

SONGBIRD ESTATES PLC

26 MARCH 2009

PRELIMINARY ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31 DECEMBER 2008

The board of Songbird Estates plc is pleased to announce its results for the year ended 31 December 2008.

The information in this announcement, which was approved by the board of directors on 25 March 2009, does not comprise statutory accounts within the meaning of the Companies Act 1985.

OPERATIONAL SUMMARY

- **Underlying profit** for the year was **£175.4m** (2007 – £102.2m) (Note (i)).
- **The weighted average equivalent yield for the office portfolio was 6.5%** at 31 December 2008, up by 90 bps for the six months and 130 bps for the year. **The equivalent yield for the retail portfolio was 6.6%** at 31 December 2008, up by 80 bps for the six months since 30 June 2008 and 110 bps for the year (Note (ii)).
- **Including development sites, the market value of the property portfolio** to be retained at 31 December 2008 was **£4,925.5m, a reduction of 19.8% since 30 June 2008** adjusting for additions and the sale of Riverside South and **26.5% over the year** (Note (ii)).
- **Net assets fell** from £2,347.7m at 31 December 2007 to **£459.7m** at 31 December 2008, a **reduction of £1,888.0m or 80.4% and decreased by £1,391.2m or 75.2% from £1,850.9m at 30 June 2008** (Note (iii)).
- **Adjusted net asset value per share was 64p at 31 December 2008, a reduction of £1.51 or 70.2% in the year and of 85p or 57.0% since 30 June 2008** (Note (iii)).
- **NNNAV per share reduced by 57.8% from £1.66 at 30 June 2008 and by 64.8% from £1.99 at 31 December 2007 to 70p at 31 December 2008** (Note (iii)).
- **The group is in compliance with all of its loan covenants.** Rothschild has been appointed to advise with the goal of putting in place a more appropriate long-term financial framework for the company (Note (iv)).
- On 17 November 2008 **Canary Wharf Group announced agreement had been reached for the sale and proposed staged development of Riverside South to JP Morgan for an initial consideration of £237.9m** (Note (v)).
- In 2008 leasing transactions over approximately **205,000 sq ft were achieved**, at rents ranging from £45.00 to £49.00 psf (Note (vi)).
- **Lehman, which leases approximately 1.0m sq ft, was placed into administration. The building remains fully occupied and the group has cover for at least four years' rent** (Note (vii)).
- At 31 December 2008 **Canary Wharf Group's investment portfolio totalling 7.9m sq ft was 99.7% let** (31 December 2007 – 7.9m sq ft of which 99.6% was let) including the building occupied by Lehman. **The weighted average unexpired lease term was approximately 18.0 years including Lehman** (or 15.2 years assuming the exercise of all break options) (Note (viii)).
- **Planning approval received for an approximately 200,000 sq ft hotel/serviced apartment development** (Note (ix)), **a 1.3m sq ft development at Heron Quays West, 100,000 sq ft of retail space and a rooftop park** above the Crossrail station (Note (x)) and a 30,000 sq ft retail building in Middle Dock. **Approval was also obtained for increased density at 25 Churchill Place** (Note (ix)).
- Outline **planning consent was awarded for the 7.0m sq ft mixed use scheme at Wood Wharf** (Note (ix)).
- In December 2008 **Canary Wharf Group announced that it will construct the Isle of Dogs Crossrail station at Canary Wharf for a fixed price of £500.0m of which £350.0m will be met from the Crossrail budget and £150.0m will be contributed by Canary Wharf Group** (Note (x)).
- **Practical completion of 20 Churchill Place** a 300,000 sq ft building constructed on behalf of Prudential for occupation by State Street was **achieved** on schedule (Note (xi)).
- **Construction continued on 1.0m sq ft of which 0.7m sq ft has been pre-sold and 86.0% of the remainder has been pre-let** (Note (xi)). Work also continued on the JP Morgan building at Riverside South (Note (v)).

Note:

- (i) See Note 1 for the basis of preparation and Note 2.
- (ii) See 'Business Review – Valuations' for a comparison with the carrying value for accounts purposes.
- (iii) See 'Business Review – Balance sheet and key performance indicators'.
- (iv) See 'Chairman's Operational Review' and 'Business Review – Principal risks and uncertainties'.
- (v) See 'Business Review – JP Morgan'.
- (vi) See 'Business Review – Leasing'.
- (vii) 'Business Review – Lehman'.
- (viii) See 'Business Review – Property portfolio'.
- (ix) See 'Business Review – Development properties'.
- (x) See 'Business Review – Crossrail'.
- (xi) See 'Business Review – Construction'.

SONGBIRD ESTATES PLC

RESULTS IN BRIEF

	Note	2008 £m	2007 £m
Rental income	(i)	287.5	275.3
Underlying operating profit	(ii), (vii)	428.8	340.3
Capital and other items:			
- profit on sale of Riverside South	(ii)	0.5	19.2
- impairment of investment in associates	(iii)	(14.5)	-
- net revaluation movements in the income statement	(iv)	(1,773.6)	110.4
- financing costs relating to derivatives and the SG Shares	(v)	(217.1)	(35.5)
- refinancing charges relating to repayment of debt	(v)	-	(14.3)
Underlying profit before tax	(ii), (vii)	175.4	102.2
(Loss)/profit on ordinary activities before tax	(ii)	(1,829.3)	182.0
Tax	(vi)	126.9	23.8
(Loss)/profit after tax	(ii)	(1,702.4)	205.8
Basic and diluted (loss)/earnings per share	(vii)	(233.9)p	22.3p

Note:

- (i) See Note 3.
- (ii) See Consolidated Income Statement.
- (iii) See Note 8.
- (iv) See Note 4.
- (v) See Note 5.
- (vi) See Note 6.
- (vii) See Note 2.

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CHAIRMAN'S OPERATIONAL REVIEW

It is clear the current financial market turmoil has had a significant impact on the UK real estate sector, in particular on property asset values. The Central London office market, of which Canary Wharf Group is an integral part, has felt the severe effects of the global financial downturn.

Property Valuations

The market value of the group's property portfolio at 31 December 2008, excluding properties under construction held for sale, was £4,925.5m against £6,763.3m at 31 December 2007, a reduction of 26.5% disregarding additions and the Riverside South site which was sold in November 2008. Investment properties reduced in value by 28.1%, disregarding additions, reflecting a further increase in yields by approximately 90 bps in the second half of the year and taking the total increase in the year to 130 bps. A breakdown of the valuations is set out in 'Business Review – Valuations'.

Financial Position

The company continues to meet all of the financial covenant tests set out in the loan documentation with its lender and will conduct the next covenant test, which is due by 15 May 2009, using valuations of the group's property portfolio as at 31 December 2008. Using the 31 December 2008 valuations the board anticipates the company will also meet this next covenant test, although there is a material risk that the company may subsequently be in breach of its financial covenants within the next 12 months.

The company's £880.0m loan is repayable in May 2010 and will need to be refinanced. Given the importance of this refinancing and the current uncertain economic climate, the board is focussed on this issue and has appointed Rothschild to act as adviser. The board is exploring the various options open to the company with the goal of putting in place a more appropriate long term financial framework for the company.

Details of these matters and the group's financing position as at 31 December 2008 can be found in the 'Business Review – Principal risks and uncertainties', Note 1 to the financial information and Note 17.

Operational Review

Offices

As announced in September 2008 Lehman, which has a lease over 1.023m sq ft at 25 Bank Street (of which they occupy approximately 875,000 sq ft), entered into administration on 15 September 2008. The Administrator of Lehman is currently continuing to pay rent on the 875,000 sq ft which it continues to occupy. 350,000 sq ft of this space is, however, now let to Nomura on a two year sub lease. An additional 150,000 sq ft is sub-let to tenants such as NYSE Euronext, Jones Lang LaSalle Limited and the FSA. An arrangement with AIG, fully supported by cash collateral, provides for the payment of any shortfall from the entire contracted rent in the event of a whole, or partial, default on rental payments under the lease for a period of 4 years from the date of any default.

The highlight of the year was the successful conclusion of agreements in November 2008 with JP Morgan for the staged development of the Riverside South site at Canary Wharf. Detail on the JP Morgan transaction can be found in the 'Business Review – JP Morgan'. The unique nature of this transaction re-emphasises the ability of the Canary Wharf Group to maintain the flexibility required to meet the varying needs of its existing and prospective tenants and occupiers.

Lettings were also concluded by the group on approximately 200,000 sq ft during 2008.

As part of a long term consolidation plan, Morgan Stanley served notice in January 2009 to exercise a break option of the lease over 6 floors in 20 Cabot Square, with effect from 1 February 2010. Notwithstanding the serving of this notice, Morgan Stanley will continue to occupy or lease more than 1.0m sq ft in two other buildings at Canary Wharf. Serving of notice by Morgan Stanley enables Canary Wharf Group to refurbish this space to meet demands of new tenants once the real estate market improves.

The Estate does, however, continue to evolve with State Street, KPMG and Fitch all due to move into their new buildings during 2009 and 2010. It is anticipated that these three new buildings will together accommodate approximately 7,000 staff.

Future Development

Although market conditions are currently not conducive to large scale development there is the potential for further development of approximately 4.4m sq ft at Canary Wharf (as detailed in the 'Business Review – Development properties') once market conditions improve.

As noted on previous occasions, there is also development potential for the group outside of the Estate, for example, on the Wood Wharf joint venture development.

CHAIRMAN'S OPERATIONAL REVIEW (Continued)

Retail

Despite widespread difficulties being experienced in the retail sector throughout London and the UK in general, retail at Canary Wharf continues to expand with construction works continuing on schedule for the Canada Square Pavilion and Churchill Place Retail Extension. Prestigious tenants such as Jamie's Italian and Roka have entered into agreements on units in these new retail areas with negotiations ongoing for the remaining space. The focus continues on maintaining close tenant relationships and a strong retail tenant base to take us through the current challenging market conditions.

Successful rent reviews continued throughout 2008 across the Estate.

Crossrail

Canary Wharf Group reached agreement in December 2008 to commence work on the new Crossrail station at Canary Wharf in early 2009. The agreement includes a commitment from Canary Wharf Group to design and build the station at Canary Wharf whilst also contributing £150.0m towards its cost.

Crossrail will help support London's position as a world leading centre for commerce by delivering a 10% increase to the capital's rail capacity when it opens in 2017. The project will bring an additional 1.5m people within 60 minutes' commute of London's major business centres.

Financial Review

Net assets fell from £2,347.7m at 31 December 2007 to £459.7m at 31 December 2008, a reduction of £1,888.0m. This reduction was mainly attributable to the fall in value of the group's properties by £1,793.0m over the year. In addition fair value adjustments on derivative financial instruments resulted in a loss of £378.8m for accounting purposes. This was partially offset by the underlying profit for the period which was £175.4m.

Adjusted net asset value per share at 31 December 2008 was £0.64, a reduction of £1.51 in comparison with 31 December 2007, and £0.85 in comparison with 30 June 2008. Adjusted net assets includes the revaluation surplus on construction contracts and the benefit of the arrangement with AIG in relation to 25-30 Bank Street but excludes deferred tax and fair value adjustments on derivative financial instruments and treats the SG shares as equity.

Adjusted NNNAV per share fell by £0.96 to £0.70 in the second half of the year, taking the total fall for the year to £1.29. The falls in adjusted NAV and adjusted NNNAV per share over the period were mainly attributable to the fall in the market value of the group's properties.

During the year, Canary Wharf Group declared a dividend of 16p per ordinary share which was paid on 9 April 2008. Songbird utilised £60.2m of its share of this dividend to reduce borrowings.

The underlying profit before tax for the year of £175.4m compares with a profit of £102.2m for 2007, the increase of £73.2m being mainly attributable to the recognition of £133.3m of profit on pre-sold properties, in comparison with £89.1m for 2007. In addition, £16.0m of net income was recognised in 2008 in connection with the surrender of certain leases. This space has been re-let to a range of tenants and the resulting rental income will begin to flow later this year.

Offsetting the underlying profit for the year were revaluation movements recognised in the income statement of £1,773.6m, fair value movements on derivative financial instruments of £217.1m and an impairment of the group's Drapers Gardens associate of £14.5m. Net of these charges, the loss before tax for the year was £1,829.3m.

At 31 December 2008 Canary Wharf Group's cash balances stood at £1,013.8m. The rental income on the company's investment properties is in excess of interest and amortisation, and undeveloped land is held debt-free.

