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Songbird
Estates plc

2007
Report &
Financial Statements

Contents

Highlights

- The market value of the property portfolio at 31 December 2007 was £7 274 3m against £7,465 0m at 30 June 2007 and £6,737 4m at 31 December 2006, a reduction of 4 3% compared with 30 June 2007 (after additions in the period) but an increase of 4 8% compared with 31 December 2006 (Note (i))

- Net assets fell from £2,380 1m at 31 December 2006 to £2,347 7m at 31 December 2007, a reduction of £32 4m or 1 4% (Note (ii)), after dividends to equity shareholders of £319 7m

- Net assets fell by £272 6m or 10 4% from £2,620 3m at 30 June 2007 (Note (iii)) as a result of a fall in the value of the property portfolio

- Adjusted net asset value per share reduced by 18 6% from £2 64 at 31 December 2006 to £2 15 in the year (Note (ii)) following the payment of dividends

- Adjusted net asset value per share reduced by 34p (13 7%) from £2 49 at 30 June 2007 (Note (iii)) due to the fall in the value of the property portfolio

- Refinancing of the companys loan facility completed raising initial net proceeds of £279 1m at lower margins (Note (iv))

- Dividends paid during 2007 totalling 70 5p per share (Note (v))

- In 2007 transactions over 755,000 sq ft were achieved, including an agreement for sale upon completion of a new 320,000 sq ft building to Fimalac (Note (vi))

- At 31 December 2007 Canary Wharf Group's investment portfolio totalling 7 9m sq ft was 99 6% let (31 December 2006 – 7 9m sq ft of which 95 6% was let) The weighted average unexpired lease term was approximately 18 7 years (or 15 8 years assuming exercise of break options) (Note (vii))

- Heads of terms agreed for the design build, financing and leasing of the Crossrail station at Canary Wharf (Note (viii))

- 1 32m sq ft is under construction, of which 1 02m sq ft has been pre-sold and 86 0% of the remainder has been pre-let (Note (viii))

- Redevelopment of Cabot Place Retail Mall completed Infrastructure work under way on Riverside South (1 9m sq ft of potential development) and phased development has commenced at 25 Churchill Place (350,000 sq ft of potential development) (Note (viii))

- In June 2007 Canary Wharf Group entered into a joint venture for the redevelopment of Drapers Gardens (Note (viii))

Note

(i) See Business Review – Valuations for a comparison with the carrying value for accounts purposes
(ii) See Note 4 of the Notes to the consolidated financial statements for further details
(iii) See Business Review – Balance sheet and key performance indicators' for further details
(iv) See Business Review – Borrowings for further details
(v) See Note 24 of the Notes to the consolidated financial statements
(vi) See Business Review – Leasing for further details
(vii) See 'Business Review – Property portfolio for further details
(viii) See Business Review – Construction for further details

Results in Brief

	Note	**2007 £m**	2006 £m
Rental income	(i)	**275 3**	255 7
Underlying operating profit	(ii)	**340 3**	245 8
Capital and other items			
– other income	(ii)	**19 2**	–
– net revaluation gains	(iii)	**110 4**	722 1
– financing (costs)/income relating to derivatives	(iv)	**(35 5)**	19 1
– refinancing (charges)/gains relating to repayment of debt	(iv)	**(14 3)**	123 3
Taxation – deferred tax	(v)	**23 8**	(179 1)
Profit on ordinary activities before taxation	(ii)	**182 0**	884 1
Profit after tax	(ii)	**205 8**	705 0
Basic and diluted earnings per share	(vi)	**22 3p**	92 3p
Dividends per share	(vii)	**70 5p**	18 0p

Note

(i) See Note 5 of the Notes to the consolidated financial statements
(ii) See Consolidated Income Statement
(iii) See Note 6 of the Notes to the consolidated financial statements
(iv) See Note 7 of the Notes to the consolidated financial statements
(v) See Note 8 of the Notes to the consolidated financial statements
(vi) See Note 4 of the Notes to the consolidated financial statements
(vii) See Note 24 of the Notes to the consolidated financial statements

Chairman's Statement

Progress by Canary Wharf Group which is the core operating subsidiary of the group, continued throughout 2007 Canary Wharf Group concluded 755,000 sq ft of transactions which included the pre-sale of a new London headquarters building for Fitch Construction also continued on 1 32m sq ft of office space on the Estate and infrastructure works commenced on a further 2 3m sq ft Coupled with the expansion of the Canary Wharf Group business into the City of London through the redevelopment of Drapers Gardens, all of this activity is a clear indication of the ability of Canary Wharf Group to support development both on and off the Estate At the company level we have refinanced our debt, made two dividend payments and completed a capital restructuring, which removed the D Share dividend liability

Weakness in global financial markets has forced a slowdown in activity in the UK commercial property market which has been reflected in a softening of real estate values The groups property portfolio has not been immune but the high quality of our real estate assets long average length of unexpired leases (18 7 years before breaks) and low vacancy rates is reflected in a 4 8% (excluding additions) valuation increase over the year, notwithstanding a 4 3% decrease in the latter half

OUTLOOK

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

FINANCIAL REVIEW

Financials

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

Net assets at 31 December 2007 were down over the year to £2,347 7m, reflecting the payment of two dividends totalling £319 7m This served to offset the upward revaluation of the group's properties held as non current assets by £133 2m and the underlying profit before tax for the year of £102 2m In comparison with 30 June 2007 the carrying value of such properties fell by 4 3% to £6,570 7m Whilst the property portfolio was impacted by the increase in yields experienced across the market in the second half of the year, this was mitigated by new lettings, growth in rents and expansion of retail on the Estate

Adjusted net asset value per share reduced during the year from £2 64 to £2 15 at 31 December 2007 Adjusted net asset value includes the revaluation surplus on construction contracts but excludes deferred tax and fair value adjustments on derivative financial instruments and treats the SG Shares as equity The external revaluation surplus on all properties for the year as a whole, which amounted to 21 1p per share excluding the minority interest, was offset by the dividends of 70 5p per share paid during the year and the issue of B Shares to BL as outlined below

Rental income for the year increased by 7 7% to £275 3m reflecting the increased occupancy on the Estate and the uplifts achieved on review The underlying profit before taxation for 2007 of £102 2m compares with £19 6m for the previous year, the increase being largely attributable to the profits achieved on pre-sold properties of £89 1m Total profit before tax for the year, which in accordance with IFRS included the surplus on revaluation of investment properties, was £182 0m in comparison with £884 1m for the previous year

Refinancing

In the first half of 2007 we concluded a restructuring and refinancing exercise which resulted in the replacement of the existing financing arrangements The new £880 0m three year term and revolving facilities have lower margins which range from 120 bps to 170 bps over LIBOR depending on the financial position of the Canary Wharf Group The new facilities provide an increased draw down facility for the group and greater flexibility on dividend payments, which are obviously dependent on sufficient cash flows, reserves and the general business needs of the group The restructuring also introduced a new wholly owned subsidiary of the company, SFL, which acquired the interests of the company and SAL in the shares of Canary Wharf Group The introduction of this new holding company has enabled the company to refine the group structure by amalgamating the entire Canary Wharf Group interest into one intermediate holding company

Dividends and Restructuring

In February 2007 the company completed a share capital restructuring removing all past and future D Share dividend liabilities in consideration for the issue of 14,478,260 B Shares to BL, the D shareholder At the same time, the company paid a dividend of 29 5p per A, B and SG Share Following the refinancing in April 2007 (as mentioned above) the company declared a further dividend of 41 0p per A, B and SG Share which was paid on 18 June 2007 A regular dividend policy has not been adopted by the company as the board feels it is in the best interests of the company as a whole to maintain a position whereby it can review and consider the general business needs of the group on a case by case basis when considering future dividend payments Canary Wharf Group has declared the payment of an interim dividend of 16p per ordinary share payable on 9 April 2008 of which £62 2m will be receivable by SFL Bearing in mind the previous sentiments, there is no current intention for a dividend payment by the company

RECENT LETTING AND SALE ACTIVITY

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

Subsequent to the year end, over 200,000 sq ft of lettings were agreed of which 170,000 sq ft of space, primarily surrendered by the Telegraph Media Group in One Canada Square, was let to Moody's at a rent of £45 50 per sq ft This latest transaction suggests rental rates are holding up on the Estate despite the turmoil in the financial markets The most recent lettings have brought further new tenants to the Estate, such as Moody's and Abbey Business Centres, as well as extending existing relationships Despite the recent challenging market conditions, the rents achieved on these lettings ranging from £45 50 to £49 00 per sq ft, are positive and reflect the high quality of the Canary Wharf Group property portfolio

Following the latest transactions, the vacancy rate for Canary Wharf Group is down to 0 4%, with the overall vacancy rate on the Estate at approximately 2 5% Recent developments in the financial markets have obviously caused nervousness in the leasing market as a whole However, the group remains positive with the protection of high occupancy on the Estate and the strong tenant covenants in place

DEVELOPMENT

As previously mentioned 1 32m sq ft of construction is currently underway on four buildings on the Estate with completion due on all by 2010, including construction of the building at 5 Churchill Place for Bear Stearns who are in the process of being acquired by JP Morgan Chase, which is continuing to the original timetable In addition, infrastructure works have also commenced on a 350,000 sq ft building at 25 Churchill Place and on the 1 9m sq ft Riverside South development The revised planning application for Riverside South which is in line with the Mayor of London s sustainability requirements and meets new market demands, has been approved by LBTH In light of the current market conditions Canary Wharf Group has stated that it will not pursue speculative development in the absence of a pre-let or pre-sale, and therefore these infrastructure works will only continue up to ground level

Consent has also been obtained for increased density of 2 4m sq ft of office and retail space at North Quay However, construction cannot commence until completion of the Canary Wharf Crossrail station, which obtained initial agreement to proceed in late 2007 and is currently awaiting parliamentary approval and Royal Assent for the Crossrail project Crossrail will form an important part of London s future infrastructure and future prosperity The Canary Wharf Group will construct the new Crossrail station (adjacent to the North Quay site) on the Estate and negotiations have already commenced on the detail of the project It is Canary Wharf Group policy to continuously look at sustainability in both construction and occupancy

In addition to continuing development on the Estate, 2007 saw continued focus by Canary Wharf Group on new projects in Central London It is a natural extension of the Canary Wharf Group skill and expertise to expand operations off the Estate The provision of management services on the Ballymore Millharbour and Crossharbour projects is continuing and the development of the Wood Wharf site, where Canary Wharf Group is managing the process through the planning application stage, is progressing well A draft planning application was lodged for Wood Wharf with LBTH in early 2008 for review and comment In June 2007 Canary Wharf Group entered into a joint venture arrangement for the redevelopment of Drapers Gardens which is expected to complete in Autumn 2009 In addition to managing the construction of this project, Canary Wharf Group has also taken a 20 0% equity stake in the companies that own the properties Canary Wharf Group continues to look at projects outside of the Estate where value can be added

RETAIL

Following the successes in 2006, retail on the Estate continued to grow with turnover up 8 5% in 2007 despite a difficult market Certain prime retail rents on the Estate have increased by up to 100% on reviews completed during 2007 The redeveloped Cabot Place Retail Mall opened on 13 March 2008 increasing the Cabot Place retail area by approximately 40 0% This redevelopment has brought new well known retail tenants to the Estate, such as Zara, Massimo Dutti, River Island and Leon, to name but a few Due to the success of the retail to date, Canary Wharf Group is currently looking to extend further with planning applications approved, subject to conditions, for three retail extensions primarily linked to One Canada Square and the existing Churchill Place retail area Upon completion, these extensions will increase the retail areas on the Estate by a further 37,450 sq ft All of the above reflect the high demand for retail space on the Estate, which at 740,000 sq ft is already the second largest shopping centre within the M25

Chairman's Statement continued

CONCLUSION

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

Finally, as announced at the time, we have had a number of changes to the board during the year with Brian Niles and Tim Roberts being appointed directors to replace Bob Gray and Eugene Doyle respectively On behalf of my fellow directors I would like to take this opportunity to thank both Eugene and Bob for their contribution and support during their time on the board

DAVID PRITCHARD
Chairman

Business Review

A list of defined terms used throughout these financial statements is provided in 'Definitions'

PROPERTY PORTFOLIO

The principal asset of the company is its indirect investment in Canary Wharf Group which is engaged in property investment and property development The activities of Canary Wharf Group are currently focused on the development of the Estate Canary Wharf Group is also engaged in development, through joint ventures, of Wood Wharf and Drapers Gardens At 31 December 2007 Canary Wharf Groups investment portfolio comprised 16 completed properties (out of the 30 constructed on the Estate) totalling 7 9m sq ft NIA, of which 99 6% was let (31 December 2006 – 7 9m sq ft of which 95 6% was let) As well as the rental income generated from properties, income is generated from managing the entire Estate which in addition to the completed properties owned by Canary Wharf Group, includes a further 14 properties totalling 6 3m sq ft which are in other ownerships

Property address	NIA sq ft	Leased %	External valuation £m	Principal tenants
One Churchill Place	1,014,400	100 0	800 0	Barclays, BGC, LOCOG
10 Cabot Square	639 000	100 0	332 0	Barclays Capital, WPP Group
20 Cabot Square	562,000	100 0	250 0	Morgan Stanley, Barclays Capital
One Canada Square	1,236,200	99 0	873 7	KPMG, Mirror Group Newspapers State Street, Bear Stearns Bank of New York
33 Canada Square	562 700	100 0	425 0	Citigroup
20 Bank Street	546,500	100 0	500 0	Morgan Stanley
25-30 Bank Street	1,023,300	98 9	955 0	Lehman Brothers
40 Bank Street	607,400	96 9	472 5	Barclays Capital Skadden, Allen & Overy, BGC, ANZ
50 Bank Street	209,800	100 0	167 5	Northern Trust, Goldenberg Hehmeyer
10 Upper Bank Street	1,000,400	100 0	850 0	Clifford Chance Infosys, FTSE, Total
Cabot Place Retail	95,700	100 0	166 0	Various retail tenants
Canada Place Retail	72,200	100 0	175 0	Various retail tenants
Jubilee Place Retail	89 400	100 0	106 1	Various retail tenants
Churchill Place Retail	22,400	100 0	5 9	Barclays Bank and various retail tenants
16 -19 Canada Square	204,500	100 0	57 8	Waitrose Food & Home, Reebok, Plateau Restaurant
Reuters Plaza	8 900	100 0	11 9	Smollenskys, Carluccios
Car Parks	–	–	62 9	
	7,894,800	**99 6**	**6,211 3**	

Business Review continued

Canary Wharf Group's properties are under lease to high quality tenants which provide a diversified income stream At 31 December 2007 the weighted average unexpired lease term for the office portfolio was approximately 18 7 years or 15 8 years assuming the exercise of outstanding break options (31 December 2006 – 19 8 years or 17 1 years assuming the exercise of break options) Of the square footage under lease, 68 6% does not expire or cannot be terminated by tenants during the next ten years

LEASING

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

- Barclays Capital agreed to lease a total of 301 575 sq ft in 40 Bank Street on three separate leases expiring in April 2023 Barclays Capital will take up the space on a phased basis over the next year at rents ranging from £44 00 per sq ft to £47 50 per sq ft In addition Damac Properties and Mirae Asset Global Investment Management took a total of 11,485 sq ft in this building for terms of 5 and 10 years respectively

- Bear Stearns took a further 28,780 sq ft in One Canada Square for a 5 year term with break options to coincide with the completion of their new headquarters building at 5 Churchill Place Bear Stearns also exercised an option over approximately 52,600 sq ft in 5 Churchill Place taking their total contractual commitment to approximately 259,000 sq ft

- In One Canada Square, Michael Page took 6,548 sq ft for a 5 year term, Bank of New York renewed a lease of 6,463 sq ft for one year and Primus Telecommunications exercised a break over 8,800 sq ft In December 2007 Canary Wharf Group took a surrender of 27,231 sq ft on the 18th floor from Mirror Group Newspapers and simultaneously re-let the space to the Financial Services Authority for a term of 10 years Subsequent to the year end Canary Wharf Group announced that it had entered into an agreement for lease with Moodys, the international credit rating agency, for approximately 170,000 sq ft on a 15 year lease which includes space formerly occupied by the Telegraph Media Group on floors 11-16 The group also took a surrender of the 37th floor (28,435 sq ft) from Burlington Resources and re-let the space to Abbey Business Centres for a term of 15 years The rents achieved on these recent lettings have been in the range of £45 50 to £49 00 per sq ft

As a result of these lettings, vacancy on the Estate in the completed buildings owned by Canary Wharf Group reduced to 0 4%

All space previously sub-let back to Canary Wharf Group has now been re-let or is subject to call options At 31 December 2007 the estimated net present value of the remaining sub-let liabilities had reduced to approximately £30 0m discounted at 6 1%, Canary Wharf Group's weighted average cost of debt at that date (31 December 2006 – £43 8m discounted at 6 1%) The remaining sub-let commitments have been reflected in the market valuation of Canary Wharf Group's properties

CONSTRUCTION

The following properties were under construction at 31 December 2007

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

On 29 June 2007 Canary Wharf Group agreed terms with Fimalac for the sale and an agreement for the construction, of a new £290 0m headquarters for Fitch The new building under construction at 30 North Colonnade will comprise approximately 320,000 sq ft and is scheduled for completion in the second half of 2010 On exchange, Canary Wharf Group received an initial payment of £165 4m from Fimalac in respect of the site

In addition to the construction of new office buildings, Canary Wharf Group has redeveloped the western end of the Cabot Place Retail Mall, with practical completion achieved in March 2008 This redevelopment has increased the existing retail area by approximately 38,500 sq ft (approximately 7 3%) and has introduced new retailers to the Estate including Zara River Island and Leon

The remaining development site on the Estate at BP4 could accommodate approximately 0 4m sq ft of new development Following the sale of 30 North Colonnade to Fimalac, Canary Wharf Group has decided to proceed with the staged construction of BP4 In addition, Canary Wharf Group has development sites at North Quay and Riverside South At Riverside South a revised planning consent in respect of 1 9m sq ft was agreed and initial ground works are under way which will accelerate the completion time for the development for any prospective occupant At North Quay the local authority granted consent for an increase in the permitted density to 2 4m sq ft, and there is further development capacity at Heron Quays West

Canary Wharf Group entered into an option deed with BWB in November 2007 which allows the group to elect for the draw down of a 999 year lease of additional land south of Heron Quays West The option deed is for a period of 5 years from November 2007 An initial option payment of £2 25m was made and is followed by annual payments of £250 000 on each anniversary of the option deed If the group exercises the option BWB has the right to receive a fixed stream of rental payments throughout the duration of the lease or to commute the rental payments into a capital sum payable on the fifth anniversary of the option deed Subsequent to the option deed, an application was made to increase the permitted density at Heron Quays West to 1 25m sq ft Construction of new buildings on this and other sites will commence as and when market conditions allow

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

The development capacity at each of the previously mentioned sites is as follows

	NIA m sq ft
Based on existing planning permissions	
– BP4	0 4
– Riverside South	1 9
– North Quay	2 4
	4 7
Subject to planning application	
– Heron Quays West	1 3
Total	6 0

In addition to the above, Canary Wharf Group is working with Ballymore and BWB on the redevelopment of the Wood Wharf site The master plan for the scheme, in which Canary Wharf Group has a 25 0% interest, sets a framework for 6 5m sq ft gross of mixed commercial, residential and retail development An initial planning application was submitted in January 2008

On 15 June 2007 Canary Wharf Group announced a joint venture with MSREF V and Exemplar to undertake the redevelopment of Drapers Gardens The scheme comprises approximately 300,000 sq ft of prime commercial development and is scheduled for completion in the autumn of 2009 Canary Wharf Group acquired 20 0% of the share capital in the companies that own the properties and has assumed the role of development manager with day to day running of the scheme This represents Canary Wharf Group's first involvement in a scheme away from the Estate and, coupled with involvement as construction manager on Ballymore s Crossharbour and Millharbour developments, demonstrates that the skills of Canary Wharf Group are transferable to other developments away from the Estate

Business Review continued

VALUATIONS

The net assets of the group, as stated in its consolidated balance sheet as at 31 December 2007 were £2 347 7m In arriving at this total

(i) properties held as investments were carried at £6,019 4m which represents the market value of those properties of £6 211 3m at that date as determined by Canary Wharf Group's external valuers, CBRE, Savills or Cushman, less an adjustment of £186 5m for tenant incentives and £5 4m for deferred negotiation costs,

(ii) properties held for development were carried at £452 0m, representing their market value, and

(iii) properties under construction to be retained by Canary Wharf Group were carried at £99 3m, representing their market value less an adjustment of £0 7m for deferred negotiation costs

Excluding additions, the valuation of the investment portfolio on the basis of market value increased by £136 2m or 2 2% during 2007 After allowing for adjustments in respect of lease incentives, the carrying value of the investment portfolio increased by £110 4m over the year This increase was primarily driven by the benefit of new lettings which was partially offset by the softening in yields in the market In comparison with 30 June 2007, the valuation of the portfolio in the second half of the year reduced by £270 8m or 4 2% as a result of an increase in yields The group is of the view that the low vacancy rate on the Estate and the long average unexpired lease term puts the group in a strong position to weather the more uncertain economic outlook

CBRE and Savills have provided a joint opinion as at 31 December 2007 that the market value of properties held for development was £452 0m, in comparison with £415 0m at 31 December 2006 which resulted in a revaluation increase of £8 9m in the period, net of additions In valuing the properties held for development, the valuers have allowed for estimated costs to complete, including an allowance for fitout In addition they have allowed for letting, disposal, marketing and financing costs The market value of £452 0m represents a reduction of 15 1%, excluding additions since 30 June 2007, which reflects a more uncertain outlook for development in the second half of the year

The valuers also provided an opinion at 31 December 2007 that the market value of the property under construction to be retained was £100 0m which, after transfers to properties under construction and held for sale, resulted in a revaluation surplus of £13 9m in the year The properties under construction held for sale had a market value of £511 0m compared with a carrying value of £255.2m before the transfers required by IAS 11

The market value of the entire property portfolio including investment properties, properties held for development and properties under construction, increased by £330 3m or 4 8% over the year, excluding additions For the six months ended 31 December 2007 the portfolio reduced in value by £323 5m, or 4 3%, excluding additions and transfers As noted earlier, this reduction in value has been driven by the softening in yields in the second half of the year

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 overleaf which shows the carrying value of Canary Wharf Group's properties for accounts purposes in comparison with the supplementary valuations provided by the external valuers

