.8	13.6	23.5	–	98.6
Charge to equity	–	(1.1)	(10.2)	–	–	(11.3)
31 December 2007	(76.4)	(253.5)	(0.1)	(24.5)	–	(354.5)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2007

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

	£m
31 December 2006	(181.4)
Credit to income	23.8
Charge to equity	(11.0)
31 December 2007	(168.6)

It has not been possible to determine the amounts which will crystallise within one year as required by IFRS as it is not possible to determine which properties, if any, will be sold in the next financial year.

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

NOTES TO THE PRELIMINARY ANNOUNCEMENT

for the year ended 31 December 2007

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

Non current assets and construction contracts at 31 December 2007 comprised:

	Investment properties £m	Development properties £m	Properties under construction £m	Construction contracts £m	Total £m	Plant & equipment £m	Total £m
Market value at 1 January 2007	6,058.4	415.0	95.0	–	6,568.4		
Adjust for brought forward:							
- tenant incentives*	(159.1)	–	–	–	(159.1)		
- unamortised lease negotiation costs*	(3.7)	(0.1)	(0.7)	–	(4.5)		
Carrying value at 1 January 2007	5,895.6	414.9	94.3	–	6,404.8	0.4	6,405.2
Additions	16.7	28.2	36.1	125.6	206.6	0.9	207.5
Transfers**	–	–	(45.0)	45.0	–	–	–
Revaluations:							
- in income statement	110.4	–	–	–	110.4	–	110.4
- in statement of recognised income and expense	–	8.9	13.9	–	22.8	–	22.8
Transfer to tenant incentives and deferred negotiation costs	(3.3)	–	–	–	(3.3)	–	(3.3)
Transfer to cost of sales	–	–	–	(149.3)	(149.3)	–	(149.3)
Transfer to payments on account	–	–	–	(21.3)	(21.3)	–	(21.3)
Depreciation	–	–	–	–	–	(0.4)	(0.4)
Carrying value at 31 December 2007	6,019.4	452.0	99.3	–	6,570.7	0.9	6,571.6
Adjust for:							
- tenant incentives*	186.5	–	–	–	186.5		
- unamortised lease negotiation costs*	5.4	–	0.7	–	6.1		
Market value at 31 December 2007	6,211.3	452.0	100.0	–	6,763.3		

*Refer to Note 10 for further details.

** In June 2007 Canary Wharf Group entered into an agreement for the sale of 30 North Colonnade and received an initial payment of £165.4m which has been treated as a payment on account. The carrying value of the site of £45.0m has been transferred from properties under construction held for investment to construction contracts. At 31 December 2007 the carrying values of this and the other properties accounted for as construction contracts are stated net of amounts taken to cost of sales, or offset against payments on account, in accordance with IAS 11.

Valuation

The fair value of Canary Wharf Group's properties has been arrived at on the basis of valuations carried out by external valuers, CBRE, Savills or Cushman as at 31 December 2007. The valuations, which conform to International Valuation Standards, were arrived at by reference to market evidence of transaction prices for similar properties.

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

NOTES TO THE PRELIMINARY ANNOUNCEMENT

for the year ended 31 December 2007

Cumulative interest capitalised in development properties at 31 December 2007 amounted to £2.5m (31 December 2006 – £0.7m). Included in investment properties is an amount of £30.5m (31 December 2006 – £30.1m) in respect of property occupied by the group, which in the opinion of the directors is not material for separate classification. The historical cost of properties held as non current assets was £4,511.9m (31 December 2006 - £4,460.6m).

Construction contracts

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

	20 Churchill Place £m	15 Canada Square £m	30 North Colonnade £m	Total £m
1 January 2007	145.6	50.0	–	195.6
Advances received	22.9	85.6	180.5	289.0
Contract revenue recognised as revenue in the income statement	(109.2)	(54.4)	(74.8)	(238.4)
Offset from construction contracts	4.2	(6.5)	(19.0)	(21.3)
Deferred interest	2.9	2.0	–	4.9
Gross amount due to customers for contract work at 31 December 2007	66.4	76.7	86.7	229.8

Cumulative amounts accounted for as construction contracts are as follows:

	£m
Advances received	563.8
Recognised as revenue	(314.8)
Offset from construction contracts	(29.5)
Deferred interest	10.3
	229.8

No retentions were held by customers for contract work at either 31 December 2007 or 31 December 2006.