The Songbird loan matures in May 2010. The average maturity of the Canary Wharf Group borrowings is 14.8 years, which is comparable with the weighted average unexpired lease term of the group's tenants. The position with regard to the group's loan covenants is set out in Note 17.

Conclusion

Despite the difficulties of 2008 there are positive elements, such as the agreement to construct a new headquarters for JPMorgan and the potential for approximately 4.4m sq ft of further development at Canary Wharf, which prepare the group for growth when market conditions improve. Moreover, the group's current investment portfolio vacancy rate is 0.3% and the overall vacancy rate at Canary Wharf is below 5%. Lettings remained relatively strong in 2008 for Canary Wharf Group with average unexpired lease terms at 18.0 years (or 15.2 years assuming the exercise of all break clauses) underpinned by strong rental income.

The directors were saddened to hear of the sudden death of their former colleague, Gavin MacDonald, towards the end of 2008 and send condolences to his family. Gavin had been involved in the offer for Canary Wharf Group and was a much valued member of the board from May 2004 until August 2008.

BUSINESS REVIEW

The following Business Review aims to provide shareholders with a summary of the business of the group both during the year ended, and as at, 31 December 2008.

A list of defined terms used throughout this announcement is provided in 'Definitions'.

Property portfolio

The principal asset of the company is its indirect investment in Canary Wharf Group which is engaged in property investment and development. The activities of Canary Wharf Group are currently focused on the development of the Estate. Canary Wharf Group is also involved through joint ventures in the development of Wood Wharf and the redevelopment of Drapers Gardens. At 31 December 2008 Canary Wharf Group's investment portfolio comprised 16 completed properties (out of the 31 constructed on the Estate) totalling 7.9m sq ft NIA, of which 99.7% was let (31 December 2007 – 7.9m sq ft of which 99.6% 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 15 completed properties totalling 6.6m sq ft which are in other ownerships. The owned properties of Canary Wharf Group are as follows:

Property address	NIA sq ft	Leased %	External valuation £m	Principal tenants and sub-tenants
One Churchill Place	1,014,400	100.0	630.0	Barclays, BGC, LOCOG
10 Cabot Square	639,000	100.0	260.0	Barclays Capital, WPP Group
20 Cabot Square	562,000	100.0	200.0	Morgan Stanley, Barclays Capital
One Canada Square	1,236,200	99.8	688.4	KPMG, Mirror Group Newspapers, State Street, JP Morgan, Bank of New York
33 Canada Square	562,700	100.0	305.0	Citigroup
20 Bank Street	546,500	100.0	385.0	Morgan Stanley
25-30 Bank Street	1,023,300	98.9	410.0	Lehman, Nomura
40 Bank Street	607,400	98.4	375.0	Barclays Capital, Skadden, Allen & Overy, BGC, ANZ
50 Bank Street	209,800	100.0	130.0	Northern Trust, Goldenberg Hehmeyer
10 Upper Bank Street	1,000,400	100.0	645.0	Clifford Chance, Infosys, FTSE, Total
Cabot Place Retail	95,700	99.2	124.3	Various retail tenants
Canada Place Retail	72,200	100.0	121.9	Various retail tenants
Jubilee Place Retail	89,400	100.0	85.5	Various retail tenants
Churchill Place Retail	22,400	95.6	8.7	Barclays Bank and various retail tenants
16-19 Canada Square	204,500	100.0	51.2	Waitrose Food & Home, Reebok, Plateau Restaurant
Reuters Plaza	8,900	100.0	10.0	Smollensky's, Carluccio's
Car Parks	–	–	53.0	
Total	7,894,800	99.7	4,483.0	

Canary Wharf Group's properties are under lease to high quality tenants. At 31 December 2008 the weighted average unexpired lease term for the office portfolio was approximately 18.0 years, including Lehman, or 15.2 years assuming the exercise of outstanding break options (31 December 2007 – 18.7 years or 15.8 years respectively). Of the square footage under lease, 65.9% does not expire or cannot be terminated by tenants during the next ten years.

Lehman

On 15 September 2008 Lehman was placed into administration in the UK and its ultimate parent, Lehman Brothers Holdings Inc., applied for Chapter 11 insolvency protection in the USA.

Lehman currently leases 1.023m sq ft in 25-30 Bank Street on a tenancy which is due to expire in July 2033. The obligations of the lease are guaranteed by Lehman Brothers Holdings Inc. Of the 1.023m sq ft, Lehman occupies approximately 525,000 sq ft, having sub-let 350,000 sq ft to Nomura for approximately two years from December 2008 at the passing rent. Of the remaining 148,000 sq ft, approximately 100,000 sq ft is sub-let until 2013 and the balance sub-let for a maximum of 2 years. This space reverts to Lehman on the expiry of the various sub-leases. The current rent payable by Lehman for the entire building increased from £41.00 to £53.00 psf as a result of a stepped rent review in November 2008. The Administrator remains in occupation of the remainder of the building and the rent for the first quarter of 2009 was paid on schedule.

BUSINESS REVIEW (Continued)

25-30 Bank Street is included within the CWF II securitisation which has approximately £2.55bn of notes in issuance. The securitisation has the benefit of an agreement with AIG which provides for the payment of the contracted rent under the lease following a default from Lehman, either in its entirety or to cover any shortfall. The agreement is for a period of 4 years from a payment default by Lehman. Under this agreement, AIG are obliged to maintain a certain credit rating and following its downgrade, AIG posted collateral in December 2008 pursuant to its contractual obligations in an amount of £224.0m. This collateral is held in AIG bank accounts with the Bank of New York Mellon, London branch and AIG has granted security over the deposits as collateral for its obligations. Separately, the securitisation has the benefit of an arrangement with AIG on 33 Canada Square which covers the rents in the event of a default by the tenant of that building during the full term of the lease. Following its downgrade AIG posted a further £276.0m of cash collateral in relation to this arrangement over which AIG has also granted security.

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

Holders of the secured bonds issued by CWF II have recourse only to the assets, guarantees and liquidity facility of CWF II and there is no recourse to Canary Wharf Group plc.

JP Morgan

On 17 November 2008 Canary Wharf Group announced it had concluded an agreement for the staged development of Riverside South with JP Morgan. Under this agreement the site has been sold to JP Morgan for £237.9m. Infrastructure work on the site had already started and JP Morgan has instructed Canary Wharf Group to complete on its behalf the design, planning and further infrastructure works for a new European headquarters building which will be designed to meet the expected future operational needs of JP Morgan.

Canary Wharf Group will act as Development and Construction Manager. While Canary Wharf Group is completing the design, planning, piling and raft construction JP Morgan will, subject to market conditions, decide when to instruct Canary Wharf Group to proceed with final construction. If construction is postponed, or deferred altogether, the Canary Wharf Group will be paid for completed work and also retain £76.0m representing a portion of developer's profit related to the development.

Leasing

During 2008 Canary Wharf Group announced letting transactions over a total of approximately 205,000 sq ft.

- An agreement was concluded with Moody's, the international credit rating agency, for approximately 165,000 sq ft on a 15 year lease which included space formerly occupied by the Telegraph on floors 11–16 in One Canada Square.
- Canary Wharf Group also took a surrender of floor 37 (28,435 sq ft) in One Canada Square from Burlington Resources and re-let the space to Abbey Business Centres for a term of 15 years.
- Hartford Life took a short term lease of 2,045 sq ft on floor 29 in One Canada Square.
- Execujet took a 5 year lease on 2,000 sq ft in One Canada Square.
- China Construction Bank took a 10 year lease on 7,700 sq ft in 40 Bank Street.

The rents achieved on these lettings ranged from £45.00 to £49.00 psf.

In addition Global Sage renewed their lease over 3,331 sq ft on floor 27 in One Canada Square.

As a result of these lettings, vacancy on the Estate in the completed buildings owned by Canary Wharf Group reduced to 0.3% at 31 December 2008.

Subsequent to the year end the group received notice from Morgan Stanley of the exercise, with effect from 1 February 2010, of the break option relating to the lease of 20 Cabot Square, which was due to expire in 2020. Morgan Stanley currently occupies approximately 345,500 sq ft at 20 Cabot Square and will continue to occupy this space until February 2010 in accordance with the terms of its lease. Morgan Stanley will also continue to lease 546,500 sq ft at Bank Street and to own and occupy the 448,500 sq ft building at 25 Cabot Square.

All space previously sub-let back to Canary Wharf Group has now been re-let or is subject to call options. At 31 December 2008 the estimated net present value of the remaining sub-let liabilities had reduced to approximately £20.6m discounted at 6.2%, Canary Wharf Group's weighted average cost of debt at that date (31 December 2007 – £30.0m discounted at 6.1%). The remaining sub-let commitments have been reflected in the market valuation of Canary Wharf Group's properties.

BUSINESS REVIEW (Continued)

Construction

In December 2008 the group completed the construction of a 300,000 sq ft building at 20 Churchill Place which had been pre-sold in 2006 to Prudential for occupation by State Street.

Construction continued on the following properties at 31 December 2008:

Property address	NIA sq ft	Expected completion date	Status
15 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, now assumed by JP Morgan.
30 North Colonnade	320,000	September 2009	Pre-sold to Fimalac for occupation by Fitch.
	1,020,000		

In addition to the above, work commenced on the expansion of two of Canary Wharf Group's retail malls, including a new retail building adjoining One Canada Square. This expansion will provide a further 38,000 sq ft of lettable space.

Development properties

The site at 25 Churchill Place can now accommodate approximately 515,000 sq ft of new development after planning permission was granted on 7 November 2008 to increase the permitted development from 375,000 sq ft. At North Quay local authority consent has been granted for 2.4m sq ft, although development cannot proceed until construction of the station box for the new Crossrail station at Canary Wharf is completed which is expected to be in 2012. There is also further development capacity at Heron Quays West, subject to acquiring the remaining leasehold interests on the site which are outside the control of Canary Wharf Group. Consent was granted on 17 November 2008 to increase the development of this site, to 1.3m sq ft. A further application was submitted during the year for the adjacent Newfoundland site and consent was granted on 19 November 2008 for 0.2m sq ft of mixed use development.

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

	NIA m sq ft
Based on latest planning permissions:	
– 25 Churchill Place	0.5
– North Quay	2.4
– Heron Quays West	1.3
– Newfoundland site	0.2
	4.4
Sold to JP Morgan (see 'Business Review – JP Morgan')	
– Riverside South	1.9
	6.3

Canary Wharf Group has continued to work 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 approximately 7.0m sq ft gross of mixed commercial, residential and retail development. A formal resolution for 4.6m sq ft (net) was awarded on 9 October 2008 for this development and further design work is being carried out on the first phase of office buildings.

Construction work has continued on Drapers Gardens. The scheme comprises approximately 300,000 sq ft of prime commercial development 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 responsibility for the day to day running of the scheme. The group has, however, recognised an impairment of its investment in Drapers Gardens, primarily reflecting the associate's property revaluation deficit (Note 8).

Crossrail

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

Canary Wharf Group will design and construct the station for a fixed price of £500.0m. Canary Wharf Group has worked extensively with CLRL on redesigning the station, resulting in significant cost savings for the project. £350.0m of the station's £500.0m costs will be met from Crossrail's £15.9bn budget with Canary Wharf Group bearing the risk in

BUSINESS REVIEW (Continued)

relation to costs above the fixed price limit. The Canary Wharf Group contribution of £150.0m will be applied against any Section 106 contributions for certain agreed development sites on the Estate which may be required as part of proposed alterations to the London Plan.

Construction of the new Crossrail station started in early 2009. The station box is expected to be completed and handed over by summer 2012. The first trains are due to run in 2017 when Crossrail opens for passenger service.

Planning permission has also been granted for an approximately 100,000 sq ft retail area and public park above the Crossrail station which will be retained by Canary Wharf Group. The park will be a focal point of the design and will be semi-covered by an environmentally sustainable timber lattice roof, providing views of the docks and the Estate.

Valuations

The net assets of the group, as stated in its consolidated balance sheet as at 31 December 2008, were £459.7m. In arriving at this total:

- (i) properties held as investments were carried at £4,276.6m, which represents the market value of those properties of £4,483.0m at that date as determined by Canary Wharf Group's external valuers, CBRE, Savills or Cushman, less an adjustment of £200.1m for tenant incentives and £6.3m for deferred negotiation costs;
- (ii) properties held for development were carried at £260.0m, representing their market value; and
- (iii) the property under construction to be retained by Canary Wharf Group was carried at £181.8m, representing its market value of £182.5m less an adjustment of £0.7m for deferred negotiation costs.

