

# SONGBIRD ESTATES PLC

**23 SEPTEMBER 2010**

**ANNOUNCEMENT OF RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2010**

The Board of Songbird Estates plc is pleased to announce its results for the six months ended 30 June 2010.

The information in this announcement, which was approved by the Board of Directors on 22 September 2010, does not comprise statutory accounts within the meaning of the Companies Act 2006.

# SONGBIRD ESTATES PLC

## OPERATIONAL SUMMARY

- **£140.0m** (before expenses) **to be raised** by the Company **through the Open Offer**. The net proceeds of the issue will be used **to repurchase the Shareholder Loan** (Note (i)).
- On 22 September 2010 **Canary Wharf Group declared a dividend of 11.736p per share** totalling £75.0m of which £51.9m will be receivable by SFL. The Board propose that the **proceeds will be used to pay the SG Share dividend of £6.5m and the accumulated coupon payable on the Preference Shares of £27.6m** (Note (i)). The balance of funds remaining in the Company will be used for general working capital purposes.
- **Adjusted NAV per share increased by 10p or 6.0% to 178p** in comparison with 168p at 31 December 2009 (Note (ii)).
- **Net assets increased to £1,216.5m** at 30 June 2010 **from £1,191.6m at 31 December 2009, an increase of £24.9m or 2.1%** (Note (ii)). An increase in the value of the property portfolio was offset by movements in the fair value of derivative instruments.
- The **market value of the investment property portfolio increased** by 4.3% **to £4,782.0m**. After allowing for capital expenditure and adjustments for lease incentives, the **carrying value of the investment portfolio increased by 4.2%** (Note (iii)).
- The **benchmark initial yield for the office portfolio was 5.6%** at 30 June 2010, **an improvement of 15 bps** since 31 December 2009 (Note (iii)).
- The **weighted average equivalent yield for the office portfolio was unchanged at 5.7%** at 30 June 2010. The **weighted average equivalent yield for the retail portfolio fell by 60 bps to 5.7%** at 30 June 2010 (Note (iii)).
- **Including development sites, the market value of the property portfolio at 30 June 2010 was £5,044.5m which gave rise to an increase of 3.6% in carrying value since 31 December 2009**, allowing for capital expenditure and adjustments for lease incentives (Note (iii)).
- The **underlying profit before tax** for the period **was £13.1m** (six months ended 30 June 2009 – £89.7m) (Note (iv)). The **profit after tax** for the period **was £14.2m** (six months ended 30 June 2009 – loss of £110.9m).
- The **weighted average unexpired lease term was approximately 15.8 years** (or 14.8 years assuming the exercise of all break options) (Note (v)).
- At 30 June 2010 **Canary Wharf Group's investment portfolio** totalling 8.0m sq ft **was 96.4% let**, including the Lehman building (31 December 2009 – 8.0m sq ft of which 96.2% was let) (Note (v)).
- The administrator of **Lehman** (Note (vi)) **ceased paying rent on 25 Bank Street** during the period **and Nomura has exercised a break option to vacate the building** on 30 September 2010. Canary Wharf Group has the benefit of an arrangement with AIG which provides for drawings of an amount equal to any contracted rent shortfall in the event of default for a period of 4 years which had not been utilised at the date of approving this Announcement (Note (vi)).
- In January 2010 Canary Wharf Group **announced a new lease and the restructuring of existing leases with Barclays Capital over a total of 1,152,000 sq ft** consolidating the occupation of Barclays Capital from three into two buildings on the Estate (Note (vii)).
- In June 2010 Canary Wharf Group **announced the letting of approximately 187,000 sq ft to Shell. Leasing transactions over an additional 31,000 sq ft were also achieved** in the period (Note (vii)).
- In January 2010 Canary Wharf Group:
  - **acquired 1 Park Place**, a building located adjacent to the Estate, **for £17.5m** with two alternative planning permissions for 214,000 sq ft and 950,000 sq ft (Note (viii)).
  - **completed the sale of 5 Churchill Place** for a total consideration of **£208.0m reflecting a yield of 5.9%** and repaid the associated construction loan (Note (iii)).
  - **acquired the substantial majority of the drawn balance under the Drapers Gardens construction loan facility for £112.8m**. Subsequent to the period end, **contracts were exchanged for the sale of Drapers Gardens for a total consideration of £242.5m reflecting a yield of 5.2%** (Note (ix)).
- Canary Wharf Group **acquired the remaining interests on Heron Quays West** in June 2010, a site which has planning consent for office space of 1.3m sq ft (Note (viii)).

### Note:

- (i) See 'Business Review – Capital Structure'.
- (ii) See 'Business Review – Balance Sheet and Key Performance Indicators'.
- (iii) See 'Business Review – Valuations' for a comparison with the carrying value for accounts purposes and details of movements in yields.
- (iv) See Note 1 for basis of preparation and Note 2.
- (v) See 'Business Review – Property Portfolio' for basis of calculation.
- (vi) See 'Business Review – Lehman'.
- (vii) See 'Business Review – Leasing'.
- (viii) See 'Business Review – Development Properties'.
- (ix) See 'Business Review – Drapers Gardens'.
- (x) See Note 16.

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## RESULTS IN BRIEF

		<b>Unaudited Six months ended 30 June 2010 £m</b>	Unaudited Six months ended 30 June 2009 £m
	Note		
Rental income	(i)	<b>153.5</b>	157.2
Underlying operating profit	(ii), (vii)	<b>141.2</b>	229.1
Capital and other items:			
– Write down of Lehman incentives		<b>(50.1)</b>	–
– movement in impairment of investments in associates	(iii)	<b>(2.3)</b>	(5.2)
– net revaluation movements	(iv)	<b>177.6</b>	(368.2)
– net movement on fair value of derivatives, hedging reserve and finance cost of non equity shares	(v)	<b>(149.6)</b>	176.8
– net gain on repurchase of debt	(v)	–	66.3
Underlying profit before tax	(ii)	<b>13.1</b>	89.7
Loss on ordinary activities before tax	(ii)	<b>(11.3)</b>	(41.2)
Tax	(vi)	<b>25.5</b>	(69.7)
Profit/(loss) after tax	(ii)	<b>14.2</b>	(110.9)
Basic and diluted earnings/(losses) per share*	(vii)	<b>0.5p</b>	(72.0)p

\*Six months ended 30 June 2009 restated as set out in Note 2.

Note:

- (i) See Note 3.
- (ii) See Unaudited Condensed 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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# SONGBIRD ESTATES PLC

## CHAIRMAN'S OPERATIONAL REVIEW

### Introduction

Reflecting continued progress in the first six months of the year, adjusted NAV per share increased by 6% to £1.78. This increase was primarily driven by the increase in the market value of the underlying investment property portfolio and a tightening of yields. A significant further step towards deleveraging and financial stability was announced today with the £140m open offer (the 'Open Offer'). The proceeds of the Open Offer and Songbird's £51.9m share of the interim dividend declared by Canary Wharf Group will be used to repurchase the £135m shareholder loan facility (the 'Facility'), pay the accrued dividend on the Preference Shares and the outstanding SG Share dividend and provide working capital. The repurchase will avoid a future requirement to refinance debt with a short term maturity, improve the balance sheet and further simplify the capital structure. The Board believes the repurchase of the Facility through the Open Offer is a beneficial outcome for the Company and therefore for shareholders as a whole.

### Background to Refinancing

Shareholders will recall that in September 2009, the Company raised £1.03bn of additional funding. £135m of this was in the form of the Facility which was provided by some of our largest shareholders. The Facility was due to mature on 23 September 2010 unless notice was given by 24 August 2010 to extend the Facility for a further year. The Board and its advisers reviewed the options available to the Company for dealing with the Facility and their conclusion was that the Facility should be refinanced by the Open Offer.

On 22 September 2010, an amendment to the Facility extended its repayment date to 31 October 2010. This amendment will give the Company sufficient time to complete the Open Offer which should enable the repurchase of the Facility prior to its extended maturity. In the absence of the Open Offer, there would be no alternative but to extend the Facility beyond 31 October 2010, incur the full 1% contractual extension fee and then pay an increased interest rate of 8.5% on the Facility for the full extension period.

It is anticipated that £140.0m will be raised through the underwritten issue of new shares in the Company via the Open Offer on the basis of 0.16685 New Ordinary shares for every one Ordinary share held on 21 September 2010 at an issue price of 128p per share. The funds raised, together with the interim dividend declared by Canary Wharf, will be used to repurchase the Facility and interest due at the date of repayment and also meet transaction costs.

### Financial Review

Adjusted NAV per share increased during the six months by 10p or 6% from £1.68 at 31 December 2009 to £1.78 at 30 June 2010. Net assets increased from £1,191.6m at 31 December 2009 to £1,216.5m at 30 June 2010, an increase of £24.9m or 2.1% reflecting the increase in value of the property portfolio.

The market value of the investment property portfolio increased by 4.3% to £4,782.0m. The benchmark initial yield for the office portfolio was 5.6% at 30 June 2010, an improvement of 15bps since 31 December 2009. The weighted average equivalent yield for the office portfolio was unchanged at 5.7% at 30 June 2010, with the weighted average equivalent yield for the retail portfolio being 5.7%, an improvement of 60 bps since 31 December 2009. Including development sites, the market value of the property portfolio to be retained was £5,044.5m at 30 June 2010, against £4,808.0m at 31 December 2009, excluding 5 Churchill Place which was sold in January 2010.

Underlying profit for the six months ended 30 June 2010 reduced to £13.1m from £89.7m. However, the profit after tax was £14.2m in comparison with a loss of £110.9m for the six months ended 30 June 2009. This was largely attributable to the surplus recorded on revaluation of the property portfolio in the first half of 2010 whereas for the first half of 2009 there was a revaluation deficit.

At 30 June 2010 the Group's investment portfolio totalling 8.0m sq ft was 96.4% let including the Lehman Building (31 December 2009 – 8.0m sq ft of which was 96.2% let). At 30 June 2010 the weighted average lease term for the investment portfolio was 15.8 years (or 14.8 years assuming the exercise of break options).

### Operational Review

Canary Wharf Group was well placed to capitalise on improved market conditions in the latter half of 2009 and in the early part of 2010 successfully completed a number of transactions.

#### *Office*

January 2010 was a positive month for Canary Wharf Group which saw the completion of the sale of 5 Churchill Place for £208.0m, reflecting a yield of 5.9%, and also saw the restructuring and extension of the shorter Barclays Capital leases on the Estate. The Barclays Capital transaction involved, in aggregate, 1,152,000 sq ft comprising the extension of leases to 2032 and a commitment by Barclays Capital to new space. Canary Wharf Group also acquired the site at 1 Park Place, Canary Wharf for £17.5m with alternative pre-existing planning consents for 0.2m sq ft and 0.95m sq ft.