NOTES TO THE PRELIMINARY ANNOUNCEMENT

for the year ended 31 December 2007

8. INVESTMENTS

The investments balance is carried at:

	31 December 2007 £m	31 December 2006 £m
Shares	7.3	0.6
Redeemable notes	15.5	11.0
	22.8	11.6
Fees on acquisition	2.6	1.9
Share of post acquisition losses	(1.0)	(0.7)
Share of fair value movement on derivatives	(1.1)	–
Share of revaluation surplus on development properties	0.3	–
	23.6	12.8

9. TRADE AND OTHER RECEIVABLES

	31 December 2007 £m	31 December 2006 £m
Trade receivables	10.4	6.0
Other receivables	32.7	10.5
Prepayments and accrued income	24.1	32.5
Total trade and other receivables	67.2	49.0

10. TENANT INCENTIVES AND DEFERRED NEGOTIATION COSTS

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

	Rent free periods £m	Other tenant incentives £m	Deferred negotiation costs £m	Total £m
1 January 2007	95.1	64.0	4.5	163.6
Transfer from investment properties (Note 7)	–	3.3	–	3.3
Recognition of rent during rent free periods	29.9	–	–	29.9
Amortisation	(1.7)	(4.1)	(0.9)	(6.7)
Deferred lease negotiation costs	–	–	2.5	2.5
31 December 2007	123.3	63.2	6.1	192.6

NOTES TO THE PRELIMINARY ANNOUNCEMENT

for the year ended 31 December 2007

11. MONETARY DEPOSITS

Monetary deposits comprise amounts held on deposit with original maturities in excess of three months. These deposits are charged, relate to Canary Wharf Group's construction contracts and mature over the life of those contracts.

	31 December 2007 £m	31 December 2006 £m
Monetary deposits held at bank	115.9	143.0
Accrued contractual interest on monetary deposits held at bank	2.5	4.5
	118.4	147.5

12. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise:

	31 December 2007 £m	31 December 2006 £m
Unsecured cash	856.7	712.5
Collateral for borrowings	144.0	145.2
Security for obligations	19.8	24.7
	1,020.5	882.4

13. TRADE AND OTHER PAYABLES

	31 December 2007 £m	31 December 2006 £m
Trade payables	20.3	13.5
Taxation and social security costs	8.2	5.3
Other payables	37.6	30.8
Other accruals	73.1	83.7
Deferred income	80.7	55.0
Payments on account (Note 7)	229.8	195.6
Total trade and other payables	449.7	383.9

14. CURRENT PORTION OF LONG TERM BORROWINGS

Current portion of long term borrowings comprises:

	31 December 2007 £m	31 December 2006 £m
Accrued interest payable	46.3	22.6
Repayable within one year:		
– securitised debt	6.9	15.0
– secured loans	7.1	6.6
Financing costs of SG Shares	1.5	8.7
D Share derivative liability	–	50.6
Long term borrowings repayable within one year	61.8	103.5

NOTES TO THE PRELIMINARY ANNOUNCEMENT

for the year ended 31 December 2007

15. BORROWINGS

Non current liability borrowings comprise:

	31 December 2007 £m	31 December 2006 £m
Securitised debt	2,664.1	2,476.1
Songbird loans	831.8	518.6
Secured loans	1,241.8	1,248.2
Construction loan	35.0	–
Finance lease obligations	41.6	42.0
	4,814.3	4,284.9
SG Shares	30.6	142.6
	4,844.9	4,427.5

16. DERIVATIVE FINANCIAL INSTRUMENTS

Hedge accounting

The group uses interest rate swaps and interest rate caps to hedge exposure to the variability in cash flows on floating rate debt, including its bank facilities and floating rate bonds, caused by movements in market rates of interest. At 31 December 2007 the fair value of these derivatives resulted in the recognition of a net liability of £94.0m (31 December 2006 – £143.5m). Of this net liability, an asset of £0.1m and a liability of £23.3m was in respect of interest rate swaps which qualify for hedge accounting (31 December 2006 – £11.2m and £0.3m respectively) and an asset of £0.2m and a liability of £71.0m was in respect of interest rate swaps and collars which do not qualify for hedge accounting (31 December 2006 – £0.3m and £154.7m respectively).

