

SONGBIRD ESTATES PLC

25 MARCH 2011

PRELIMINARY ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31 DECEMBER 2010

The Board of Songbird Estates plc is pleased to announce positive results for the year ended 31 December 2010.

The information in this announcement, which was approved by the Board of directors on 24 March 2011, does not comprise statutory accounts within the meaning of the Companies Act 2006.

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

Highlights

- Proceeds of the Open Offer in October used to repay the £135.0m Shareholder Loan facility.
- Adjusted net asset value per share increased 10% in the second half to £1.87 (30 June 2010 proforma: £1.70).
- Net assets of £1,753.6m at 31 December 2010, an increase of £562.0m or 47.2%, over the full year.
- Market value of the retained investment property portfolio at 31 December 2010 was £4,638.5m, an increase of 4.7% since 30 June 2010 and 9.7% over the full year.
- Group profit after tax of £420.9m (31 December 2009: £202.4m) reflecting the profit on sale of 25 Bank Street to J.P. Morgan of £155.1m, the termination of the rental cover facility with AIG for £144.5m and a revaluation surplus of £327.9m (31 December 2009: deficit of £15.4m).
- Group unsecured cash deposits of £899.8m, of which £879.1m are attributable to Canary Wharf Group.
- Gearing reduced – look through LTV ratio net of cash 60.9% at 31 December 2010 (30 June 2010 proforma: 73.8%).

The Company's principal subsidiary Canary Wharf Group had the following operational highlights:

- Office sales and leasing transactions of more than 2.5m sq ft in 2010.
- Sale of 25 Bank Street to J.P. Morgan and termination of related AIG facility, for aggregate consideration of £639.5m.
- Sale of Drapers Gardens for a total consideration of £242.5m, reflecting a yield of 5.2%.
- Lease transactions totalling 387,000 sq ft during the period, including 187,000 sq ft to Shell at 40 Bank Street.
- New lease and the restructuring of existing leases with Barclays Capital over a total of 1,152,000 sq ft to 2032.
- Retail property enjoyed increase in rents, footfall and turnover due in part to the arrival of new tenants.
- Canary Wharf Group's investment portfolio totalling 6.9m sq ft was 97.1% let at 31 December 2010 (31 December 2009: 96.2% let on 8.0m sq ft).
- The weighted average unexpired lease term for the investment property portfolio was approximately 16.9 years (or 15.7 years assuming the exercise of all break options).
- Conclusion of a 50:50 joint venture agreement with Land Securities on 20 Fenchurch Street; syndication of 70% of Canary Wharf Group's commitment leaving Canary Wharf Group with a 15% interest. Canary Wharf Group to act as sole construction manager and joint development manager.
- Construction of Crossrail station at Canary Wharf on schedule and on budget.

David Pritchard, Chairman of the Company, commented:

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

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OPERATIONAL SUMMARY

- **£140.0m** (before expenses) **raised** by the Company **through an Open Offer**. The **net proceeds** of the issue have been **used to repurchase the Shareholder Loan** (Note (i)).
- **Adjusted NAV per share was 187p at 31 December 2010, an increase of 17p or 10.0%** in comparison with the 30 June 2010 proforma adjusted NAV per share of 170p allowing for the completion of the Open Offer (Note (ii)).
- **Net assets increased to £1,753.6m at 31 December 2010, an increase of £537.1m from £1,216.5m at 30 June 2010 and of £562.0m from £1,191.6m at 31 December 2009** (Note (ii)). These increases were primarily attributable to the share issue and the profit for the period.
- **Adjusted NNNAV per share was 156p at 31 December 2010 compared with the 30 June 2010 proforma adjusted NNNAV per share of 141p** (Note (ii)).
- **Underlying profit before tax for the year was £28.8m (2009 – £110.7m) (Note (iii)). Profit after tax for the year was £420.9m (2009 – £202.4m).**
- The **market value of the retained investment portfolio increased by 4.7% to £4,638.5m** over the six months ended 31 December 2010 **and 9.7% since 31 December 2009** (Note (iv)).
- Including development sites, the **market value of the retained property portfolio at 31 December 2010 was £4,907.0m**, against £4,694.5m at 30 June 2010 and £4,448.0m at 31 December 2009 (Note (iv)).
- The **market value of the property portfolio to be retained at 31 December 2010 was £4,907.0m, an increase of 4.1% since 30 June 2010**, allowing for additions, **and an increase of 7.2% over the year** (Note (iv)).
- The **weighted average initial yield for the office portfolio was 4.8%** at 31 December 2010, an improvement of 20 bps since 30 June 2010. The **initial yield for the retail portfolio was 4.9%**, an improvement of 30 bps since 30 June 2010 (Note (iv)).
- The **weighted average equivalent yield for the office portfolio was 5.2%** at 31 December 2010, an improvement of 50 bps for the six months since 30 June 2010. The **equivalent yield for the retail portfolio was 5.4%**, an improvement of 30 bps since 30 June 2010 (Note (iv)).
- In December 2010 Canary Wharf Group completed the **sale of 25 Bank Street to J.P. Morgan** for a gross consideration of **£495.0m**. Canary Wharf Group also agreed terms with AIG for the **termination of the rental cover facility** on the building for a receipt of **£144.5m**. In January 2010 Canary Wharf Group also completed the **sale of 5 Churchill Place** for a total consideration of **£208.0m** (Note (v)).
- The **weighted average unexpired lease term for the investment property portfolio was approximately 16.9 years** (or 15.7 years assuming the exercise of all break options) (Note (vi)).
- At 31 December 2010 **Canary Wharf Group's investment portfolio** totalling 6.9m sq ft **was 97.1% let** (31 December 2009 – 8.0m sq ft of which 96.2% was let including the Lehman building as fully let) (Note (vi)).
- **Canary Wharf Group restructured existing leases and granted new leases to Barclays Capital over a total of 1,152,000 sq ft**. Canary Wharf Group also concluded **lettings of approximately 187,000 sq ft to Shell and further lettings over an additional 200,000 sq ft** during the period (Note (vii)).
- The **Group entered into a joint venture with Land Securities for the development of 20 Fenchurch Street** (Note (viii)).
- **Canary Wharf Group acquired the substantial majority of the drawn balance under the Drapers Gardens construction loan facility for £112.8m**. Subsequently, the joint venture entities which owned **Drapers Gardens sold the property for a gross consideration of £242.5m** reflecting an initial yield of 5.2% (Note (ix)).
- **Canary Wharf Group acquired 1 Park Place**, a building located adjacent to the Estate, **for £17.5m** with two alternative planning permissions for 214,000 sq ft and 950,000 sq ft. **Canary Wharf Group also acquired the remaining interests on Heron Quays West** in June 2010, a site which has planning consent for office space of 1.3m sq ft (Note (x)).
- **Further progress made on the Crossrail station project** which continues to be on schedule and within budget (Note (xi)).

