Songbird Estates plc
2012 Report and financial statements

Registered number 5043352

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Highlights

Development programme on schedule

- 25 Churchill Place – topped out, cladding and building services installation in progress
- Crossrail station
  - station box delivered to Crossrail 5 months ahead of schedule
  - construction commenced on 115,000 sq ft of retail and leisure space above the station
- Retail expansion – 44 000 sq ft extension to Jubilee Place mall on track to open in November 2013 64 0% let or in solicitors' hands at 31 December 2012
- Joint ventures
  - 20 Fenchurch Street – topped out in 2012 352,000 sq ft or 53 0% prelet
  - Shell Centre – planning application submitted in December 2012
- Land assembly – 100 0% ownership of Wood Wharf secured and a new master plan being developed for approximately 4 6m sq ft, divided equally between office and residential

Continued leasing activity and secure income stream

- Weighted average lease term is 15 5 years or 14 2 years assuming exercise of all break options
- Lease extension signed 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 at 31 December 2011)
- Further lettings of approximately 25,000 sq ft, including leases with rents in the range £40 00–£43 00 psf

Portfolio valuation shows continued growth

- Retail portfolio performing well – valuation up 9 9% over year and 4 8% in second half
- Office portfolio valuation increased by 2 5% over year and 2 4% in second half
- Benchmark initial yield reduced to 5 0%
- Market value of investment portfolio up by 3 4% over year
- Including land, portfolio valuation up 4 1% over year, adjusting for capital expenditure and Wood Wharf acquisition

Secure financial position provides foundation for Group's strategy

- Terms of Preference Shares amended in August 2012 (Note (ii)) Repayment date extended and coupon reduced from fixed rate of 10 0% p a to fixed rate of 8 76% p a after hedging
- £190 0m construction loan facility secured against 25 Churchill Place with first drawdown in January 2013
- Scheduled loan amortisation of £74 7m paid in year (Note (iii))
- Average loan maturity of 13 0 years in line with weighted average lease term

Financial summary

- Adjusted net assets £1,556 5m at 31 December 2012, an increase of £104 4m or 7 2% from £1,452 1m at 31 December 2011, and £31 2m or 2 0% since 30 June 2012 (Note (iv))
- Adjusted NAV per share 210p compared with 190p at 31 December 2011, an increase of 10 5%, and 199p at 30 June 2012, an increase of 5 5% (Note (iv))
- Repurchase of 24 5m Songbird Shares at an average price of £1 22 per share in 2012 at an aggregate cost, including fees, of £30 3m (Note (ii)), funded from £79 9m of dividends received from Canary Wharf Group
- The Board has approved further repurchases to an aggregate cost of up to £10 0m in 2013 (Note (ii))
- Share repurchases boosted adjusted NAV by 3p per share (Note (iv))
- Underlying profit before tax £23 3m (2011 – £4 6m) (Note (v))

Note
(i) For further information on the above refer to the Business Review unless otherwise stated
(ii) Refer to Note 24
(iii) Refer to Note 21
(iv) Refer to Note 4
(v) Refer to the Consolidated Income Statement

Results in brief

	Note	2012 £m	2011 £m
Rental income (excluding tenant incentives adjustments)	(i)	**263 8**	251 3
Underlying operating profit	(ii)	**222 1**	207 4
Capital and other items			
– revaluation of investments in associates	(iii)	**3 6**	7 6
– net revaluation movements	(iv)	**215 7**	63 7
– net derivatives and Preference Shares expense	(v)	**(41 1)**	(288 7)
Underlying profit before tax	(ii), (vi)	**23 3**	4 6
Profit/(loss) on ordinary activities before tax	(ii)	**201 5**	(212 6)
Tax	(vii)	**(18 0)**	128 7
Profit/(loss) after tax	(ii)	**183 5**	(84 1)
Basic and diluted earnings/(losses) per share	(vi)	**15 9p**	(9 0)p

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

Chairman's operational review

David Pritchard
Chairman

"The Board remains confident that the Group's integrated business model, encompassing construction and management, makes it uniquely placed to sustain and grow a property portfolio capable of meeting the challenges of both current and future markets "

Introduction

In 2012, the Company s main subsidiary Canary Wharf Group, made material steps to progress the next phase of development as it responds to the demands and needs of the new generation of business and residential tenants The topping out of 25 Churchill Place in February 2013 completes the Group's original masterplan for the Canary Wharf Estate marking a shift in emphasis towards a progressive 10 6m sq ft development pipeline the largest of any developer in London This pipeline will help ensure the Group s continued diversification and growth

These exciting and innovative plans are currently centred on 2 developments in particular the 5 25 acre site at the Shell Centre on London's South Bank and the 20 acre Wood Wharf site adjacent to the Estate

As it develops these sites beyond the original 1988 vision centred on the Estate, the Group remains committed to ensuring that London remains a successful and dynamic business centre This vision has been central to the Group s success to date and it will continue to build on this legacy through its developments in other parts of London

In addition to operational progress, in August 2012 the Company secured approval from its shareholders to amend the terms of its Preference Shares which it viewed as the most effective way of securing efficient long term finance for the Company The amendments eliminated potential short term refinancing risk at the same time as reducing the cost of the Preference Shares The Preference Shareholder early redemption option was removed and the time frame for refinancing the £275 0m of Preference Shares has been extended by up to 7 years providing the ability to refinance at a later date in potentially more favourable market conditions facilitating the potential payment of future dividends on the Ordinary Shares

At the same time the Company also received approval for a Share Buyback authority permitting it to make on market purchases of up to 5 0% of the issued share capital subject to certain conditions This provided additional flexibility to return cash to Ordinary Shareholders in an accretive manner Funded by aggregate dividends of £79 9m from Canary Wharf Group during the period the Company repurchased 24 5m Songbird Shares at an average price of £1 22 at an aggregate cost of £30 3m Subsequent to the period the Board approved further repurchases up to an aggregate cost of £10 0m subject to certain conditions To date, under this authority, 29 526 Songbird Shares have been acquired at an aggregate cost of £35,609

Financial review

Adjusted NAV per share was £2 10 at 31 December 2012, compared with £1 90 per share at 31 December 2011 an increase of 20p or 10 5% The year end adjusted NAV compared with £1 99 per share at 30 June 2012 an increase of 11p or 5 5%

The Share Buyback represented 3 2% of the issued share capital and those Songbird Shares have subsequently been cancelled The effect of the Share Buyback was to increase adjusted NAV at 31 December 2012 by 3p

The market value of the investment portfolio has increased by 3 4% over the year This was driven by an increase of 2 5% in the office portfolio and a 9 9% increase in the retail portfolio Yields on fully let office properties hardened in the second half of the year, with the benchmark initial yield reducing by approximately 25 bps The increase in the valuation of the retail portfolio reflected progress with the expansion of Jubilee Place mall continued growth in passing rents and a slight hardening in yields of approximately 10 bps over the year

Including development sites, the market value of the total portfolio increased by 4 1% over the year adjusting for capital expenditure and the benefit of consolidating and revaluing Wood Wharf for the first time subsequent to the acquisition of the stakes previously held by Ballymore and BWB The increase in the valuation of the portfolio reflecting capital expenditure since 30 June 2012 was 2 2%

Underlying profit for the year was £23 3m in comparison with £4 6m for 2011 The increase of £18 7m was mainly attributable to an increase in net property income of £14 6m

At 31 December 2012, the Group had unencumbered cash deposits of £618 7m Following a restructuring of the interest rate hedging relating to Canary Wharf Group s £350 0m retail loan facility, the weighted average cost of debt reduced from 6 2% to 5 8% The weighted average maturity of its loan facilities was 13 0 years which compares with the weighted average unexpired lease term of 14 2 years assuming exercise of all lease break options

Chairman's operational review continued

Canary Wharf West facing

Operational review

Throughout 2012, Canary Wharf Group has continued to position itself to take advantage of London's new growth sectors Despite a challenging market, good progress is being made in laying the foundations in pursuit of this diversification and demand

On the Estate, construction on the Crossrail station continues to run ahead of schedule and within budget The platform level was handed over to Crossrail in March 2012 to allow access for the tunnelling machines in spring 2013 Work is progressing well on the 115,000 sq ft retail and leisure accommodation above the station with 87 000 sq ft scheduled to be open for trade in April 2015 Work on the 44,000 sq ft extension of Jubilee Place mall is also on schedule to open in November 2013, catering for the very strong demand for retail space there

The final piece of the Group's original masterplan the 25 Churchill Place development, is on target for completion in March 2014 and will be one of the most energy efficient buildings in London The substructure of this 525,000 sq ft building is now completed and 50 0% of the building has been prelet to the European Medicines Agency which also has an option over an additional 108,000 sq ft During the year Canary Wharf Group entered into a £190 0m construction and development loan facility that will be used to fund the construction of 25 Churchill Place

The Group has planning permission for another 9 2m sq ft of mixed use space in the pipeline at, or adjacent to the Estate At Canary Wharf plans are being reviewed to maximise value in respect of the commercial or mixed use developments at One Park Place, Heron Quays West and the residential development at Newfoundland

The Group is prioritising market driven more focused developments including the major regeneration plans that are being put in place for Wood Wharf The plans for this 20 acre site represent a fresh era for the Group as it responds to the demands of the next generation of business and residential tenants A new master plan for this site is currently being developed whilst a comprehensive consultation process with local communities is underway The Group plans to capitalise on the global status of London as a business centre and to attract and target growing business sectors particularly technology and new media firms In pursuit of this aim, shortly after the year end the 29 000 sq ft "Level39" accelerator space was launched at Canary Wharf to encourage links between the growing technology community and financial companies Level39 is the largest accelerator space in Europe and uniquely offers young companies in this sector geographic proximity to financial companies and tailored space in which to engage and grow

The Group continues its progress in the City with preletting success at 20 Fenchurch Street which is held through a joint venture with Land Securities Approximately 53 0% of this 37 storey building is already prelet to a number of insurance sector companies including Markel Kiln Group Ascot Underwriting Royal Sun Alliance, Liberty Syndicates and Liberty Mutual The building has now been topped out and is running on time and within budget with completion due in March 2014

The 50 50 joint venture project at the Shell Centre with Qatari Diar progressed to the planning application submission stage in December 2012 and it is hoped that consent will be received during 2013 This landmark site on London's South Bank will be enhanced by a 1 4m sq ft net mixed use development comprising office residential and retail space providing much needed regeneration to this area The existing 27 storey tower in the middle of the Shell Centre will be preserved and retained by Shell Shell will also take a 240,000 sq ft prelet of one of the 2 new office buildings to be constructed on the site

Despite demanding economic conditions leasing continues to perform reasonably throughout the portfolio In addition to the 50 0% prelet of 25 Churchill Place and the 53 0% letting at 20 Fenchurch Street Canary Wharf Group renewed leases with Bank of New York Mellon on 152,226 sq ft for a term of 8 years at a rent of £42 50 psf (10 4% ahead of built ERV) and there were further lettings of approximately 25 000 sq ft to include leases with rents in the range of £40 00–£43 00 psf