# SONGBIRD ESTATES PLC

## CHAIRMAN'S OPERATIONAL REVIEW (Continued)

In January, Canary Wharf Group also purchased the substantial majority of the Drapers Gardens loan facility for £112.8m and the Drapers Gardens joint venture entities, of which Canary Wharf Group is one, leased the property for a term of 25 years to BlackRock. Subsequent to the period end, the joint venture exchanged contracts for the disposal of Drapers Gardens for £242.5m, reflecting a 5.2% yield, excluding a deduction for rent free periods.

The letting to Shell International of approximately 187,000 sq ft in 40 Bank Street for a term of 15 years (subject to a tenant break option at the expiry of year 10) was concluded in June 2010. A number of smaller transactions for an aggregate of 31,000 sq ft were also completed in the period (details can be found in 'Business Review – Leasing').

The Lehman Administrator ceased paying rent on 25 Bank Street. In addition, Nomura exercised a break option to vacate with effect from 30 September 2010, the (approximately) 420,000 sq ft which it had subleased in the building. A facility with AIG provides, at the election of Canary Wharf Group, for payment of the shortfall in contracted rent for a period of 4 years from first drawdown. Canary Wharf Group is currently considering all options available for this building.

In June, Canary Wharf Group acquired the final 2 units on the Heron Quays West site and as a result has secured full control of this important 1.3m sq ft development site.

Amongst the objectives stated by Canary Wharf Group, is the extension of its development activities to other commercial developments in Central London. In line with this objective, Canary Wharf Group is in discussions with Land Securities Group plc with a view to establishing a joint venture for the development of the 20 Fenchurch Street site in the City.

### *Construction*

Construction on the new Crossrail station at Canary Wharf continues on schedule and on budget. During the period the infrastructure works were completed on the JP Morgan site at Riverside South and JP Morgan is engaged in discussions in respect of its options with a decision anticipated in the next few months.

### *Retail*

The six months to 30 June 2010 was a strong half year for retail at Canary Wharf with turnover and footfall both increasing. All seven restaurants which opened in late 2009 are now trading successfully, reflecting continuing strong demand. Progress was in part achieved by active asset management such as the expansion of retail into areas reclaimed from the Canada Square car park, which has enabled Gap to expand whilst remaining in its preferred location. Other units are now also considering the same type of expansion. Restructuring works have also enhanced the Cabot Place retail mall and new signings such as Tiffany and Aquascutum continue to improve and diversify the retail offering.

### **Conclusion**

The Board believes the Open Offer announced today further simplifies the capital structure by the elimination of debt and places the Company on a secure financial footing going forward. The underwriting by Qatar Holding, CIC, Glick and MSREF indicates the continuing strong support of key shareholders and reflects commitment to the future prospects of the Company.

# SONGBIRD ESTATES PLC

## BUSINESS REVIEW

The following 'Business Review' is intended to provide shareholders with an overall summary of the business of the Group both during the six months ended, and as at, 30 June 2010 as well as summarising significant events which have occurred subsequent to this date.

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

## Capital Structure

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

This Open Offer will avoid the future requirement to refinance the Company's short term loan facility, strengthen its balance sheet and also allow the Company to simplify its capital structure.

The interim dividend of 11.736p per share announced today by Canary Wharf Group plc will be used to pay accrued dividends on the Preference Shares, the SG dividend (Note 12) and accrued interest on the loan facility, leaving the balance for general working capital purposes.

## Property Portfolio

The principal asset of the Company is its indirect investment in Canary Wharf Group which is engaged in property investment and development, and is primarily focused on the development of the Estate. Canary Wharf Group is also involved through joint ventures in the development of Wood Wharf and has been involved in the redevelopment of Drapers Gardens which achieved practical completion in November 2009. At 30 June 2010 Canary Wharf Group's investment portfolio comprised 17 completed properties (out of the 35 constructed on the Estate) totalling approximately 8.0m sq ft NIA.

Substituting the original term of the Lehman lease with the 4 years' cover provided by AIG (see 'Lehman' below) the weighted average unexpired lease term for the investment property portfolio at 30 June 2010 was approximately 15.8 years, or 14.8 years assuming the exercise of outstanding break options (31 December 2009 – 15.8 years or 14.8 years respectively). Of the square footage under lease, 67.5% does not expire or cannot be terminated by tenants during the next 10 years.

At 30 June 2010 the investment property portfolio was 96.4% let, including the 1,023,000 sq ft at 25 Bank Street originally let to Lehman (31 December 2009 – 96.2%). This building has been treated as fully let because of the 4 years' cover provided by AIG.

As well as the rental income generated from the properties owned by Canary Wharf Group, income is generated from managing the entire Estate. This includes a further 18 completed properties totalling 7.9m sq ft which are in other ownerships.

## Lehman

In September 2008 Lehman went into administration and the Administrator continued to pay rent on 25 Bank Street until the first quarter of 2010. Following Lehman's administration Nomura sub-leased approximately 420,000 sq ft from Lehman on a two year sub-lease, subject to a break option in September 2010 which has now been exercised. An additional 90,000 sq ft is sub-let until 2013 to Jones Lang LaSalle and NYSE Euronext.

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

A facility with AIG provides for payment of up to the full amount of the contracted rent at the election of Canary Wharf Group in the event of default for a period of 4 years from first drawdown. No such election had occurred at the date of this Announcement. Any amounts drawn under the facility are repayable from recoveries received in respect of the amounts claimed under the facility and from rentals in the property which exceed the contracted rents that would have been received from Lehman under its lease.

Under this facility AIG is obliged to maintain a certain credit rating. Following the fall in its credit rating in 2008, AIG posted cash collateral of approximately £224.0m in respect of 25 Bank Street. 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.

# SONGBIRD ESTATES PLC

## BUSINESS REVIEW (Continued)

### Leasing

In addition to the Barclays Capital restructuring and new leases in respect of 1,152,000 sq ft completed in January 2010, the terms of which were summarised in the 2009 Report & Financial Statements, Canary Wharf Group completed letting transactions totalling 218,000 sq ft (as detailed below) in the first half of the year.

In June 2010 Canary Wharf Group announced the letting of approximately 187,000 sq ft of space to Shell in 40 Bank Street. Shell has taken a lease on 10 floors for a term of 15 years (subject to a tenant break at the expiry of year 10) at a rent of £37.50 psf for the office space. With the exception of one floor, all of the 187,000 sq ft is in shell and core condition and has a rent-free period of 42 months. The leases have a 12 month penalty if the break option at year 10 of the term is exercised. This space was previously occupied by Barclays Capital. A further 95,000 sq ft formerly occupied by Barclays Capital in 40 Bank Street will be leased back to Canary Wharf Group with effect from October 2010 as a result of its lease of the former Morgan Stanley space in 20 Cabot Square.

In addition to the Shell letting, the following leases were completed in the period for space in One Canada Square:

- The FSA took an additional 27,900 sq ft on level 25 bringing its current occupancy to over 136,000 sq ft in the building.
- Samsung Electronics took a lease of 1,844 sq ft on level 34.
- Knight Frank renewed its lease over 981 sq ft on level 6.

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

In addition, break options over 50,400 sq ft in One Canada Square have been exercised by other tenants, of which 22,100 sq ft was with effect from March 2010 and the remainder from June 2010 or later.

All options to sub-let space back to Canary Wharf Group have now been exercised. At 30 June 2010, the estimated net present value of sub-let liabilities was approximately £53.2m discounted at 6.3% being Canary Wharf Group's weighted average cost of debt (31 December 2009 – £72.9m, discounted at 6.4%). These sub-let commitments have been reflected in the market valuation of Canary Wharf Group's properties. The reduction in sub-let liabilities reflects the letting to Shell of 187,000 sq ft of space in 40 Bank Street previously occupied by Barclays Capital.

### Development Properties

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

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

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

# SONGBIRD ESTATES PLC

## BUSINESS REVIEW (Continued)

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

	NIA m sq ft
Based on existing planning permissions:	
- 25 Churchill Place	0.5
- North Quay	2.4
- Heron Quays West	1.3
- Newfoundland	0.2
- Crossrail retail	0.1
	4.5
Acquired in the current period:	
- 1 Park Place (maximum development capacity)	0.9
	5.4
Sold to JP Morgan:	
- Riverside South (Canary Wharf Group acting as development and construction manager)	1.9
	7.3
Wood Wharf (25.0% share of 4.6m sq ft)	1.2

The site at Riverside South was acquired by JP Morgan in November 2008 and JP Morgan has instructed Canary Wharf Group to complete on its behalf the design and infrastructure works for a new European headquarters building. Should JP Morgan decide to proceed with full construction, Canary Wharf Group will act as development and construction manager. If construction is postponed, or deferred altogether, Canary Wharf Group will retain £76.0m representing a portion of the developer's profit related to the development, of which £68.5m had been received by 30 June 2010. If JP Morgan proceeds with full construction, additional fees will be due.

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

### Drapers Gardens

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

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

In August 2010 the joint venture entities which own the Drapers Gardens development exchanged contracts to sell the property. Completion is due by the end of October 2010. The gross aggregate consideration is £242.5m, reflecting an initial yield of 5.2% prior to a deduction for the rent-free period granted to BlackRock.

### Crossrail

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

# SONGBIRD ESTATES PLC

## BUSINESS REVIEW (Continued)

Canary Wharf Group will design and construct the Crossrail station for a fixed price of £500.0m, of which £350.0m will be met from Crossrail's £15.9bn budget. Canary Wharf Group will bear the risk in relation to costs above the fixed price limit. Canary Wharf Group's anticipated contribution of £150.0m will be credited against any transport Section 106 contributions for certain agreed development sites on the Estate which may be required as part of proposed alterations to the London Plan. Accordingly, costs incurred on construction of the station are allocated to Canary Wharf Group's properties held for development.

Construction commenced on the Crossrail station at Canary Wharf in May 2009 and costs incurred to the end of June 2010 totalled £92.8m. The station box is expected to be completed and handed over to CLRL by summer 2012 with the first trains due to run in 2017 when Crossrail opens for passenger service. Planning permission has also been granted for a 100,000 sq ft retail area above the station which will be subject to a long lease to Canary Wharf Group.