	31 December 2007		30 June 2007		31 December 2006	
	Carrying value £m	**Market value in existing state £m**	Carrying value £m	Market value in existing state £m	Carrying value £m	Market value in existing state £m
Investment properties	**6,019 4 (1)**	**6,211 3 (2)**	6,288 6 (1)	6,470 6 (2)	5,895 6 (1)	6 058 4 (2)
Properties under construction	**99 3**	**100 0 (2)**	64 3	65 0 (2)	94 3	95 0 (2)
Properties held for development	**452 0**	**452 0**	511 0	511 0	414 9	415 0
	6,570 7	**6,763 3**	6,863 9	7,046 6	6,404 8	6,568 4
Properties under construction held for sale	**255 2 (3)**	**511 0**	181 1 (3)	418 4	84 6 (3)	169 0
	6,825 9	**7,274 3**	7,045 0	7,465 0	6,489 4	6,737 4

Note

(1) The carrying value of investment properties represents market value less an adjustment for lease incentives and deferred negotiation costs

(2) Stated at market value in existing state before adjustment for tenant incentives and deferred negotiation costs The tenant incentives and deferred negotiation costs adjustment attributable to investment properties at 31 December 2007 was £191 9m (31 December 2006 – £162 8m)

(3) The carrying value in the balance sheet at 31 December 2007 is stated net of £225 7m transferred to cost of sales (30 June 2007 – £179 8m 31 December 2006 – £76 4m) £29 5m transferred to payments on account (30 June 2007 – £9 4m, 31 December 2006 – £8 2m) and costs accrued of £nil (30 June 2007 – £8 1m 31 December 2006 – £nil) in accordance with IAS 11

TAXATION

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

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

The contingent tax payable if Canary Wharf Group was to dispose of its owned property portfolio at the market values disclosed in this Business Review is included in the net deferred tax provision recognised for IFRS purposes at each balance sheet date (Note 8)

OPERATING RESULTS

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

Revenue is generated primarily by the rents and service charges earned by Canary Wharf Group from its property interests on the Estate and turnover recognised on construction contracts in accordance with IAS 11 Revenue for 2007 was £624 8m, against £436 8m for 2006 Rental income increased from £280 1m to £299 4m, an increase of 6 9% The impact of spreading lease incentives was to increase rental income by £24 1m in 2007 (2006 – £24 4m) Excluding this accounting adjustment, rental income increased from £255 7m to £275 3m an increase of 7 7%, primarily attributable to the benefit of recent lettings and rent reviews Service charge income increased from £53 6m to £62 2m and miscellaneous income, including insurance rents reduced from £26 7m to £24 8m over the year 2007 also included £238 4m of turnover recognised on construction contracts (2006 – £76 4m)

Cost of sales includes rents payable and property management costs, movements on provisions for vacant leasehold properties, as well as costs recognised on construction contracts Rents payable and property management costs were £84 4m in comparison with £82 2m for 2006 Taking into account service charge and miscellaneous income totalling £87 0m (2006 – £80 3m), a profit on estate management of £2 6m was achieved (2006 – loss of £1 9m) The reduction in void costs relates to recent lettings and the consequent increase in occupancy on the Estate

Business Review continued

In 2007 Canary Wharf Group paid £6 3m to surrender its obligations relating to a vacant leasehold property acquired in connection with a leasing transaction in 2004 As a result of this transaction a surplus provision of £0 2m was released to cost of sales Provisions relating to the remaining vacant leasehold property rent support commitments and certain other obligations of Canary Wharf Group increased by £2 6m in 2007, whereas there was a net release of such provisions totalling £4 7m in 2006 In addition, cost of sales for 2007 included £2 9m associated with restructuring certain retail tenancy agreements and £149 3m of costs recognised on construction contracts (2006 - £76 4m) resulting in £89 1m of profit being recognised in the year (2006 - £nil)

For 2007 net property income was £385 6m, an increase of £102 7m over 2006, attributable to the factors referred to above

Administrative expenses for 2007 were £47 0m in comparison with £38 7m for 2006 The increase in administrative expenses was in part attributable to the payment of deferred bonuses by Canary Wharf Group to its management triggered by the achievement of certain performance goals during the year In addition, feasibility study costs were incurred in connection with the review of potential development and investment opportunities In 2006 an accrual relating to the acquisition of Canary Wharf Group was released to administrative expenses, which served to reduce the total for the year by £2 2m

Underlying operating profit (as defined in Note 4) for 2007 was £340 3m in comparison with £245 8m for 2006 Of the increase of £94 5m, £89 1m was attributable to the recognition of profit on construction contracts and £19 3m to increased rental income partly offset by an increase of £8 3m in administrative expenses

In addition to the underlying operating profit, Canary Wharf Group received deferred proceeds totalling £8 3m relating to the sale of two buildings in 2003 and released surplus accruals and deferred income of £10 9m relating to previously disposed properties Total operating profit for 2007 was £469 9m, which included £110 4m of revaluation gains, against £967 9m for 2006, including revaluation gains of £722 1m

Underlying net financing costs (Note 7) for 2007 were £238 1m against £226 2m for 2006 In 2007, Canary Wharf Group restructured its securitised debt, resulting in refinancing charges of £14 3m (Note 7) and recognised a gain of £123 3m in 2006 in connection with the acquisition of three finance leases Movements on derivative financial instruments resulted in a net loss of £35 5m being recognised in the income statement in 2007 compared with a gain of £19 1m in 2006 The increase in underlying net interest payable of £11 9m was primarily attributable to an increase in borrowings

The profit for the year before taxation for 2007 was £182 0m in comparison with a profit of £884 1m for 2006 The results for 2007 and 2006 included certain capital and other profits and losses as described above Underlying profit before taxation for 2007 was £102 2m (2006 - £19 6m) (Note 4)

Taxation for 2007 is wholly attributable to deferred tax In 2007 a deferred tax credit of £23 8m was recognised through the income statement In 2006, a deferred tax charge of £179 1m primarily arose from the requirement to provide for deferred tax on revaluation surpluses and on movements in the fair values of derivative financial instruments

The profit for the year after taxation for 2007 was £205 8m in comparison with a profit of £705 0m for 2006

The basic and diluted earnings per share for 2007 was 22 3p (2006 - 92 3p) (Note 4)

BALANCE SHEET AND KEY PERFORMANCE INDICATORS

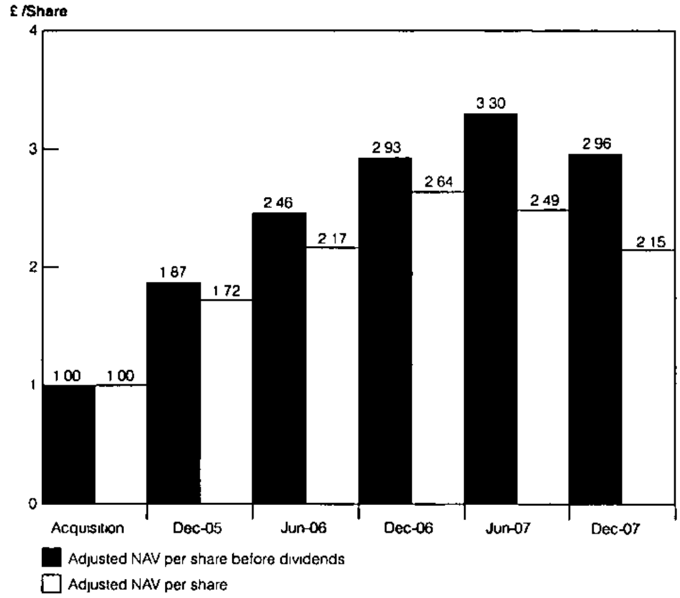
Net assets in the group's balance sheet were £2,347 7m at 31 December 2007, in comparison with £2,380 1m at 31 December 2006 and £2,620 3m at 30 June 2007 The reduction in net assets over the year was principally attributable to the dividends paid to equity shareholders during the first half of the year of £319 7m and partly offset by the increase in the carrying value of properties of £133 5m (Note 6) The reduction in net assets since 30 June 2007 was attributable to the reduction in the carrying value of properties by £348 6m after recognition of profits on construction contracts

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

Adjusted NAV includes the external valuation surplus on construction contracts but excludes deferred tax and fair value adjustments on derivatives In addition, in calculating adjusted NAV the SG Shares, and until it was redeemed, the D Share are treated as equity rather than as, respectively a debt instrument and a derivative for balance sheet purposes in accordance with accounting standards The calculation of adjusted NAV is disclosed in Note 4 which indicates that adjusted NAV per share reduced from £2 64 at 31 December 2006 to £2 15 at 31 December 2007 after 70 5p of dividends per A, B and SG Share

Adjusted NAV per share at 30 June 2007 was £2 49 and the reduction to £2 15 at 31 December 2007 was primarily attributable to the fall in the carrying value of properties

The movement in net asset value per share is set out in the chart below which includes the position both before and after dividends



Adjusted NNNAV per share is set out in the following table

	Note	**31 December 2007 £m**	30 June 2007 £m	31 December 2006 £m
Adjusted net assets attributable to members of the company	(i)	**1,354 9**	1,571 8	1,624 6
Fair value adjustment in respect of financial assets and liabilities net of tax thereon	(ii)	**4 8**	95 0	(113 4)
Deferred tax	(iii)	**(168 6)**	(324 6)	(181 4)
Minority interest in above adjustments		**64 2**	90 0	115 6
Adjusted NNNAV		**1,255 3**	1,432 2	1,445 4
Cumulative dividends	(iv)	**512 3**	512 3	179 9
		1,767 6	1,944 5	1,625 3
Adjusted NAV per share	(i)	**£2 15**	£2 49	£2 64
Adjusted NNNAV per share	(v)	**£1 99**	£2 27	£2 35
Adjusted NNNAV per share before dividends	(v)	**£2 80**	£3 08	£2 65

Note

(i) Refer to Note 4

(ii) The fair value adjustment comprises the mark to market of derivatives in Note 4 and the after tax difference between the market value and book value of debt (Note 21) excluding the SG Shares which are treated as equity in the NNNAV calculation

(iii) Refer to Note 8

(iv) Total dividends paid since the acquisition of Canary Wharf Group in 2004 of £657 6m £1 05 per share (31 December 2006 – £213 2m 34 6p per share) of which £145 3m (31 December 2006 – £33 3m) was accounted for as a reduction in the liability recorded in respect of the SG Shares (Note 21)

(v) Calculation based on 630 6m shares in issue at 31 December 2007 (31 December 2006 – 616 1m)

Business Review continued

On 14 February 2007, an interim dividend of 29 5p was paid on each of the SG, A and B Shares Subsequently on 18 June 2007, a further interim dividend of 41 0p was paid These dividends, in addition to dividends paid up to 31 December 2006 served to reduce adjusted NNNAV per share from £2 80 to £1 99

In January 2007, 14,478,260 B Shares were issued in exchange for the cancellation of the dividend and distribution rights attaching to the D Share Had this issue of shares occurred by 31 December 2006, the impact would have been to reduce NNNAV per share by 6p to £2 29

RISKS AND UNCERTAINTIES

The risks and uncertainties facing the business of the consolidated group are monitored through continuous assessment more regular and formal quarterly review and discussion at audit committee and board level of both the company and Canary Wharf Group Board and audit committee discussion focuses on the risks identified as part of the groups system of internal control which highlights key risks faced by the company and allocates specific day to day monitoring and control responsibilities as appropriate The key risks 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 groups assets is subject to many external economic and market factors which are cyclical in nature These cycles manifest themselves in the property market by such factors as the oversupply of available space in the office market, a decline in tenant demand for space in London or a change in the market perception of property as an investment Such potential factors are constantly monitored in order to ensure that the group can react swiftly and flexibly should they arise The upheaval in the financial markets during 2007 triggered by the problems in the US sub-prime mortgage market impacted on the UK property and financial markets in general The potential impact of this upheaval on the business of the group has been, and continues to be, closely monitored

Financing risk

The broader economic cycle inevitably leads to movements in inflation, interest rate 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 groups facilities are fixed after taking account of interest rate hedging and cash deposits held as cash collateral With the exception of SFL's loan facility which falls due in 2010, all of the group's other facilities are long term loans (with an average maturity of 16 2 years) Further details on the management of treasury risk can be found in the section 'Business Review – Treasury objectives' and Note 21 of the Notes to the consolidated financial statements

Concentration risk

The majority of the group's real estate assets are currently located on or adjacent to the Estate Wherever possible steps are taken to mitigate or avoid material consequences arising from this concentration Whilst the focus of the group will remain on and around the Estate, where value can be added, the Canary Wharf Group will consider opportunities elsewhere such as the joint venture arrangements for the redevelopment of Drapers Gardens

Policy and planning risks

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

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 groups variable rate borrowings Details of the financial risks facing the group are disclosed in Note 21 of the Notes to the consolidated financial statements

BORROWINGS

In May 2007, £800 0m was drawn down under a new £880 0m Songbird loan facility by SFL which was used to fund the repayment of £520 9m plus interest outstanding under an existing loan The balance was used to pay the dividend totalling £258 4m declared in June 2007

In April 2007 Canary Wharf Group completed a restructuring of its securitisation involving the redemption of £572 6m of FRNs and the issue of £726 0m new non-amortising FRNs Additional proceeds raised of £153 0m were represented principally by £51 0m of Class C2 notes, rated A, and £100 0m of Class D2 notes, rated BBB All of the new notes issued mature in October 2037

During the year, Canary Wharf Group also entered into a £155 0m 3 year construction loan facility secured on 5 Churchill Place A total of £36 6m including interest had been drawn down under this facility at 31 December 2007

At 31 December 2007, net debt (including derivative financial instruments at fair value, net of monetary deposits and cash and cash equivalents) stood at £3,861 8m, up by £217 2m from £3,644 6m at 31 December 2006 The components making up net debt are shown in Note 21 of the Notes to the consolidated financial statements

The increase in total borrowings including derivatives from £4,674 5m to £5,000 7m primarily reflects the draw down under the Songbird loan, the effect of restructuring Canary Wharf Group's securitisation and draw downs made by Canary Wharf Group under its new construction loan facility, as referred to above

The increase in total borrowings was accompanied by an increase in cash and cash equivalents from £882 4m to £1 020 5m primarily as a result of the draw downs and payments on account on construction contracts referred to above, partially offset by the dividends paid

At 31 December 2007 the group's weighted average cost of debt was 6 4% including credit wraps (31 December 2006 – 6 2%)

CASH FLOW

Cash generated from operations for 2007 was £454 1m in comparison with £326 3m for 2006 This increase was primarily attributable to net proceeds from construction contracts and increased rental income 2007 included £316 1m of payments received arising from agreements to sell 30 North Colonnade, 15 Canada Square and 20 Churchill Place compared with 2006 which included £131 8m from the sale of 20 Churchill Place and 15 Canada Square

Cash flows from investing activities resulted in a cash outflow of £104 3m for 2007 compared with £32 2m for 2006 2007 included £91 6m of development expenditure on properties to be retained by Canary Wharf Group (2006 – £41 4m) 2006 also included a deferred receipt of £27 0m from an investment property sold in 2005

Cash flows from financing activities for 2007 resulted in an inflow of £50 3m compared with an outflow of £1,007 6m for 2006 Dividends were paid totalling £444 4m in 2007, of which £319 7m was paid to the A and B shareholders, compared with £78 0m in 2006 2007 included net proceeds of £148 0m arising from restructuring Canary Wharf Groups securitisation, £279 1m on the restructuring of the Songbird loan facility and a further £30 2m drawn down subsequently and £34 9m drawn down under Canary Wharf Groups construction loan facility Dividends paid on the SG Shares in excess of the finance charge accrued totalled £112 0m in 2007 (2006 – £27 3m) 2006 included £836 6m expended on the acquisition of finance leases by Canary Wharf Group, funded by the removal of restrictions over certain cash collateral accounts totalling £836 7m 2006 also included repayment of £203 6m remaining on Canary Wharf Group's £750 0m loan facility funded by the proceeds of the £300 0m retail loan facility

Directors' Report for the year ended 31 December 2007

The directors present their report with the audited consolidated financial statements for 2007

PRINCIPAL ACTIVITY AND BUSINESS REVIEW

The principal activity of the company is the management of its investment in its main subsidiary, Canary Wharf Group the holding company for a group which specialises in integrated property development, investment and management focusing particularly on the Estate There has, however, been a recent extension of the business into the City of London via the joint venture arrangements in respect of the redevelopment of Drapers Gardens

A detailed review of the business of the group during the year, and of its position at 31 December 2007, can be found in the Chairmans Statement' and the 'Business Review ' The key risks and uncertainties identified for the group are summarised in the 'Business Review – Risks and uncertainties' Measures of the group's performance by reference to appropriate key performance indicators may be found in the 'Business Review – Balance sheet and key performance indicators'

EVENTS AFTER THE BALANCE SHEET DATE

Details of events after the balance sheet date are shown in Note 30

RESULTS AND VALUATIONS

The results for the year are set out in the Consolidated Income Statement Changes in the market value of land and buildings during 2007 are reviewed in the 'Business Review – Property portfolio

DIVIDENDS AND RESERVES

On 21 December 2006 the board declared an interim dividend of 29 5p on each of the SG, A and B Shares which was paid on 14 February 2007

On 31 May 2007 the board declared a further interim dividend of 41 0p on each of the SG, A and B Shares, which was paid on 18 June 2007

In the event the SG Shares fixed cumulative preferred dividend is not paid on the due date, in accordance with the Articles the rate at which the dividend is calculated increases by 0 5% up to a maximum of 10 0% However in consideration of the payment of interim dividends totalling in aggregate 70 5p per SG Share, which was significantly beyond the accrued fixed entitlement at the dates of payment, the holders of the SG Shares agreed to waive their entitlement to any preferred dividend in excess of 8 0% per annum in the relevant periods The SG Shares are classified as liabilities, and dividends payable on the SG Shares are treated as interest payable and included within the current portion of long term borrowings (Note 18 of the Notes to the consolidated financial statements)

The profit of £100 4m (2006 – £403 1m) attributable to the members of the company has been transferred to reserves

INTERNATIONAL FINANCIAL REPORTING STANDARDS

This is the first year the group reports its results under IFRS which have been adopted with effect from 1 January 2007 This change to the accounting basis arises from legislation requiring all EU listed companies (including AIM companies) to apply these standards to their financial statements Comparative figures for 2006 have been restated in accordance with IFRS The principal impacts of adopting IFRS along with comparatives for the year ended 31 December 2006 contained within this report, were published in a stock exchange announcement dated 15 August 2007 The impact of the first time adoption of IFRS is disclosed in Note 29

SHARE CAPITAL

There were no changes to the authorised share capital of the company during the year ended 31 December 2007 Following the extraordinary general meeting of the company held on 24 January 2007 £1,447 826 was capitalised from the companys share premium account in order to issue 14,478,260 B Shares to BL in exchange for cancellation of all dividend and distribution rights attaching to the D Share The D Share was redeemed by the company on 26 February 2007

The attention of shareholders is drawn to Note 23 of the Notes to the consolidated financial statements which provides details of the authorised and issued share capital of the company and summarises agreements between shareholders and the various rights attaching to each class of share

GOING CONCERN

The directors are required to prepare the financial statements for each financial year on a going concern basis unless to do so would not be appropriate Having made requisite enquiries, the directors have a reasonable expectation that the company and the group have adequate resources to continue their operations for the foreseeable future and hence the financial statements have been prepared on that basis

SUBSTANTIAL SHAREHOLDINGS

At the date of this report, 74 42% of the issued share capital of the company is held by the initial entities involved in the offer for Canary Wharf Group with the remaining 25 58% held in the form of B Shares which are listed on AIM

The various rights attaching to each class of shares are summarised in Note 23 of the Notes to the consolidated financial statements

At 20 March 2008 the company had been notified of the following disclosable interests of 3 0% or more in any class of shares of the company

	No of shares m	Issued capital %	Voting rights %
Glick Entities[1]	176 75	28 03	38 28
Morgan Stanley related funds[2]	166 63	26 42	33 94
British Land (Joint Ventures) Limited[3]	112 10	17 78	20 42
The Kingdom Trust[4]	40 67	6 45	1 10
RF(UK) Investments Limited[5] [6]	18 10	2 87	0 49
Credit Suisse Securities (Europe) Limited[5]	14 24	2 26	0 39
Black Rock Inc[5]	8 50	1 34	0 23
Lehman Brothers International (Europe)[6]	7 32	1 16	0 19

Note

(1) Investment vehicles and trusts connected with Simon Glick and his family holding SG Shares

(2) Comprises the MSREF Funds Princes Gate Investors, MSQ (a Morgan Stanley related entity comprising State of Qatar 99 5% and MSREF 0 5%) and Morgan Stanley Real Estate Special Situations Fund II together holding A Shares and B Shares

(3) A wholly owned subsidiary of The British Land Company PLC holding A Shares and B Shares

(4) The Kingdom Trust is a trust established for the benefit of His Royal Highness Prince Alwaleed Bin Talal Bin Abdulaziz Al Saud and his family and holds B Shares only

(5) B Shares only

(6) Holds B Shares as Trustee of the LMR Trust which is a discretionary trust established for the benefit of Paul Reichmann his family and others

DIRECTORS

The following directors served on the board of the company during the year

Brian Carr
Eugene Doyle (resigned 20 June 2007)
Robert Gray (resigned 25 September 2007)
Gabriela Gryger
Philip Lader
Shmuel (Sam) Levinson
Gavin MacDonald
Alexander (Alex) Midgen
Brian Niles (appointed 25 September 2007)
Richard Powers
David Pritchard
Timothy Roberts (appointed 20 June 2007)

In accordance with the Articles, the appointment of David Pritchard as the independent director of the company will be put forward for ratification at a separate class meeting of the B shareholders to be held on the same day as the forthcoming annual general meeting Biographical details for David Pritchard and the other directors are provided in 'Members' Information'

DIRECTORS' INTERESTS

Sam Levinson has direct and indirect relationships with the Glick Entities and accordingly, has an interest in 176 754,408 SG Shares of the company being the SG Shares held by the Glick Entities None of the remaining directors, or their families, had a beneficial interest in the ordinary shares of the company or any of its subsidiary companies at 1 January 2007 or 31 December 2007 All of the directors are non-executive directors and the company has not, therefore, adopted any share plan for the benefit of its directors

Except as stated in Note 28 of the Notes to the consolidated financial statements no other contract subsisted during the year in relation to the business of the company in which any director was materially interested

DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year The directors are required by the AIM rules to prepare the group financial statements under IFRS as adopted by the European Union and have elected to prepare the company financial statements under UK GAAP The financial statements are

Directors' Report for the year ended 31 December 2007 continued

also required by law to be properly prepared in accordance with the Companies Act 1985

International Accounting Standard 1 requires that IFRS financial statements present fairly for each financial year the group's financial position, financial performance and cash flows This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's Framework for the preparation and presentation of financial statements In virtually all circumstances a fair presentation will be achieved by compliance with all applicable IFRSs Directors are, however, also required to

- properly select and apply accounting policies,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- provide additional disclosures when compliance with the specific requirements in the IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance, and
- make an assessment of the company's and the group's ability to continue as a going concern