Canary Wharf continues to be a leading centre for retail and leisure anticipating and catering every day for the needs of over 100 000 workers based on the Estate The retail valuation rose 9 9% on the year, while footfall increased 1 01% on 2011 in contrast to falling footfall at many other UK malls Despite a challenging year for business, at the year end 100 0% of the Group's retail units were fully let, with new occupiers including Alfred Dunhill, Kiehls, Blink Brow and L'Entrecote In addition lettings representing 44 0% of available space in the 115 000 sq ft of retail and leisure under construction above the Crossrail station are already in solicitors hands, ahead of its opening in 2015 In the 44 000 sq ft expansion of Jubilee Place mall, 64 0% of available space is already let or in solicitors' hands, further underlining the demand for high quality retail space on the Estate

Conclusion

The Company is committed to ensuring that Canary Wharf Group continues to be recognised as a developer of high quality bespoke buildings designed to meet the needs of a diverse range of tenants occupiers and communities

The Group will continue its commitment to working hand in hand with communities to realise the regeneration of areas in the East End of London and around London s South Bank A series of significant building blocks including detailed and comprehensive consultations at Wood Wharf and the Shell Centre, have been put in place in 2012 in pursuit of this aim and the Group looks forward to seeing these new projects come to fruition over the coming years

The Board remains confident that the Group's integrated business model encompassing construction and management, makes it uniquely placed to sustain and grow a property portfolio capable of meeting the challenges of both current and future markets

David Pritchard
Chairman

Light installation at Middle Dock

Voyage by Aether and Hemera

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 2012 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 Elsewhere in London Canary Wharf Group is involved through joint ventures in the redevelopment of 20 Fenchurch Street and the Shell Centre

In January 2012 the Group completed the acquisition of BWB's 50 0% interest in the Wood Wharf joint venture and was granted a new overriding 250 year lease of the site, which is adjacent to the Estate As a result the Group achieved full control of this scheme and consequently transferred the carrying value of its combined investment to Properties held for development within Non current assets Further details on the acquisition of this site can be found in the Business Review – Wood Wharf

At 31 December 2012 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 of NIA The properties included in Canary Wharf Groups investment property portfolio at 31 December 2012 are shown in the table below

At 31 December 2012, the investment property portfolio was 95 5% let (31 December 2011 – 96 5%) The weighted average unexpired lease term for the investment portfolio at 31 December 2012 was approximately 15 5 years or 14 2 years assuming the exercise of outstanding break options (31 December 2011 – 16 2 years or 14 9 years respectively) Of the square footage under lease at 31 December 2012 76 3% does not expire or cannot be terminated by tenants during the next 10 years

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 at 31 December 2012, includes 19 properties totalling 8 7m sq ft in other ownerships

Leasing

In June 2012, the 20 Fenchurch Street joint venture announced the first letting in the building for 51,000 sq ft on levels 26 and 27 to Markel at a rent of £65 00 psf In September 2012 Kiln Group Limited leased 76 200 sq ft and Ascot Underwriting leased 29,400 sq ft on level 33 In December 2012, Royal Sun Alliance leased 76 000 sq ft on levels 14 to 17 inclusive Following the letting of 66,300 sq ft to Liberty Syndicates and 51,000 sq ft to Liberty Mutual in February 2013 approximately 53 0% of the office space is now let The joint venture is also in negotiations with other potential occupiers of the building

Property address	NIA sq ft	Leased %	External valuation (£m)	Principal tenants and sub tenants
One Churchill Place	1 036,500	100 0	770 0	Barclays, BGC
10 Cabot Square/ 5 North Colonnade	634 100	100 0	400 0	Barclays, WPP Group
20 Cabot Square/ 10 South Colonnade	558 100	100 0	353 0	Barclays
One Canada Square	1,220,500	81 8	653 3	Moodys Bank of New York Mellon Mirror Group, FSA State Street, Euler Metlife
33 Canada Square	562 700	100 0	385 0	Citigroup
20 Bank Street	546 500	100 0	440 0	Morgan Stanley
40 Bank Street	606,000	85 1	328 0	Shell Skadden Allen & Overy, ANZ, JLL
50 Bank Street	210 600	100 0	145 0	Northern Trust Goldenberg Hehmeyer
10 Upper Bank Street	1 027 300	100 0	675 0	Clifford Chance, FTSE, Total
Cabot Place Retail	141 600	99 6	186 5	Boots Tesco Zara and other retail tenants
Canada Place Retail	71,300	100 0	186 4	Gap Next and other retail tenants
Jubilee Place Retail	93 500	100 0	156 8	Boots M&S Food, Wagamama and other retail tenants
Churchill Place Retail	34 900	100 0	20 3	Barclays Jamie's Italian and other retail tenants
16–19 Canada Square	213,600	99 8	82 9	Waitrose Food & Home Reebok, Plateau Restaurant
Reuters Plaza	8,900	100 0	16 4	Carluccio s, Smollensky s
Park Pavilion	22,900	100 0	21 9	Lloyds Bank, Canteen, The Parlour, Roka and Wahaca
Car parks	–	–	42 0	
Total	**6,991,000**	**95 5**	**4,862 5**	

Occupancy

+95.5%

at 31 December 2012

Weighted average unexpired lease term

15.5 years

or 14 2 years after break options

Leasing continued

At Canary Wharf, the following leases were completed in One Canada Square during the year ended 31 December 2012

- In January 2012, Canary Wharf Group renewed leases with Bank of New York Mellon on 152,226 sq ft 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 lease compares with the valuers' headline ERV at 31 December 2011 of £38 50 psf for lettings greater than 100,000 sq ft of existing space
- In April 2012, Metlife took an additional 12,900 sq ft on level 34 at a rent of £43 00 psf subject to a 15 month rent free period The lease term is 9 years subject to a break option in October 2018 A further rent free period of 6 months will be granted in the event the break option is not exercised Metlife s break option in July 2012 over its lease of 10,784 sq ft on level 28 was not exercised and this lease now runs through to expiry in January 2015,
- Novartis renewed its lease over 1,995 sq ft on level 34 for a further 3 years at a rent of £40 00 psf
- Doyle Clayton Solicitors Limited took 1 066 sq ft on level 10 for a term of 5 years at a rent of £42 50 psf subject to a 6 month rent free period There is a break option upon expiry of the third year and if the option is not exercised an additional 4 month rent free period will be granted Kingsley Hamilton took 2 603 sq ft also on level 10 for a term of 5 years at a rent of £40 00 psf subject to a 6 month rent free period There is a break option at the expiry of the third year, and
- Telecom2 Limited took 3,206 sq ft on level 29 for a 5 year term at a rent of £41 50 subject to a 4 month rent free period There is no break option

In 40 Bank Street Maypole Energy has taken 3,553 sq ft on level 19 for a term of 5 years at a rent of £42 50 psf subject to a rent free period of 4 months There is a break option upon expiry of the third year of the lease and if the option is not exercised an additional 4 month rent free period will be granted

During the year, HSBC exercised break options over level 8 (27 104 sq ft) in One Canada Square effective from March 2012 and over levels 7 and 9 (totalling 54,224 sq ft) effective from December 2012 Break options over a further 25,186 sq ft were also exercised in the period

All options to sublet space back to Canary Wharf Group have been exercised and at 31 December 2012 the estimated net present value of sublet liabilities was approximately £26 1m discounted at 6 2% being Canary Wharf Group's weighted average cost of debt for the year (31 December 2011 – £31 0m discounted at 6 2%) These sublet commitments have been reflected in the market valuation of Canary Wharf Group's properties

Retail

Retail and restaurants at Canary Wharf have continued to perform well against a challenging retail environment nationally Footfall for 2012 was up 1 11% on 2011 against a reduction of 3 03% in the national benchmark

New occupiers opening in 2012 included Alfred Dunhill Kiehls, Blink Brow and L Entrecote

At the year end the malls were fully let with encouraging demand from both existing occupiers to expand and new entrants Clintons entered administration in 2012 and terms were agreed with the new owners, American Greeting Cards to take an assignment of the lease and refit the unit Since the year end in January 2013, both HMV and Jessops entered into administration The HMV store is likely to be sold as part of the core group to a new buyer and continues to trade Jessops has closed and terms have been agreed with Ryman to take the unit on a new lease at an increased rent

Retailers in Cabot Place continue to enjoy stronger footfall and trading as the tenant mix strengthens with the opening of the Dunhill and enlarged Church s units

The positive asset management strategy for forthcoming lease expiries is progressing well in Canada Place Terms were agreed with Boots to upsize and Hugo Boss to take a second store Discussions with other key retailers are progressing well

Positive outcomes were achieved on the rent reviews that were completed in 2012 with increases above ERV secured

Construction began in February 2012 on the 44,000 sq ft expansion of Jubilee Place mall which will open for trade on 1 November 2013 At 31 December 2012 16 of the 26 new units were exchanged or in solicitors' hands representing 64 0% of the total income

Construction is progressing well on the 115,000 sq ft of retail and leisure accommodation above the Crossrail station, of which 100,000 sq ft is retail Within the development, 87,000 sq ft is scheduled to open for trade in April 2015,

Retail continued

ahead of the actual station opening in 2018 Solicitors have been instructed on 6 lettings, representing 44 0% of the available space and 38 0% of the total income

Construction

As well as the retail expansion projects referred to above work commenced on 25 Churchill Place a new office building of over 500,000 sq ft In August 2011, EMA agreed a prelet of 250 000 sq ft in this building

EMA will occupy the promenade, ground and first 9 floors in the 20 storey building The agreed rent is £46 50 psf commencing 1 January 2015 with 5 yearly upwards only rent reviews The length of the lease is 25 years with no break options and EMA has staged options to take an additional 4 floors of around 27,500 sq ft each EMA will receive the equivalent of a 37 month rent free period in cash which will be used to pay for EMAs fit out in the building

Work on the building began in February 2012 and the structure was formally topped out in February 2013 Cladding and building services installation are in progress Construction is on schedule for delivery with the EMA floors fitted out in mid 2014 The balance of the available space is being marketed as construction progresses

Canary Wharf Group is also acting as construction manager for the development at 20 Fenchurch Street (see Business Review – 20 Fenchurch Street)

Crossrail

Construction commenced on the Crossrail station at Canary Wharf in May 2009 and has progressed ahead of schedule The platform level was handed over to CLRL in March 2012 5 months ahead of schedule to enable access for the tunnelling machines The station will be provided to CLRL for 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 project is performing well against budget The first trains are due to run in 2018 when Crossrail opens for passenger service As referred to in the Retail section, construction is progressing on 115 000 sq ft of retail and leisure space above the station which will be subject to a long lease to Canary Wharf Group The structure has been completed and internal works have commenced

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

Wood Wharf

On 18 January 2012, Canary Wharf Group announced it had acquired full control of the Wood Wharf joint venture and had entered into a new overriding 250 year lease of the site

Canary Wharf Group secured 100 0% ownership of Wood Wharf by combining its original 25 0% effective interest with the 75 0% interests acquired from its 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 this scheme

Wood Wharf will be a new mixed use development scheme adjacent to the existing Estate In May 2009, the current master plan received outline planning consent for 4 6m sq ft net This consent which was renewed in 2012 and represents an area almost one third of the size of the Estate, currently comprises approximately 1 25m sq ft of residential, 3 1m sq ft of offices, 0 2m sq ft of retail 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 Having secured full control of the scheme, the best uses for the site are being reviewed potentially altering the mix of uses in favour of residential, reducing the size of individual office buildings to appeal to new target sectors and to integrate and connect this new district to the existing Estate Work on the revised master plan is progressing and it is envisaged that application for a revised outline planning consent will be submitted in late 2013