## Valuations

The net assets of the Group, as stated in its Consolidated Balance Sheet as at 30 June 2010, were £1,216.5m. In arriving at this total:

- (i) properties held as investments were carried at £4,588.5m, which represents the market value of those properties of £4,782.0m at that date as determined by Canary Wharf Group's external valuers, CBRE, Savills or Cushman, less an adjustment of £185.3m for tenant incentives and £8.2m for deferred negotiation costs; and
- (ii) properties held for development were carried at £262.5m, representing their market value.

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

In valuing the properties on the Estate the valuers have taken account of market evidence which included the sale of 5 Churchill Place and the lettings completed in the period, including the Barclays Capital lease restructuring and the Shell letting, all of which were referred to earlier in this 'Business Review'.

The valuation of the investment portfolio on the basis of market value increased by £195.0m or 4.3% over the period. After allowing for capital expenditure and adjustments in respect of lease incentives, the carrying value of the investment portfolio increased by £182.6m over the six months, or 4.2%. This increase was primarily driven by the reduction in yields in the market by approximately 15 bps, which served to reduce the benchmark initial yield on rack rented properties from 5.75% to 5.6%. At 30 June 2010 the weighted average equivalent yield, which takes into account the valuers' forecast of future rental values, was unchanged at 5.7%. For the retail portfolio, the weighted average equivalent yield reduced from 6.3% to 5.7%.

CBRE and Savills have provided a joint opinion as at 30 June 2010 that the market value of sites held for development, comprising North Quay, Heron Quays West, Newfoundland, 1 Park Place, 25 Churchill Place and Crossrail retail, was £262.5m, in comparison with £221.0m at 31 December 2009. At 30 June 2010 the market value of these sites was £6.9m below their historical cost to the Group (31 December 2009 – £1.9m) which includes an allocation of £68.6m (31 December 2009 – £51.0m) representing Canary Wharf Group's Crossrail contribution to date. In valuing the properties held for development, the valuers have allowed for estimated costs to complete, including an allowance for fitout and developer's profit. In addition they have allowed for letting, disposal, marketing and financing costs.

Excluding properties under construction held for sale and 5 Churchill Place which was sold in the period, the market value of the entire property portfolio increased by £125.6m or 2.6% in the current period, excluding additions and adjustments for tenant incentives, and the carrying value increased by £177.6m or 3.6%.

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 on the Estate.

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.

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## BUSINESS REVIEW (Continued)

	Note	30 June 2010		31 December 2009		30 June 2009	
		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	4,588.5	4,782.0	4,393.1	4,587.0	4,047.0	4,247.5
Investment property held for sale/under construction	2	–	–	176.2	192.0	169.3	170.0
		<b>4,588.5</b>	<b>4,782.0</b>	<b>4,569.3</b>	<b>4,779.0</b>	<b>4,216.3</b>	<b>4,417.5</b>
Properties held for development		262.5	262.5	221.0	221.0	186.0	186.0
		<b>4,851.0</b>	<b>5,044.5</b>	<b>4,790.3</b>	<b>5,000.0</b>	<b>4,402.3</b>	<b>4,603.5</b>
Property under construction held for sale	3	72.0	124.9	56.8	115.1	150.9	329.5
		<b>4,923.0</b>	<b>5,169.4</b>	<b>4,847.1</b>	<b>5,115.1</b>	<b>4,553.2</b>	<b>4,933.0</b>

### 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 30 June 2010 was £193.5m (31 December 2009 – £193.9m, 30 June 2009 – £200.5m). Market value in existing state is shown prior to these amounts.
- 2 The investment property held for sale comprised 5 Churchill Place which was sold in January 2010. The market value at 31 December 2009 was calculated by reference to the gross proceeds of £208.0m less adjustment for a fitout allowance and provisions for rent-free and rental support commitments. Market value in existing state is shown before adjustment for tenant incentives and deferred negotiation costs totalling £15.8m at 31 December 2009 and £0.7m at 30 June 2009.
- 3 Properties under construction held for sale comprised Riverside South at 30 June 2010 and 31 December 2009 and Riverside South and 30 North Colonnade at 30 June 2009. The carrying value at 30 June 2010 is stated net of £51.9m transferred to cost of sales (31 December 2009 – £40.2m) and £20.1m transferred from payments on account (31 December 2009 – £16.6m). Market value in existing state comprises the present value of the minimum developer's profit from the sale of Riverside South discounted at 6.3% (31 December 2009 – 6.4%) being Canary Wharf Group's weighted average cost of debt, calculated on the assumption that JP Morgan will not proceed with full build out, and excludes the profit already recognised on the disposal of the site in 2008.

## Operating Results

The following review of the Group's operating results relates to the six months ended 30 June 2010. The comparatives relate to the six months ended 30 June 2009.

Revenue is generated primarily by the rents and service charges earned by Canary Wharf Group from its property interests on the Estate and turnover recognised on construction contracts in accordance with IAS 11 and IFRIC 15. Revenue for the six months ended 30 June 2010 was £158.5m, against £337.0m for the six months ended 30 June 2009 of which rental income, prior to the adjustments required to spread lease incentives and committed rent increases, was £153.5m (six months ended 30 June 2009 – £157.2m). This fall in rental income was primarily attributable to the exercise of break options.

In the first quarter of 2010, the Administrator ceased paying rent on 25 Bank Street. Lease incentives attributable to Lehman's lease were previously being amortised over the period to the first open market rent review in November 2013 but, following the Administrator ceasing to pay rent, the remaining incentives totalling £50.1m have been written off to the Consolidated Income Statement and disclosed as a 'capital and other' item. The impact of spreading lease incentives, excluding the accelerated charge relating to Lehman, was to reduce rental income by £3.6m in the six months ended 30 June 2010 (six months ended 30 June 2009 – £5.1m).

Service charge income fell from £36.3m to £34.5m and miscellaneous income, including insurance rents and the provision of tenant specific services outside the standard service charge, reduced from £11.6m to £11.0m over the period, primarily as a result of lower insurance premiums. In the six months ended 30 June 2010 the Group also recognised £1.5m of income in connection with lease termination agreements (six months ended 30 June 2009 – £14.9m).

The six months ended 30 June 2010 included £11.7m of turnover recognised on the construction of development properties that have been pre-sold and are being accounted for as long terms contracts (six months ended 30 June 2009 – £122.1m). The reduction in revenue from this source was due to the completion of 15 Canada Square and 30 North Colonnade in 2009.

# SONGBIRD ESTATES PLC

## 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 pre-sold properties. Rents payable and property management costs were £48.4m in comparison with £46.1m for the six months ended 30 June 2009. Taking into account service charge and miscellaneous income, a deficit on estate management of £2.9m was recorded (six months ended 30 June 2009 – surplus of £1.8m). The deficit in the current period was attributable to space vacated by tenants, including Lehman and Barclays Capital, on which service charges were not recoverable.

Provisions relating to the remaining vacant leasehold property, rent support commitments and certain other obligations of Canary Wharf Group reduced by £0.8m in the six months ended 30 June 2010, compared with a net reduction in such provisions totalling £1.5m in the six months ended 30 June 2009. In addition, the six months ended 30 June 2010 included £1.5m of dilapidations and other costs attributable to the termination of leases in the period (six months ended 30 June 2009 – £6.5m).

Cost of sales for the six months ended 30 June 2010 also included £6.7m (six months ended 30 June 2009 – £41.2m) of costs on construction of properties held for sale, net of the release of £5.0m of surplus accruals relating to properties completed in prior years. No profit has been recognised on the construction contract connected with the sale of Riverside South although the potential surplus has been taken into account in calculating adjusted NAV (see Note 2). The six months ended 30 June 2009 included £80.9m of profit recognised on pre-sold properties.

For the six months ended 30 June 2010 net development, rental and related income was £102.7m, a reduction of £142.0m compared with the six months ended 30 June 2009. The reduction was primarily attributable to the write off of £50.1m of unamortised Lehman incentives, the reduction of £75.9m of profit on pre-sold properties and a reduction of £8.4m in net income on lease terminations.

In addition to its share of the operating loss of WWLP in the period of £0.1m, the Group has recognised an impairment of £2.3m against its investment in associates. This impairment has been taken to the Consolidated Income Statement and classified as a 'capital and other' item. In the six months ended 30 June 2009 the Group recognised its share of the operating loss of WWLP in the period of £0.2m and an impairment of £5.8m against its investment in associates, also classified as a 'capital and other' item.

Administrative expenses for the six months ended 30 June 2010 were £14.6m in comparison with £16.1m for the six months ended 30 June 2009. The reduction in administrative expenses was primarily attributable to a reduction in marketing costs incurred by Canary Wharf Group.

Other operating income was £3.1m for the six months ended 30 June 2010 (six months ended 30 June 2009 – £0.7m). During the period Canary Wharf Group earned additional fees in connection with one of the properties completed in 2009.

Underlying operating profit (as defined in Note 2) for the six months ended 30 June 2010 was £141.2m in comparison with £229.1m for the six months ended 30 June 2009. Of the decrease of £87.9m, £75.9m was attributable to the recognition of profit on pre-sold properties and £8.4m to a reduction in net proceeds from the termination of leases.

In addition to the underlying operating profit, a net revaluation surplus of £177.6m was recognised in the Consolidated Income Statement in the period compared with a deficit of £368.2m in the six months ended 30 June 2009. The changes in the valuation of the property portfolio are explained in more detail in the 'Business Review – Valuations' and Note 4.

Total operating profit for the six months ended 30 June 2010 was £266.4m against a loss of £144.9m for the six months ended 30 June 2009. The charge was attributable to movements in property revaluations and the other factors referred to above.

Underlying net financing costs for the six months ended 30 June 2010 were £128.1m against £139.4m for the six months ended 30 June 2009. The reduction in underlying net interest payable of £11.3m was in part attributable to an increase in investment revenue and in part to a reduction in interest payable following the repayment of the £880.0m Citi Loans as part of the Refinancing Transactions in October 2009. Movements on derivative financial instruments and the financing costs of non equity shares, resulted in a net charge of £149.6m being recognised in the Consolidated Income Statement as a 'capital and other' item in the six months ended 30 June 2010 compared with a gain of £176.8m in the six months ended 30 June 2009.

In April 2009 Canary Wharf Group repurchased an aggregate principal amount of £119.7m of certain of the Notes for a consideration, excluding accrued interest, of £35.5m (Note 5) on which the Group recognised a net gain of £66.3m on the repurchase.