The directors have elected to prepare the company financial statements in accordance with UK GAAP and applicable law The company financial statements are required by law to give a true and fair view of the state of affairs of the company In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the group and enable them to ensure that the company financial statements comply with the Companies Act 1985 The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

DIRECTORS' INDEMNITY AND INSURANCE

The company provides an indemnity to all directors (to the extent permitted by law) in respect of liabilities incurred as a result of their office The group also has in place liability insurance covering the directors and officers of the company and its subsidiary undertakings Neither the indemnity or the insurance provide cover in the event that the director is proven to have acted dishonestly or fraudulently

CORPORATE GOVERNANCE

Due to the concentrated shareholder base and shareholder representation on the board of the company, it is not practical for the company to comply with all of the principles of the QCA Corporate Governance Guidelines for AIM Companies However, the directors are mindful of their duties and responsibilities to all shareholders, and as such the following principles of corporate governance apply

- the board comprises an independent non-executive chairman whose appointment must be ratified by the B shareholders at a separate class meeting to be held on the same day as the company's annual general meeting Shareholders holding in aggregate 20 0% or more of the issued B Shares are entitled under the Articles to propose a person to be nominated as the independent director
- the board meets at least four times a year and has formally adopted a schedule of powers which are reserved to the board The board has full and timely access to all relevant information to enable it to discharge its duties effectively,
- committees of the board, which have adopted formalised terms of reference, have been established to deal with the day to day matters of the company and specific areas of responsibility,

- independent advisers have been appointed by the company,
- all directors have direct access to the advice and services of the company secretary and are able to seek independent professional advice at the expense of the company if required in connection with their duties,
- formal agreements are in place between the company significant shareholders (as appropriate) and their associates and Canary Wharf Group in relation to the dissemination of information, provision of services and consultancy arrangements,
- the board has responsibility for the maintenance of a sound system of internal control and for reviewing its effectiveness, and
- a share dealing code has been adopted by the company

Committees

Announcement Audit and Executive Committees have been established with formally delegated duties and responsibilities, which were reviewed and updated during the year David Pritchard, the independent non-executive director and chairman of the company, chairs all of the committees

The Announcement Committee, which has two members in addition to the chairman meets as required to consider information that should or may be required to be disseminated to the market having regard to the company's and the directors' continuing obligations

The Audit Committee meets at least four times a year and has three members in addition to the chairman All meetings are attended by the company's external auditors and, as appropriate, certain members of senior management of Canary Wharf Group, which is the main subsidiary of the company

Powers to implement the decisions of the board together with the day to day management and administration of the company and its wholly owned subsidiaries SAL and SFL, are delegated to the Executive Committee which meets on a quarterly basis The Executive Committee has four members, including the chairman

Membership of the committees can be found in Members' Information'

POLICIES

Environmental

Due to the nature of the companys business, being the management of its investment in Canary Wharf Group and its management structure it is not feasible for the company to adopt an environmental and social policy in its own right However, the directors are conscious of environmental issues and adhere, as appropriate, to Canary Wharf Group's environmental policy Details of the Canary Wharf Group policy, which extends to all subsidiary companies within Canary Wharf Group, together with a copy of the latest Canary Wharf Group Environmental and Social Report can be obtained from www greencanarywharf com

Employment

As neither the company, nor its wholly owned subsidiaries have employees an employment policy has not been adopted by the company However, Canary Wharf Group has adopted a detailed employment policy, details of which can be found in the annual report of Canary Wharf Group

Treasury

Details of the group's treasury objectives and the fair value of the group's debt can be found in Note 21 of the Notes to the consolidated financial statements

Payment of suppliers

It is the groups policy to settle the terms of payment with its suppliers when agreeing the terms of each transaction to ensure that suppliers are made aware of, and abide by the terms of payment

Further disclosure on consolidated trade and other payables can be found in Note 17 of the Notes to the consolidated financial statements and on the company only trade creditors in Note (f) to the Company Financial Statements

DONATIONS

No political donations (as defined in the Companies Act 2006) or charitable donations were made by the company during 2007 or 2006

Canary Wharf Group made charitable donations of £394,451 in 2007 (2006 – £208,838), primarily in support of local community initiatives Political donations and political expenditure (as defined by the Companies Act 2006 and which include donations in kind) made by Canary Wharf Group during the year comprised £65 680 to the Labour Party and £11,500 to the Conservative Party (2006 – £10,000 to the Labour Party) In addition, political expenditure (as defined by the Companies Act 2006) of

Directors' Report
for the year ended 31 December 2007 continued

£1,200 for the Labour Party and £3,588 for the Conservative Party was incurred by Canary Wharf Group in 2007 The above figures relate to the financial year and as such extend over two shareholder authority periods for political donations and expenditure

AUDITORS AND DISCLOSURE OF INFORMATION TO AUDITORS

A resolution to re-appoint Deloitte & Touche LLP as the company's auditors will be proposed at the annual general meeting

So far as the directors are aware there is no relevant audit information of which the auditors are unaware Each director has taken all reasonable steps to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985

ANNUAL GENERAL MEETING AND CLASS MEETING

The annual general meeting will be held at 2 30 pm on Wednesday 28 May 2008 at 10 Upper Bank Street, Canary Wharf, London E14 5JJ, followed by the B shareholder class meeting in accordance with the Articles The Notices of Meetings together with explanations of the items of special business to be considered at the meetings, are enclosed with this report

By order of the board

JOHN GARWOOD
Secretary

26 March 2008

Independent Auditors' Report to the Members of Songbird Estates plc

We have audited the group financial statements of Songbird Estates plc for the year ended 31 December 2007 which comprise the Consolidated Income Statement the Consolidated Balance Sheet, the Consolidated Cash Flow Statement the Consolidated Statement of Recognised Income and Expense and the related Notes 1 to 30 These group financial statements have been prepared under the accounting policies set out therein

We have reported separately on the parent company financial statements of Songbird Estates plc for the year ended 31 December 2007

This report is made solely to the companys members, as a body, in accordance with section 235 of the Companies Act 1985 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors' responsibilities for preparing the Annual Report and the group financial statements in accordance with applicable law and IFRSs as adopted by the European Union are set out in the Statement of Directors Responsibilities

Our responsibility is to audit the group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the group financial statements give a true and fair view, whether the group financial statements have been properly prepared in accordance with the Companies Act 1985 We also report to you whether in our opinion the information given in the Directors Report is consistent with the group financial statements The information given in the Directors Report includes that specific information presented in the Business Review that is cross referred from the Principal Activity and Business Review section of the Directors' Report

In addition we report to you if in our opinion the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit or if information specified by law regarding directors remuneration and other transactions is not disclosed

We read the other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited group financial statements We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the group financial statements Our responsibilities do not extend to any further information outside the Annual Report

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the group financial statements It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the group financial statements, and of whether the accounting policies are appropriate to the groups circumstances, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the group financial statements are free from material misstatement, whether caused by fraud or other irregularity or error In forming our opinion we also evaluated the overall adequacy of the presentation of information in the group financial statements

OPINION

In our opinion

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union of the state of the group's affairs as at 31 December 2007 and of its profit for the year then ended,
- the group financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the group financial statements

Deloitte & Touche LLP

DELOITTE & TOUCHE LLP
Chartered Accountants and Registered Auditors
London
United Kingdom

26 March 2008

Consolidated Income Statement for the year ended 31 December 2007

	Note	2007 Underlying* £m	2007 Capital and other £m	2007 Total £m	2006 Underlying* £m	2006 Capital and other £m	2006 Total £m
Gross development, rental and related income	5	**624 8**	**–**	**624 8**	436 8	–	436 8
Cost of sales		**(239 2)**	**–**	**(239 2)**	(153 9)	–	(153 9)
Net development, rental and related income	5	**385 6**	**–**	**385 6**	282 9	–	282 9
Share of associates and joint ventures (after taxation)	12	**(1 4)**	**–**	**(1 4)**	(0 3)	–	(0 3)
Administrative expenses		**(47 0)**	**–**	**(47 0)**	(38 7)	–	(38 7)
Other income	5	**3 1**	**19 2**	**22 3**	1 9	–	1 9
Net revaluation gains	6	**–**	**110 4**	**110 4**	–	722 1	722 1
Operating profit	3	**340 3**	**129 6**	**469 9**	245 8	722 1	967 9
Net financing costs							
– investment revenues	7	**53 4**	**–**	**53 4**	46 1	–	46 1
– financing costs	7	**(291 5)**	**(35 5)**	**(327 0)**	(272 3)	19 1	(253 2)
– refinancing (costs)/gains	7	**–**	**(14 3)**	**(14 3)**	–	123 3	123 3
		(238 1)	**(49 8)**	**(287 9)**	(226 2)	142 4	(83 8)
Profit for the year before taxation		**102 2**	**79 8**	**182 0**	19 6	864 5	884 1
Taxation							
– deferred tax	8			**23 8**			(179 1)
Profit for the year after taxation	4			**205 8**			705 0
Attributable to Equity holders of the company				**100 4**			403 1
Minority interest				**105 4**			301 9
				205 8			705 0
Earnings per share							
– basic and diluted	4			**22 3p**			92 3p

*As defined in Notes 1 and 4

Consolidated Statement of Recognised Income and Expense for the year ended 31 December 2007

	2007 £m	2006 £m
Profit for the year after taxation	**205 8**	705 0
Transferred from equity in respect of cash flow hedges	**35 8**	7 4
Tax on items transferred from equity	**(10 0)**	(2 2)
	25 8	5 2
Revaluation of development property	**22 8**	172 9
Share of revaluation of associated undertakings' development property	**0 3**	–
(Losses)/gains on cash flow hedges	**(19 7)**	22 5
Deferred tax on items taken directly to equity	**(1 0)**	(58 5)
Net income recognised directly in equity	**28 2**	142 1
Total Recognised Income and Expense for the year	**234 0**	847 1
Attributable to		
Equity holders of the company	**112 8**	489 4
Minority interest	**121 2**	357 7
	234 0	847 1

Refer to Note 24 for further details

Consolidated Balance Sheet at 31 December 2007

	Note	**2007 £m**	2006 £m
ASSETS			
Non current assets			
Investment properties	11	**6,019 4**	5,895 6
Properties under construction	11	**99 3**	94 3
Development properties	11	**452 0**	414 9
Plant and equipment	11	**0 9**	0 4
		6,571 6	6,405 2
Other non current assets			
Investments	12	**23 6**	12 8
Derivative financial instruments	20	**0 3**	11 5
Tenant incentives and deferred negotiation costs	14	**192 6**	163 6
		6,788 1	6,593 1
Current assets			
Trade and other receivables	13	**67 2**	49 0
Monetary deposits	15	**118 4**	147 5
Cash and cash equivalents	16	**1,020 5**	882 4
		1,206 1	1 078 9
Total assets		**7,994 2**	7,672 0
LIABILITIES			
Current liabilities			
Current portion of long term borrowings	18	**(61 8)**	(103 5)
Trade and other payables	17	**(449 7)**	(383 9)
		(511 5)	(487 4)
Non current liabilities			
Borrowings	19	**(4,844 9)**	(4 427 5)
Derivative financial instruments	20	**(94 3)**	(155 0)
Deferred tax liabilities	8	**(168 6)**	(181 4)
Provisions	22	**(27 2)**	(40 6)
		(5,135 0)	(4 804 5)
Total liabilities		**(5,646 5)**	(5,291 9)
Net assets		**2,347 7**	2,380 1
Equity			
Share capital	23	**45 4**	43 9
Other reserves	24	**464 7**	453 6
Retained earnings	24	**564 7**	730 9
Total equity attributable to members of the company		**1,074 8**	1,228 4
Minority interests	24	**1,272 9**	1 151 7
Total equity		**2,347 7**	2,380 1

Approved by the board and authorised for issue on 26 March 2008 and signed on its behalf by

DAVID PRITCHARD
Chairman

Consolidated Cash Flow Statement for the year ended 31 December 2007

	Note	2007 £m	2006 £m
Cash flows from operating activities			
Cash generated from operations	26	**454 1**	326 3
Interest paid		**(297 0)**	(270 7)
Interest received		**54 7**	46 3
Interest element of finance lease rentals		**(2 1)**	(5 1)
Financing expenses		**(17 0)**	(4 0)
Breakage costs		**(0 6)**	(0 5)
Net cash inflow from operating activities		**192 1**	92 3
Cash flows from investing activities			
Development expenditure		**(91 6)**	(41 4)
Purchase of property, plant and equipment		**(0 9)**	(7 3)
Sale of investment properties		**–**	27 0
Investment in and loans to joint ventures		**(11 8)**	(10 5)
Net cash outflow from investing activities		**(104 3)**	(32 2)
Cash flows from financing activities			
Dividends paid		**(319 7)**	(78 0)
Dividends paid to minority shareholders		**–**	(120 1)
Repayment of SG Shares liability		**(112 0)**	(27 3)
Draw down of construction loan		**34 9**	–
Draw down of securitised debt		**726 0**	–
Redemption of securitised debt		**(581 4)**	(11 9)
Repayment of finance leases		**–**	(836 6)
Draw down of secured loans		**–**	300 0
Repayment of secured loans		**(6 8)**	(210 1)
Draw down of Songbird loans		**830 2**	175 2
Repayment of Songbird loans		**(520 9)**	(198 8)
Net cash inflow/(outflow) from financing activities		**50 3**	(1,007 6)
Net decrease in cash and cash equivalents		**138 1**	(947 5)
Cash and cash equivalents at start of year		**882 4**	1,829 9
Cash and cash equivalents at end of year	16	**1,020 5**	882 4

Cash flows resulting from construction contracts have been reclassified from investing activities to operating activities to provide a more appropriate presentation of the group's cash flow (Note 1)

Notes to the Consolidated Financial Statements for the year ended 31 December 2007

1 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

The financial information presented in this report has been prepared in accordance with IFRS and IFRIC interpretations as adopted by the EU and therefore complies with AIM rules

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective

IFRS 3 (Revised)	Business Combinations
IAS 1 (Revised)	Presentation of Financial Statements
IAS 23 (Revised)	Borrowing costs
IAS 27 (Revised)	Consolidated and Separate Financial Statements
IFRIC 11	IFRS 2 – Group and Treasury Share Transactions
IFRIC 12	Service Concession Arrangements
IFRIC 13	Customer Loyalty Programmes
IFRIC 14	IAS 19 – The Limit on a Defined Benefit Asset Minimum Funding Requirements and their Interaction

The directors have elected to adopt the disclosure requirements of IFRS 8 in 2007 As a result, no segmental analysis is disclosed This is consistent with internal management reporting

The directors anticipate that the adoption of the other Standards and Interpretations in future periods will have no material impact on the financial statements of the group

These financial statements have been prepared under the historical cost convention as modified by the revaluation of land and buildings and certain financial instruments A summary of the more important group accounting policies which have been applied consistently in all material respects throughout the year and for the comparative year (as restated for IFRS), is set out below In the consolidated cash flow statement, cash flows resulting from construction contracts have been reclassified from investing activities to operating activities to provide a more appropriate presentation of the group's cash flow

The principal impacts of adopting IFRS and the disclosures required by IFRS 1 concerning the transition from UK GAAP to IFRS are given in Note 29

(a) Basis of consolidation

The consolidated financial statements include the financial statements of the company and its subsidiaries for the periods reported For the purposes of preparing these consolidated accounts, subsidiaries are those entities where the company controls in excess of 50 0% of the voting share capital of an entity Control exists when the company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date control ceases

Associates and joint ventures are accounted for under the equity method, whereby the consolidated balance sheet incorporates the groups share of the net assets of the relevant entities The consolidated income statement incorporates the groups share of associate profits after tax An entity is classified as an associated undertaking when the group has significant influence over the economic activity of an undertaking but does not have control An entity is classified as a joint venture where the contractual arrangement by which the group undertook to join an economic activity provides joint control

Intra-group balances and any unrealised gains and losses arising from intra-group transactions are eliminated in preparing the consolidated financial statements

(b) Acquisitions and business combinations

Where properties are acquired through corporate acquisitions and there are no significant assets or liabilities other than property and related debt, the acquisition is treated as an asset acquisition In all other cases the acquisition is accounted for as a business combination, in accordance with IFRS 3 in which case the assets and liabilities of a subsidiary joint venture or associated undertaking are measured at their estimated fair value at the date of acquisition The results of such business combinations are included from the effective date of acquisition to the effective date of disposal The excess of acquisition costs over the group's interest in the fair value of the identifiable assets and liabilities of the new entity at the date of acquisition is recognised as goodwill

(c) Investment properties and properties occupied by Canary Wharf Group

Investment properties are those properties that are held either to earn rental income or for capital appreciation or both

Property occupied by the group is carried at fair value based on a professional valuation made as of each reporting date and where such valuation is not material included in investment properties Additions consist of costs of a capital nature

Acquired investment properties are measured initially at cost, including related transaction costs After initial recognition at cost, investment properties are carried at their fair values based on a professional valuation made as of each reporting date Properties are treated as acquired at the point when the group assumes the significant risks and returns of ownership and as disposed when these are transferred to the buyer Additions to investment properties consist of costs of a capital nature

The difference between the fair value of an investment property at the reporting date and its carrying amount prior to re-measurement is included in the income statement as a valuation gain or loss When the group begins to redevelop an existing investment property for continued future use as an investment property, the property remains an investment property and is accounted for as such

(d) Non current assets held for sale

Non current assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell

Non current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification No properties were classified as non current assets held for sale at 31 December 2007 or 31 December 2006

(e) Development properties and properties under construction for investment

Development properties are those properties held with the intention to develop for future use as an investment property When construction commences on such development properties they are re-classified at fair value as a property under construction for investment Properties under construction for investment and development properties are recognised at fair value at each reporting date Any gain or loss on re-measurement is taken direct to equity unless any loss in the period exceeds any net cumulative gain previously recognised in equity In the latter case, the amount by which the loss in the period exceeds the net cumulative gain previously recognised is taken to the income statement On completion, the property is transferred to investment property with any final difference on re-measurement accounted for in accordance with the foregoing policy

Finance costs associated with direct expenditure on properties under construction to be held as an investment property or undergoing major refurbishment are capitalised The interest capitalised is calculated using the group's weighted average cost of borrowings after adjusting for borrowings associated with specific developments Where borrowings are associated with specific developments, the amount capitalised is the gross interest incurred on those borrowings less any investment income arising on their temporary investment Interest is capitalised as from the commencement of the development work until the date of practical completion The capitalisation of finance costs is suspended if there are prolonged periods when development activity is interrupted

Notes to the Consolidated Financial Statements for the year ended 31 December 2007 continued

(f) Plant and equipment

Plant and equipment comprises computers, furniture, fixtures and fittings and improvements to group offices These assets are stated at cost less accumulated depreciation and any recognised impairment and are depreciated on a straight line basis over their estimated useful lives of between 2 and 3 years

(g) Construction contracts

Construction contracts consist of properties that are being constructed in accordance with long term development contracts and will ultimately be sold to a third party Properties held for sale are shown at the lower of cost (being the carrying value at the previous year end plus subsequent additions) and net realisable value Revenue on construction contracts is recognised according to the stage reached in the contract by reference to the value of work completed using the percentage of completion method The gross amount due comprises costs incurred plus recognised profits less the sum of recognised losses and progress billings Where the sum of recognised losses and progress billings exceeds costs incurred plus recognised profits, the amount is shown as payments on account

When it is probable that total contract costs will exceed total contract revenue the expected loss is recognised immediately as an expense

(h) Trade receivables

Trade receivables are recognised initially at fair value A provision for impairment is established where there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables concerned

(i) Cash and cash equivalents

Cash and cash equivalents comprise cash balances, deposits held with banks and other short term highly liquid investments with original maturities of three months or less

(j) Monetary deposits

Amounts held on deposit with original maturities in excess of three months are classified as monetary deposits and accounted for at amortised cost

(k) Trade and other payables

Trade and other payables are stated at cost

(l) Provisions

A provision is recognised in the balance sheet when the group has a present obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate the risks specific to the liability

(m) Borrowings

Borrowings are recognised initially at fair value less attributable transaction costs Subsequent to initial recognition borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in the income statement over the period of the borrowings, using the effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period The effective interest rate is the rate that exactly discounts estimated future cash flows (including all fees that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability

(n) Pension benefits

Contributions to the defined contribution schemes are expensed as they fall due

(o) Share capital

Ordinary shares are classed as equity External costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds

The SG Shares are classified as a liability and are included in amounts payable in more than one year

The finance cost of the SG Shares is classified as a financing expense in the income statement and, when accrued, included in amounts payable within one year The excess of amounts paid over interest accrued, in accordance with the shareholders' rights, serves to reduce the carrying value of the liability included in amounts payable

The D Share was classified as a derivative stated at its fair value in amounts payable within one year prior to its conversion to B Shares Movements in the fair value of the D Share were classified as a financing expense in the income statement

The consideration paid including any directly attributable incremental costs, by any group entity to acquire Treasury Shares is deducted from equity until the shares are cancelled, reissued or disposed of Where Treasury Shares are sold or reissued, the net consideration received is included in equity

(p) Share-based payments

The cost of granting share options and other share-based remuneration to employees and directors in accordance with Canary Wharf Group's share scheme is allocated to the same expense category as the employment cost of the relevant employees The majority of members of the scheme are able to opt for a cash settlement, calculated in accordance with the terms of the grant at the end of the vesting period and linked to the value of B Shares at that date Accordingly a liability is recorded based on the market value of the B Shares at each balance sheet date The resulting values are recognised in the income statement over the vesting period of the options and other grants on a straight line basis

(q) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is stated net of discounts and VAT

Revenue comprises rental income, service charges and other recoveries from tenants of the group s properties, and income arising on long term contracts Service charges and other recoveries include directly recoverable expenditure together with any chargeable management fees and are recognised as they fall due

Revenue from construction contracts is recognised in accordance with the groups accounting policy on construction contracts

Rental income from investment property leased out under an operating lease is recognised in the income statement on a straight line basis over the term of the lease Lease incentives granted, including rent free periods, are recognised as an integral part of the net consideration for the use of the property and are therefore also recognised on the same, straight line basis An adjustment is made to ensure that the carrying value of the related property, including the accrued rent, amortised lease incentives and negotiation costs, does not exceed the external valuation

Contingent rents, being those lease payments that are not fixed at the inception of a lease, for example turnover rents, are recorded as income in the periods in which they are earned

Notes to the Consolidated Financial Statements for the year ended 31 December 2007 continued

Where revenue is obtained by the sale of assets, it is recognised when significant risks and returns have been transferred to the buyer In the case of sale of properties, this is on completion

(r) Expenses

Property and contract expenditure incurred prior to the exchange of a contract is expensed as incurred

Direct costs incurred in negotiating and arranging a new lease are amortised on a straight line basis over the period from the date of lease commencement to the earliest termination date