The acquisition of Ballymores interest was completed in December 2011, for a consideration of £38 0m The consideration for the subsequent acquisition of BWB's 50 0% interest in Wood Wharf in January 2012 was £52 4m together with a restructured 250 year lease that will see an annual ground rental payment to BWB increasing to £6 0m by 2016

"The Group remains committed to ensuring that London remains a successful and dynamic business centre This vision has been central to the Group's success to date and it will continue to build on this legacy through its developments in other parts of London "

David Pritchard, Chairman

CGI 20 Fenchurch Street View from the Sky Garden

For the remainder of the lease, this ground rent will be subject to upwards only reviews linked to the passing rent achieved on the office buildings and the ground rents paid by purchasers of the residential apartments built in 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

Canary Wharf Group has also acquired certain other property interests in connection with Wood Wharf which are integral to the future development of this site

Other development sites

One Park Place benefits from planning consent for approximately 950,000 sq ft of development but Canary Wharf Group plans to submit a new application for a revised scheme of approximately 650 000 sq ft in due course

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

Consent has been granted on the adjacent Newfoundland site for 230,000 sq ft of hotel and serviced apartments An alternative all residential concept of over 400 000 sq ft is currently being explored

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

In summary the total development capacity at each of Canary Wharf Group's development sites, excluding sites under development is outlined in the table below

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 contract includes a right of first offer in the event J P Morgan decides to sell the site J P Morgan has instructed Canary Wharf Group to proceed with the next phase of infrastructure works consisting of river wall protection utilities installation and the lower ground level floor slab and these are now progressing well with completion targeted for the last quarter of 2013

Canary Wharf Group has received £76 0m as an advance of developer's profit in conjunction with the 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 the partnership for a consideration of £90 2m in line with the March 2010 valuation After syndication Canary Wharf Group has retained a 15 0% equity interest in this project

Planning consent for a 37 storey building was 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 Construction commenced on site in January 2011 and is progressing on schedule and within budget The building has been topped out and completion is expected in March 2014

Canary Wharf Contractors Limited, a wholly owned subsidiary of Canary Wharf Group, was appointed as sole construction manager Land Securities and Canary Wharf Group were appointed as joint development managers and both are responsible for leasing As referred to in the Business Review – Leasing 20 Fenchurch Street is currently 53 0% prelet

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 met 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 are being apportioned between the parties

The development will be mixed use, comprising office residential and retail space which will regenerate an important section of the South Bank in central London The existing 27 storey tower in the middle of the Shell Centre will be preserved and retained by Shell Shell will also take a 245,000 sq ft prelet of one of the 2 new office buildings to be constructed on the site

The joint venture parties submitted a planning application for 1 4m sq ft (net) in December 2012 and are working towards achieving consent during the course of 2013

Total development pipeline	NIA m sq ft
Canary Wharf, based on existing planning permissions	
– North Quay	2 39
– Heron Quays West	1 33
– Newfoundland	0 23
– One Park Place (proposed development)	0 65
– Wood Wharf	4 60
	9 20
Sold to J P Morgan – Riverside South (Canary Wharf Group acting as development and construction manager)	1 90
In joint venture with Qatari Diar – Shell Centre (see Business Review – Shell Centre)	1 40

Valuations

The net assets of the Group, as stated in its Consolidated Balance Sheet at 31 December 2012, were £1 774 4m In arriving at this total

(i) properties held as investments were carried at £4 676 1m, which represents the market value of those properties of £4 862 5m at that date as determined by Canary Wharf Group's external valuers, CBRE, Savills or Cushman, less an adjustment of £178 7m for tenant incentives and £7 7m for deferred lease negotiation costs,

(ii) properties under construction were carried at £135 8m representing the market value of those sites of £137 5m as determined by Canary Wharf Group's external valuers, less an adjustment of £1 7m for deferred lease negotiation costs, and

(iii) properties held for development were carried at £470 0m representing their market value of £415 0m adjusted by £55 0m for the present value of the minimum ground rents payable under the 250 year lease of Wood Wharf At inception of the lease this liability was separately recognised within Non current liabilities

At 31 December 2012 the yields applied in deriving the market valuation of Canary Wharf Group's investment properties are summarised below

The retail portfolio again performed strongly with market value increasing by 9 9% in the year This increase was driven in part by a slight hardening in yields, in part by rental growth and in part by progress made with the expansion of the Jubilee Place mall The market value of the office portfolio increased by 2 5% over the same period primarily as a result of a tightening in yields in the second half of the year For rack rented office properties such as One Churchill Place and 33 Canada Square, the initial yield reduced by approximately 25 bps to 5 125% in the case of Churchill Place and 5 0% in the case of 33 Canada Square

Taking office and retail together the market value of the investment portfolio increased by £162 0m or 3 4% in 2012 After allowing for additions and adjustments in respect of tenant incentives the carrying value of the investment portfolio increased by £147 8m or 3 3%

In the second half of the year, the valuation of the investment portfolio increased by £128 5m or 2 7% and the carrying value increased by £122 9m or 2 7% after additions This increase was driven by the tightening in yields for the office portfolio, resulting in an increase in market value of 2 4% and the continued growth in the retail portfolio which increased in value by 4 8%

The valuers have also provided their opinions of the market value for sites held for development During the year Canary Wharf Group achieved full ownership of Wood Wharf which has been transferred from Investments to Development properties (see Business Review – Wood Wharf) 25 Churchill Place which was previously classified as a Development property, was transferred to Properties under construction on commencement of shell and core works in February 2012 (see Business Review – Construction) Crossrail retail was also transferred from Development properties to Properties under construction during the second half of the year The other development sites held throughout the period comprised North Quay, Heron Quays West Newfoundland and One Park Place These sites were valued in aggregate at £215 0m at 31 December 2012 which represents an increase of 4 4% after transfers compared with the market value at 31 December 2011

Wood Wharf is subject to a 250 year lease (see Business Review – Wood Wharf) and the net present value of the ground rents payable under the terms of the lease was estimated at £55 0m at lease inception For accounts purposes the site was carried at a gross valuation of £255 0m comprising the market value of the site of £200 0m together with a liability of £55 0m in respect of the ground rents payable Subsequent movements in the carrying value of this liability are disclosed in Note 22

The properties under construction were valued at £137 5m (31 December 2011 – £96 0m) The valuation of these sites is stated by the valuers net of provision for developer's profit of £83 7m which will be released as the properties are let up and approach completion

The market value of the entire property portfolio, after adjusting for the acquisition of Wood Wharf and other additions, increased by £211 3m or 4 1% This increase in value was driven in part by the tightening in yields and in part by the progress achieved on the development sites

The valuations at 31 December 2012 are based on assumptions which include future rental income anticipated void costs the appropriate discount rate or yield and, in the case of development properties the estimated costs of completion In addition the valuations allow for letting disposal marketing and financing costs In valuing the properties on the Estate valuers also take account of market evidence which included the lettings completed in the year referred to earlier in this Business Review

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 on page 11, 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 2012 %	30 June 2012 %	31 December 2011 %
Office portfolio			
Weighted average initial yield	**5 0**	5 1	5 1
Weighted average equivalent yield	**5 4**	5 5	5 4
Retail portfolio			
Weighted average initial yield	**5 0**	5 0	5 1
Weighted average equivalent yield	**5 1**	5 2	5 2

Valuations continued

	Note	31 December 2012 Carrying value £m	31 December 2012 Market value in existing state £m	30 June 2012 Carrying value £m	30 June 2012 Market value in existing state £m	31 December 2011 Carrying value £m	31 December 2011 Market value in existing state £m
Retained portfolio							
Investment properties	(i)	**4,676 1**	**4,862 5**	4,543 9	4 734 0	4 509 7	4 700 5
Properties under construction	(ii)	**135 8**	**137 5**	94 3	96 0	—	—
Properties held for development	(iii)	**470 0**	**415 0**	468 5	413 5	291 8	293 5
		5,281 9	**5,415 0**	5,106 7	5,243 5	4,801 5	4,994 0
Sold property							
Property under construction at Riverside South	(iv)	**69 6**	**139 7**	67 1	134 9	75 6	133 7
		5,351 5	**5,554 7**	5 173 8	5,378 4	4,877 1	5 127 7

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 2012 was £186 4m (30 June 2012 – £190 1m 31 December 2011 – £190 8m) Market value in existing state is shown prior to these amounts

(ii) Properties held for development at 31 December 2011 included 25 Churchill Place which has been reclassified to Properties under construction following commencement of shell and core works in February 2012 Properties held for development at 31 December 2011 and 30 June 2012 also included Crossrail retail This has been reclassified to Properties under construction following the commencement of construction in the second half of 2012 The carrying value of properties under construction represents market value less an adjustment for deferred lease negotiation costs of £1 7m

(iii) Properties held for development at 31 December 2012 and 30 June 2012 include Wood Wharf subject to a 250 year lease The present value of the ground rents payable under this lease was calculated at £55 0m at inception and at 31 December 2012 (Note 22) The market value in existing state is shown prior to this amount

(iv) The carrying value at 31 December 2012 represents £66 6m of costs transferred to cost of sales (30 June 2012 – £61 1m 31 December 2011 – £61 0m) and £3 0m transferred to payments on account (30 June 2012 – £6 0m 31 December 2011 – £14 6m) Market value in existing state includes the present value of the minimum developer's 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

"The market value of the investment portfolio has increased by 3 4% over the year This was driven by an increase of 2 5% in the office portfolio and a 9 9% increase in the retail portfolio "

David Pritchard, Chairman

Reuters Plaza

Business review continued

Underlying profit before tax

£23.3m

for the year to 31 December 2012 (2011 £4 6m)

Operating results

The following review of the Group's operating results relates to the year ended 31 December 2012 The comparatives relate to the year ended 31 December 2011

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 2012 was £361 6m, against £352 3m for 2011, of which rental income after the adjustments required to spread lease incentives and committal rent increases increased from £250 0m to £259 4m

The impact of spreading lease incentives was to reduce rental income by £4 4m in 2012 compared with £1 3m in 2011 Excluding the accounting adjustments arising from spreading tenant incentives rental income increased from £251 3m in 2011 to £263 8m in 2012, an increase of £12 5m or 5 0% partly attributable to the expiry of rent free periods and partly as a result of increased retail rents

Service charge income increased from £75 2m for 2011 to £79 4m, an increase of £4 2m or 5 6% 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 reduced from £21 6m for 2011 to £16 9m for 2012 During 2012, Canary Wharf Group recognised £0 3m of income in connection with the termination by tenants of certain leases on the Estate (2011 – £0 1m)

Turnover and cost of sales for 2012 also included £5 6m recognised on the construction contract for Riverside South compared with £5 4m in 2011 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)

Cost of sales includes rents payable and property management costs, movements on provisions for certain lease commitments, as well as costs recognised on construction contracts Rents payable and property management costs were £96 1m for 2012 in comparison with £101 1m for 2011 Taking into account service charge and miscellaneous property income totalling £93 3m for 2012 (2011 – £95 6m) a deficit was recorded on property management of £2 8m (2011 – £5 5m) This deficit was attributable to unlet space on which service charges were not recoverable

An increase in provisions of £0 6m before any adjustment for discounting was recognised in 2012 relating to certain rent support commitments and other obligations This compared with an increase of £1 9m in 2011 Cost of sales for 2012 also included £0 9m of dilapidations and other costs attributable to the termination of leases (2011 – £0 1m)