# SONGBIRD ESTATES PLC

## BUSINESS REVIEW (Continued)

The loss before tax for the six months ended 30 June 2010 was £11.3m in comparison with £41.2m for the six months ended 30 June 2009. The results for the six months ended 30 June 2010 and the six months ended 30 June 2009 included certain capital and other profits and losses as described above. The underlying profit before tax for the six months ended 30 June 2010 was £13.1m (six months ended 30 June 2009 – £89.7m), the reduction being mainly attributable to the completion of the pre-sold properties at 15 Canada Square and 30 North Colonnade in 2009.

Tax for the six months ended 30 June 2010 comprised a corporation tax charge of £3.6m, together with a deferred tax credit of £29.1m. The credit for deferred tax is primarily attributable to the tax effect of the mark to market adjustment on Canary Wharf Group's derivative financial instruments. The tax charge for the six months ended 30 June 2009 comprised a corporation tax charge of £12.8m, together with a deferred tax charge of £56.9m. The charge for deferred tax in the six months ended 30 June 2009 was primarily attributable to the tax effect of profits recognised on pre-sold properties, the gains on derivatives and the repurchase of securitised debt, partially offset by the revaluation deficit during the period.

The contingent tax payable if Canary Wharf Group were 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.

The profit after tax for the six months ended 30 June 2010 was £14.2m in comparison with a loss of £110.9m for the six months ended 30 June 2009.

The basic and diluted earnings per share for the six months ended 30 June 2010 was 0.5p (Note 2) compared with losses of 72.0p as restated and adjusted for the Refinancing Transactions for the six months ended 30 June 2009. No adjustment arose from the dilution attributable to the Warrants as the average market price of Ordinary Shares during the period of 162p did not sufficiently exceed the exercise price to affect the earnings per share figure of 0.5p per share.

## Balance Sheet and Key Performance Indicators

Net assets in the Group's Consolidated Balance Sheet were £1,216.5m at 30 June 2010, up by £24.9m from £1,191.6m at 31 December 2009. The increase in net assets was primarily attributable to the increase in the carrying value of properties held as non current assets by £177.6m over the period (Note 4), partly offset by the increase in liability recognised for derivative instruments totalling £103.2m.

The Company's objective is to manage its investment in Canary Wharf Group so as to maximise net asset values from its property investment and development activities, 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 adjusted net asset value per share attributable to members of the Company. This measure serves to capture the Board's judgements concerning, inter alia, letting strategy, redevelopment and financial structure.

Adjusted NAV includes the external valuation surplus on the pre-sold property under construction but excludes deferred tax and fair value adjustments on derivatives. The calculation of adjusted NAV is disclosed in Note 2 and indicates that adjusted NAV per share increased by 6.0% from 168p to 178p.

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

	Note	30 June 2010 £m	31 December 2009 £m
Adjusted net assets attributable to members of the Company	(i)	1,167.0	1,098.7
Fair value adjustment in respect of financial assets and liabilities net of tax thereon	(ii)	(250.4)	(6.0)
Deferred tax	(iii)	(63.8)	(88.7)
Minority interest in above adjustments		96.6	29.1
<b>Adjusted NNNAV</b>		<b>949.4</b>	<b>1,033.1</b>
Adjusted NAV per share	(i), (iv)	£1.78	£1.68
Adjusted NNNAV per share	(iv)	£1.45	£1.58

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 12).
- (iii) Refer to Note 6.
- (iv) Calculation based on 655.5m Ordinary Shares in issue at 30 June 2010 and 31 December 2009.

# SONGBIRD ESTATES PLC

## BUSINESS REVIEW (Continued)

### Borrowings

At 30 June 2010, a total of £132.0m had been drawn under the £135.0m Shareholder Loan facility of which £20.1m was drawn down in the current period. At the date of approving this Announcement the full amount of this loan facility had been drawn down and it is envisaged that the loan will be repurchased from the proceeds of the Open Offer.

As part of the Company's refinancing in 2009, the Company issued £275.0m of Preference Shares which carry a quarterly coupon of 2.5% payable in arrears. At 30 June 2010 a liability of £20.2m was recognised in respect of the accrued unpaid coupon on the Preference Shares (31 December 2009 – £5.4m).

In January 2010 Canary Wharf Group sold 5 Churchill Place and repaid the drawn balance of £123.5m on its £155.0m construction loan facility secured on this building. At the same time Canary Wharf Group broke the interest rate swap that was used to hedge the interest payable under this loan facility at a cost of £15.9m.

At 30 June 2010, net debt (including derivative financial instruments at fair value, net of monetary deposits and cash and cash equivalents) stood at £3,726.7m, an increase of £195.3m from £3,531.4m at 31 December 2009. The components of net debt are shown in Note 12.

The reduction in total borrowings, including derivatives, from £4,624.5m to £4,601.4m primarily reflects the repayment of the construction loan and scheduled amortisation under Canary Wharf Group's securitisation and other secured debt, offset by movements in the fair value of derivative instruments.

The reduction in total borrowings was accompanied by a reduction in cash and cash equivalents from £1,074.8m to £869.6m, primarily as a result of the acquisition of the Drapers Gardens construction loan and subsequent funding of construction costs, together with the purchase of 1 Park Place, other construction expenditure including Crossrail and certain payments made to Barclays Capital in connection with its lease restructuring. These outgoings were partially offset by net proceeds in the period from the sale of 5 Churchill Place.

At 30 June 2010 the Group's weighted average cost of debt was 6.4% including credit wraps, but excluding the coupon on the Preference Shares (31 December 2009 – 6.4%). 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 weighted average maturity of the Group's loans is 13.6 years at 30 June 2010 (31 December 2009 – 14.1 years). Note 12 includes a summary of the key financial covenants applicable to each of the Group's facilities.

### Cash Flow

Cash generated from operations for the six months ended 30 June 2010 was £98.5m in comparison with £223.0m for the six months ended 30 June 2009. The six months ended 30 June 2010 included £36.2m of proceeds and £18.9m of construction costs on pre-sold properties compared with £126.1m and £31.2m respectively in the six months ended 30 June 2009. Excluding the impact of these cash flows, cash generated from operations reduced from £128.1m to £81.2m. Corporation tax of £3.2m was paid in the six months ended 30 June 2010, whereas £8.9m was paid in the first half of 2009. The reduction in cash generated from operations excluding the impact of construction contracts was primarily attributable to movements in working capital.

Cash flows from investing activities resulted in a cash outflow of £12.0m for the six months ended 30 June 2010 compared with £90.0m for the six months ended 30 June 2009. The six months ended 30 June 2010 included £76.4m of development expenditure on properties to be retained by Canary Wharf Group (six months ended 30 June 2009 – £85.6m) and £125.5m for Canary Wharf Group to acquire the substantial majority of the Drapers Gardens loan facility and to fund the remaining costs incurred on that project. These expenditures were partly offset by the receipt from the sale of 5 Churchill Place of £190.0m before allowing for the repayment of the construction loan and its associated interest rate swap.

The net cash outflow from financing activities for the six months ended 30 June 2010 totalled £143.6m compared with an inflow of £0.9m for the six months ended 30 June 2009. The six months ended 30 June 2010 included the repayment of £123.5m drawn on the 5 Churchill Place construction loan facility together with £40.2m of scheduled amortisation on Canary Wharf Group's securitisation and other secured debt. The six months ended 30 June 2009 included £29.8m drawn down under the Citi Loans and £17.4m under the construction loan facility, partly offset by £35.5m incurred on the repurchase of Notes and £10.8m on scheduled amortisation on the securitisation and other secured debt.

### Principal Risks and Uncertainties

The principal risks and uncertainties identified by the Group were summarised in the 2009 Report and Financial Statements (refer to 'Principal Risks and Uncertainties' and 'Treasury Objectives' in the 'Business Review' Section).

# SONGBIRD ESTATES PLC

## **BUSINESS REVIEW (Continued)**

The risks and uncertainties facing the business of the consolidated Group are monitored through continuous assessment, regular and formal quarterly review and discussion at audit committee and Board level of both the Company and Canary Wharf Group. The principal risks and uncertainties continue to include the cyclical nature of the property market, financing risk, concentration risk and policy and planning risk.



# SONGBIRD ESTATES PLC

## UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2010

Audited Year ended 31 December 2009 £m		Unaudited Six months ended 30 June 2010 £m	Unaudited Six months ended 30 June 2009 £m
202.4	Profit/(loss) for the period after tax	14.2	(110.9)
	Other comprehensive income:		
11.7	Gains on cash flow hedges	–	4.8
–	Deferred tax on items taken directly to equity	–	0.3
11.7	Net income recognised directly in or transferred from equity	–	5.1
60.1	Transferred from equity in respect of cash flow hedges	14.9	21.1
(8.0)	Tax on items transferred from equity	(4.2)	(5.9)
52.1	Other comprehensive profit for the period	10.7	15.2
266.2	<b>Total comprehensive profit/(loss) for the period</b>	<b>24.9</b>	<b>(90.6)</b>
	Attributable to:		
175.4	Equity holders of the Company	10.9	(66.1)
90.8	Minority interest	14.0	(24.5)
266.2		<b>24.9</b>	<b>(90.6)</b>

# SONGBIRD ESTATES PLC

## UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2010

Note	Share premium £m	Treasury shares £m	Cancelled share reserve £m	Hedging reserve £m	Total other reserves £m	Minority interest £m	Retained earnings £m	Share capital £m	Total £m
1 January 2010	1,071.0	(9.4)	59.5	(88.0)	1,033.1	512.6	(419.7)	65.6	1,191.6
Profit for the period after tax	-	-	-	-	-	-	14.2	-	14.2
Gains on effective hedges	-	-	-	-	-	-	-	-	-
Tax on items taken direct to equity	-	-	-	-	-	-	-	-	-
Net income recognised	-	-	-	-	-	-	14.2	-	14.2
Transferred to minority interest	-	-	-	(3.3)	(3.3)	14.0	(10.7)	-	-
Transferred to income: - cash flow hedges	-	-	-	14.9	14.9	-	-	-	14.9
Tax on transfers	6	-	-	(4.2)	(4.2)	-	-	-	(4.2)
Total comprehensive income and expense for the period	-	-	-	7.4	7.4	14.0	3.5	-	24.9
<b>30 June 2010</b>	<b>1,071.0</b>	<b>(9.4)</b>	<b>59.5</b>	<b>(80.6)</b>	<b>1,040.5</b>	<b>526.6</b>	<b>(416.2)</b>	<b>65.6</b>	<b>1,216.5</b>

### Description of the nature and purpose of each reserve

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

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

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

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of the Group's hedging investments together with the amounts deferred in equity under previously effective hedges which are recognised in the Consolidated Income Statement in the same period in which the hedged item affects net profit or loss.