(s) Impairment of tangible and intangible assets

The carrying amounts of the groups non-financial assets, other than investment property (see (c) above), are reviewed at each reporting date to determine whether there is any indication of impairment If any such indication exists the assets recoverable amount is estimated An impairment loss is recognised in the income statement whenever the carrying amount of an asset exceeds its recoverable amount

The recoverable amount of an asset is the greater of its net selling price and its value in use The value in use is determined as the net present value of the future cash flows expected to be derived from the asset, discounted using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount of an asset An impairment loss is reversed only to the extent that the assets carrying amount after the reversal does not exceed the amount which would have been determined net of applicable depreciation, if no impairment loss had been recognised

(t) Derivatives

The group uses foreign currency exchange and interest rate derivatives to help manage its risks of changes in foreign currency exchange rates and interest rates In accordance with its treasury policy, the group does not hold or issue derivatives for trading purposes

In order for a derivative to qualify for hedge accounting the group is required to document the relationship between the item being hedged and the hedging instrument The group is also required to demonstrate an assessment of the relationship between the hedged item and the hedging instrument which shows that the hedge will be effective on an ongoing basis The effectiveness testing is re-performed at each balance sheet date to ensure that the hedge remains highly effective

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity and the ineffective portion is recognised immediately in the income statement If the cash flow hedge of a firm commitment or forecasted transaction results in the recognition of an asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in equity are included in the initial measurement of the asset or liability For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognised in the income statement in the same period in which the hedged item affects net profit or loss

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised or no longer qualifies for hedge accounting At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net profit or loss for the period

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not carried at fair value, with gains or losses reported in the income statement

(u) Tax

Deferred tax is provided in full using the balance sheet liability method on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes

A deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying temporary differences can be deducted The deferred tax effect of fair value adjustments arising from business combinations is incorporated in the consolidated balance sheet

No provision is made for temporary differences (i) arising on the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and (ii) relating to investments in subsidiaries to the extent that the group is able to control the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future

Deferred tax is calculated at the tax rate that is expected to apply to the period when the asset is realised or the liability is settled based on tax rates that have been enacted or substantially enacted by the balance sheet date Deferred tax is charged or credited in the income statement, except where it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity

(v) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee All other leases are classified as operating leases

The group as lessee

(i) Finance leases – are capitalised at the lease's commencement at the lower of the fair value of the asset and the present value of the minimum lease payments Each lease payment is allocated between the liability and finance charges The corresponding rental obligations, net of costs incurred in establishing the finance lease obligation, are included in borrowings The finance charges are charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period

(ii) Operating leases – payments, including prepayments, made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight line basis over the period of the lease

The group as lessor

All leases operated by the group are tested to determine whether they qualify as operating leases or finance leases No finance leases were identified as a result of these tests

Operating leases – rental income from operating leases is recognised on a straight line basis over the term of the relevant lease Initial direct costs incurred in negotiating and arranging an operating lease are deferred and recognised on a straight line basis over the lease term

(w) Dividends

Dividend distributions to the companys shareholders are recognised in the groups financial statements in the period in which the dividends are paid or approved by the company's shareholders

Notes to the Consolidated Financial Statements for the year ended 31 December 2007 continued

(x) Segmental analysis

The group is managed as a single entity in one geographical area with internal management reporting prepared on this basis and as such has not prepared a segmental analysis in accordance with IFRS 8

(y) Underlying earnings

The directors believe that analysing profit before tax between underlying earnings and capital and other provides additional useful information for members of the company The term underlying earnings is not a defined term under IFRS and may not therefore be comparable with similarly titled profit measurements reported by other companies The adjustments made to reported results are as follows

(i) Other income

The group has re-classified the disposal proceeds and releases of deferred income and surplus accruals on buildings sold in prior periods due to the quantum and the fact that disposals occur infrequently

(ii) Net revaluation gains

The revaluation surplus on investment properties is included in the income statement but has been re-classified separately from the underlying results to enable members to better appreciate the operating performance

(iii) IAS 39 adjustments

The commercial effect of the group's hedging arrangements is that all the group's financial liabilities are at fixed rates However, certain of the hedges are deemed ineffective and the income statement reflects the effects of movements in the fair values of these hedging instruments As this introduces volatility in the income statement which will not be reflected in the cash flows of the group, the IAS 39 adjustments have been reclassified separately from the underlying results

(iv) Refinancing (costs)/gains

These items have been re-classified from underlying earnings due to their size and infrequent occurrence

2 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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 those estimates

(i) Construction contracts

Construction contracts are carried at the lower of cost and net realisable value The latter is assessed by the group having regard to suitable external advice and knowledge of recent comparable transactions

Revenue on construction contracts is recognised using the percentage of completion method in accordance with IAS 11 The directors have estimated the outcome of each contract on an individual basis and re-consider these estimates at each balance sheet date

(ii) Trade receivables

The group is required to judge when there is sufficient objective evidence to necessitate the impairment of individual trade receivables It does this on the basis of the age of the relevant receivables and external evidence of the credit status of the debtor entity

(iii) Exceptional items

Exceptional items are defined as those items which are sufficiently material by either their size or nature as to require separate disclosure Deciding which items meet the definition requires the group to exercise its judgement

(iv) Valuation of investment and development properties

The group uses the valuations performed by its independent valuers as the fair value of its properties The valuations are based upon assumptions including future rental income, anticipated maintenance costs, the appropriate discount rate, and, in the case of development properties, the estimated costs to completion The valuers also make reference to market evidence of transaction prices for similar properties

(v) Outstanding rent reviews

Where the rent review date has passed, and the revised annual rent has not yet been agreed, rent is accrued from the date of the rent review based upon an estimation of the revised annual rent The estimate is derived from knowledge of market rents for comparable properties

(vi) Turnover rents

Turnover rents are calculated based on tenant turnover in relevant units Tenant turnover is estimated based on prior years or comparable tenants in the event that actual turnover numbers are not available

(vii) Financial instruments

The fair values of financial instruments are determined by reference to the prices available on the markets on which they are traded or by reference to valuations provided by counter party financial institutions

(viii) Vacant leasehold provisions

Under the terms of certain agreements for lease Canary Wharf Group committed to lease space on short term sub-leases In calculating the liability under these sub-leases, assumptions are made including inter alia, allowances for void periods and costs associated with re-letting the space and the level of future market rents

3 OPERATING PROFIT

Operating profit represents the consolidated profit of the group including the share of results of associates but before net financing costs and taxation

	2007 £'000	2006 £000
The operating profit is stated after charging		
– depreciation (Note 11)	**353**	180
– directors' emoluments (Note 10)	**104**	60
– amortisation of investment in own shares	**–**	459
– operating lease rentals		
– land and buildings	**10,253**	4,752

The operating lease rentals relate to the vacant leasehold properties referred to in Note 22 and include the surrender premium of £6 3m paid in the year Additional disclosure on operating leases is given in Note 9

Notes to the Consolidated Financial Statements for the year ended 31 December 2007 continued

Remuneration of the auditors

	2007 £'000	2006 £ 000
– audit fees	**114**	80
– audit of subsidiaries	**378**	357
Total audit fees	**492**	437
Fees to the auditors for other services		
– pursuant to legislation	**198**	60
– corporate finance transactions	**72**	130
– taxation	**580**	447
– other services	**203**	95
– pension fund audit	**10**	12
– other pension fund services	**–**	40
Total non audit fees	**1,063**	784

Audit fees

Audit fees of £114,000 were incurred in 2007 of which £50,000 related to the audit of the consolidated accounts of Canary Wharf Group (2006 – £80,000 and £45,000 respectively)

4 PERFORMANCE MEASURES

Earnings per share

	2007		2006	
	Earnings £m	**Per share p**	Earnings £m	Per share p
Underlying profit before taxation	**102 2**	**22 6**	19 6	4 5
Capital and other items	**79 8**	**17 7**	864 5	198 0
Taxation	**23 8**	**5 3**	(179 1)	(41 0)
Total profit for the year after taxation	**205 8**	**45 6**	705 0	161 5
Less minority interest	**(105 4)**	**(23 3)**	(301 9)	(69 2)
Profit after taxation	**100 4**	**22 3**	403 1	92 3

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

Earnings per share has been calculated by reference to the profit attributable to equity shareholders of £100 4m for 2007 (2006 – £403 1m) and on the weighted average of 451 8m ordinary shares in issue for 2007 (436 5m ordinary shares in issue for 2006) The numbers of ordinary shares exclude the SG Shares, D Share and B Shares held in trust in connection with Canary Wharf Groups share option plan There were no dilutive instruments in issue at either date

Adjusted NAV is calculated as follows

	2007 £m	2006 £m
Balance sheet net assets	**2,347 7**	2,380 1
Add back deferred tax	**168 6**	181 4
Mark to market of derivatives	**72 5**	53 8
Add surplus arising on construction contracts	**166 7**	84 4
	2,755 5	2,699 7
Minority interest in balance sheet	**(1,272 9)**	(1,151 7)
Minority interest on adjustments above	**(159 8)**	(125 3)
Re-classify SG Shares and D Share as equity	**30 6**	142 6
Add back accrued finance charges on SG Shares and D Share	**1 5**	59 3
Adjusted net assets	**1,354 9**	1,624 6
Adjusted NAV per share	**£2 15**	£2 64

Adjusted NAV per share includes the external valuation surplus on construction contracts of £255 8m (31 December 2006 – £84 4m) less the profit recognised on such contracts of £89 1m (31 December 2006 – £nil) and fair value adjustments on derivatives and deferred taxation In addition, in arriving at adjusted net assets the SG Shares and until it was redeemed, the D Share, are treated as equity whereas in the balance sheet the SG Shares are treated as a debt instrument and the D Share as a derivative

At 31 December 2007 the number of shares in issue was 630 6m (31 December 2006 - 616 1m)

In January 2007 14,478,260 B Shares were issued in exchange for the cancellation of the dividend and distribution rights attaching to the D Share The impact of this issue on NAV per share at 31 December 2006 would have been to reduce adjusted NAV per share by 6p to £2 58

5 REVENUE

	2007 £m	2006 £m
Rent receivable	**275 3**	255 7
Recognised incentives, committed rent increases and letting fees	**24 1**	24 4
	299 4	280 1
Service charge income	**62 2**	53 6
Miscellaneous income	**24 8**	26 7
Construction contract revenue	**238 4**	76 4
Gross development, rental and related income	**624 8**	436 8
Service charge and other direct property expenses	**(87 3)**	(82 2)
Movement in provisions relating to leasehold commitments	**(2 6)**	4 7
Construction contract expenditure	**(149 3)**	(76 4)
Net development, rental and related income	**385 6**	282 9

In 2007 the group had two major customers each contributing in excess of 10 0% of group revenue totalling £109 2m and £74 8m (2006 – three major customers contributing £47 6m, £46 4m and £45 2m)

In 2007 Canary Wharf Group received deferred proceeds totalling £8 3m relating to the sale of two buildings in 2003 and released surplus accruals and deferred income of £10 9m relating to previously disposed properties These amounts have been classified as other income within capital and other in the consolidated income statement

Notes to the Consolidated Financial Statements for the year ended 31 December 2007 continued

6 NET REVALUATION GAINS ON PROPERTY AND INVESTMENTS

	2007 £m	2006 £m
In income statement		
Revaluation of investment properties	**110 4**	722 1
In consolidated statement of recognised income and expense		
Revaluation of development and construction properties	**22 8**	172 9
	133 2	895 0
Share of associated undertakings' revaluation of development properties	**0 3**	–
	133 5	895 0

7 NET FINANCING COSTS

	2007 £m	2006 £m
Interest revenue		
Deposits and securities	**53 4**	46 1
Interest expense		
Notes and debentures	**(157 0)**	(151 2)
Songbird loans	**(55 6)**	(39 1)
Other bank loans and overdrafts	**(78 6)**	(78 3)
Obligations under finance leases	**(2 1)**	(4 4)
	(293 3)	(273 0)
Development interest capitalised	**1 8**	0 7
	(291 5)	(272 3)
Underlying net financing costs	**(238 1)**	(226 2)
Other financing (costs)/income relating to derivatives		
Valuation movements on fair value of derivatives	**4 7**	33 7
Valuation movements on translation of foreign currency debt	**3 3**	22 9
Valuation movement on fair value of D Share	**(2 5)**	(17 2)
Finance costs of SG Shares (Note 21)	**(5 2)**	(12 9)
Hedging reserve recycling	**(35 8)**	(7 4)
	(35 5)	19 1
Net financing expenses	**(273 6)**	(207 1)
Refinancing (costs)/gains		
Refinancing fees	**(14 3)**	–
Gains relating to finance lease repayment	**–**	123 3
Net financing costs	**(287 9)**	(83 8)
Total financing income	**53 4**	46 1
Total financing expenses	**(341 3)**	(129 9)
Net financing costs	**(287 9)**	(83 8)

Financing fees included in interest payable totalled £18 1m in 2007 (2006 – £17 1m)

The financing expenses of the construction loan facility have been capitalised as incurred since first drawn down in 2007 In 2006 interest on development expenditure financed from general funds was capitalised to properties under construction at a rate of 6 2% being the weighted average cost of debt of the relevant loan facilities and included in additions to properties under construction in Note 11

Refinancing fees in 2007 comprised the write-off of £13 6m deferred fees on certain of the notes repaid on the restructuring of Canary Wharf Group's securitisation and breakage fees paid totalling £0 7m

During 2006 Canary Wharf Group recognised gains on the acquisition of finance leases totalling £123 3m

8 TAXATION

	2007 £m	2006 £m
Tax charge		
Origination and reversal of temporary differences	**23 8**	(179 1)
Group total taxation	**23 8**	(179 1)
Tax reconciliation		
Group profit on ordinary activities before taxation	**182 0**	884 1
Tax on profit on ordinary activities at UK corporation tax rate of 30%	**(54 6)**	(265 2)
Effects of		
Indexation of capital gains and movement on deferred tax provisions	**70 2**	96 5
Change in corporation tax rate	**9 4**	–
Expenses not deductible for tax purposes	**(1 2)**	(10 4)
Group total taxation	**23 8**	(179 1)

The tax charge for both periods relates solely to deferred tax

No provision for corporation tax has been made in the consolidated results of the group for 2007 or 2006 due to tax losses arising in the year the availability of tax losses brought forward from previous periods and other tax reliefs available It is anticipated that remaining capital losses and other tax reliefs including EZAs, will reduce future tax charges

	Losses & tax credits £m	Revaluation deficits £m	Fair value of derivatives £m	Financial instruments £m	Other £m	Total £m
Deferred tax assets						
1 January 2006	277 2	10 0	60 0	40 7	1 6	389 5
(Charge)/credit to income	(121 6)	11 5	(7 9)	(2 5)	(0 6)	(121 1)
Charge to equity	–	(2 4)	(5 6)	–	–	(8 0)
31 December 2006	155 6	19 1	46 5	38 2	1 0	260 4
(Charge)/credit to income	(49 2)	3 0	(23 7)	(4 9)	–	(74 8)
Credit to equity	–	–	0 3	–	–	0 3
31 December 2007	**106 4**	**22 1**	**23 1**	**33 3**	**1 0**	**185 9**

Notes to the Consolidated Financial Statements for the year ended 31 December 2007 continued

	Potential EZA clawback £m	Revaluation surpluses £m	Fair value of derivatives £m	Financial instruments £m	Other £m	Total £m
Deferred tax liabilities						
1 January 2006	(1 4)	(286 6)	–	(43 1)	–	(331 1)
(Charge)/credit to income	(111 7)	58 8	(0 2)	(4 9)	–	(58 0)
Credit to equity	–	(49 4)	(3 3)	–	–	(52 7)
31 December 2006	(113 1)	(277 2)	(3 5)	(48 0)	–	(441 8)
Credit to income	36 7	24 8	13 6	23 5	–	98 6
Charge to equity	–	(1 1)	(10 2)	–	–	(11 3)
31 December 2007	**(76 4)**	**(253 5)**	**(0 1)**	**(24 5)**	**–**	**(354 5)**

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

	£m
31 December 2006	(181 4)
Credit to income	23 8
Charge to equity	(11 0)
31 December 2007	**(168 6)**

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

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

9 OPERATING LEASES

Operating leases with the group as lessor

Canary Wharf Group leases out its investment properties under operating leases In accordance with IFRS 1 and IAS 17 the group has reviewed the classification of all leases In reviewing the leases, land and buildings were considered separately using the approach recommended by the BPF in guidance notes on the application of IFRS in a UK context This review did not identify any leases which need to be treated as finance leases

At 31 December 2007 the weighted average unexpired lease term under non-cancellable operating leases for the entire investment property portfolio was 15 3 years (31 December 2006 – 16 5 years) The future aggregate minimum rentals receivable under non-cancellable operating leases are as follows

	2007 £m	2006 £m
Within one year	**280 7**	260 1
Between two and five years	**1,124 1**	1,081 0
After five years	**3,990 9**	4,180 8
	5,395 7	5,521 9

The above analysis does not include any contingent rental income

Operating leases with the group as lessee

Future minimum rentals payable under operating leases on land and buildings are analysed as follows

	2007 £m	2006 £m
Within one year	1 3	4 8
In the second to fifth years inclusive	0 3	3 4
After five years	–	–
	1 6	8 2

At 31 December 2007 the above rentals relate to a lease which expires in 2009 (Note 22) At 31 December 2006 the rentals relate to two leases, one of which expires in 2009 and the other of which was surrendered in 2007

10 DIRECTORS AND EMPLOYEES

With the exception of fees paid to the independent non-executive chairman, all other staff costs relate to employees of Canary Wharf Group

(1) **Staff costs** – all employees of the group, including directors

	2007 £m	2006 £m
Wages and salaries	55 6	45 8
Social security costs	6 5	5 2
Other pension costs	3 0	2 6
	65 1	53 6

The average monthly number of employees, including Canary Wharf Group, during 2007 was 870 (2006 – 761) as set out below

	2007	2006
Construction	205	114
Property management	525	517
Administration	140	130
	870	761

A deferred cash incentive plan has been established to retain and incentivise the executive directors and senior employees of Canary Wharf Group Payments under this plan were made in 2006 and 2007 Further payments are linked to participants remaining employed by the group and to two sets of performance related milestones which include leasing, financial and operational targets

(2) **Directors' remuneration**

	2007 £'000	2006 £'000
Emoluments	104	60

No pension plan is operated by the company and none of the directors participate in Canary Wharf Group's pension plans

Notes to the Consolidated Financial Statements for the year ended 31 December 2007 continued

(3) **Highest paid director**

	2007 £'000	2006 £ 000
Emoluments	**104**	60

(4) **Directors' share options**

No executive share option plan has been adopted by the company and none of the directors of the company participate in Canary Wharf Group's share option plan

(5) **Key management**

The business of the company is the management of its investment in Canary Wharf Group The overall business decisions of the company are managed by the board and its committees, in particular the Executive Committee, with the day to day planning, directing and controlling activities dealt with by the directors on this committee which represent the company shareholders With the exception of the chairman whose remuneration is disclosed in Notes (2) and (3) above, none of the company directors are remunerated directly or indirectly by the company

Pension schemes

Canary Wharf Group currently operates two defined contribution pension schemes The assets of these schemes are held in independently administered funds The pension cost charge which amounted to £3 0m in 2007 (2006 – £2 6m) represents contributions payable by Canary Wharf Group to the schemes The company does not operate a pension scheme

11 INVESTMENT, DEVELOPMENT AND CONSTRUCTION PROPERTIES AND PLANT AND EQUIPMENT

Non current assets and construction contracts at 31 December 2006 comprised

	Investment properties £m	Development properties £m	Properties under construction £m	Construction contracts £m	**Total £m**	Plant & equipment £m	**Total £m**
Market value at 1 January 2006	5,301 5	357 0	–	–	**5,658 5**		
Adjust for brought forward							
– tenant incentives*	(130 7)	–	–	–	**(130 7)**		
– unamortised lease negotiation costs*	(2 7)	–	–	–	**(2 7)**		
Carrying value at 1 January 2006	5,168 1	357 0	–	–	**5,525 1**	2 4	**5,527 5**
Additions	9 4	25 4	5 5	31 1	**71 4**	0 1	**71 5**
Transfers	–	(107 0)	55 4	53 5	**1 9**	(1 9)	**–**
Revaluations							
– in income statement	722 1	–	–	–	**722 1**	–	**722 1**
– in statement of recognised income and expense	–	139 5	33 4	–	**172 9**	–	**172 9**
Transfer to tenant incentives and deferred negotiation costs	(4 0)	–	–	–	**(4 0)**	–	**(4 0)**
Transfer to cost of sales	–	–	–	(76 4)	**(76 4)**	–	**(76 4)**
Transfer to payments on account	–	–	–	(8 2)	**(8 2)**	–	**(8 2)**
Depreciation	–	–	–	–	**–**	(0 2)	**(0 2)**
Carrying value at 31 December 2006	**5,895 6**	**414 9**	**94 3**	**–**	**6,404 8**	**0 4**	**6,405 2**
Adjust for							
– tenant incentives*	159 1	–	–	–	**159 1**		
– unamortised lease negotiation costs*	3 7	0 1	0 7	–	**4 5**		
Market value at 31 December 2006	**6,058 4**	**415 0**	**95 0**	**–**	**6,568 4**		

* Refer to Note 14 for further details

Notes to the Consolidated Financial Statements for the year ended 31 December 2007 continued

Non current assets and construction contracts at 31 December 2007 comprised

	Investment properties £m	Development properties £m	Properties under construction £m	Construction contracts £m	**Total £m**	Plant & equipment £m	**Total £m**
Market value at 1 January 2007	6 058 4	415 0	95 0	–	**6,568 4**		
Adjust for brought forward							
– tenant incentives*	(159 1)	–	–	–	**(159 1)**		
– unamortised lease negotiation costs*	(3 7)	(0 1)	(0 7)	–	**(4 5)**		
Carrying value at 1 January 2007	5,895 6	414 9	94 3	–	**6,404 8**	0 4	**6,405 2**
Additions	16 7	28 2	36 1	125 6	**206 6**	0 9	**207 5**
Transfers**	–	–	(45 0)	45 0	**–**	–	**–**
Revaluations							
– in income statement	110 4	–	–	–	**110 4**	–	**110 4**
– in statement of recognised income and expense	–	8 9	13 9	–	**22 8**	–	**22 8**
Transfer to tenant incentives and deferred negotiation costs	(3 3)	–	–	–	**(3 3)**	–	**(3 3)**
Transfer to cost of sales	–	–	–	(149 3)	**(149 3)**	–	**(149 3)**
Transfer to payments on account	–	–	–	(21 3)	**(21 3)**	–	**(21 3)**
Depreciation	–	–	–	–	**–**	(0 4)	**(0 4)**
Carrying value at 31 December 2007	**6,019 4**	**452 0**	**99 3**	**–**	**6,570 7**	**0 9**	**6,571 6**
Adjust for							
– tenant incentives*	186 5	–	–	–	**186 5**		
– unamortised lease negotiation costs*	5 4	–	0 7	–	**6 1**		
Market value at 31 December 2007	**6,211 3**	**452 0**	**100 0**	**–**	**6,763 3**		