Note:

- (i) See 'Business Review – Open Offer'.
- (ii) See 'Business Review – Consolidated balance sheet and key performance indicators'.
- (iii) See Note 2.
- (iv) See 'Business Review – Valuations' for a comparison with the carrying value for accounts purposes and details of movements in yields.
- (v) See 'Business Review – Property sales'.
- (vi) See 'Business Review – Property portfolio' for basis of calculation.
- (vii) See 'Business Review – Leasing'.
- (viii) See 'Business Review – Fenchurch Street'.
- (ix) See 'Business Review – Drapers Gardens'.
- (x) See 'Business Review – Development properties'.
- (xi) See 'Business Review – Crossrail'.

RESULTS IN BRIEF

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

Note:

- (i) See Note 3.
- (ii) See Consolidated Income Statement.
- (iii) See Note 8.
- (iv) See Note 7.
- (v) See Note 17.
- (vi) See Note 4.
- (vii) See Note 5.
- (viii) See Note 6.
- (ix) See Note 2.

CHAIRMAN'S OPERATIONAL REVIEW

Introduction

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

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

Canary Wharf Group was also active outside the Canary Wharf district. Firstly through the Drapers Gardens development joint venture and secondly entering into the joint venture on 20 Fenchurch Street with Land Securities. The subsequent syndication of 70% of Canary Wharf Group's commitment to the joint venture on 20 Fenchurch Street left Canary Wharf Group with a 15% interest. This allowed the Group to reduce its exposure to this development, whilst also facilitating the efficient use of capital.

Financial Review

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

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

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

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

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

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

Operational Review

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

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

At the start of the year, Canary Wharf Group concluded the disposal of 5 Churchill Place for £208.0m. Subsequently, two acquisitions were completed: firstly, 1 Park Place for £17.5m, a site which is centrally located at Canary Wharf, and has the benefit of two pre existing planning consents for 214,000 sq ft or 950,000 sq ft; and secondly, the last two units required to complete land assembly at Heron Quays West where there is planning consent for a 1.3m sq ft scheme.

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

CHAIRMAN'S OPERATIONAL REVIEW (Continued)

Retail at Canary Wharf also had a highly successful year with increases in rents, footfall and turnover. Reflecting these increases, the arrival of new names such as Tiffany & Co and Aquascutum and the successful opening of seven new restaurants at Canary Wharf in the last 18 months, the value of the retail assets increased by 25% during the year. The success of the retail malls, now fully let, is such that consideration is being given to the further extension of retail units into the lower level car parking areas. Other opportunities to extend the retail offering are also being pursued, reflecting the high level of demand for shops and restaurants.

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

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

Conclusion

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

BUSINESS REVIEW

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

Open Offer

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

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

An interim dividend of 11.736p per share was paid by Canary Wharf Group on 4 October 2010 of which a total of £51.9m was received by SFL. This was used to pay accrued dividends on the Preference Shares as at 30 September 2010, the SG dividend (Note 20) and accrued interest on the Shareholder Loan facility to the repayment date. The balance was retained for general working capital purposes.

Property portfolio

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

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

BUSINESS REVIEW (Continued)

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

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

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

Property sales

In December 2010 Canary Wharf Group announced the sale of 25 Bank Street to J.P. Morgan for a gross consideration of £495.0m. The building, which comprises more than 1.0m sq ft, will become the new European headquarters of J.P. Morgan's investment banking operations in 2012. The building was valued at £360.0m at 31 December 2009, reducing to £350.0m at 30 June 2010. Prior to the sale of the building, Canary Wharf Group agreed terms with AIG for the termination of the rental cover facility relating to the building, in consideration for a receipt of £144.5m (See 'Business Review – Lehman'). The combined receipt of £639.5m compares with a market valuation including the AIG arrangement of £550.0m at 30 June 2010 (Note 2). Following the sale of 25 Bank Street, the directors are of the view that the Group is in a strong position to respond to the anticipated tightening in the occupier market.