	31 December 2007 £m	31 December 2006 £m
Assets:		
Securitisation	–	5.6
Songbird loans	0.2	0.3
Other secured loans	0.1	5.6
	0.3	11.5
Liabilities:		
Securitisation	(21.0)	(87.9)
Songbird loans	(12.1)	–
Other secured loans	(57.3)	(67.1)
Construction loan	(3.9)	–
	(94.3)	(155.0)
	(94.0)	(143.5)

NOTES TO THE PRELIMINARY ANNOUNCEMENT

for the year ended 31 December 2007

17. NET DEBT

	31 December 2007 £m	31 December 2006 £m
Securitised debt	2,723.9	2,577.3
Songbird loans	843.7	522.6
Other secured loans	1,359.4	1,330.7
Finance lease obligations	41.6	42.0
	4,968.6	4,472.6
SG Shares and associated financing costs	32.1	151.3
D Share derivative liability	–	50.6
	5,000.7	4,674.5
Gross debt	5,000.7	4,674.5
Current liabilities	61.8	103.5
Non current liabilities:		
– borrowings	4,844.9	4,427.5
– derivatives included in non current assets	(0.3)	(11.5)
– derivatives included in non current liabilities	94.3	155.0
	5,000.7	4,674.5
Gross debt	5,000.7	4,674.5
Cash and cash equivalents	(1,020.5)	(882.4)
Monetary deposits	(118.4)	(147.5)
	3,861.8	3,644.6
Net debt	3,861.8	3,644.6

As a result of the redemption rights attaching to the SG Shares, such shares are classified as borrowings and the income statement includes a charge to profit in respect of the SG Shares accumulated at 8.0% per annum, subject to increases in the coupon to a maximum of 10.0% in certain circumstances. The accrued finance charges (comprising dividends accrued but not declared or paid) in respect of this class of share are included in the current portion of long term liabilities as interest payable (Note 14). At 31 December 2007 £1.5m was accrued in respect of the SG Shares (31 December 2006 – £8.7m).

Prior to the share capital amendments approved in January 2007, the D Share carried an entitlement to a dividend for each year in the five year period commencing 1 July 2004 based on 20.0% of the incremental increase in the value of Canary Wharf Group's retail assets. As a result of this entitlement the D Share was treated as a derivative and was stated at its estimated fair value within current liabilities. The estimated fair value at 31 December 2006 was £50.6m. Movements in the estimated fair value prior to conversion to B Shares were charged to the income statement as financing costs.

NOTES TO THE PRELIMINARY ANNOUNCEMENT

for the year ended 31 December 2007

On 26 January 2007, the dividend rights on the D Share were cancelled in exchange for 14,478,260 B Shares that had a market value of £53.1m, resulting in a charge to the income statement in 2007 of £2.5m. Following the exchange for B Shares, the D Share was redeemed.

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

	Securitised debt £m	Songbird loan £m	Other secured loans £m	Construction loan £m	Finance lease obligations £m	Total borrowings £m	SG and D Shares £m	Total £m
1 January 2007	2,577.3	522.6	1,330.7	–	42.0	4,472.6	201.9	4,674.5
Drawn down in year	726.0	830.2	–	34.9	–	1,591.1	–	1,591.1
Effective interest rate adjustment	(10.8)	(3.3)	1.0	(1.6)	–	(14.7)	–	(14.7)
Accrued finance charges	(1.4)	2.9	(0.1)	1.7	(0.4)	2.7	(4.7)	(2.0)
Repaid in period	(581.4)	(520.9)	(6.8)	–	–	(1,109.1)	(112.0)	(1,221.1)
Release of D Share liability	–	–	–	–	–	–	(53.1)	(53.1)
Movements in fair value of derivatives and foreign exchange	0.5	12.2	(4.3)	3.9	–	12.3	–	12.3
Charges on loan repayment	13.7	–	–	–	–	13.7	–	13.7
31 December 2007	2,723.9	843.7	1,320.5	38.9	41.6	4,968.6	32.1	5,000.7
Payable within one year or on demand	38.8	–	21.5	–	–	60.3	1.5	61.8
Payable in more than one year	2,664.1	831.8	1,241.8	35.0	41.6	4,814.3	30.6	4,844.9
Derivatives classified as:								
- non current assets	–	(0.2)	(0.1)	–	–	(0.3)	–	(0.3)
- non current liabilities	21.0	12.1	57.3	3.9	–	94.3	–	94.3
	2,723.9	843.7	1,320.5	38.9	41.6	4,968.6	32.1	5,000.7

All the borrowings of Canary Wharf Group are secured against designated property interests of Canary Wharf Group. The Songbird loan is secured against the assets of the company and the shares in its subsidiaries.