In valuing the properties on the Estate the valuers take account of market evidence which in the latter part of the year included the conclusion of the JP Morgan transaction, the sub-lease of 350,000 sq ft by Lehman to Nomura and the re-acquisition of 10 Canada Square by HSBC.

The valuation of the investment portfolio on the basis of market value adjusted for additions reduced by £1,755.3m or 28.1% over the year. After allowing for adjustments in respect of lease incentives, the carrying value of the investment portfolio reduced by £1,769.8m over the year. This reduction was primarily driven by the increase in yields in the market by approximately 130 bps over the year. In comparison with 30 June 2008, the valuation of the investment portfolio reduced in the second half of the year by £1,181.5m or 20.9%, adjusting for additions, as a result of an increase in yields of 90 bps over the period. At 31 December 2008 the weighted average equivalent yield for the office portfolio was 6.5% (31 December 2007 – 5.2%) and for the retail portfolio 6.6% (31 December 2007– 5.5%). The directors continue to be of the view that the low vacancy rate on the Estate and long average unexpired lease terms put the group in a strong position to withstand the difficult economic climate.

CBRE and Savills have provided a joint opinion as at 31 December 2008 that the market value of properties held for development was £260.0m, in comparison with £252.0m at 31 December 2007 excluding Riverside South. This resulted in a valuation reduction of £41.4m in the year, net of additions and transfers, of which £37.6m was recognised in the revaluation reserve and £3.8m in the income statement. In valuing the properties held for development, the valuers have allowed for estimated costs to complete, including an allowance for fitout. In addition they have allowed for letting, disposal, marketing and financing costs. Excluding Riverside South which was sold to JP Morgan in November 2008, the market value of £260.0m represents an increase of 8.7% after additions and transfers since 30 June 2008, primarily reflecting the beneficial impact on development property values of completing the Riverside South transaction.

The valuers also provided an opinion at 31 December 2008 that the market value of the property under construction to be retained by Canary Wharf Group was £182.5m in comparison with £100.0m at 31 December 2007. The increase in value of the property over the year reflected the construction works completed and the recognition of developer's profit. The remaining pre-sold properties under construction at 31 December 2008 had a market value of £536.6m compared with a carrying value of £258.4m before the transfers required by IAS 11.

The valuations are based on assumptions which include future rental income, anticipated void costs, the appropriate discount rate or yield and, in the case of development properties, the estimated costs to completion. The valuers also make reference to market evidence of transaction prices for similar properties but they have noted in their reports that in the current economic environment there have been fewer comparable transactions on arms length terms, partly due to the lack of liquidity in the capital markets. Consequently there is a greater degree of uncertainty in respect of the figures reported by the valuers than at previous balance sheet dates.

The market value of the property portfolio to be retained by the group reduced by £1,778.5m or 26.5% over the year, adjusting for additions and the disposal of Riverside South, and by £1,219.2m or 19.8% in the six months since 30 June 2008. This reduction in value was driven by the widening in yields referred to earlier.

Adjusting for the sale of the Riverside South site, the completion of the pre-sold building at 20 Churchill Place and additions, the market value of the entire property portfolio reduced by £1,106.1m or 16.8% in the six months since 30 June 2008 and by £1,695.5m or 23.7% in the year.

BUSINESS REVIEW (Continued)

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 2008		30 June 2008		31 December 2007	
	Note	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	1	4,276.6	4,483.0	5,453.3	5,658.0	6,019.4	6,211.3
Properties under construction	2	181.8	182.5	149.3	150.0	99.3	100.0
Properties held for development		260.0	260.0	330.0	330.0	452.0	452.0
		4,718.4	4,925.5	5,932.6	6,138.0	6,570.7	6,763.3
Properties under construction held for sale	3	258.4	536.6	322.8	588.5	255.2	511.0
		4,976.8	5,462.1	6,255.4	6,726.5	6,825.9	7,274.3

Note:

- 1 The carrying value represents market value less an adjustment for lease incentives and deferred negotiation costs. The tenant incentives and deferred negotiation costs adjustment at 31 December 2008 was £206.4m (30 June 2008 – £204.7m, 31 December 2007 – £191.9m). Market value in existing state is shown prior to these amounts.
- 2 Market value in existing state is shown before adjustment for deferred negotiation costs totalling £0.7m at 31 December 2008, 30 June 2008 and 31 December 2007.
- 3 The carrying value at 31 December 2008 is stated net of £257.7m transferred to cost of sales (30 June 2008 – £311.7m, 31 December 2007 – £225.7m), £4.1m transferred to payments on account (30 June 2008 – £14.3m, 31 December 2007 – £29.5m) and costs accrued of £3.5m (30 June 2008 – £3.2m, 31 December 2007 – £nil) in accordance with IAS 11. Market value in existing state at 31 December 2008 includes the present value of the minimum developer's profit from the sale of Riverside South discounted at 6.2% being Canary Wharf Group's weighted average cost of debt, calculated on the assumption that the JP Morgan site will not proceed with full build out, and excludes the profit already recognised on the disposal of the site.

Tax

Canary Wharf Group has utilised EZAs in the year to shelter for the most part its taxable profits and gains. Going forward, EZAs will continue to shelter a small part of taxable profits, until they are abolished in 2011 as a result of a change in law. This abolition will result in lost tax relief of £6.2m.

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 balance recognised 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 2008. The comparatives relate to the year ended 31 December 2007.

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 2008 was £756.3m, against £624.8m for 2007 of which rental income after spreading lease incentives increased from £299.4m to £301.1m. At 31 December 2008 the board assessed the recoverability of lease incentives incurred in connection with the Lehman's lease (see 'Lehman' earlier in this 'Business Review'). As a result, these lease incentives will be amortised over a period shorter than the term of the lease leading to the recognition of £3.5m less income for 2008. The impact of spreading lease incentives, net of the accelerated charge for Lehman, was to increase rental income by £13.6m in 2008 (2007 – £24.1m). Excluding this accounting adjustment, rental income increased from £275.3m to £287.5m, an increase of 4.4%, primarily attributable to the benefit of rent reviews and increased retail rents. During 2008 the group recognised £24.3m of income in connection with the termination of certain leases on the Estate by tenants (2007 – £nil).

Service charge income increased from £62.2m for 2007 to £67.3m and miscellaneous income, including insurance, rents and the provision of tenant specific services outside the standard service charge, reduced from £24.8m for 2007 to £23.8m for 2008. Development, rental and related income for 2008 also included £339.8m of turnover recognised on construction contracts (2007 – £238.4m).

BUSINESS REVIEW (Continued)

Cost of sales includes rents payable and property management costs, movements on provisions for vacant leasehold properties and certain other lease commitments, as well as costs recognised on construction contracts. Rents payable and property management costs were £92.2m for 2008 in comparison with £84.4m for 2007. Taking into account service charge and miscellaneous income totalling £91.1m (2007 – £87.0m), a deficit was recorded on property management of £1.1m (2007 – surplus of £2.6m). This deficit is primarily attributable to space which is being fitted out for new tenants for which service charges are not recoverable.

Provisions relating to the remaining vacant leasehold property, rent support commitments and certain other obligations of Canary Wharf Group reduced by £20.2m in 2008 primarily as a result of the release of provisions and accounts relating to Lehman (Note 18) whereas there was a net increase in such provisions of £2.6m in 2007. In addition, cost of sales for 2008 included £8.3m of dilapidations and other costs attributable to the termination of leases in the year compared with £2.9m in 2007 associated with restructuring certain retail tenancy agreements. Costs recognised on construction contracts totalled £206.5m in 2008 (2007 – £149.3m), resulting in £133.3m of profit being recognised in the year (2007 – £89.1m).

For 2008 net development, rental and related income was £469.5m, an increase of £83.9m over 2007, attributable to the factors referred to above.

Administrative expenses for 2008 were £41.8m in comparison with £47.0m for 2007. The reduction in administrative expenses was in part attributable to a reduction in administrative staff costs for Canary Wharf Group. Leasing and marketing costs were also lower than in the previous year, offset by fees incurred in connection with the review of potential development and investment opportunities.

In 2008 other income included a profit of £0.5m recognised in the income statement on the disposal of Riverside South. This transaction also resulted in a transfer from the revaluation reserve to retained earnings of £105.4m (Note 7).

Underlying operating profit (as defined in Note 2) for 2008 was £428.8m in comparison with £340.3m for 2007. Of the increase of £88.5m, £44.2m was attributable to the recognition of profit on construction contracts, £20.2m to the release of provisions, primarily the Lehman rental support provision (Note 18), and £16.0m to the net proceeds from termination of leases.

Offsetting the underlying operating profit, a revaluation deficit of £1,773.6m (Note 4) was recognised in the 'Income Statement' in the year.

The group recognised an impairment of its investment in the Drapers Gardens associate, primarily its share of the associate's property revaluation deficit. In addition the group has recognised provisions totalling £5.6m, comprising £2.9m for the group's share of the unrecognised loss on interest hedging and £2.7m for the maximum possible additional equity funding required under the shareholders' agreement. Together with the group's £0.5m share of the losses of WWLP, the total charge to the income statement in connection with associates in 2008 was £15.0m in comparison with £1.4m for 2007.

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.

The total operating loss for 2008 was £1,358.8m compared with an operating profit of £469.9m in 2007. The movement was attributable to the revaluation deficit and the other factors referred to above.

Underlying net financing costs (Note 5) for 2008 were £253.4m against £238.1m for 2007. In 2007, Canary Wharf Group restructured its securitised debt, resulting in refinancing charges of £14.3m (Note 5). Unrealised valuation movements on derivative financial instruments resulted in a net loss of £217.1m being recognised in the income statement in 2008 compared with £35.5m in 2007. The increase in underlying net interest payable of £15.3m was primarily attributable to an increase in borrowings during the previous year and reduced interest receivable (Note 5).

The loss for the year before taxation for 2008 was £1,829.3m in comparison with a profit of £182.0m for 2007. The results for 2008 and 2007 included certain capital and other profits and losses as described above. Underlying profit before taxation for 2008 was £175.4m (2007 – £102.2m).

Taxation for 2008 taken to the income statement comprised a corporation tax charge of £8.8m and a deferred tax credit of £135.7m, primarily attributable to deferred tax on the revaluation deficit and movements in the fair values of derivatives recognised in the income statement. In 2007, a deferred tax credit of £23.8m arose from the requirement to provide for deferred tax on revaluation surpluses and on movements in the fair values of derivative financial instruments.

The loss for the year after taxation for 2008 was £1,702.4m in comparison with a profit of £205.8m for 2007.

The basic and diluted loss per share for 2008 was 233.9p (2007 – earnings of 22.3p) (Note 2).

BUSINESS REVIEW (Continued)**Balance sheet and key performance indicators**

Net assets in the group's balance sheet were £459.7m at 31 December 2008, in comparison with £2,347.7m at 31 December 2007 and £1,850.9m at 30 June 2008. The reduction in net assets over the year was primarily attributable to the reduction in the carrying value of properties held as non current assets by £1,793.0m and the unrealised loss on derivative instruments of £378.8m, of which £210.5m was recognised in the income statement and £168.3m in the hedging reserve (Note 16) partly offset by the underlying profit of £175.4m. The reduction in net assets since 30 June 2008 was primarily attributable to the reduction in the carrying value of properties held as non current assets of £1,058.8m and the increased liability on derivative instruments of £470.5m.

The company's objective is to manage its investment in Canary Wharf Group so as to maximise net asset values from its investment properties and undertaking property development, although the group is impacted by movements in the wider property market. The board considers that the most appropriate indicator of the group's performance is the adjusted 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.

Adjusted NAV includes the external valuation surplus on construction contracts and the benefit of the arrangement with AIG but excludes deferred tax and fair value adjustments on derivatives. In addition, in calculating adjusted NAV the SG Shares are treated as equity rather than as a debt instrument in accordance with accounting standards. The calculation of adjusted NAV is disclosed in Note 2 and indicates that adjusted NAV per share reduced from £2.15 at 31 December 2007 and £1.49 at 30 June 2008 to 64p at 31 December 2008.

