Songbird
Estates plc

2011 Report & Financial Statements

Contents

Highlights

Exciting development pipeline remains on track, on budget and on schedule

- 25 Churchill Place – Construction underway and funding secured (Note (i))
- Crossrail station – performing within budget and platform level handed over to Crossrail 5 months ahead of schedule (Note (i))
- Joint Ventures
  - 20 Fenchurch Street – on schedule to be topped out by the end of 2012 (Note (i))
  - Shell Centre – 50 50 joint venture entered into with Qatari Diar (Note (i))
- Land Assembly – post year end secured 100 0% ownership of the Wood Wharf joint venture (Note (i))
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Continued leasing and pre let activity by Canary Wharf Group – demand from an increasingly diversified tenant base

- Weighted average lease term 14 9 years assuming exercise of all break options (Note (i))
- Occupancy at 96 5% (31 December 2010 – 96 1%) (Note (i))
- Terms agreed with European Medicines Agency for 25 year lease of 250,000 sq ft at 25 Churchill Place at £46 50 psf (3 3% ahead of pre let ERV) with options on further 4 floors Locks in a minimum rental commitment of £11 6m p a (Note (i))
- Over 80,000 sq ft of further lettings, including leases with BBVA and MetLife at One Canada Square, at rents in the range £41 50 – £43 50 psf (Note (i))
- Lease extension signed in 2012 with Bank of New York Mellon on over 152,000 sq ft in One Canada Square at £42 50 psf (10 4% ahead of built ERV) (Note (i))

Portfolio resilient in the face of economic headwinds with strong retail performance

- Retail performing well – portfolio valuation up 8 1% over the year and turnover up by 2 2% (Note (i))
- Benchmark initial yield 5 35% (unchanged from 2010) (Note (i))
- Market value of the investment portfolio up by 1 3% over the year, net of 0 6% decline since 30 June 2011 (Note (i))
- £20 0m valuation uplift on 25 Churchill Place over the year with additional £60 0m estimated by valuers to come (Note (i))
- Including land, portfolio valuation up 1 8% over the year (net of 0 2% decline since June 2011) (Note (i))

Secure financial position retained giving flexibility for 2012

- 5 year facility secured against 50 Bank Street with £92 3m drawn down in June 2011, £190 0m construction loan facility secured against 25 Churchill Place (Note (i))
- Scheduled loan amortisation of £66 0m paid in the year (Note (ii))
- Average Group loan maturity of 13 9 years in line with weighted average lease term (Note (i))

Financial summary

- Adjusted net assets £1,452 1m at 31 December 2011, an increase of £22 4m or 1 6% from £1,429 7m at 31 December 2010, net of a reduction of £32 8m or 2 1% since 30 June 2011 (Note (iii))
- Adjusted NAV per share 190p compared with 187p at 31 December 2010 and 194p at 30 June 2011 (Note (iii))
- Underlying profit before tax £4 6m (2010 – £28 8m) (Note (iv))

Note

(i) Refer to Business Review
(ii) Refer to Note 21
(iii) Refer to Note 4
(iv) Refer to Consolidated Income Statement

Results in Brief

	Note	2011 £m	2010 £m
Rental income (excluding tenant incentives adjustments)	(i)	**251.3**	287 5
Underlying operating profit	(ii)	**207 4**	268 4
Capital and other items			
– write down of Lehman incentives	(i)	**–**	(50 1)
– revaluation of investments in associates	(iii)	**7 6**	2 7
– profit on sale of investment property	(iv)	**–**	155 1
– termination of AIG facility	(v)	**–**	144 5
– net revaluation movements	(vi)	**63 7**	327 9
– net derivatives and Preference Shares expense	(vii)	**(288 7)**	(127 1)
– debt repurchase costs	(vii)	**–**	(18 0)
Underlying profit before tax	(ii) (viii)	**4 6**	28 8
(Loss)/profit on ordinary activities before tax	(ii)	**(212 8)**	463 8
Tax	(ix)	**128 7**	(42 9)
(Loss)/profit after tax	(ii)	**(84 1)**	420 9
Basic and diluted (losses) or earnings per share	(viii)	**(9 0)p**	41 3p

Note
(i) See Note 5
(ii) See Consolidated Income Statement
(iii) See Note 12
(iv) See Note 11
(v) See Note 21
(vi) See Note 6
(vii) See Note 7
(viii) See Note 4
(ix) See Note 8

Chairman's Operational Review

INTRODUCTION

In 2011 the Group remained successful across all activities ranging from construction through to leasing and asset management whilst continued steps were taken to drive future growth

The Group acquired 100 0% control of the Wood Wharf joint venture which currently has consent for 4 6m sq ft of development Coupled with existing sites at Canary Wharf, there is now scope for 9 3m sq ft of further development on or around the Estate Away from Canary Wharf, the Group entered into a joint venture with Qatari Diar which successfully bid for the mixed use redevelopment of the 5 25 acre Shell Centre site at the heart of London's South Bank The Group is also involved, through a joint venture, in the 680,000 sq ft development at 20 Fenchurch Street

The recently acquired sites at Wood Wharf and the Shell Centre will both be mixed use business, retail and residential developments and will enable the Group to diversify its tenant base and its activities The Group now has a development pipeline of over 11m sq ft owned directly by the Group or through joint ventures The extent and range of these sites will ensure that the Group is well positioned to adapt to changing market demands and to take advantage of the widely anticipated shortage of residential and Grade A office space

Euro and Eurozone uncertainty overshadowed the year Perhaps, unsurprisingly, demand and supply were therefore both relatively constrained in the London market There also remains some hesitancy in the occupational market However, although there was a greater level of fragility in the real estate office market in the last months of 2011, London remains perceived as a relatively safe haven for real estate investors

Leasing activity at Canary Wharf held up remarkably well during the year, despite these market conditions This is best demonstrated by the conclusion of the pre let of 250 000 sq ft in the building now being constructed for EMA at 25 Churchill Place and by other lettings to a range of new tenants at Canary Wharf Further evidence of the continuing attraction of the Canary Wharf Estate was provided shortly after the year end by the lease extension signed by Bank of New York Mellon on over 152 000 sq ft in One Canada Square The recent influx of Shell employees and the phased movement of J P Morgan employees to their new European headquarters in 2012 will further increase the working population at Canary Wharf The completion of these moves will mark a milestone in the development of Canary Wharf as, for the first time, the working population will be in excess of 100 000 – a notable achievement

FINANCIAL REVIEW

Year on year the market value of the investment portfolio increased by £62 0m or 1 3%, primarily reflecting an improvement in rental values, and net of a fall of 0 6% in the second half of the year At the year end the benchmark initial yield for the office portfolio remained at 5 35% and the weighted average equivalent yield was 5 4% in comparison with 5 3% at 30 June 2011 For the retail portfolio the weighted average equivalent yield was unchanged at 5 2% Including development sites the market value of the total portfolio increased by £87 0m or 1 8%, net of a reduction of £12 5m or 0 2% in the second half

Adjusted NAV per share finished the year at £1 90, in comparison with £1 87 at 31 December 2010 an increase of 1 6% over the year but net of a reduction of 4p or 2 1% in the second half as a result of the fall in the property valuation

The underlying profit for the year of £4 6m compared with £28 8m for 2010 The reduction in underlying profit was partly attributable to a reduction in rental income, following the sale of 2 properties in the previous year and partly as a result of a reduction in income from lease surrenders The reduction in profit from these factors was partly mitigated by reduced financing costs following repayment of the Shareholder Loan in October 2010 More details can be found in Business review – Operating results

At 31 December 2011, the Group had unsecured cash deposits of £864 8m, of which £853 5m was attributable to Canary Wharf Group The weighted average cost of Canary Wharf Group's debt was 6 2% and the weighted average maturity was 13 9 years This compares with the weighted average unexpired lease term of 14 9 years assuming exercise of all break options Net of cash the Group's look through LTV at 31 December 2011 was 66 7%

OPERATIONAL REVIEW

At Canary Wharf, construction activity by the Group has intensified during 2011 and in recent months Following the pre let of 250,000 sq ft to EMA, construction of the 525,000 sq ft building at 25 Churchill Place commenced in February of this year The concrete core has already reached level 6 and is due to be topped out in June 2012 with steel construction starting the following month Interim works are now being undertaken for J P Morgan at Riverside South to bring this site up to ground level Work on the Crossrail station at Canary Wharf is continuing within budget and the station box was completed and handed over to CLRL 5 months ahead of schedule earlier in March

Chairman's Operational Review continued

to allow preparations for the tunnelling machines The completed Crossrail project will be a welcome addition to London's transport infrastructure in 2018 and will also facilitate further expansion on land at and adjacent to the Canary Wharf Estate such as the Wood Wharf site

Discussions continued during the latter half of 2011 for the acquisition of 100 0% ownership of the Wood Wharf joint venture These discussions resulted in the Group acquiring the 25 0% stake of Ballymore in December 2011 and the 50 0% stake of BWB in January 2012 The Group now has full control over the timing and design for this scheme, which will be a mixed use development By area, this site is approximately one third of the size of the Estate and it is likely to appeal to a wide range of tenants, which will extend the current diversification of the Canary Wharf tenant base The Group is now considering which options for development are likely to be most effective for current and future market conditions The Group is also currently reviewing options for its existing schemes at 1 Park Place, Heron Quays West and Newfoundland in order to ensure that the Group is best placed to continue offering potential occupiers bespoke high quality space which reflects the market's changing needs

In addition to the EMA pre let, transactions were concluded at Canary Wharf on more than 80,000 sq ft including lettings to BBVA and Metlife Services in One Canada Square and to G4S Secure Solutions in 40 Bank Street In January 2012 Bank of New York Mellon also renewed its lease on 152,000 sq ft in One Canada Square which was due to expire in 2014 for an additional term of 8 years These transactions were completed at, or above the valuers' ERV for lettings of existing space Reflecting this activity the occupancy rate in buildings at Canary Wharf owned by the Group stood at 96 5% at the year end These recent transactions are a sign of confidence that the Group is well placed to continue to match demand for high quality space from an increasingly diverse range of sectors

Canary Wharf retail had another outstanding year with valuations increasing by 8 1% Turnover was up 2 2% for the year to December 2011 footfall increased by 1 52% to 739,760 per week and all retail units are occupied It can be seen from this performance that the impact to date of the Westfield Stratford City development on Canary Wharf has been muted Moreover the target demographics of the two malls are quite distinct and the tenant mix at Canary Wharf is very broad, including independent, national and international brands

To satisfy demand from shoppers and retailers, the Group is now building 143,000 sq ft of new retail space at Canary Wharf Construction is continuing on the 43,000 sq ft extension to the Jubilee Place Mall This extension will create an additional 25 units which will open in November 2013 A number of these units are already in solicitors' hands As a further indication of confidence in retail at Canary Wharf, work is commencing on the development of 100 000 sq ft of new retail above the Crossrail station at Canary Wharf

Away from Canary Wharf, in July 2011 the Group entered into a 50 50 joint venture with Qatari Diar which successfully bid for the redevelopment of the Shell Centre site on the South Bank Shell will remain in the famous Shell Tower but have also agreed to anchor the development by pre letting a 210,000 sq ft office building on the site Extensive consultation on the redevelopment of this site is currently being conducted with the community and a range of stakeholders before the final shape of the mixed use master plan will be completed It is anticipated that an application for planning consent for this site will be submitted prior to the year end

Construction of the 37 storey building at 20 Fenchurch Street started in January 2011 The Group is acting as construction manager and is co development manager with Land Securities in this joint venture project Piling has been completed and the concrete core will soon be topped out Steel work has now commenced and following the decision to proceed with the full build out last year the building is on schedule for completion in 2014

CONCLUSION

In an eventful year both the Olympic Games and the Queens Jubilee celebrations will promote London to a global audience The Olympic Games will in particular, place both the East End and Canary Wharf at the forefront of the worlds attention which is likely to further enhance their respective profiles and emphasise the eastward shift of London's centre of gravity

Although demand for high grade office space across London has reduced largely due to broader economic uncertainties, supply has remained relatively constrained Overseas real estate investors and businesses are also still being attracted to the relative stability transparency and traditional strengths of London as a pre-eminent global business centre With the benefit of an enviable development pipeline and proven development and construction skills, the Group can adapt to fluctuating market conditions and tenant demand and will be able to take advantage of the improved market climate once the economic cycle turns

DAVID PRITCHARD
Chairman

Business Review

The following Business Review aims to provide shareholders with a summary of the business of the Group both during the year ended and as at 31 December 2011, as well as summarising significant events which have occurred after this date

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 development and is currently primarily focused on the development of the Estate Canary Wharf Group is also involved, through joint ventures, in the redevelopment of 20 Fenchurch Street and, since July 2011, the Shell Centre In addition, Canary Wharf Group has been involved in a joint venture to develop Wood Wharf In January 2012 Canary Wharf Group completed its acquisition of WWLP and associated companies and was granted a new overriding 250 year lease of Wood Wharf (see Business Review – Wood Wharf)

At 31 December 2011 Canary Wharf Group's investment property portfolio comprised 16 completed properties (out of the 35 constructed on the Estate) totalling approximately 7 0m sq ft NIA The properties included in Canary Wharf Group's investment property portfolio at 31 December 2011 are shown in the table below

Property address	NIA sq ft	Leased %	**External valuation £m**	Principal tenants and sub tenants
One Churchill Place	1,038,500	100 0	**725 0**	Barclays, BGC
10 Cabot Square/ 5 North Colonnade	634,100	100 0	**370 0**	Barclays, WPP Group
20 Cabot Square/ 10 South Colonnade	558,100	100 0	**318.0**	Barclays
One Canada Square	1 220 500	85 0	**659.5**	Bank of New York Mellon, Moody's, HSBC, Mirror Group, State Street, FSA, NYSE, BBVA, Metlife
33 Canada Square	562,700	100 0	**366.0**	Citigroup
20 Bank Street	546 500	100 0	**430.0**	Morgan Stanley
40 Bank Street	606,000	90 0	**340.0**	Shell, Skadden, Allen & Overy, ANZ, JLL
50 Bank Street	210,600	100 0	**147.5**	Northern Trust, Goldenberg Hehmeyer
10 Upper Bank Street	1,027,300	100 0	**690.0**	Clifford Chance FTSE, Total
Cabot Place Retail	141,600	99 1	**172.0**	Boots, Tesco Zara and other retail tenants
Canada Place Retail	71,300	100 0	**176.8**	Gap, Next and other retail tenants
Jubilee Place Retail	93,500	100 0	**132 7**	Boots, M&S Food, Wagamama and other retail tenants
Churchill Place Retail	34,900	99 6	**20.3**	Barclays, Jamie's Italian and other retail tenants
16-19 Canada Square	213,600	100 0	**72.5**	Waitrose Food & Home, Reebok, Plateau Restaurant
Reuters Plaza	8 900	100 0	**15.5**	Carluccio's Smollensky s
Park Pavilion	22 900	100 0	**20.7**	Lloyds Bank Canteen The Parlour Roka and Wahaca
Car parks	–	–	**44.0**	
Total	6,991,000	96 5	**4,700.5**	

Business Review continued

At 31 December 2011, the investment property portfolio was 96 5% let In connection with the sale of 25 Bank Street to J P Morgan in December 2010, a surrender was agreed of J P Morgan space on floors 44 – 46 of One Canada Square totalling 87,500 sq ft This space was previously leased until April 2013 and J P Morgan paid a surrender premium equivalent to the foregone rent and service charges, together with dilapidations Prior to the surrender by J P Morgan, the investment property portfolio was 97 1% let at 31 December 2010 whereas following the surrender the investment portfolio was 96 1% let

As well as the rental income generated from completed properties, income is generated from managing the entire Estate which, in addition to the completed properties owned by Canary Wharf Group includes 19 properties totalling 8 7m sq ft in other ownerships

The properties of Canary Wharf Group are under lease to a range of tenants At 31 December 2011, the weighted average unexpired lease term for the office investment portfolio was approximately 16 2 years or 14 9 years assuming the exercise of outstanding break options (31 December 2010 – 16 9 years or 15 7 years respectively) Of the square footage under lease at 31 December 2011, 80 6% does not expire or cannot be terminated by tenants during the next 10 years

LEASING

In the year ended 31 December 2011 over 57 000 sq ft of leases were completed in One Canada Square including

- BBVA took 28,993 sq ft on level 44 for a 15 year term with a break option after 10 years on the whole and on part (5,000 - 7,500 sq ft) after 5 years
- Metlife Services took an additional 22,072 sq ft on level 50 for a 10 year term with a break option after 5 years

These leases were at rents in the range £41 50 – £43 50 psf which compares with the valuers' ERV for single floor lettings of £41 50 psf

In 40 Bank Street leases over an additional 24,000 sq ft were completed with a range of tenants including G4S Secure Solutions over 19 113 sq ft on a short term lease

In January 2012, Canary Wharf Group renewed leases with Bank of New York Mellon on 152 226 sq ft in One Canada Square for a term of 8 years from 1 January 2014 at a rent of £42 50 psf (10 4% ahead of built ERV) subject to an 18 month rent free period There will be tenant only break options over 2 floors totalling 56 249 sq ft in January 2019 subject to a 10 month rent penalty This compares with the valuers' ERV for lettings of existing space greater than 100 000 sq ft of £38 50 psf

The FSA's short term lease of floor 24 in One Canada Square (26 200 sq ft) determined on 31 December 2011 as did Satyam s lease on floor 10 (2,237 sq ft) In addition, HSBC has exercised its break option over a floor in One Canada Square (27,104 sq ft) with effect from March 2012

All options to sub let space back to Canary Wharf Group have been exercised and at 31 December 2011 the estimated net present value of sub let liabilities was approximately £31 0m discounted at 6 2%, being Canary Wharf Group's weighted average cost of debt (31 December 2010 – £37 6m discounted at 6 3%) These sub let commitments have been reflected in the market valuation of the Group's properties

RETAIL

With a working population of just over 95,000 people and excellent transport links, Canary Wharf continues to develop as an exciting retail and leisure destination The arrival of J P Morgan and Shell staff in 2012 will bring an additional 10,000 people working on the Estate

Canary Wharf Group enjoyed strong retail performance in the period, with turnover up 2 2% for the year to December 2011 and near 100 0% occupancy Agreements for 12 retail units were exchanged during the period, with a further 6 since the year end These include coffee shops electrical goods health food, restaurants and clothing outlets Boisdale opened a new 12,000 sq ft live jazz, whisky and cigar restaurant in April 2011 adding to the excellent mix of hospitality destinations and further increasing visitor numbers in the evenings and at weekends

Canary Wharf Group continues to undertake active and successful asset management of its retail space Rents remain highly competitive and the retail at Canary Wharf is regarded as one of the leading prime retail developments in the UK Canary Wharf Group is constantly striving to extend the scale and breadth of the retail offering Kiosk spaces have been created in Reuters Plaza and underground car park space has been developed to extend several retail units Canary Wharf Group is now proceeding with a 43,000 sq ft extension of retail into the car park beneath the Jubilee Place mall Despite the difficult retail climate, a number of tenants are also expanding on the Estate including Jaeger and Aquascutum, and there is a waiting list of tenants wanting to take space on the Estate Canary Wharf is a specialist mall unlike the recently opened Westfield Stratford City mall which is expected to operate as a regional mall similar to

Lakeside Thurrock and Bluewater Canary Wharf Group is confident that the atmosphere and unique surroundings at Canary Wharf will distinguish this offering from other retail areas and that retail at Canary Wharf will continue to thrive

CONSTRUCTION

In August 2011, Canary Wharf Group announced that EMA had agreed a pre let of 250 000 sq ft in a new office building of approximately 525 000 sq ft to be constructed at 25 Churchill Place Construction of the shell and core of the building commenced in February 2012 In accordance with Canary Wharf Group's development strategy at Canary Wharf, the substructure was completed previously

EMA will occupy the promenade ground and the first 9 office floors in the 20 storey building The agreed rent is £46 50 psf (3 3% ahead of pre let ERV) commencing in January 2015 with 5 yearly upwards only rent reviews The length of the lease is 25 years with no break options and EMA will receive the equivalent of a 37 month rent free period in cash, which will be used to pay for EMA's fit out of the building EMA also has a call option over an additional 108,000 sq ft The lease to EMA locks in a minimum rental commitment of £11 6m per annum The balance of the space is being marketed by Canary Wharf Group as construction progresses Canary Wharf Group has entered into a new £190 0m construction and development loan facility (see Business Review – Borrowings) which will be utilised to fund the construction of this building