Net development rental and related income for 2012 was £258 4m, an increase of £14 6m compared with 2011 attributable to the factors referred to above

Administrative expenses for 2012 were £38 6m in comparison with £43 6m for 2011 The reduction in administrative expenses was primarily attributable to lower staff costs and a reduction in leasing and professional fees

These reductions were partly offset by increased marketing costs

Underlying operating profit (as defined in Note 4) for 2012 was £222 1m in comparison with £207 4m for 2011 Of the increase of £14 7m, £9 4m was attributable to the increase in recognised rental income and £5 0m to the reduction in administrative expenses

A net revaluation surplus of £215 7m (Note 6) was recognised in the Consolidated Income Statement in the year compared with £63 7m in 2011 The changes in the valuation of the property portfolio are explained in more detail in Business Review – valuations The Group also recognised its share of the revaluation surplus recorded on 20 Fenchurch Street totalling £3 6m for 2012 (2011 – £7 6m) Revaluation movements are classified as a capital and other item

Total operating profit for 2012 was £441 4m compared with £278 7m in 2011 The increase was attributable to revaluation movements, together with the other factors referred to above

Operating results continued

Underlying net financing costs (Note 7) for 2012 were £198 8m against £202 8m for 2011 Underlying net financing costs are stated net of £6 3m of general interest payable which has been capitalised and transferred to Properties under construction in Non current assets This amount formed part of the interest payable on Canary Wharf Group's general borrowings which are deemed to have been utilised in financing the properties under construction Excluding the capitalisation of general interest payable the increase in underlying net interest payable of £2 3m was primarily attributable to a £5 4m finance charge relating to the capitalisation of Wood Wharf ground rent obligations together with interest payable on the loan notes assumed or issued in connection with the acquisition of Wood Wharf These factors were partly offset by scheduled loan amortisation

Movements in the fair value of derivative financial instruments and the finance costs of non equity shares resulted in a net charge of £41 1m being recognised in the Consolidated Income Statement as a Capital and other item in 2012 compared with £288 7m in 2011 The finance cost relating to the non equity shares reduced from £29 4m in 2011 to £27 6m in 2012 as a result of the variation to the terms of the Preference Shares referred to in Note 24

The profit for the year before tax for 2012 was £201 5m in comparison with a loss of £212 8m for 2011 The results for 2012 and 2011 included certain capital and other profits and losses as described above Underlying profit before tax for 2012 was £23 3m (2011 – £4 6m)

Tax for 2012 comprised a corporation tax credit of £7 5m and a deferred tax charge of £25 5m

In 2011 tax comprised a corporation tax charge of £0 1m and a deferred tax credit of £126 8m The deferred tax credit in 2011 was primarily attributable to EZAs claimed in prior periods as disclosed in the Tax section of this Business Review

The profit for the year after tax for 2012 was £183 5m in comparison with a loss of £84 1m for 2011

The basic and diluted earnings per share (Note 4) for 2012 was 15 9p (2011 – losses of 9 0p)

There were no adjustments required in respect of dilutive instruments at either 31 December 2012 or 31 December 2011

Tax

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

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

Share buyback

In 2012 the Company repurchased for cancellation 24 509,820 of its own shares at an aggregate cost including fees of £30 3m The Board has approved a further £10 0m in aggregate to repurchase its own shares subject to certain conditions (Note 24) of which £35 609 has been utilised subsequent to the year end

Adjusted NAV per share

£2.10

at 31 December 2012
(2011 £1 90)

Consolidated balance sheet and key performance indicators

Net assets in the Group's Consolidated balance sheet were £1,774 4m at 31 December 2012 in comparison with £1,729 2m at 30 June 2012 and £1 653 4m at 31 December 2011 The increase in net assets over the year of £121 0m was primarily attributable to the profit after tax for the year of £183 5m which includes valuation movements on the property portfolio and on derivative financial instruments, partly offset by dividends paid by Canary Wharf Group to minority interests of £35 2m and the £30 3m aggregate cost of the Share Buyback

The increase in net assets since 30 June 2012 of £45 2m was attributable to the profit in the second half of the year of £101 2m which included the increase in the valuation of the property portfolio in the second half of £120 3m, partly offset by the aggregate cost of the Share Buyback of £30 3m and the dividend paid to non controlling interests in the period of £27 4m

The Company's objective is to manage its investment in Canary Wharf Group so as to maximise NAV from managing 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 Board's 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 90 at 31 December 2011 to £2 10 at 31 December 2012, an increase of 20p or 10 5% per share In the second half of 2012 adjusted NAV per share increased by 11p per share or 5 5% from £1 99 at 30 June 2012 Of the increase in adjusted NAV 3p can be attributed to the Share Buyback and the remainder of the increase is attributable to the factors noted above (see Note 4)

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

As a result of the Share Buyback the number of Ordinary Shares in issue reduced from 764 9m to 740 4m at a cost of £30 3m Reversing the impact of the Share Buyback on a proforma basis at 31 December 2012 would have resulted in an adjusted NAV attributable to members of the Company of £1 586 8m and an adjusted NNNAV of £1 114 8m On the basis of the pre Share Buyback number of Ordinary Shares of 764 9m, adjusted NAV per share would have been £2 07 and adjusted NNNAV per share £1 46

	Note	**31 December 2012 £m**	30 June 2012 £m	31 December 2011 £m
Adjusted net assets attributable to members of the Company	(i)	**1,556 5**	1 525 3	1 452 1
Fair value adjustment in respect of financial assets and liabilities net of tax thereon	(ii)	**(665 3)**	(515 7)	(476 5)
Deferred tax	(iii)	**(15 1)**	(10 8)	14 3
Non controlling interest in above adjustments		**208 4**	161 3	141 6
Adjusted NNNAV		**1,084 5**	1,160 1	1 131 5
Adjusted NAV per share	(i), (iv)	**£2 10**	£1 99	£1 90
Adjusted NNNAV per share	(iv)	**£1 46**	£1 52	£1 48

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 740 4m Ordinary Shares in issue at 31 December 2012 (30 June 2012 and 31 December 2011 – 764 9m Ordinary Shares)

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) 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

As part of the Company's refinancing in 2009 the Company issued £275 0m of Preference Shares carrying a quarterly coupon of 2 5% payable in arrears On 30 August 2012 the terms of the Preference Shares were amended as explained in Note 21 This served to reduce the coupon payable to 6 76% after hedging Fees totalling £7 2m were incurred on the amendment which have been deferred and will be amortised over the remaining life of the Preference Shares

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 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 A forward starting interest rate swap was entered into in October 2012 at a rate of 1 017%, which fixes the interest rate payable under the loan The fixed rate payable during the construction phase including the 300 bps margin, is 4 02% The termination date under the swap is in December 2016 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 of the building will be capitalised and included as part of the cost of construction The first drawdown under this loan facility was in January 2013

In December 2012 the Group cancelled the interest rate swap relating to the £350 0m loan facility secured against its interests in retail and car parking The interest rate swap was broken at a cost of £29 1m including fees (Note 21(3)) and a new interest rate swap was entered into which served to fix the interest rate payable under the loan at 3 3% compared with 7 2% previously The cost of breaking the interest rate swap compares with a fair value of £36 0m which was included in Derivative financial instruments in Non current liabilities at 31 December 2011

At 31 December 2012, net debt (including derivative financial instruments at fair value net of monetary deposits and cash and cash equivalents) stood at £3,442 3m, an increase of £226 0m from £3,216 3m at 31 December 2011 The components of net debt are shown in Note 21

Total borrowings reduced from £4 216 3m at 31 December 2011 to £4,194 3m primarily as a result of scheduled loan amortisation totalling £74 7m, partly offset by the issue of loan notes in connection with the acquisition of Wood Wharf

The reduction in total borrowings was accompanied by a reduction in cash and cash equivalents from £996 1m to £749 7m The reduction in cash was partly attributable to construction and development expenditure and the investment in associates and joint ventures, including the acquisition of BWB's interest in Wood Wharf In addition Canary Wharf Group paid dividends during the year of £115 1m of which £35 2m was paid to non controlling interests

The Group's weighted average cost of debt for the year was 6 2% (2011 – 6 2%) including credit wraps but excluding the coupon on the Preference Shares The weighted average cost of debt at the year end had reduced to 5 8% as a result of the rates payable on the debt entered into on the acquisition of Wood Wharf and the reduced rate payable on the retail loan facility following breakage of the related interest rate swap The Group borrows at both fixed and floating rates and uses interest rate swaps or caps to modify exposure to interest rate fluctuations Except for certain elements of the debt assumed in connection with the acquisition of Wood Wharf substantially all of the Group's drawn facilities are fixed after taking account of interest rate hedging and cash deposits held as cash collateral

Cash flow

Cash generated from operating activities for 2012 was £242 4m in comparison with £254 0m for 2011 This reduction was primarily attributable to changes in working capital offset by the increase in rental income In 2012, as referred to above, Canary Wharf Group incurred £29 1m on breaking the interest rate swap relating to the £350 0m loan facility secured against Canary Wharf Group's retail and car parking property interests as disclosed in the Borrowings section of this Business Review Net corporation tax refunds of £2 6m were received in 2012 compared with payments of £2 1m in 2011

Cash flows from investing activities resulted in a cash outflow of £118 6m for 2012 compared with £85 9m for 2011 In 2012 the cash outflow included £75 1m of development expenditure and £43 3m invested in associated and joint venture undertakings including payments made to secure 100 0% ownership of Wood Wharf 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

Cash flows from financing activities for 2012 resulted in an outflow of £108 7m compared with £37 2m for 2011 The 2012 cash flows included £74 7m of scheduled loan amortisation £30 3m for the Share Buyback and £35 2m of dividends paid by Canary Wharf Group to its minority shareholders 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

Risks and uncertainties

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 Group's systems of internal control which highlight amongst others, key risks faced by the Group and allocate specific day to day monitoring and control responsibilities as appropriate The current key risks of the consolidated Group include concentration risk cyclical nature of the property market, financing risk and policy and planning risks These risks are outlined in the table below

Risk and description	**Mitigation**
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 Canary Wharf Group is now involved in joint ventures developing 20 Fenchurch Street and the Shell Centre and is also reviewing the current consent for development at Wood Wharf which is likely to appeal to a more diverse range of tenants*
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 and uncertainty in the Eurozone in recent years have 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 variations in property valuations in general	*Fears of an oversupply of available space in the market have been mitigated by the difficulty in securing finance for speculative development leading to reduced supply 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 still 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 ongoing uncertainty in financial markets continues to significantly limit the availability of funding In common with other UK property companies such lack of financing facilities may have an impact on the business of the Group if the lending market remains restricted for the foreseeable future	*The Group borrows at both fixed and floating rates and uses interest rate swaps to modify exposure to interest rate fluctuations After taking account of interest rate hedging all of the Group's main facilities are fixed long term loans* *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 13 0 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 2012 there were £275 0m of Preference Shares in issue The rights attaching to the Preference Shares which were varied during the year are disclosed in Note 24*
Policy and planning risks Changes in governmental policy on planning or tax could limit the ability of the Group to maximise the long term potential of its assets	*All of the Group's assets are currently located within London Appropriate contact is maintained with local and national government and these risks are closely monitored*