In May 2007, £800.0m was drawn down under a new £880.0m facility which was used to fund repayment of the £520.9m outstanding under an existing Songbird loan. The new loan has a term of three years and carries an interest rate of LIBOR plus a margin of 1.2% to 1.7% dependent on the financial condition of the group. The new loan is hedged via an interest swap and cap which serves to fix LIBOR for the amount drawn at 5.928%. An additional £30.2m had been drawn down by 31 December 2007.

In April 2007 Canary Wharf Group completed a restructuring of its securitisation involving the redemption of £572.6m of FRNs and the issue of £726.0m of new non-amortising FRNs. The new notes issued comprised £220.0m of A7 Notes, £104.0m of B3 Notes, £275.0m of C2 Notes and £125.0m of D2 Notes. All of the notes have a maturity of October 2037.

Interest on the new notes is at three month LIBOR plus a margin. The margins on the notes are: A7 Notes – 0.19% per annum, increasing to 0.475% in January 2017; B3 Notes – 0.28% per annum, increasing to 0.7% per annum in January 2017; C2 Notes – 0.55% per annum, increasing to 1.375% in April 2014; and D2 Notes – 0.84% per annum increasing to 2.1% in April 2014.

All of the notes are hedged by means of interest rate swaps and the hedged rates plus the margin are: A7 Notes – 5.1135%; B3 Notes – 5.1625%; C2 Notes – 5.4416% and D2 Notes – 5.8005%.

At 31 December 2007 the following notes issued by a subsidiary of Canary Wharf Group were outstanding:

Tranche	Principal £m	Interest	Repayment
A1	1,215.0	6.455%	By instalment 2009 to 2033
A3	400.0	5.952%	By instalment 2032 to 2037
A7	222.0	Floating	By instalment from 2035 to 2037
B	217.7	6.800%	By instalment from 2005 to 2033
B3	104.0	Floating	By instalment from 2035 to 2037
C2	275.0	Floating	By instalment from 2035 to 2037
D2	125.0	Floating	By instalment from 2035 to 2037
	2,558.7		

NOTES TO THE PRELIMINARY ANNOUNCEMENT

for the year ended 31 December 2007

In February 2007 Canary Wharf Group entered into a £155.0m 3 year construction loan facility secured on 5 Churchill Place. Interest is charged at LIBOR plus a margin of 0.9% hedged at 5.625%. At 31 December 2007 £36.6m including interest had been drawn down under this facility.

A bank loan facility of £608.8m is secured against One Churchill Place. The loan is fully amortising with a final maturity in July 2034. The loan carries a hedged interest rate of 5.82%. During 2007 £6.8m of the loan was amortised in accordance with the loan agreement, reducing the principal at 31 December 2007 to £591.1m.

Canary Wharf Group has a £369.4m bank loan facility secured against 10 Cabot Square and 20 Cabot Square. The loan carries interest at a rate of 5.82% and is repayable in 2013. 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%.

In March 2006, Canary Wharf Group entered into a £300.0m 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 2007 the margin was set at 55 bps. Canary Wharf Group has 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%.

Canary Wharf Group's obligations under its finance lease are secured over the property that is subject to the finance lease and over certain cash deposits (Note 12).