DEVELOPMENT PROPERTIES

In January 2010, Canary Wharf Group acquired a long leasehold interest in 1 Park Place This site benefits from a planning consent for approximately 950,000 sq ft of development, but Canary Wharf Group has prepared and intends to submit an application for a revised scheme of approximately 650,000 sq ft

Heron Quays West has consent for an office scheme of 1 3m sq ft however a number of alternative development options, both for office, and also mixed office and residential use are now being considered

Consent has been granted on the adjacent Newfoundland site for 200,000 sq ft of hotel and serviced apartments An alternative all residential concept is being considered

The remaining development site at North Quay has planning consent for 2 4m sq ft

In summary the total development capacity at the date of this report at each of Canary Wharf Group's development sites is as follows

	NIA m sq ft
Based on existing planning permissions	
– North Quay	2 39
– Heron Quays West	1 33
– Newfoundland	0 23
– Crossrail retail	0 10
– 1 Park Place (proposed development)	0 65
	4 70
Secured subsequent to the year end	
– Wood Wharf	4 60
	9 30
Sold to J P Morgan	
– Riverside South (Canary Wharf Group acting as development and construction manager)	1 90

The site at Riverside South was acquired by J P Morgan in November 2008 and Canary Wharf Group was appointed to act as development and construction manager under a contract with a term to October 2016 The terms of this contract include a right of first offer for Canary Wharf Group in the event J P Morgan decides to sell the site Initial infrastructure works have been completed on the site and J P Morgan has instructed Canary Wharf Group to bring the development to street level

Canary Wharf Group has received £76 0m as an advance of developer's profit in conjunction with this development This sum will be set against Canary Wharf Group's entitlement to future profits if J P Morgan proceeds with full construction

20 FENCHURCH STREET

In 2010, Canary Wharf Group and Land Securities formed 20 FSLP a 50 50 joint venture to develop 20 Fenchurch Street in the City The existing property, which was acquired as a cleared site with some ancillary neighbouring holdings was sold by Land Securities to this partnership for a consideration of £90 2m, in line with the March 2010 valuation After syndication, Canary Wharf Group has retained a 15 0% equity interest in this project

Planning consent for the proposed 37 storey building was originally granted in October 2009 The building will provide approximately 690,000 sq ft of world class space in floor plate sizes of 14,000 sq ft to 28,000 sq ft, with a sky garden on the top 3 floors Some revisions to the consented scheme, recommended by Canary Wharf Group to improve its buildability and letting prospects have been incorporated and received planning consent in July 2011 Construction commenced on site in January

Business Review continued

2011 and is progressing on schedule and within budget 20 FSLP has made the decision to proceed with full build out of the scheme, targeting completion in April 2014 The building is on schedule to be topped out by the end of 2012

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

SHELL CENTRE

In July 2011, Canary Wharf Group and Qatari Diar concluded an agreement to redevelop the Shell Centre Canary Wharf Group and Qatari Diar have entered into a 50 50 joint venture and have committed to contributing £150 0m each to the joint venture to secure the 5 25 acre site on a 999 year lease Canary Wharf Group's contribution is being satisfied from existing corporate resources The aggregate £300 0m payment for the site is conditional on planning permission being received for the project within 3 years Canary Wharf Group will act as construction manager for the project and will also be joint development manager with Qatari Diar The joint development manager fees generated from the transaction will be apportioned between the parties

The development will be mixed use comprising office, residential and retail space The existing 27 storey tower in the middle of the Shell Centre will be preserved and retained by Shell Shell will also take a 210 000 sq ft pre let of one of the new office buildings to be constructed on the site

Discussions have commenced with the local planning authority and relevant stakeholders to establish planning constraints, detailed designs and a timetable for construction of a project which will re energise an important section of London's South Bank

WOOD WHARF

On 18 January 2012, Canary Wharf Group announced it had acquired full ownership of WWLP and associated companies and entered into an overriding 250 year lease of Wood Wharf

Canary Wharf Group acquired 100 0% of WWLP by combining its own 25 0% effective interest with the 75 0% interests acquired from its original joint venture partners, BWB and Ballymore It also agreed the restructuring of BWB s ongoing participation as freeholder of Wood Wharf As a result Canary Wharf Group now has control over the timing and design of the scheme The acquisition of Ballymore's 25 0% effective interest was completed in December 2011 and BWB's 50 0% effective interest was acquired in January 2012

Wood Wharf will be a new mixed use development scheme adjacent to the Estate In May 2009 the current master plan received planning consent for 4 6m sq ft net This represents an area almost one third of the size of the Estate and comprises approximately 1 25m sq ft of residential development 0 2m sq ft of retail, 3 1m sq ft of offices and a 0 2m sq ft hotel Detailed consent was granted on the 3 office buildings closest to the Estate totalling 1 5m sq ft net in July 2009 In light of changing market conditions, the best use of this site is being reviewed, potentially altering the mix of uses in favour of residential, reducing the size of individual office buildings to reflect target sectors and to differentiate the new district from the existing Estate

The consideration for the acquisition of BWB's 50 0% interest in Wood Wharf subsequent to the year end in January 2012 was £52 4m together with a restructured 250 year lease that will see an annual ground rental payment to BWB increase to £6 0m by 2016 For the remainder of the lease this payment will be subject to upwards only review linked to the passing rent achieved on the office buildings (the ground rent being equivalent to 3 75% of passing rents) and the ground rents paid by purchasers of the residential apartments built on the scheme The £52 4m payment comprises an upfront payment of £4 4m and a series of 4 annual payments up to and including 2015 The total consideration paid in December 2011 for the acquisition of Ballymore's 25 0% effective interest in Wood Wharf was £38 0m

CROSSRAIL

Construction commenced on the Crossrail station at Canary Wharf in May 2009 and Canary Wharf Group has assessed that it has now fulfilled its funding obligations to the project CLRL will pay a fixed price of £350 0m and Canary Wharf Group bears the risk for the difference between actual costs and the fixed price payable by CLRL The original anticipated total cost of the station was £500 0m Construction of the station box continues to plan and the box has been completed 5 months ahead of schedule and the platform level handed over to CLRL in March 2012 to enable access for the tunnelling machines The project is performing within budget The first trains are due to run in 2018 when Crossrail opens for passenger service Planning permission has also been granted for a

100,000 sq ft retail area above the station which will be subject to a long lease to Canary Wharf Group

Canary Wharf Group's contribution to the station will be credited against any transport Section 106 contributions for certain agreed development sites on the Estate (comprising 25 Churchill Place, North Quay, Heron Quays West (including Newfoundland) and Riverside South) which may be required as part of the London Plan Accordingly, costs borne by Canary Wharf Group on construction of the station are allocated to these development properties

VALUATIONS

The net assets of the Group, as stated in its Consolidated Balance Sheet at 31 December 2011, were £1,653 4m In arriving at this total

(i) properties held as investments were carried at £4 509 7m, which represents the market value of those properties of £4,700 5m at that date as determined by Canary Wharf Group s external valuers, CBRE, Savills or Cushman, less an adjustment of £183 1m for tenant incentives and £7 7m for deferred lease negotiation costs, and

(ii) properties held for development were carried at £291 8m representing the market value of those sites of £293 5m as determined by Canary Wharf Group's external valuers, less an adjustment of £1 7m for deferred lease negotiation costs

At 31 December 2011, the benchmark initial yield adopted by the valuers remained unchanged from 30 June 2011 at 5 35% The weighted average yields applied in deriving the market valuation of Canary Wharf Group's investment properties can be summarised as

	31 December 2011 %	30 June 2011 %	31 December 2010 %
Office portfolio			
Weighted average initial yield	**5 1**	5 0	4 8
Weighted average equivalent yield	**5 4**	5 3	5 2
Retail portfolio			
Weighted average initial yield	**5.1**	5 0	4 9
Weighted average equivalent yield	**5.2**	5 2	5 4

The valuations at 31 December 2011 are based on assumptions which include future rental growth, anticipated void costs the appropriate discount rate or yield and, in the case of development properties the estimated costs of completion In valuing the properties on the Estate the valuers also take account of market evidence which included the lettings completed in the year referred to earlier in this Business Review

The retail portfolio continued to perform strongly and over the year the market value increased by 8 1% of which 3 6% was in the second half The market value of the office portfolio increased by 0 3% over the year, net of a 1 2% decline since June 2011

Taking office and retail together, the valuation of the investment portfolio on the basis of market value increased by £62 0m or 1 3% and after allowing for additions and adjustments in respect of lease incentives, the carrying value increased by £43 9m or 1 0% In the second half of the year the valuation of the investment portfolio reduced by £26 0m or 0 6% and the carrying value reduced by £35 2m or 0 8% The reduction was primarily driven by a slight softening in yields as detailed above

CBRE and Savills have provided a joint opinion as at 31 December 2011 that the market value of sites held for development comprising those sites (excluding Wood Wharf and Riverside South) as disclosed in the Development section of this Business Review, was £293 5m This includes 25 Churchill Place, valued at £80 0m by Savills, where construction of the shell and core commenced after the year end The market value of this site has increased by £20 0m over the year, with a further £60 0m of developer's profit estimated by the valuers as still to come and excluded from the valuation of the site in its existing state at 31 December 2011 The total market value of the development sites of £293 5m compares with £268 5m at 31 December 2010 Taking into account capital expenditure in the year and adjusting for deferred negotiation costs there was an increase in carrying value of £19 8m of which £10 9m has been recognised since 30 June 2011 In valuing the properties held for development, the valuers have allowed for estimated costs to complete including an allowance for fit out and developer's profit In addition they have allowed for letting, disposal, marketing and financing costs

Over the year market value of the entire property portfolio increased by £87 0m or 1 8% and the carrying value net of additions and adjusting for tenant incentives, increased by £63 7m or 1 3% These movements were driven by the factors referred to above In the second half of the year the market value reduced by £12 5m or 0 2% and the carrying value reduced by £24 3m or 0 5%

Business Review continued

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

		31 December 2011		30 June 2011		31 December 2010	
	Note	**Carrying value £m**	**Market value in existing state £m**	Carrying value £m	Market value in existing state £m	Carrying value £m	Market value in existing state £m
Retained portfolio							
– Investment properties	(i)	**4,509 7**	**4,700.5**	4,532 6	4,726 5	4 445 5	4,638 5
– Properties held for development	(ii)	**291.8**	**293.5**	280 0	280 0	268 5	268 5
		4,801.5	**4,994.0**	4,812 6	5,006 5	4,714 0	4,907 0
Sold property							
Property under construction at Riverside South	(iii)	**75.6**	**133.7**	76 0	131 7	74 6	127 3
		4,877.1	**5,127.7**	4,888 6	5,138 2	4 788 6	5,034 3

Note

(i) The carrying value represents market value less an adjustment for lease incentives and deferred lease negotiation costs The tenant incentives and deferred lease negotiation costs adjustment at 31 December 2011 was £190 8m (30 June 2011 – £193 9m 31 December 2010 – £193 0m) Market value in existing state is shown prior to these amounts

(ii) Properties held for development includes 25 Churchill Place which has been classified as under construction from February 2012 following the commencement of shell and core works The carrying value represents market value less an adjustment for deferred lease negotiation costs of £1 7m

(iii) The carrying value at 31 December 2011 represents £61 0m of costs transferred to cost of sales (30 June 2011 – £58 2m 31 December 2010 – £55 6m) and £14 6m transferred to payments on account (30 June 2011 – £17 8m 31 December 2010 – £19 0m) Market value in existing state includes the present value of the minimum developers profit from the sale of Riverside South assuming J P Morgan does not proceed with full build out and excludes the profit recognised on the disposal of the site in 2008

OPERATING RESULTS

The following review of the Group's operating results relates to the year ended 31 December 2011 The comparatives relate to the year ended 31 December 2010

Revenue is generated primarily by the rents and service charges earned by Canary Wharf Group from its property interests on the Estate together with turnover recognised on construction contracts and fees earned from construction and development management agreements Total revenue for 2011 was £352 3m, against £359 6m for 2010, of which rental income after spreading lease incentives increased from £233 8m to £250 0m

In the first quarter of 2010, the Administrator ceased paying rent on 25 Bank Street As a result the unamortised incentives attributable to Lehman's lease totalling £50 1m were written off to the Consolidated Income Statement and disclosed as a capital and other item The impact of spreading lease incentives was to reduce rental income by £1 3m in 2011 (2010 – £3 6m excluding the accelerated charge relating to Lehman)

Excluding the accounting adjustments arising from spreading tenant incentives, rental income reduced from £287 5m to £251 3m, a reduction of £36 2m or 12 6%, primarily attributable to the sale of 2 properties in 2010 During 2010 the Group also recognised £18 3m of income in connection with the termination of certain leases on the Estate by tenants whereas in 2011 only £0 1m of such income was recognised

Service charge income increased from £74 3m for 2010 to £75 2m, an increase of £0 9m or 1 2% Miscellaneous income, including insurance rents, the provision of tenant specific services outside the standard service charge and fees recognised on the provision of development and construction management services increased from £17 8m for 2010 to £21 6m for 2011

Turnover for 2011 also included £5 4m recognised on the construction pre sold property, accounted for as construction contracts compared with £15 4m in 2010 The reduction in revenue from this source was due to the completion of the initial phase of infrastructure works on the Riverside South site

Cost of sales includes rents payable and property management costs, movements on provisions for certain other lease commitments, as well as costs allocated to cost of sales on construction contracts Rents payable and property management costs were £101 1m for 2011 in comparison with £98 9m for 2010 Taking into account service charge and property related miscellaneous income totalling £95 6m for 2011 (2010 – £92 1m) a deficit was recorded on property management of £5 5m (2010 – £6 8m) This deficit was attributable to unlet space on which service charges were not recoverable

Provisions and accruals relating to the remaining vacant leasehold property, rent support commitments entered into in prior years and certain other obligations of Canary Wharf Group increased by £1 9m in 2011 before adjustment for discounting, compared with a reduction of £1 8m in 2010 In addition the results for 2011 included £0 1m of dilapidations and other costs attributable to the termination of leases compared with £2 4m in 2010

Cost of sales for 2011 included £5 4m of costs recognised on construction of Riverside South 2010 included £10 4m of costs recognised on pre sold properties and was stated net of a release of £5 0m of surplus accruals relating to properties completed in prior years No profit has been recognised on the construction contract entered into in connection with the sale of Riverside South although the potential surplus has been taken into account in calculating adjusted NAV (see Note 4)

Net development, rental and related income for 2011 was £243 8m, a reduction of £5 9m compared with 2010, attributable to the factors referred to above

In addition to its share of the operating losses of the joint venture entities in which it has invested in the year totalling £0 3m, the Group has recognised its share of the revaluation surplus recorded on 20 Fenchurch Street totalling £7 6m which has been classified as a capital and other item This compared with an impairment release of £2 7m in 2010

Administrative expenses for 2011 were £43 6m in comparison with £38 6m for 2010 The increase in administrative expenses was partly attributable to the accounting charge of £2 3m recognised in the Consolidated Income Statement in connection with Canary Wharf Group's share allocation to employees (see Note 25) which vested in June 2011 There was also an increase in professional fees in the year, principally relating to Canary Wharf Group's investments These items were partly offset by a reduction in Canary Wharf Group's other payroll costs

Underlying operating profit (as defined in Note 4) for 2011 was £207 4m in comparison with £268 4m for 2010 Of the reduction of £61 0m, £33 8m was attributable to the reduction in recognised rental income and £5 0m to the timing of profit recognition on pre sold property The increase in administrative expenses of £5 1m and the reduction in income from the termination of leases of £15 9m also contributed to the fall

A net revaluation surplus of £63 7m (Note 6) was recognised in the Consolidated Income Statement in the year compared with £327 9m in 2010 The changes in the valuation of the property portfolio are explained in more detail in Business Review – Valuations

In December 2010, Canary Wharf Group completed the disposal of 25 Bank Street for a gross consideration of £495 0m which resulted in a profit of £155 1m (Note 11) In conjunction with the sale of 25 Bank Street, Canary Wharf Group agreed terms with AIG for the termination of the rental cover facility on this building for a net receipt of £144 5m

Total operating profit for 2011 was £278 7m compared with £848 5m in 2010 The reduction was attributable to revaluation movements, the sale of 25 Bank Street and settlement with AIG, together with the other factors referred to above

Underlying net financing costs (Note 7) for 2011 were £202 8m against £239 6m for 2010 The reduction in underlying net interest payable of £36 8m was primarily attributable to a reduction in interest payable following the repayment of the Shareholder Loan and of loans secured against the buildings located at 5 Churchill Place and at 10 Cabot Square and 20 Cabot Square This was partly offset by interest payable on the £92 3m loan facility secured against 50 Bank Street which was drawn down in June 2011 Investment revenues also reduced in 2011 following the repayment in October 2010 of the Drapers Gardens construction loan facility which was acquired by Canary Wharf Group in January 2010

Net financing costs classified as capital and other items include movements in the market value of derivative financial instruments and, in 2010, losses recorded on the repurchase of debt Movements on derivative financial instruments and interest payable on the Preference Shares, but excluding the repurchase of debt resulted in a net cost of £288 7m being recognised in the Consolidated Income Statement in 2011 compared with £127 1m in 2010

In 2010 the loan facility secured against the buildings at 10 Cabot Square and 20 Cabot Square was repaid Costs

Business Review continued

including breakage costs incurred on closing out the associated interest rate swap, fees and accounting adjustments (comprising the write off of unamortised deferred fees and the recycling of the unamortised balance on the hedging reserve) resulted in a charge to the Consolidated Income Statement of £18 0m which was classified as a capital and other item

The loss for the year before tax for 2011 was £212 8m in comparison with a profit of £463 8m for 2010 The results for 2011 and 2010 included certain capital and other profits and losses as described above Underlying profit before tax for 2011 was £4 6m (2010 – £28 8m)

Tax for 2011 taken to the Consolidated Income Statement comprised a corporation tax charge of £0 1m and a deferred tax credit of £128 8m The deferred tax credit is primarily attributable to EZAs claimed in prior periods as disclosed in the Tax section of this Business Review In 2010 tax comprised a corporation tax charge of £35 7m and a deferred tax charge of £7 2m

The loss for the year after tax for 2011 was £84 1m in comparison with a profit of £420 9m for 2010

The basic and diluted losses per share (Note 4) for 2011 was 9 0p (2010 – earnings of 41 3p) There were no adjustments required in respect of dilutive instruments at either 31 December 2011 or 31 December 2010

TAX

In both 2011 and 2010, EZAs and plant and machinery capital allowances sheltered a small part of taxable profits

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

During the year, the Group released a deferred tax liability of £72 1m in relation to previous EZA claims as these amounts can no longer be claimed back upon disposal of the relevant property interest

The tax position of the Group is further disclosed in Note 8

CONSOLIDATED BALANCE SHEET AND KEY PERFORMANCE INDICATORS

Net assets in the Group's Consolidated Balance Sheet were £1,653 4m at 31 December 2011 in comparison with £1 895 6m at 30 June 2011 and £1 753 6m at 31 December 2010 The reduction in net assets over the year was primarily attributable to the loss after tax for the year of £84 1m which includes revaluation movements on the property portfolio and on derivative financial instruments The reduction in net assets since 30 June 2011 was attributable to the loss in the second half of the year of £219 4m which was primarily attributable to an adverse movement in the fair value of derivatives and the reduction in the valuation of the property portfolio

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

Adjusted NAV per share includes the valuation surplus on construction contracts but excludes deferred tax and fair value adjustments on derivatives Adjusted NAV per share increased from £1 87 at 31 December 2010 to £1 90 at 31 December 2011 an increase of 3p or 1 6% per share attributable to the factors noted above

Adjusted NAV per share reduced by 4p per share or 2 1% from £1 94 at 30 June 2011

The calculation of adjusted NAV per share is set out in Note 4 Adjusted NNNAV per share is set out in the following table

	Note	31 December 2011 £m	30 June 2011 £m	31 December 2010 £m
Adjusted net assets attributable to members of the Company	(i)	**1,452.1**	1,484 9	1,429 7
Fair value adjustment in respect of financial assets and liabilities net of tax thereon	(ii)	**(476.5)**	(189 6)	(229 7)
Deferred tax	(iii)	**14.3**	(69 2)	(109 6)
Non controlling interest in above adjustments		**141.6**	79 6	104 3
Adjusted NNNAV		**1,131.5**	1,305 7	1,194 7
Adjusted NAV per share	(i), (iv)	**£1 90**	£1 94	£1 87
Adjusted NNNAV per share	(iv)	**£1 48**	£1 71	£1 56