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

Lehman

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

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

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

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

Leasing

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

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

BUSINESS REVIEW (Continued)

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

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

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

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

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

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

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

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

Development properties

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

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

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

BUSINESS REVIEW (Continued)

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

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

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

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

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

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

Drapers Gardens

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

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

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

Fenchurch Street

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

BUSINESS REVIEW (Continued)

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

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

Crossrail

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

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

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

Valuations

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

- (i) properties held as investments were carried at £4,445.5m, which represents the market value of those properties of £4,638.5m at that date as determined by Canary Wharf Group's external valuers, CBRE, Savills or Cushman, less an adjustment of £184.4m for tenant incentives and £8.6m for deferred lease negotiation costs; and
- (ii) properties held for development were carried at £268.5m, representing their market value as determined by Canary Wharf Group's external valuers.

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

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

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

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

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

BUSINESS REVIEW (Continued)

CBRE and Savills have provided a joint opinion as at 31 December 2010 that the market value of sites held for development, comprising those sites disclosed in the 'Business Review – Development' was £268.5m, in comparison with £221.0m at 31 December 2009. Taking into account capital expenditure in the year, this resulted in a reduction in value of £4.7m but an increase of £0.3m since 30 June 2010. At 31 December 2010 the market value of these sites was £6.6m below their historical cost to the Group which includes an allocation of £77.9m representing Canary Wharf Group's contribution to Crossrail to date. In valuing the properties held for development, the valuers have allowed for estimated costs to complete, including an allowance for fitout and developer's profit. In addition they have allowed for letting, disposal, marketing and financing costs.

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

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

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

Note:

- (i) The carrying value represents market value less an adjustment for lease incentives and deferred lease negotiation costs. The tenant incentives and deferred lease negotiation costs adjustment at 31 December 2010 was £193.0m (30 June 2010 – £190.2m, 31 December 2009 – £139.9m). Market value in existing state is shown prior to these amounts.
- (ii) The investment property held for sale comprised 5 Churchill Place which was sold in January 2010. Market value in existing state is shown before adjustment for tenant incentives and deferred lease negotiation costs totalling £15.8m.
- (iii) The investment property sold in the year comprised 25 Bank Street which was sold in December 2010. Market value in existing state is shown before tenant incentives and deferred negotiation costs totalling £3.3m at 30 June 2010 and £54.0m at 31 December 2009.
- (iv) Property under construction held for sale comprises Riverside South. The carrying value at 31 December 2010 is stated net of £55.6m of costs transferred to cost of sales (30 June 2010 – £51.9m, 31 December 2009 – £40.2m) and £19.0m transferred to payments on account (30 June 2010 – £20.1m, 31 December 2009 – £16.6m). Market value in existing state includes the present value of the minimum developer's profit from the sale of Riverside South discounted at 6.3% being Canary Wharf Group's weighted average cost of debt, calculated on the assumption that J.P. Morgan will not proceed with full build out, and excludes the profit recognised on the disposal of the site in 2008.
- (v) The total carrying value of the investment property portfolio was £4,445.5m at 31 December 2010 (£4,588.5m at 30 June 2010, £4,569.3m at 31 December 2009). The total market value of the investment property portfolio was £4,638.5m at 31 December 2010 (30 June 2010 – £4,782.0m, 31 December 2009 – £4,779.0m).

Operating results

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

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

BUSINESS REVIEW (Continued)

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

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

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

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

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

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

Cost of sales for 2010 also included £10.4m (2009 – £73.5m) of costs on construction of properties held for sale, net of a release of £5.0m of surplus accruals relating to properties completed in prior years. No profit has been recognised on the construction contract entered into in connection with the sale of Riverside South although the potential surplus has been taken into account in calculating adjusted NAV (see Note 2). The net profit of £5.0m recognised on construction contracts in 2010 compares with a profit of £85.7m in 2009.

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

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

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

Underlying operating profit (as defined in Note 2) for 2010 was £268.4m in comparison with £370.8m for 2009. Of the reduction of £102.4m, £80.7m was attributable to the timing of profit recognition on presold property and £30.9m to the reduction in rental income, partly offset by an increase in net proceeds from termination of leases of £11.3m.

A net revaluation surplus of £327.9m (Note 4) was recognised in the Consolidated Income Statement in the year compared with a deficit of £15.4m in 2009. The changes in the valuation of the property portfolio are explained in more detail in the 'Business Review – Valuations'.

In December 2010 Canary Wharf Group completed the disposal of 25 Bank Street for a gross consideration of £495.0m which resulted in a profit of £155.1m (Note 7). In conjunction with the sale of 25 Bank Street, Canary Wharf Group agreed terms with AIG for the termination of the rental cover facility on this building for a net receipt of £144.5m.

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

Underlying net financing costs (Note 5) for 2010 were £239.6m against £260.1m for 2009. The reduction in underlying net interest payable of £20.5m was primarily attributable to the repayment of certain loans (see below) and interest recognised on the Drapers Gardens construction loan.