* Refer to Note 14 for further details

** In June 2007 Canary Wharf Group entered into an agreement for the sale of 30 North Colonnade and received an initial payment of £165 4m which has been treated as a payment on account The carrying value of the site of £45 0m has been transferred from properties under construction held for investment to construction contracts At 31 December 2007 the carrying values of this and the other properties accounted for as construction contracts are stated net of amounts taken to cost of sales or offset against payments on account in accordance with IAS 11

Valuation

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

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

Cumulative interest capitalised in development properties at 31 December 2007 amounted to £2 5m (31 December 2006 – £0 7m) Included in investment properties is an amount of £30 5m (31 December 2006 – £30 1m) in respect of property occupied by the group which in the opinion of the directors is not material for separate classification The historical cost of properties held as non current assets was £4 511 9m (31 December 2006 – £4,460 6m)

Construction contracts

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

	20 Churchill Place £m	15 Canada Square £m	30 North Colonnade £m	Total £m
Advances received	182 3	92 5	–	274 8
Contract revenue recognised as revenue in the income statement	(35 6)	(40 8)	–	(76 4)
Offset from construction contracts	(6 3)	(1 9)	–	(8 2)
Deferred interest	5 2	0 2	–	5 4
31 December 2006	145 6	50 0	–	195 6
Advances received	22 9	85 6	180 5	289 0
Contract revenue recognised as revenue in the income statement	(109 2)	(54 4)	(74 8)	(238 4)
Offset from construction contracts	4 2	(6 5)	(19 0)	(21 3)
Deferred interest	2 9	2 0	–	4 9
Gross amount due to customers for contract work at 31 December 2007	**66 4**	**76 7**	**86 7**	**229 8**

Cumulative amounts accounted for as construction contracts are as follows

	£m
Advances received	563 8
Recognised as revenue	(314 8)
Offset from construction contracts	(29 5)
Deferred interest	10 3
	229 8

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

Notes to the Consolidated Financial Statements for the year ended 31 December 2007 continued

12 INVESTMENTS

The investments balance comprises

	2007 £m	2006 £m
Shares	**7 3**	0 6
Redeemable notes	**15 5**	11 0
	22 8	11 6
Fees on acquisition	**2 6**	1 9
Share of post acquisition losses	**(1 0)**	(0 7)
Share of fair value movement on derivatives	**(1 1)**	–
Share of revaluation surplus on development properties	**0 3**	–
	23 6	12 8

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

Investments comprise

	2007 £m	2006 £m
Associates	**23 4**	12 6
Other investments	**0 2**	0 2
	23 6	12 8

Associated undertakings

Details of the group s associates at 31 December 2007 are as follows

	Date of acquisition	Country of incorporation	Ownership interest %
WWLP	April 2005	UK	25
Drapers Gardens entities	June 2007	Netherlands/Jersey	20

In April 2005 BWB appointed Canary Wharf Group together with Ballymore as its partner for the development of Wood Wharf WWLP has been established to oversee the development of an approximately 6 5m sq ft (gross) mixed use scheme in which Canary Wharf Group has a 25 0% effective interest Canary Wharf Group subscribed for £1,000 of equity share capital in the partners of WWLP and has provided, in addition, interest free long term loans to fund the working capital requirements of WWLP and which are repayable out of development profits The funding of WWLP has been accounted for as an investment in an associated undertaking

WWLP has entered into a loan facility of £9 0m, repayable in 2010 of which £5 2m had been drawn down at 31 December 2007 (31 December 2006 – £nil) Canary Wharf Group has also loaned £15 5m to WWLP in the form of redeemable notes which are interest free and redeemable at par in 2030 The £9 0m loan referred to above must first be repaid before the loan provided to WWLP by Canary Wharf Group can be repaid All loans must 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 Exemplar to undertake the redevelopment of Drapers Gardens Canary Wharf Group has invested £6 7m and incurred fees of £0 7m in consideration for a 20 0% stake in the Drapers Gardens redevelopment structure The investment has been accounted for as an investment in an associated undertaking

Both the WWLP and the Drapers Gardens entities have 31 December year ends The results of WWLP and Drapers Gardens attributable to Canary Wharf Group have been derived from their management accounts after making any necessary IFRS adjustments The group s share of profits and losses of associate undertakings is as follows

Summarised profit and loss accounts for 2006

	WWLP £m	Drapers Gardens £m	Total £m
Other expenses	(0 7)	–	(0 7)
Net financing costs	(0 4)	–	(0 4)
Net underlying loss before and after tax	(1 1)	–	(1 1)
Group share	**(0 3)**	**–**	**(0 3)**

Summarised profit and loss accounts for 2007

	WWLP £m	Drapers Gardens £m	Total £m
Other expenses	(1 5)	–	(1 5)
Net financing costs	–	(5 2)	(5 2)
Net underlying loss before and after tax	(1 5)	(5 2)	(6 7)
Group share	**(0 4)**	**(1 0)**	**(1 4)**

Summarised balance sheets at 31 December 2006

	WWLP £m	Drapers Gardens £m	Total £m
Total assets	99 3	–	99 3
Total liabilities	(56 2)	–	(56 2)
Net assets	43 1	–	43 1
Group share	**10 7**	**–**	**10 7**

Summarised balance sheets at 31 December 2007

	WWLP £m	Drapers Gardens £m	Total £m
Total assets	101 8	106 0	207 8
Total liabilities	(42 8)	(72 1)	(114 9)
Net assets	59 0	33 9	92 9
Group share	**14 7**	**6 8**	**21 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

Notes to the Consolidated Financial Statements for the year ended 31 December 2007 continued

Other investments

Canary Wharf Group owns 52 079 0 1p B preferred ordinary shares and 72 050 0 1p ordinary shares in HSO, an unlisted company registered in England and Wales, being approximately 13 0% of its nominal share capital The principal activity of HSO is the provision of broadband telecommunications services The fair value of this investment on acquisition of Canary Wharf Group was £0 6m During 2006 the carrying value of the investment was written down to £0 2m (after a total provision of £0 4m), based on the net asset value of HSO at that date and continues to be carried at that amount

13 TRADE AND OTHER RECEIVABLES

	2007 £m	2006 £m
Trade receivables	**10 4**	6 0
Other receivables	**32 7**	10 5
Prepayments and accrued income	**24 1**	32 5
Total trade and other receivables	**67 2**	49 0

In determining the recoverability of trade receivables the group considers any change in the credit quality of the receivables on an individual basis from the date the trade receivable was created to the date the accounts were approved Credit risk is reduced due to Canary Wharf Group's properties being under lease to high quality tenants In addition rents and service charges are invoiced quarterly in advance

At 31 December 2007 trade receivables included one trade debtor of £5 1m representing 49 0% of trade receivables at that date This amount was settled in full subsequent to the year end Other than this amount, no amount owed by any other trade debtor exceeded £1 0m at either 31 December 2007 or 31 December 2006 Trade receivables more than 61 days past due at 31 December 2007 totalled £2 9m (31 December 2006 – £1 8m) No bad or doubtful debt provisions were made at either 31 December 2007 or 31 December 2006

Prepayments and accrued income exclude the cumulative adjustment in respect of lease incentives (Note 14)

14 TENANT INCENTIVES AND DEFERRED NEGOTIATION COSTS

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

	Rent free periods £m	Other tenant incentives £m	Deferred negotiation costs £m	Total £m
1 January 2006	67 7	63 0	2 7	133 4
Transfer from investment properties (Note 11)	–	4 0	–	4 0
Recognition of rent during rent free periods	27 4	–	–	27 4
Amortisation	–	(3 0)	–	(3 0)
Deferred lease negotiation costs (net)	–	–	1 8	1 8
31 December 2006	95 1	64 0	4 5	163 6
Transfer from investment properties (Note 11)	–	3 3	–	3 3
Recognition of rent during rent free periods	29 9	–	–	29 9
Amortisation	(1 7)	(4 1)	(0 9)	(6 7)
Deferred lease negotiation costs (net)	–	–	2 5	2 5
31 December 2007	**123 3**	**63 2**	**6 1**	**192 6**

15 MONETARY DEPOSITS

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

	2007 £m	2006 £m
Monetary deposits held at bank	**115 9**	143 0
Accrued contractual interest on monetary deposits held at bank	**2 5**	4 5
	118 4	147 5

The effective interest rate on monetary deposits was 5 2% at 31 December 2007 (31 December 2006 – 4 7%)

16 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise

	2007 £m	2006 £m
Unsecured cash	**856 7**	712 5
Collateral for borrowings	**144 0**	145 2
Security for obligations	**19 8**	24 7
	1,020 5	882 4

The effective interest rate on short term deposits at 31 December 2007 was 6 2% (31 December 2006 – 5 0%) and the deposits had an average maturity of 34 days (31 December 2006 – 64 days)

Cash and cash equivalents comprise cash held by the group and short term bank deposits with an original maturity of three months or less The carrying amount of these assets approximates their fair value

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

	2007 £m	2006 £m
Securitised debt	**76 3**	81 2
Secured loans	**25 3**	21 6
Finance leases	**42 4**	42 4
	144 0	145 2

Of the cash collateral disclosed above, all of the secured loans balance and £45 7m of the securitised debt balance (31 December 2006 – £21 1m) represent rental payments from tenants received in advance

The balance of cash collateral for borrowings disclosed above is held to reduce the exposure of the lenders to certain risks such as cash collateralising the group s exposure on vacant property These amounts are released from charge as and when such risks are eliminated in accordance with the terms of the notes

The finance lease liability is fully cash collateralised, and the cash collateral balance compares with a carrying value of the finance lease liability for accounts purposes of £41 6m (31 December 2006 – £42 0m)

Notes to the Consolidated Financial Statements for the year ended 31 December 2007 continued

17 TRADE AND OTHER PAYABLES

	2007 £m	2006 £m
Trade payables	**20 3**	13 5
Taxation and social security costs	**8 2**	5 3
Other payables	**37 6**	30 8
Other accruals	**73 1**	83 7
Deferred income	**80 7**	55 0
Payments on account (Note 11)	**229 8**	195 6
Total trade and other payables	**449 7**	383 9

Trade and other payables includes £77 0m of financial liabilities at 31 December 2007 (31 December 2006 – £60 4m) These amounts are all payable on demand

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and construction costs The average credit period taken for trade purchases is 22 days (31 December 2006 – 27 days) For those suppliers that do charge interest, no interest is charged on the trade payables for the first 28 days from the date of the invoice Thereafter interest is charged on the outstanding balances at various interest rates which are determined by reference to the terms of each such agreement The group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe The directors consider that the carrying amount of trade payables approximates to their fair value

18 CURRENT PORTION OF LONG TERM BORROWINGS

Current portion of long term borrowings comprises

	2007 £m	2006 £m
Accrued interest payable	**46 3**	22 6
Repayable within one year		
– securitised debt	**6 9**	15 0
– secured loans	**7 1**	6 6
Financing costs of SG Shares	**1 5**	8 7
D Share derivative liability	**–**	50 6
Long term borrowings repayable within one year	**61 8**	103 5

The terms of the group s loan facilities are summarised in Note 21

19 BORROWINGS

Non current liability borrowings comprise

	2007 £m	2006 £m
Securitised debt	**2,664 1**	2,476 1
Songbird loans	**831 8**	518 6
Secured loans	**1,241 8**	1,248 2
Construction loan	**35 0**	–
Finance lease obligations	**41 6**	42 0
	4,814 3	4,284 9
SG Shares	**30 6**	142 6
	4,844 9	4,427 5

The terms of the group's loan facilities are summarised in Note 21

20 DERIVATIVE FINANCIAL INSTRUMENTS

Hedge accounting

The group uses interest rate swaps and interest rate caps to hedge exposure to the variability in cash flows on floating rate debt including its bank facilities and floating rate bonds caused by movements in market rates of interest At 31 December 2007 the fair value of these derivatives resulted in the recognition of a net liability of £94 0m (31 December 2006 – £143 5m) Of this net liability, an asset of £0 1m and a liability of £23 3m was in respect of interest rate swaps which qualify for hedge accounting (31 December 2006 – £11 2m and £0 3m respectively) and an asset of £0 2m and a liability of £71 0m was in respect of interest rate swaps and collars which do not qualify for hedge accounting (31 December 2006 – £0 3m and £154 7m respectively)

	2007 £m	2006 £m
Assets		
Securitisation	**–**	5 6
Songbird loans	**0 2**	0 3
Other secured loans	**0 1**	5 6
	0 3	11 5
Liabilities		
Securitisation	**(21 0)**	(87 9)
Songbird loans	**(12 1)**	–
Other secured loans	**(57 3)**	(67 1)
Construction loan	**(3 9)**	–
	(94 3)	(155 0)
	(94 0)	(143 5)

Notes to the Consolidated Financial Statements for the year ended 31 December 2007 continued

Maturity of the group's financial derivatives

The following tables show the undiscounted cash (inflows) and outflows in relation to the group s derivative financial instruments based on the group's prediction of future movements in interest rates

	Securitised debt £m	Songbird loan £m	Other secured loans £m	Construction loan £m	**Total derivative liabilities £m**	Derivative assets £m	**Total £m**
Within one year	1 1	–	1 5	–	**2 6**	0 9	**3 5**
In one to two years	1 0	–	1 1	–	**2 1**	0 9	**3 0**
In two to five years	4 2	–	5 8	–	**10 0**	2 1	**12 1**
In five to ten years	11 0	–	22 2	–	**33 2**	0 4	**33 6**
In ten to twenty years	16 5	–	63 0	–	**79 5**	(3 8)	**75 7**
In twenty to thirty years	1 0	–	40 1	–	**41 1**	(0 4)	**40 7**
31 December 2006	34 8	–	133 7	–	**168 5**	0 1	**168 6**

	Securitised debt £m	Songbird loan £m	Other secured loans £m	Construction loan £m	**Total derivative liabilities £m**	Derivative assets £m	**Total £m**
Within one year	(6 0)	1 6	(4 2)	(0 1)	**(8 7)**	(1 8)	**(10 5)**
In one to two years	0 8	9 1	5 2	0 9	**16 0**	1 1	**17 1**
In two to five years	(1 2)	6 4	10 6	–	**15 8**	0 8	**16 6**
In five to ten years	0 2	–	18 5	–	**18 7**	–	**18 7**
In ten to twenty years	32 4	–	47 1	–	**79 5**	–	**79 5**
In twenty to thirty years	71 8	–	31 1	–	**102 9**	–	**102 9**
31 December 2007	**98 0**	**17 1**	**108 3**	**0 8**	**224 2**	**0 1**	**224 3**

The impact of changes in interest rates would be on interest receivable since substantially all borrowings are subject to interest rate swaps or collars and all cash deposits are at floating rates However, the income statement is also impacted by changes in the fair value of derivatives that are not considered effective for accounting purposes A 0 5% higher/(lower) parallel shift in the interest rate curve used to value the derivatives with all other variables held constant, would have increased/(decreased) the group s profit for 2007 by £60 0m/£(66 0)m (2006 – £47 6m/£(51 9)m respectively) Other equity reserves would have increased/(decreased) by £48 6m/£(52 1)m (2006 – £22 7m/£(23 6)m respectively) The 0 5% sensitivity has been selected based on the directors' view of a reasonable interest rate curve movement assumption

21 NET DEBT

	2007 £m	2006 £m
Securitised debt	**2,723 9**	2 577 3
Songbird loans	**843 7**	522 6
Other secured loans	**1,359 4**	1,330 7
Finance lease obligations	**41 6**	42 0
	4,968 6	4,472 6
SG Shares and associated financing costs	**32 1**	151 3
D Share derivative liability	**–**	50 6
Gross debt	**5,000 7**	4,674 5
Current liabilities	**61 8**	103 5
Non current liabilities		
– borrowings	**4,844 9**	4,427 5
– derivatives included in non current assets	**(0 3)**	(11 5)
– derivatives included in non current liabilities	**94 3**	155 0
Gross debt	**5,000 7**	4,674 5
Cash and cash equivalents	**(1,020 5)**	(882 4)
Monetary deposits	**(118 4)**	(147 5)
Net debt	**3,861 8**	3,644 6

As a result of the redemption rights attaching to the SG Shares, such shares are classified as borrowings and the income statement includes a charge to profit in respect of the SG Shares accumulated at 8 0% per annum, subject to increases in the coupon to a maximum of 10 0% in certain circumstances The accrued finance charges (comprising dividends accrued but not declared or paid) in respect of this class of share are included in current portion of long term liabilities as interest payable (Note 18) At 31 December 2007 £1 5m was accrued in respect of the SG Shares (31 December 2006 – £8 7m)

Prior to the share capital amendments approved in January 2007, the D Share carried an entitlement to a dividend for each year in the five year period commencing 1 July 2004 based on 20 0% of the incremental increase in the value of Canary Wharf Group's retail assets As a result of this entitlement the D Share was treated as a derivative and was stated at its estimated fair value within current liabilities The estimated fair value at 31 December 2006 was £50 6m Movements in the estimated fair value prior to conversion to B Shares were charged to the income statement as financing costs

On 26 January 2007 the dividend rights on the D Share were cancelled in exchange for 14,478 260 B Shares that had a market value of £53 1m, resulting in a charge to the income statement in 2007 of £2 5m Following the exchange for B Shares the D Share was redeemed

Notes to the Consolidated Financial Statements for the year ended 31 December 2007 continued

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

	Securitised debt £m	Songbird loan £m	Other secured loans £m	Construction loan £m	Finance lease obligations £m	Total borrowings £m	SG and D Shares £m	Total £m
1 January 2007	2,577 3	522 6	1,330 7	–	42 0	4,472 6	201 9	4,674 5
Drawn down in year	726 0	830 2	–	34 9	–	1,591 1	–	1,591 1
Effective interest rate adjustment	(10 8)	(3 3)	1 0	(1 6)	–	(14 7)	–	(14 7)
Accrued finance charges	(1 4)	2 9	(0 1)	1 7	(0 4)	2 7	(4 7)	(2 0)
Repaid in period	(581 4)	(520 9)	(6 8)	–	–	(1,109 1)	(112 0)	(1,221 1)
Release of D Share liability	–	–	–	–	–	–	(53 1)	(53 1)
Movements in fair value of derivatives and foreign exchange	0 5	12 2	(4 3)	3 9	–	12 3	–	12 3
Charges on loan repayment	13 7	–	–	–	–	13 7	–	13 7
31 December 2007	**2,723 9**	**843 7**	**1,320 5**	**38 9**	**41 6**	**4,968 6**	**32 1**	**5,000 7**
Payable within one year or on demand	38 8	–	21 5	–	–	60 3	1 5	61 8
Payable in more than one year	2 664 1	831 8	1 241 8	35 0	41 6	4,814 3	30 6	4,844 9
Derivatives classified as								
– non current assets	–	(0 2)	(0 1)	–	–	(0 3)	–	(0 3)
– non current liabilities	21 0	12 1	57 3	3 9	–	94 3	–	94 3
	2,723 9	**843 7**	**1,320 5**	**38 9**	**41 6**	**4,968 6**	**32 1**	**5,000 7**

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

In May 2007 £800 0m was drawn down under a new £880 0m facility which was used to fund repayment of the £520 9m outstanding under an existing Songbird loan The new loan has a term of three years and carries an interest rate of LIBOR plus a margin of 1 2% to 1 7% dependent on the financial condition of the group The new loan is hedged via an interest swap and cap which serves to fix LIBOR for the amount drawn at 5 928% An additional £30 2m had been drawn down by 31 December 2007

In April 2007 Canary Wharf Group completed a restructuring of its securitisation involving the redemption of £572 6m of FRNs and the issue of £726 0m of new non-amortising FRNs The new notes issued comprised £220 0m of A7 Notes, £104 0m of B3 Notes, £275 0m of C2 Notes and £125 0m of D2 Notes All of the notes have a maturity of October 2037

Interest on the new notes is at three month LIBOR plus a margin The margins on the notes are A7 Notes – 0 19% per annum, increasing to 0 475% in January 2017, B3 Notes – 0 28% per annum increasing to 0 7% per annum in January 2017, C2 Notes – 0 55% per annum, increasing to 1 375% in April 2014, and D2 Notes – 0 84% per annum increasing to 2 1% in April 2014

All of the notes are hedged by means of interest rate swaps and the hedged rates plus the margin are A7 Notes – 5 1135%, B3 Notes – 5 1625%, C2 Notes – 5 4416% and D2 Notes – 5 8005%

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

Tranche	Principal £m	Interest	Repayment
A1	1,215 0	6 455%	By instalment from 2009 to 2033
A3	400 0	5 952%	By instalment from 2032 to 2037
A7	222 0	Floating	By instalment from 2035 to 2037
B	217 7	6 800%	By instalment from 2005 to 2033
B3	104 0	Floating	By instalment from 2035 to 2037
C2	275 0	Floating	By instalment from 2035 to 2037
D2	125 0	Floating	By instalment from 2035 to 2037
	2,558 7		

In February 2007 Canary Wharf Group entered into a £155 0m 3 year construction loan facility secured on 5 Churchill Place Interest is charged at LIBOR plus a margin of 0 9% hedged at 5 625% At 31 December 2007 £36 6m including interest had been drawn down under this facility

A bank loan facility of £608 8m is secured against One Churchill Place The loan is fully amortising with a final maturity in July 2034 The loan carries a hedged interest rate of 5 82% During 2007 £6 8m of the loan was amortised in accordance with the loan agreement reducing the principal at 31 December 2007 to £591 1m

Canary Wharf Group has a £369 4m bank loan facility secured against 10 Cabot Square and 20 Cabot Square The loan carries interest at a rate of 5 82% and is repayable in 2013 The loan remains on a fixed interest basis until April 2008 when it becomes floating rate Canary Wharf Group has entered into a forward starting interest rate swap from April 2008 to January 2013 at a fixed rate of 5 031%

In March 2006 Canary Wharf Group entered into a £300 0m facility secured against Canary Wharf Group's principal retail properties The retail loan facility carries interest at LIBOR plus a variable margin rate subject to, inter alia, prevailing loan to value and interest cover ratio tests At 31 December 2007 the margin was set at 55 bps Canary Wharf Group has entered into an arrangement whereby the exposure to the movement in three month LIBOR rates on the facility was fully hedged with a fixed interest rate swap at 5 15%

Canary Wharf Group s obligations under its finance lease are secured over the property that is subject to the finance lease and over certain cash deposits (Note 16)

Notes to the Consolidated Financial Statements for the year ended 31 December 2007 continued