Note
(i) Refer to Note 4
(ii) Comprises the mark to market of derivatives in Note 4 and the after tax difference between the market value and book value of debt disclosed in Note 21
(iii) Refer to Note 8
(iv) Calculation based on 764 9m Ordinary Shares in issue at 31 December 2011 30 June 2011 and 31 December 2010

PRINCIPAL RISKS AND UNCERTAINTIES

Continuous monitoring of the principal risks and uncertainties facing the business of the consolidated Group is undertaken through regular assessment and formal quarterly reports to the audit committees and boards of both the Company and Canary Wharf Group The boards and audit committees of the Group focus on the risks identified as part of the Groups systems of internal control which highlight, amongst others, key risks faced by the Group and allocate specific day to day monitoring and control responsibilities as appropriate The current key risks of the consolidated Group include the cyclical nature of the property market, financing risk, concentration risk and policy and planning risks

Concentration risk

The majority of the Group's real estate assets are currently located on or adjacent to the Estate with a majority of tenants linked to the financial services industry Wherever possible steps are taken to mitigate or avoid material consequences arising from this concentration and to diversify the tenant base Although the focus of the Group has been on and around the Estate, where value can be added Canary Wharf Group will also consider opportunities elsewhere and is now involved in joint ventures developing 20 Fenchurch Street and the Shell Centre

Cyclical nature of the property market

The valuation of the Group's assets is subject to many external economic and market factors The turmoil in the financial markets in recent years has been reflected in the property market by such factors as a significant decline in tenant demand for space in London, the oversupply of available space in the office market and changing market perceptions of property as an investment resulting in fluctuations of property valuations in general Fears of an oversupply of available space in the market have, however, been mitigated by the difficulty in securing finance for speculative development and reduced demand The market has also been assisted by the continuing presence of overseas investors attracted by the relative transparency of the real estate market in London which is viewed as both stable and secure Changes in financial and property markets are kept under constant review so that the Group can react appropriately and tailor the business plans of the Group accordingly While the Group has no direct exposure to the Euro, the ongoing uncertainty reflecting issues in the macroeconomy, particularly relating to the Eurozone, continues to impact the real estate market The impact of these uncertainties is closely monitored

Financing risk

The broader economic cycle inevitably leads to movements in inflation, interest rates and bond yields The Group finances its operations largely through a mixture of surplus cash, secured borrowing and debentures The Group borrows at both fixed and floating rates and uses interest rate swaps or caps to modify exposure to interest rate fluctuations After taking account of interest rate hedging all of the Groups facilities are fixed long term loans

The ongoing financial markets' uncertainty continues to significantly limit the availability of funding In common with other UK property companies, such lack of financing

Business Review continued

facilities may have an impact on the business of the Group if the lending markets remain limited for the foreseeable future

The Board continues to monitor the financial markets with the aim of identifying an appropriate financing arrangement for the Company The weighted average maturity of the Group's loans excluding the Preference Shares is 14 9 years Further detail on the management of treasury risk can be found in the Business Review – Treasury objectives and Note 21 which includes a summary of the key financial covenants applicable to each of the Group's facilities

At 31 December 2011 £275 0m of Preference Shares were in issue The rights attaching to the Preference Shares are disclosed in Note 23

Policy and planning risks

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

TREASURY OBJECTIVES

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

The Group's financial instruments, other than derivatives, comprise borrowings, cash and liquid resources, and various items such as trade receivables and trade payables that arise directly from its operations The Group enters into derivative transactions (principally interest rate swaps and caps) only in order to manage the interest rate risk arising from the Group's variable rate borrowings Details of the financial risks facing the Group are disclosed earlier in this section and in Note 21

BORROWINGS

In June 2011, Canary Wharf Group entered into a £92 3m 5 year facility secured against 50 Bank Street The facility carries interest at 3 months LIBOR plus a margin of 2 0% The exposure to movements in LIBOR is fully hedged at an all in rate including margins of 4 415%

In December 2011, Canary Wharf Group entered into a £190 0m development loan facility to fund the construction of a new building at 25 Churchill Place No amounts had been drawn down against this facility at 31 December 2011 The facility carries interest at 3 month LIBOR plus a margin of 300 bps until rent commencement, following which the margin may drop to 250 bps or 225 bps, subject to satisfaction of certain interest cover tests The loan is also subject to a maximum LTV covenant of 65 0% and is repayable in December 2016 Finance costs incurred on this loan during the construction period will be capitalised as part of the cost of construction of the building

Also in December 2011, Canary Wharf Group restructured its finance lease obligation by acquiring the finance lessor company at a cost of £42 4m The effect of this restructuring is that Canary Wharf Group has extinguished its finance lease liability A total cost of £1 0m has been recognised on the transaction, comprising fees of £0 2m and an adjustment to the carrying value of the finance lease liability of £0 8m These costs have been taken to the Consolidated Income Statement and form part of net financing costs in Underlying profit The restructuring was funded by releasing £42 4m of cash which was previously held as collateral against the finance lease liability

As part of the Company's refinancing in 2009, the Company issued £275 0m of Preference Shares which carry a quarterly coupon of 2 5% payable in arrears During the year the Company paid outstanding Preferential Dividends totalling £35 0m, including £6 9m accrued at 31 December 2010 The rights attaching to the Preference Shares are disclosed in Note 23

At 31 December 2011 net debt (including derivative financial instruments at fair value net of monetary deposits and cash and cash equivalents) stood at £3,216 3m, an increase of £338 9m from £2 877 4m at 31 December 2010 The components of net debt are shown in Note 21

The increase in total borrowings, including derivatives from £3,990 7m to £4,216 3m reflects the movements on loans referred to above and movements in the fair value of the Group's derivatives, partly offset by scheduled amortisation under Canary Wharf Group's securitisation and other secured debt

The increase in total borrowings was accompanied by a reduction in cash and cash equivalents from £1,108 2m to £996 1m The reduction in cash was primarily attributable to the investments in joint ventures offset in part by loan draw downs

At 31 December 2011, the Group's weighted average cost of debt was 6 2% including credit wraps, but excluding the coupon on the Preference Shares (31 December 2010 – 6 3%) The Group borrows at both fixed and floating rates and uses interest rate swaps or caps to modify exposure to interest rate fluctuations All of the Group's facilities are fixed after taking account of interest rate hedging

CASH FLOW

Cash generated from operating activities for 2011 was £254 0m in comparison with £348 9m for 2010 This reduction was primarily attributable to the settlement in 2010 with AIG of £144 5m together with a reduction in net proceeds from construction contracts and working capital movements Operating cash flows in 2011 included £11 4m of proceeds and £4 7m of costs on construction contracts compared with £32 9m and £30 3m respectively for 2010 Excluding the impact of construction contracts, cash generated from operations reduced from £346 3m to £247 3m Corporation tax of £2 1m was paid in the year whereas £5 4m was paid in 2010

Cash flows from investing activities resulted in a cash outflow of £85 9m for 2011 compared with an inflow of £516 9m for 2010 In 2011 the cash outflow included £22 7m of development expenditure on properties to be retained by Canary Wharf Group and investment in associates of £60 9m which included the investment in the Shell Centre and the acquisition of Ballymore's interests in Wood Wharf In 2010 cash inflows included £470 0m of proceeds from the sale of 25 Bank Street and £190 0m from the sale of 5 Churchill Place These inflows in 2010 were partly offset by £127 5m of development expenditure and a net investment in associates of £15 2m including the initial investment in 20 Fenchurch Street

Cash flows from financing activities for 2011 resulted in an outflow of £37 2m compared with £550 8m for 2010 The 2011 cash flows included £92 3m before fees drawn down on the loan facility secured against 50 Bank Street, offset by £66 0m of scheduled amortisation on Canary Wharf Group's securitisation and other secured debt £42 4m paid to restructure the finance lease obligation and a £13 8m dividend paid by Canary Wharf Group to its minority shareholders together with £7 3m on the acquisition of Ordinary Shares by the Trust 2010 included the repayment of the loan facility secured on 10 Cabot Square and 20 Cabot Square of £348 7m and the repurchase of the Shareholder Loan for £135 0m net of draw downs during the year under this facility totalling £23 2m 2010 also included the repayment of £123 5m drawn on the 5 Churchill Place construction loan facility and £77 2m of scheduled amortisation on Canary Wharf Group's securitisation and other secured loans, together with the £23 1m dividend paid by Canary Wharf Group to its minority shareholders These cash flows were partly offset by the £135 0m net proceeds from the Open Offer

Directors' Report

ror the year ended 31 December 2011

The directors present their report with the audited consolidated financial statements for 2011

PRINCIPAL ACTIVITY AND BUSINESS REVIEW

The principal activity of the Company is the management of its investment in its main subsidiary Canary Wharf Group plc which is the holding company for Canary Wharf Group which specialises in integrated property development, investment and management focusing primarily on the Estate and Central London

A detailed review of the business of the Group during the year and of its position at 31 December 2011 can be found in the Chairman's Operational Review and the Business Review which are to be treated as being part of this Directors' Report The principal risks and uncertainties identified for the Group are summarised in the Business Review – Principal risks and uncertainties together with measures of the Group's performance by reference to appropriate key performance indicators (Business Review – Consolidated balance sheet and key performance indicators)

EVENTS AFTER THE BALANCE SHEET DATE

Details of events after the balance sheet date are shown in Note 29

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 2011 are reviewed in the Business Review – Valuations

DIVIDENDS AND RESERVES

In accordance with the Articles, holders of the Preference Shares are entitled to receive a fixed cumulative Preferential Dividend in priority to any payment by way of dividend or other distribution to the holders of any other class of shares of the Company The Preferential Dividend accrues from day to day commencing on the date of issue of that share and shall be paid in cash quarterly in arrears on 1 January April July and October in each year Further detail on the Preferential Dividends can be found in Note 24 A Preferential Dividend of £6 9m was declared on 29 March 2012 for payment on 30 March 2012

The loss of £68 1m (2010 – profit £277 8m) attributable to the members of the Company has been transferred to reserves No dividends were declared during the year ended 31 December 2011 other than the dividends in respect of the Preference Shares

GOING CONCERN

The Groups business activities together with the factors likely to affect its future development, performance and position are set out elsewhere in the Business Review The finances of the Group, its liquidity position and borrowing facilities are described in the Business Review – Borrowings and the risks faced by the Group are set out in the Business Review – Principal risks and uncertainties and Note 21

The Group has considerable financial resources and at 31 December 2011 Canary Wharf Group had cash balances totalling £988 5m of which £853 5m was unsecured In addition Canary Wharf Group enjoys the benefit of leases with a weighted average unexpired lease term of 14 9 years assuming the exercise of all break options, and the average maturity of the Group's debt at 31 December 2011 was 13 9 years At 31 December 2011 the occupancy level was 96 5% Accordingly the directors believe that the Group is well placed to manage its business risks successfully despite the continuing uncertain economic climate

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

SUBSTANTIAL SHAREHOLDINGS

At the date of this report, 76 33% of the issued Ordinary Share capital of the Company was held by the Significant Shareholders with the remaining 23 67% held publicly All of the Ordinary Shares are listed on AIM

At 31 December 2011, the Company had been notified of the following disclosable interests of 4 0% or more in the Ordinary Shares of the Company

	No of shares	Issued capital %
Qatar Holding [i]	211,746,156	27 68
Glick Shareholders[ii]	191,981 865	25 10
Land Breeze[iii]	116,988,095	15 29
MS Shareholders[iv]	63,155 790	8 26

Note

(i) Also holds 150 0m Preference Shares and has an interest in Warrants representing 8 543 857 voting rights in issue

(ii) Investment vehicles and trusts connected with Simon Glick and his family Also have interests in Warrants representing 8 543 857 voting rights in issue

(iii) A wholly owned subsidiary of CIC Also holds 125 0m Preference Shares and has an interest in Warrants representing 10 893 419 of the current voting rights in issue

(iv) Comprises various MSREF Funds and the MSREI Fund Also have interests in Warrants representing 854,384 voting rights in issue On 26 March 2012 MS Shareholders owned 66 737 084 Ordinary Shares of the company comprising 8 72% of the Ordinary Share Capital

DIRECTORS

The following directors served on the Board throughout the year

David Pritchard
John Botts
Faisal Al-Hamadi
Khalifa Al-Kuwari
Sheikh Mohammed Bin Hamad Bin Jassim Al-Thani
Peter Harned
Jonathan Lane
Sam Levinson
Alex Midgen
Brian Niles

In accordance with the Articles, David Pritchard and John Botts as independent directors of the Company will retire at the forthcoming annual general meeting and offer themselves for reappointment On 29 March 2012, the Glick Shareholders exercised their right to designate a third director, David P O'Connor to the Board Biographical details for all the directors are provided in Shareholders' Information

DIRECTORS' INTERESTS

Sam Levinson has direct and indirect relationships with the Glick Shareholders and accordingly, has an interest in 191,981,865 Ordinary Shares of the Company, being the Ordinary Shares held by the Glick Shareholders Sam Levinson also has an interest in the Warrants held by Chichester Fund Limited which represent 8,543,857 voting rights in issue

None of the remaining directors, or their families, had a beneficial interest in the shares of the Company or any of its subsidiary companies during the year 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 also required by law to be properly prepared in accordance with the Act

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

Directors' Report continued
for the year ended 31 December 2011

- make an assessment of the Companys 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 judgements 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 Act 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 of the Company and its associated companies (as defined in Section 256(b) of the Act) to the extent permitted by law, in respect of liabilities incurred as a result of their office The indemnity was in force during the year ended 31 December 2011 and at the time of the approval of this Directors' Report 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 proved to have acted dishonestly or fraudulently

CORPORATE GOVERNANCE

Due to the concentrated shareholder base and shareholder representation on the Board it is not practical for the Company to comply with all of the principles of the Quoted Companies Alliance corporate governance guidelines for AIM Companies However, the directors are mindful of their duties and responsibilities to all shareholders The directors are aware of their statutory duties under the Act and, in particular, the core duty to act in good faith and in a way most likely to promote the success of the Company for the benefit of its members as a whole

The following principles of corporate governance apply

- The Board includes 2 independent directors who must retire and stand for reappointment at each annual general meeting,

- The Board meets at least 4 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 Board and specific areas of responsibility All of the committees terms of reference are subject to annual review,

- A formal process has been adopted by the Board to manage directors' conflicts of interest,

- 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 retains responsibility for the maintenance of a sound system of internal control for the Company and its wholly owned subsidiaries and for reviewing its effectiveness All risks identified by this process have been reviewed and amended as appropriate to reflect the current market conditions, 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 Formal terms of reference for all 3 committees have been adopted by the Board

The Announcement Committee which has 2 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 Companys and the directors' continuing obligations The Announcement Committee is chaired by David Pritchard

The Audit Committee meets at least 4 times a year and has at least 2 members, in addition to the chairman, who are not members of the Canary Wharf Group Audit Committee The auditor is invited to Audit Committee meetings on a regular basis The Audit Committee is chaired by John Botts

The Executive Committee comprises 3 Significant Shareholder appointed directors and the Chairman Whilst it formally has powers to oversee the implementation of decisions of the Board this committee did not meet during the 12 month period ending 31 December 2011 as all matters delegated to it have been dealt with by the Board

Conflicts of interest

A formal process to manage directors' conflicts of interest has been adopted by the Board and provides a framework within which the directors who are not conflicted can manage potential conflict situations to protect the interests of the Company This process is operating effectively and an annual review is conducted of the conflicts disclosed during the preceding 12 months in order to identify any necessary changes required to the process

POLICIES

Corporate Responsibility

Due to the nature of the Company's 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 and social issues and adhere, as appropriate, to Canary Wharf Groups environmental and social policies in this area

Canary Wharf Group is committed to applying environmental best practice wherever practical in the design, construction and management of the Canary Wharf Estate and to properties situated elsewhere for the benefit of the environment, tenants, employees, the community and stakeholders A summary of the Canary Wharf Group Environmental Policy is set out below and the full Environmental Policy is available on the website www canarywharf com

Canary Wharf Group targets the reduction of energy, water and resource use, and the reuse and the recycling of waste where possible during the design, construction and management of properties The minimisation of disruption and disturbance to the environment and local community is also targeted during the construction and management of buildings Canary Wharf Group is also committed to preventing and monitoring pollution and to reducing any emissions which may have an adverse impact on the environment and/or local community

Canary Wharf Group endeavours to raise awareness and promote effective management of environmental and social issues with staff designers suppliers and contractors and works with suppliers and contractors to establish effective environmental supply chain management and to promote the procurement of sustainable products and materials Canary Wharf Group works with other parties to identify key environmental and social issues and to share solutions and best practice in managing environmental impact

Information on Canary Wharf Group's environmental and corporate responsibility performance is published annually with third party verification

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 report and financial statements of Canary Wharf Group

Treasury

Details of the Group's treasury objectives and financial risks together with the fair value of the Group's debt and the position under its lending covenants can be found in Note 21 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 then to abide by the terms of payment

Directors' Report continued

for the year ended 31 December 2011

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

DONATIONS

No political donations or expenditure (as defined by the Act) or charitable donations were made by the Company during 2010 or 2011

Canary Wharf Group made charitable donations of £448,896 in 2011 (2010 – £576,455), primarily in support of local community initiatives For 2010 this included £250,000 contributed to the Isle of Dogs Community Foundation under the terms of the Section 106 agreement for Riverside South

Political donations (as defined by the Act and which include donations in kind) made by Canary Wharf Group during the year comprised £57,367 to the Conservative Party £16,557 to the Labour Party and £13,958 to the Liberal Democrat Party (2010 – £47,571 to the Labour Party, £13 000 to the Conservative Party and £3,435 to the Liberal Democrat Party) Canary Wharf Group did not incur any political expenditure (as defined by the Act) in either 2011 or 2010

AUDITOR AND DISCLOSURE OF INFORMATION TO AUDITOR

A resolution to reappoint Deloitte LLP as the Company's auditor will be proposed at the annual general meeting

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

This confirmation is given and should be interpreted in accordance with the provisions of s418(2) of the Act

ANNUAL GENERAL MEETING

The annual general meeting will be held at 2 00 pm on Tuesday 23 May 2012 at 10 Upper Bank Street Canary Wharf London E14 5JJ

By order of the Board

JOHN GARWOOD
Secretary
Songbird Estates plc
Registered number 5043352

29 March 2012

Independent Auditor's 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 2011 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income the Consolidated Statement of Changes in Equity the Consolidated Balance Sheet, the Consolidated Cash Flow Statement and the related notes 1 to 29 The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 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 auditor's 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 AUDITOR

As explained more fully in the Directors' Responsibilities statement included within the Directors' Report, the directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition we read all the financial and non financial information in the Annual Report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report

OPINION ON FINANCIAL STATEMENTS

In our opinion the Group financial statements

- give a true and fair view of the state of the Group's affairs as at 31 December 2011 and of its loss for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006

OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion the information given in the Directors Report for the financial year for which the financial statements are prepared is consistent with the Group financial statements

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- certain disclosures of directors' remuneration specified by law are not made or
- we have not received all the information and explanations we require for our audit

OTHER MATTER

We have reported separately on the parent company financial statements of Songbird Estates plc for the year ended 31 December 2011

Mark Beddy (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, UK

29 March 2012

Consolidated Income Statement

for the year ended 31 December 2011

	Note	2011 Underlying* £m	2011 Capital and other £m	2011 Total £m	2010 Underlying* £m	2010 Capital and other £m	2010 Total £m
Gross development, rental and related income	5	**352.3**	–	**352.3**	409 7	(50 1)	359 6
Cost of sales		**(108 5)**	–	**(108 5)**	(109 9)	–	(109 9)
Net development, rental and related income	5	**243.8**	–	**243.8**	299 8	(50 1)	249 7
Share of associates and joint ventures after tax	12	**(0.3)**	**7.6**	**7.3**	(0 2)	2 7	2 5
Administrative expenses		**(43.6)**	–	**(43.6)**	(38 6)	–	(38 6)
Other income		**7.5**	–	**7.5**	7 4	–	7 4
Net revaluation movements	6	–	**63.7**	**63.7**	–	327 9	327 9
Profit on sale of investment property	11	–	–	–	–	155 1	155 1
Termination of AIG facility	21	–	–	–	–	144 5	144 5
Operating profit	3	**207.4**	**71 3**	**278.7**	268 4	580 1	848 5
Net financing costs							
– investment revenues	7	**7.9**	–	**7.9**	25 8	–	25 8
– financing costs	7	**(210.7)**	**(288 7)**	**(499 4)**	(265 4)	(127 1)	(392 5)
– debt repurchase costs	7	–	–	–	–	(18 0)	(18 0)
		(202 8)	**(288 7)**	**(491 5)**	(239 6)	(145 1)	(384 7)
Profit/(loss) for the year before tax		**4 6**	**(217 4)**	**(212 8)**	28 8	435 0	463 8
Tax	8			**128 7**			(42 9)
(Loss)/profit for the year after tax	4			**(84 1)**			420 9
Attributable to							
Equity holders of the Company				**(68 1)**			277 8
Non controlling interest				**(16 0)**			143 1
				(84 1)			420 9
(Losses)/earnings per share							
– basic and diluted	4			**(9.0)p**			41 3p