BUSINESS REVIEW (Continued)

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

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

In the previous year Canary Wharf Group repurchased an aggregate principal amount of £119.7m of certain of the Notes for a consideration, excluding accrued interest, of £35.5m (Note 17). After allowing for deferred fees and, where applicable, stepped interest rate accruals, the Group recognised a gain of £83.0m on the repurchase. The repurchased Notes that remain in issue, are held by a member of the Canary Wharf Group, and accordingly remain fully hedged. The fair value of the hedging instruments associated with the repurchased Notes, which had previously been recognised in equity within the hedging reserve, was taken to the Consolidated Income Statement resulting in a charge of £16.7m which was offset against the £83.0m gain on repurchase. The net gain of £66.3m was classified as a 'capital and other' item.

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

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

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

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

The basic and diluted earnings per share (Note 2) for 2010 was 41.3p (2009 – 57.7p). There were no dilutive instruments at either 31 December 2010 or 31 December 2009.

Tax

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

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

Consolidated balance sheet and key performance indicators

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

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

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

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

BUSINESS REVIEW (Continued)

The calculation of adjusted NAV per share is set out in Note 2. Adjusted NNNAV per share is set out in the following table:

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

Note:

- (i) Refer to Note 2.
(ii) The fair value adjustment comprises the mark to market of derivatives in Note 2 and the after tax difference between the market value and book value of debt (Note 17).
(iii) Refer to Note 6.
(iv) Calculation based on 764.9m Ordinary Shares in issue for 31 December 2010 and proforma 30 June 2010 calculations (30 June 2010 and 31 December 2009 – 655.5m).

Principal risks and uncertainties

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

Cyclical nature of the property market

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

Financing risk

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

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

The Board continues to monitor the financial markets with the aim of identifying an appropriate financing arrangement for the Company. The weighted average maturity of the Group's loans excluding the Preference Shares is 14.9 years. Further detail on the management of treasury risk can be found in Note 17 which includes a summary of the key financial covenants applicable to each of the Group's facilities.

Concentration risk

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

BUSINESS REVIEW (Continued)*Policy and planning risks*

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

Treasury objectives

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

The Group's financial instruments, other than derivatives, comprise borrowings, cash and liquid resources, and various items such as trade receivables and trade payables that arise directly from its operations. The Group enters into derivative transactions (principally interest rate swaps and caps) only in order to manage the interest rate risk arising from the Group's variable rate borrowings. Details of the financial risks facing the Group are disclosed earlier in this section and in Note 17.

Borrowings

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

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

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

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

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

At 31 December 2010, net debt (including derivative financial instruments at fair value and net of monetary deposits and cash and cash equivalents) stood at £2,877.4m, down by £654.0m from £3,531.4m at 31 December 2009. The components making up net debt are shown in Note 17.

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

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

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

Cash flow

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

BUSINESS REVIEW (Continued)

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

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

Going concern

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

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

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

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2010

	Note	Underlying* £m	2010 Capital and other £m	Total £m	Underlying* £m	2009 Capital and other £m	Total £m
Gross development, rental and related income	3	409.7	(50.1)	359.6	580.8	–	580.8
Cost of sales		(109.9)	–	(109.9)	(172.1)	–	(172.1)
Net development, rental and related income	3	299.8	(50.1)	249.7	408.7	–	408.7
Share of associates and joint ventures after tax	8	(0.2)	2.7	2.5	(0.3)	3.6	3.3
Administrative expenses		(38.6)	–	(38.6)	(40.4)	–	(40.4)
Other income		7.4	–	7.4	2.8	–	2.8
Net revaluation movements	4	–	327.9	327.9	–	(15.4)	(15.4)
Profit on sale of investment property	7	–	155.1	155.1	–	–	–
Termination of AIG facility	17	–	144.5	144.5	–	–	–
Operating profit/(loss)		268.4	580.1	848.5	370.8	(11.8)	359.0
Net financing costs							
– investment revenues	5	25.8	–	25.8	14.2	–	14.2
– financing costs	5	(265.4)	(127.1)	(392.5)	(274.3)	164.5	(109.8)
– debt repurchase (costs)/gains	5	–	(18.0)	(18.0)	–	71.2	71.2
		(239.6)	(145.1)	(384.7)	(260.1)	235.7	(24.4)
Profit for the year before tax		28.8	435.0	463.8	110.7	223.9	334.6
Tax	6			(42.9)			(132.2)
Profit for the year after tax	2			420.9			202.4
Attributable to:							
Equity holders of the Company				277.8			131.0
Non controlling interest				143.1			71.4
				420.9			202.4
Earnings per share							
– basic and diluted	2			41.3p			57.7p

*As defined in Note 2.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
 for the year ended 31 December 2010