Board of directors

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 David 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 John 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 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, non executive board member of the UK Government's Property Advisory Panel member of the Bank of England's Commercial Property Forum, the Investment Property Forum and the Urban Land Institute, and 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
Alexander 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 P 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

Membership of board committees

Audit Committee	Announcement Committee	Executive Committee
John Botts (Chairman)	David Pritchard (Chairman)	David Pritchard (Chairman)
Peter Harned	Alex Midgen	Jonathan Lane
Alex Midgen	Brian Niles	Alex Midgen
		Brian Niles

Directors' report

The directors present their report with the audited consolidated financial statements for 2012

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 the Group which specialises in integrated property development investment and management focusing primarily on the Estate and in more recent years broadening elsewhere in Central London with joint venture projects such as the redevelopment of the Shell Centre and 20 Fenchurch Street

A detailed review of the business of the Group during the year, and of its position at 31 December 2012 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 30

Results and valuations

The results for the year are set out in the Consolidated Income Statement Changes in the market value of land and buildings during 2012 are reviewed in the Business Review – Valuations

Dividends and reserves

New Articles were adopted during the year which resulted in the terms of the Preference Shares being amended The coupon now payable on the Preference Shares has changed from a fixed rate of 10 0% p a (with potential increases from 2014) to 3 month LIBOR plus 7 75% p a The Preference 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 Preference Shares can be found in Note 24 A Preference Dividend of £5 7m was declared on 20 March 2013 for payment on 1 April 2013

The Articles now allow for the payment of dividends on the Ordinary Shares without the consent of the Preference Shareholders, subject to the coupon payable on the Preference Shares being up to date Songbird does not have a dividend policy and payment of a dividend on the Ordinary Shares would be dependent upon a number of considerations including receipt of cash from Canary Wharf Group which also does not have a dividend policy

The profit of £118 8m (2011 – loss £68 1m) attributable to the members of the Company has been transferred to reserves No dividends were declared during the year ended 31 December 2012 other than the dividends in respect of the Preference Shares

Going concern

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

The Group has considerable financial resources and at 31 December 2012 the Group had cash balances totalling £749 7m of which £618 7m was unsecured In addition Canary Wharf Group enjoys the benefit of leases with a weighted average unexpired lease term of 14 2 years assuming the exercise of all break options, and the average maturity of the Group's debt at 31 December 2012 was 13 0 years At 31 December 2012 the occupancy level was 95 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, 78 86% of the issued Ordinary Share capital of the Company was held by the Significant Shareholders, with the remaining 21 14% held publicly All of the Ordinary Shares are listed on AIM

At 31 December 2012, the Company had been notified of the following disclosable interests of 3 0% or more in the Ordinary Shares of the Company

	No of shares	Issued capital %
Qatar Holding[i]	211,746,156	28 60
Glick Shareholders[ii]	191,981,865	25 93
Land Breeze[iii]	116,988,095	15 80
MS Shareholders[iv]	63,155 788	8 53
Third Avenue Management LLC	23,648 133	3 19

Note
(i) Also holds 150 0m Preference Shares
(ii) Investment vehicles and trusts connected with Simon Glick and his family
(iii) A wholly owned subsidiary of CIC Also holds 125 0m Preference Shares
(iv) Comprises various funds managed by Morgan Stanley Real Estate Investing

Directors

The following directors served on the Board throughout the year except as noted

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
David P O'Connor – Appointed 29 March 2012

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 Biographical details for all the directors are provided in Directors Report

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

David P O Connor has a direct interest in 550 000 Ordinary Shares Alex Midgen has a direct interest in 111 000 Ordinary Shares 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 29 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
- make an assessment of the Companys and the Groups 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 to 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 2012 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 nor 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 Company produces annual and interim reports which are sent to each shareholder providing details on the financial and operating performance of the Group Senior members of the Group also met with analysts and shareholders with whom the Board recognises the importance of maintaining clear communication 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

Corporate governance continued

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 also includes 9 non executive directors who are drawn from the sovereign wealth funds and leading investment banks which are shareholders in the Company
- The Board meets at least 4 times a year and has formally adopted a schedule of powers which are reserved to the Board Details of these powers are included in articles 110 and 111 of the Articles and can be found on the Company website,
- 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 regular review and are available on the Company's website
- A formal process has been adopted by the Board to manage directors conflicts of interest, details of which are on the Company's website,
- Independent advisers have been appointed by the Company
- The terms and conditions of appointment of the directors are available for inspection at the Company s registered office and at the annual general meeting,
- 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 The Group's system of internal control is continuously reviewed by management and all risks identified by this process are reviewed and amended as appropriate to reflect the current market conditions and
- A share dealing code has been adopted by the Company and is available on the Company's website

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 and are available on the Company website Membership of each committee is detailed in Shareholder information

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 Company's 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 Audit Committee is chaired by John Botts The auditor is invited to Audit Committee meetings on a regular basis During the year the committee reviewed the interim and annual financial statements, the full and half year valuations and external valuations process, the Group s system of internal control and risk management and also considered the performance of the external auditor and the scope of audit findings Risk assessment and steps taken to mitigate risk are reported quarterly to the committee for oversight and discussion Each individual risk is evaluated and a senior executive within the Group is assigned responsibility for every risk identified by the risk assessment process

The Executive Committee comprises 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 2012 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 is available on the Company website The prescribed process 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 appropriate for the Company to adopt sustainability, environmental and social policies in its own right However the directors are conscious of sustainability environmental and social issues and adhere as appropriate to Canary Wharf Group s sustainability environmental and social policies in this area

Canary Wharf Group is committed to applying sustainability 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 The Group publishes annually a separate Sustainability Report which provides details of performance against a range of specified targets and objectives with third party verification This report together with additional supporting information and Group publications can be downloaded from the Canary Wharf Group website www canarywharf com A summary of the Canary Wharf Group sustainability policies is set out below

Canary Wharf Group has maintained ISO 14001 accreditation since early 2004 with environmental management being an inherent part of construction since 2002 During 2012 no member of the Group incurred any fines or non monetary sanctions for non compliance with any regulation or legislation related to sustainability issues Canary Wharf Group is a member of the UK Green Building Council and the Better Building Partnership Canary Wharf Group targets the reduction of energy water and resource use and the reuse and 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 sustainability 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

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 Group's 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

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

Anti bribery and corruption
The Group is committed to the prevention of bribery and corruption Canary Wharf Group has adopted a detailed anti bribery and corruption policy, details of which can be found in the report and financial statements of Canary Wharf Group This policy has been adopted by the Board

Donations

No political donations or expenditure (as defined by the Act) or charitable donations were made by the Company during 2012

Canary Wharf Group made charitable donations of £473 369 in 2012 (2011 – £448 896), primarily in support of local community initiatives

Political donations (as defined by the Act and which include donations in kind) made by Canary Wharf Group during 2012 comprised £22 100 to the Labour Party £15 350 to the Conservative Party and £18,000 to the Liberal Democrat Party (2011 – £16 557 to the Labour Party £57,367 to the Conservative Party and £13,958 to the Liberal Democrat Party) Canary Wharf Group did not incur any political expenditure (as defined by the Act) in either 2012 or 2011

Auditor and disclosure of information to the 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 appropriate 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 00pm on Wednesday 22 May 2013 at 10 Upper Bank Street Canary Wharf, London E14 5JJ

By order of the Board

John Garwood
Secretary
Songbird Estates plc
Registered number 5043352
21 March 2013

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 2012 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 30 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 2012 and of its profit 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 2012

Mark Beddy (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, UK
21 March 2013

Consolidated income statement
for the year ended 31 December 2012

		2012			2011		
	Note	Underlying* £m	Capital and other £m	Total £m	Underlying £m	Capital and other £m	Total £m
Gross development, rental and related income	5	**361 6**	**–**	**361 6**	352 3	–	352 3
Cost of sales		**(103 2)**	**–**	**(103 2)**	(108 5)	–	(108 5)
Net development, rental and related income	5	**258 4**	**–**	**258 4**	243 8	–	243 8
Share of associates and joint ventures after tax	12	**–**	**3 6**	**3 6**	(0 3)	7 6	7 3
Administrative expenses		**(38 6)**	**–**	**(38 6)**	(43 6)	–	(43 6)
Other income		**2 3**	**–**	**2 3**	7 5	–	7 5
Net revaluation movements	6	**–**	**215 7**	**215 7**	–	63 7	63 7
Operating profit	3	**222 1**	**219 3**	**441.4**	207 4	71 3	278 7
Net financing costs							
– investment revenues	7	**7 5**	**–**	**7.5**	7 9	–	7 9
– financing costs	7	**(206 3)**	**(41 1)**	**(247 4)**	(210 7)	(288 7)	(499 4)
		(198 8)	**(41 1)**	**(239 9)**	(202 8)	(288 7)	(491 5)
Profit/(loss) for the year before tax		**23 3**	**178 2**	**201 5**	4 6	(217 4)	(212 8)
Tax	8			**(18 0)**			128 7
Profit/(loss) for the year after tax	4			**183 5**			(84 1)
Attributable to							
Equity holders of the Company				**118 8**			(68 1)
Non controlling interest				**64 7**			(16 0)
				183 5			(84 1)
Earnings/(losses) per share							
– basic and diluted	4			**15 9p**			(9 0)p

As defined in Notes 1(v) and 4

Consolidated statement of comprehensive income
for the year ended 31 December 2012

	2012 £m	2011 £m
Profit/(loss) after tax	**183 5**	(84 1)
Transferred from equity in respect of cash flow hedges	**6 2**	9 2
Tax on items transferred from equity (including change in tax rate)	**(3 9)**	(4 9)
	2 3	4 3
Total comprehensive income/(loss) for the year	**185 8**	(79 8)
Attributable to		
Equity holders of the Company	**120 4**	(65 1)
Non controlling interest	**65 4**	(14 7)
	185 8	(79 8)

Consolidated statement of changes in equity
for the year ended 31 December 2012

	Share premium £m	Capital redemption reserve £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 2011	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**
Profit for the year after tax	—	—	—	—	—	—	—	183 5	—	**183 5**
Net income recognised	—	—	—	—	—	—	—	183 5	—	**183 5**
Transferred to non controlling interests	—	—	—	—	(0 7)	**(0 7)**	65 4	(64 7)	—	—
Transferred to income										
– cash flow hedges	—	—	—	—	6 2	**6 2**	—	—	—	**6 2**
Tax on transfers	—	—	—	—	(3 9)	**(3 9)**	—	—	—	**(3 9)**
Total comprehensive income and expense for the year	—	—	—	—	1 6	**1 6**	65 4	118 8	—	**185 8**
Shares cancelled on acquisition	—	2 5	—	—	—	**2 5**	—	(30 3)	(2 5)	**(30 3)**
Acquisition of Treasury Shares	—	—	(0 3)	—	—	**(0 3)**	—	—	—	**(0 3)**
Reserve movements in respect of Treasury Shares	—	—	0 6	—	—	**0 6**	—	0 4	—	**1 0**
Dividends paid by subsidiary undertaking	—	—	—	—	—	—	(35 2)	—	—	**(35 2)**
31 December 2012	**1,195 1**	**2 5**	**(15 6)**	**59 5**	**(62 1)**	**1,179 4**	**641 4**	**(120 4)**	**74 0**	**1,774 4**

Description of the nature and purpose of each reserve

The capital redemption reserve comprises the nominal value of 24 509,820 Ordinary Shares cancelled in 2012 under the Share Buyback