Retained earnings includes revaluation surpluses in respect of investment and development properties that are recognised in the Consolidated Income Statement.

# SONGBIRD ESTATES PLC

## UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET AT 30 JUNE 2010

Audited 31 December 2009 £m	Note	Unaudited 30 June 2010 £m	Unaudited 30 June 2009 £m
<b>Assets:</b>			
<b>Non current assets</b>			
4,393.1	7	4,588.5	4,047.0
176.2		–	–
–	7	–	169.3
221.0	7	262.5	186.0
1.5	7	1.3	1.7
4,791.8		4,852.3	4,404.0
<b>Other non current assets</b>			
25.5	8	158.9	19.7
–	12	–	1.9
209.7	10	193.5	204.3
5,027.0		5,204.7	4,629.9
<b>Current assets</b>			
51.9	9	42.2	52.1
18.3	12	5.1	13.4
1,074.8	12	869.6	1,134.7
1,145.0		916.9	1,200.2
6,172.0		6,121.6	5,830.1
<b>Total assets</b>			
<b>Liabilities:</b>			
<b>Current liabilities</b>			
(105.9)	12	(106.7)	(985.5)
(264.1)	11	(227.7)	(245.0)
(370.0)		(334.4)	(1,230.5)
<b>Non current liabilities</b>			
(4,249.6)	12	(4,122.5)	(3,940.2)
(269.0)	12	(372.2)	(278.8)
(88.7)	6	(63.8)	(41.7)
(3.1)	13	(12.2)	(7.7)
(4,610.4)		(4,570.7)	(4,268.4)
(4,980.4)		(4,905.1)	(5,498.9)
<b>Total liabilities</b>			
1,191.6		1,216.5	331.2
<b>Net assets</b>			
<b>Equity</b>			
65.6		65.6	45.4
1,033.1		1,040.5	261.4
(419.7)		(416.2)	(483.1)
679.0		689.9	(176.3)
<b>Total equity/(deficit) attributable to members of the Company</b>			
512.6		526.6	507.5
<b>Minority interests</b>			
1,191.6		1,216.5	331.2
<b>Total equity</b>			



# SONGBIRD ESTATES PLC

## NOTES TO THE ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2010

### 1. BASIS OF PREPARATION

The financial information presented in this announcement has been prepared in accordance with the accounting policies adopted in the last annual financial statements for the year ended 31 December 2009. The accounting policies applied in the preparation of this financial information are consistent with those that will be adopted in the statutory accounts for the year ending 31 December 2010. The full accounting policies of the Group are set out in the last Annual Report.

The financial information for the six months ended 30 June 2010 has been reviewed but is unaudited and was approved by the Board on 22 September 2010. A copy of the statutory accounts for the year ended 31 December 2009 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 498(2) or (3) of the Companies Act 2006.

The financial information contained in this announcement does not constitute a complete set of financial statements (including all comparative figures and all required notes). The financial information does not therefore constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006 and does not purport to show a true and fair view of the Group's financial position and results of operations in accordance with IFRS for the six months ended 30 June 2010.

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.

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.

### 2. PERFORMANCE MEASURES

Earnings/(losses) per share was as follows:

Audited Year ended 31 December 2009			Unaudited Six months ended 30 June 2010			Unaudited Six months ended 30 June 2009	
Earnings £m	Per share p		Earnings £m	Per share p		Losses £m	Restated per share p
110.7	48.8	Underlying earnings	13.1	2.0		89.7	79.9
223.9	98.7	Capital and other items	(24.4)	(3.8)		(130.9)	(116.5)
(132.2)	(58.3)	Tax	25.5	3.9		(69.7)	(62.1)
202.4	89.2	Profit/(loss) after tax	14.2	2.1		(110.9)	(98.7)
(71.4)	(31.5)	Less: Minority interest	(10.7)	(1.6)		30.0	26.7
131.0	57.7	Profit/(loss) after tax attributable to members of the Company	3.5	0.5		(80.9)	(72.0)

Underlying earnings exclude the write down of unamortised Lehman incentives (Note 10), movements on property revaluations, movements in the fair value of ineffective hedging instruments and other derivatives, interest payable on the SG Shares and Preference Shares, refinancing costs and tax.

Earnings per share has been calculated by reference to the profit attributable to equity shareholders of £3.5m in the six months ended 30 June 2010 (year ended 31 December 2009 – profit of £131.0m, six months ended 30 June 2009 – loss of £80.9m) and on the weighted average of 648.5m Ordinary Shares in issue for the six months ended 30 June 2010 (year ended 31 December 2009 – 226.9m, six months ended 30 June 2009 – 112.3m). The number of Ordinary Shares excludes the shares held by the Trust.

Losses per share for the six months ended 30 June 2009 disclosed in the 30 June 2009 Announcement were calculated by reference to the weighted average of 453.8m A Shares and B Shares in issue during that period. On this basis, the loss per share after tax attributable to members of the Company was 17.8p per share. In accordance with IAS 33 the number of shares used for the calculation of the comparative period's losses per share has been adjusted for the discounted share issue and share consolidation that formed part of the Refinancing Transactions completed in 2009 in order to provide a comparable basis for the current period.

# SONGBIRD ESTATES PLC

## NOTES TO THE ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2010 (Continued)

Warrants were issued in connection with the Shareholder Loan for a total of 2,836,666,668 Ordinary Shares with a strike price of 1.5p. If exercised at the date of this report the Warrants would equate to an additional 28,366,667 Ordinary Shares with an exercise price of 150p each. No adjustment arose from the dilution attributable to the Warrants as the average market price of Ordinary Shares during the period of 162p did not sufficiently exceed the exercise price to affect the earnings per share figure of 0.5p per share.

Adjusted NAV is calculated as follows:

Audited 31 December 2009 £m		<b>Unaudited 30 June 2010 £m</b>	Proforma 30 June 2009 £m	Unaudited 30 June 2009 £m
1,191.6	<b>Balance sheet net assets</b>	<b>1,216.5</b>	869.0	331.2
88.7	Add back: deferred tax	<b>63.8</b>	41.7	41.7
269.0	Mark to market of derivatives	<b>372.2</b>	276.9	276.9
	Add:			
190.0	– uplift in value of investment property	<b>200.0</b>	175.0	175.0
58.3	– surplus arising on pre-sold properties	<b>52.9</b>	72.7	72.7
<u>1,797.6</u>		<u><b>1,905.4</b></u>	<u>1,435.3</u>	<u>897.5</u>
(512.6)	Minority interest in balance sheet	<b>(526.6)</b>	(394.4)	(507.5)
(186.3)	Minority interest on adjustments above	<b>(211.8)</b>	(173.9)	(222.0)
–	Reclassify SG Shares as equity	–	–	30.6
–	Add back: accrued finance charges on SG Shares	–	–	6.6
<u>1,098.7</u>	<b>Adjusted net assets</b>	<u><b>1,167.0</b></u>	<u>867.0</u>	<u>205.2</u>
168p	<b>Adjusted NAV per share</b>	<b>178p</b>	132p	33p

The 30 June 2009 proforma adjusted net assets set out above is based on information which was provided in the prospectus issued in September 2009 in connection with the Refinancing Transactions and adjusts for the effects of the Refinancing Transactions as if they had occurred at 30 June 2009.

Adjusted NAV per share includes the external valuation surplus on construction contracts of £52.9m (31 December 2009 – £58.3m, 30 June 2009 – £72.7m). Adjusted NAV per share excludes deferred tax and fair value adjustments on derivatives. In addition, in arriving at adjusted net assets the SG Shares were, until their conversion, treated as equity whereas in the Consolidated Balance Sheet at 30 June 2009 the SG Shares were treated as a debt instrument.

Adjusted NAV also includes the uplift in value of 25 – 30 Bank Street attributable to the arrangement with AIG which provides for the payment of the shortfall for 4 years of contracted rent from first draw down following a default by Lehman (see 'Business Review – Lehman'). The market value of the building at 30 June 2010 for balance sheet purposes was £350.0m (31 December 2009 – £360.0m, 30 June 2009 – £375.0m) whereas the market value adjusted for the arrangement with AIG was £550.0m (31 December 2009 – £550.0m, 30 June 2009 – £550.0m) 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 Consolidated Income Statement as a financing cost.

The number of shares in issue at 30 June 2010 and 31 December 2009 was 655.5m Ordinary Shares. At 30 June 2009, there were 630.6m A Shares, B Shares and SG Shares in issue.

# SONGBIRD ESTATES PLC

## NOTES TO THE ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2010 (Continued)

### 3. REVENUE

Audited Year ended 31 December 2009 £m		Unaudited Six months ended 30 June 2010 £m	Unaudited Six months ended 30 June 2009 £m
318.4	Rent receivable	153.5	157.2
–	Write off of Lehman incentives and deferred leasing costs (Note 10)	(50.1)	–
(5.0)	Recognised incentives and committed rent increases	(3.6)	(5.1)
<u>313.4</u>		<u>99.8</u>	<u>152.1</u>
73.8	Service charge income	34.5	36.3
20.9	Miscellaneous income	11.0	11.6
13.5	Receivable on termination of leases	1.5	14.9
159.2	Construction contract revenue	11.7	122.1
<u>580.8</u>	<b>Gross development, rental and related income</b>	<u>158.5</u>	<u>337.0</u>
(91.2)	Service charge and other direct property expenses	(48.4)	(46.1)
1.5	Movements in provisions relating to leasehold commitments	0.8	1.5
(8.9)	Expenditure on termination of leases	(1.5)	(6.5)
(73.5)	Construction contract expenditure	(6.7)	(41.2)
<u>408.7</u>	<b>Net development, rental and related income</b>	<u>102.7</u>	<u>244.7</u>

### 4. NET REVALUATION MOVEMENTS ON PROPERTY AND INVESTMENTS

Audited Year ended 31 December 2009 £m		Unaudited Six months ended 30 June 2010 £m	Unaudited Six months ended 30 June 2009 £m
71.3	Revaluation of investment properties	182.6	(242.6)
(86.7)	Revaluation of development properties	(5.0)	(125.6)
<u>(15.4)</u>		<u>177.6</u>	<u>(368.2)</u>