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2010

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

Description of the nature and purpose of each reserve

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

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

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

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

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

CONSOLIDATED BALANCE SHEET

at 31 December 2010

	Note	2010 £m	2009 £m
Assets:			
Non current assets			
Investment properties	7	4,445.5	4,393.1
Investment property held for sale	7	–	176.2
Development properties	7	268.5	221.0
Plant and equipment	7	1.0	1.5
		4,715.0	4,791.8
Other non current assets			
Investments	8	43.0	25.5
Tenant incentives and other non current assets	10	193.0	209.7
		4,951.0	5,027.0
Current assets			
Trade and other receivables	9	67.6	51.9
Monetary deposits	11	5.1	18.3
Cash and cash equivalents	12	1,108.2	1,074.8
		1,180.9	1,145.0
Total assets		6,131.9	6,172.0
Liabilities:			
Current liabilities			
Current portion of long term borrowings	14	(98.7)	(105.9)
Trade and other payables	13	(267.8)	(264.1)
		(366.5)	(370.0)
Non current liabilities			
Borrowings	15	(3,595.0)	(4,249.6)
Derivative financial instruments	16	(297.0)	(269.0)
Deferred tax liabilities	6	(109.6)	(88.7)
Provisions	18	(10.2)	(3.1)
		(4,011.8)	(4,610.4)
Total liabilities		(4,378.3)	(4,980.4)
Net assets		1,753.6	1,191.6
Equity			
Share capital		76.5	65.6
Other reserves		1,177.0	1,033.1
Retained earnings		(141.9)	(419.7)
Total equity attributable to members of the Company		1,111.6	679.0
Non controlling interests		642.0	512.6
Total equity		1,753.6	1,191.6

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2010

	Note	2010 £m	2009 £m
Net cash flows from operating activities	22	348.9	297.8
Interest paid		(266.3)	(277.6)
Interest received		25.7	16.5
Interest element of finance lease rentals		(0.5)	(0.2)
Financing expenses		–	(20.7)
Breakage costs		(40.5)	(4.0)
Net cash inflow from operating activities		67.3	11.8
Cash flows from investing activities			
Development expenditure		(127.5)	(98.3)
Purchase of property, plant and equipment		(0.1)	(0.2)
Sale of investment property		659.7	–
Investment in and net loans to associates		(15.2)	(5.2)
Acquisition of own shares		(1.5)	(9.2)
Acquisition of shares in Canary Wharf Group		–	(113.4)
Net cash inflow/(outflow) from investing activities		515.4	(226.3)
Cash flows from financing activities			
Dividends paid to minority shareholders		(23.1)	–
Draw down of construction loan		–	20.5
Repayment of construction loan		(123.5)	–
Repurchase of securitised debt		–	(35.5)
Redemption of securitised debt		(59.0)	(32.2)
Redemption of secured loan		(18.2)	(15.7)
Repayment of secured loans		(348.7)	–
Draw down of Citi Loans		–	44.7
Repayment of Citi Loans		–	(837.3)
Issue of Ordinary Share capital		140.0	619.7
Fees on issue of Ordinary Share capital		(5.0)	(24.3)
Issue of Preference Shares		–	275.0
Draw down of Shareholder Loan		23.2	113.1
Repurchase of Shareholder Loan		(135.0)	–
Net cash (outflow)/inflow from financing activities		(549.3)	128.0
Net increase/(decrease) in cash and cash equivalents		33.4	(86.5)
Cash and cash equivalents at start of year		1,074.8	1,161.3
Cash and cash equivalents at end of year	12	1,108.2	1,074.8

NOTES TO THE ANNOUNCEMENT
for the year ended 31 December 2010

1. BASIS OF PREPARATION

The financial information presented in this Announcement has been prepared based on the Group's financial statements which are prepared in accordance with IFRS as adopted for use in the EU. While the financial information contained in this Announcement has been prepared based on the Group's financial statements which are prepared in accordance with IFRS, this Announcement does not itself contain sufficient information to comply with IFRS. This Announcement does not constitute the Group's statutory accounts for the year ended 31 December 2010 but is derived from those accounts. Statutory accounts for 2009 have been delivered to the Registrar of Companies and those for 2010 will be delivered following the Company's annual general meeting. The auditors have reported on those accounts. Their reports were unqualified, did not draw attention to any matters by way of emphasis without qualifying their report and did not contain statements under s498(2) or (3) of the Companies Act 2006.

This Announcement has been prepared under the historical cost convention as modified by the revaluation of land and buildings and certain financial instruments and the deferred tax thereon.

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

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

Other than the above, this Announcement has been prepared in accordance with the accounting policies set out in the Group's financial statements for the year ended 31 December 2009. 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 unqualified did not draw attention to any matters by way of emphasis without qualifying their report and did not contain statements under s498(2) or (3) of the Companies Act 2006.

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.

NOTES TO THE ANNOUNCEMENT
for the year ended 31 December 2010

2. PERFORMANCE MEASURES

Basic earnings per share

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

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

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

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

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

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

NOTES TO THE ANNOUNCEMENT
 for the year ended 31 December 2010

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

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

At 30 June 2010 and 31 December 2009, adjusted NAV included the uplift in value of 25-30 Bank Street attributable to the arrangement with AIG which provided for the payment of any shortfall on 4 years of contracted rent from first draw down following a default by Lehman (see 'Business Review – Lehman'). For balance sheet purposes the market value of the building, which was £350.0m at 30 June 2010 and £360.0m at 31 December 2009, excluded the benefit of the arrangement with AIG as this could not be transferred to a purchaser of the property. The market value adjusted for the arrangement with AIG was £550.0m at both dates. A fee of approximately £3.6m per annum was payable in relation to this arrangement which was charged to the Consolidated Income Statement as a financing cost. 25 Bank Street was sold in December 2010 (see Note 17) and the arrangement with AIG was terminated (see Note 17).