Maturity profile of borrowings

	Securitised debt £m	Songbird loans £m	Other secured loans £m	Construction loan £m	Finance lease obligations £m	SG Shares £m	Total £m
Contractual undiscounted cash flows at 31 December 2006							
Within one year	165 9	37 5	78 6	–	2 1	–	284 1
In one to two years	165 4	535 4	80 9	–	2 1	–	783 8
In two to five years	609 8	–	523 6	–	6 2	263 0	1,402 6
In five to ten years	1 044 9	–	584 7	–	10 4	–	1,640 0
In ten to twenty years	1 719 9	–	350 7	–	33 9	–	2,104 5
In twenty to thirty years	1,114 5	–	427 9	–	32 3	–	1,574 7
	4,820 4	572 9	2 046 4	–	87 0	263 0	7,789 7
Comprising							
Principal repayments	2 414 2	520 9	1 267 0	–	42 0	143 7	4,387 8
Interest payments	2 406 2	52 0	779 4	–	45 0	119 3	3,401 9
	4 820 4	572 9	2 046 4	–	87 0	263 0	7,789 7

	Securitised debt £m	Songbird loans £m	Other secured loans £m	Construction loan £m	Finance lease obligations £m	SG Shares £m	Total £m
Contractual undiscounted cash flows at 31 December 2007							
Within one year	168 7	61 2	86 0	–	2 1	–	318 0
In one to two years	186 5	68 3	73 4	41 7	2 1	–	372 0
In two to five years	618 6	895 8	497 9	–	6 2	42 5	2,061 0
In five to ten years	997 8	–	557 8	–	10 4	–	1,566 0
In ten to twenty years	1,637 3	–	366 6	–	37 2	–	2,041 1
In twenty to thirty years	1,834 8	–	395 5	–	26 9	–	2 257 2
	5,443 7	**1,025 3**	**1,977 2**	**41 7**	**84 9**	**42 5**	**8,615 3**
Comprising							
Principal repayments	2,558 7	830 2	1 260 3	36 6	41 6	31 4	4,758 8
Interest payments	2,885 0	195 1	716 9	5 1	43 3	11 1	3,856 5
	5,443 7	**1,025 3**	**1,977 2**	**41 7**	**84 9**	**42 5**	**8,615 3**

The above tables contain undiscounted cash flows (including interest) and therefore result in higher balances than the carrying values or fair values of the borrowings

Debt service

The weighted average interest rates paid during the year were as follows

	2007 %	2006 %
Securitisations	**6 24**	6 20
Songbird loans	**7 70**	7 36
Other secured loans	**5 83**	5 86
Construction loan	**6 54**	–
Finance lease	**4 93**	4 93

Comparison of market values and carrying amount

	2007 Market value £m	2007 Carrying amount £m	2007 Difference £m	2006 Market value £m	2006 Carrying amount £m	2006 Difference £m
Securitisations	**(2,594 8)**	**(2,702 9)**	**108 1**	(2,583 7)	(2,495 0)	(88 7)
Songbird loan	**(831 8)**	**(831 8)**	**–**	(522 9)	(522 9)	–
Secured loans	**(1,261 0)**	**(1,263 3)**	**2 3**	(1,265 6)	(1,269 2)	3 6
Construction loan	**(35 0)**	**(35 0)**	**–**	–	–	–
Finance leases	**(41 6)**	**(41 6)**	**–**	(42 0)	(42 0)	–
SG Shares	**(318 0)**	**(32 1)**	**(285 9)**	(617 5)	(151 3)	(466 2)
D Share	**–**	**–**	**–**	(50 6)	(50 6)	–
	(5,082 2)	**(4,906 7)**	**(175 5)**	(5,082 3)	(4,531 0)	(551 3)
Other financial assets/(liabilities)						
– interest rate derivative assets	**0 3**	**0 3**	**–**	11 5	11 5	–
– interest rate derivative liabilities	**(94 3)**	**(94 3)**	**–**	(155 0)	(155 0)	–
Cash and monetary deposits	**1,138 9**	**1,138 9**	**–**	1,029 9	1,029 9	–
	(4,037 3)	**(3,861 8)**	**(175 5)**	(4,195 9)	(3,644 6)	(551 3)

The differences above are shown before any tax relief Short term receivables and payables have been excluded from these disclosures as their carrying amount approximates fair value The fair value of the sterling denominated fixed rate bonds has been determined by reference to the prices available on the markets on which they are traded The fair values of other debt instruments have been calculated by discounting cash flows at the relevant zero coupon LIBOR interest rates prevailing at the balance sheet date The fair value of the SG Shares has been derived by reference to the market value of the B Shares, although the rights attaching to the SG Shares are different from the rights attaching to the B Shares For a summary of the rights attaching to each class of shares refer to Note 23 The fair values of interest rate derivative instruments have been determined by reference to market values provided by the relevant counter parties

Carrying value of categories of financial instruments

	2007 £m	2006 £m
Financial assets		
FVTPL held for trading	**0 2**	0 3
Derivative instruments in designated hedge accounting relationships	**0 1**	11 2
Loans and receivables	**1,157 3**	1,051 2
Available for sale	**0 2**	0 2
	1,157 8	1,062 9
Assets not classified as financial assets	**6,836 4**	6,609 1
Total assets	**7,994 2**	7,672 0
Financial liabilities		
FVTPL held for trading	**(71 0)**	(155 0)
Derivative instruments in designated hedge accounting relationships	**(23 3)**	–
Amortised cost	**(4,988 3)**	(4,597 6)
	(5,082 6)	(4,752 6)
Liabilities not classified as financial liabilities	**(563 9)**	(539 3)
Total liabilities	**(5,646 5)**	(5 291 9)
Net assets	**2,347 7**	2,380 1

Notes to the Consolidated Financial Statements for the year ended 31 December 2007 continued

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 at 31 December 2007 all of the group's borrowings (31 December 2006 – 99 4%) were fixed after taking account of interest rate hedging and cash deposits held as cash collateral (see Note 16)

Liquidity risk

The group's policy is to ensure continuity of funding and at 31 December 2007 the average maturity of Canary Wharf Group's debt was 16 2 years (31 December 2006 – 14 7 years) Shorter term flexibility is achieved by holding cash on deposit and through construction facilities with a term of typically 3 to 6 years arranged to fund the development of new properties At 31 December 2007 the amount available to draw down under the group's construction facility was £118 4m In addition, SFL had undrawn facilities totalling £49 8m that may be borrowed by SFL to fund the payment of interest and certain other working capital purposes SFL's facility is repayable in full in May 2010

The securitisation, secured and construction loans are each subject to lending covenants that include maximum loan to value ratios and minimum interest coverage ratios The group was in compliance with all lending covenants at 31 December 2007 and throughout the year then ended

Exchange rate risk

Although the group's policy is to maximise all financing in sterling, it had some borrowings in US dollars at 31 December 2006 Such borrowings were fully hedged with all principal and interest liabilities swapped into sterling at fixed rates These borrowings were repaid in 2007 The group has no current intention to borrow further amounts in currencies other than sterling

Capital risk

The group manages its capital to ensure that entities in the group will be able to continue as going concerns The capital structure of the group consists of debt, cash and cash equivalent and monetary assets as disclosed elsewhere in this Note and equity including reserves as disclosed in Notes 23 and 24

Credit risk

Credit risk associated with trade receivables is disclosed in Note 13

Swap counter parties for the group's derivative financial instruments are all rated 'A' or better on the S&P rating system Cash deposits are placed on the money market for varying periods of time with banks that are all 'A' rated or above, or remain on deposit with major UK clearing banks

Canary Wharf Group has a £155 0m construction loan facility secured against 5 Churchill Place provided jointly by Barclays and Bear Stearns and at 31 December 2007 £118 4m remained available to draw down The Drapers Gardens joint venture in which Canary Wharf Group has a 20 0% interest, has a £172 5m facility with Lehman Brothers, of which £102 0m remained to be drawn down at 31 December 2007

The carrying amount of financial assets recorded in the financial statements represents the group's maximum exposure to credit risk

Externally imposed capital requirements

The group is not subject to externally imposed capital requirements

22 PROVISIONS

Provisions have been made in respect of the following liabilities

	Vacant leasehold properties £m	Other lease commitments £m	Total £m
1 January 2006	21 9	34 5	56 4
Utilisation of provision	(6 8)	(6 6)	(13 4)
Unwind of discount	0 7	0 9	1 6
Change in provision	(2 1)	(1 9)	(4 0)
31 December 2006	13 7	26 9	40 6
Utilisation of provision	(12 4)	(3 9)	(16 3)
Unwind of discount	0 7	1 8	2 5
Change in provision	1 5	(1 1)	0 4
31 December 2007	**3 5**	**23 7**	**27 2**

Vacant leasehold properties

At 31 December 2007 the provision for the estimated net liability in respect of vacant leasehold properties discounted at 6 4% being the groups weighted average cost of debt at that date, was £3 5m (31 December 2006 – £13 7m discounted at 6 2%)

In 2007 the group paid £6 2m to the superior landlord of one of its vacant leasehold properties in consideration for a surrender of the obligations in respect of such property A break notice has been served on the landlord of one remaining property and as a result Canary Wharf Group's obligation in respect of this property will expire in July 2009 After taking into account costs incurred during the year of £12 4m, the brought forward provision of £13 7m and the effect of discounting of £0 7m, the charge to income for the year was £1 5m

At 31 December 2007 £11 0m (31 December 2006 – £17 5m) was held in cash collateral to fund costs incurred on the remaining property The surplus of cash collateral over that required to fund future costs will be released to Canary Wharf Group over the period to expiry of the lease

The rents payable on the vacant leasehold properties are classified as operating lease payments and are disclosed in Note 3 The future minimum operating lease payments under non-cancellable operating leases are disclosed in Note 9

In arriving at the provision on the remaining vacant leasehold property assumptions have been made regarding the future occupancy costs of this property prior to the expiry of the leasehold commitment These estimates have been made based on managements experience with other similar properties

Other lease commitments

In connection with an agreement for lease signed in 2001 Canary Wharf Group entered into a rent support commitment under which it may contribute a maximum of £10 per sq ft per annum towards the difference between the passing rent payable by a tenant at its previous premises and the rent achievable on any sub-lease The maximum amount payable in respect of this commitment at 31 December 2007 had reduced to £23 7m (nominal) from £26 6m at 31 December 2006 and had a present value of £19 1m calculated on the basis of a discount rate of 6 4% (31 December 2006 – £20 7m discounted at 6 2%) The commitments under this agreement expire between 2013 and 2017 This amount has been provided for in full and will be subject to review at each subsequent balance sheet date

Notes to the Consolidated Financial Statements for the year ended 31 December 2007 continued

In connection with the sale of certain properties during 2005 Canary Wharf Group agreed to provide rental support either in respect of unexpired rent free periods or until the next rent review date A provision in respect of these commitments was recognised at the date of disposal The remaining provision at 31 December 2007 was £4 6m calculated on the basis of a discount rate of 6 4% (31 December 2006 – £6 2m, discounted at 6 2%) The obligation under one of these commitments expires in 2008 The remaining commitment relates to the lease back of certain car parking spaces and expires in 2028

23 SHARE CAPITAL

Issued share capital comprises

	2007 £m	2006 £m
Equity shares		
– A Shares	**26 1**	26 1
– B Shares	**19 3**	17 8
– C Shares	**–**	–
	45 4	43 9
Shares not classified as equity		
– D Share	**–**	–
– SG Shares	**17 7**	17 7
	63 1	61 6

As at 31 December 2006 a total of 616,117 548 shares were in issue In February 2007 14,478,260 B Shares were issued to BL in consideration for the redemption of the D Share by the company This issue of B Shares resulted in an increase of £1 5m in their carrying value, funded by a capitalisation of £1 5m from the companys share premium account There were no changes in authorised share capital in 2007

At 31 December 2007	Authorised	Issued
Equity Shares		
– A Shares	886,642,391	260 849,750
– B Shares	718,407,318	192,991,649
– C Shares	150,000,000	–
	1,755,049,709	453,841,399
Shares not classified as equity		
– D Share	1	–
– SG Shares	244,950,290	176,754,408
	2 000,000,000	630,595,807

The rights attaching to each class of shares can be summarised as follows

A Shares

- Eight votes per share
- Fixed cumulative dividend entitlement at a rate of 8 0% per annum to be paid quarterly in arrears and accruing from day to day, commencing on the date of issue The A Shares rank equally with the B Shares in respect of dividend rights
- At least two thirds of the aggregate voting rights of the A shareholders, including the consent of the Morgan Stanley shareholder group are required to vary the rights attaching to the A Shares

- In the event of a liquidation event which includes any liquidation, dissolution or winding up of the company, after payment of the Liquidation Preference Amount (see below) the surplus assets shall be distributed to A shareholders ranking equally with the B shareholders, in an amount on each share equal to the sum of (1) the aggregate amount (including premium) from time to time paid up on that share less the aggregate of any additional amounts authorised by the board for distribution in respect of that share (2) all accrued and unpaid fixed cumulative 8 0% dividends and (3) such additional amount (if any) as is necessary in order that the A shareholders (ranking equally with the B shareholders) receive at least an 8 0% annual internal rate of return in respect of each of their shares (the 'Liquidation Ordinary Amount)

  In the event of availability of further surplus assets following the above payment, a further distribution could be made to A shareholders, ranking equally with the B and SG shareholders, up to a maximum amount of £100,000 per £1 paid per share

B Shares

- One vote per share

- Fixed cumulative dividend entitlement at a rate of 8 0% per annum to be paid quarterly in arrears and accruing from day to day, commencing on the date of issue The B Shares rank equally with the A Shares in respect of dividend rights

- At least two thirds of the aggregate voting rights of the B shareholders are required to vary the rights attaching to the B Shares

- In the event of a liquidation event, which includes any liquidation, dissolution or winding up of the company, after payment of the Liquidation Preference Amount (see below) the surplus assets shall be distributed to B shareholders, ranking equally with the A shareholders in an amount on each share equal to the sum of (1) the aggregate amount (including premium) from time to time paid up on that share less the aggregate of any additional amounts authorised by the board for distribution in respect of that share (2) all accrued and unpaid fixed cumulative 8 0% dividends and (3) such additional amount (if any) as is necessary in order that the B shareholders (ranking equally with the A shareholders) receive at least an 8 0% annual internal rate of return in respect of each of their shares (the 'Liquidation Ordinary Amount)

  In the event of availability of further surplus assets following the above payment a further distribution could be made to B shareholders, ranking equally with the A and SG shareholders, up to a maximum amount of £100,000 per £1 paid per share

D Share

The D Share was redeemed on 26 February 2007, and there is no current intention for it to be reissued Until 24 January 2007, when the Articles were amended the D Share also carried the following rights

- No voting rights

- The rights attaching to the D Share can only be varied with the consent in writing of the holder of the D Share

- Entitlement to a D dividend for each year in the five year period commencing on 1 July 2004 based on 20 0% of the incremental increase in the market value of retail assets as identified in the AIM admission document of the company

- In the event of any liquidation, dissolution or winding up of the company a preferential distribution out of the surplus assets of the company of an amount up to the aggregate of all D dividends declared but not paid ('D Share Liquidation Amount')

The dividend rights, both the accrued dividend entitlement at the date of redemption and all future dividend entitlements, attaching to the D Share were cancelled in consideration for the issue of the 14,478,260 B Shares mentioned previously

Notes to the Consolidated Financial Statements for the year ended 31 December 2007 continued

SG Shares

- Eight votes per share

- Entitlement to a fixed cumulative preferential dividend in priority to the payment of any other dividend and/or distribution at a rate of 8 0% per annum payable quarterly in arrears The dividend on the SG Shares increases automatically by 0 5% (subject to a maximum of 10 0%) on each quarterly dividend payment date on which the accrued fixed cumulative preferential dividend is not paid

- Conversion right into A Shares on a one-for-one basis at any time

- Conversion right into B Shares on a one-for-one basis up to a maximum aggregate paid up value of £150 0m, subject to certain restrictions

- Redemption right in whole or in part within the 90 day period commencing on 21 May 2010, or earlier if the A Shares are listed or are the subject of a similar exit transaction

- The rights attaching to the SG Shares can only be varied with the unanimous consent of the SG shareholders

- In addition, unanimous consent of the SG shareholders is also required for the following

  (i) the company issuing any share capital that ranks senior to or on par with the SG Shares,

  (ii) altering the dividend rights of the SG Shares or any other shares in a manner that is adverse to the holders of the SG Shares,

  (iii) altering the memorandum and/or articles of association of the company or, provided that consent is not unreasonably withheld, the constitutional documents of any subsidiary of the company,

  (iv) the company redeeming or repurchasing any share capital that ranks on par with or junior to the SG Shares (if not in accordance with the terms of issue of any such class of share capital)

  (v) the company or any of its subsidiaries entering into any transaction not contemplated by the budget and operating plan approved by the board and that results in adverse tax consequences to the SG shareholders,

  (vi) making or permitting any material alteration to the fundamental nature of the business of the company and its subsidiaries

  (vii) the sale of all or substantially all of the assets of the company except as contemplated by the approved budget and operating plan

  (viii) any sale of assets of the company or any of its subsidiaries for consideration other than cash, and

  (ix) the issue, except to the company or a wholly owned subsidiary of any share capital of any subsidiary of the company, provided that the SG shareholders' consent is given to any such transaction to a third party made in good faith and on an arm's length basis

- In the event of a liquidation event, which includes any liquidation, dissolution or winding up of the company, the surplus assets shall be distributed to SG shareholders in an amount on each SG Share equal to the sum of (1) the aggregate amount (including premium) from time to time paid up on that share less the aggregate of any additional amounts authorised by the board for distribution in respect of that share (2) all accrued and unpaid fixed cumulative preferential 8 0% dividends and (3) such additional amount (if any) as is necessary in order that the SG shareholders receive at least an 8 0% annual rate of return in respect of each of their shares (the Liquidation Preference Amount')

- In the event of availability of further surplus assets following payment of the Liquidation Preference Amount and the Liquidation Ordinary Amount a further distribution would be made to SG shareholders, ranking equally with the A and B shareholders, up to a maximum amount of £100,000 per £1 paid per share

Under the terms of the Shareholders' Agreement between the holders of the A Shares and SG Shares, the Morgan Stanley shareholder group has the right at any time after 21 November 2008, to propose terms of a sale of the company (without necessarily having identified a potential purchaser) In those circumstances the other A shareholders and the SG shareholders have the right either to support and participate in the sale or to purchase the shares of the Morgan Stanley shareholder group (and those of any other supporting shareholders) on the same terms as, or better terms than those proposed by the Morgan Stanley shareholders These rights are subject to the provisions of the Takeover Code

In addition, the parties to the Shareholders Agreement agreed to take, from 31 December 2012, such action as is necessary to wind up and dissolve the company That provision may be waived by agreement of the shareholders who are parties to the Shareholders' Agreement

Notes to the Consolidated Financial Statements for the year ended 31 December 2007 continued

24 OTHER RESERVES

	Note	Share premium £m	Treasury Shares[1] £m	Revaluation reserve[2] £m	Hedging reserve[3] £m	**Total other reserves £m**	Minority interest £m	Retained earnings[4] £m	**Total £m**
1 January 2006		375 5	(1 0)	41 7	(54 5)	**361 7**	914 1	406 9	**1,682 7**
Profit for the year after taxation		–	–	–	–	–	–	705 0	**705 0**
Valuation movements on development properties	11	–	–	172 9	–	**172 9**	–	–	**172 9**
Gains on effective hedges	20	–	–	–	22 5	**22 5**	–	–	**22 5**
Tax on items taken direct to equity	8	–	–	(51 8)	(6 7)	**(58 5)**	–	–	**(58 5)**
Net income recognised directly in equity		–	–	121 1	15 8	**136 9**	–	705 0	**841 9**
Transferred to minority interest		–	–	(47 5)	(8 3)	**(55 8)**	357 7	(301 9)	**–**
Transferred to income – cash flow hedges		–	–	–	7 4	**7 4**	–	–	**7 4**
Tax on transfers	8	–	–	–	(2 2)	**(2 2)**	–	–	**(2 2)**
Total recognised income and expense for the period		–	–	73 6	12 7	**86 3**	357 7	403 1	**847 1**
Transfer on SG Shares		5 2	–	–	–	**5 2**	–	(1 1)	**4 1**
Reserve movements in respect of share plan		–	0 4	–	–	**0 4**	–	–	**0 4**
Dividends paid		–	–	–	–	–	(120 1)	(78 0)	**(198 1)**
31 December 2006		**380 7**	**(0 6)**	**115 3**	**(41 8)**	**453 6**	**1,151 7**	**730 9**	**2,336 2**
Profit for the year after taxation		–	–	–	–	–	–	205 8	**205 8**
Valuation movements on development properties	11	–	–	22 8	–	**22 8**	–	–	**22 8**
Valuation movement on associated undertakings		–	–	0 3	–	**0 3**	–	–	**0 3**
Losses on effective hedges	20	–	–	–	(19 7)	**(19 7)**	–	–	**(19 7)**
Tax on items taken direct to equity	8	–	–	(1 1)	0 1	**(1 0)**	–	–	**(1 0)**
Net income recognised directly in equity		–	–	22 0	(19 6)	**2 4**	–	205 8	**208 2**
Transferred to minority interest		–	–	(8 6)	(7 2)	**(15 8)**	121 2	(105 4)	**–**
Transferred to income – cash flow hedges		–	–	–	35 8	**35 8**	–	–	**35 8**
Tax on transfers	8	–	–	–	(10 0)	**(10 0)**	–	–	**(10 0)**
Total recognised income and expense for the period		–	–	13 4	(1 0)	**12 4**	121 2	100 4	**234 0**
Transfer on D Share		(1 5)	–	–	–	**(1 5)**	–	53 1	**51 6**
Reserve movements in respect of share plan		–	0 2	–	–	**0 2**	–	–	**0 2**
Dividends paid		–	–	–	–	–	–	(319 7)	**(319 7)**
31 December 2007		**379 2**	**(0 4)**	**128 7**	**(42 8)**	**464 7**	**1,272 9**	**564 7**	**2,302 3**

Note

1 The Treasury Shares reserve represents the cost of B Shares held in trust in connection with the Canary Wharf Group share option plan (Note 25)

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

3 The hedging reserve comprises the effective portion of the cumulative net change in the fair value of the group s hedging instruments together with the unamortised portion of certain fair value adjustments that arose on the acquisition of Canary Wharf Group in 2004

4 Includes revaluation surpluses in respect of investment properties that are recognised as income under IFRS

Dividends

The amount recognised as dividends paid comprises

	2007 £m	2006 £m
Payment on A Shares	**183 9**	47 0
Payment on B Shares	**135 8**	31 0
	319 7	78 0