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 26

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

for the year ended 31 December 2012

	Note	2012 £m	2011 £m
Assets			
Non current assets			
Investment properties	11	**4,676 1**	4,509 7
Properties under construction	11	**135 8**	–
Development properties	11	**470 0**	291 8
Plant and equipment	11	**0 6**	0 5
		5,282 5	4,802 0
Other non current assets			
Investments	12	**74 6**	112 5
Tenant incentives and other non current assets	14	**188 1**	192 5
Deferred tax	8	**–**	14 3
		5,545 2	5 121 3
Current assets			
Trade and other receivables	13	**45 1**	46 7
Monetary deposits	15	**2 3**	3 9
Cash and cash equivalents	16	**749 7**	996 1
		797 1	1,046 7
Total assets		**6,342 3**	6,168 0
Liabilities			
Current liabilities			
Current portion of long term borrowings	18	**(114 3)**	(93 6)
Corporation tax	17	**(48 0)**	(52 9)
Trade and other payables	17	**(237 0)**	(236 1)
		(399 3)	(382 6)
Non current liabilities			
Borrowings	19	**(3,554 7)**	(3 573 6)
Derivative financial instruments	20	**(525 3)**	(547 1)
Other non current liabilities	22	**(65 9)**	–
Deferred tax liabilities	8	**(15 1)**	–
Provisions	23	**(7 6)**	(9 3)
		(4,168 6)	(4,132 0)
Total liabilities		**(4,567 9)**	(4,514 6)
Net assets		**1,774 4**	1,653 4
Equity			
Share capital	24	**74 0**	76 5
Other reserves		**1,179 4**	1 175 0
Retained earnings		**(120 4)**	(209 3)
Total equity attributable to members of the Company		**1,133 0**	1,042 2
Non controlling interests		**641 4**	611 2
Total equity		**1,774 4**	1,653 4

Approved by the Board and authorised for issue on 21 March 2013 and signed on its behalf by

David Pritchard

David Pritchard
Chairman

Consolidated cash flow statement
for the year ended 31 December 2012

	Note	2012 £m	2011 £m
Net cash flows from operating activities	27	**242 4**	254 0
Interest paid		**(232 3)**	(245 2)
Interest received		**7 1**	7 3
Interest element of finance lease rentals		**—**	(0 2)
Breakage costs		**(29 1)**	—
Financing expenses on new loans		**—**	(4 9)
Expenses on amendments to Preference Shares		**(7 2)**	—
Net cash (outflow)/inflow from operating activities		**(19 1)**	11 0
Cash flows from investing activities			
Acquisition of property interests		**(20 9)**	—
Development expenditure		**(75 1)**	(22 7)
Purchase of property, plant and equipment		**(0 2)**	—
Investment in and net loans to associates		**(22 4)**	(60 9)
Acquisition of shares in Canary Wharf Group plc		**—**	(2 3)
Net cash outflow from investing activities		**(118 6)**	(85 9)
Cash flows from financing activities			
Dividends paid to non controlling interests		**(35 2)**	(13 8)
Redemption of securitised debt		**(57 5)**	(57 5)
Repayment of secured loan		**(8 9)**	(8 5)
Repayment of Wood Wharf loan notes		**(8 3)**	—
Drawdown of secured loan		**—**	92 3
Payment of Wood Wharf deferred consideration		**(1 0)**	—
Share Buyback		**(30 3)**	—
Wood Wharf loan notes		**32 6**	—
Acquisition of own shares		**(0 1)**	(7 3)
Repayment of finance lease obligation		**—**	(42 4)
Net cash outflow from financing activities		**(108 7)**	(37 2)
Net decrease in cash and cash equivalents		**(246 4)**	(112 1)
Cash and cash equivalents at start of year		**996 1**	1,108 2
Cash and cash equivalents at end of year	16	**749 7**	996 1

Notes to the consolidated financial statements

for the year ended 31 December 2012

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 2012 Their adoption has not had any significant impact on the amounts reported in these financial statements but may impact the accounting for future transactions and arrangements

- Amendments to IFRS 7 Financial Instruments Disclosures – (October 2010) Disclosures – Transfers of Financial Assets and
- Amendments to IAS 12, Income Taxes – (December 2010) Deferred Tax Recovery of Underlying Assets

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 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 19 (revised June 2011) Employee Benefits,
- IAS 27 (revised May 2011) Separate Financial Statements
- IAS 28 (revised May 2011) Investments in Associates and Joint Ventures
- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine
- Annual Improvements (May 2012) to IFRSs (2009 – 2011 Cycle),
- Amendments to IFRS 1 First time adoption of IFRSs – (March 2012) Government Loans (December 2010) First time Adoption of IFRSs after a period of Severe Hyperinflation and Removal of Fixed Dates for First time Adopters
- Amendments to IAS 1 Presentation of Financial Statements – (June 2011) Presentation of Items of Other Comprehensive Income,
- Amendments to IAS 32 and IFRS 7 Financial Instruments Disclosures – (December 2011) Offsetting Financial Assets and Financial Liabilities and
- Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 27 (revised May 2011) Separate Financial Statements – (October 2012) Investment Entities

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

Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of these new and amended standards aside from IFRS 11 which is not expected to have any impact on the presentation and disclosure of the Group s financial statements

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 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

1 Basis of preparation and significant accounting policies continued

(a) Basis of consolidation continued
Associated undertakings and joint ventures are accounted for under the equity method whereby the Consolidated Balance Sheet incorporates the Group's 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

1 Basis of preparation and significant accounting policies continued

(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

(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

(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 or around that date

1 Basis of preparation and significant accounting policies continued

(p) Share based payments continued
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 recognised calculated 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

(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

Notes to the consolidated financial statements continued

for the year ended 31 December 2012

1 Basis of preparation and significant accounting policies continued

(t) Derivatives continued

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

1 Basis of preparation and significant accounting policies continued

(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) 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

(ii) IAS 39 and IAS 32 adjustments

The commercial effect of the Group's hedging arrangements is that substantially all of 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

(iii) Refinancing costs and gains

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

2 Critical accounting judgements and key sources of estimation uncertainty

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

(i) 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) 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

(iii) Construction contracts

IFRIC 15 requires the Group's 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

Notes to the consolidated financial statements continued

for the year ended 31 December 2012

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

	2012 £'000	2011 £ 000
The operating profit is stated after charging		
– depreciation (Note 11)	**88**	472
– directors' emoluments (Note 10)	**598**	560

Auditor's remuneration

	2012 £'000	2011 £ 000
Audit of Company	**61**	58
Audit of subsidiaries	**513**	482
Total audit	**574**	540
Audit related assurance services (interim reviews)	**97**	79
Other assurance services (service charge assurance work)	**45**	43
Audit and related assurance services	**716**	662
Tax compliance services	**95**	166
Tax advisory services	**296**	127
Services relating to taxation	**391**	293
Services related to corporate finance transactions not covered above	**—**	45
Other non audit services not covered above	**36**	6
Total other non audit services	**36**	51
Total non audit services	**427**	466
Total fees	**1,143**	1 006
Occupational pension scheme audits	**11**	10

Audit fees

Of the audit fees incurred in 2012, £56 000 related to the audit of the consolidated accounts of Canary Wharf Group (2011 – £53,500)

4 Performance measures

Basic earnings and losses per share

	2012		2011	
	Earnings/ (losses) £m	Per share p	Earnings/ (losses) £m	Per share p
Underlying profit for the year before tax	**23 3**	**3 1**	4 6	0 6
Capital and other items	**178.2**	**23 8**	(217 4)	(28 8)
Tax	**(18 0)**	**(2 4)**	128 7	17 1
Profit/(loss) after tax	**183 5**	**24 5**	(84 1)	(11 1)
Less non controlling interest	**(64 7)**	**(8 6)**	16 0	2 1
Profit/(loss) after tax attributable to members of the Company	**118 8**	**15 9**	(68 1)	(9 0)

Underlying earnings exclude movements on property revaluations movements in the fair value of ineffective hedging instruments and other derivatives interest payable on the Preference Shares and tax

Earnings and losses per share for 2012 has been calculated by reference to the profit attributable to equity shareholders of £118 8m for 2012 (2011 – loss of £68 1m) and on the weighted average of 749 2m Ordinary Shares in issue for 2012 (2011 – 756 1m) The weighted average number of Ordinary Shares excludes the shares held by the Trust

Warrants were issued in 2010 for a total of 2,836,666,668 Ordinary Shares with a strike price of 1 5p These Warrants expired in October 2012 without being exercised

4 Performance measures continued

Adjusted net assets per share

	31 December 2012 £m	30 June 2012 £m	31 December 2011 £m
Balance sheet net assets	**1,774 4**	1,729 2	1,653 4
Adjustment for deferred tax	**15 1**	10 8	(14 3)
Mark to market of derivatives	**525 3**	540 9	547 1
Add surplus arising on construction contracts	**70.1**	67 8	58 1
	2,384 9	2 348 7	2,244 3
Non controlling interest in the balance sheet	**(641 4)**	(633 7)	(611 2)
Non controlling interest on adjustments above	**(187 0)**	(189 7)	(181 0)
Adjusted net assets	**1,556 5**	1,525 3	1 452 1
Adjusted NAV per share	**210p**	199p	190p

Adjusted NAV per share includes the valuation surplus on construction contracts of £70 1m at 31 December 2012 (30 June 2012 – £67 8m, 31 December 2011 – £58 1m) and excludes fair value adjustments on derivatives and deferred tax

There were 740 4m Ordinary Shares in issue at 31 December 2012 (30 June 2012 and 31 December 2011 – 764 9m)

The Share Buyback resulted in the acquisition of 24 5m Ordinary Shares at an aggregate cost of £30 3m Stated before the impact of the Share Buyback adjusted net assets at 31 December 2012 would have been £1,586 8m and the number of shares in issue would have been 764 9m resulting in an adjusted NAV per share of 207p

5 Revenue

	2012 £m	2011 £m
Rent receivable	**263 8**	251 3
Recognised incentives and committed rent increases	**(4 4)**	(1 3)
	259 4	250 0
Service charge income	**79 4**	75 2
Miscellaneous income	**16 9**	21 6
Receivable on termination of leases	**0 3**	0 1
Construction contract revenue	**5 6**	5 4
Gross development, rental and related income	**361 6**	352 3
Service charge and other direct property expenses	**(96 1)**	(101 1)
Movement in accruals and provisions for leasehold commitments	**(0 6)**	(1 9)
Payments on termination of leases	**(0 9)**	(0 1)
Construction contract expenditure	**(5 6)**	(5 4)
Net development, rental and related income	**258 4**	243 8

Rent receivable included contingent rents of £1 6m (2011 – £1 6m)

In 2012, the Group had 2 major tenants contributing £75 2m and £42 7m of Group revenue (2011 – 2 major customers contributing £81 6m and £42 6m)

Notes to the consolidated financial statements continued
for the year ended 31 December 2012

6 Net revaluation movements on property and investments

	2012 £m	2011 £m
Revaluation of		
– investment properties	**147 8**	43 9
– properties under construction	**(15 1)**	–
– development properties	**83 0**	19 8
	215 7	63 7

In accordance with IAS 40 (amended), the revaluation movement on development properties is recognised in the Consolidated Income Statement At 31 December 2012, a cumulative revaluation surplus on development properties of £96 2m has been recognised (31 December 2011 – £13 2m)