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

	Note	31 December 2008 £m	30 June 2008 £m	31 December 2007 £m
Adjusted net assets attributable to members of the company	(i)	401.0	940.2	1,354.9
Fair value adjustment in respect of financial assets and liabilities net of tax thereon	(ii)	64.4	236.0	4.8
Deferred tax	(iii)	6.1	(64.3)	(168.6)
Minority interest in above adjustments		(27.6)	(67.3)	64.2
Adjusted NNNAV		443.9	1,044.6	1,255.3
Cumulative dividends	(iv)	512.3	512.3	512.3
		956.2	1,556.9	1,767.6
Adjusted NAV per share	(i)	£0.64	£1.49	£2.15
Adjusted NNNAV per share	(v)	£0.70	£1.66	£1.99
Adjusted NNNAV per share before dividends	(v)	£1.51	£2.47	£2.80

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 2007 – £657.6m, £1.05p per share) of which £145.3m (31 December 2007 – £145.3m) 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 both 31 December 2008 and 31 December 2007.

Principal risks and uncertainties

The principal risks and uncertainties facing the business of the consolidated group are monitored through continuous assessment, regular and formal quarterly reviews and discussion at audit committee and board level of both the company and Canary Wharf Group. The boards and audit committees of the group focus on the risks identified as part of the group's systems of internal control which highlight, amongst others, key risks faced by the group and allocates specific day to day monitoring and control responsibilities as appropriate. The current key risks of the consolidated group include the property market upheaval, financing risk, concentration risk, policy and planning risks and the shareholders' agreement.

BUSINESS REVIEW (Continued)

Property market upheaval

The valuation of the group's assets is subject to many external economic and market factors which are cyclical in nature. The unprecedented turmoil in the financial markets has been reflected in the property market by such factors as the oversupply of available space in the office market, a recent significant decline in tenant demand for space in London and a change in the market perception of property as an investment resulting in a negative impact on property valuations in general. The financing position of the group, as set out in Note 17, indicates there is a material risk there may be a breach by the company of its loan covenants which are based on loan to value ratios. Such issues are kept under constant review so that the group can react appropriately and tailor the business plans of the group accordingly. The ongoing upheaval in the financial markets continues to be closely monitored.

Financing risk

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

The current financial markets turmoil has significantly limited the availability of funding. In common with other UK property companies, such lack of financing facilities may have an impact on the business of the group if the lending markets remain limited for the foreseeable future.

While the SFL loan facility falls due in May 2010, the earliest of Canary Wharf Group's facilities to mature is its retail facility which matures in March 2011. The weighted average maturity of Canary Wharf Group's loans is 14.8 years. Further details on the management of treasury risk can be found in Note 17, which includes a summary of the key financial covenants applicable to each of the group's facilities.

In light of the current financing facility falling due in May 2010, ongoing discussions are taking place with the lender on the future financing requirements of the company. However, due to the current conditions in the financial markets as a whole, there is a risk that future facilities may be more limited, take longer to negotiate and prove more costly than on previous occasions, or agreement with the lender may not be reached. If an appropriate refinancing arrangement is not reached with a lender, the company is likely to be unable to repay the facility.

There is a material risk the company may breach its financial covenant tests within the next 12 months. As referred to in the 'Chairman's Operational Review', the 'Going concern' section of the Business Review and Note 1, the board is exploring the various options open to the company for a more appropriate long term financial framework for the company.

Details of the group's financing position at 31 December 2008 are set out in Note 17.

Concentration risk

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

Policy and planning risks

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

Shareholders' Agreement

Provisions within the Shareholders Agreement require party shareholders to take, from 31 December 2012, such action as is necessary to wind up and dissolve the company. As this date approaches a level of uncertainty as to shareholders' investment in the company may, therefore, impact onto the value of the company. These provisions can be waived at any time by the parties to the Shareholders Agreement and the directors are mindful of this approaching date in reviewing the future strategy of the company.

There is a right of redemption attaching to the SG Shares. In the event a valid redemption notice is served in respect of all, or a significant number, of SG Shares the maximum amount payable per SG Share is 17.8p plus accruing interest.

Borrowings

In April 2008 a dividend of £62.2m was received by SFL from Canary Wharf Group and this enabled a £60.2m part prepayment of the Songbird loan. Subsequent drawings under this facility increased the loan to £829.9m at 31 December 2008.

BUSINESS REVIEW (Continued)

During the year, Canary Wharf Group drew down £59.6m including interest under its £155.0m 3 year construction loan facility secured on 5 Churchill Place. The total amount drawn at 31 December 2008 was £99.9m.

In September 2008, Canary Wharf Group drew down an additional £50.0m under its retail facility increasing the amount drawn to £350.0m. The increased loan carries a weighted average rate of interest of 6.1% after hedging. The loan is repayable in full in March 2011.

At 31 December 2008, net debt including derivative financial instruments at fair value but excluding the SG Shares and net of monetary deposits and cash and cash equivalents, stood at £4,293.9m, up by £432.1m from £3,861.8m at 31 December 2007. The components making up net debt are shown in Note 17.

The increase in total borrowings, including derivatives, from £5,000.7m to £5,480.3m primarily reflects movements in the fair value of the group's derivatives, the £50.0m drawn down under the retail loan and £59.6m of draw downs made under the construction loan facility.

The increase in total borrowings was accompanied by an increase in cash and cash equivalents from £1,020.5m to £1,161.3m, primarily as a result of the sale of Riverside South to JP Morgan. In addition, there was an increase in cash and cash equivalents resulting from loan draw downs and payments on account relating to construction contracts.

At 31 December 2008 the group's weighted average cost of debt was 6.4% including credit wraps (31 December 2007 – 6.4%).

Cash flow

Cash generated from operations for 2008 was £275.8m in comparison with £454.1m for 2007. This decrease was primarily attributable to a reduction in net proceeds from construction contracts and working capital movements. 2008 included £164.7m of such proceeds and £155.6m of costs on construction contracts compared with £316.1m and £117.2m respectively for 2007. Excluding the impact of construction contracts, cash generated from operations increased from £255.2m to £266.7m. This increase was primarily attributable to the increase in underlying profit of the group excluding construction contracts.

Cash flows from investing activities resulted in a cash inflow of £58.4m for 2008 compared with an outflow of £104.3m for 2007. In 2008 proceeds of £237.9m were included on the sale of Riverside South less £169.2m of development expenditure on properties to be retained by Canary Wharf Group (2007 – £91.6m).

Cash flows from financing activities for 2008 resulted in an inflow of £52.8m compared with £50.3m for 2007. In 2008, £59.6m was drawn down under Canary Wharf Group's construction loan facility, £50.0m under Canary Wharf Group's retail loan facility and £59.9m under the Songbird loan. This was partly offset by a £60.2m part repayment of the Songbird loan. Canary Wharf Group paid a dividend totalling £102.2m in April 2008 of which £40.1m was attributable to the minority interest. In 2007 dividends totalling £444.4m were paid by the company, of which £319.7m was paid to the A and B shareholders. In 2007 net proceeds of £148.0m arising from restructuring Canary Wharf Group's securitisation were included, £279.1m on the restructuring of the Songbird loan facility, a further £30.2m drawn down subsequently on that loan and £34.9m drawn down under Canary Wharf Group's construction loan facility. In 2007 dividends paid on the SG Shares in excess of the finance charge accrued totalled £112.0m.

Going Concern

The group's business activities, together with the factors likely to affect its future development, performance and position are set out above in this 'Business Review'. The finances of the group, its liquidity position and borrowing facilities are also described in this 'Business Review' and the risks faced by the group, in particular the financial covenant risks, are set out above in the 'Business Review – Principal risks and uncertainties' and Note 17.

The group is in discussions with the provider of the £880.0m Songbird loan facility, which matures in May 2010, about the refinancing of this facility and engaged in exploratory conversations with major shareholders on the longer term capital structure of the group. The directors have specifically considered the material risk of a breach of its loan covenants within the next 12 months on the £880.0m Songbird loan facility should a refinancing not occur. If a covenant breach were to occur then the lender would have the right, if it chose, to request early repayment of outstanding borrowings. This represents a material uncertainty which may cast significant doubt on the group's ability to continue as a going concern and, therefore, it may be unable to realise its assets and discharge its liabilities in the normal course of business. The discussions with the loan provider and exploratory conversations with major shareholders are ongoing. There remains, therefore, an uncertainty as to the nature of the outcome. The directors, however, believe the discussions are continuing satisfactorily.

Accordingly, having made the requisite enquiries, the directors have a reasonable expectation that the company and the group will have adequate resources to continue their operations for the foreseeable future and, therefore, continue to adopt the going concern basis in preparing the financial information.

SONGBIRD ESTATES PLC

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2008

	Note	Underlying* £m	2008 Capital and other £m	Total £m	Underlying* £m	2007 Capital and other £m	Total £m
Gross development, rental and related income	3	756.3	-	756.3	624.8	-	624.8
Cost of sales		(286.8)	-	(286.8)	(239.2)	-	(239.2)
Net development, rental and related income	3	469.5	-	469.5	385.6	-	385.6
Share of associates and joint ventures (after taxation)	8	(0.5)	(14.5)	(15.0)	(1.4)	-	(1.4)
Administrative expenses		(41.8)	-	(41.8)	(47.0)	-	(47.0)
Other income	3	1.6	0.5	2.1	3.1	19.2	22.3
Net revaluation movements	4	-	(1,773.6)	(1,773.6)	-	110.4	110.4
Operating (loss)/profit		428.8	(1,787.6)	(1,358.8)	340.3	129.6	469.9
Net financing costs							
- investment revenues	5	47.5	-	47.5	53.4	-	53.4
- financing costs	5	(300.9)	(217.1)	(518.0)	(291.5)	(35.5)	(327.0)
- refinancing costs	5	-	-	-	-	(14.3)	(14.3)
		(253.4)	(217.1)	(470.5)	(238.1)	(49.8)	(287.9)
(Loss)/profit for the year before taxation		175.4	(2,004.7)	(1,829.3)	102.2	79.8	182.0
Taxation	6			126.9			23.8
(Loss)/profit for the year after taxation	2			(1,702.4)			205.8
Attributable to:							
Equity holders of the company				(1,061.4)			100.4
Minority interest				(641.0)			105.4
				(1,702.4)			205.8
(Loss)/earnings per share							
- basic and diluted	2			(233.9)p			22.3p

*As defined in Note 2.

SONGBIRD ESTATES PLC

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

for the year ended 31 December 2008

	2008	2007
	£m	£m
(Loss)/profit after taxation	(1,702.4)	205.8
Transferred from equity in respect of cash flow hedges	3.3	35.8
Tax on items transferred from equity	(0.9)	(10.0)
	2.4	25.8
Revaluation of development property	(19.4)	22.8
Share of revaluation of associated undertakings' development property	(0.3)	0.3
Losses on cash flow hedges	(168.3)	(19.7)
Deferred tax on items taken directly to equity	39.9	(1.0)
Net (loss)/income recognised directly in or transferred (to)/from equity	(145.7)	28.2
Total recognised income and expense for the year	(1,848.1)	234.0
Attributable to:		
Equity holders of the company	(1,162.1)	112.8
Minority interest	(686.0)	121.2
	(1,848.1)	234.0

SONGBIRD ESTATES PLC

CONSOLIDATED BALANCE SHEET

at 31 December 2008

	Note	2008 £m	2007 £m
Assets:			
Non current assets			
Investment properties	7	4,276.6	6,019.4
Properties under construction	7	181.8	99.3
Development properties	7	260.0	452.0
Plant and equipment	7	1.9	0.9
		4,720.3	6,571.6
Other non current assets			
Investments	8	22.6	23.6
Derivative financial instruments	16	–	0.3
Tenant incentives and other non current assets	10	213.3	192.6
Deferred tax asset	6	6.1	–
		4,962.3	6,788.1
Current assets			
Trade and other receivables	9	79.6	67.2
Monetary deposits	11	25.1	118.4
Cash and cash equivalents	12	1,161.3	1,020.5
		1,266.0	1,206.1
Total assets		6,228.3	7,994.2
Liabilities:			
Current liabilities			
Current portion of long term borrowings	14	(94.0)	(61.8)
Trade and other payables	13	(277.4)	(449.7)
		(371.4)	(511.5)
Non current liabilities			
Borrowings	15	(4,913.5)	(4,844.9)
Derivative financial instruments	16	(472.8)	(94.3)
Deferred tax liabilities	6	–	(168.6)
Provisions	18	(10.9)	(27.2)
		(5,397.2)	(5,135.0)
Total liabilities		(5,768.6)	(5,646.5)
Net assets		459.7	2,347.7
Equity			
Share capital	19	45.4	45.4
Other reserves	20	324.0	464.7
Retained earnings	20	(456.5)	564.7
Total (deficit)/equity attributable to members of the company		(87.1)	1,074.8
Minority interests	20	546.8	1,272.9
Total equity		459.7	2,347.7