Comparison of market values and carrying amount

	31 December 2007			31 December 2006		
	Market value £m	Carrying amount £m	Difference £m	Market value £m	Carrying amount £m	Difference £m
Securitisations	(2,594.8)	(2,702.9)	108.1	(2,583.7)	(2,495.0)	(88.7)
Songbird loan	(831.8)	(831.8)	-	(522.9)	(522.9)	-
Secured loans	(1,261.0)	(1,263.3)	2.3	(1,265.6)	(1,269.2)	3.6
Construction loan	(35.0)	(35.0)	-	-	-	-
Finance leases	(41.6)	(41.6)	-	(42.0)	(42.0)	-
SG Shares	(318.0)	(32.1)	(285.9)	(617.5)	(151.3)	(466.2)
D Share	-	-	-	(50.6)	(50.6)	-
	(5,082.2)	(4,906.7)	(175.5)	(5,082.3)	(4,531.0)	(551.3)
Other financial assets/(liabilities):						
- interest rate derivative assets	0.3	0.3	-	11.5	11.5	-
- interest rate derivative liabilities	(94.3)	(94.3)	-	(155.0)	(155.0)	-
Cash and monetary deposits	1,138.9	1,138.9	-	1,029.9	1,029.9	-
Total	(4,037.3)	(3,861.8)	(175.5)	(4,195.9)	(3,644.6)	(551.3)

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

NOTES TO THE PRELIMINARY ANNOUNCEMENT

for the year ended 31 December 2007

18. PROVISIONS

Provisions have been made in respect of the following liabilities:

	Vacant leasehold properties £m	Other lease commitments £m	Total £m
1 January 2007	13.7	26.9	40.6
Utilisation of provision	(12.4)	(3.9)	(16.3)
Unwind of discount	0.7	1.8	2.5
Change in provision	1.5	(1.1)	0.4
31 December 2007	3.5	23.7	27.2

Vacant leasehold properties

At 31 December 2007 the provision for the estimated net liability in respect of vacant leasehold properties, discounted at 6.4% being the group's weighted average cost of debt at that date, was £3.5m (31 December 2006 – £13.7m discounted at 6.2%).

Other lease commitments

In connection with an agreement for lease signed in 2001 Canary Wharf Group entered into a rent support commitment under which it may contribute a maximum of £10 per sq ft per annum towards the difference between the passing rent payable by a tenant at its previous premises and the rent achievable on any sub lease. The maximum amount payable in respect of this commitment at 31 December 2007 had reduced to £23.7m (nominal) from £26.6m at 31 December 2006 and had a present value of £19.1m calculated on the basis of a discount rate of 6.4% (31 December 2006 – £20.7m discounted at 6.2%). The commitments under this agreement expire between 2013 and 2017. 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 either in respect of unexpired rent free periods or until the next rent review date. A provision in respect of these commitments was recognised at the date of disposal. The remaining provision at 31 December 2007 was £4.6m calculated on the basis of a discount rate of 6.4% (31 December 2006 – £6.2m, discounted at 6.2%). The obligation under one of these commitments expires in 2008. The remaining commitment relates to the lease back of certain car parking spaces and expires in 2028.

19. SHARE CAPITAL

Issued share capital comprises:

	31 December 2007 £m	31 December 2006 £m
Equity shares:		
– A Shares	26.1	26.1
– B Shares	19.3	17.8
	45.4	43.9
Shares not classified as equity:		
– D Share	–	–
– SG Shares	17.7	17.7
Total	63.1	61.6

As at 31 December 2006 a total of 616,117,548 shares were in issue. In February 2007 14,478,260 B Shares were issued to BL in consideration for the redemption of the D Share by the company. This issue of B Shares resulted in an increase of £1.5m in their carrying value, funded by a capitalisation of £1.5m from the company's share premium account. There were no changes in authorised share capital in 2007.