The revaluation surplus for development properties of £83 0m recognised in 2012 compared with a surplus of £19 8m in 2011 This movement comprised a surplus of £7 5m for properties where market value is less than historical cost (2011 – £7 3m) and a surplus of £75 5m on properties where market value exceeds historical cost (2011 – £12 5m)

7 Net financing costs

	2012 £m	2011 £m
Interest revenue		
Deposits other loans and securities	**7 5**	7 9
Interest expense		
Notes and debentures	**(139 5)**	(146 3)
Other bank loans and overdrafts	**(67 7)**	(63 4)
Obligations under finance leases	**–**	(1 0)
Obligations under long term property lease	**(5 4)**	–
	(212 6)	(210 7)
Interest at 6 2% transferred to property under construction	**6 3**	–
	(206 3)	(210 7)
Underlying net financing costs	**(198 8)**	(202 8)
Other financing income/(costs)		
Valuation movements on fair value of derivatives	**(7 3)**	(250 1)
Finance costs of non equity shares (Note 21)	**(27 6)**	(29 4)
Hedging reserve recycling	**(6 2)**	(9 2)
	(41 1)	(288 7)
Net financing expenses	**(239 9)**	(491 5)
Total financing income	**7 5**	7 9
Total financing expenses	**(247 4)**	(499 4)
Net financing costs	**(239 9)**	(491 5)

Financing fees included in interest payable totalled £6 4m in 2012 (2011 – £7 1m)

The amount transferred to Properties under construction is attributable to the cost of funds forming part of Canary Wharf Group's general borrowings which were deemed to be utilised in financing the cost of building the properties under construction

In 2012 £6 2m was recycled to the Consolidated Income Statement from the hedging reserve as the corresponding hedged cash flows occurred in the year (2011 – £9 2m)

The valuation movement on fair value of derivatives is stated net of £29 1m paid to break the interest rate swap on the retail loan facility (Note 21 (3))

8 Tax

	2012 £m	2011 £m
Tax charge		
Current tax charge to income	**7 5**	(0 1)
Deferred tax	**(25 5)**	128 8
Group total tax	**(18 0)**	128 7
Tax reconciliation		
Group profit/(loss) on ordinary activities before tax	**201 5**	(212 8)
Tax on (profit)/loss on ordinary activities at UK corporation tax rate of 24 5% (2011 – 26 5%)	**(49 4)**	56 4
Effects of		
Change in tax rate	**(1 3)**	(2 7)
Adjustments in respect of prior years	**7 7**	2 7
Indexation allowances and net effect of restriction or reversal of previously restricted capital losses and indexation allowances	**42 5**	16 8
Release of EZA clawback provision	**–**	72 1
Expenses not deductible for tax purposes	**(7 0)**	(8 2)
Deferred tax assets not recognised on losses	**(0 7)**	(0 4)
Other differences	**(9 8)**	(8 0)
Group total tax	**(18 0)**	128 7

The 2012 tax rate of 24 5% has been calculated by reference to the current corporation tax rate of 24 0% which was in effect for the final 3 quarters of the year and the previous rate of 26 0% which was in effect for the first quarter of the year

The 2011 tax rate of 26 5% was calculated by reference to the 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

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 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

The current year included net corporation tax refunds of £2 6m Taking into account the availability of brought forward tax losses and other reliefs a credit of £7 5m was recognised in the year which served to reduce the accrual for corporation tax payable to £48 0m at 31 December 2012 from £52 9m at 31 December 2011 (Note 17)

Notes to the consolidated financial statements continued

for the year ended 31 December 2012

8 Tax continued

	Losses and tax credits £m	Revaluation deficits £m	Fair value of derivatives £m	Financial instruments £m	Other £m	Total £m
Deferred tax assets						
1 January 2011	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
Credit/(charge) to income	3 5	2 3	(16 2)	(3 0)	0 5	(12 9)
Credit to equity	—	—	0 3	—	—	0 3
31 December 2012	**3 5**	**14 2**	**117 7**	**18 8**	**4 1**	**158 3**

	Potential EZA clawback £m	Revaluation surpluses £m	Fair value of derivatives £m	Financial instruments £m	Other £m	Total £m
Deferred tax liabilities						
1 January 2011	(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)
(Charge)/credit to income	—	(12 6)	4 2	(3 2)	(1 0)	(12 6)
Charge to equity	—	—	(4 2)	—	—	(4 2)
31 December 2012	**—**	**(126 5)**	**—**	**(39 3)**	**(7 6)**	**(173 4)**

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 2011	(109 6)
Credit to income	128 8
Credit to equity	(4 9)
Net asset at 31 December 2011	14 3
Charge to income	(25 5)
Charge to equity	(3 9)
Net liability at 31 December 2012	**(15 1)**

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 £87 6m (31 December 2011 – £94 1m) attributable to unused tax losses have not been recognised as it is not currently considered probable that they will be utilised

Deferred tax has been calculated by reference to a corporation tax rate of 23 0% being the rate of tax at which temporary differences are expected to reverse The Government has also indicated that it intends to enact a reduction in the main tax rate down to 22 0% by 1 April 2014 A future 1 0% main rate reduction is expected, when substantively enacted, to reduce deferred tax liability by £0 7m 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 2012, the weighted average unexpired lease term under non cancellable operating leases for the entire investment property portfolio was 14 2 years (31 December 2011 – 14 9 years)

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

	2012 £m	2011 £m
Within one year	**255 3**	255 2
Between 2 and 5 years	**1,011 3**	995 8
After 5 years	**2,378 5**	2,589 9
	3,645 1	3,840 9

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

	2012 £m	2011 £m
Wages and salaries	**57 7**	56 5
Social security costs	**6 4**	6 1
Other pension costs	**4 4**	4 2
	68 5	66 8

The average monthly number of employees including Canary Wharf Group, during 2012 was 942 (2011 – 926) as set out below

	2012	2011
Construction	**191**	164
Property management	**598**	612
Administration	**153**	150
	942	926

Directors' remuneration

	2012 £'000	2011 £'000
Emoluments paid	**598**	560

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

Highest paid director

	2012 £'000	2011 £'000
David Pritchard	**100**	100

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

10 Directors and employees continued

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
David P O'Connor	38

The fee for David P O Connor has been calculated on a pro rata basis to reflect his appointment to the Board on 29 March 2012

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 4m in the year (2011 – £4 2m) represents contributions payable by Canary Wharf Group to the scheme

11 Investment development and construction properties and plant and equipment

Non current assets and construction contracts at 31 December 2011 comprised

	Investment properties £m	Development properties £m	Construction contracts £m	**Total £m**	Plant and 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

Non current assets and construction contracts at 31 December 2012 comprised

	Investment properties £m	Under construction £m	Development properties £m	Construction contracts £m	**Total £m**	Plant and equipment £m	**Total £m**
Market value at 1 January 2012	4,700 5	–	293 5	–	**4,994 0**		
Adjust for brought forward							
– tenant incentives*	(183 1)	–	–	–	**(183 1)**		
– unamortised lease negotiation costs*	(7 7)	–	(1 7)	–	**(9 4)**		
Carrying value at 1 January 2012	4,509 7	–	291 8	–	**4,801 5**	0 5	**4,802 0**
Additions	18 6	58 8	(6 4)	(6 0)	**65 0**	0 2	**65 2**
Revaluation movement	147 8	(15 1)	83 0	–	**215 7**	–	**215 7**
Transfer	–	85 8	(85 8)	–	**–**	–	**–**
Transfer from investments for Wood Wharf	–	–	132 4	–	**132 4**	–	**132 4**
Transfer to cost of sales	–	–	–	(5 6)	**(5 6)**	–	**(5 6)**
Transfer to payments on account	–	–	–	11 6	**11 6**	–	**11 6**
Capitalised interest	–	6 3	–	–	**6 3**	–	**6 3**
Adjustment for ground rent obligation	–	–	55 0	–	**55 0**	–	**55 0**
Depreciation	–	–	–	–	**–**	(0 1)	**(0 1)**
Carrying value at 31 December 2012	**4,676 1**	**135 8**	**470 0**	**–**	**5,281 9**	**0 6**	**5,282 5**
Adjust for							
– tenant incentives*	178 7	–	–	–	**178 7**		
– unamortised lease negotiation costs*	7 7	1 7	–	–	**9 4**		
– obligations under long term property lease (Note 22)	–	–	(55 0)	–	**(55 0)**		
Market value at 31 December 2012	**4,862 5**	**137 5**	**415 0**	**–**	**5,415 0**		

* Refer to Note 14 for further details

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

Notes to the consolidated financial statements continued

for the year ended 31 December 2012

11 Investment development and construction properties and plant and equipment continued

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 The station will be provided to CLRL for a fixed cost of £350 0m and the construction risk is borne by the Group The anticipated cost to the Group was accounted for when incurred as additions to development properties and allocated to certain development properties, including the Riverside South project on a sq ft basis Canary Wharf Group's contribution will be applied against any Crossrail Section 106 and/or CIL contributions for certain agreed development sites on the Estate which may be required as part of the London Plan

In August 2011 EMA agreed a prelet 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 of the shell and core of the building commenced in February 2012 at which time the building was reclassified as properties under construction at its market value of £80 0m as adjusted for deferred negotiation costs of £1 7m In accordance with Canary Wharf Group's strategy at Canary Wharf the substructure of the building had already been completed

Canary Wharf Group also decided to proceed with the construction of the retail mall of approximately 115,000 sq ft located above the Crossrail station As a result, the market value of this property at 31 December 2011 of £7 5m was transferred to properties under construction

Canary Wharf Group has entered into a £190 0m construction and development loan facility which will be used to fund the construction of 25 Churchill Place (Note 21(5)) The first drawdown under this loan facility occurred in January 2013 and from this date, the finance costs associated with the loan will be capitalised as part of the cost of this building

Prior to drawdown under this facility, Canary Wharf Group funded both properties under construction from its unrestricted cash Interest has been capitalised as part of the cost of the projects from the date construction commenced At 31 December 2012, £6 3m of general interest had been allocated by reference to Canary Wharf Group's weighted average cost of debt and the historical cost of the properties under construction (31 December 2011 – £nil)

There is no capitalised interest in the carrying amount of the development properties at either 31 December 2012 or 31 December 2011 The carrying amount of the properties under construction includes an aggregate total of £6 3m of capitalised interest (31 December 2011 – £nil)

In January 2012, Canary Wharf Group completed its acquisition of BWB's 50 0% interest in the Wood Wharf joint venture The acquisition of the interests in Wood Wharf has been accounted for as an asset acquisition As a result the carrying value of the Wood Wharf interests of £132 4m, comprising the carrying value of Canary Wharf Group's investment in the entities which owned Wood Wharf at 31 December 2011 (accounted for at that date as an investment in associated undertakings) together with the cost of acquiring BWB's 50 0% effective interest has been transferred from Investments (Note 12) to Development properties within Non current assets

In June 2012 Canary Wharf Group acquired a further site integral to the future development of Wood Wharf The consideration paid was £9 5m plus costs of £0 4m

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 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 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

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 2012 The valuations which conform to International Valuation Standards were arrived at by reference to market evidence of transaction prices for similar properties The properties have been valued individually and not as part of a portfolio and no allowance has been made for expenses of realisation or for any tax which might arise The valuations reflect usual deductions in respect of purchaser's costs and in particular, full liability for UK stamp duty as applicable at the valuation date