SONGBIRD ESTATES PLC

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2008

	Note	2008 £m	2007 £m
Cash flows from operating activities			
Cash generated from operations	21	275.8	454.1
Interest paid		(297.3)	(297.0)
Interest received		54.1	54.7
Interest element of finance lease rentals		(2.5)	(2.1)
Financing expenses		(0.5)	(17.0)
Breakage costs		–	(0.6)
Net cash inflow from operating activities		29.6	192.1
Cash flows from investing activities			
Development expenditure		(169.2)	(91.6)
Purchase of property, plant and equipment		(1.6)	(0.9)
Sale of Riverside South		237.9	–
Investment in and loans to associates		(8.7)	(11.8)
Net cash inflow/(outflow) from investing activities		58.4	(104.3)
Cash flows from financing activities			
Dividends paid		–	(319.7)
Dividends paid to minority shareholders		(40.1)	–
Repayment of SG Shares liability		–	(112.0)
Draw down of construction loan		59.6	34.9
Draw down of securitised debt		–	726.0
Redemption of securitised debt		(6.9)	(581.4)
Draw down of secured loans		50.0	–
Repayment of secured loans		(9.5)	(6.8)
Draw down of Songbird loan		59.9	830.2
Repayment of Songbird loan		(60.2)	(520.9)
Net cash inflow from financing activities		52.8	50.3
Net increase in cash and cash equivalents		140.8	138.1
Cash and cash equivalents at start of year		1,020.5	882.4
Cash and cash equivalents at end of year	12	1,161.3	1,020.5

NOTES TO THE ANNOUNCEMENT
for the year ended 31 December 2008

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. While the financial information contained in this Announcement has been prepared in accordance with IFRS, this Announcement does not itself contain sufficient information to comply with IFRS. This Announcement does not constitute the Group's statutory accounts for the year ended 31 December 2008 but is derived from those accounts. The statutory accounts for the year ended 31 December 2008 will be delivered to the Registrar of Companies following the Company's AGM. The auditors have reported on those accounts and their report was unqualified but modified to include an emphasis of matter paragraph on the uncertainty which may cast significant doubt on the Group's ability to continue as a going concern as described in the Business Review and below. The audit report did not contain statements under section 237(2) or (3) of Companies Act 1985.

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 financial statements for the year ended 31 December 2007. Such accounting policies have been applied consistently in all material respects throughout the current and the previous year. A copy of the statutory accounts for the year ended 31 December 2007 has been delivered to the Registrar of Companies. The auditors' report on these accounts was not qualified, did not contain a reference to any matters to which the auditors drew attention by way of emphasis without qualifying the report and did not contain statements under section 237(2) or (3) of the Companies Act 1985.

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

Going concern

The financial information has been prepared on a going concern basis, which assumes the group will be able to meet its liabilities as they fall due, for the foreseeable future. In preparing the financial information the directors have taken into account the risks and uncertainties set out in the 'Business Review' and specifically the material risk of a breach of its loan covenants within the next 12 months on the £880.0m Songbird loan facility should a refinancing not occur. If a covenant breach were to occur then the lender would have the right, if it chose, to request early repayment of outstanding borrowings. This represents a material uncertainty which may cast significant doubt on the group's ability to continue as a going concern and, therefore, it may be unable to realise its assets and discharge its liabilities in the normal course of business.

As set out in the "Business Review", the directors believe their discussions with the loan provider and the exploratory conversations with major shareholders are continuing satisfactorily and have, therefore, concluded that it is appropriate to prepare the financial information on a going concern basis. The financial information does not include the adjustments that would result if the group was unable to continue as a going concern.

NOTES TO THE ANNOUNCEMENT
for the year ended 31 December 2008

2. PERFORMANCE MEASURES

Earnings per share

	2008		2007	
	Earnings £m	Per share p	Earnings £m	Per share p
Underlying profit for the year before taxation	175.4	38.6	102.2	22.6
Capital and other items	(2,004.7)	(441.7)	79.8	17.7
Taxation	126.9	28.0	23.8	5.3
(Loss)/profit after taxation	(1,702.4)	(375.1)	205.8	45.6
Less: minority interest	641.0	141.2	(105.4)	(23.3)
(Loss)/profit after taxation attributable to members of the company	(1,061.4)	(233.9)	100.4	22.3

Underlying earnings exclude gains on property revaluations, movements in the fair value of ineffective hedging instruments and other derivatives, interest payable on the SG Shares, refinancing costs and taxation.

Earnings per share has been calculated by reference to the loss attributable to equity shareholders of £1,061.4m for 2008 (2007 – profit of £100.4m) and on the weighted average of 453.8m ordinary shares in issue for 2008 (2007 – 451.8m ordinary shares in issue for 2007). The number of ordinary shares exclude the SG Shares 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.

Adjusted NAV is calculated as follows:

	31 December 2008 £m	31 December 2007 £m
Balance sheet net assets	459.7	2,347.7
Adjustment for: deferred tax	(6.1)	168.6
Mark to market of derivatives	472.8	72.5
Add: uplift in value of investment property	155.0	–
Add: surplus arising on construction contracts	122.9	166.7
	1,204.3	2,755.5
Minority interest in balance sheet	(546.8)	(1,272.9)
Minority interest on adjustments above	(291.9)	(159.8)
Reclassify SG Shares as equity	30.6	30.6
Add back accrued finance charges on SG Shares	4.8	1.5
Adjusted net assets	401.0	1,354.9
Adjusted NAV per share	64p	£2.15

Adjusted NAV per share includes the external valuation surplus on construction contracts of £278.2m at 31 December 2008 (31 December 2007 – £255.8m), less the cumulative profit recognised on these contracts of £155.3m (31 December 2007 – £89.1m) and fair value adjustments on derivatives and deferred taxation. In addition, in arriving at adjusted net assets the SG Shares are treated as equity whereas in the balance sheet the SG Shares are treated as a debt instrument.

At 31 December 2008, adjusted NAV includes the uplift in value of 25-30 Bank Street attributable to the arrangement with AIG which provides for the payment of 4 years of contracted rent upon default by Lehman (see 'Business Review – Lehman'). The market value of the building for balance sheet purposes is £410.0m whereas the market value adjusted for the arrangement with AIG is £565.0m reflecting the fact that the arrangement cannot be transferred to a purchaser of the property. A fee of approximately £3.6m per annum is payable in relation to this arrangement which is charged to the income statement as a financing cost.

At 31 December 2008 and 31 December 2007 the number of shares in issue was 630.6m.

NOTES TO THE ANNOUNCEMENT
for the year ended 31 December 2008

3. REVENUE

	2008 £m	2007 £m
Rent receivable	287.5	275.3
Recognised incentives, committed rent increases and letting fees	13.6	24.1
	301.1	299.4
Service charge income	67.3	62.2
Miscellaneous income	23.8	24.8
Receivable on termination of leases	24.3	–
Construction contract revenue	339.8	238.4
Gross development, rental and related income	756.3	624.8
Service charge and other direct property expenses	(92.2)	(87.3)
Movement in provisions relating to leasehold commitments	20.2	(2.6)
Payments on termination of leases	(8.3)	–
Construction contract expenditure	(206.5)	(149.3)
Net development, rental and related income	469.5	385.6

The disposal of the Riverside South site resulted in the recognition of a profit of £0.5m in the income statement. Further details are given in Note 7.

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 were classified as other income within capital and other in the consolidated income statement.

4. NET REVALUATION MOVEMENTS ON PROPERTY AND INVESTMENTS

	2008 £m	2007 £m
In income statement		
Revaluation of investment properties	(1,769.8)	110.4
Revaluation of development property	(3.8)	–
	(1,773.6)	110.4
In consolidated statement of recognised income and expense		
Revaluation of development and construction properties	(19.4)	22.8
Share of associate's revaluation of development property	(0.3)	0.3
	(19.7)	23.1
	(1,793.3)	133.5
Analysed as:		
Attributable to movements in group property valuations	(1,793.0)	133.2
Share of associate's property revaluation movement	(0.3)	0.3
	(1,793.3)	133.5

The group's share of associate's revaluation of development property in 2008 comprises the reversal of the group's share of cumulative revaluation surpluses recognised at 31 December 2007. The group's share of the revaluation deficit in 2008 has been accounted for as disclosed in Note 8.

NOTES TO THE ANNOUNCEMENT
for the year ended 31 December 2008

5. NET FINANCING COSTS

	2008	2007
	£m	£m
Interest revenue		
Deposits and securities	47.5	53.4
Interest expense		
Notes and debentures	(158.3)	(157.0)
Songbird loan	(61.8)	(55.6)
Other bank loans and overdrafts	(83.9)	(78.6)
Obligations under finance leases	(2.5)	(2.1)
	(306.5)	(293.3)
Development interest capitalised at 6.525%	5.6	1.8
	(300.9)	(291.5)
Underlying net financing costs	(253.4)	(238.1)
Other financing (costs)/income relating to derivatives		
Valuation movements on fair value of derivatives	(210.5)	4.7
Valuation movements on translation of foreign currency debt	–	3.3
Valuation movement on fair value of D Share	–	(2.5)
Finance costs of SG Shares (Note 17)	(3.3)	(5.2)
Hedging reserve recycling	(3.3)	(35.8)
	(217.1)	(35.5)
Net financing expenses	(470.5)	(273.6)
Refinancing costs		
Refinancing fees	–	(14.3)
Net financing costs	(470.5)	(287.9)
Total financing income	47.5	53.4
Total financing expenses	(518.0)	(341.3)
Net financing costs	(470.5)	(287.9)

The financing expenses of the construction loan facility have been capitalised as incurred since first draw down in 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.

NOTES TO THE ANNOUNCEMENT
for the year ended 31 December 2008

6. TAXATION

	2008 £m	2007 £m
Tax charge		
Current tax charge to income	(8.8)	–
Deferred tax	135.7	23.8
Group total taxation	126.9	23.8
Tax reconciliation		
Group (loss)/profit on ordinary activities before taxation	(1,829.3)	182.0
Tax on profit on ordinary activities at UK corporation tax rate of 28.5% (2007 – 30%).	521.4	(54.6)
Effects of:		
Adjustments in respect of prior years	(27.8)	–
Indexation of capital gains, restriction of losses and movement on deferred tax provisions	(332.2)	88.4
Change in EZA legislation	(6.2)	–
Change in corporation tax rate	–	9.4
Expenses not deductible for tax purposes	(0.9)	(1.2)
Deferred tax assets not recognised as losses	(27.4)	(18.2)
Group total taxation	126.9	23.8

The tax rate of 28.5% is calculated by reference to the current corporation tax rate of 28% which was in effect for the final three quarters of the year and the previous rate of 30% which was in effect for the first quarter of the year.

	Losses & tax credits £m	Revaluation deficits £m	Fair value of derivatives £m	Financial instruments £m	Other £m	Total £m
Deferred tax assets						
1 January 2008	106.4	22.1	23.1	33.3	1.0	185.9
(Charge)/credit to income	(105.3)	51.1	60.0	(2.3)	(0.3)	3.2
(Charge)/credit to equity	–	(19.0)	37.2	–	–	18.2
31 December 2008	1.1	54.2	120.3	31.0	0.7	207.3
	Potential EZA clawback £m	Revaluation surpluses £m	Fair value of derivatives £m	Financial instruments £m	Other £m	Total £m
Deferred tax liabilities						
1 January 2008	(76.4)	(253.5)	(0.1)	(24.5)	–	(354.5)
Credit/(charge) to income	–	131.2	(0.2)	1.5	–	132.5
Credit to equity	–	20.5	0.3	–	–	20.8
31 December 2008	(76.4)	(101.8)	–	(23.0)	–	(201.2)

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:

NOTES TO THE ANNOUNCEMENT
for the year ended 31 December 2008

	£m
Net liability at 31 December 2007	(168.6)
Credit to income	135.7
Charge to equity	39.0
Net asset at 31 December 2008	6.1

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.