# SONGBIRD ESTATES PLC

## NOTES TO THE ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2010 (Continued)

### 5. NET FINANCING COSTS

Audited Year ended 31 December 2009 £m		Unaudited Six months ended 30 June 2010 £m	Unaudited Six months ended 30 June 2009 £m
14.2	<b>Interest revenue</b> Deposits and securities	<b>15.1</b>	9.9
	<b>Interest expense</b>		
(149.6)	Notes and debentures	(76.5)	(79.1)
(51.1)	Songbird Loans	(26.4)	(30.5)
(76.8)	Other bank loans and overdrafts	(40.2)	(44.6)
(1.6)	Obligations under finance leases	(0.1)	(0.2)
(279.1)		(143.2)	(154.4)
4.8	Development interest capitalised at 6.525%	-	5.1
(274.3)		(143.2)	(149.3)
(260.1)	Underlying net financing costs	(128.1)	(139.4)
	<b>Other financing (costs)/income relating to derivatives and non equity shares</b>		
184.0	Valuation movements on fair value of derivatives	(119.1)	183.0
(7.4)	Finance costs of non equity shares (Note 12)	(15.6)	(1.8)
(12.1)	Hedging reserve recycling	(14.9)	(4.4)
164.5		(149.6)	176.8
(95.6)	<b>Net financing (expense)/income</b>	(277.7)	37.4
	<b>Gains on repurchase of debt</b>		
66.3	Securitised debt	-	66.3
4.9	Citi Loans	-	-
71.2		-	66.3
(24.4)	<b>Net financing costs/(revenues)</b>	(277.7)	103.7

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

# SONGBIRD ESTATES PLC

## NOTES TO THE ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2010 (Continued)

### 6. TAX

Audited Year ended 31 December 2009 £m		Unaudited Six months ended 30 June 2010 £m	Unaudited Six months ended 30 June 2009 £m
	<b>Tax (charge)/credit</b>		
(30.7)	Current tax charge to income	<b>(3.6)</b>	(12.8)
(101.5)	Deferred tax	<b>29.1</b>	(56.9)
<u>(132.2)</u>	<b>Group's total tax</b>	<u><b>25.5</b></u>	<u>(69.7)</u>
	<b>Tax reconciliation</b>		
334.6	(Loss)/profit for the period before tax	<b>(11.3)</b>	(41.2)
(93.7)	Tax on loss/(profit) at UK corporation tax rate	<b>3.2</b>	11.5
	Effects of:		
1.1	Adjustments in respect of prior years	<b>0.6</b>	0.9
(23.3)	Indexation of capital gains, restriction of losses and movement on deferred tax provisions	<b>23.7</b>	(72.5)
(0.9)	Expenses not deductible for tax purposes	<b>(0.2)</b>	(0.1)
(15.4)	Deferred tax assets not recognised on losses	<b>(1.8)</b>	(9.5)
<u>(132.2)</u>	<b>Group total tax</b>	<u><b>25.5</b></u>	<u>(69.7)</u>

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

Non current assets and construction contracts at 30 June 2010 comprised:

	Investment properties £m	Investment property held for sale £m	Development properties £m	Construction contracts £m	Sub-total £m	Plant & equipment £m	Total £m
Market value at 1 January 2010	4,587.0	192.0	221.0	–	5,000.0		
Adjust for:							
– tenant incentives*	(188.2)	(15.1)	–	–	(203.3)		
– unamortised lease negotiation costs*	(5.7)	(0.7)	–	–	(6.4)		
Carrying value at 1 January 2010	4,393.1	176.2	221.0	–	4,790.3	1.5	4,791.8
Additions	64.4	(1.0)	46.5	15.2	125.1	0.1	125.2
Transfer to debtors due in more than one year	(51.6)	–	–	–	(51.6)	–	(51.6)
Revaluation movement	182.6	–	(5.0)	–	177.6	–	177.6
Sold property	–	(175.2)	–	–	(175.2)	–	(175.2)
Transfer to cost of sales	–	–	–	(11.7)	(11.7)	–	(11.7)
Transfer to payments on account	–	–	–	(3.5)	(3.5)	–	(3.5)
Depreciation	–	–	–	–	–	(0.3)	(0.3)
<b>Carrying value at 30 June 2010</b>	<b>4,588.5</b>	<b>–</b>	<b>262.5</b>	<b>–</b>	<b>4,851.0</b>	<b>1.3</b>	<b>4,852.3</b>
Adjust for:							
– tenant incentives* unamortised lease	185.3	–	–	–	185.3		
– negotiation costs*	8.2	–	–	–	8.2		
<b>Market value at 30 June 2010</b>	<b>4,782.0</b>	<b>–</b>	<b>262.5</b>	<b>–</b>	<b>5,044.5</b>		

\*Refer to Note 10.

In January 2010 Canary Wharf Group acquired the long leasehold interest in 1 Park Place, a site adjoining the Estate. The site was acquired for £17.5m plus fees and currently benefits from two alternative planning consents.

# SONGBIRD ESTATES PLC

## NOTES TO THE ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2010 (Continued)

Also in January 2010 Canary Wharf Group completed the sale of 5 Churchill Place for a gross aggregate consideration of £208.0m. The carrying value of the property at 31 December 2009 was £192.0m less adjustments totalling £15.8m in respect of tenant incentives and lease negotiation costs. Allowing for adjustments to construction costs in the period of £1.0m and before the unwind of lease incentives in the current period of £0.8m, the carrying value at the date of sale was £175.2m.

### Valuation

The fair value of Canary Wharf Group's properties has been arrived at on the basis of valuations carried out by the external valuers, CBRE, Savills or Cushman at 30 June 2010. The valuations, which conform to International Valuation Standards, were arrived at by reference to market evidence of transaction prices for similar properties.

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

On 24 December 2008 Canary Wharf Group entered into agreements with the Secretary of State for Transport and CLRL for the design and construction of the Crossrail station at Canary Wharf for a fixed price of £500.0m. Canary Wharf 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 Canary Wharf 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. At 30 June 2010, such costs totalled £92.8m, of which £24.2m has been allocated to the Riverside South construction contract and £68.6m to development properties.

# SONGBIRD ESTATES PLC

## NOTES TO THE ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2010 (Continued)

### 8. INVESTMENTS

The investments balance comprises:

	<b>30 June 2010 £m</b>	31 December 2009 £m
Shares	9.6	10.7
Loans	162.9	26.0
	<b>172.5</b>	<b>36.7</b>
Fees on acquisition	2.6	2.6
Share of post acquisition losses	(7.5)	(1.8)
Share of fair value movement of derivatives	(3.2)	(2.5)
Impairment of investment	(5.5)	(9.5)
	<b>158.9</b>	<b>25.5</b>
Investments comprise:		
Associates	158.7	25.3
Other investments	0.2	0.2
	<b>158.9</b>	<b>25.5</b>

The carrying value of the investment in associates comprised:

At 30 June 2010	WWLP £m	Drapers Gardens £m	Total £m
Initial investment	–	6.7	6.7
Fees on acquisition	1.9	0.7	2.6
Equity funding	–	2.3	2.3
Loan funding including fees	25.7	137.2	162.9
Recognised share of losses	(8.7)	(7.1)	(15.8)
	<b>18.9</b>	<b>139.8</b>	<b>158.7</b>

#### Associates

The carrying value of the Group's investment in WWLP includes an initial entry premium and expenses totalling £1.9m together with the Group's share of the net assets of WWLP. At 30 June 2010 the Group's investment in WWLP was written down by £8.7m reflecting a valuation undertaken by CBRE and the Group's share of recognised losses (31 December 2009 – £7.0m).

WWLP has entered into a non-recourse loan facility of £9.0m, of which £5.8m had been drawn down at 30 June 2010 (31 December 2009 – £5.8m). This loan matured in February 2010 and the lender has agreed, in principle to a rollover of the £5.8m drawn under the facility. Canary Wharf Group has also loaned £25.7m (31 December 2009 – £25.0m) to WWLP in the form of redeemable notes which are interest free and redeemable at par in 2030. The £9.0m loan referred to above must first be repaid before the loan provided to WWLP by Canary Wharf Group can be repaid. All loans must be repaid in full prior to any dividends being declared.

In June 2007, Canary Wharf Group entered into a joint venture with MSREF V and Omega to undertake the redevelopment of Drapers Gardens. At 31 December 2009, Canary Wharf Group had invested £11.1m and incurred fees of £0.7m in consideration for a 20.0% stake in the joint venture. In the current period, £2.1m of this amount was reclassified as a subordinated loan.

The property achieved practical completion in November 2009 and in February 2010 it was announced that the building had been let in its entirety to BlackRock.

# SONGBIRD ESTATES PLC

## NOTES TO THE ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2010 (Continued)

In 2007 the Drapers Gardens entities entered into a £172.5m construction loan facility with Lehman which was subsequently syndicated to certain other banks resulting in Lehman retaining a minority share. Following Lehman being placed into administration, there was an interruption to the funding being provided by Lehman and Canary Wharf Group provided additional loans to the joint venture to fund its 20.0% share of the shortfall. Lehman subsequently recommenced funding and all of its lending obligations were satisfied up to 31 May 2009. Funding for the project was then provided by one member of the syndicate on a super senior basis.

In January 2010 Canary Wharf Group purchased, for a consideration of £112.8m, the substantial majority of the drawn balance under the Drapers Gardens construction loan facility. From January 2010 to April 2010, Canary Wharf Group provided funding for the project on a super senior loan basis. Subsequently the project has been funded by way of subordinated loans from Canary Wharf Group to the Drapers Gardens Unit Trust. The total carrying value of loans made by Canary Wharf Group to Drapers Gardens was £137.2m at 30 June 2010.

Subsequent to the period end in August 2010, Canary Wharf Group announced that the JV parties had exchanged contracts to sell the property for £242.5m, excluding a deduction for the rent free period granted to BlackRock. Completion of the sale is due by the end of October 2010.

The carrying value of Canary Wharf Group's investment in the Drapers Gardens JV at 30 June 2010 has been determined by reference to the anticipated net sale proceeds of the property and the anticipated repayment date and terms of the loans. The Group's equity investment in the joint venture was written down by £3.9m at 30 June 2010 which was unchanged from 31 December 2009. The Group has also recognised a provision of £3.2m at 30 June 2010 (31 December 2009 – £2.5m) for its share of the mark to market adjustment on an interest rate swap.