* As defined in Notes 1(y) and 4

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2011

	2011 **£m**	2010 £m
(Loss)/profit after tax	**(84.1)**	420 9
Transferred from equity in respect of cash flow hedges	**9 2**	44 4
Tax on items transferred from equity (including change in tax rate)	**(4 9)**	(13 7)
	4 3	30 7
Total comprehensive income for the year	**(79 8)**	451 6
Attributable to		
Equity holders of the Company	**(65.1)**	299 1
Non controlling interest	**(14.7)**	152 5
	(79.8)	451 6

Consolidated Statement of Changes in Equity

for the year ended 31 December 2011

	Share premium £m	Treasury shares £m	Cancelled share reserve £m	Hedging reserve £m	**Total other reserves £m**	Non controlling interests £m	Retained earnings £m	Share capital £m	**Total £m**
1 January 2010	1,071 0	(9 4)	59 5	(88 0)	**1,033 1**	512 6	(419 7)	65 6	**1,191 6**
Profit for the year after tax	–	–	–	–	–	–	420 9	–	**420 9**
Net income recognised	–	–	–	–	–	–	420 9	–	**420 9**
Transferred to non controlling interests	–	–	–	(9 4)	**(9 4)**	152 5	(143 1)	–	–
Transferred to income – cash flow hedges	–	–	–	44 4	**44 4**	–	–	–	**44 4**
Tax on transfers	–	–	–	(13 7)	**(13 7)**	–	–	–	**(13 7)**
Total comprehensive income and expense for the year	–	–	–	21 3	**21 3**	152 5	277 8	–	**451 6**
Issue of Ordinary Share capital (net of expenses)	124 1	–	–	–	**124 1**	–	–	10 9	**135 0**
Reserve movements in respect of treasury shares	–	(1 5)	–	–	**(1 5)**	–	–	–	**(1 5)**
Dividends paid by subsidiary undertaking	–	–	–	–	–	(23 1)	–	–	**(23 1)**
31 December 2010	**1,195 1**	**(10 9)**	**59 5**	**(66 7)**	**1,177 0**	**642 0**	**(141 9)**	**76 5**	**1,753 6**
Loss for the year after tax	–	–	–	–	–	–	(84 1)	–	**(84 1)**
Net expense recognised	–	–	–	–	–	–	(84 1)	–	**(84 1)**
Transferred to non controlling interests	–	–	–	(1 3)	**(1 3)**	(14 7)	16 0	–	–
Transferred to income – cash flow hedges	–	–	–	9 2	**9 2**	–	–	–	**9 2**
Tax on transfers	–	–	–	(4 9)	**(4 9)**	–	–	–	**(4 9)**
Total comprehensive income and expense for the year	–	–	–	3 0	**3 0**	(14 7)	(68 1)	–	**(79 8)**
Acquisition of treasury shares	–	(7 3)	–	–	**(7 3)**	–	–	–	**(7 3)**
Acquisition of Canary Wharf Group shares	–	–	–	–	–	(2 3)	–	–	**(2 3)**
Reserve movements in respect of treasury shares	–	2 3	–	–	**2 3**	–	0 7	–	**3 0**
Dividends paid by subsidiary undertaking	–	–	–	–	–	(13 8)	–	–	**(13 8)**
31 December 2011	**1,195 1**	**(15 9)**	**59 5**	**(63 7)**	**1,175 0**	**611 2**	**(209 3)**	**76 5**	**1,653 4**

Description of the nature and purpose of each reserve

The Treasury Shares reserve represents the cost of Ordinary Shares held in Trust Details of the movements on the Treasury Shares reserve are disclosed in Note 25

The cancelled share reserve comprises the nominal value of 601 068,076 deferred shares cancelled in 2009

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

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

Consolidated Balance Sheet

at 31 December 2011

	Note	2011 £m	2010 £m
Assets			
Non current assets			
Investment properties	11	**4,509.7**	4 445 5
Development properties	11	**291 8**	268 5
Plant and equipment	11	**0 5**	1 0
		4,802 0	4,715 0
Other non current assets			
Investments	12	**112 5**	43 0
Tenant incentives and other non current assets	14	**192 5**	193 0
Deferred tax	8	**14 3**	–
		5,121 3	4,951 0
Current assets			
Trade and other receivables	13	**46 7**	67 6
Monetary deposits	15	**3 9**	5 1
Cash and cash equivalents	16	**996 1**	1,108 2
		1,046 7	1,180 9
Total assets		**6,168 0**	6 131 9
Liabilities			
Current liabilities			
Current portion of long term borrowings	18	**(93 6)**	(98 7)
Corporation tax	17	**(52 9)**	(55 0)
Trade and other payables	17	**(236 1)**	(212 8)
		(382 6)	(366 5)
Non current liabilities			
Borrowings	19	**(3,575 6)**	(3 595 0)
Derivative financial instruments	20	**(547.1)**	(297 0)
Deferred tax liabilities	8	**–**	(109 6)
Provisions	22	**(9.3)**	(10 2)
		(4,132 0)	(4,011 8)
Total liabilities		**(4,514.6)**	(4,378 3)
Net assets		**1,653 4**	1,753 6
Equity			
Share capital	23	**76 5**	76 5
Other reserves		**1,175 0**	1,177 0
Retained earnings		**(209 3)**	(141 9)
Total equity attributable to members of the Company		**1,042 2**	1,111 6
Non controlling interests		**611 2**	642 0
Total equity		**1,653 4**	1 753 6

Approved by the Board and authorised for issue on 29 March 2012 and signed on its behalf by

David Pritchard

DAVID PRITCHARD
Chairman

Consolidated Cash Flow Statement

for the year ended 31 December 2011

	Note	2011 £m	2010 £m
Net cash flows from operating activities	26	**254.0**	348 9
Interest paid		**(245.2)**	(266 3)
Interest received		**7.3**	25 7
Interest element of finance lease rentals		**(0.2)**	(0 5)
Breakage costs		**–**	(40 5)
Financing expenses on new loans		**(4.9)**	–
Net cash inflow from operating activities		**11 0**	67 3
Cash flows from investing activities			
Development expenditure		**(22 7)**	(127 5)
Purchase of property, plant and equipment		**–**	(0 1)
Sale of investment property		**–**	659 7
Investment in and net loans to associates		**(60 9)**	(15 2)
Acquisition of shares in Canary Wharf Group plc		**(2 3)**	–
Net cash (outflow)/inflow from investing activities		**(85.9)**	516 9
Cash flows from financing activities			
Dividends paid to minority shareholders		**(13.8)**	(23 1)
Repayment of construction loan		**–**	(123 5)
Redemption of securitised debt		**(57.5)**	(59 0)
Redemption of secured loan		**(8.5)**	(18 2)
Draw down of secured loan		**92.3**	–
Repayment of secured loans		**–**	(348 7)
Issue of Ordinary Share capital		**–**	140 0
Fees on issue of Ordinary Share capital		**–**	(5 0)
Draw down of Shareholder Loan		**–**	23 2
Repurchase of Shareholder Loan		**–**	(135 0)
Acquisition of own shares (see below)		**(7.3)**	(1 5)
Repayment of finance lease obligation		**(42.4)**	–
Net cash outflow from financing activities		**(37 2)**	(550 8)
Net (decrease)/increase in cash and cash equivalents		**(112 1)**	33 4
Cash and cash equivalents at start of year		**1,108 2**	1,074 8
Cash and cash equivalents at end of year	16	**996 1**	1 108 2

The acquisition of own shares in 2010 totalling £1 5m was disclosed as part of cash flows from investing activities in the 2010 Report and Financial Statements In preparing the Consolidated Cash Flow Statement for 2011 this cash outflow has been reclassified and now forms part of cash flows from financing activities in accordance with IAS 7 and the cash flow for 2010 has been reallocated accordingly

Notes to the Consolidated Financial Statements
for the year ended 31 December 2011

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 the AIM rules

The following new and revised accounting standards and interpretations have been adopted by the Group in 2011 Their adoption has not had any significant impact on the amounts reported in these financial statements but with the exception of IFRS 1 may impact the accounting for future transactions and arrangements

- IAS 24 (revised 2009) Related party disclosures
- Amendments to IFRIC 14 Prepayments of a minimum funding requirement
- IFRIC 19 Extinguishing financial liabilities with equity instruments
- Amendment to IFRS 1 Limited exemption from comparative IFRS 7 disclosures for first time adopters
- Amendment to IAS 32 Classification of rights issues, and
- Improvements to IFRSs 2010

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 (and in some cases had not yet been adopted by the EU)

- IFRS 1 (amended) Severe hyperinflation and removal of fixed dates for first time adopters,
- IFRS 7 (amended) Disclosures – transfers of financial assets,
- IFRS 9 Financial instruments
- IFRS 10 Consolidated financial statements,
- IFRS 11 Joint arrangements
- IFRS 12 Disclosure of interests in other entities,
- IFRS 13 Fair value measurement,
- IAS 1 (amended) Presentation of items in other comprehensive income,
- IAS 12 (amended) Deferred tax – recovery of underlying assets,
- IAS 19 (revised) Employee benefits
- IAS 27 (revised) Separate financial statements, and
- IAS 28 (revised) Investments in associates and joint ventures

The directors are in the process of assessing the impact if any of adopting the above standards and interpretations

The financial statements have been prepared on a going concern basis as stated in the Directors Report – Going concern

Accounting policies

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 principal Group accounting policies, which have been applied consistently in all material respects throughout the year and for the comparative year, is set out below

(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 has control 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

Where there is a change in the Company's direct or indirect interest in a subsidiary which does not alter the classification of the entity as a subsidiary this is accounted for as an equity transaction When such a change occurs, the carrying amounts of the controlling and non controlling interests are adjusted to reflect the changes

Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2011

in their relative interests in the subsidiary The difference between the amount paid (or received) and the book value of the non controlling interest eliminated (or recognised) is taken directly to retained earnings

Associated undertakings 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 Group's share of associated and joint venture undertakings, profits or losses after tax Where the Group's share of the losses of an associated and joint venture undertaking exceeds the historic cost of the Group's investment in that entity, the investment is written down to nil and a provision is recognised for the Group's legal or constructive obligations at the Consolidated Balance Sheet date in respect of that entity 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 Where the value of such property is not material it is 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 remeasurement is included in the Consolidated 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 the carrying amount and fair value less costs to sell As investment properties are exempt from the measurement criteria of IFRS 5 any such assets which are classified as held for sale continue to be carried at fair value

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

(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 reclassified at fair value as a property under construction for investment Such properties are recognised at fair value at each reporting date Any gain or loss on remeasurement is taken direct to the Consolidated Income Statement On completion, the property is transferred to investment properties

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

(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 3 and 4 years

(g) Construction contracts

Construction contracts consist of properties that are being constructed in accordance with long term development contracts and for which the detailed design specification of each building is agreed with the purchaser Where applicable the contracts are split into 3 component parts sale of land, completed construction works at the date of entering into the contracts and ongoing construction contracts

Revenue on the sale of land and completed construction works is recognised at the point that the significant risks and rewards of ownership are transferred to the buyer

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 percentage of completion is calculated by reference to costs incurred on the building compared with the estimated total costs 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 3 months or less which are held for the purpose of meeting short term cash commitments

(j) Monetary deposits

Amounts held on deposit, which do not meet the criteria to be classified as cash and cash equivalents are classified as monetary deposits and accounted for at amortised cost

Notes to the Consolidated Financial Statements continued
for the year ended 31 December 2011

(k) Trade and other payables

Trade and other payables are stated at cost

(l) Provisions

A provision is recognised in the Consolidated 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 Consolidated 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

Warrants were issued in connection with the Shareholder Loan The fair value of the equity component attached to the Warrants was assessed upon initial recognition as negligible by reference to the fair value of the Shareholder Loan with which they were issued Accordingly no separate equity component was recognised in respect of the Warrants

(n) Pension benefits

Contributions to defined contribution schemes are expensed as they fall due

(o) Share capital

The 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 terms of the Preference Shares require these shares to be treated as a liability and consequently they are included in amounts payable in more than one year The costs of issuing the Preference Shares have also been taken to borrowings and are being amortised over the term of the Preference Shares The finance cost of the Preference Shares is classified as a financing expense in the Consolidated 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

Ordinary Shares held by the Trust may be allocated to employees under the terms of share schemes or allocations adopted from time to time by Canary Wharf Group The terms of an allocation may, at the option of Canary Wharf Group, allow the employee to receive a cash settlement in lieu of their share allocation In this event, the cash amount receivable by an employee is calculated by reference to the market price of the Ordinary Shares at that date

Where the terms of an allocation permit the employee to opt for a cash settlement the allocation is accounted for as a cash settled share based payment Where the terms of the allocation allow but do not require Canary Wharf Group to offer a cash settlement option to the employees, the allocation is accounted for as an equity settled share based payment

For cash settled share allocations, a liability is recorded by reference to the market value of the shares at each balance sheet date The cost of equity settled share allocations is measured at the grant date and based on the market value of the Ordinary Shares at that date The associated cost is charged to the same expense category as the employment cost of the relevant employee, spread on a straight line basis over the relevant vesting period, based on Canary Wharf Group s estimate of shares that will eventually vest

(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 Group s accounting policy on construction contracts

Rental income from investment property leased out under an operating lease is recognised in the Consolidated 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

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 the 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 Group s non financial assets, other than investment development and construction property (see (c) and (e) above), are reviewed at each reporting date to determine whether there is any indication of impairment If any such indication exists, the asset's recoverable amount is estimated An impairment loss is recognised in the Consolidated 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 asset's 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

Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2011

(t) Derivatives

The Group uses interest rate derivatives to help manage its risk of changes in 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 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 the Statement of Comprehensive Income with any ineffective portion recognised immediately in the Consolidated Income Statement If the cash flow hedge of a firm commitment or forecasted transaction results in the recognition of a non financial 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 a non financial asset or a liability, amounts deferred in equity are recognised in the Consolidated 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 Consolidated 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 Consolidated Income Statement

(u) Tax

Current tax is provided at amounts expected to be paid or recovered using the tax rates and laws that have been enacted or substantively enacted at the Balance Sheet date

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 tax 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

The deferred tax provision carried in respect of the investment property portfolio has been calculated on the basis that the carrying amount of such properties is recoverable through sale

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 substantively enacted by the balance sheet date Deferred tax is charged or credited in the Consolidated 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 Consolidated 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 Consolidated 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 have been 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 Any incentives given to lessees are included in Other Non Current Assets and recognised on a straight line basis over the lease term 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 Company's shareholders are recognised in the Group's financial statements in the period in which the dividends are paid or approved by the Company's shareholders

(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 are of the opinion that analysing profit before tax between underlying earnings and capital and other items 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) Profit on sale of property and termination of AIG facility

The Group has reclassified from underlying earnings the profit on property disposal together with the termination of the AIG facility due to the quantum and the fact that these events occur infrequently

(ii) Net revaluation movements

The revaluation movements on investment properties are included in the Consolidated Income Statement but have been reclassified separately from the underlying results to enable members to better appreciate the operating performance

Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2011

(iii) IAS 39 and IAS 32 adjustments

The commercial effect of the Groups hedging arrangements is that all the Group's financial liabilities are at fixed rates However, where the hedges are deemed ineffective the Consolidated Income Statement reflects the effects of movements in the fair values of these hedging instruments As this introduces volatility in the Consolidated 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 The finance costs associated with the Preference Shares have also been reclassified separately from underlying earnings, reflecting the fact that this expense relates to share capital that has been classified as debt in accordance with IAS 32

(iv) Refinancing costs and gains

These items have been reclassified from underlying earnings due to their size and infrequent occurrence

(v) Lehman tenant incentive write off

Lease incentives attributable to Lehmans lease were written off following the Administrator ceasing to pay rent The Group has reclassified this cost due to the quantum and the fact that such events occur infrequently

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 managements best knowledge of the amount, event or actions actual results ultimately may differ from those estimates

(i) 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 void costs, the appropriate discount rate or yield, and in the case of development properties, the estimated costs to completion The valuers also make reference to market evidence of transaction prices for similar properties

(ii) 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

(iii) 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

(iv) Construction contracts

IFRIC 15 requires the Groups pre sale property contracts to be split into 3 component parts sale of land completed construction works at the date of entering into the contracts, and ongoing construction contracts The proceeds receivable under such contracts are required to be allocated to each of these components The allocation of revenue to completed construction works and ongoing construction contracts is calculated by reference to the market rates applicable for such independently performed construction work The remaining revenue component is allocated to the sale of land

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 The directors have estimated the outcome of each contract on an individual basis based on the proportion of costs incurred compared with the estimated total costs and reconsider these estimates at each balance sheet date

3 OPERATING PROFIT

Operating profit represents the consolidated profit of the Group including the Group s share of results of associates, but before net financing costs and tax

	2011 £'000	2010 £ 000
The operating profit is stated after charging		
– depreciation (Note 11)	**472**	607
– directors' emoluments (Note 10)	**560**	370

Auditor's Remuneration

	2011 £'000	2010 £ 000
Audit of company	**58**	58
Audit of subsidiaries	**482**	475
Total audit	**540**	533
Audit related assurance services (interim reviews)	**79**	79
Other assurance services (service charge assurance work)	**43**	43
Audit and related assurance services	**662**	655
Tax compliance services	**166**	245
Tax advisory services	**127**	438
Services relating to taxation	**293**	683
Services related to corporate finance transactions not covered above	**45**	250
Other non audit services not covered above	**6**	43
Total other non audit services	**51**	293
Total non audit services	**466**	1,098
Total fees	**1,006**	1,631
Occupational pension scheme audits	**10**	10

Audit fees

Of the audit fees incurred in 2011 £53 500 related to the audit of the consolidated accounts of Canary Wharf Group (2010 – £52,000)

Notes to the Consolidated Financial Statements continued
for the year ended 31 December 2011

4. PERFORMANCE MEASURES
Basic earnings and losses per share

	2011		2010	
	Earnings/ (losses) £m	**Per share p**	Earnings/ (losses) £m	Per share p
Underlying profit for the year before tax	**4.6**	**0 6**	28 8	4 3
Capital and other items	**(217 4)**	**(28 8)**	435 0	64 7
Tax	**128.7**	**17.1**	(42 9)	(6 4)
(Loss)/profit after tax	**(84.1)**	**(11 1)**	420 9	62 6
Less non controlling interest	**16 0**	**2.1**	(143 1)	(21 3)
(Loss)/profit after tax attributable to members of the Company	**(68 1)**	**(9.0)**	277 8	41 3

Underlying earnings exclude the write down of unamortised Lehman incentives (Note 14) profits on sale of property termination of the AIG facility, movements on property revaluations, movements in the fair value of ineffective hedging instruments and other derivatives, interest payable on the Preference Shares, refinancing gains and losses and tax

Losses and earnings per share for 2011 has been calculated by reference to the loss attributable to equity shareholders of £68 1m for 2011 (2010 – profit of £277 8m) and on the weighted average of 756 1m Ordinary Shares in issue for 2011 (2010 – 672 5m) The number of Ordinary Shares excludes the shares held in trust in connection with Canary Wharf Group's employee share benefit plan

The number of Ordinary Shares reflects the issue on 11 October 2010 of 109,375,000 Ordinary Shares through the Open Offer of which 1,174,972 shares were acquired by the Trust The Open Offer was not treated as a rights issue and accordingly the weighted average number of Ordinary Shares was not treated as diluted Had the Open Offer been treated as a rights issue for the purposes of IAS 33, earnings per share for 2010 would have been stated at 40 6p instead of 41 3p The result for 2011 would not have been affected by this change

Warrants were issued in connection with the Shareholder Loan for a total of 2 836,666,668 Ordinary Shares with a strike price of 1 5p If exercised at the date of this report the Warrants would equate to an additional 28 835,517 Ordinary Shares with an exercise price of 150p each No dilution arises from the Warrants as the average market price of Ordinary Shares during the year of 134p did not exceed the exercise price