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

NOTES TO THE ANNOUNCEMENT
for the year ended 31 December 2010

3. REVENUE

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

4. NET REVALUATION MOVEMENTS ON PROPERTY AND INVESTMENTS

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

NOTES TO THE ANNOUNCEMENT
for the year ended 31 December 2010

5. NET FINANCING COSTS

	2010 £m	2009 £m
Interest revenue		
Deposits, other loans and securities	25.8	14.2
Interest expense		
Notes and debentures	(152.3)	(149.6)
Songbird Loans	(34.0)	(51.1)
Other bank loans and overdrafts	(78.5)	(76.8)
Obligations under finance leases	(0.6)	(1.6)
	(265.4)	(279.1)
Development interest capitalised at 6.525%	–	4.8
	(265.4)	(274.3)
Underlying net financing costs	(239.6)	(260.1)
Other financing (costs)/income		
Valuation movements on fair value of derivatives	(67.4)	184.0
Finance costs of non equity shares (Note 17)	(30.6)	(7.4)
Hedging reserve recycling	(29.1)	(12.1)
	(127.1)	164.5
Net financing expenses	(366.7)	(95.6)
(Costs)/gains on repurchase or repayment of debt		
– Securitised debt	–	66.3
– Citi Loans	–	4.9
– Secured debt	(18.0)	–
	(18.0)	71.2
Net financing costs	(384.7)	(24.4)
Total financing income	25.8	85.4
Total financing expenses	(410.5)	(109.8)
Net financing costs	(384.7)	(24.4)

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

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

NOTES TO THE ANNOUNCEMENT
for the year ended 31 December 2010

6. TAX

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

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

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

NOTES TO THE ANNOUNCEMENT
for the year ended 31 December 2010

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

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

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

* Refer to Note 10 for further details.

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

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

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

As disclosed in Note 10, in the first half of the year unamortised lease incentives attributable to Lehman's lease were written off to the Consolidated Income Statement and treated as a 'capital and other' item within revenue. This treatment has not been changed as a result of the sale of 25 Bank Street. Unamortised tenant incentives attributable to the sub tenants in the building at the date of disposal totalled £2.7m.

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for the year ended 31 December 2010

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

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

Valuation

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

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

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

Construction contracts

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

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

Cumulative amounts accounted for as construction contracts are as follows:

	£m
Advances received	112.1
Recognised as revenue	(55.6)
Offset from construction contracts	(19.0)
Payments on account (Note 13)	37.5

NOTES TO THE ANNOUNCEMENT
for the year ended 31 December 2010

8. INVESTMENTS

The investments balance comprises:

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

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

Investments comprise:

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

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

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

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

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

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

NOTES TO THE ANNOUNCEMENT

for the year ended 31 December 2010

WWLP entered into a non recourse loan facility of £9.0m of which £5.8m had been drawn down at 31 December 2009. The loan matured in February 2010 and the lender agreed to rollover the £5.8m drawn under the facility until 2013. Canary Wharf Group has also loaned £25.7m (31 December 2009 – £25.0m) to WWLP in the form of redeemable notes which are interest free and redeemable at par in 2030. The £5.8m loan referred to must first be repaid before the loan provided to WWLP by Canary Wharf Group can be repaid. All loans must have been repaid in full prior to any dividends being declared.

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

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

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

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

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

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

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

Summarised profit and loss accounts for 2010	20 Fenchurch Street £m	WWLP £m	Drapers Gardens £m
Other income	–	6.0	3.4
Net financing costs	–	(1.0)	(20.7)
Profit/(loss) before and after tax	–	5.0	(17.3)
Group share	–	1.2	1.3

NOTES TO THE ANNOUNCEMENT
 for the year ended 31 December 2010

Summarised balance sheets at 31 December 2010	20 Fenchurch Street £m	WWLP £m	Drapers Gardens £m
Total assets	103.7	130.7	16.5
Total liabilities	(4.9)	(43.3)	(5.3)
Net assets	98.8	87.4	11.2
Group share	16.4	21.8	4.6

9. TRADE AND OTHER RECEIVABLES

	2010 £m	2009 £m
Trade receivables	3.4	4.1
Other receivables	18.6	24.0
Contract balances (Note 7)	2.4	4.7
Prepayments and accrued income	43.2	19.1
Total trade and other receivables	67.6	51.9

10. TENANT INCENTIVES AND OTHER NON CURRENT ASSETS

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

	Rent free periods £m	Other tenant incentives £m	Total tenant incentives £m	Deferred negotiation costs £m	Lease termination agreements £m	Total £m
1 January 2009	140.4	59.7	200.1	7.0	6.2	213.3
Transfer from investment properties (Note 7)	–	8.2	8.2	–	–	8.2
Recognition of rent during rent free periods	14.8	–	14.8	–	–	14.8
Amortisation	(16.1)	(3.7)	(19.8)	(0.8)	–	(20.6)
Deferred lease negotiation costs	–	–	–	0.2	–	0.2
Paid under lease termination agreements	–	–	–	–	(6.2)	(6.2)
31 December 2009	139.1	64.2	203.3	6.4	–	209.7
Transfer from investment properties (Note 7)	–	53.4	53.4	–	–	53.4
Recognition of rent during rent free periods	11.0	–	11.0	–	–	11.0
Write off of Lehman incentives	(50.1)	–	(50.1)	–	–	(50.1)
Amortisation	(9.0)	(5.6)	(14.6)	(0.4)	–	(15.0)
Deferred lease negotiation costs	–	–	–	3.3	–	3.3
Written off on sale of property	(9.3)	(9.3)	(18.6)	(0.7)	–	(19.3)
31 December 2010	81.7	102.7	184.4	8.6	–	193.0