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

Non current assets and construction contracts at 31 December 2008 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 2008	6,211.3	452.0	100.0	–	6,763.3		
Adjust for brought forward:							
– tenant incentives*	(186.5)	–	–	–	(186.5)		
– unamortised lease negotiation costs*	(5.4)	–	(0.7)	–	(6.1)		
Carrying value at 1 January 2008	6,019.4	452.0	99.3	–	6,570.7	0.9	6,571.6
Additions	27.0	85.2	64.3	177.7	354.2	1.6	355.8
Revaluations:							
– in income statement	(1,769.8)	(3.8)	–	–	(1,773.6)	–	(1,773.6)
– in statement of recognised income and expense	–	(37.6)	18.2	–	(19.4)	–	(19.4)
Disposal**	–	(235.8)	–	–	(235.8)	–	(235.8)
Transfer to cost of sales	–	–	–	(206.5)	(206.5)	–	(206.5)
Transfer to payments on account	–	–	–	25.3	25.3	–	25.3
Accrued in accordance with IAS11	–	–	–	3.5	3.5	–	3.5
Depreciation	–	–	–	–	–	(0.6)	(0.6)
Carrying value at 31 December 2008	4,276.6	260.0	181.8	–	4,718.4	1.9	4,720.3
Adjust for:							
– tenant incentives*	200.1	–	–	–	200.1		
– unamortised lease negotiation costs*	6.3	–	0.7	–	7.0		
Market value at 31 December 2008	4,483.0	260.0	182.5	–	4,925.5		

* Refer to Note 10 for further details.

** On 14 November 2008 Canary Wharf Group sold Riverside South for an initial consideration of £237.9m. The carrying value of the site of £235.8m, representing the market value at 31 December 2007 of £200.0m plus subsequent additions, was transferred from development properties to the income statement.

NOTES TO THE ANNOUNCEMENT

for the year ended 31 December 2008

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 2008. The valuations, which conform to International Valuation Standards, were arrived at by reference to market evidence of transaction prices for similar properties.

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

The properties have been valued individually and not as part of a portfolio and no allowance has been made for expenses of realisation or for any 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.

Cumulative interest capitalised in development properties at 31 December 2008 amounted to £8.1m (31 December 2007 – £2.5m). Included in investment properties is an amount of approximately £23.9m (31 December 2007 – £30.5m) 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 £4,557.9m (31 December 2007 – £4,511.9m). The carrying value of property subject to finance lease was approximately £81.1m at 31 December 2008 (31 December 2007 – £103.2m).

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	Riverside South £m	Total £m
1 January 2008	66.4	76.7	86.7	–	229.8
Advances received	21.5	–	37.8	15.0	74.3
Contract revenue recognised as revenue in the income statement	(96.8)	(119.2)	(109.4)	(14.4)	(339.8)
Offset from construction contracts	2.1	8.3	14.9	–	25.3
Transfer to contract balances (Note 9)	4.1	31.7	–	–	35.8
Deferred interest	2.7	2.5	0.1	–	5.3
Gross amount due to customers for contract work at 31 December 2008	–	–	30.1	0.6	30.7

On 12 December 2008, the group achieved practical completion on 20 Churchill Place, a 300,000 sq ft building which had been pre-sold to Prudential for occupation by State Street. Profits have been recognised over the period of construction and a £3.0m revaluation surplus was recognised on completion (Note 20).

In November 2008 Riverside South was sold by Canary Wharf Group to JP Morgan for an initial consideration of £237.9m which resulted in a profit being recognised of £0.5m, after allocated fees, and the realisation of a revaluation surplus of £105.4m (Note 20). Infrastructure work on the site had already commenced and JP Morgan has instructed Canary Wharf Group to complete on its behalf design, planning and further infrastructure works. JP Morgan will decide when to proceed with final construction of a headquarters building of between 1.6m and 1.9m sq ft. If construction is postponed or deferred altogether Canary Wharf Group will receive £76.0m as an advance of developer's profit, of which £15.0m had been received at 31 December 2008. Advances received will be accounted for as payments on account in respect of the construction contract. Costs incurred since the date of sale to be recovered from JP Morgan have been classified as construction contract expenditure.

NOTES TO THE ANNOUNCEMENT
for the year ended 31 December 2008

Cumulative amounts accounted for as construction contracts are as follows:

	<u>£m</u>
Advances received	638.1
Recognised as revenue	(654.6)
Offset from construction contracts	(4.1)
Deferred interest	15.5
Transfer to contract balances	35.8
	<u>30.7</u>
Payments on account (Note 13)	<u>30.7</u>

Total profits of £222.4m had been recognised at 31 December 2008 (31 December 2007 – £89.1m).

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

No retentions were held by customers for contract work at either 31 December 2008 or 31 December 2007.

8. INVESTMENTS

The investments balance comprises:

	31 December 2008 £m	31 December 2007 £m
Shares	9.2	7.3
Loans	22.3	15.5
	<u>31.5</u>	<u>22.8</u>
Fees on acquisition	2.6	2.6
Share of post acquisition losses	(1.5)	(1.0)
Share of fair value movement on derivatives	–	(1.1)
Share of revaluation movement on development properties	–	0.3
Impairment of investment	(10.0)	–
	<u>22.6</u>	<u>23.6</u>

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

Investments comprise:

	31 December 2008 £m	31 December 2007 £m
Associates	22.4	23.4
Other investments	0.2	0.2
	<u>22.6</u>	<u>23.6</u>

NOTES TO THE ANNOUNCEMENT
for the year ended 31 December 2008

The carrying value of the investment in associates comprised:

At 31 December 2008	WWLP £m	Drapers Gardens £m	Total £m
Initial investment	–	6.7	6.7
Fees on acquisition	1.9	0.7	2.6
Equity funding	–	1.9	1.9
Loan funding	21.6	0.7	22.3
Recognised share of losses	(1.1)	(10.0)	(11.1)
	22.4	–	22.4

The share of associates' profits and losses recognised in the income statement in 2008 comprised:

	WWLP £m	Drapers Gardens £m	Total £m
Operating losses	(0.5)	–	(0.5)
Recognised impairment losses	–	(10.0)	(10.0)
Reversal of brought forward loss on derivative investments	–	1.1	1.1
	(0.5)	(8.9)	(9.4)
Provision for maximum equity subscription	–	(2.7)	(2.7)
Provision for share of loss on derivative financial instruments	–	(2.9)	(2.9)
	(0.5)	(14.5)	(15.0)

Associates

Details of the group's associates at 31 December 2008 are as follows:

	Date of acquisition	Country of incorporation	Ownership interest %
WWLP	April 2005	UK	25.0
Drapers Gardens entities	June 2007	Netherlands/Jersey	20.0

In June 2007 Canary Wharf Group entered into a joint venture with MSREF V and Omega to undertake the redevelopment of Drapers Gardens. Canary Wharf Group initially invested £6.7m and incurred fees of £0.7m in consideration for a 20.0% stake in the Drapers Gardens redevelopment structure. The investment has been accounted for as an investment in an associated undertaking.

Drapers Gardens entered into a £172.5m construction loan facility with Lehman which was subsequently syndicated to certain other banks (see 'Business review – Treasury objectives'). Lehman retained a 18.9% share in the facility but has not met its funding obligations since being placed in administration. The other banks in the syndicate have continued to honour their commitment under the construction loan facility. As a result the group has made additional loans totalling £0.7m to Drapers Gardens to fund the shortfall. The initial tranche of this loan attracted interest at 20% and subsequent loan tranches were interest free and are repayable on demand.

The group's investment in Drapers Gardens has been revalued by reference to the market valuation of the development undertaken by CBRE on behalf of Exemplar. As a result the group has written down its investment in Drapers Gardens to £nil. In addition, the group has recognised provisions totalling £5.6m comprising £2.9m for the group's share of the loss on a derivative financial instrument and £2.7m for the maximum potential additional funding commitment under the shareholder agreement. Losses remaining of £9.9m are unrecognised in accordance with IAS 28.

NOTES TO THE ANNOUNCEMENT
for the year ended 31 December 2008

9. TRADE AND OTHER RECEIVABLES

	2008	2007
	£m	£m
Trade receivables	5.8	10.4
Other receivables	11.6	32.7
Contract balances	35.8	–
Prepayments and accrued income	26.4	24.1
Total trade and other receivables	79.6	67.2

10. TENANT INCENTIVES AND OTHER NON CURRENT ASSETS

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

	Rent free periods	Other tenant incentives	Total tenant incentives	Deferred negotiation costs	Lease termination agreements	Total
	£m	£m	£m	£m	£m	£m
1 January 2008	123.3	63.2	186.5	6.1	–	192.6
Recognition of rent during rent free periods	22.1	–	22.1	–	–	22.1
Amortisation	(5.0)	(3.5)	(8.5)	(1.1)	–	(9.6)
Deferred lease negotiation costs	–	–	–	2.0	–	2.0
Due under lease termination agreements	–	–	–	–	6.2	6.2
31 December 2008	140.4	59.7	200.1	7.0	6.2	213.3

Following the entry of Lehman into administration see ('Business Review – Lehman'), the directors have concluded that the unamortised tenant incentives at that date of £61.2m should be amortised over a period shorter than the lease term and accordingly such incentives are now being amortised over the remaining period to the open market rent review date under the lease in November 2013. Previously such incentives were amortised over the period to the first lease break in July 2033. This will be subject to review at each subsequent balance sheet date.

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.

	2008	2007
	£m	£m
Monetary deposits held at bank	25.1	115.9
Accrued contractual interest on monetary deposits held at bank	–	2.5
	25.1	118.4

SONGBIRD ESTATES PLC

NOTES TO THE ANNOUNCEMENT
for the year ended 31 December 2008

12. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise:

	<u>2008</u>	<u>2007</u>
	£m	£m
Unsecured cash	1,013.8	856.7
Collateral for borrowings	135.0	144.0
Security for obligations	12.5	19.8
	<u>1,161.3</u>	<u>1,020.5</u>

13. TRADE AND OTHER PAYABLES

	<u>2008</u>	<u>2007</u>
	£m	£m
Trade payables	35.5	20.3
Taxation and social security costs	6.9	8.2
Corporation tax	8.8	–
Other payables	15.2	37.6
Other accruals	96.5	73.1
Deferred income	83.8	80.7
Payments on account (Note 7)	30.7	229.8
Total trade and other payables	<u>277.4</u>	<u>449.7</u>

14. CURRENT PORTION OF LONG TERM BORROWINGS

Current portion of long term borrowings comprises:

	<u>2008</u>	<u>2007</u>
	£m	£m
Accrued interest payable	44.6	46.3
Repayable within one year:		
– securitised debt	32.3	6.9
– secured loans	12.3	7.1
Financing costs of SG Shares	4.8	1.5
Long term borrowings repayable within one year	<u>94.0</u>	<u>61.8</u>

The terms of the group's loan facilities are summarised in Note 17.

15. BORROWINGS

Non current liability borrowings comprise:

	<u>2008</u>	<u>2007</u>
	£m	£m
Securitised debt	2,630.1	2,664.1
Songbird loan	833.3	831.8
Secured loans	1,278.0	1,241.8
Construction loan	99.9	35.0
Finance lease obligations	41.6	41.6
	<u>4,882.9</u>	<u>4,814.3</u>
SG Shares	30.6	30.6
	<u>4,913.5</u>	<u>4,844.9</u>

NOTES TO THE ANNOUNCEMENT
for the year ended 31 December 2008

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 2008 the fair value of these derivatives resulted in the recognition of a liability of £472.8m (31 December 2007 – £94.0m). Of this liability, £191.5m was in respect of interest rate swaps which qualify for hedge accounting (31 December 2007 – an asset of £0.1m and a liability of £23.3m) and £281.3m was in respect of interest rate swaps and collars which do not qualify for hedge accounting (31 December 2007 – an asset of £0.2m and a liability of £71.0m respectively).