An interim dividend of 29 5p per share totalling £186 0m was paid on 14 February 2007 and a further interim dividend of 41 0p per share totalling £258 4m was paid on 18 June 2007 Of the total dividend of £444 4m, £124 7m was paid to the SG shareholders and classified as a repayment of debt or financing expenses for the purposes of these financial statements

No appropriation of profit is required to be recognised in respect of the other classes of shares Net of dividends paid, the appropriation of profit accruing for 2007, but not recognised in these financial statements, was £2 0m on the A Shares (2006 – £12 1m) and £1 5m on the B Shares (2006 – £9 0m)

25 SHARE BASED PAYMENTS

During 2007 Canary Wharf Group operated the Deferred Plan in conjunction with the Trust The rules of the Deferred Plan allow the majority of participants who were granted options to elect to take a cash equivalent value in substitution for exercising their options

During 2007 options over 148,750 B Shares were exercised under the Deferred Plan (2006 – 1,237,950), and participants with options over a further 46,000 B Shares elected to take a cash sum in substitution for exercising their options (2006 – 121,750) At 31 December 2007, options over 744,220 B Shares were outstanding (31 December 2006 – 938 970)

At 31 December 2007, the trustee of the Trust held 966,223 B Shares

The Deferred Plan is a discretionary plan, which does not benefit from approved status for income tax purposes Under the terms of the Deferred Plan, options over B Shares are granted to participants at the discretion of the Remuneration Committee No consideration is payable for the grant of an option under the Deferred Plan, and an exercise price of £1 is payable upon exercise in full or in part of the option Unless the Remuneration Committee determines otherwise, an option may normally be exercised on or after the first anniversary of the grant date in respect of 50 0% of the B Shares to which it relates The balance of the option may normally be exercised on or after the second anniversary of the grant date Options normally lapse on the third anniversary of the date of grant Upon exercise or part exercise of an option the participant also receives a distribution equating to any net dividend received on the shares since the date of grant The trustee of the Trust waives its entitlement to dividend (save for 0 01p per share) on any shares in excess of those required to satisfy outstanding options The terms of the Deferred Plan allow participants who were granted options on or after December 2005 to elect to take a cash equivalent value in substitution for exercising their options

Notes to the Consolidated Financial Statements for the year ended 31 December 2007 continued

Date of grant	Exercise period	1 January 2007 B Shares	Exercised B Shares	Surrendered for cash alternative B Shares	**31 December 2007 B Shares**	Aggregate net value (1) of shares at date of exercise or surrender £	Distribution (2) made by Trustee out of dividend income £
23 09 04	21 05 06 to 22 09 08	439,970	–	–	**439,970**	–	–
03 05 05	21 05 06 to 22 09 08	60 000	–	–	**60,000**	–	–
20 12 05	20 12 06 to 19 12 08	138,000	(57 500)(3)	(23 000)(4)	**57,500**	216 409	50,313
20 12 05	20 12 07 to 19 12 08	289 500	(85,500)(5)	(23,000)(6)	**181,000**	184 464	96 023
05 12 06	20 12 07 to 19 12 08	5 750	(5,750)	–	**–**	9,660	4 054
05 12 06	01 05 08 to 19 12 08	5 750	–	–	**5,750**	–	–
		938 970	(148 750)	(46 000)	**744,220**	410 533	150 390

Note

(1) Market value of shares less cost of exercise

(2) Dividends received on shares under option are distributed to participants as and when the options are exercised or a cash equivalent value is taken in substitution for exercising the option

(3) Exercised over various dates throughout the year at an average B Share price of £2 373

(4) Surrendered for cash alternative on 9 January 2007 at a B Share price of £3 477

(5) Exercised on 20 December 2007 at an average B Share price of £1 700

(6) Surrendered for cash equivalent on 20 and 21 December 2007 at an average price of £1 735 per B Share

The Trust holds B Shares which may be used to satisfy options granted under the Deferred Plan or any other share plan the company may adopt The assets of the Trust are held separately from those of the company and the trustee of the Trust is Halifax EES Trustees International Limited

Where a participant has the right to take a cash alternative sum in substitution for exercising an option the company has agreed to loan the necessary sum to the trustee, and the trustee has agreed to sell such B Shares as may be necessary to repay the loan unless determined otherwise by the board

At 31 December 2007 the group had accrued £0 4m in respect of its liability under the Deferred Plan (31 December 2006 – £1 0m) All of this amount (31 December 2006 – £0 5m) related to B Shares over which options had vested but had not been exercised at the balance sheet date The income statement reflected a net credit of £0 1m in 2007 reflecting the reduction in share price in the year (2006 – charge of £0 5m)

26 NOTES TO THE CASH FLOW STATEMENT

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

	2007 £m	2006 £m
Profit on ordinary activities before tax	**182 0**	884 1
Non cash movements		
Net valuation gains on investment properties and investments	**(110 4)**	(722 1)
Share of loss after tax of associates	**1 4**	(0 3)
Spreading of tenant incentives, committed rent increases and letting fees	**(25 7)**	(24 4)
Write back of acquisition fees	**–**	(2 2)
Depreciation	**0 4**	0 2
Share options	**(0 1)**	0 5
Profit recognised on construction contracts	**(89 1)**	–
	(223 5)	(748 3)
	(41 5)	135 8
Changes to working capital and other cash movements		
Net financing costs	**273 6**	207 1
Refinancing charges (Note 7)	**14 3**	(123 3)
Utilisation of provisions and unwind of discount	**(13 2)**	(17 2)
Increase in receivables	**(12 7)**	(2 0)
Increase in payables	**34 7**	21 2
Proceeds from construction contracts	**316 1**	131 8
Construction contract expenditure	**(117 2)**	(27 1)
Cash generated from operations	**454 1**	326 3

27 CONTINGENT LIABILITIES AND FINANCIAL COMMITMENTS

At 31 December 2007 certain members of the group had given fixed and floating charges over substantially all of their assets as security for certain of the group's borrowings as referred to in Note 21 In particular, various members of the group had at 31 December 2007 given fixed first ranking charges over cash deposits totalling £144 0m

As security for the issue of up to £2,588 7m of securitised debt (Note 21) Canary Wharf Group has granted a first fixed charge over the shares of CWF II and a first floating charge has been given over all of the assets of CWF II

Commitments of Canary Wharf Group for future expenditure

	2007 £m	2006 £m
Under contract	**325 0**	387 0

The commitments for future expenditure relate to the completion of development projects where construction was committed at 31 December 2007 Any costs accrued or provided for in the balance sheet at 31 December 2007 have been excluded

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

Notes to the Consolidated Financial Statements for the year ended 31 December 2007 continued

Canary Wharf Group entered into an option deed with BWB in November 2007 which allows for the group to elect for the draw down of a 999 year lease of additional land south of Heron Quays West The option deed is for a period of 5 years from November 2007 An initial option payment of £2 25m was made and is followed by annual payments of £250 000 on each anniversary of the option deed If the group exercises the option BWB has the right to receive a fixed stream of rental payments throughout the duration of the lease or to commute the rental payments into a capital sum payable on the fifth anniversary of the option deed

Canary Wharf Group has, in the normal course of its business, granted limited warranties or indemnities to its tenants in respect of building defects (and defects on the Estate or in the car parks) caused through breach of its obligations as developer contained in any pre-let or other agreement Offsetting this potential liability Canary Wharf Group benefits from warranties from the trade contractors and suppliers who worked on such buildings

In relation to the Drapers Gardens joint venture in which certain Canary Wharf Group companies own a 20 0% shareholding, CWHL has entered into a cost overrun guarantee in favour of the construction loan lending bank CWHL guarantees to the bank the cost of any outstanding cost overruns, equal to its proportional shareholding subject to an overall cap of £2 3m In addition, CWHL has entered into an interest guarantee in favour of the bank pursuant to which it guarantees 20 0% of the interest due on the construction loan This guarantee is limited to a maximum period of 12 months' interest following the date of practical completion of the building The directors are of the view that this guarantee has no material value

Sub-let commitments

Under the terms of certain agreements for lease Canary Wharf Group has committed to take back certain space on the basis of short term sub-leases at the end of which the space reverts to the relevant tenants This space has been securitised but, insofar as the securitisations are concerned, the tenants are contracted to pay rent on the entire amount of space leased, whilst taking the covenant of Canary Wharf Group s subsidiaries on the sub-let space The existence of the sub-let commitments has been taken into account in arriving at the market valuation of the group's properties at 31 December 2007

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

Property	Leaseholder	Original sub let sq ft	Re-let (1) sq ft	Net rent (2) £m	Rent review date	Rent review basis	Term commence-ment	Expiry or first break
10 Upper Bank Street	Clifford Chance	52 600	52 600	0 77	N/A	N/A	Jul 2003	Jul 2008
10 Upper Bank Street	Clifford Chance	52 100	52 100	0 99	Jul 2008	Fixed at £49/sf	Jul 2003	Jul 2013
25-30 Bank Street	Lehman Brothers	25 200	25,200	0 44	N/A	N/A	Jul 2003	Jul 2008
25-30 Bank Street	Lehman Brothers	50,400	50 400	0 32	N/A	N/A	Jul 2003	Jul 2008
25-30 Bank Street	Lehman Brothers	24,100	24 100	0 24	Nov 2008	Fixed at £53/sf	Jul 2003	Mar 2009
25-30 Bank Street	Lehman Brothers	100,900	90 100	3 32	Jul 2008	Fixed at £53/sf (3)	Jul 2003	Jul 2013
One Churchill Place	Barclays	133 400	133 400	0 98	Jul 2009	OMR up only	Jul 2004	Jul 2019
One Churchill Place	Barclays	129 700	129,700	0 89	Jul 2009	OMR up only	Jul 2004	Jul 2014
One Churchill Place	Barclays	65 000	65 000	1 21	N/A	N/A	Jul 2004	Jul 2009
40 Bank Street	Skadden	19 500	19 500	0 05	N/A	N/A	Mar 2003	Mar 2008
40 Bank Street	Skadden	19,500	19 500	0 59	Apr 2008	OMR up only	Mar 2003	Sep 2010
40 Bank Street	Skadden	19 500	19,500	0 26	Apr 2008	OMR up only	Mar 2003	Mar 2013
		691,900	**681,100**	**10 06**				

Note

(1) A call option was granted on 10 800 sq ft of sub let space in 25-30 Bank Street With the exception of this space all of the sub-let space has now been re-let

(2) The net annual sub-let rental obligations will decrease over time with the expiration of re-letting rent free periods

(3) Followed by annual increases to £59 65 per sq ft in 2012

28 RELATED PARTY TRANSACTIONS

On 29 December 2004 the company entered into the Provision of Services Agreement with Canary Wharf Group Under the Provision of Services Agreement, Canary Wharf Group agreed to provide certain business and corporate administration services for a time based fee to the company for an initial period of 12 months and to continue thereafter until terminated by either party on three months notice No such notice has been served to date During 2007 £350,000 plus VAT was charged to the company and at 31 December 2007 £350 000 plus VAT remained outstanding

During 2005 Canary Wharf Group entered into a consultancy services agreement with Morgan Stanley under which Canary Wharf Group appointed MS to provide consultancy services in respect of the management of the Estate and the provision of strategic advice in relation to all areas of Canary Wharf Group's business The fees chargeable under this agreement are calculated on a time spent basis in accordance with daily rates notified to Canary Wharf Group subject to a maximum limit of £1 0m in aggregate exclusive of VAT in any twelve month period No amounts became payable under this agreement during 2007 or 2006

On 4 November 2005 the company entered into an agreement with SAL MSBI, MSMS and other non-related financial institutions in relation to the provision of loan facilities to an aggregate maximum funding of approximately £736 9m Under this agreement MSBI, together with Hypo Bank, were appointed Arrangers and MSMS was appointed Agent and Security Trustee Under this facility an annual arrangement fee of 0 05% was due on the principal amount of each loan outstanding under the facilities, to be divided equally between MSBI and Hypo Bank All amounts due under the facilities were repaid in May 2007 (Note 21) In 2007, £101 021 of arrangement fees were paid under this agreement

Notes to the Consolidated Financial Statements for the year ended 31 December 2007 continued

A £1 5m abort fee was paid by Canary Wharf Group to Morgan Stanley in 2007 in respect of work carried out for an initial financing restructuring proposal put forward in the third quarter of 2006

During 2007 Canary Wharf Group purchased IT and telecommunications services to the value of £126 814 from HSO, a company in which Canary Wharf Group holds an equity investment equivalent to approximately 13 0% of the issued share capital £123,971 plus VAT was owed to HSO at 31 December 2007 In addition during 2007, Canary Wharf Group billed HSO £40,599 for access to the Estate s telecommunications infrastructure £108,035 plus VAT was owed by HSO at 31 December 2007

During 2007 Canary Wharf Group billed £507,099 plus VAT in respect of the provision of management services to WWLP of which £19 426 remained outstanding at 31 December 2007

In March 2007 Canary Wharf Group entered in an agreement with Morgan Stanley under which Canary Wharf Group appointed Morgan Stanley as Arranger and Bookrunner and Joint Lead Manager in respect of the restructuring of the Canary Wharf Group securitisation involving the redemption of £572 6m of FRNs and the issue of £726 0m of new non-amortising FRNs A total of £2 0m was paid under this agreement during the year

In May 2007 the company entered into an Agent and Security Trustee Fee Letter with MSMS in respect of the £880 0m Facility Agreement dated 18 May 2007 (Note 21) Under this facility an annual combined agency and security trustee fee of 0 035% is due on the amount drawn under the Facility from day to day A total of £141,699 was paid in the year out of £174 339 incurred

In June 2007 Canary Wharf Group entered into joint venture arrangements with MSREF V and Exemplar on behalf of Omega, for the redevelopment of Drapers Gardens Under the terms of the Joint Venture arrangements a £0 84m agency fee and £3 50m financing fee were paid to Morgan Stanley by the joint venture During 2007 the group billed £332,500 for construction management services to Drapers Gardens Unit Trust, in which it holds a 20 0% interest At 31 December 2007 £110 000 plus VAT was outstanding

29 FIRST TIME ADOPTION OF IFRS

The group's transition date for the adoption of IFRS was 1 January 2006 This transition date was selected in accordance with IFRS 1

The principal differences for the group between reporting under IFRS as compared to UK GAAP and which are noted in the tables on the following pages are,

(i) The cost of tenant incentives, such as rent free periods is now amortised over the term of the leases concerned rather than over the period to the first review to market rents

(ii) Lease negotiation costs are now amortised over the term of the leases concerned rather than being expensed as incurred

(iii) The surpluses and deficits arising on the periodic revaluation of the investment property portfolio are now taken through the income statement

(iv) Goodwill arising on acquisition is no longer amortised but kept on the balance sheet and reviewed regularly for impairment In light of the revaluation of development properties and properties under construction to fair value, which includes amounts previously shown separately as goodwill under UK GAAP the company has written down the goodwill arising on the acquisition of Canary Wharf Group under UK GAAP to £nil upon conversion to IFRS

(v) The company has taken the option to revalue development properties where the intention is to hold the completed properties for investment purposes The surplus on revaluation is taken to equity

(vi) The fair value of all derivatives such as interest rate swaps is now recognised in the group balance sheet In the case of the US dollar denominated A5 notes, the mark to market on the related interest hedges is offset by the translation gain on the notes

(vii) Prior to the share capital amendments approved in January 2007 the D Share carried the right to a dividend based on 20 0% of the increase in value of the group s retail assets The nature of this dividend entitlement was such that it was treated as a derivative for IFRS purposes and restated at fair value at each balance sheet date

(viii) Deferred tax is required to be provided in full on all differences between the carrying value for accounts purposes and those for taxation In particular deferred tax is now provided on revaluation surpluses and deferred tax assets recognised in respect of unclaimed EZAs and tax losses

(ix) The minority interest is adjusted for its share of the IFRS adjustments

(x) Deposits with original maturity in excess of three months are classified as monetary assets rather than cash or cash equivalents

The application of IFRS has also changed the presentation of the cash flow statement which now shows cash flows derived from three types of activities – operating investing and financing In addition under IFRS, the cash flow statement includes all cash flows in respect of cash and cash equivalents

The overall cash flows of the group do not change as a result of using IFRS The underlying performance of the business is unchanged

As a general rule the group was required to establish its IFRS accounting policies for 2007 and apply these retrospectively to determine its opening IFRS balance sheet at the transition date of 1 January 2006 and the comparative information for 2006 However, advantage was taken of the exemption afforded by IFRS 1 in relation to business combinations such that the acquisition of Canary Wharf Group in May 2004 has not been restated to comply with IFRS 3 'Business combinations'

In preparing the IFRS accounts, the group has adjusted amounts reported previously in the financial statements prepared in accordance with UK GAAP Quantification of how the transition has affected the group's financial performance and position is set out in the following tables in respect of each of

- Transitional consolidated balance sheet as at 1 January 2006
- Consolidated balance sheet as at 31 December 2006
- Consolidated income statement for the year ended 31 December 2006

Notes to the Consolidated Financial Statements for the year ended 31 December 2007 continued

Consolidated Balance Sheet (IFRS restated) at 1 January 2006

	UK GAAP balances in IFRS format £m	Tenant incentives (i) £m	Negotiation costs (ii) £m	Investment property revaluation (iii) £m	Goodwill (iv) £m	Revalue development properties (v) £m	Derivatives (vi) £m	Foreign currency (vi) £m	D Share (vii) £m	Deferred tax (viii) £m	Minority interest (ix) £m	Reclassifications (x) £m	IFRS £m
Assets													
Non current assets													
Investment properties	5,204 7	(33 9)	(2 7)	–	–	–	–	–	–	–	–	–	5 168 1
Properties under construction	–	–	–	–	–	–	–	–	–	–	–	–	–
Development properties	259 1	–	–	–	–	97 9	–	–	–	–	–	–	357 0
Other property plant and equipment	2 4	–	–	–	–	–	–	–	–	–	–	–	2 4
	5,466 2	**(33 9)**	**(2 7)**	**–**	**–**	**97 9**	**–**	**–**	**–**	**–**	**–**	**–**	**5,527 5**
Other non current assets													
Investments	2 8	–	–	–	–	–	–	–	–	–	–	–	2 8
Derivatives	–	–	–	–	–	–	–	–	–	–	–	–	–
Deferred tax	29 0	–	–	–	–	–	–	–	–	29 4	–	–	58 4
Goodwill	72 6	–	–	–	(72 6)	–	–	–	–	–	–	–	–
	5,570 6	**(33 9)**	**(2 7)**	**–**	**(72 6)**	**97 9**	**–**	**–**	**–**	**29 4**	**–**	**–**	**5,588 7**
Current assets													
Trade and other receivables	75 0	–	–	–	–	–	–	–	–	–	–	–	75 0
Tenant incentives and deferred negotiation costs	96 8	33 9	2 7	–	–	–	–	–	–	–	–	–	133 4
Monetary assets	–	–	–	–	–	–	–	–	–	–	–	–	–
Cash and cash equivalents	1 829 9	–	–	–	–	–	–	–	–	–	–	–	1 829 9
Total assets	**7,572 3**	**–**	**–**	**–**	**(72 6)**	**97 9**	**–**	**–**	**–**	**29 4**	**–**	**–**	**7,627 0**

Consolidated Balance Sheet (IFRS restated) at 1 January 2006 (continued)

	UK GAAP balances in IFRS format £m	Tenant incentives (i) £m	Negotiation costs (ii) £m	Investment property revaluation (iii) £m	Goodwill (iv) £m	Revalue development properties (v) £m	Derivatives (vi) £m	Foreign currency (vi) £m	D Share (vii) £m	Deferred tax (viii) £m	Minority interest (ix) £m	Reclassifi-cations (x) £m	IFRS £m
Liabilities													
Current liabilities													
Current portion of													
long term borrowings	(70 7)	–	–	–	–	–	–	–	(4 7)	–	–	–	(75 4)
Trade and other payables	(174 8)	–	–	–	–	–	–	–	–	–	–	–	(174 8)
Non current liabilities													
Borrowings	(5 462 4)	–	–	–	–	–	53 4	(7 8)	–	–	–	–	(5,416 8)
Derivatives	–	–	–	–	–	–	(177 6)	–	–	–	–	–	(177 6)
Deferred tax liabilities	–	–	–	–	–	–	–	–	–	–	–	–	–
Other non current liabilities	(56 4)	–	–	–	–	–	–	–	–	–	–	–	(56 4)
Total liabilities	**(5,764 3)**	**–**	**–**	**–**	**–**	**–**	**(124 2)**	**(7 8)**	**(4 7)**	**–**	**–**	**–**	**(5,901 0)**
Net assets	**1,808 0**	**–**	**–**	**–**	**(72 6)**	**97 9**	**(124 2)**	**(7 8)**	**(4 7)**	**29 4**	**–**	**–**	**1,726 0**
Equity													
Share capital	43 3	–	–	–	–	–	–	–	–	–	–	–	43 3
Other reserves	979 0	–	–	(604 5)	–	97 9	(128 1)	–	–	9 0	8 4	–	361 7
Retained earnings	(130 3)	–	–	604 5	(72 6)	–	3 9	(7 8)	(4 7)	20 4	(6 5)	–	406 9
Total equity attributable to members of the company	**892 0**	**–**	**–**	**–**	**(72 6)**	**97 9**	**(124 2)**	**(7 8)**	**(4 7)**	**29 4**	**1 9**	**–**	**811 9**
Minority interests	916 0	–	–	–	–	–	–	–	–	–	(1 9)	–	914 1
Total equity and reserves	**1,808 0**	**–**	**–**	**–**	**(72 6)**	**97 9**	**(124 2)**	**(7 8)**	**(4 7)**	**29 4**	**–**	**–**	**1,726 0**

Notes to the Consolidated Financial Statements for the year ended 31 December 2007 continued