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

NOTES TO THE ANNOUNCEMENT
for the year ended 31 December 2010

11. MONETARY DEPOSITS

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

	<u>2010</u> £m	<u>2009</u> £m
Monetary deposits held at bank	5.1	18.3
	<u>5.1</u>	<u>18.3</u>

12. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise:

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

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

	<u>2010</u> £m	<u>2009</u> £m
Securitised debt	125.7	72.3
Secured loans	26.3	24.7
Finance leases	42.4	42.4
	<u>194.4</u>	<u>139.4</u>

13. TRADE AND OTHER PAYABLES

	<u>2010</u> £m	<u>2009</u> £m
Trade payables	12.6	23.4
Tax and social security costs	7.4	5.2
Corporation tax	55.0	24.8
Other payables	20.7	13.8
Other accruals	66.5	72.0
Deferred income	68.1	102.5
Payments on account (Note 7)	37.5	22.4
Total trade and other payables	<u>267.8</u>	<u>264.1</u>

14. CURRENT PORTION OF LONG TERM BORROWINGS

The current portion of long term borrowings comprises:

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

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

NOTES TO THE ANNOUNCEMENT
for the year ended 31 December 2010

15. BORROWINGS

Non current liability borrowings comprise:

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

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

16. DERIVATIVE FINANCIAL INSTRUMENTS**Hedge accounting**

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

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

17. NET DEBT

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

NOTES TO THE ANNOUNCEMENT
 for the year ended 31 December 2010

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

Further to the redemption rights attaching to the SG Shares, such shares were, until converted, classified as borrowings and the Consolidated Income Statement included a charge to profit in respect of the SG Shares accumulated at 8.0% per annum, subject to increases in the coupon to a maximum of 10.0%. The accrued finance charge (comprising dividends accrued or declared in respect of this class of share) was included in the current portion of long term liabilities as interest payable (Note 14). At 31 December 2009, £6.5m was accrued in respect of the SG Shares dividend. This amount was paid in October 2010.

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

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

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

- (1) SFL entered into a £135.0m Shareholder Loan in September 2009 as part of the 2009 Refinancing Transactions. The Shareholder Loan carried an interest rate fixed at 7.0% and was originally repayable on 23 September 2010. The loan providers agreed an extension of the facility to 31 October 2010 and the loan was subsequently repurchased at par from the proceeds of the Open Offer.
- (2) In April 2009 Canary Wharf Group repurchased certain floating rate Notes with an aggregate principal amount of £119.7m for an aggregate consideration, excluding accrued interest, of £35.5m. The Notes repurchased have not been cancelled, remain in issue and, in accordance with the requirements of the securitisation, continue to be fully hedged. The repurchase has been accounted for as an extinguishment of debt.

As a result of the repurchase, the related derivatives no longer qualify for hedge accounting. This resulted in a loss of £16.7m, representing the fair value of that element of the derivatives relating to the repurchased notes, being recycled to the Consolidated Income Statement in 2009. The overall gain on the transaction of £66.3m, being the difference between the aggregate principal amount repurchased and the aggregate consideration paid, adjusting for unamortised deferred fees on issue, stepped interest accruals and hedge reserve recycling, was taken to the Consolidated Income Statement and shown within the 'capital and other' column (Note 5). As a result of this transaction, a deferred tax charge of £23.4m was recognised.

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

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

NOTES TO THE ANNOUNCEMENT

for the year ended 31 December 2010

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

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

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

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

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

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

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

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

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

- (5) A bank loan with an outstanding principal amount of £348.7m secured against 10 Cabot Square and 20 Cabot Square was repaid in November 2010. The related interest rate swap was broken at a cost of £23.7m, of which £20.1m was provided in the hedging reserve at 31 December 2009. The related unamortised balance on the hedging reserve of £15.3m and unamortised deferred fees of £1.7m have been written off the Consolidated Income Statement. Fees of £1.0m were incurred in connection with the repayment.
- (6) A bank loan comprising an initial principal of £608.8m is secured against One Churchill Place. The loan amortises with a balloon payment of £155.0m on maturity in July 2034. The loan carries a hedged interest rate of 5.82%. In 2010, £8.1m of loan principal was repaid in accordance with the loan agreement reducing the principal at 31 December 2010 to £568.1m.
- (7) Canary Wharf Group's obligations under its finance lease are secured by first ranking fixed and floating charges over the property which is the subject of the finance lease and over certain cash deposits (Note 12). The rate of interest implicit in the finance lease was 0.7% at 31 December 2010 (31 December 2009 – 1.0%). The present value of minimum finance lease payments was £41.6m at 31 December 2010 (31 December 2009 – £41.3m). The finance lease is repayable in more than 5 years.

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Comparison of market values and carrying amount

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

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

Financial risks

Interest rate risk

The Group finances its operations through a mixture of surplus cash, bank borrowings and debentures. The Group borrows principally in sterling at both fixed and floating rates of interest and then uses interest rate swaps, caps or collars to generate the desired interest profile and to manage the Group's exposure to interest rate fluctuations. The Group's policy is to keep the majority of its borrowings at fixed rates and all of the Group's borrowings at 31 December 2010 and 31 December 2009 were fixed after taking account of interest rate hedging and cash deposits held as cash collateral (Note 12).