The WWLP and Drapers Gardens joint ventures have 31 December year ends. The results of WWLP and Drapers Gardens attributable to the Group have been derived from their latest available management accounts after making any necessary adjustments. The Group's share of profits and losses of its associates is as follows:

Summarised profit and loss accounts for the six months ended 30 June 2010

	WWLP £m	Drapers Gardens £m
Net operating loss	(6.7)	–
Net financing costs	(0.4)	(3.3)
Net underlying loss before and after tax	(7.1)	(3.3)
<b>Group share</b>	<b>(1.7)</b>	<b>(0.7)</b>

Summarised balance sheets at 30 June 2010

	WWLP £m	Drapers Gardens £m
Total assets	120.2	210.6
Total liabilities	(44.8)	(198.1)
Net assets	75.4	12.5
<b>Group share</b>	<b>18.9</b>	<b>2.5</b>

# SONGBIRD ESTATES PLC

## NOTES TO THE ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2010 (Continued)

### 9. TRADE AND OTHER RECEIVABLES

Audited 31 December 2009 £m		Unaudited 30 June 2010 £m	Unaudited 30 June 2009 £m
4.1	Trade receivables	3.2	5.0
24.0	Other receivables	16.6	26.6
4.7	Contract balances	4.7	2.3
19.1	Prepayments and accrued income	17.7	18.2
<u>51.9</u>		<u>42.2</u>	<u>52.1</u>

### 10. TENANT INCENTIVES AND OTHER NON CURRENT RECEIVABLES

Non current receivables comprise:

	Rent-free periods £m	Other tenant incentives £m	Total tenant incentives £m	Deferred negotiation costs £m	Total £m
1 January 2010	139.1	64.2	203.3	6.4	209.7
Recognition of rent during rent-free periods	4.2	–	4.2	–	4.2
Transfer from property cost	–	51.6	51.6	–	51.6
Write off of Lehman incentives	(50.1)	–	(50.1)	–	(50.1)
Amortisation	(5.0)	(2.8)	(7.8)	(0.4)	(8.2)
Deferred lease negotiation costs	–	–	–	2.9	2.9
Written off on sale of building	(7.7)	(8.2)	(15.9)	(0.7)	(16.6)
<b>30 June 2010</b>	<b>80.5</b>	<b>104.8</b>	<b>185.3</b>	<b>8.2</b>	<b>193.5</b>

### 11. TRADE AND OTHER PAYABLES

Audited 31 December 2009 £m		Unaudited 30 June 2010 £m	Unaudited 30 June 2009 £m
23.4	Trade payables	17.5	22.1
5.2	Tax and social security costs	0.9	1.6
24.8	Corporation tax	26.5	12.7
13.8	Other payables	12.9	18.6
72.0	Other accruals	98.7	67.4
102.5	Deferred income	41.0	77.3
22.4	Payments on account (Note 7)	30.2	45.3
<u>264.1</u>		<u>227.7</u>	<u>245.0</u>

# SONGBIRD ESTATES PLC

## NOTES TO THE ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2010 (Continued)

### 12. NET DEBT

Audited 31 December 2009 £m		Unaudited 30 June 2010 £m	Unaudited 30 June 2009 £m
2,613.4	Securitised debt	2,647.1	2,653.1
129.3	Songbird Loans	129.8	900.8
1,561.3	Other secured loans	1,488.4	1,570.1
41.3	Finance lease obligations	41.3	41.4
<u>4,345.3</u>		<u>4,306.6</u>	<u>5,165.4</u>
279.2	Non equity shares and associated financing costs	294.8	37.2
<u>4,624.5</u>	Gross debt	<u>4,601.4</u>	<u>5,202.6</u>
105.9	Current liabilities	106.7	985.5
4,249.6	Non current liabilities:	4,122.5	3,940.2
–	– borrowings	–	(1.9)
–	– derivatives included in non current assets	–	–
269.0	– derivatives included in non current liabilities	372.2	278.8
<u>4,624.5</u>	Gross debt	<u>4,601.4</u>	<u>5,202.6</u>
(1,074.8)	Cash and cash equivalents	(869.6)	(1,134.7)
(18.3)	Monetary deposits	(5.1)	(13.4)
<u>3,531.4</u>	Net debt	<u>3,726.7</u>	<u>4,054.5</u>
	Current liabilities comprises:		
27.0	Accrued interest payable	27.3	50.2
72.4	Borrowings repayable within one year	72.9	928.7
6.5	Financing costs of non equity shares	6.5	6.6
<u>105.9</u>		<u>106.7</u>	<u>985.5</u>

Cash and cash equivalents comprise cash held by the Group and short term deposits with an original maturity of three months or less.

Cash and cash equivalents totalled £869.6m at 30 June 2010 (31 December 2009 – £1,074.8m, 30 June 2009 – £1,134.7m), principally comprising deposits placed on the money markets at call and term rates. Cash deposits included £132.3m at 30 June 2010 (31 December 2009 – £139.4m, 30 June 2009 – £125.8m) held as cash collateral for Canary Wharf Group's borrowings and a further £14.2m (31 December 2009 – £10.2m, 30 June 2009 – £7.6m) charged as security for Canary Wharf Group's obligations. Unsecured cash deposits totalled £723.1m at 30 June 2010 (31 December 2009 – £925.2m, 30 June 2009 – £1,001.3m).

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

As a result of the terms and conditions of the Preference Shares, such shares have been classified as borrowings and the Consolidated Income Statement includes a charge to profit in respect of the coupon payable calculated at 2.5% per quarter. The accrued finance charge for the Preference Shares was £20.2m (31 December 2009 – £5.4m).

As a result of the redemption rights attaching to the SG Shares, such shares were classified as a non current liability due in more than one year and the Consolidated Income Statement for 2009 included a charge to profit in respect of the SG Shares accumulated at 8.0% per annum. At 30 June 2010 £6.5m continued to be accrued in respect of the SG Shares (31 December 2009 – £6.5m, 30 June 2009 – £6.6m).

# SONGBIRD ESTATES PLC

## NOTES TO THE ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2010 (Continued)

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

	Securitised debt £m	Shareholder Loan £m	Other secured loans £m	Con- struction loan £m	Finance lease obligations £m	Total borrow- ings £m	Non equity shares £m	Total £m
1 January 2010	2,613.4	129.3	1,422.2	139.1	41.3	4,345.3	279.2	4,624.5
Drawn down in period	–	20.1	–	–	–	20.1	–	20.1
Effective interest rate adjustment	2.7	1.6	1.5	–	–	5.8	0.8	6.6
Accrued finance charges	(4.7)	(0.2)	0.7	0.1	–	(4.1)	14.8	10.7
Repaid in period	(30.3)	–	(9.9)	(123.5)	–	(163.7)	–	(163.7)
Movements in fair value of derivatives	66.0	(21.0)	73.9	(15.7)	–	103.2	–	103.2
<b>30 June 2010</b>	<b>2,647.1</b>	<b>129.8</b>	<b>1,488.4</b>	<b>–</b>	<b>41.3</b>	<b>4,306.6</b>	<b>294.8</b>	<b>4,601.4</b>
Payable within one year or on demand	78.7	–	21.5	–	–	100.2	6.5	106.7
Payable in more than one year	2,416.0	129.8	1,247.1	–	41.3	3,834.2	288.3	4,122.5
Derivatives classified as: – non current liabilities	152.4	–	219.8	–	–	372.2	–	372.2
	<b>2,647.1</b>	<b>129.8</b>	<b>1,488.4</b>	<b>–</b>	<b>41.3</b>	<b>4,306.6</b>	<b>294.8</b>	<b>4,601.4</b>

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

- (1) SFL entered into a £135.0m Shareholder Loan in September 2009 as part of the Refinancing Transactions. At 30 June 2010 the amount drawn under the facility was £132.0m. The Shareholder Loan carries an interest rate fixed at 7.0% and was originally repayable on 23 September 2010. The loan providers have agreed an extension of the facility to 31 October 2010 and, although it is envisaged that the loan will be repurchased from the proceeds of the Open Offer the Shareholder Loan may at SFL's option, be extended further to 22 September 2011 subject to certain conditions. The Shareholder Loan is secured on the assets of SFL, including its shares in Canary Wharf Group plc.
- (2) At 30 June 2010 the following notes issued by CWF II, a subsidiary of Canary Wharf Group, were outstanding:

Class	Principal £m	Interest	Repayment
A1	1,164.4	6.455%	By instalment from 2009 to 2030
A3	400.0	5.952%	By instalment from 2030 to 2035
A7	222.0	Floating	In 2035
B	200.4	6.800%	By instalment from 2005 to 2030
B3	104.0	Floating	In 2035
C2	275.0	Floating	In 2035
D2	125.0	Floating	In 2035
	<b>2,490.8</b>		

In April 2009 Canary Wharf Group repurchased certain floating rate Notes with an aggregate principal amount of £119.7m for an aggregate consideration, excluding accrued interest, of £35.5m.

The Notes repurchased have not been cancelled, remain in issue and, in accordance with the requirements of the securitisation, continue to be fully hedged. The repurchase was accounted for as an extinguishment of debt. The gain on the transaction of £66.3m, being the difference between the aggregate principal amount repurchased and the aggregate consideration paid, adjusting for unamortised deferred fees on issue, stepped interest accruals and the mark to market on related derivatives, was taken to the Consolidated Income Statement and analysed as a capital and other item.

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

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

# SONGBIRD ESTATES PLC

## NOTES TO THE ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2010 (Continued)

Canary Wharf Group's securitisation has the benefit of a facility with AIG which provides for payment of up to the full amount of the contracted rent at the election of Canary Wharf Group in the event of default for a period of 4 years from first drawdown. No such election had occurred at the date of this Announcement. Any amounts drawn under the facility are repayable from recoveries received in respect of amounts claimed under the facility and from rentals in the property which exceed the contracted rents that would have been received from Lehman under its lease. AIG has posted cash collateral of approximately £224.0m, held in bank accounts in the name of AIG and 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.

- (3) In January 2010 Canary Wharf Group repaid the drawn balance of £123.5m on its £155.0m 3 year construction loan facility secured on 5 Churchill Place upon disposing of its interest in the building. Interest was charged at LIBOR plus a margin of 0.9%, hedged at 5.625%. Upon repaying the loan facility, Canary Wharf Group also paid £15.9m to cancel its liability under the associated interest rate swap.
- (4) A bank loan with an initial principal amount of £369.4m has been secured against 10 Cabot Square and 20 Cabot Square and is repayable in January 2013. Canary Wharf Group entered into an interest swap facility, also to January 2013, at a fixed rate of 5.031%. In March 2009, 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 the period, £5.9m was repaid in accordance with the terms of the facility and at 30 June 2010 the outstanding principal was £353.0m.
- (5) Canary Wharf Group has entered into a £350.0m loan facility secured against the Group's principal retail properties and car parking interests.

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

- (6) A bank loan with an initial principal of £608.8m is secured against One Churchill Place. The loan amortises with a balloon payment of £155.0m on maturity in July 2034. The loan carries a hedged interest rate of 5.82%. In the first half of 2010 £4.0m of the loan was repaid in accordance with the loan agreement reducing the principal at 30 June 2010 to £572.2m.