	2008	2007
	£m	£m
Assets:		
Songbird loan	–	0.2
Other secured loans	–	0.1
	<hr/>	<hr/>
	–	0.3
Liabilities:		
Securitisation	(197.4)	(21.0)
Songbird loan	(42.9)	(12.1)
Other secured loans	(215.1)	(57.3)
Construction loan	(17.4)	(3.9)
	<hr/>	<hr/>
	(472.8)	(94.3)
	<hr/>	<hr/>
	(472.8)	(94.0)

NOTES TO THE ANNOUNCEMENT
for the year ended 31 December 2008

17. NET DEBT

	2008 £m	2007 £m
Securitised debt	2,889.1	2,723.9
Songbird loan	876.2	843.7
Other secured loans	1,638.0	1,359.4
Finance lease obligations	41.6	41.6
	5,444.9	4,968.6
SG Shares and associated financing costs	35.4	32.1
Gross debt	5,480.3	5,000.7
Current liabilities	94.0	61.8
Non current liabilities:		
– borrowings	4,913.5	4,844.9
– derivatives included in non current assets	–	(0.3)
– derivatives included in non current liabilities	472.8	94.3
Gross debt	5,480.3	5,000.7
Cash and cash equivalents	(1,161.3)	(1,020.5)
Monetary deposits	(25.1)	(118.4)
Net debt	4,293.9	3,861.8

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 2008 £4.8m was accrued in respect of the SG Shares (31 December 2007 – £1.5m).

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 classified as debt, comprise:

	Securitised debt £m	Songbird loan £m	Other secured loans £m	Construction loan £m	Finance lease obligations £m	Total borrowings £m	SG Shares £m	Total £m
1 January 2008	2,723.9	843.7	1,320.5	38.9	41.6	4,968.6	32.1	5,000.7
Drawn down in year	–	59.9	50.0	59.6	–	169.5	–	169.5
Effective interest rate adjustment	(2.7)	2.4	0.8	0.8	–	1.3	–	1.3
Accrued finance charges	(1.6)	(0.6)	1.0	4.5	–	3.3	3.3	6.6
Repaid in period	(6.9)	(60.2)	(9.5)	–	–	(76.6)	–	(76.6)
Movements in fair value of derivatives	176.4	31.0	157.9	13.5	–	378.8	–	378.8
31 December 2008	2,889.1	876.2	1,520.7	117.3	41.6	5,444.9	35.4	5,480.3
Payable within one year or on demand	61.6	–	27.6	–	–	89.2	4.8	94.0
Payable in more than one year	2,630.1	833.3	1,278.0	99.9	41.6	4,882.9	30.6	4,913.5
Derivatives classified as:								
- non current liabilities	197.4	42.9	215.1	17.4	–	472.8	–	472.8
	2,889.1	876.2	1,520.7	117.3	41.6	5,444.9	35.4	5,480.3

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.

NOTES TO THE ANNOUNCEMENT
 for the year ended 31 December 2008

The Songbird loan relates to amounts drawn down under an £880.0m facility provided by Citibank. The loan has a repayment date of May 2010 and carries interest at a rate of LIBOR plus a margin of 1.2% to 1.7% dependent on the financial condition of the group. The interest on the loan is hedged via an interest rate swap and cap which serves to fix LIBOR for the amount drawn at 5.928%. The loan is secured on the assets of SFL, including its shares in Canary Wharf Group, and is subject to certain lending covenants as summarised in 'Financial risks – loan covenants'.

At 31 December 2008 the following notes issued by CWF II, a subsidiary of Canary Wharf Group, were outstanding:

Tranche	Principal £m	Interest	Repayment
A1	1,215.0	6.455%	By instalment from 2009 to 2033
A3	400.0	5.952%	By instalment from 2032 to 2037
A7	222.0	Floating	Repaid in 2035
B	210.8	6.800%	By instalment from 2005 to 2033
B3	104.0	Floating	Repaid in 2035
C2	275.0	Floating	Repaid in 2035
D2	125.0	Floating	Repaid in 2035
	2,551.8		

Interest on the floating rate 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 floating 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%.

The securitisation has the benefit of an agreement with AIG which provides for the payment of the contracted rent under the lease following a default by Lehman, either in its entirety or to cover any shortfall. The agreement is for a period of 4 years from a payment default by Lehman. The amounts would be repayable by the group if subsequent recoveries made in respect of amounts claimed or subsequent rentals in the properties exceed the rents that would have been received from Lehman. Under this agreement, AIG are obliged to maintain a certain credit rating. Following the fall in its credit rating, AIG posted cash collateral of approximately £224.0m. This collateral is held in AIG bank accounts with the Bank of New York Mellon, London branch and AIG has granted security over the deposits as collateral for its obligations. The amount initially posted in respect of AIG's obligations is subject to periodic adjustment to reflect movements in interest rates.

Separately, the securitisation has the benefit of a further arrangement with AIG which covers the rent in the event of a default by the tenant of 33 Canada Square, over the entire term of the lease. AIG has posted a further £276.3m as cash collateral in respect of this obligation.

The annual fees payable in respect of the above arrangements total £7.5m.

CWF II also has the benefit of a £300.0m liquidity facility provided by Lloyds, under which drawings may be made in the event of a cash flow shortage under the securitisation. This facility is renewable annually by 23 April each year.

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 2008 £100.7m including interest had been drawn down under this facility. Upon completion of the building, the construction loan may be rolled into a three year investment loan with a final maturity of January 2013 or 3 years from the interest payment date 6 months after practical completion if earlier. Practical completion of the building is anticipated in August 2009.

A bank loan with an initial facility amount 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 2008 £7.1m of the loan was amortised in accordance with the loan agreement (2007 – £7.1m), reducing the principal at 31 December 2008 to £583.7m.

NOTES TO THE ANNOUNCEMENT
for the year ended 31 December 2008

A bank loan with an initial facility amount of £369.4m has been secured against 10 Cabot Square and 20 Cabot Square. The loan carried interest at a rate of 5.82% until April 2008 when it became a floating rate facility. The loan is repayable in January 2013. Canary Wharf Group entered into an interest rate swap to January 2013 at a fixed rate of 5.031%. Subsequent to the year end, a portion of the swap was broken at a cost of £8.1m and a new swap entered into which serves to fix the rate of interest at a weighted average, including margin, of 5.6%. During 2008 £2.4m was repaid in accordance with the terms of the loan agreement reducing the principal outstanding to £367.0m.

In March 2006 Canary Wharf Group entered into a £300.0m facility provided by Lloyds secured against Canary Wharf Group's principal retail properties. The original retail loan facility carries interest at LIBOR plus a variable margin subject to, inter alia, prevailing loan to value and interest cover ratio tests. An additional £50.0m was drawn down in September 2008. Canary Wharf Group has entered into an arrangement whereby the exposure to the movement in three month LIBOR rates on the facility is fully hedged with fixed interest rate swaps at a weighted average of 6.1%. The loan is repayable in March 2011.

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).

The present value of minimum finance lease payments was £41.6m at 31 December 2008 (31 December 2007 – £41.6m). The finance lease is repayable in more than 5 years.

Comparison of market values and carrying amount

	31 December 2008			31 December 2007		
	Market value £m	Carrying amount £m	Difference £m	Market value £m	Carrying amount £m	Difference £m
Securitisations	(1,945.6)	(2,691.7)	746.1	(2,594.8)	(2,702.9)	108.1
Songbird loan	(833.3)	(833.3)	–	(831.8)	(831.8)	–
Secured loans	(1,305.6)	(1,305.6)	–	(1,261.0)	(1,263.3)	2.3
Construction loan	(99.9)	(99.9)	–	(35.0)	(35.0)	–
Finance leases	(41.6)	(41.6)	–	(41.6)	(41.6)	–
SG Shares	(63.6)	(35.4)	(28.2)	(318.0)	(32.1)	(285.9)
	(4,289.6)	(5,007.5)	717.9	(5,082.2)	(4,906.7)	(175.5)
Other financial assets/(liabilities):						
- interest rate derivative assets	–	–	–	0.3	0.3	–
- interest rate derivative liabilities	(472.8)	(472.8)	–	(94.3)	(94.3)	–
Cash and monetary deposits	1,186.4	1,186.4	–	1,138.9	1,138.9	–
Total	(3,576.0)	(4,293.9)	717.9	(4,037.3)	(3,861.8)	(175.5)

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.

Financial risks

Interest rate risk

The group finances its operations through a mixture of surplus cash, bank borrowings and debentures. The group borrows principally in sterling at both fixed and floating rates of interest and then uses interest rate swaps, caps or collars to generate the desired interest profile and to manage the group's exposure to interest rate fluctuations. The group's policy is to keep the majority of its borrowings at fixed rates and all of the group's borrowings at 31 December 2008 and 31 December 2007 were fixed after taking account of interest rate hedging and cash deposits held as cash collateral (see Note 12).

NOTES TO THE ANNOUNCEMENT
for the year ended 31 December 2008

Liquidity risk

The group's policy is to ensure continuity of funding and at 31 December 2008 the average maturity of Canary Wharf Group's debt was 14.8 years (31 December 2007 – 16.2 years). Shorter term flexibility is achieved by holding cash on deposit and through construction facilities with a term of typically 3 to 6 years arranged to fund the development of new properties. At 31 December 2008 the amount available to draw down under the group's construction facility was £54.3m. In addition, SFL had undrawn facilities totalling £43.5m that may be borrowed by SFL to fund the payment of interest and certain other working capital purposes subject to certain limitations. SFL's facility is repayable in full in May 2010.

Loan covenants

The Songbird loan is subject to maximum LTV ratios calculated on two bases as follows:

- (i) the combined LTV ratio is calculated by reference to the group's consolidated net debt as a proportion of the value of the property portfolio; and
- (ii) the Songbird LTV ratio is calculated by reference to the balance of the Songbird loan as a proportion of Songbird's share of the NAV of Canary Wharf Group.

The maximum LTV in (i) is 87.5% and based on the property valuations at 31 December 2008 the ratio was 86.1%. The maximum LTV in (ii) is 70.0% and based on the 31 December 2008 valuations the ratio was 66.6%. The next covenant test, backed by the valuations at 31 December 2008, is required by 15 May 2009. In the event that the tests give rise to an LTV breach, there is a 60 day grace period within which it is possible to prepay an amount of the loan to remedy the LTV breach or to arrange for a revised valuation. The board has appointed Rothschild with a goal of putting in place a more appropriate long term financial framework for the company.

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

- (i) CWF II securitisation, encompasses seven investment properties representing 64.8% of the investment property portfolio by value.

Maximum LMCTV ratio of 100%. Based on the valuations at 31 December 2008 the LMCTV ratio was 86.3%, excluding the £224.0m of cash collateral posted by AIG in respect of 25-30 Bank Street and 78.6% including such cash collateral.

The securitisation has no minimum ICR covenant.

Canary Wharf Group has the ability to remedy a breach of covenant by depositing eligible investments (including cash).

- (ii) Loan of £583.7m secured against One Churchill Place, representing 14.1% of the investment property portfolio by value.

This facility is not subject to any LTV or ICR covenants.

- (iii) Loan of £367.0m secured against 10 Cabot Square and 20 Cabot Square, representing 10.2% of the investment property portfolio by value.

Maximum LTV ratio of 85.0%. Based on the valuations at 31 December 2008 the LTV ratio was 79.5%.

This facility is also subject to a minimum ICR test of 100% which was satisfied throughout the year. Subsequent to the year end Morgan Stanley gave notice to break its lease of 20 Cabot Square with effect from February 2010. To prevent the serving of the notice leading to a breach of the test, Canary Wharf Group terminated a portion of the related interest rate swap at a cost of £8.1m and a new swap entered into a which serves to fix the rate of interest at a weighted average, including margin, of 5.6%. Canary Wharf Group anticipates that this restructuring will enable it to meet its ICR covenants for the remaining life of the loan

Canary Wharf Group has the ability to remedy a breach of covenant by depositing cash.

- (iv) Loan of £350.0m secured against the principal retail properties of the group, representing 9.1% of the investment property portfolio by value.

NOTES TO THE ANNOUNCEMENT

for the year ended 31 December 2008

Maximum LTV ratio of 75.0%, reducing to 70.0% from March 2010. Based on the valuations at 31 December 2008 the LTV ratio was 87.0% but in order to avoid a breach at the next covenant test date in April 2009 the lender agreed that additional uncharged properties be added to the facility. The LTV after adding such properties is 71.7% not including the increase in value of the retail development properties at completion.

Canary Wharf Group has the ability to remedy a breach of covenant by depositing cash.

- (v) Construction loan facility of £155.0m secured against 5 Churchill Place.

Maximum LTV ratio of 80.0% calculated on the value of the property at completion, reducing to 70.0% 6 months following practical completion. Based on the valuation at 31 December 2008 the LTV was 50.4%.

The loan will be subject to a minimum ICR of 110% from the date 6 months following practical completion of the property.