Liquidity risk

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

Loan covenants

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

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

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

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

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

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

NOTES TO THE ANNOUNCEMENT

for the year ended 31 December 2010

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

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

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

18. PROVISIONS

Provisions have been made in respect of the following liabilities:

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

Vacant leasehold properties

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

Other lease commitments

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

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

19. SHARE CAPITAL

Issued share capital comprises:

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

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

NOTES TO THE ANNOUNCEMENT
for the year ended 31 December 2010

20. DIVIDENDS

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

21. SHARE BASED PAYMENTS

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

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

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

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

NOTES TO THE ANNOUNCEMENT
for the year ended 31 December 2010

22. NOTES TO THE CASH FLOW STATEMENT

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

	2010 £m	Restated 2009 £m
Profit on ordinary activities before tax	463.8	334.6
Non cash movements		
Net valuation movements on properties	(327.9)	15.4
Profit on disposal of investment property	(155.1)	–
Share of profit after tax of associates	(2.5)	(3.3)
Spreading of tenant incentives, committed rent increases and letting fees	50.8	5.6
Depreciation	0.6	0.6
Profit recognised on construction contracts	(5.0)	(85.7)
	(439.1)	(67.4)
	24.7	267.2
Changes to working capital and other cash movements		
Net financing costs	384.7	95.6
Refinancing gains (Note 5)	–	(71.2)
Utilisation of and other movements in provisions	(2.9)	(2.0)
Increase in receivables	(17.3)	(1.5)
Decrease in payables	(37.5)	(18.2)
Proceeds from construction contracts	32.9	147.9
Construction contract expenditure	(30.3)	(105.2)
Cash generated from operations	354.3	312.6
Income tax paid	(5.4)	(14.8)
Net cash from operating activities	348.9	297.8

23. FINANCIAL COMMITMENTS

Commitments of Canary Wharf Group for future expenditure:

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

Sublet commitments

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

NOTES TO THE ANNOUNCEMENT
 for the year ended 31 December 2010

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

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

Note:

- (1) The net annual sublet rental obligations will decrease over time with the expiration of reletting rent free periods.
 (2) Level 24 occupied by FSA on a short term basis pending completion of fitout of floors 26 and 27.
 (3) Level 38 leased back from KPMG upon their relocation to 15 Canada Square and sublet to NYSE Euronext.

DEFINITIONS

2009 Refinancing Transactions	£620.0m placing and compensatory open offer in 2009, £275.0m issue of Preference Shares and £135.0m Shareholder Loan facility
Act	The Companies Act 2006
Administrator	PricewaterhouseCoopers, administrator of Lehman
AIG	American International Group, Inc
A Shares	Ordinary Class A Shares of 10p each
AIM	London Stock Exchange Alternative Investment Market
B Shares	Ordinary Class B Shares of 10p each
Ballymore	Ballymore Properties Limited
Barclays	Barclays Bank plc
BlackRock	BlackRock Investment Management (UK) Limited
Board	Board of directors of the Company
BWB	British Waterways Board
Canary Wharf Group	Canary Wharf Group plc and its subsidiaries
CBRE	CB Richard Ellis Limited, Surveyors and Valuers
CIC	China Investment Corporation
Citi	Citigroup
Citi Loans	The £880.0m loan facilities entered into by SFL and Citi
CLRL	Cross London Rail Links Limited
Company	Songbird Estates plc
Cushman	Cushman & Wakefield, Real Estate Consultants
CWF II	Canary Wharf Finance II plc
Drapers Gardens	Drapers Gardens scheme in the City of London
Estate	Canary Wharf Estate including Heron Quays West, Riverside South and North Quay
EU	European Union
EZAs	Enterprise Zone Allowances
Fitch	Fitch Ratings Limited
Glick Shareholders	Investment vehicles and Trusts connected with Simon Glick and his family
Group	The Company, its wholly owned subsidiaries and Canary Wharf Group
IAS	International Accounting Standards
IAS 11	International Accounting Standard 11 'Construction Contracts'
IAS 16	International Accounting Standard 16 'Property, Plant and Equipment'
IAS 17	International Accounting Standard 17 'Leases'
IAS 28	International Accounting Standard 28 'Investments in Associates'
IAS 32	International Accounting Standard 32 'Financial Instruments: Presentation'
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	International Financial Reporting Interpretations Committee
IFRIC 15	International Financial Reporting Interpretations Committee 15 'Agreements for the Construction of Real Estate'
IFRS	International Financial Reporting Standards
IFRS 3	International Financial Reporting Standard 3 'Business Combinations'
IFRS 5	International Financial Reporting Standard 5 'Non current Assets Held for Sale and Discontinued Operations'
IFRS 7	International Financial Reporting Standard 7 'Financial Instruments: Disclosures'
J.P. Morgan	J.P. Morgan Chase & Co
Land Breeze	Land Breeze S.a.r.l.
Land Securities	Land Securities Group plc
Lehman	Lehman Brothers Limited (in administration)
Lloyds	Lloyds Banking Group
LMCTV	Loan Minus Cash to Value
London Plan	Mayor of London Planning document published by the Greater London Authority
LTV	Loan to Value

DEFINITIONS (Continued)

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