Consolidated Balance Sheet (IFRS restated) as at 31 December 2006

	UK GAAP balances in IFRS format £m	Tenant incentives (i) £m	Negotiation costs (ii) £m	Investment property revaluation (iii) £m	Goodwill (iv) £m	Revalue development properties (v) £m	Derivatives (vi) £m	Foreign currency (vi) £m	D Share (vii) £m	Deferred tax (viii) £m	Minority interest (ix) £m	Reclassifi-cations (x) £m	IFRS £m
Assets													
Non current assets													
Investment properties	5,958 8	(59 5)	(3 7)	–	–	–	–	–	–	–	–	–	5,895 6
Properties under construction	53 1	–	(0 7)	–	–	41 9	–	–	–	–	–	–	94 3
Development properties	192 0	–	(0 1)	–	–	223 0	–	–	–	–	–	–	414 9
Other property plant and equipment	0 4	–	–	–	–	–	–	–	–	–	–	–	0 4
	6,204 3	**(59 5)**	**(4 5)**	**–**	**–**	**264 9**	**–**	**–**	**–**	**–**	**–**	**–**	**6,405 2**
Other non current assets													
Investments	12 8	–	–	–	–	–	–	–	–	–	–	–	12 8
Deferred tax	–	–	–	–	–	–	–	–	–	–	–	–	–
Derivatives	–	–	–	–	–	–	11 5	–	–	–	–	–	11 5
Goodwill	66 4	–	–	–	(66 4)	–	–	–	–	–	–	–	–
	6,283 5	**(59 5)**	**(4 5)**	**–**	**(66 4)**	**264 9**	**11 5**	**–**	**–**	**–**	**–**	**–**	**6,429 5**
Current assets													
Trade and other receivables	53 5	–	–	–	–	–	–	–	–	–	–	(4 5)	49 0
Tenant incentives and deferred negotiation costs	99 6	59 5	4 5	–	–	–	–	–	–	–	–	–	163 6
Monetary assets	–	–	–	–	–	–	–	–	–	–	–	147 5	147 5
Cash and cash equivalents	1,025 4	–	–	–	–	–	–	–	–	–	–	(143 0)	882 4
	1,178 5	**59 5**	**4 5**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,242 5**
Total assets	**7,462 0**	**–**	**–**	**–**	**(66 4)**	**264 9**	**11 5**	**–**	**–**	**–**	**–**	**–**	**7,672 0**

Consolidated Balance Sheet as at 31 December 2006 (continued)

	UK GAAP balances in IFRS format £m	Tenant incentives (i) £m	Negotiation costs (ii) £m	Investment property revaluation (iii) £m	Goodwill (iv) £m	Revalue development properties (v) £m	Derivatives (vi) £m	Foreign currency (vi) £m	D Share (vii) £m	Deferred tax (viii) £m	Minority interest (ix) £m	Reclassifications (x) £m	IFRS £m
Liabilities													
Current liabilities													
Current portion of													
long term borrowings	(101 7)	–	–	–	–	–	–	–	(1 8)	–	–	–	(103 5)
Trade and other payables	(390 6)	–	–	–	–	6 7	–	–	–	–	–	–	(383 9)
Non current liabilities													
Borrowings	(4,517 2)	–	–	–	–	–	71 5	18 2	–	–	–	–	(4,427 5)
Derivatives	–	–	–	–	–	–	(155 0)	–	–	–	–	–	(155 0)
Deferred tax liabilities	(32 9)	–	–	–	–	–	–	–	–	(148 5)	–	–	(181 4)
Other non current liabilities	(40 6)	–	–	–	–	–	–	–	–	–	–	–	(40 6)
Total liabilities	**(5,083 0)**	**–**	**–**	**–**	**–**	**6 7**	**(83 5)**	**18 2**	**(1 8)**	**(148 5)**	**–**	**–**	**(5,291 9)**
Net assets	**2,379 0**	**–**	**–**	**–**	**(66 4)**	**271 6**	**(72 0)**	**18 2**	**(1 8)**	**(148 5)**	**–**	**–**	**2,380 1**
Equity													
Share capital	43 9	–	–	–	–	–	–	–	–	–	–	–	43 9
Other reserves	1,439 9	–	(0 8)	(1,059 8)	–	271 6	(98 2)	–	–	(51 7)	(47 4)	–	453 6
Retained earnings	(229 3)	–	0 8	1,059 8	(66 4)	–	26 2	18 2	(1 8)	(96 8)	20 2	–	730 9
Total equity attributable to members of the company	**1,254 5**	**–**	**–**	**–**	**(66 4)**	**271 6**	**(72 0)**	**18 2**	**(1 8)**	**(148 5)**	**(27 2)**	**–**	**1,228 4**
Minority interests	1,124 5	–	–	–	–	–	–	–	–	–	27 2	–	1 151 7
Total equity and reserves	**2,379 0**	**–**	**–**	**–**	**(66 4)**	**271 6**	**(72 0)**	**18 2**	**(1 8)**	**(148 5)**	**–**	**–**	**2,380 1**

Notes to the Consolidated Financial Statements for the year ended 31 December 2007 continued

Consolidated Income Statement (IFRS restated) for the year ended 31 December 2006

	UK GAAP balances in IFRS format £m	Tenant incentives (i) £m	Negotiation costs (ii) £m	Investment property revaluation (iii) £m	Goodwill (iv) £m	Revalue development properties (v) £m	Derivatives (vi) £m	Foreign currency (vi) £m	D Share (vii) £m	Deferred tax (viii) £m	Minority interest (ix) £m	Reclassifications (x) £m	IFRS £m
Revenue	411 2	25 6	–	–	–	–	–	–	–	–	–	–	436 8
Cost of sales	(153 9)	–	–	–	–	–	–	–	–	–	–	–	(153 9)
Gross profit	**257 3**	**25 6**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**282 9**
Administrative expenses	(46 7)	–	1 8	–	6 2	–	–	–	–	–	–	–	(38 7)
Other income	1 9	–	–	–	–	–	–	–	–	–	–	–	1 9
Share of associates and joint ventures	(0 3)	–	–	–	–	–	–	–	–	–	–	–	(0 3)
Net valuation gains on property and investment	–	(25 6)	(1 0)	748 7	–	–	–	–	–	–	–	–	722 1
Operating profit	**212 2**	**–**	**0 8**	**748 7**	**6 2**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**967 9**
Financing income	46 1	–	–	–	–	–	–	–	–	–	–	–	46 1
Financing costs before exceptional item	(304 4)	–	–	–	–	–	22 3	26 0	2 9	–	–	–	(253 2)
Exceptional gain relating to repayment of debt	123 3	–	–	–	–	–	–	–	–	–	–	–	123 3
Profit on ordinary activities before tax	**77 2**	**–**	**0 8**	**748 7**	**6 2**	**–**	**22 3**	**26 0**	**2 9**	**–**	**–**	**–**	**884 1**
Tax	(61 9)	–	–	–	–	–	–	–	–	(117 2)	–	–	(179 1)
Profit on ordinary activities after tax	**15 3**	**–**	**0 8**	**748 7**	**6 2**	**–**	**22 3**	**26 0**	**2 9**	**(117 2)**	**–**	**–**	**705 0**
Minority interest	(35 2)	–	–	(293 4)	–	–	–	–	–	–	26 7	–	(301 9)
Loss attributable to members	**(19 9)**	**–**	**0 8**	**455 3**	**6 2**	**–**	**22 3**	**26 0**	**2 9**	**(117 2)**	**26 7**	**–**	**403 1**
Brought forward profits/(losses)	(130 3)	–	–	604 5	(72 6)	–	3 9	(7 8)	(4 7)	20 4	(6 5)	–	406 9
Dividends	(78 0)	–	–	–	–	–	–	–	–	–	–	–	(78 0)
Reserves transfer	(1 1)	–	–	–	–	–	–	–	–	–	–	–	(1 1)
Retained earnings	**(229 3)**	**–**	**0 8**	**1,059 8**	**(66 4)**	**–**	**26 2**	**18 2**	**(1 8)**	**(96 8)**	**20 2**	**–**	**730 9**

30 EVENTS AFTER THE BALANCE SHEET DATE

On 7 February 2008 Canary Wharf Group announced lettings on over 225,000 sq ft (of which approximately 200,000 sq ft was concluded post 31 December 2007) in One Canada Square, including an agreement for lease with Moody s for approximately 170 000 sq ft on a 15 year lease in space formerly occupied by the Telegraph Media Group

On 26 March 2008 Canary Wharf Group declared a dividend of 16p per ordinary share payable on 9 April 2008 The company has no current intention of paying a dividend to shareholders

Company Balance Sheet at 31 December 2007

	Note	**2007 £m**	2006 £m
FIXED ASSETS			
Investments	(c)	**1,383 5**	647 3
CURRENT ASSETS			
Debtors due in less than one year	(d)	**–**	29 6
Cash at bank and in hand	(e)	**0 9**	128 8
		0 9	158 4
CREDITORS Amounts falling due within one year	(f)	**(399 8)**	(58 3)
NET CURRENT (LIABILITIES)/ASSETS		**(398 9)**	100 1
TOTAL ASSETS LESS CURRENT LIABILITIES		**984 6**	747 4
CREDITORS Amounts falling due after more than one year	(g)	**(30 6)**	(142 6)
NET ASSETS		**954 0**	604 8
CAPITAL AND RESERVES			
Called up share capital	(h)	**45 4**	43 9
Reserves			
– share premium	(i)	**379 2**	380 7
– profit and loss account	(i)	**164 3**	180 2
– other reserve	(i)	**365 1**	–
SHAREHOLDERS' FUNDS	(j)	**954 0**	604 8

Notes (a) to (j) on the following pages form an integral part of these financial statements

Approved by the board on 26 March 2008 and signed on its behalf by

DAVID PRITCHARD
Chairman

Notes to the Company Financial Statements for the year ended 31 December 2007

(a) STATEMENT OF ACCOUNTING POLICIES

The principal accounting policies are set out below They have all been applied consistently throughout the current and previous years

Basis of preparation

The companys financial statements are prepared in accordance with applicable UK accounting standards and under the historical cost convention

Investment in subsidiary undertakings

Investments in subsidiary undertakings are stated in the company's balance sheet at cost less any provision for impairment

Interest receivable and interest payable

Interest receivable and payable are recognised in the period in which they fall due

Accounting for share capital classified as non-equity

In accordance with FRS 25, both the D Share prior to its cancellation and the SG Shares are classified as liabilities and are included in creditors payable in more than one year

Until conversion of the D Share, dividends potentially payable to the D shareholder were recognised as they fall due classified as interest payable and included in creditors falling due within one year

The finance cost of the SG Shares is also classified as interest payable and included in creditors due within one year The excess of amounts paid over interest accrued in accordance with the shareholders' rights (Note 23 of the Notes to the consolidated financial statements) serves to reduce the carrying value of the liability included in creditors payable in more than one year

(b) PROFIT FOR THE FINANCIAL YEAR

The profit recorded by the company in 2007 was £668 9m (2006 – £226 5m) of which £486 8m was attributable to subsidiary dividends receivable in the year (2006 – £260 0m) As permitted by Section 230(3) of the Companies Act 1985, no profit and loss account is presented for the company in respect of either year

(c) INVESTMENTS

Investments comprise shares held directly and indirectly in the following subsidiaries

Name	Description of shares	%	Principal activities
Songbird Finance Limited*	£1 Ordinary	100 0	Investment company
Songbird Acquisition Limited*	10p Ordinary	100 0	Investment company
Canary Wharf Group plc	1p Ordinary	60 8	Holding company

*Directly held

All of these companies are registered in the UK

A complete list of Canary Wharf Group's subsidiary undertakings will be attached to that company's annual return when it is submitted to the Registrar of Companies

At 31 December 2006 the company held the entire issued share capital of SAL comprising 396,518,130 ordinary shares of 10p each The principal activity of SAL was to act as a finance company and manage its investment in Canary Wharf Group In addition the company held 85,004,663 ordinary shares in Canary Wharf Group representing 13 3% of the ordinary shares in issue at 31 December 2006 On 21 May 2007 the company sold its shares in

Notes to the Company Financial Statements for the year ended 31 December 2007 continued

Canary Wharf Group to SFL for £4 58 per share being the adjusted NNNAV per share of Canary Wharf Group at 31 December 2006, resulting in a profit on disposal of £138 6m As part of this reorganisation, the company acquired 986,831,887 ordinary £1 shares in SFL representing all of the issued share capital of that company The directors are of the view that the value of the companys investments at 31 December 2007 is not less than the amount at which they are stated in the company's balance sheet at that date

Cost and net book value

	£m
31 December 2006	647 3
Additions	986 8
Disposals	(250 6)
31 December 2007	**1,383 5**

(d) DEBTORS

	2007 £m	2006 £m
Due within one year		
Amounts owed by subsidiary undertakings	–	29 6
	–	29 6

(e) FINANCIAL ASSETS

The company's financial assets comprise short term cash deposits Cash deposits totalled £0 9m at 31 December 2007 (31 December 2006 – £128 8m), comprising deposits placed on deposit at call and term rates

(f) CREDITORS AMOUNTS FALLING DUE WITHIN ONE YEAR

	2007 £m	2006 £m
Amounts owed to subsidiary undertakings	**397 6**	–
Accruals	**0 7**	0 8
Financing costs of non-equity share capital	**1 5**	57 5
	399 8	58 3

The company had no purchases outstanding at either 31 December 2007 or 31 December 2006

Financing costs of non-equity share capital at 31 December 2007 comprised £1 5m (31 December 2006 – £8 7m) of dividends accrued (but not declared or paid) in respect of the SG Shares At 31 December 2006 financing costs of non-equity share capital also included £48 8m accrued in respect of the D Share Following the redemption of the D Share referred to in Note 23 of the Notes to the consolidated financial statements, this accrual was released and the resultant credit has been transferred directly to the profit and loss reserve

The amount owed to subsidiary undertakings is on an interest free basis with no defined redemption date This amount arose from the restructuring referred to in Note (c)

(g) CREDITORS AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

Creditors due after more than one year comprise

	2007 £m	2006 £m
Non-equity share capital	**30 6**	142 6
	30 6	142 6

In accordance with FRS 25 the D Share prior to its cancellation and the SG Shares have been classified as creditors falling due in more than one year, and the dividends accrued (but not declared or paid) in respect of these shares have been included in creditors due in less than one year (Note (f))

(h) SHARE CAPITAL

At 31 December 2007 a total of 630,595,807 shares were in issue Details of changes in share capital in 2007 can be found in Note 23 of the Notes to the consolidated financial statements, together with the rights attaching to each class of shares

(i) RESERVES

	Share premium account £m	Profit and loss account £m	Other reserve £m	**Total £m**
1 January 2007	380 7	180 2	–	**560 9**
Transfer on D Share redemption	(1 5)	–	–	**(1 5)**
Profit for the financial year	–	668 9	–	**668 9**
Transfer of unrealised profit for the financial year	–	(365 1)	365 1	**–**
Dividend	–	(319 7)	–	**(319 7)**
31 December 2007	**379 2**	**164 3**	**365 1**	**908 6**

The movement on the share premium account arose from the conversion of the D Share (Note 23 of the Notes to the consolidated financial statements)

The other reserve arose from the reorganisation referred to in Note (c) and is considered by the directors to be non distributable

(j) RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS FUNDS

	£m
1 January 2007	604 8
Profit for the financial year	668 9
Dividend paid (Note 23 of the Notes to the consolidated financial statements)	(319 7)
31 December 2007	**954 0**

Independent Auditors' Report for the Company to the Members of Songbird Estates plc

We have audited the parent company financial statements of Songbird Estates plc for the year ended 31 December 2007 which comprise the Balance Sheet and the related Notes (a) to (j) These parent company financial statements have been prepared under the accounting policies set out therein

We have reported separately on the group financial statements of Songbird Estates plc for the year ended 31 December 2007

This report is made solely to the companys members, as a body, in accordance with section 235 of the Companies Act 1985 Our audit work has been undertaken so that we might state to the companys members those matters we are required to state to them in an auditors' report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the companys members as a body, for our audit work for this report or for the opinions we have formed

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors' responsibilities for preparing the Annual Report, and the parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities

Our responsibility is to audit the parent company financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements have been properly prepared in accordance with the Companies Act 1985 We also report to you whether in our opinion the Directors' Report is consistent with the parent company financial statements The information given in the Directors Report includes that specific information presented in the Business Review that is cross referred from the Principal Activity and Business Review section of the Directors' Report

In addition we report to you if, in our opinion, the company has not kept proper accounting records if we have not received all the information and explanations we require for our audit or if information specified by law regarding directors' remuneration and other transactions is not disclosed

We read the other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited parent company financial statements We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements Our responsibilities do not extend to any further information outside the Annual Report

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company financial statements It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the parent company financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the parent company financial statements are free from material misstatement, whether caused by fraud or other irregularity or error In forming our opinion we also evaluated the overall adequacy of the presentation of information in the parent company financial statements

OPINION

In our opinion

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the companys affairs as at 31 December 2007,
- the parent company financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the parent company financial statements

Deloitte & Touche LLP

DELOITTE & TOUCHE LLP

Chartered Accountants and Registered Auditors
London
United Kingdom

26 March 2008

Definitions

A Shares	Ordinary Class A Shares of 10p each
AIM	London Stock Exchange Alternative Investment Market
ANZ	Australia New Zealand Bank Limited
Articles	Articles of Association of Songbird Estates plc
B Shares	Ordinary Class B Shares of 10p each
Ballymore	Ballymore Properties Limited
Barclays	Barclays Bank plc
BL	British Land (Joint Ventures) Limited
board	Board of directors of the company
BPF	British Property Federation
BWB	British Waterways Board
Canary Wharf Group	Canary Wharf Group plc and its subsidiaries
CBRE	CB Richard Ellis Limited Surveyors and Valuers
Company	Songbird Estates plc
Cushman	Cushman & Wakefield, Real Estate Consultants
CWF II	Canary Wharf Finance II plc
CWHL	Canary Wharf Holdings Limited
Deferred Plan	Canary Wharf Group 2004 Deferred Share Plan
D Share	D Share of 10p
Drapers Gardens	Drapers Gardens scheme in the City of London
EMRG	Environmental Management Review Group
EMS	Environmental Management System
Estate	Canary Wharf Estate including Heron Quays, Riverside South and North Quay
EU	European Union
Exemplar	Exemplar Developments LLP
EZAs	Enterprise Zone Allowances
Fimalac	F Marc de Lachariere
Fitch	Fitch Ratings Limited
FRNs	Floating Rate Notes
FRS 25	Financial Reporting Standard 25 (Financial Instruments Disclosure and Presentation)
FVTPL	Fair Value Through Profit and Loss
group	The company, its wholly owned subsidiaries and Canary Wharf Group
HMRC	Her Majesty's Revenue and Customs
HSO	HighSpeed Office Limited
Hypo Bank	Hypo Real Estate Bank International Limited
IAS	International Accounting Standards
IAS 11	International Accounting Standard 11 'Construction Contracts'
IAS 17	International Accounting Standard 17 'Leases
IAS 39	International Accounting Standard 39 Financial Instruments Recognition and Measurement'
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IFRS 8	International Financial Reporting Standard 8 'Operating Segments'
Knight Frank	Knight Frank LLP, Property Consultants
LBTH	London Borough of Tower Hamlets
LOCOG	The London Organising Committee of the Olympic Games Limited
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
MSBI	Morgan Stanley Bank International Limited
MSMS	Morgan Stanley Mortgage Services Limited
MSREF V	Morgan Stanley Real Estate Fund V

Definitions continued

NAV	Net Asset Value
NIA	Net Internal Area
NNNAV	Triple Net Asset Value
Omega	Omega Land BV
OMR	Open Market Rent
Provision of Services Agreement	A provision of services agreement between the company and Canary Wharf Group
S&P	Standard & Poors
SAL	Songbird Acquisition Limited
Savills	Savills Commercial Limited, Chartered Surveyors
SFL	Songbird Finance Limited
SG Shares	SG Shares of 10p
Skadden	Skadden Arps Slate Meagher & Flom LLP
Songbird loan	Loan drawn down by either SAL or SFL
sq ft	Square feet/square foot
TFL	Transport for London
Treasury Shares	B Shares acquired by any group entity and not cancelled
Trust	Canary Wharf Employees' Share Ownership Plan Trust
UK GAAP	United Kingdom Generally Accepted Accounting Practice
VAT	Value Added Tax
WWLP	Wood Wharf Limited Partnership

Members' Information

DIRECTORS

Non-executive directors

David Pritchard independent non-executive chairman appointed to the board as a voting director in September 2005 This appointment is subject to annual ratification by B shareholders at a class meeting to be held on the same day as the company's annual general meeting Currently a director of Allied Irish Banks plc and the Motability Tenth Anniversary Trust Previously non-executive deputy chairman of Lloyds TSB Group plc, chairman of Cheltenham & Gloucester plc and Morgan Stanley Card Services Limited and director of the Dutton-Forshaw Motor Company Limited LCH Clearnet Group Limited and Scottish Widows plc * + #

Brian Carr head of Morgan Stanley Real Estate Americas Investing A voting director appointed to the board in June 2006 by the Morgan Stanley shareholder group

Gabriela Gryger a Morgan Stanley real estate executive active in the UK and Central and Eastern European investment business for the MSREF and Special Situations Funds A voting director appointed to the board in June 2006 by the Morgan Stanley shareholder group

Philip Lader formerly US Ambassador to Court of St James's a member of President Clinton's Cabinet and White House Deputy Chief of Staff A lawyer, he is currently a senior adviser to Morgan Stanley, non-executive chairman of WPP Group plc and a director of Lloyds of London, Marathon Oil, AES Rusal and RAND Corporations A voting director appointed to the board in June 2006 by the Morgan Stanley shareholder group

Sam Levinson adviser to the Glick entities and managing director of Levinson Capital Management LLC, where he oversees investments for a private equity fund Serves as a member of the board of Optical Medical Inc and Coleman Cable Inc A voting director appointed to the board in April 2004 by the Glick shareholder group

Gavin MacDonald head of Global Mergers and Acquisitions and vice chairman of Morgan Stanley Investment Banking and a managing director of Morgan Stanley A voting director appointed to the board in May 2004 by the Morgan Stanley shareholder group *

Alexander Midgen a managing director of N M Rothschild & Sons Limited and global co-head of the real estate advisory business for Rothschild's Investment Banking Division A voting director appointed to the board in May 2004 by the Glick shareholder group * + #

Brian Niles managing director and deputy head of European Investing – Morgan Stanley Real Estate and a director of Multi Corporation B V A voting director appointed to the board in September 2007 by the Morgan Stanley shareholder group * + #

Richard Powers co-head of the Real Estate Principal Investment Area for Goldman Sachs in Europe and a managing director at Goldman Sachs A non voting director appointed to the board in May 2004 by the Whitehall shareholder group #

Timothy Roberts joined British Land in 1997, becoming joint head of Asset Management in 2002, and has specific responsibility for the office sector of British Land's portfolio An executive director of The British Land Company PLC since July 2006 A voting director appointed to the board in June 2007 by the BL shareholder group

* *Audit Committee*
\+ *Announcement Committee*
\# *Executive Committee*

Members' Information continued

Shareholder Enquiries

All enquiries relating to holdings of shares in the company should be addressed to the company's registrars

Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU
Telephone 0871 664 0300*
Facsimile 020 8639 2342
E-mail ssd@capitaregistrars.com
Website www.capitaregistrars.com

Calls currently cost 10p per minute plus network extras

Other Enquiries

If you would like more information about Songbird Estates plc please contact John Garwood, Company Secretary

Registered Office and Registered Number

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Canary Wharf
London E14 5AB
Telephone 020 7477 1000
Facsimile 020 7477 1001
Registered Number 5043352
Website www.songbirdestates.com

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Printed on Greencoat 55 Silk manufactured from 45% elemental chlorine free virgin pulp from sustainable sources and 55% recycled fibres