	31 December 2011 £m	30 June 2011 £m	31 December 2010 £m
Balance sheet net assets	**1,653.4**	1,895 6	1,753 6
Adjustment for deferred tax	**(14 3)**	69 2	109 6
Mark to market of derivatives	**547.1**	277 7	297 0
Add surplus arising on construction contracts	**58.1**	55 7	52 7
	2,244 3	2,298 2	2,212 9
Non controlling interest in the balance sheet	**(611 2)**	(689 5)	(642 0)
Non controlling interest on adjustments above	**(181 0)**	(123 8)	(141 2)
Adjusted net assets	**1,452 1**	1,484 9	1,429 7
Adjusted NAV per share	**190p**	194p	187p

Adjusted NAV per share includes the valuation surplus on construction contracts of £58 1m at 31 December 2011 (30 June 2011 – £55 7m 31 December 2010 – £52 7m), and excludes fair value adjustments on derivatives and deferred tax

The number of shares in issue was 764 9m Ordinary Shares at each balance sheet date

Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2011

5. REVENUE

	2011 £m	2010 £m
Rent receivable	**251 3**	287 5
Write off of Lehman incentives and deferred leasing costs (Note 14)	**–**	(50 1)
Recognised incentives and committed rent increases	**(1 3)**	(3 6)
	250.0	233 8
Service charge income	**75.2**	74 3
Miscellaneous income	**21 6**	17 8
Receivable on termination of leases	**0 1**	18 3
Construction contract revenue	**5.4**	15 4
Gross development, rental and related income	**352.3**	359 6
Service charge and other direct property expenses	**(101 1)**	(98 9)
Movement in accruals and provisions for leasehold commitments	**(1 9)**	1 8
Payments on termination of leases	**(0 1)**	(2 4)
Construction contract expenditure	**(5.4)**	(10 4)
Net development, rental and related income	**243.8**	249 7

Rent receivable included contingent rents of £1 6m (2010 – £1 3m)

In 2011 the Group had 2 major customers contributing £81 6m and £42 6m of Group revenue (2010 – 2 major customers contributing £80 6m and £43 7m)

6. NET REVALUATION MOVEMENTS ON PROPERTY AND INVESTMENTS

	2011 £m	2010 £m
In Consolidated Income Statement		
Revaluation of investment properties	**43 9**	332 6
Revaluation of development properties	**19 8**	(4 7)
	63.7	327 9

In accordance with IAS 40 (amended), the revaluation movement on development properties is recognised in the Consolidated Income Statement At 31 December 2011, a cumulative revaluation surplus on development properties of £13 2m has been recognised (31 December 2010 – deficit £6 6m)

The revaluation surplus for development properties of £19 8m recognised in 2011 compared with a deficit of £4 7m in 2010 This movement comprised a surplus of £7 3m for properties where market value is less than historical cost (2010 – deficit of £5 6m) and a surplus of £12 5m on properties where market value exceeds historical cost (2010 – £0 9m)

7. NET FINANCING COSTS

	2011 £m	2010 £m
Interest revenue		
Deposits, other loans and securities	**7 9**	25 8
Interest expense		
Notes and debentures	**(146.3)**	(152 3)
Shareholder Loan	**–**	(34 0)
Other bank loans and overdrafts	**(63.4)**	(78 5)
Obligations under finance leases	**(1.0)**	(0 6)
	(210.7)	(265 4)
Underlying net financing costs	**(202 8)**	(239 6)
Other financing costs		
Valuation movements on fair value of derivatives	**(250 1)**	(67 4)
Finance costs of non equity shares (Note 21)	**(29.4)**	(30 6)
Hedging reserve recycling	**(9.2)**	(29 1)
	(288.7)	(127 1)
Net financing expenses	**(491.5)**	(366 7)
Costs on repurchase or repayment of debt (including hedge reserve recycling)		
– Secured debt	**–**	(18 0)
	–	(18 0)
Net financing costs	**(491.5)**	(384 7)
Total financing income	**7.9**	25 8
Total financing expenses	**(499.4)**	(410 5)
Net financing costs	**(491.5)**	(384 7)

Financing fees included in interest payable totalled £7 1m in 2011 (2010 – £12 6m)

Financing expenses relating to Canary Wharf Group's construction loan facility will be transferred to the cost of the building as incurred from commencement of construction in 2012 until practical completion of the building is achieved

The interest rate swap associated with the loan facility secured against the buildings at 10 Cabot Square and 20 Cabot Square was broken when the associated loan was repaid in 2010 at a cost of £23 7m Fees of £1 0m were also incurred on repayment of this loan Accounting adjustments, comprising the write off of unamortised deferred fees of £2 7m and the recycling of the related unamortised balance on the hedging reserve of £15 3m were also taken to the Consolidated Income Statement which resulted in a charge of £18 0m, classified as a capital and other item

In 2011, £9 2m was recycled to the Consolidated Income Statement from the hedging reserve as the corresponding hedged cash flows occurred in the year In 2010, a total of £44 4m was transferred from the hedging reserve which comprised £29 1m recycled as the corresponding cash flows occurred in that year together with the £15 3m relating to the interest rate swap referred to in the previous paragraph

Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2011

8. TAX

	2011 £m	2010 £m
Tax charge		
Current tax charge to income	**(0 1)**	(35 7)
Deferred tax	**128 8**	(7 2)
Group total tax	**128 7**	(42 9)
Tax reconciliation		
Group profit on ordinary activities before tax	**(212 8)**	463 8
Tax on profit on ordinary activities at UK corporation tax rate of 26 5% (2010 – 28 0%)	**56.4**	(129 9)
Effects of		
Change in tax rate	**(2.7)**	4 1
Adjustments in respect of prior years	**2.7**	2 4
Effect of reversal of previously restricted capital loss and indexation allowances upon disposal of investment property	**-**	43 4
Indexation allowances and net effect of restriction or reversal of previously restricted capital losses and indexation allowances	**16.8**	56 6
Release of EZA clawback provision	**72.1**	3 7
Expenses not deductible for tax purposes	**(8.2)**	(9 0)
Deferred tax assets not recognised on losses	**(0.4)**	(3 9)
Other differences	**(8.0)**	(10 3)
Group total tax	**128.7**	(42 9)

The 2011 tax rate of 26 5% has been calculated by reference to the current corporation tax rate of 26 0% which was in effect for the final 3 quarters of the year and the previous rate of 28 0% which was in effect for the first quarter of the year

At 31 December 2010, the Group had provided £72 1m for the potential clawback of EZAs claimed in the event that the Group was to sell the property interests to which those claims related The period in which such a potential clawback could have occurred has now expired and accordingly the provision has been released

The reconciling items noted above in relation to property valuation movements reflect the following main factors

- Indexation allowances, which are calculated by reference to changes in the Retail Price Index, serve to change the Group's deferred tax independently of any movements in valuation,
- Indexation allowances cannot create or increase a capital loss Due to the need to restrict capital losses on certain properties where capital allowances (in the form of EZAs) have been previously claimed, reductions in property valuations do not necessarily result in the recognition of a corresponding deferred tax asset, and
- Property valuation gains do not necessarily result in the recognition of a corresponding deferred tax liability where the valuation gain results in a reversal of previous such restrictions

2011 included on account corporation tax payments of £2 1m Taking into account the availability of brought forward tax losses and other reliefs, a charge of £0 1m was recognised in the year, which served to reduce the accrual for corporation tax payable to £52 9m at 31 December 2011 from £55 0m at 31 December 2010 (Note 17)

	Losses & tax credits £m	Revaluation deficits £m	Fair value of derivatives £m	Financial instruments £m	Other £m	Total £m
Deferred tax assets						
1 January 2010	0 6	31 4	64 9	28 7	2 5	128 1
(Charge)/credit to income	(0 5)	(19 0)	11 3	(3 1)	0 4	(10 9)
Credit to equity	–	–	0 3	–	–	0 3
31 December 2010	0 1	12 4	76 5	25 6	2 9	117 5
(Charge)/credit to income	(0 1)	(0 5)	56 7	(3 8)	0 7	53 0
Credit to equity	–	–	0 4	–	–	0 4
31 December 2011	**–**	**11 9**	**133 6**	**21.8**	**3 6**	**170 9**

	Potential EZA clawback £m	Revaluation surpluses £m	Fair value of derivatives £m	Financial instruments £m	Other £m	Total £m
Deferred tax liabilities						
1 January 2010	(75 8)	(97 0)	–	(44 0)	–	(216 8)
Credit/(charge) to income	3 7	(12 9)	14 0	3 3	(4 4)	3 7
Charge to equity	–	–	(14 0)	–	–	(14 0)
31 December 2010	(72 1)	(109 9)	–	(40 7)	(4 4)	(227 1)
Credit/(charge) to income	72 1	(4 0)	5 3	4 6	(2 2)	75 8
Charge to equity	–	–	(5 3)	–	–	(5 3)
31 December 2011	**–**	**(113 9)**	**–**	**(36 1)**	**(6 6)**	**(156.6)**

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

	£m
Net liability at 1 January 2010	(88 7)
Credit to income	(7 2)
Credit to equity	(13 7)
Net liability at 31 December 2010	(109 6)
Credit to income	128 8
Charge to equity	(4 9)
Net asset at 31 December 2011	**14 3**

It is not 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 other than those for which an agreement to sell already exists

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 Consolidated Income Statement in line with the amortisation of the fair value adjustments which gave rise to them

Deferred tax assets of £94 1m (31 December 2010 – £99 0m) attributable to unused tax losses have not been recognised as it is not currently considered probable that they will be utilised

Notes to the Consolidated Financial Statements continued
for the year ended 31 December 2011

Following the announcement on 23 March 2011 that corporation tax will be reduced to 25 0% from April 2012 deferred tax has been provided for at the reduced rate This has served to increase the deferred tax asset by approximately £5 0m compared with deferred tax calculated at the current tax rate of 26 0% The Government has also indicated that it intends to enact future reductions in the main tax rate over the next 3 years down to 22 0% by 1 April 2014 The future 1 0% main rate reductions are expected, when substantively enacted to have a similar impact on the financial statements as outlined above, however the actual impact will be dependent on the deferred tax position at that time

9. OPERATING LEASES

Operating leases with the Group as lessor

Canary Wharf Group leases out its investment properties under operating leases as defined by IAS 17

At 31 December 2011 the weighted average unexpired lease term under non cancellable operating leases for the entire investment property portfolio was 14 9 years (31 December 2010 – 15 7 years)

The future aggregate minimum rentals receivable under non cancellable operating leases excluding contingent rental income at the balance sheet dates are as follows

	31 December 2011 £m	31 December 2010 £m
Within one year	**255.2**	267 7
Between two and five years	**995.8**	990 2
After five years	**2,589.9**	2,807 7
	3,840.9	4,065 6

10 DIRECTORS AND EMPLOYEES

With the exception of fees paid to the non executive Chairman and non executive directors, all other staff costs relate to employees of Canary Wharf Group

Staff costs – all employees of the Group including directors

	2011 £m	2010 £m
Wages and salaries	**56 5**	56 0
Social security costs	**6 1**	5 8
Other pension costs	**4.2**	3 8
	66.8	65 6

The average monthly number of employees, including Canary Wharf Group, during 2011 was 926 (2010 – 879) as set out below

	2011	2010
Construction	**164**	145
Property management	**612**	593
Administration	**150**	141
	926	879

Directors' remuneration

	2011 £'000	2010 £'000
Emoluments paid	**560**	370

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

Highest paid director

	2011 £'000	2010 £'000
David Pritchard	**100**	130

David Pritchard's emoluments for 2010 included a bonus of £30 000

Other directors

Non executive directors receive an annual fee of £50,000

John Botts receives an additional £10,000 in respect of his role as chairman of the Audit Committee As reflected above, separate fee arrangements have been agreed with the Chairman

Other non executive directors

	Fees £'000
Faisal Al-Hamadi	50
Khalifa Al-Kuwari	50
Sheikh Mohammed Bin Hamad Bin Jassim Al-Thani	50
John Botts	60
Peter Harned	50
Jonathan Lane	50
Sam Levinson	50
Alex Midgen	50
Brian Niles	50

The above table shows the fees paid or payable to the non executive directors or, as applicable, their employers

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 plan

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 Remuneration of the directors is as disclosed above

Pension schemes

Canary Wharf Group currently operates a defined contribution pension scheme The assets of the scheme are held in an independently administered fund The pension cost, which amounted to £4 2m in the year (2010 – £3 8m) represents contributions payable by Canary Wharf Group to the scheme

Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2011

11 INVESTMENT, DEVELOPMENT AND CONSTRUCTION PROPERTIES AND PLANT AND EQUIPMENT

Non current assets and construction contracts at 31 December 2010 comprised

	Investment properties £m	Investment property held for sale £m	Development properties £m	Construction contracts £m	**Total £m**	Plant & equipment £m	**Total £m**
Market value at 1 January 2010	4,587 0	192 0	221 0	–	**5,000.0**		
Adjust for brought forward							
– tenant incentives*	(188 2)	(15 1)	–	–	**(203.3)**		
– unamortised lease negotiation costs*	(5 7)	(0 7)	–	–	**(6.4)**		
Carrying value at 1 January 2010	4,393 1	176 2	221 0	–	**4,790 3**	1 5	**4,791 8**
Additions	79 5	(1 0)	52 2	17 8	**148.5**	0 1	**148 6**
Transfer to debtors due in more than one year	(53 4)	–	–	–	**(53 4)**	–	**(53 4)**
Revaluation movement	332 6	–	(4 7)	–	**327 9**	–	**327 9**
Sold property	(306 3)	(175 2)	–	–	**(481 5)**	–	**(481 5)**
Transfer to cost of sales	–	–	–	(15 4)	**(15 4)**	–	**(15.4)**
Transfer to payments on account	–	–	–	(2 4)	**(2 4)**	–	**(2 4)**
Depreciation	–	–	–	–	–	(0 6)	**(0.6)**
Carrying value at 31 December 2010	**4,445 5**	**–**	**268.5**	**–**	**4,714.0**	**1.0**	**4,715.0**
Adjust for							
– tenant incentives*	184 4	–	–	–	**184.4**		
– unamortised lease negotiation costs*	8 6	–	–	–	**8.6**		
Market value at 31 December 2010	**4,638.5**	**–**	**268.5**	**–**	**4,907.0**		

Non current assets and construction contracts at 31 December 2011 comprised

	Investment properties £m	Development properties £m	Construction contracts £m	**Total £m**	Plant & equipment £m	**Total £m**
Market value at 1 January 2011	4 638 5	268 5	–	**4,907.0**		
Adjust for brought forward						
– tenant incentives*	(184 4)	–	–	**(184.4)**		
– unamortised lease negotiation costs*	(8 6)	–	–	**(8.6)**		
Carrying value at 1 January 2011	4,445 5	268 5	–	**4,714 0**	1 0	**4,715 0**
Additions	20 3	3 5	1 4	**25.2**	–	**25 2**
Revaluation movement	43 9	19 8	–	**63.7**	–	**63 7**
Transfer to cost of sales	–	–	(5 4)	**(5.4)**	–	**(5.4)**
Transfer to payments on account	–	–	4 0	**4.0**	–	**4 0**
Depreciation	–	–	–	–	(0 5)	**(0.5)**
Carrying value at 31 December 2011	**4,509 7**	**291 8**	**–**	**4,801.5**	**0.5**	**4,802 0**
Adjust for						
– tenant incentives*	183 1	–	–	**183 1**		
– unamortised lease negotiation costs*	7 7	1 7	–	**9.4**		
Market value at 31 December 2011	**4,700 5**	**293.5**	**–**	**4,994 0**		

* Refer to Note 14 for further details

No property interests were held under operating leases and classified as investment properties

There is no capitalised interest in the carrying amount of the development properties at either 31 December 2011 or 31 December 2010

In August 2011, Canary Wharf Group reached agreement with EMA for a pre let of 250 000 sq ft in a new office building of approximately 525,000 sq ft to be constructed at 25 Churchill Place EMA also has a call option over an additional 108 000 sq ft Construction on the shell and core of the building commenced in February 2012

In January 2010, Canary Wharf Group completed the disposal of 5 Churchill Place for a gross aggregate consideration of £208 0m The market value of the property at 31 December 2009 was £192 0m and the adjustment attributable to tenant incentives and deferred negotiation costs was £15 8m Allowing for adjustments in construction costs recognised in the period of £1 0m the carrying value at the date of sale was £175 2m

In December 2010, Canary Wharf Group completed the disposal of 25 Bank Street for a gross aggregate consideration of £495 0m After taking into account costs associated with selling the building, including relocating existing sub tenants legal and professional fees, certain other allowances and the write off of unamortised tenant incentives, the Group recorded a profit on disposal of £155 1m

As disclosed in Note 14 in the first half of 2010 unamortised lease incentives attributable to Lehman's lease were written off to the Consolidated Income Statement and treated as a capital and other item within revenue Unamortised tenant incentives attributable to the sub tenants in the building at the date of disposal totalled £2 7m

In November 2008, Canary Wharf Group entered into an agreement with J P Morgan for the development of the Riverside South site on the Estate Further to this agreement Canary Wharf Group acts as development and construction manager in relation to the site and has received £76 0m as an advance of developer s profit This sum will be set against Canary Wharf Group's entitlement to future profits arising from the development Income earned on this project subsequent to the sale of the site in 2008 has been deferred and is recognised over the term of the contract in accordance with IFRIC 15 As a result, no profit has been recognised on this project to date The 2008 agreement was modified in 2010 and expires in October 2016 In the event construction does not progress Canary Wharf Group has a right of first offer for the site

On 24 December 2008 Canary Wharf Group entered into agreements with the Secretary of State for Transport and CLRL for the design and construction of the Crossrail station at Canary Wharf £350 0m of the cost of the station will be met from the Crossrail budget and the balance by the Group The anticipated cost to the Group has been accounted for when incurred, as additions to development properties and allocated to each development property including the Riverside South project on a sq ft basis Canary Wharf Group's contribution will be applied against any transport Section 106 contributions for certain agreed development sites on the Estate which may be required as part of the London Plan Canary Wharf Group assesses that it has now fulfilled its funding obligations under the terms of the agreement

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 2011 The valuations, which conform to International Valuation Standards, were arrived at by reference to market evidence of transaction prices for similar properties

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

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

Included in investment properties is an amount of approximately £26 8m (31 December 2010 – £24 6m) in respect of property occupied by Canary Wharf Group, which in the opinion of the directors is not material for separate classification

Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2011

The historical cost of properties held as non current assets was £3,901 8m (31 December 2010 - £3,878 0m) At 31 December 2011, no property was subject to a finance lease obligation At 31 December 2010 the carrying value of property subject to finance leases was approximately £76 8m

Direct operating expenses arising from investment properties that did not generate rental income in the year totalled £7 5m in 2011 (2010 - £8 3m)

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

	Riverside South £m
1 January 2010	22 4
Advances received	32 9
Contract revenue recognised as revenue in the Consolidated Income Statement	(15 4)
Offset from construction contracts	(2 4)
31 December 2010	37 5
Advances received	11 4
Contract revenue recognised as revenue in the Consolidated Income Statement	(5 4)
Offset from construction contracts	4 4
Gross amount due to customers for contract work at 31 December 2011	**47.9**

Cumulative amounts accounted for as construction contracts are as follows

	£m
Advances received	123 5
Recognised as revenue	(61 0)
Offset from construction contracts	(14 6)
Payments on account (Note 17)	**47.9**

No retentions were held by customers for contract work at either 31 December 2011 or 31 December 2010

12 INVESTMENTS

The investments balance comprises

	31 December 2011 £m	31 December 2010 £m
Shares	**0.7**	9 7
Loans	**106.4**	42 0
	107.1	51 7
Fees on acquisition	**5.0**	2 6
Share of post acquisition losses	**(0 9)**	(0 6)
Revaluation of property interests	**7.6**	–
Impairment of investment	**(6.3)**	(10 7)
	112.5	43 0

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

Investments comprise

	31 December 2011 £m	31 December 2010 £m
Associates and joint ventures	**112 3**	42 8
Other investments	**0 2**	0 2
	112 5	43 0

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

At 31 December 2011	Wood Wharf £m	Drapers Gardens £m	20 Fenchurch Street £m	Shell Centre £m	Total £m
Initial investment	–	6 7	0 1	–	6 8
Fees	3 6	0 7	–	0 7	5 0
Equity funding	–	2 3	–	–	2 3
Loan funding	27 1	–	21 8	19 5	68 4
Recognised share of losses	(6 0)	(5 1)	(0 1)	–	(11 2)
Acquisition of additional interest	38 0	–	–	–	38 0
Share of revaluation surplus	–	–	7 6	–	7 6
Final dividend	–	(4 6)	–	–	(4 6)
	62 7	**–**	**29.4**	**20 2**	**112 3**