### Loan covenants

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

- (i) CWF II securitisation, encompassing seven investment properties representing 60.2% of the investment property portfolio by value. The principal amount outstanding at 30 June 2010 was £2,490.8m.

Maximum LMCTV ratio of 100%. Based on the valuations at 30 June 2010, the LMCTV ratio at the interest payment date in July 2010 was 82.4%, excluding the £224.0m of cash collateral posted by AIG in respect of the 25 Bank Street facility, and 74.8% 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). The final maturity date of the securitisation is 2035, subject to earlier amortisation on certain classes of Notes.

- (ii) Loan of £572.2m secured against One Churchill Place, representing 14.4% of the investment property portfolio by value.

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

- (iii) Loan of £353.0m secured against 10 Cabot Square and 20 Cabot Square, representing 12.9% of the investment property portfolio by value.

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## NOTES TO THE ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2010 (Continued)

Maximum LTV ratio of 85.0%. Based on the valuations at 30 June 2010 the LTV ratio at the interest payment date in July 2010 was 57.1%.

This facility is also subject to a minimum ICR test of 100%. Following the restructuring of the Barclays Capital leases, Canary Wharf Group anticipates that it will be able to meet the ICR covenants for the remaining term of the loan to January 2013.

Canary Wharf Group has the ability to remedy a breach of ICR or LTV covenants by depositing cash.

- (iv) Loan of £350.0m secured against the principal retail and infrastructure parking properties of Canary Wharf Group, representing 12.5% of the investment property portfolio by value.

Maximum LTV ratio of 70.0%. Based on the valuations at 30 June 2010, the LTV was 58.4%.

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

### 13. PROVISIONS

Provisions have been made in respect of the following liabilities:

	Vacant leasehold property £m	Other lease commitments £m	Total £m
1 January 2010	1.0	2.1	3.1
Utilisation of provision	–	(1.2)	(1.2)
Initial provision	–	9.6	9.6
Release of provision	–	0.7	0.7
<b>30 June 2010</b>	<b>1.0</b>	<b>11.2</b>	<b>12.2</b>

#### Leasehold properties

At 30 June 2010 the provision for the estimated net liability in respect of Canary Wharf Group's remaining vacant leasehold property, discounted at 6.3%, being the Group's weighted average cost of debt at that date, was stated at £1.0m (31 December 2009 – £1.0m discounted at 6.4%). This lease was determined in July 2009.

#### Other lease commitments

In connection with the sale of 5 Churchill Place, Canary Wharf Group has agreed to pay rents and other costs incurred on the 2 unlet floors for a period of 5 years from the date of sale. Canary Wharf Group recognised a provision of £9.6m discounted at 6.4% which was deducted from the profit on disposal of the building. At 30 June 2010 the provision totalled £9.1m discounted at 6.3% with the movement reflecting a combination of changes in potential future letting assumptions and the discount unwind.

In connection with the sale of certain properties during 2005, Canary Wharf Group agreed to provide rental support and a provision in respect of these commitments was recognised at the date of disposal. The remaining provision at 30 June 2010 was £2.1m calculated on the basis of a discount rate of 6.3% (31 December 2009 – £2.1m discounted at 6.4%).

# SONGBIRD ESTATES PLC

## NOTES TO THE ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2010 (Continued)

### 14. NOTES TO THE CASH FLOW STATEMENT

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

Audited Year ended 31 December 2009 £m		Unaudited Six months ended 30 June 2010 £m	Unaudited Six months ended 30 June 2009 £m
334.6	<b>(Loss)/profit before tax</b>	<b>(11.3)</b>	(41.2)
	<b>Non cash movements</b>		
15.4	Net revaluation movements	<b>(177.6)</b>	368.2
(3.3)	Share of loss after tax of associates	<b>2.4</b>	6.0
5.6	Spreading of tenant incentives, committed rent increases and letting fees	<b>51.2</b>	5.9
0.6	Depreciation	<b>0.3</b>	0.3
–	Repurchase of Notes (Note 5)	<b>–</b>	(66.3)
(85.7)	Profit recognised on pre-sold properties	<b>(5.0)</b>	(80.9)
<b>(67.4)</b>		<b>(128.7)</b>	233.2
267.2	Operating cash flows before changes to working capital and other cash movements	<b>(140.0)</b>	192.0
	<b>Changes to working capital and other cash movements</b>		
95.6	Net financing costs	<b>277.7</b>	(37.4)
(71.2)	Refinancing gains	<b>–</b>	–
(2.0)	Utilisation and other movements in provisions	<b>(0.8)</b>	(2.1)
(1.5)	Decrease/(increase) in receivables	<b>9.0</b>	(3.0)
(18.2)	Decrease in payables	<b>(61.5)</b>	(12.5)
147.9	Proceeds from pre-sold properties	<b>36.2</b>	126.1
(105.2)	Construction contract expenditure	<b>(18.9)</b>	(31.2)
<b>312.6</b>	<b>Cash generated by operations</b>	<b>101.7</b>	231.9
(14.8)	Income tax paid	<b>(3.2)</b>	(8.9)
<b>297.8</b>	<b>Net cash from operating activities</b>	<b>98.5</b>	223.0

### 15. CONTINGENT LIABILITIES AND FINANCIAL COMMITMENTS

	30 June 2010 £m	31 December 2009 £m
Crossrail station	<b>57.2</b>	80.0
Other construction projects	<b>36.5</b>	99.0

The commitments for future expenditure relate to the completion of construction works where construction was committed at 30 June 2010. Any costs accrued or provided for in the Consolidated Balance Sheet at 30 June 2010 have been excluded.

### 16. EVENTS AFTER THE BALANCE SHEET DATE

In August 2010 the joint venture parties which own the Drapers Gardens development exchanged contracts to sell the property and completion is due by the end of October 2010. The purchase price for the property is £242.5m which reflects an initial yield of 5.2% excluding a deduction for the rent-free period granted to BlackRock. The net annual rent on the property will be £12.8m on expiry of such rent-free period in March 2013.

# SONGBIRD ESTATES PLC

## NOTES TO THE ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2010 (Continued)

In September 2009 the Company announced the details of a fundraising to raise £1,030m which included the Shareholder Loan. This loan was due to mature on 23 September 2010 however the loan providers have agreed an extension of the facility to 31 October 2010. The Independent Directors, having reviewed with their advisers the options available to the Company to deal with the Shareholder Loan maturity, on 23 September 2010 announced the Open Offer, the proceeds of which will be used to repurchase the Shareholder Loan.

On 22 September 2010 Canary Wharf Group declared a dividend of 11.736p per share totalling £75.0m of which £51.9m will be receivable by SFL. The Board is proposing to use these funds to pay the SG Share dividend of £6.5m, the accumulated coupon payable on the Preference Shares of £27.6m and expenses incurred in connection with the repurchase of the Shareholder Loan. The balance of funds remaining in the Company will be used for general working capital purposes.

# SONGBIRD ESTATES PLC

## DEFINITIONS

Administrator	PricewaterhouseCoopers, administrator of Lehman
AIG	American International Group, Inc
A Shares	Ordinary Class A Shares of 10p each
AIM	London Stock Exchange Alternative Investment Market
bps	Basis points or $\frac{1}{100}$ of 1%
B Shares	Ordinary Class B Shares of 10p each
Ballymore	Ballymore Properties Limited
BlackRock	BlackRock Investment Management (UK) Limited
Board	Board of directors of the Company
BWB	British Waterways Board
Canary Wharf Group	Canary Wharf Group plc and its subsidiaries
Cat A	Category A fitout
CBRE	CB Richard Ellis Limited, Surveyors and Valuers
Citi	CitiGroup
Citi Loans	The £880.0m loan facilities entered into by SFL and Citi
CLRL	Cross London Rail Links Limited
Company	Songbird Estates plc
Cushman	Cushman & Wakefield, Real Estate Consultants
CWF II	Canary Wharf Finance II plc
Drapers Gardens	Drapers Gardens scheme in the City of London
Estate	Canary Wharf Estate including Heron Quays West, Riverside South and North Quay
EU	European Union
EZA	Enterprise Zone Allowances
FSA	Financial Services Authority
Group	The Company, its wholly owned subsidiaries and Canary Wharf Group
IAS	International Accounting Standards
IAS 10	International Accounting Standard 10 'Events after the Reporting Period'
IAS 11	International Accounting Standard 11 'Construction Contracts'
IAS 16	International Accounting Standard 16 'Property, Plant and Equipment'
IAS 33	International Accounting Standard 33 'Earnings per share'
IAS 39	International Accounting Standard 39 'Financial Instruments: Recognition and Measurement'
IAS 40	International Accounting Standard 40 'Investment Property'
ICR	Interest Cover Ratio
IFRIC 15	International Financial Reporting Interpretations Committee 15 'Agreements for the Construction of Real Estate'
IFRS	International Financial Reporting Standards
Independent Directors	The independent executive directors of the Company
JV	Joint Venture
Lehman	Lehman Brothers Limited (in administration)
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
MSREF V	Morgan Stanley Real Estate Fund V
NAV	Net Asset Value
NIA	Net Internal Area
NNNAV	Triple Net Asset Value
Nomura	Nomura International plc
Notes	Notes of Canary Wharf Group's securitisation
Omega	Omega Land Holding II BV
OMR	Open Market Rent
Open Offer	An open offer for the issue of new Ordinary Shares announced on 23 September 2010
Ordinary Shares	Ordinary shares of 10p each
Preference Shares	Preference shares of £1.00 each
Preferential Dividend	Fixed cumulative dividend of 2.5% per quarter of aggregate amount of nominal value and any share premium paid up on Preference Shares
psf	per sq ft

# SONGBIRD ESTATES PLC

## DEFINITIONS (Continued)

Refinancing Transactions	The 2009 £620.0m placing and compensatory open offer, £275.0m issue of Preference Shares and £135.0m Shareholder Loan facility
Savills	Savills Commercial Limited, Chartered Surveyors
SFL	Songbird Finance Limited
SG Shares	SG Shares of 10p each
Shareholder Loan	£135.0m loan facility entered into by SFL and certain significant shareholders
Shell	Shell International Limited
Songbird	The Company and its wholly owned subsidiaries
Songbird Loans	Loans drawn down by SFL comprising the Citi Loans or the Shareholder Loan
sq ft	Square feet/square foot
TfL	Transport for London
Treasury Shares	Ordinary 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
Warrants	Warrants over the Songbird Estates plc 10p ordinary shares.
WWLP	Wood Wharf Limited Partnership