18. PROVISIONS

Provisions have been made in respect of the following liabilities:

	Vacant leasehold properties £m	Other lease commitments £m	Commitments to associates £m	Total £m
1 January 2008	3.5	23.7	–	27.2
Utilisation of provision	(0.4)	(4.2)	–	(4.6)
Unwind of discount	0.2	0.2	–	0.4
Change in provision	(0.3)	(17.4)	–	(17.7)
Liability for share of associated undertakings commitments	–	–	5.6	5.6
31 December 2008	3.0	2.3	5.6	10.9

Vacant leasehold properties

At 31 December 2008 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 £3.0m (31 December 2007 – £3.5m discounted at 6.4%).

A break notice has been served on the landlord of one remaining property and as a result Canary Wharf Group's obligations in respect of this property will expire in July 2009. After taking into account net costs incurred during the year of £0.4m, the brought forward provision of £3.5m and the effect of discounting of £0.2m, the charge to the income statement for the year was £0.3m.

At 31 December 2008 £2.3m (31 December 2007 – £11.0m) was held in cash collateral to fund costs on the remaining property.

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 have had to contribute a maximum of £10 psf per annum towards the difference between the passing rent payable by Lehman at its previous premises and the rent achievable on any sub-lease. The leases on which rental support was payable were surrendered by the Administrator of Lehman to the landlord, and the directors are of the opinion that no further amounts are payable under the commitment. Accordingly the provision has been released.

NOTES TO THE ANNOUNCEMENT
for the year ended 31 December 2008

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 2008 was £2.3m calculated on the basis of a discount rate of 6.4% (31 December 2007 – £4.6m, discounted at 6.4%). The obligation under one of these commitments expired in 2008. The remaining commitment relates to the lease back of certain car parking spaces and expires in 2028.

Commitments to associates

The group has recognised £5.6m of provisions in respect of its share of potential liabilities on Drapers Gardens. Further details are disclosed in Note 8.

19. SHARE CAPITAL

Issued share capital comprises:

	2008	2007
	£m	£m
Equity shares:		
– A Shares	26.1	26.1
– B Shares	19.3	19.3
	45.4	45.4
Shares not classified as equity:		
– SG Shares	17.7	17.7
Total	63.1	63.1

SONGBIRD ESTATES PLC

NOTES TO THE ANNOUNCEMENT
for the year ended 31 December 2008

20. OTHER RESERVES

	Note	Share premium £m	Treasury shares £m	Revaluation reserve £m	Hedging reserve £m	Total other reserves £m	Minority interest £m	Retained earnings £m	Total £m
1 January 2008		379.2	(0.4)	128.7	(42.8)	464.7	1,272.9	564.7	2,302.3
Loss for the year after taxation		–	–	–	–	–	–	(1,702.4)	(1,702.4)
Valuation movements on development properties	7	–	–	(19.4)	–	(19.4)	–	–	(19.4)
Realised revaluation surplus on sale of development property	7	–	–	(108.4)	–	(108.4)	–	108.4	–
Minority interest on realised revaluation surplus		–	–	42.2	–	42.2	–	(42.2)	–
Tax on realised revaluation surplus		–	–	26.0	–	26.0	–	(26.0)	–
Valuation movement on associated undertakings		–	–	(0.3)	–	(0.3)	–	–	(0.3)
Losses on effective hedges	16	–	–	–	(168.3)	(168.3)	–	–	(168.3)
Tax on items taken direct to equity	6	–	–	1.5	38.4	39.9	–	–	39.9
Net income recognised directly in equity		–	–	(58.4)	(129.9)	(188.3)	–	(1,662.2)	(1,850.5)
Transferred to minority interest		–	–	7.1	37.9	45.0	(686.0)	641.0	–
Transferred to income:									
- cash flow hedges		–	–	–	3.3	3.3	–	–	3.3
Tax on transfers	6	–	–	–	(0.9)	(0.9)	–	–	(0.9)
Total recognised income and expense for the period		–	–	(51.3)	(89.6)	(140.9)	(686.0)	(1,021.2)	(1,848.1)
Reserve movements in respect of share plan		–	0.2	–	–	0.2	–	–	0.2
Dividends paid by subsidiary undertaking		–	–	–	–	–	(40.1)	–	(40.1)
31 December 2008		379.2	(0.2)	77.4	(132.4)	324.0	546.8	(456.5)	414.3

Description of the nature and purpose of each reserve

The Treasury Shares reserve represents the cost of B Shares held in trust in connection with the Canary Wharf Group share option plan.

The revaluation reserve relates to revaluation surpluses on construction and development properties and is not distributable.

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of the group's hedging instruments. Where hedge accounting has been discontinued such amounts are retained in equity until the forecasted transaction occurs.

The income statement includes revaluation surpluses in respect of investment properties that are recognised as income under IFRS.

Retained earnings represents profits and losses recognised in the income statement after transfers to or from other reserves and dividends paid to members of the company.

The minority interest represents the share of the group's results attributable to the proportion of Canary Wharf Group that is outside the group's ownership.

NOTES TO THE ANNOUNCEMENT
 for the year ended 31 December 2008
Dividends

The amount recognised as dividends paid comprises:

	2008	2007
	£m	£m
Payment on A Shares	–	183.9
Payment on B Shares	–	135.8
	<u>–</u>	<u>319.7</u>

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 these financial statements. No dividends were paid or declared during 2008.

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 2008, but not recognised in these financial statements, was £6.0m on the A Shares (2007 – £2.0m) and £4.4m on the B Shares (2007 – £1.5m).

21. NOTES TO THE CASH FLOW STATEMENT

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

	2008	2007
	£m	£m
Profit on ordinary activities before tax	(1,829.3)	182.0
Non cash movements		
Net valuation movements on investment properties	1,773.6	(110.4)
Share of other loss after tax of associates	15.0	1.4
Spreading of tenant incentives, committed rent increases and letting fees	(14.5)	(25.7)
Depreciation	0.6	0.4
Share options	–	(0.1)
Profit recognised on construction contracts	(133.3)	(89.1)
	<u>1,641.4</u>	<u>(223.5)</u>
	(187.9)	(41.5)
Changes to working capital and other cash movements		
Net financing costs	470.5	273.6
Refinancing charges (Note 5)	–	14.3
Utilisation of and other movements in provisions	(22.3)	(13.2)
Decrease/(increase) in receivables	13.5	(12.7)
(Decrease)/increase in payables	(7.1)	34.7
Proceeds from construction contracts	164.7	316.1
Construction contract expenditure	(155.6)	(117.2)
	<u>275.8</u>	<u>454.1</u>

22. FINANCIAL COMMITMENTS

Commitments of Canary Wharf Group for future expenditure:

	2008	2007
	£m	£m
Under contract:		
Crossrail station	140.0	–
Other construction projects	162.0	325.0
	<u>302.0</u>	<u>325.0</u>

NOTES TO THE ANNOUNCEMENT

for the year ended 31 December 2008

The commitments for future expenditure relate to the completion of development projects where construction was committed at 31 December 2008. Any costs accrued or provided for in the balance sheet at 31 December 2008 have been excluded.

In relation to the Drapers Gardens joint venture in which certain Canary Wharf Group companies own a 20.0% shareholding, CWHL has entered into a cost overrun guarantee in favour of the construction loan banks. CWHL guarantees to the bank the cost of any outstanding cost overruns, in proportion to its shareholding, subject to an overall cap of £2.3m. This guarantee is joint and several with the other participants in the joint venture. In addition, CWHL has entered into an interest guarantee in favour of the bank, pursuant to which it guarantees 20.0% of the interest due on the construction loan. This guarantee is limited to a maximum period of 12 months' interest following the date of practical completion of the building. The amount payable by Canary Wharf Group under this guarantee, should it be called, is estimated at £2.8m.

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 2008.

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 (Note 1) sq ft	Net rent £m	Rent review date	Rent review basis	Term commencement	Expiry or first break
10 Upper Bank Street	Clifford Chance	52,100	52,100	0.93	–	–	Jul 2003	Jul 2013
25–30 Bank Street	Lehman	24,100	24,100	–	–	–	Jul 2003	Mar 2009
25–30 Bank Street	Lehman	100,900	90,100	3.75	Jul 2009	Fixed (Note 2)	July 2003	Jul 2013
One Churchill Place	Barclays	133,400	133,400	0.39	Jul 2009	OMR up only	Jul 2004	Jul 2019
One Churchill Place	Barclays	129,700	129,700	0.80	Jul 2009	OMR up only	Jul 2004	Jul 2014
One Churchill Place	Barclays	65,000	65,000	1.10	–	–	Jul 2004	Jul 2009
40 Bank Street	Skadden	19,500	19,500	0.53	–	–	Mar 2003	Sep 2010
40 Bank Street	Skadden	19,500	19,500	0.31	–	–	Mar 2003	Mar 2013
		544,200	533,400	7.81				

Note:

1 A call option was granted on 10,800 sq ft of sub-let space in 25-30 Bank Street which was not exercised. With the exception of this space, all of the sub-let space has now been re-let.

2 The July 2009 rent review is fixed at £54.49 psf followed by annual increases to £59.65 psf in 2012.

23. EVENTS AFTER THE BALANCE SHEET DATE

Subsequent to the year end the group received notice from Morgan Stanley of the exercise, with effect from 1 February 2010, of the break option relating to the lease of 20 Cabot Square, which was due to expire in 2020. Morgan Stanley currently occupies approximately 345,500 sq ft at 20 Cabot Square and will continue to occupy this space until February 2010 in accordance with the terms of its lease. Morgan Stanley will also continue to lease 546,500 sq ft at Bank Street and to own and occupy the 448,500 sq ft building at 25 Cabot Square.

SONGBIRD ESTATES PLC

DEFINITIONS

AIG	American International Group, Inc
A Shares	Ordinary Class A Shares of 10p each
AIM	London Stock Exchange Alternative Investment Market
ANZ	Australia New Zealand Bank Limited
bn	Billion
B Shares	Ordinary Class B Shares of 10p each
Ballymore	Ballymore Properties Limited
Barclays	Barclays Bank plc
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
CLRL	Cross London Rail Links Limited
company	Songbird Estates plc
Cushman	Cushman & Wakefield, Real Estate Consultants
CWF II	Canary Wharf Finance II plc
CWHL	Canary Wharf Holdings Limited
D Share	D Share of 10p
Drapers Gardens	Drapers Gardens scheme in the City of London
Estate	Canary Wharf Estate including Heron Quays West, Riverside South and North Quay
EU	European Union
Exemplar	Exemplar Developments LLP
EZAs	Enterprise Zone Allowances
Fimalac	F Marc de Lachariere
Fitch	Fitch Ratings Limited
FVTPL	Fair Value Through Profit and Loss
group	The company, its wholly owned subsidiaries and Canary Wharf Group
HSBC	Hong Kong and Shanghai Banking Corporation
HSO	HighSpeed Office Limited
IAS	International Accounting Standards
IAS 11	International Accounting Standard 11 'Construction Contracts'
IAS 28	International Account Standard 28 'Investments in Associates'
ICR	Interest Cover Ratio
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
Knight Frank	Knight Frank LLP, Property Consultants
Lehman	Lehman Brothers Limited (in administration)
Lloyds	Lloyds Banking Group
LMCTV	Loan Minus Cash To Value
London Plan	Mayor of London Planning document published by the Greater London Authority
LTV	Loan to Value
m	Million
Morgan Stanley	Morgan Stanley & Co Limited including all related funds, entities and associates
NAV	Net Asset Value
NIA	Net Internal Area
NNNAV	Triple Net Asset Value
Nomura	Nomura International plc
Omega	Omega Land Holding II BV
OMR	Open Market Rent
psf	per sq ft
Prudential	Prudential Retirement Income Limited
Rothschild	NM Rothschild & Sons Limited
Savills	Savills Commercial Limited, Chartered Surveyors
SFL	Songbird Finance Limited
SG Shares	SG Shares of 10p
Shareholders' Agreement	The shareholders agreement dated 10 April 2004 between the company and the Glick Entities, Morgan Stanley related funds, BL and the Whitehall funds
Skadden	Skadden Arps Slate Meagher & Flom LLP
Songbird loan	Loan drawn down by SFL
sq ft	Square feet/square foot
TfL	Transport for London
Treasury Shares	B Shares acquired by any group entity and not cancelled
Trust	Canary Wharf Employees' Share Ownership Plan Trust
UK	United Kingdom of Great Britain and Northern Ireland
USA	United States of America
WWLP	Wood Wharf Limited Partnership