The share of associates' and joint venture's profits and losses recognised in the Consolidated Income Statement in 2011 comprised

At 31 December 2011	Wood Wharf £m	Drapers Gardens £m	20 Fenchurch Street £m	Shell Centre £m	Total £m
Other expenses	(0 2)	–	(0 1)	–	(0 3)
Revaluation of property interest	–	–	7 6	–	7 6
	(0.2)	**–**	**7 5**	**–**	**7 3**

Associates and joint ventures

Details of the Group s associates and joint ventures at 31 December 2011 are as follows

	Date of acquisition	Country of incorporation	Ownership interest %
Wood Wharf	April 2005	UK	50 0
Drapers Gardens	June 2007	Netherlands/Jersey	20 0
20 Fenchurch Street	October 2010	UK/Jersey	15 0
Shell Centre	July 2011	UK/Jersey	50 0

In April 2005, BWB appointed Canary Wharf Group together with Ballymore, as its partner for the development of Wood Wharf WWLP was established to oversee the development of an approximately 7 0m sq ft (gross) mixed use scheme in which Canary Wharf Group originally had a 25 0% effective interest In addition to an initial entry premium of £1 9m Canary Wharf Group provided interest free long term loans to fund the working capital requirements of WWLP which are repayable out of development profits

Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2011

In December 2011 Canary Wharf Group acquired an additional 25 0% effective interest in WWLP from Ballymore for a total consideration of £38 0m which was paid in cash Subsequent to the year end, in January 2012, Canary Wharf Group acquired the remaining 50 0% effective interest in Wood Wharf from BWB for a total consideration of £52 4m In conjunction with the acquisition, BWB granted a new 250 year lease of the site subject to a ground rental payment to BWB which will increase to £6 0m per annum by 2016 followed by upwards only reviews linked to the passing rent achieved on the office buildings and the ground rents paid by purchasers of the residential apartments to be built on the site The £52 4m consideration comprises an upfront payment of £4 4m and a series of 4 annual payments up to and including 2015

As a result of the acquisition of Ballymore's interest, Canary Wharf Group held a 50 0% effective interest in Wood Wharf at 31 December 2011 The investment was accounted for as an investment in an associated undertaking at that date

At 31 December 2011, the carrying value of the Groups investment in Wood Wharf was £62 7m This carrying value comprised the initial entry premium of £1 9m and subsequent loan funding of £27 1m, less the impairment and share of losses recognised totalling £6 0m together with the cost of acquiring Ballymores interest of £38 0m and fees of £1 7m The premium recognised on the acquisition of Ballymore's interest was £16 6m

WWLP has entered into a non recourse loan facility of £5 2m of which £0 2m was repaid in the year The final maturity of the loan is in December 2013 This bank loan first must be repaid before loans 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 to undertake the redevelopment of Drapers Gardens The property was completed in November 2010 and the joint venture entities then completed the sale of the property At 31 December 2010, the Group carried its investment in the remaining joint venture entities at its share of net assets totalling £4 6m The joint venture entities returned this amount in 2011 by way of dividends and loan repayments The remaining net assets of the joint venture are expected to be utilised in winding up the structure Following the payment of the final dividend by the Drapers Gardens entities the brought forward impairment provision has been realised and offset against the Group's investment in shares in these entities

In October 2010, Canary Wharf Group announced that it had entered into a joint venture with Land Securities to develop 20 Fenchurch Street The property has been sold by Land Securities to the joint venture at a price of £90 2m, in line with the March 2010 valuation After syndication, Canary Wharf Group has a 15 0% equity interest in the joint venture and is acting as construction manager and joint development manager

In September 2011, an external revaluation resulted in an additional revaluation surplus of £50 6m on the project, of which £7 6m is attributable to the Group and has been taken to the Consolidated Income Statement and classified as a capital and other item The Group's investment was stated at £29 4m at 31 December 2011 (31 December 2010 – £16 4m), representing the initial investment plus associated fees, together with subsequent funding and the Group's share of the revaluation surplus

In July 2011 Canary Wharf Group and Qatari Diar entered into a 50 50 joint venture to redevelop the Shell Centre and have committed to contribute £150 0m each to secure the site on a 999 year lease Discussions have commenced with local planning authorities and relevant stakeholders to establish planning consents detailed designs and a timetable for construction of the project At 31 December 2011, Canary Wharf Group and Qatari Diar had each invested £19 5m in the joint venture structure Canary Wharf Group incurred fees of £0 7m in establishing the joint venture

The Directors consider that the values of the projects are not less than the amounts invested at the balance sheet date

Wood Wharf, Drapers Gardens and the Shell Centre project have a 31 December year end and 20 Fenchurch Street has a 31 March year end The results of Wood Wharf, Drapers Gardens 20 Fenchurch Street and the Shell Centre attributable to the Group have been derived from their UK GAAP management accounts after making any necessary IFRS adjustments Following the dividend and loan repayments made by the remaining Drapers Gardens entities in the year, only negligible net assets remain in that joint venture The Group's share of profits and losses of associated and joint venture undertakings is as follows

Summarised profit and loss accounts for 2011

	Shell Centre £m	20 Fenchurch Street £m	Drapers Gardens £m	Wood Wharf £m
Other (costs)/income	–	(1 0)	–	0 2
Revaluation gain	–	50 6	–	–
Net financing costs	–	–	–	(0 9)
Profit/(loss) before and after tax	–	49 6	–	(0 7)
Group share	–	7 5	–	(0 2)

Summarised balance sheets at 31 December 2011

	Shell Centre £m	20 Fenchurch Street £m	Drapers Gardens £m	Wood Wharf £m
Total assets	40 4	196 9	–	136 1
Total liabilities	(1 4)	(0 9)	–	(43 9)
Net assets	39 0	196 0	–	92 2
Group share	19 5	29 4	–	46 1

Summarised profit and loss accounts for 2010

	20 Fenchurch Street £m	Drapers Gardens £m	Wood Wharf £m
Other income	–	3 4	6 0
Net financing costs	–	(20 7)	(1 0)
(Loss)/profit before and after tax	–	(17 3)	5 0
Group share	–	1 3	1 2

Summarised balance sheets at 31 December 2010

	20 Fenchurch Street £m	Drapers Gardens £m	Wood Wharf £m
Total assets	103 7	16 5	130 7
Total liabilities	(4 9)	(5 3)	(43 3)
Net assets	98 8	11 2	87 4
Group share	16 4	4 6	21 8

Notes to the Consolidated Financial Statements continued

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Other investments

Canary Wharf Group owns 52 079 B preferred ordinary shares of 0 1p and 112,220 ordinary shares of 0 1p 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

	2011 £m	2010 £m
Trade receivables	**4 8**	3 4
Other receivables	**20 6**	18 6
Contract balances (Note 11)	**–**	2 4
Prepayments and accrued income	**17 1**	43 2
Deferred financing expenses	**4.2**	–
Total trade and other receivables	**46.7**	67 6

Financing expenses of £4 2m incurred on Canary Wharf Group's construction loan facility have been deferred The first draw down under this facility is expected to occur in 2012 at which time these fees will be transferred to Borrowings and netted against the outstanding balance on the loan

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

No amount owed by any trade debtor exceeded £1 0m at either 31 December 2011 or 31 December 2010 Trade receivables more than 61 days past due at 31 December 2011 totalled £2 2m (31 December 2010 – £2 0m) At 31 December 2011, provisions against bad or doubtful trade debts totalled £0 1m (31 December 2010 – £0 1m) and the bad debt expense for the year was £nil No impairment provisions were required against any other class of financial asset at either 31 December 2011 or 31 December 2010

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

14 TENANT INCENTIVES AND OTHER NON CURRENT ASSETS

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

	Rent free periods £m	Other tenant incentives £m	**Total tenant incentives £m**	Deferred negotiation costs £m	**Total £m**
1 January 2010	139 1	64 2	**203 3**	6 4	**209.7**
Transfer from investment properties (Note 11)	–	53 4	**53 4**	–	**53 4**
Recognition of rent during rent free periods	11 0	–	**11 0**	–	**11.0**
Write off of Lehman incentives	(50 1)	–	**(50 1)**	–	**(50.1)**
Amortisation	(9 0)	(5 6)	**(14 6)**	(0 4)	**(15.0)**
Deferred lease negotiation costs	–	–	–	3 3	**3.3**
Written off on sale of property	(9 3)	(9 3)	**(18.6)**	(0 7)	**(19.3)**
31 December 2010	81 7	102 7	**184.4**	8 6	**193.0**
Recognition of rent during rent free periods	12 2	–	**12.2**	–	**12.2**
Amortisation	(8 1)	(5 4)	**(13.5)**	(0 6)	**(14.1)**
Deferred lease negotiation costs	–	–	–	1 4	**1.4**
31 December 2011	**85 8**	**97 3**	**183.1**	**9 4**	**192.5**

At 31 December 2009, lease incentives included £50 1m attributable to Lehman's lease of 25 Bank Street The Administrator ceased paying rent on the building with effect from 31 March 2010 Accordingly, the remaining Lehman incentives were written off to the Consolidated Income Statement in the 6 months ended 30 June 2010 and disclosed as a capital and other item

15 MONETARY DEPOSITS

Monetary deposits comprise amounts held on deposit with original maturities in excess of 3 months or not held for the purpose of meeting short term cash commitments These deposits are charged, relate to Canary Wharf Group's construction contracts and mature over the life of those contracts

	2011 £m	2010 £m
Monetary deposits held at bank	**3.9**	5 1

The effective interest rate on monetary deposits was 0 6% (31 December 2010 – 0 6%)

16 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise

	2011 £m	2010 £m
Unsecured cash	**864.8**	899 8
Collateral for borrowings	**116.7**	194 4
Security for obligations	**14.6**	14 0
	996.1	1,108 2

The effective interest rate on short term deposits at 31 December 2011 was 0 8% (31 December 2010 – 0 7%) and the deposits had an average maturity of 45 days (31 December 2010 – 49 days)

Cash and cash equivalents comprise cash held by the Group and short term bank deposits with an original maturity of 3 months or less The carrying amount of these assets approximates their fair value

Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2011

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

	2011 £m	2010 £m
Securitised debt	**97 8**	133 2
Secured loans	**18 9**	18 8
Finance lease	**–**	42 4
	116 7	194 4

Of the cash collateral disclosed above all of the secured loans balance and £14 8m of the securitised debt balance (31 December 2010 – £20 7m) represents 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 loans

Until the finance lease restructuring in December 2011, the finance lease obligation was fully cash collateralised The cash collateral balance at 31 December 2010 compared with a carrying value of the finance lease liability for accounts purposes of £41 6m

17. TRADE AND OTHER PAYABLES AND CORPORATION TAX

	2011 £m	2010 £m
Trade payables	**7 5**	12 6
Tax and social security costs	**7 2**	7 4
Other payables	**24 2**	20 7
Other accruals	**67 9**	66 5
Deferred income	**81 4**	68 1
Payments on account (Note 11)	**47.9**	37 5
Total trade and other payables	**236 1**	212 8
Corporation tax	**52 9**	55 0

Trade and other payables includes £78 9m of financial liabilities at 31 December 2011 (31 December 2010 – £82 0m) 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 16 days (31 December 2010 – 18 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 which seek to ensure that all payables are paid within the credit timeframe The directors consider that the carrying amount of trade payables approximates their fair value

For further information on corporation tax refer to Note 8

18 CURRENT PORTION OF LONG TERM BORROWINGS

The current portion of long term borrowings comprises

	2011 £m	2010 £m
Accrued interest payable	**27.1**	32 7
Repayable within one year		
– securitised debt	**57.5**	57 5
– secured loans	**9.0**	8 5
Long term borrowings repayable within one year	**93 6**	98 7

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

19 BORROWINGS

Non current liability borrowings comprise

	2011 £m	2010 £m
Securitised debt	**2,322.1**	2,384 8
Secured loans	**983.0**	899 7
Finance lease obligations	**–**	41 6
	3,305.1	3,326 1
Preference Shares	**270.5**	268 9
	3,575 6	3,595 0

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 2011 the fair value of these derivatives resulted in the recognition of a liability of £547 1m (31 December 2010 – liability of £297 0m) The Group has no interest rate swaps or collars which qualify for hedge accounting

	2011 £m	2010 £m
Liabilities		
Securitisation	**(280 2)**	(126 4)
Other secured loans	**(266 9)**	(170 6)
	(547.1)	(297 0)

Notes to the Consolidated Fınancıal Statements continued

for the year ended 31 December 2011

Maturıty of the Group's fınancıal derıvatıves

The followıng tables show undıscounted cash flows ın relatıon to the Group's derıvatıve fınancıal ınstruments based on the Group s predıctıon of future movements ın ınterest rates

	Securıtısed debt £m	Other secured loans £m	**Total derıvatıve lıabılıtıes £m**
Wıthın one year	26 8	36 5	**63.3**
In one to two years	23 8	31 5	**55.3**
In two to fıve years	35 4	48 1	**83.5**
In fıve to ten years	10 0	24 5	**34 5**
In ten to twenty years	23 2	34 8	**58 0**
In twenty to thırty years	28 5	12 0	**40 5**
31 December 2010	**147 7**	**187.4**	**335 1**

	Securıtısed debt £m	Other secured loans £m	**Total derıvatıve lıabılıtıes £m**
Wıthın one year	24 3	34 2	**58 5**
In one to two years	27 6	36 9	**64 5**
In two to fıve years	71 3	77 1	**148 4**
In fıve to ten years	66 7	61 9	**128 6**
In ten to twenty years	95 0	70 0	**165 0**
In twenty to thırty years	29 9	10 3	**40.2**
31 December 2011	**314.8**	**290.4**	**605.2**

The ımpact of changes ın ınterest rates would be on ınterest receıvable sınce substantıally all borrowıngs are subject to ınterest rate swaps or collars and all cash deposıts are at floatıng rates However the Consolıdated Income Statement ıs also ımpacted by changes ın the faır value of derıvatıves that are not consıdered effectıve for accountıng purposes A 0 5% hıgher/(lower) parallel shıft ın the ınterest rate curve used to value the derıvatıves, wıth all other varıables held constant, would have ıncreased/(decreased) the Group s net assets for 2011 by £119 0m/(£(130 4)m (2010 – £101 0m/£(110 6)m) by changıng the profıt or loss for the year by the same amount Other equıty reserves would have been unchanged as none of the Group's derıvatıves qualıfy for hedge accountıng The 0 5% sensıtıvıty has been selected based on the dırectors' vıew of a reasonable ınterest rate curve movement assumptıon

21 NET DEBT

	2011 £m	2010 £m
Securitised debt	**2,682.7**	2,591 1
Other secured loans	**1,263.1**	1,082 2
Finance lease obligations	**–**	41 6
	3,945.8	3 714 9
Non equity shares and associated financing costs	**270.5**	275 8
Gross debt	**4,216.3**	3,990 7
Current liabilities	**93.6**	98 7
Non current liabilities		
– borrowings	**3,575.6**	3,595 0
– derivatives included in non current liabilities	**547.1**	297 0
Gross debt	**4,216.3**	3 990 7
Cash and cash equivalents	**(996.1)**	(1,108 2)
Monetary deposits	**(3.9)**	(5 1)
Net debt	**3,216.3**	2 877 4

As a result of the terms and conditions of the Preference Shares, such shares have been classified as borrowings and the Consolidated Income Statement includes a charge to profit in respect of the coupon payable calculated at 2 5% per quarter The accrued finance charge for the Preference Shares was £6 9m at 31 December 2010 and is classified as part of current liabilities There was no accrued finance charge at 31 December 2011 as a result of the payment of the Preferential Dividend in December 2011

Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2011

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

	Securitised debt £m	Other secured loans £m	Finance lease obligations £m	Total borrowings £m	Non equity shares £m	**Total £m**
1 January 2011	2,591 1	1,082 2	41 6	3,714 9	275 8	**3,990 7**
Drawn down in year	–	92 3	–	92 3	–	**92.3**
Effective interest rate adjustment	(3 3)	(0 1)	1 0	(2 4)	1 6	**(0.8)**
Accrued finance charges	(1 4)	0 9	(0 2)	(0 7)	27 8	**27.1**
Repaid in year	(57 5)	(8 5)	(42 4)	(108 4)	(34 7)	**(143.1)**
Movements in fair value of derivatives	153 8	96 3	–	250 1	–	**250 1**
31 December 2011	**2,682 7**	**1,263.1**	**–**	**3,945.8**	**270 5**	**4,216 3**
Payable within one year or on demand	80 4	13 2	–	93 6	–	**93 6**
Payable in more than one year	2,322 1	983 0	–	3 305 1	270 5	**3,575 6**
Derivatives classified as – non current liabilities	280 2	266 9	–	547 1	–	**547.1**
	2,682 7	**1,263.1**	**–**	**3,945.8**	**270.5**	**4,216.3**

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

(1) At 31 December 2011 the following notes issued by CWF II a subsidiary of Canary Wharf Group, were outstanding

Tranche	Principal £m	Interest	Repayment
A1	1,088 4	6 455%	By instalment from 2009 to 2030
A3	400 0	5 952%	By instalment from 2032 to 2035
A7	222 0	Floating	In 2035
B	190 1	6 800%	By instalment from 2005 to 2030
B3	104 0	Floating	In 2035
C2	275 0	Floating	In 2035
D2	125 0	Floating	In 2035
	2,404 5		

In April 2009 Canary Wharf Group repurchased certain floating rate Notes with an aggregate principal amount of £119 7m for an aggregate consideration excluding accrued interest, of £35 5m The Notes repurchased have not been cancelled remain in issue and in accordance with the requirements of the securitisation, continue to be fully hedged The repurchase was accounted for as an extinguishment of debt

Interest on the floating rate Notes is at 3 month LIBOR plus a margin The margins on these Notes are A7 Notes – 0 19% p a increasing to 0 475% in January 2017, B3 Notes – 0 28% p a increasing to 0 7% p a in January 2017, C2 Notes – 0 55% p a increasing to 1 375% in April 2014, and D2 Notes – 0 84% p a increasing to 2 1% in April 2014

All of the floating rate Notes are hedged by means of interest rate swaps and the hedged rates plus the margins are A7 Notes – 5 1135%, B3 Notes – 5 1625%, C2 Notes – 5 4416%, and D2 Notes – 5 8005% These swaps expire in 2035 concurrent with the Notes

In addition to the 3 classes of floating rate Notes referred to above, the following classes of fixed rate Notes remained outstanding at 31 December 2011, carrying the interest rates stated £1,088 4m of A1 Notes – 6 455% £400 0m of A3 Notes – 5 952% and £190 1m of B Notes – 6 800%

The principal amount of the Notes outstanding at 31 December 2011 was £2,404 5m, or £2,284 8m excluding the Notes repurchased The Notes are secured on certain property interests of Canary Wharf Group and the rental income stream therefrom

Prior to withdrawing 25 Bank Street the CWF II securitisation had the benefit of an agreement with AIG which provided at the election of Canary Wharf Group for the payment of the contracted rent under the lease following a default by Lehman either in its entirety or to cover any shortfall The agreement was for a period of 4 years from the first draw down and any amounts claimed would have been repayable by Canary Wharf Group if subsequent recoveries made in respect of amounts claimed or subsequent rentals in the properties exceeded the rents that would have been received from Lehman In November 2010, terms were agreed with AIG for the termination of the facility in consideration for a payment to Canary Wharf Group of £144 5m This sum represented the net present value of the amounts anticipated to be drawn under the facility, net of the fees payable to AIG and the anticipated recovery from the Lehman administration process

Separately, the securitisation has the benefit of an arrangement with AIG which covers the rent in the event of a default by the tenant of 33 Canada Square, over the entire term of the lease AIG has posted approximately £269 6m as cash collateral in respect of this obligation The annual fee payable in respect of the arrangement is £2 2m

CWF II also has the benefit of a £300 0m liquidity facility provided by Lloyds, under which drawings may be made in the event of a cash flow shortage under the securitisation This facility is renewable annually

The weighted average maturity of the debentures at 31 December 2011 was 15 5 years (31 December 2010 – 16 1 years) The debentures may be redeemed at the option of the issuer in an aggregate amount of not less than £1 0m on any interest payment date subject to the current rating of the debentures not being adversely affected and certain other conditions affecting the amount to be redeemed