NOTES TO THE PRELIMINARY ANNOUNCEMENT

for the year ended 31 December 2007

20. OTHER RESERVES

	Note	Share premium £m	Treasury shares ¹ £m	Revaluation reserve ² £m	Hedging reserve ³ £m	Total other reserves £m	Minority interest £m	Retained earnings ⁴ £m	Total £m
1 January 2007		380.7	(0.6)	115.3	(41.8)	453.6	1,151.7	730.9	2,336.2
Profit for the year after taxation		–	–	–	–	–	–	205.8	205.8
Valuation movements on development properties	7	–	–	22.8	–	22.8	–	–	22.8
Valuation movements on associated undertakings		–	–	0.3	–	0.3	–	–	0.3
Losses on effective hedges	16	–	–	–	(19.7)	(19.7)	–	–	(19.7)
Tax on items taken direct to equity	6	–	–	(1.1)	0.1	(1.0)	–	–	(1.0)
Net income recognised directly in equity		–	–	22.0	(19.6)	2.4	–	205.8	208.2
Transferred to minority interest		–	–	(8.6)	(7.2)	(15.8)	121.2	(105.4)	–
Transferred to income:									
- cash flow hedges		–	–	–	35.8	35.8	–	–	35.8
Tax on transfers	6	–	–	–	(10.0)	(10.0)	–	–	(10.0)
Total recognised income and expense for the period		–	–	13.4	(1.0)	12.4	121.2	100.4	234.0
Transfer on D Share Reserve movements in respect of share plan		(1.5)	–	–	–	(1.5)	–	53.1	51.6
Dividends paid		–	0.2	–	–	0.2	–	–	0.2
		–	–	–	–	–	–	(319.7)	(319.7)
31 December 2007		379.2	(0.4)	128.7	(42.8)	464.7	1,272.9	564.7	2,302.3

Note:

- 1 The treasury shares reserve represents the cost of B Shares held in trust in connection with the Canary Wharf Group share option plan.
- 2 The revaluation reserve relates to revaluation surpluses on development properties and is not distributable.
- 3 The hedging reserve comprises the effective portion of the cumulative net change in the fair value of the group's hedging instruments together with the unamortised portion of certain fair value adjustments that arose on the acquisition of Canary Wharf Group in 2004.
- 4 Includes revaluation surpluses in respect of investment properties that are recognised as income under IFRS.

Dividends

The amount recognised as dividends paid comprises:

	2007 £m	2006 £m
Payment on A Shares	183.9	47.0
Payment on B Shares	135.8	31.0
	319.7	78.0

An interim dividend of 29.5p per share totalling £186.0m was paid on 14 February 2007 and a further interim dividend of 41.0p per share totalling £258.4m was paid on 18 June 2007. Of the total dividend of £444.4m, £124.7m was paid to the SG shareholders and classified as a repayment of debt or financing expenses for the purposes of this Announcement.

No appropriation of profit is required to be recognised in respect of the other classes of shares. Net of dividends paid, the appropriation of profit accruing for 2007, but not recognised in this Announcement, was £2.0m on the A Shares (2006 – £12.1m) and £1.5m on the B Shares (2006 – £9.0m).

NOTES TO THE PRELIMINARY ANNOUNCEMENT

for the year ended 31 December 2007

21. NOTES TO THE CASH FLOW STATEMENT

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

	2007 £m	2006 £m
Profit on ordinary activities before tax	182.0	884.1
Non cash movements		
Net valuation gains on investment properties and investments	(110.4)	(722.1)
Share of loss after tax of associates	1.4	(0.3)
Spreading of tenant incentives, committed rent increases and letting fees	(25.7)	(24.4)
Write back of acquisition fees	-	(2.2)
Depreciation	0.4	0.2
Share options	(0.1)	0.5
Profit recognised on construction contracts	(89.1)	-
	(223.5)	(748.3)
	(41.5)	135.8
Changes to working capital and other cash movements		
Net financing costs	273.6	207.1
Refinancing charges (Note 5)	14.3	(123.3)
Utilisation of provisions and unwind of discount	(13.2)	(17.2)
Increase in receivables	(12.7)	(2.0)
Increase in payables	34.7	21.2
Proceeds from construction contracts	316.1	131.8
Construction contract expenditure	(117.2)	(27.1)
Cash generated from operations	454.1	326.3

22. FINANCIAL COMMITMENTS

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 2007.

The table below summarises these sub-lets, including the rent payable for the next financial year, net of any rent receivable:

Property	Leaseholder	Original sub-let sq ft	Re-let ⁽¹⁾ sq ft	Net rent ⁽²⁾ £m	Rent review date	Rent review basis	Term commencement	Expiry or first break
10 Upper Bank Street	Clifford Chance	52,600	52,600	0.77	N/A	N/A	Jul 2003	Jul 2008
10 Upper Bank Street	Clifford Chance	52,100	52,100	0.99	Jul 2008	Fixed at £49/sf	Jul 2003	Jul 2013
25-30 Bank Street	Lehman Brothers	25,200	25,200	0.44	N/A	N/A	Jul 2003	Jul 2008
25-30 Bank Street	Lehman Brothers	50,400	50,400	0.32	N/A	N/A	Jul 2003	Jul 2008
25-30 Bank Street	Lehman Brothers	24,100	24,100	0.24	Nov 2008	Fixed at £53/sf	Jul 2003	Mar 2009
25-30 Bank Street	Lehman Brothers	100,900	90,100	3.32	Jul 2008	Fixed at £53/sf ⁽³⁾	Jul 2003	Jul 2013
One Churchill Place	Barclays	133,400	133,400	0.98	Jul 2009	OMR up only	Jul 2004	Jul 2019
One Churchill Place	Barclays	129,700	129,700	0.89	Jul 2009	OMR up only	Jul 2004	Jul 2014
One Churchill Place	Barclays	65,000	65,000	1.21	N/A	N/A	Jul 2004	Jul 2009
40 Bank Street	Skadden	19,500	19,500	0.05	N/A	N/A	Mar 2003	Mar 2008
40 Bank Street	Skadden	19,500	19,500	0.59	Apr 2008	OMR up only	Mar 2003	Sep 2010
40 Bank Street	Skadden	19,500	19,500	0.26	Apr 2008	OMR up only	Mar 2003	Mar 2013
Total		691,900	681,100	10.06				

NOTES TO THE PRELIMINARY ANNOUNCEMENT

for the year ended 31 December 2007

Note:

- (1) A call option was granted on 10,800 sq ft of sub-let space in 25-30 Bank Street. With the exception of this space, all of the sub-let space has now been re-let.
- (2) The net annual sub-let rental obligations will decrease over time with the expiration of re-letting rent free periods.
- (3) Followed by annual increases to £59.65 per sq ft in 2012.

23. EVENTS AFTER THE BALANCE SHEET DATE

On 7 February 2008 Canary Wharf Group announced lettings on over 225,000 sq ft in One Canada Square, including an agreement for lease with Moody's for approximately 170,000 sq ft on a 15 year lease in space formerly occupied by the Telegraph Media Group.

On 26 March 2008 Canary Wharf Group declared a dividend of 16p per share payable on 9 April 2008. There is no current intention for a dividend payment by the company.

Definitions

A Shares	Ordinary Class A Shares of 10p each
Announcement	The Preliminary Announcement for the year ended 31 December 2007
ANZ	Australia New Zealand Bank Limited
B Shares	Ordinary Class B Shares of 10p each
Ballymore	Ballymore Properties Limited
BL	British Land (Joint Ventures) Limited
board	Board of directors of the company
BWB	British Waterways Board
Canary Wharf Group	Canary Wharf Group plc and its subsidiaries
CBRE	CB Richard Ellis Limited, Surveyors and Valuers
company	Songbird Estates plc
Cushman	Cushman & Wakefield, Real Estate Consultants
Deferred Plan	Canary Wharf Group 2004 Deferred Share Plan
D Share	D Share of 10p
Drapers Gardens	Drapers Gardens scheme in the City of London
Estate	Canary Wharf Estate including Heron Quays, Riverside South and North Quay
EU	European Union
Exemplar	Exemplar Developments LLP
EZAs	Enterprise Zone Allowances
Fimalac	F Marc de Lachariere
FRNs	Floating Rate Notes
group	The company, its wholly owned subsidiaries and Canary Wharf Group
HMRC	Her Majesty's Revenue and Customs
IAS	International Accounting Standards
IAS 11	International Accounting Standard 11 'Construction Contracts'
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IFRS 8	International Financial Reporting Standard 8 'Operating Segments'
Knight Frank	Knight Frank LLP Property Consultants
LOCOG	The London Organising Committee of the Olympic Games Limited
m	million
MSREF V	Morgan Stanley Real Estate Fund V
NAV	Net Asset Value
NIA	Net Internal Area
NNNAV	Triple Net Asset Value
SAL	Songbird Acquisition Limited
Savills	Savills Commercial Limited, Chartered Surveyors
SFL	Songbird Finance Limited
SG Shares	SG Shares of 10p
Skadden	Skadden Arps Slate Meagher & Flom LLP
Songbird loan	Loan drawn down by either SAL or SFL
sq ft	Square feet/square foot
TFL	Transport for London
Trust	Canary Wharf Employees' Share Ownership Plan Trust
UK GAAP	United Kingdom Generally Accepted Accounting Practice