(2) In December 2011, Canary Wharf Group entered into a £190 0m development loan facility secured against the property now under construction at 25 Churchill Place No draw downs had been made under this facility at 31 December 2011 The margin on the loan is 300 bps over LIBOR from first draw down to rent commencement, following which the margin may drop to 250 bps or 225 bps subject to the satisfaction of certain interest cover tests Up front fees of £4 2m were incurred on entering into the facility and a commitment fee of 150 bps per annum is payable on the undrawn facility

(3) In February 2007, Canary Wharf Group entered into a 3 year £155 0m construction loan facility secured on 5 Churchill Place Interest was charged at LIBOR plus a margin of 0 9% hedged at 5 625% At 31 December 2009 £123 4m including interest had been drawn down under this facility Practical completion of the building was achieved in August 2009 and the loan was repaid in January 2010 upon completion of the sale of the building As a result of repaying the loan Canary Wharf Group paid £15 9m to cancel its liability under the associated interest rate swap arrangements

(4) Canary Wharf Group has a £350 0m loan facility which is secured against Canary Wharf Group's retail properties and car parking interests

The loan facility carries interest at LIBOR plus a margin of 2 75% Canary Wharf Group has entered into an arrangement whereby the exposure to the movement in 3 month LIBOR rates in the facility is fully hedged with fixed interest rate swaps at a weighted average, including margins, of 7 2% The loan is repayable in December 2014

Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2011

(5) A bank loan with an outstanding principal amount of £348 7m secured against 10 Cabot Square and 20 Cabot Square was repaid in November 2010 The related interest rate swap was broken at a cost of £23 7m, of which £20 1m was provided in the hedging reserve at 31 December 2009 The related unamortised balance on the hedging reserve of £15 3m and unamortised deferred fees of £1 7m have been written off the Consolidated Income Statement Fees of £1 0m were incurred in connection with the repayment

(6) A bank loan comprising an initial principal of £608 8m is secured against One Churchill Place The loan amortises with a balloon payment of £155 0m on maturity in July 2034 The loan carries a hedged interest rate of 5 82% In 2011, £8 5m of loan principal was repaid in accordance with the loan agreement reducing the principal at 31 December 2011 to £559 6m

(7) In June 2011, Canary Wharf Group entered into a £92 3m 5 year facility secured against 50 Bank Street The facility carries interest at 3 month LIBOR plus a margin of 2 0% The exposure to movements in LIBOR is fully hedged at an all in rate including margins of 4 415% The facility is repayable in June 2016

(8) In December 2011, Canary Wharf Group restructured a finance lease by acquiring the finance lessor company at a total cost of £42 4m The transaction was funded by releasing the charge over related cash collateral The effect of the restructuring was to extinguish the liability under the finance lease A total cost of £1 0m has been recognised on the transaction, comprising fees of £0 2m and an adjustment to the carrying value of the finance lease liability of £0 8m

Maturity profile of borrowings

	Securitised debt £m	Other secured loans £m	Finance lease obligations £m	Preference Shares £m	**Total £m**
Contractual undiscounted cash flows at 31 December 2010					
Within one year	176 9	28 1	0 2	–	**205.2**
In one to two years	175 4	32 7	0 2	–	**208 3**
In two to five years	556 1	470 5	0 7	–	**1,027 3**
In five to ten years	900 3	182 4	1 1	499 4	**1,583 2**
In ten to twenty years	1,544 7	378 9	34 4	–	**1,958 0**
In twenty to thirty years	1,201 2	287 5	9 8	–	**1,498 5**
	4,554.6	**1,380 1**	**46.4**	**499.4**	**6,480.5**
Comprising					
Principal repayments	2,342 4	918 1	42 4	275 0	**3,577 9**
Interest payments	2,212 2	462 0	4 0	224 4	**2,902 6**
	4,554 6	**1,380 1**	**46 4**	**499 4**	**6,480 5**

	Securitised debt £m	Other secured loans £m	Finance lease obligations £m	Preference Shares £m	**Total £m**
Contractual undiscounted cash flows at 31 December 2011					
Within one year	175 0	34 1	–	–	**209 1**
In one to two years	172 4	31 7	–	–	**204 1**
In two to five years	520 6	526 4	–	441 4	**1,488 4**
In five to ten years	832 4	144 9	–	–	**977 3**
In ten to twenty years	1 375 3	343 8	–	–	**1,719.1**
In twenty to thirty years	1,140 2	249 7	–	–	**1,389 9**
	4,215.9	**1,330 6**	**–**	**441.4**	**5,987 9**
Comprising					
Principal repayments	2,284 7	1 001 9	–	275 0	**3,561 6**
Interest payments	1,931 2	328 7	–	166 4	**2,426.3**
	4,215.9	**1,330.6**	**–**	**441 4**	**5,987.9**

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

	2011 %	2010 %
Securitisation	**6.22**	6 22
Other secured loans	**6.16**	6 33
Finance lease	**0.75**	0 66

Notes to the Consolidated Financial Statements continued
for the year ended 31 December 2011

Comparison of market values and carrying amount

	31 December 2011			31 December 2010		
	Market value £m	**Carrying amount £m**	**Difference £m**	Market value £m	Carrying amount £m	Difference £m
Securitisation	**(2,305 5)**	**(2,402.5)**	**97.0**	(2,371 2)	(2 464 7)	93 5
Secured loans	**(997.8)**	**(996 2)**	**(1 6)**	(911 6)	(911 6)	–
Finance lease	–	–	–	(41 6)	(41 6)	–
Non equity shares	**(270.5)**	**(270.5)**	–	(275 8)	(275 8)	–
	(3,573 8)	**(3,669.2)**	**95.4**	(3,600 2)	(3,693 7)	93 5
Other financial liabilities						
– interest rate derivatives	**(547 1)**	**(547 1)**	–	(297 0)	(297 0)	–
Cash and monetary deposits	**1,000 0**	**1,000.0**	–	1,113 3	1,113 3	–
Total	**(3,120.9)**	**(3,216.3)**	**95 4**	(2 783 9)	(2 877 4)	93 5

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

Carrying value of categories of financial instruments

	2011 £m	2010 £m
Financial assets		
Loans and receivables	**1,019.9**	1,150 8
Available for sale	**0.2**	0 2
	1,020.1	1 151 0
Assets not classified as financial assets	**5,147.9**	4,980 9
Total assets	**6,168 0**	6 131 9
Financial liabilities		
FVTPL	**(547.1)**	(297 0)
Amortised cost	**(3,757.5)**	(3 785 5)
	(4,304.6)	(4 082 5)
Liabilities not classified as financial liabilities	**(210.0)**	(295 8)
Total liabilities	**(4,514.6)**	(4,378 3)
Net assets	**1,653.4**	1 753 6

All the derivative instruments held by the Group (categorised as FVTPL) are classified as Level 2 as defined in accordance with IFRS 7

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 Groups exposure to interest rate fluctuations The Groups policy is to keep the majority of its borrowings at fixed rates and all of the Group's borrowings at 31 December 2011 and 31 December 2010 were fixed after taking account of interest rate hedging and cash deposits held as cash collateral (Note 16)

Liquidity risk

The Group's policy is to ensure continuity of funding and at 31 December 2011 the average maturity of Canary Wharf Group's debt was 13 9 years (31 December 2010 – 14 9 years) Shorter term flexibility has historically been achieved by holding cash on deposit and through construction facilities typically with a term of 3 to 6 years arranged to fund the development of new properties

Loan covenants

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

(i) CWF II securitisation encompassing 7 investment properties representing 66 7% of the investment property portfolio by value The principal amount outstanding at 31 December 2011 was £2 404 5m or £2,284 8m excluding the repurchased Notes

Maximum LMCTV ratio of 100 0% Based on the valuations at 31 December 2011, the LMCTV ratio at the interest payment date in January 2012 would have been 72 5%

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

(ii) Loan of £559 6m secured against One Churchill Place, representing 15 4% of the investment property portfolio by value

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

(iii) Loan of £350 0m secured against the principal retail and infrastructure parking properties of Canary Wharf Group representing 14 8% of the investment property portfolio by value

Maximum LTV ratio of 70 0% Based on the valuations at 31 December 2011, the LTV was 50 8%

Minimum ICR covenant of 120 0% The maximum ICR covenant was satisfied throughout the year Canary Wharf Group has the ability to remedy any potential breach of covenant by depositing cash

The facility repayment date is 17 December 2014

(iv) Loan of £92 3m secured against 50 Bank Street, representing 3 1% of the investment property portfolio by value Maximum LTV ratio of 75 0% for the first 3 years of the loan reducing to 72 5% thereafter Based on the valuation at 31 December 2011 the LTV was 62 6%

The minimum ICR covenant is 150 0% The covenant was satisfied throughout the year

The facility repayment date is 7 June 2016

Exchange rate risk

The Groups policy is to maximise all financing in sterling and it has no plans to raise financing in currencies other than sterling

Notes to the Consolidated Financial Statements continued

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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 equivalents and monetary assets, as disclosed elsewhere in this Note, and equity, including reserves, as disclosed in Note 23 and the Consolidated Statement of Changes in Equity

Credit risk

Credit risk associated with trade receivables is disclosed in Note 13

The Groups policies restrict the counterparties with which derivative transactions can be contracted and cash balances deposited This ensures that exposure is spread across a number of approved financial institutions with higher credit ratings

The carrying amount of financial assets recorded in the financial statements represents the Groups 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 2010	1 0	2 1	3 1
Utilisation of provision	–	(2 5)	(2 5)
Unwind of discount	–	0 5	0 5
Change in provision	(0 6)	0 1	(0 5)
Initial provision	–	9 6	9 6
31 December 2010	0 4	9 8	10 2
Utilisation of provision	(0 4)	(2 8)	(3 2)
Unwind of discount	–	0 4	0 4
Change in provision	–	1 9	1 9
31 December 2011	**–**	**9 3**	**9.3**

Vacant leasehold properties

At 31 December 2010, the provision for the estimated net liability in respect of vacant leasehold properties was £0 4m and was held in respect of a lease which was determined in 2009 At 31 December 2010 £1 3m was held as cash collateral The final payments due for this property were settled in the year in line with expectations and the remaining cash collateral has been released

Other lease commitments

In connection with the sale of 5 Churchill Place in 2010, Canary Wharf Group has agreed to pay rents and other costs incurred on 2 unlet floors for a period of 5 years from the date of sale Canary Wharf Group recognised a provision of £9 6m discounted at 6 4% which was deducted from the profit on disposal of the building At 31 December 2011 the provision totalled £7 3m discounted at 6 2% (31 December 2010 – £7 7m at 6 3%), with the movement reflecting a combination of changes in potential future letting assumptions, the discount unwind and utilisation

In connection with the sale of certain properties during 2005, Canary Wharf Group agreed to provide rental support either in respect of unexpired rent free periods or until the next rent review date A provision in respect of these commitments was recognised at the date of disposal The remaining provision at 31 December 2011 was £2 0m calculated on the basis of a discount rate of 6 2% (31 December 2010 – £2 1m discounted at 6 3%) This commitment relates to the lease back of certain car parking spaces which will expire in 2028

23 SHARE CAPITAL

Issued share capital comprises

	2011 £m	2010 £m
Equity shares		
– Ordinary Shares	**76.5**	76 5
Shares not classified as equity		
– Preference Shares	**275 0**	275 0
Total	**351 5**	351 5

As at 31 December 2011 and 31 December 2010 a total of 764 913 962 Ordinary Shares and 275,000,000 Preference Shares were in issue

In 2010 the Company issued a total of 109,375,000 Ordinary Shares at 128p per share through the Open Offer

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

Ordinary Shares

- One vote per share
- The Ordinary Shares, together with any other shares issued by the Company, rank behind the Preference Shares in respect of dividend entitlements Until the Preference Shares have been redeemed, no dividends or distributions may be paid or declared by the Company on any shares, other than the Preference Shares, including the Ordinary Shares without the consent of persons holding at least 75% of the Preference Shares in issue
- In the event of a liquidation, the Ordinary Shares rank behind the Preference Shares in respect of any payments to holders of the Ordinary Shares
- There is no right of redemption attaching to the Ordinary Shares

Preference Shares

- Non voting and non convertible shares
- Fixed cumulative dividend entitlement at a rate of 2 5% per quarter (payable in arrears and compounding quarterly to the extent not paid) of the aggregate amount of the nominal value and any share premium paid up on such shares from time to time
- Dividends are not paid on the Preference Shares where there is a legal restriction on doing so, or the Company has insufficient cash or if prohibited by the provisions of any financing arrangements
- In the event of a Liquidation Event (as defined in the Articles) the Preference Shares carry the right to a return of the aggregate amount of the nominal value and share premium paid up on such shares from time to time plus the amount of any unpaid but accrued dividend entitlement in priority to any payment to holders of Ordinary Shares

Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2011

- Redeemable from 14 October 2011 at which point they are redeemable by the Company
- If redeemed on or before 14 October 2014 they will be redeemed at a premium to the redemption amount Payment on redemption is the aggregate amount of the nominal value and share premium paid up on such shares from time to time plus the amount of any unpaid but accrued dividend entitlement and any redemption premium The redemption premium is set out below
  (a) 5% if on or before 14 April 2012,
  (b) 3% after 14 April 2012 up to 14 April 2013,
  (c) 2% after 14 April 2013 up to 14 October 2014, and
  (d) after 14 October 2014 there is no redemption premium
- Preference Shares are redeemable by the holders at any time after 14 October 2014 However if a holder of the Preference Shares elects to redeem them prior to 14 October 2016, the Company may elect not to redeem prior to 14 October 2016 in which instance the dividend entitlement on the Preference Shares concerned will increase to the rates set out below
  (a) prior to 14 October 2015 – 3 25% per quarter up to 14 October 2015 and 3 75% up to 14 October 2016 and
  (b) on or after 14 October 2015 – 3 75% up to 14 October 2016
- In the event the Indebtedness (as defined in the Articles) of the Company, and its wholly owned subsidiaries, exceeds £300 0m plus the aggregate redemption monies paid on Preference Shares previously redeemed, each holder of Preference Shares is entitled to require the Company to redeem Preference Shares held by that holder having an aggregate redemption value equal to that excess (pro rata to the number of Preference Shares held by the holder)
- Each of the following is deemed to be a variation of the rights of the Preference Shares therefore requiring the approval of 75% (by value) of the Preference Shareholders that vote
  - the making, declaration or payment of any dividend or other distribution in respect of any share (other than a Preference Share),
  - the variation of the rights of any other class of share which is adverse to the rights of the Preference Shares,
  - the allotment or issue of any share on economic terms which rank pari passu with or in priority to the Preference Shares,
  - the allotment or issue of any share on economic terms more favourable to the holders thereof than the terms of the Preference Shares (excluding the allotment or issue of the Ordinary Shares),
  - the allotment or issue of further Preference Shares which, when aggregated with the Preference Shares issued on 14 October 2009, total in excess of £375 0m,
  - without prejudice to the redemption rights attaching to the Preference Shares the purchase by the Company of any Preference Shares and
  - the incurrence by the Company, or any of its wholly owned subsidiaries, of Indebtedness which would result in the total Company Indebtedness exceeding £300 0m

Warrants

On 24 September 2009, the Company entered into a warrant instrument pursuant to which it agreed to issue 2 tranches of Warrants to the original lenders of the £135 0m Shareholder Loan entered into by the Company

The first tranche of Warrants (over 2,127,333 334 ordinary shares of 0 1p) was issued on 19 October 2009 and the second tranche was issued on 19 November 2009 (over 709,333,334 ordinary shares of 0 1p)

As a result of the Open Offer, the number of shares into which the warrants are convertible was adjusted The pre Open Offer conversion ratio was 0 01 but following the prescribed adjustment this was increased to 0 01016528 This means that the total number of shares issuable on exercise of the Warrants increased from 28,366,661 to 28,835,517 (an increase of 1 7%)

The Warrants are freely transferable (subject to certain securities law restrictions) and can be exercised at any time in the 3 year period following 19 October 2009 The warrant instrument contains anti dilution and adjustment provisions (as referred to above)

24 DIVIDENDS

During the year ended 31 December 2011, Preference Dividends of £35 0m (2010 – £27 6m) were paid including £0 2m of interest on arrears The amount of dividend accrued on the Preference Shares at 31 December 2011 was £nil whereas at 31 December 2010 – £6 9m was accrued

25 SHARE BASED PAYMENTS

The Trust holds Ordinary Shares which may be used to satisfy allocations of shares or options granted under any share plan Canary Wharf Group may adopt The assets of the Trust are held separately from those of Canary Wharf Group and with effect from January 2012 the trustee of the Trust is Sanne Trust Company Limited

In December 2010, Canary Wharf Group allocated 2 165,000 Ordinary Shares to certain directors and senior employees of Canary Wharf Group who may elect to have the shares released to them at any time between the vesting date of 30 June 2011 and 31 December 2013 subject to any dealing restrictions The recipients may elect to redeem or sell any or all of their allocated shares In the event the recipient elects to sell the allocated shares, Canary Wharf Group has the option to pay the equivalent amount in cash with the purpose of releasing these shares back to the Trust

The cost to the Group of the share allocation has been calculated by reference to the share price at the grant date of £1 42 per Ordinary Share The cost of the allocation totalling £3 1m has been charged to the same expense category as the employment costs of the relevant employee Of the total cost, £2 3m was taken to Administrative expenses in the Consolidated Income Statement and allocated against underlying profit and the balance, which related to employees of Canary Wharf Group's construction subsidiary, was charged to development properties

In June 2011 364,750 shares were released to certain employees at an average price of £1 53 per share Canary Wharf Group elected not to pay the equivalent amount in cash In September 2011, a further 1,392,750 shares were released at an average price of £1 19 per share of which 866,195 were acquired by Canary Wharf Group at a total cost, including employers' expenses, of £1 3m The remaining 407,500 Ordinary Shares which have vested but not been exercised remain within the Trust

In October 2011, Canary Wharf Group acquired an additional 5,000,000 Ordinary Shares on the open market at an aggregate cost of £6 1m Following the acquisition of shares in the year and the allocations to certain directors and employees of Canary Wharf Group, the trustee of the Trust held 12,325,865 Ordinary Shares at 31 December 2011 (31 December 2010 – 8,217,170), including the Ordinary Shares which have vested but not released

Notes to the Consolidated Financial Statements continued

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26 NOTES TO THE CASH FLOW STATEMENT

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

	2011 £m	2010 £m
(Loss)/profit on ordinary activities before tax	**(212.8)**	463 8
Non cash movements		
Net valuation movements on properties	**(63.7)**	(327 9)
Profit on disposal of investment property	**–**	(155 1)
Share of profit after tax of associates	**(7.4)**	(2 5)
Adjustment for share allocation	**2.3**	–
Spreading of tenant incentives, committed rent increases and letting fees	**0 5**	50 8
Depreciation	**0 5**	0 6
Profit recognised on construction contracts	**–**	(5 0)
	(67 8)	(439 1)
	(280 6)	24 7
Changes to working capital and other cash movements		
Net financing costs	**491.5**	384 7
Utilisation of and other movements in provisions	**(1.4)**	(2 9)
Decrease/(increase) in receivables	**23.3**	(17 3)
Increase/(decrease) in payables	**16 6**	(37 5)
Proceeds from construction contracts	**11.4**	32 9
Construction contract expenditure	**(4.7)**	(30 3)
Cash generated from operations	**256.1**	354 3
Income tax paid	**(2.1)**	(5 4)
Net cash from operating activities	**254.0**	348 9

27 CONTINGENT LIABILITIES AND FINANCIAL COMMITMENTS

At 31 December 2011 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 2011, given fixed first ranking charges over cash deposits totalling £116 7m (31 December 2010 – £194 4m)

As security for the issue of up to £2,404 5m 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

	2011 £m	2010 £m
Crossrail station	**–**	44 6
Joint ventures	**56.3**	–
Other construction projects	**275.7**	85 0
	332.0	129 6

Of this commitment for future expenditure, £47 5m related to investment properties (31 December 2010 – £41 4m)

The commitments for future expenditure relate to work on development projects where construction was committed at 31 December 2011 Any costs accrued or provided for in the Consolidated Balance Sheet at 31 December 2011 have been excluded

Canary Wharf Group entered into an option deed with BWB in November 2007 which allows for Canary Wharf 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 £0 25m on each anniversary of the option deed until 2012 The option may be extended by a further 2 years on payment of £1 2m per annum If Canary Wharf 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

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

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 2011

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 sq ft	Net rent £m	Rent review date	Rent review basis	Term commence-ment	Expiry or first break
10 Upper Bank Street	Clifford Chance	52 100	52 100	0 78	N/A	OMR	Jul 2003	Jul 2013
One Churchill Place	Barclays	133,400	133,400	0 13	Jul 2014	OMR	Jul 2004	Jul 2019
One Churchill Place	Barclays	129 700	129 700	0 55	N/A	OMR	Jul 2004	Jul 2014
40 Bank Street	Skadden	19 500	19 500	0 31	N/A	OMR	Mar 2003	Mar 2013
40 Bank Street	Barclays	38 200	–	1 68	Jul 2012	OMR	Nov 2009	Dec 2017
40 Bank Street	Barclays	76,400	57,300	1 23	Jul 2012	OMR	Oct 2010	Dec 2017
One Canada Square	Mirror Group	26 200	– '	1 00	June 2013	OMR	May 2009	June 2018
One Canada Square	KPMG	28,600	28,600	0 23	N/A	OMR	Jun 2010	Dec 2016
Total		**504,100**	**420,600**	**5 91**				

Note

(i) The net annual sub let rental obligations will decrease over time with the expiration of reletting rent free periods

(ii) Level 24 was occupied by the FSA on a short term basis until 31 December 2011

28 RELATED PARTY TRANSACTIONS

Under the terms of 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 3 months notice No such notice has been served to date During 2011 £500,000 plus VAT was charged to the Company for the provision of services in 2010 and £519 956 plus VAT has been accrued at 31 December 2011 In 2011 £1,442,525 was paid in respect of prior years

During 2011, Canary Wharf Group billed HSO a company in which it holds an equity investment equivalent to approximately 13 0% of the issued share capital £38,015 plus VAT for access to the Estate s telecommunications infrastructure At 31 December 2011 the outstanding amount was £4,781 inclusive of VAT

Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2011

During 2011, Canary Wharf Group billed and received £3,040 plus VAT for the provision of development management services to WWLP Canary Wharf Groups interest in WWLP changed during the year and is disclosed in more detail in Note 12 In addition Canary Wharf Group billed WWLP £7,613 in respect of property costs for office space occupied by WWLP for part of the year At 31 December 2011 £2 425 inclusive of VAT was outstanding

In October 2010, Canary Wharf Group entered into a 50 50 joint venture with Land Securities to develop 20 Fenchurch Street Simultaneously Canary Wharf Group entered into syndication arrangements with the Syndication Partners Each of the Syndication Partners is related to a shareholder in the Company Under these arrangements Canary Wharf Group retains a 15 0% economic interest in the joint venture partnership and each of the other Syndication Partners retains an 11 66% interest At 31 December 2011 each of the Syndication Partners had subscribed £16 9m and Canary Wharf Group had subscribed £21 8m In 2011 Canary Wharf Group billed £2,355 510 plus VAT for construction and development management services to 20 FSLP In addition, Canary Wharf Group billed £4 625,471 plus VAT for costs incurred by the Group which were reimbursable by 20 FSLP At 31 December 2011 the amount outstanding was £870,318 inclusive of VAT

In July 2011, Canary Wharf Group entered into a 50 50 joint venture with Qatari Diar to develop the Shell Centre At 31 December 2011 each partner had subscribed £19 5m The Group has billed £825 806 plus VAT for development management services, and £17 742 plus VAT for administrative services of which £255 968 remained outstanding at 31 December 2011 In addition, a total of £218,750 plus VAT was accrued for these services The Group incurred pre bid and other expenses totalling £2,008,036 which it had charged to the joint venture and was paid subsequent to the year end

29 EVENTS AFTER THE BALANCE SHEET DATE

On 29 March 2012, Canary Wharf Group declared a dividend of 4p per share totalling £25 6m payable on 13 April 2012 of which £17 8m will be receivable by SFL a wholly owned subsidiary of the Company The Board proposes that the proceeds will be used to pay Preferential Dividends as they fall due and the balance of funds in the Company will be used for working capital purposes

Wood Wharf

On 18 January 2012, Canary Wharf Group announced it had acquired full ownership of WWLP and associated companies and entered into an overriding 250 year lease of the Wood Wharf site

Canary Wharf Group acquired 100 0% of WWLP by combining its own 25 0% effective interest with the 75 0% interests acquired from its original joint venture partners BWB and Ballymore It also agreed the restructuring of BWB's ongoing participation as freeholder of Wood Wharf As a result, Canary Wharf Group now has control over the timing and design of the scheme

The consideration paid for the acquisition of BWBs 50 0% interest in Wood Wharf was £52 4m together with a restructured 250 year lease that will see an annual ground rental payment to BWB increase to £6 0m by 2016 For the remainder of the lease, this payment will be subject to upwards only review linked to the passing rent achieved on the office buildings and the ground rents paid by purchasers of the residential apartments built on the scheme The £52 4m payment comprises an upfront payment of £4 4m and a series of 4 annual payments up to and including 2015 The total consideration paid in December 2011 for the acquisition of Ballymores 25 0% effective interest in Wood Wharf was £38 0m

Company Balance Sheet

at 31 December 2011

	Note	**2011 £m**	2010 £m
FIXED ASSETS			
Investments	(c)	**2,204.0**	2,299 9
CURRENT ASSETS			
Debtors due in less than one year	(d)	**8.4**	19 2
Cash at bank and in hand	(e)	**2.8**	5 7
		11.2	24 9
CREDITORS Amounts falling due within one year	(f)	**(400.3)**	(406 8)
NET CURRENT LIABILITIES		**(389.1)**	(381 9)
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,814.9**	1 918 0
CREDITORS Amounts falling due after more than one year	(g)	**(270.5)**	(268 9)
NET ASSETS		**1,544.4**	1,649 1
CAPITAL AND RESERVES			
Called up share capital	(h)	**76.5**	76 5
Reserves			
– share premium	(i)	**1,195 1**	1,195 1
– profit and loss account	(i)	**5.4**	14 2
– other reserves	(i)	**267 4**	363 3
SHAREHOLDERS' FUNDS	(j)	**1,544 4**	1,649 1

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

Approved by the Board on 29 March 2012 and signed on its behalf by

David Pritchard

DAVID PRITCHARD

Chairman

Notes to the Company's Financial Statements

for the year ended 31 December 2011

(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 Company's financial statements are prepared in accordance with applicable UK accounting standards and under the historical cost convention

The separate financial statements of the Company are presented as required by the Act They have been prepared under the historical cost convention and in accordance with applicable United Kingdom law and United Kingdom Generally Accepted Accounting Standards The principal accounting policies are presented below and have been applied consistently throughout the current and prior periods They have also been prepared on the going concern basis as described in the going concern statement in the Directors' Report contained in the consolidated financial statements

Investments 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

As a result of the terms and conditions of the Preference Shares such shares have been classified as debt Consequently they are initially stated at their net proceeds with the finance costs allocated to periods over their term at a constant rate on their carrying amount The profit and loss account includes a charge in respect of the coupon payable calculated at 2 5% per quarter

The fair value of the Warrants issued in connection with the Shareholder Loan was assessed upon initial recognition as negligible Accordingly no equity balance has been recognised in respect of the Warrants

(b) LOSS/PROFIT FOR THE FINANCIAL YEAR

The loss recorded by the Company in 2011 was £104 7m including the recognition of an impairment provision against the investment in SFL of £95 9m (2010 – profit of £77 2m including impairment release of £69 0m) A dividend of £23 0m was received from SFL in the year (2010 – £40 0m) The Company carries its investment in SFL at the estimated recoverable amount As permitted by Section 408 of the Act 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 Finance (Two) Limited*	£1 Ordinary	100 0	Investment company
Songbird Acquisition Limited*	10p Ordinary	100 0	Investment company
Canary Wharf Group plc	1p Ordinary	69 4	Holding company

*directly held

All of these companies are incorporated in England and Wales and registered in Great Britain SFL holds the Group's investment in Canary Wharf Group plc

A complete list of the subsidiary undertakings of Canary Wharf Group plc will be attached to that company's (and its core intermediate holding subsidiaries'), annual returns when they are submitted to the Registrar of Companies

	£m	£m
Cost and net book value		
Cost at 1 January 2011		2,361 2
Provision for impairment at 1 January 2011	(61 3)	
Increase of provision in year	(95 9)	
		(157 2)
Net book value at 31 December 2011		**2,204 0**
Net book value at 31 December 2010		2,299 9

(d) DEBTORS

	2011 £m	2010 £m
Due within one year		
Amounts owed by subsidiary undertakings	**8.3**	19 1
Prepayments and accrued income	**0.1**	0 1
	8.4	19 2

(e) FINANCIAL ASSETS

The Company's financial assets comprise short term cash deposits Cash deposits totalled £2 8m at 31 December 2011 (31 December 2010 – £5 7m) comprising deposits placed on deposit at call and term rates

Notes to the Company's Financial Statements continued

for the year ended 31 December 2011

(f) CREDITORS AMOUNTS FALLING DUE WITHIN ONE YEAR

	2011 £m	2010 £m
Amounts owed to subsidiary undertakings	**398 2**	396 6
Accruals	**2 1**	3 3
Financing costs of non equity share capital	–	6 9
	400.3	406 8

The Company had no purchases outstanding at either 31 December 2011 or 31 December 2010

Financing costs of non equity shares at 31 December 2010 comprised the accrued coupon payable under the terms of the Preference Shares

The amount owed to subsidiary undertakings is on an interest free basis with no defined redemption date

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

Creditors due after more than one year comprise

	2011 £m	2010 £m
Non equity share capital		
Preference Shares	**270.5**	268 9

As a result of the terms and conditions of the Preference Shares, such shares have been classified as borrowings and the profit and loss account includes a charge in respect of the coupon payable calculated at 2 5% per quarter

(h) SHARE CAPITAL

At 31 December 2011 a total of 764,913 962 Ordinary Shares were in issue Details of the rights attaching to each class of shares as at 31 December 2011, together with details of the Warrants in issue are set out in Note 23

(i) RESERVES

	Share premium account £m	Cancelled share reserve £m	Other reserve £m	Profit and loss account £m	Total £m
1 January 2011	1,195 1	59 5	303 8	14 2	1,572 6
Loss for the year	–	–	–	(104 7)	(104 7)
Transfer of movements in impairment	–	–	(95 9)	95 9	–
31 December 2011	**1,195.1**	**59 5**	**207.9**	**5 4**	**1,467.9**

The other reserve arose from an intra group reorganisation undertaken during 2007 and is considered by the directors to be non distributable The impairment of the Company's investment in SFL (Note (c)) represents a partial realisation of this amount and accordingly the cumulative impairment loss has been transferred from the profit and loss account to the other reserve

(j) RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	£m
1 January 2011	1,649 1
Loss for the year excluding impairment release	(8 8)
Impairment of investment in subsidiary	(95 9)
31 December 2011	**1,544 4**

Independent Auditor's 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 2011 which comprise the Company Balance Sheet and the related Notes (a) to (j) The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

This report is made solely to the Company's members as a body, in accordance with Chapter 3 of Part 16 of the Act 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 AUDITOR

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition we read all the financial and non financial information in the Annual Report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

OPINION ON FINANCIAL STATEMENTS

In our opinion the parent company financial statements

- give a true and fair view of the state of the parent company's affairs as at 31 December 2011,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Act

OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion

- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the parent company financial statements

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where the Act requires us to report to you if, in our opinion

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us, or
- the Company financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

OTHER MATTER

We have reported separately on the Group financial statements of Songbird Estates plc for the year ended 31 December 2011

Mark Beddy (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, UK

29 March 2012

Shareholders' Information

DIRECTORS

All directors of the Company are non executive directors

David Pritchard Independent non executive Chairman appointed to the Board in September 2005 Currently non executive chairman of AIB Group (UK) plc and a non executive director of Motability Tenth Anniversary Trust and Euromoney Institutional PLC 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 + #

In accordance with the Articles Mr Pritchard will stand for reappointment at each annual general meeting

John Botts Independent director appointed to the Board in April 2010 Currently a senior adviser to Allen & Company Advisors Limited, a subsidiary of the New York based investment banking company He is also chairman of UBM PLC and Glyndebourne Arts Trust and a non executive director of Euromoney Institutional Investor PLC and the Tate Foundation Previously held worldwide positions within Citi including chief executive officer of Citi's investment banking division in Europe *

In accordance with the Articles, Mr Botts will stand for reappointment at each annual general meeting

Faisal Al-Hamadi Director of the Asset Management Group of Qatar Investment Authority, First Finance Company Epicure Berlin Property Company Limited and Al-Hosn Investment Company Appointed to the Board in January 2010 by Qatar Holding

Khalifa Al-Kuwari Deputy chief operating officer of Qatar Investment Holdings member of Al-Hosn Investment Company, Oman Investment Company and Qatar Exchange Appointed to the Board in January 2010 by Qatar Holding

Sheikh Mohammed Bin Hamad Bin Jassim Al-Thani Chairman of Barwa Bank since August 2010 board member of Gulf Investment Group, Qatar Securities Group and First Finance Company Appointed to the Board in January 2010 by Qatar Holding

Peter Harned Managing director and Head of European Asset Management and Capital Markets for Morgan Stanley Real Estate Appointed to the Board in June 2009 by the Morgan Stanley shareholder group *

Jonathan Lane. Consultant and senior adviser to Morgan Stanley and chairman of EMEA Real Estate Investment Banking at Morgan Stanley Also an independent non executive director of Grosvenor Liverpool Limited, member of the Advisory Board of Resolution Property Advisors, member of the British Property Federation, where he is on the Policy Committee member of the UK Government's Property Advisory Board member of the Bank of England's Commercial Property Forum the Investment Property Forum and the Urban Land Institute and a member of the Advisory Board of Oxford University's Oxford Programme for the Future of Cities Appointed to the Board in August 2008 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 Coleman Cable Inc Appointed to the Board in April 2004 by the Glick Shareholders

Alex Midgen Managing director of the investment banking division of Rothschild and global co-head of Rothschild's real estate advisory business Appointed to the Board in May 2004 by the Glick Shareholders * + #

Brian Niles Managing director and Head of European Investing for Morgan Stanley Real Estate Appointed to the Board in September 2007 by the Morgan Stanley shareholder group + #

David O'Connor Co founder and senior managing partner of High Rise Capital Management L P, a New York based real estate securities hedge fund He is also a director of Regency Centers Inc, a member of the board of Trustees at Boston College and currently serves on several investment committees Appointed to the Board on 29 March 2012 by the Glick shareholders

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

Shareholders' 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 2220
e-mail ssd@capitaregistrars com
Website www capitaregistrars com

*Currently calls cost 10p per minute plus network extras

Other Enquiries

If you would like more information about the Company please contact John Garwood, Company Secretary

Registered Office and Registered Number

One Canada Square
Canary Wharf
London E14 5AB

Registered Number 5043352
Website www songbirdestates com
Telephone 020 7477 1000
Facsimile 020 7477 1001

ADVISERS

Auditor

Deloitte LLP
2 New Street Square
London EC4A 3BZ

Bankers

The Royal Bank of Scotland Plc
London Corporate SC
PO Box 39952
21/2 Devonshire Square
London EC2M 4XJ

Broker and Nominated Adviser

J P Morgan Securities Ltd
125 London Wall
London EC2Y 5AJ

Financial PR Consultants

Brunswick Group LLP
16 Lincoln s Inn Fields
London EC2V 7JD

Solicitors

Slaughter and May
One Bunhill Row
London EC1Y 8YY

Weil, Gotshal & Manges
110 Fetter Lane
London EC4A 1AY

Definitions

20 Fenchurch Street	A 690,000 sq ft building under construction in the City of London
20 FSLP	20 Fenchurch Street Limited Partnership
2009 Refinancing Transactions	£620 0m placing and compensatory open offer in 2009, £275 0m issue of Preference Shares and £135 0m Shareholder Loan facility
Act	The Companies Act 2006
Administrator	PricewaterhouseCoopers, administrator of Lehman
AIG	American International Group, Inc
AIM	London Stock Exchange Alternative Investment Market
Articles	Articles of Association of Songbird Estates plc
Ballymore	Ballymore Properties Limited
Barclays	Barclays plc
BBVA	Banco Bilbao Vizcaya Argentaria S A
Board	Board of directors of the Company
bps	Basis points
BWB	British Waterways Board
Canary Wharf/Estate	Canary Wharf Estate including Heron Quays West, Park Place, Riverside South and North Quay
Canary Wharf Group	Canary Wharf Group plc and its subsidiaries
CBRE	CB Richard Ellis Limited, Surveyors and Valuers
Chairman	Chairman of the Board
CIC	China Investment Corporation
CLRL	Cross London Rail Links Limited
Company	Songbird Estates plc
Cushman	Cushman & Wakefield Real Estate Consultants
CWF II	Canary Wharf Finance II plc
Drapers Gardens	Drapers Gardens scheme in the City of London
EMA	European Medicines Agency
ERV	Estimated Rental Value
EU	European Union
EZAs	Enterprise Zone Allowances
FVTPL	Fair Value Through Profit and Loss
Glick Shareholders	Investment vehicles and Trusts connected with Simon Glick and his family
Group	The Company its wholly owned subsidiaries and Canary Wharf Group
HSO	HighSpeed Office Limited
IAS	International Accounting Standards
IAS 7	International Accounting Standard 7 Statement of Cash Flows
IAS 17	International Accounting Standard 17 Leases
IAS 32	International Accounting Standard 32 Financial Instruments Presentation
IAS 33	International Accounting Standard 33 Earnings per Share
IAS 39	International Accounting Standard 39 Financial Instruments Recognition and Measurement
IAS 40	International Accounting Standard 40 Investment Property
ICR	Interest Cover Ratio
IFRIC	International Financial Reporting Interpretations Committee
IFRIC 15	International Financial Reporting Interpretations Committee 15 Agreements for the Construction of Real Estate
IFRS	International Financial Reporting Standards
IFRS 3	International Financial Reporting Standard 3 Business Combinations
IFRS 5	International Financial Reporting Standard 5 Non current Assets Held for Sale and Discontinued Operations
IFRS 7	International Financial Reporting Standard 7 Financial Instruments Disclosures
IFRS 8	International Financial Reporting Standard 8 Operating Segments
Land Breeze	Land Breeze S a r l
Land Securities	Land Securities Group plc

Definitions continued

Lehman	Lehman Brothers Limited (in administration)
Lloyds	Lloyds Banking Group
LMCTV	Loan Minus Cash to Value
London Plan	Mayor of London Planning document published by the Greater London Authority
LTV	Loan to Value
m	Million
Morgan Stanley	Morgan Stanley & Co Limited including all related funds, entities and associates
MS	Morgan Stanley Real Estate Fund IV International GP LLC and Morgan Stanley European Real Estate Special Situations II Offshore Inc
NAV	Net Asset Value
NIA	Net Internal Area
NNNAV	Triple Net Asset Value
Notes	Notes of Canary Wharf Groups securitisation
OMR	Open Market Rent
Open Offer	An open offer for the issue of new 109 375,000 Ordinary Shares completed in October 2010
Ordinary Shares	Ordinary shares of 10p each
Preference Shares	Preference shares of £1 00 each
Preferential Dividend	Fixed cumulative dividend of 2 5% per quarter of aggregate amount of nominal value and any share premium paid up on Preference Shares
Provision of Services Agreement	A provision of services agreement between the Company and Canary Wharf Group
psf	Per square foot
Qatar Holding	Qatar Holding, LLC
Rothschild	NM Rothschild & Sons Limited
Savills	Savills Commercial Limited, Chartered Surveyors
Section 106	Section 106 of the Town and Country Planning Act 1990
SFL	Songbird Finance Limited
Shareholder Loan	£135 0m loan facility entered into by SFL and certain significant shareholders in 2009 and repaid in 2010
Shell	Shell International Limited
Shell Centre	A 5 25 acre site on the South Bank, London
Significant Shareholders	Glick Shareholders, Land Breeze, MS Shareholders and Qatar Holding
Skadden	Skadden Arps Slate Meagher & Flom LLP
sq ft	Square foot/square feet
Syndication Partners	Entities relating to Canary Wharf Group Chengdong Investment Corporation Morgan Stanley and Qatar Holding
Treasury Shares	Shares acquired by any Group entity and not cancelled
Trust	Canary Wharf Employees' Share Ownership Plan Trust
UK	United Kingdom of Great Britain and Northern Ireland
UK GAAP	United Kingdom Generally Accepted Accounting Practice
VAT	Value Added Tax
Warrants	Warrants over Ordinary Shares
Wood Wharf	A 16 8 acre site adjacent to the Estate
WWLP	Wood Wharf Limited Partnership

Songbird

Estates plc

One Canada Square
Canary Wharf
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E14 5AB
www.songbirdestates.com