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

Included in investment properties is an amount of approximately £26 4m (31 December 2011 – £26 8m) in respect of property occupied by Canary Wharf Group which in the opinion of the directors is not material for separate classification

The historical cost of properties held as non current assets was £4,111 5m (31 December 2011 - £3,901 8m) At 31 December 2012 and 31 December 2011, no property was subject to a finance lease obligation

Direct operating expenses arising from investment properties that did not generate rental income in the year totalled £9 7m in 2012 (2011 – £7 5m)

11 Investment development and construction properties and plant and equipment continued

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 2011	37 5
Advances received	11 4
Contract revenue recognised as revenue in the Consolidated Income Statement	(5 4)
Offset from construction contracts	4 4
31 December 2011	47 9
Advances received	4 9
Contract revenue recognised as revenue in the Consolidated Income Statement	(5 6)
Offset from construction contracts	11 6
Gross amount due to customers for contract work at 31 December 2012	**58 8**

Cumulative amounts accounted for as construction contracts are as follows

	£m
Advances received	128 4
Recognised as revenue	(66 6)
Offset from construction contracts	(3 0)
Payments on account (Note 17)	**58 8**

No retentions were held by customers for contract work at either 31 December 2012 or 31 December 2011

12 Investments

The investments balance comprises

	2012 £m	2011 £m
Shares	**0 7**	0 7
Loans	**62 5**	106 4
	63 2	107 1
Fees on acquisition	**0 7**	5 0
Share of post acquisition losses	**(0 1)**	(0 9)
Revaluation of property interests	**11 2**	7 6
Impairment of investment	**(0 4)**	(6 3)
	74 6	112 5

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

Investments comprise

	2012 £m	2011 £m
Associates and joint ventures	**74 4**	112 3
Other investments	**0 2**	0 2
	74 6	112 5

Notes to the consolidated financial statements continued

for the year ended 31 December 2012

12 Investments continued

Associates and joint ventures

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

At 31 December 2012	20 Fenchurch Street £m	Shell Centre £m	Total £m
Initial investment	0 1	—	0 1
Fees	—	0 7	0 7
Loan funding	37 2	25 3	62 5
Recognised share of losses	(0 1)	—	(0 1)
Share of revaluation surplus	11 2	—	11 2
	48 4	**26 0**	**74 4**

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

Details of the Group s associates and joint ventures at 31 December 2012 are as follows

	Date of acquisition	Country of incorporation	Ownership interest %
20 Fenchurch Street	October 2010	UK/Jersey	15 0
Shell Centre	July 2011	UK/Jersey	50 0

In July 2011, Canary Wharf Group entered into a 50 50 joint venture with Qatari Diar to redevelop the Shell Centre The investors are each committed to contributing £150 0m to secure the 5 25 acre site on a 999 year lease The aggregate £300 0m payment for the site is conditional on planning permission being received for the project within 3 years Canary Wharf Group's investment to 31 December 2012 totalled £26 0m (31 December 2011 – £20 2m) including fees of £0 7m (31 December 2011 – £0 7m)

In October 2010 Canary Wharf Group announced that it had entered into a joint venture with Land Securities to develop 20 Fenchurch Street After syndication, Canary Wharf Group has retained a 15 0% equity interest in the joint venture and is acting as sole construction manager and joint development manager The Group's investment was stated at £48 4m at 31 December 2012 (31 December 2011 – £29 4m) representing the initial investment plus associated fees together with subsequent funding less Canary Wharf Group s share of operating losses At 30 September 2012, an external valuation resulted in a cumulative revaluation surplus of £74 5m on the project of which £11 2m is attributable to Canary Wharf Group Including the revaluation of property, at 31 December 2012 the 20 Fenchurch Street entities had assets of £325 3m and liabilities of £2 8m

In April 2005 BWB appointed Canary Wharf Group together with Ballymore, as its partners for the development of Wood Wharf A joint venture 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, Canary Wharf Group subscribed for interest free long term redeemable loan notes to fund the working capital requirements of the joint venture

In December 2011, Canary Wharf Group acquired an additional 25 0% effective interest in the joint venture from Ballymore for a total consideration of £38 0m As a result of the acquisition of Ballymore's interest Canary Wharf Group held a 50 0% interest in the joint venture at 31 December 2011 The investment continued to be accounted for at that date as an investment in an associated undertaking

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

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 As a result of this acquisition the carrying value of the Group's consolidated investment in Wood Wharf has been transferred to Development properties within Non current assets

In conjunction with the acquisition BWB granted a new 250 year lease of the site subject to a ground rent payable 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 (Note 22) The £52 4m consideration payable to BWB comprises an upfront payment of £4 4m and loan notes requiring repayment in 4 annual instalments up to and including 2015 (Note 21(6))

12 Investments continued

Associates and joint ventures continued

The carrying value of the investment in Wood Wharf transferred from Investments can be summarised as

	£m
Carrying value of the Group's investment in Wood Wharf entities at 31 December 2011	62 7
Consideration payable to BWB	52 4
Fees and SDLT	6 7
	121 8
Comprising	
Amount transferred to development properties	132 4
Other net liabilities acquired	(10 6)
	121 8

The Shell Centre entities have a 31 December financial year end and the 20 FSLP entities have a 31 March financial year end The results of 20 FSLP and the Shell Centre entities attributable to Canary Wharf Group have been derived from their latest available management accounts after making any necessary adjustments Canary Wharf Group's share of the profits and losses of its joint ventures and associates is as follows

Summarised profit and loss accounts for 2012	20 Fenchurch Street £m	Shell Centre £m
Administrative expenses	(0 7)	–
Revaluation gain	23 9	–
Profit before and after tax	23 2	–
Group share	**3 6**	**–**

Summarised profit and loss accounts for 2011	Wood Wharf £m	20 Fenchurch Street £m	Shell Centre £m
Other income/(costs)	0 2	(1 0)	–
Revaluation gain	–	50 6	–
Net financing costs	(0 9)	–	–
(Loss)/profit before and after tax	(0 7)	49 6	–
Group share	(0 2)	7 5	–

Summarised balance sheets at 31 December 2012	20 Fenchurch Street £m	Shell Centre £m
Total assets	325 3	52 1
Total liabilities	(2 8)	(1 5)
Net assets	322 5	50 6
Group share	**48 4**	**25 3**

Summarised balance sheets at 31 December 2011	Wood Wharf £m	20 Fenchurch Street £m	Shell Centre £m
Total assets	136 1	196 9	40 4
Total liabilities	(43 9)	(0 9)	(1 4)
Net assets	92 2	196 0	39 0
Group share	46 1	29 4	19 5

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

Notes to the consolidated financial statements continued

for the year ended 31 December 2012

13 Trade and other receivables

	2012 £m	2011 £m
Trade receivables	**10 6**	4 8
Other receivables	**6 4**	20 6
Prepayments and accrued income	**20 9**	17 1
Deferred financing expenses	**7 2**	4 2
Total trade and other receivables	**45 1**	46 7

Financing expenses totalling £7 2m incurred on Canary Wharf Group's construction loan facility have been deferred The first drawdown under this facility occurred in January 2013 as a result of which 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

At 31 December 2012 trade receivables included 2 trade debtors in excess of £1 0m, with an aggregate amount outstanding of £8 9m representing 84 0% of gross trade receivables at that date Both amounts were received in January 2013

Trade receivables more than 61 days past due at 31 December 2012 totalled £1 6m (31 December 2011 – £2 2m) At 31 December 2012 provisions against bad or doubtful trade debts totalled £0 1m (31 December 2011 – £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 2012 or 31 December 2011

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 2011	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**
Recognition of rent during rent free periods	7 8	–	7 8	–	**7 8**
Amortisation	(6 9)	(5 3)	(12 2)	(1 1)	**(13 3)**
Deferred lease negotiation costs	–	–	–	1 1	**1 1**
31 December 2012	**86 7**	**92 0**	**178 7**	**9 4**	**188 1**

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

	2012 £m	2011 £m
Monetary deposits held at bank	**2 3**	3 9

The effective interest rate on monetary deposits was 0 6% (31 December 2011 – 0 6%)

16 Cash and cash equivalents

Cash and cash equivalents comprise

	2012 £m	2011 £m
Unsecured cash	**618 7**	864 8
Collateral for borrowings	**118 5**	116 7
Security for obligations	**12 5**	14 6
	749 7	996 1

Unsecured cash comprises £31 8m held by the Company and its wholly owned subsidiaries and £586 9m held by Canary Wharf Group

The effective interest rate on short term deposits at 31 December 2012 was 0 7% (31 December 2011 – 0 8%) and the deposits had an average maturity of 61 days (31 December 2011 – 45 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

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

	2012 £m	2011 £m
Securitised debt	**70 2**	97 8
Secured loans	**19 0**	18 9
Wood Wharf loan notes	**29 3**	–
	118 5	116 7

Of the cash collateral disclosed above, all of the secured loans balance and £13 9m of the securitised debt balance (31 December 2011 – £14 8m) 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

17 Trade and other payables and corporation tax

	2012 £m	2011 £m
Trade payables	**7 8**	7 5
Tax and social security costs	**7 9**	7 2
Other payables	**10 8**	24 2
Other accruals	**84 7**	67 9
Deferred income	**67 0**	81 4
Payments on account (Note 11)	**58 8**	47 9
Total trade and other payables	**237 0**	236 1
Corporation tax	**48 0**	52 9

Trade and other payables includes £93 1m of financial liabilities at 31 December 2012 (31 December 2011 – £78 9m) 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 12 days (31 December 2011 – 16 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

Notes to the consolidated financial statements continued

for the year ended 31 December 2012

18 Current portion of long term borrowings

The current portion of long term borrowings comprises

	2012 £m	2011 £m
Accrued interest payable	**24 6**	27 1
Repayable within one year		
— securitised debt	**61 3**	57 5
— secured loans	**14 2**	9 0
— financing costs of non equity shares	**6 0**	—
— Wood Wharf loan notes	**8 2**	—
Long term borrowings repayable within one year	**114 3**	93 6

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

19 Borrowings

Non current liability borrowings comprise

	2012 £m	2011 £m
Securitised debt	**2,256 4**	2,322 1
Wood Wharf loan notes	**58 8**	—
Secured loans	**974 9**	983 0
	3,290 1	3,305 1
Preference Shares	**264 6**	270 5
	3,554 7	3 575 6

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 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 2012, the fair value of these derivatives resulted in the recognition of a liability of £525 3m (31 December 2011 – of £547 1m) The Group has no interest rate swaps or collars which qualify for hedge accounting

	2012 £m	2011 £m
Liabilities		
Securitisation	**286 3**	280 2
Other secured loans	**236 7**	266 9
Preference Shares	**2 3**	—
	525 3	547 1

20 Derivative financial instruments continued

Maturity of the Group's financial derivatives

The following tables show undiscounted cash flows in relation to the Group's derivative financial instruments based on the Group's prediction of future movements in interest rates

	Securitised debt £m	Other secured loans £m	**Total derivative liabilities £m**
Within one year	24 3	34 2	**58 5**
In one to 2 years	27 6	36 9	**64 5**
In 2 to 5 years	71 3	77 1	**148 4**
In 5 to 10 years	66 7	61 9	**128 6**
In 10 to 20 years	95 0	70 0	**165 0**
In 20 to 30 years	29 9	10 3	**40 2**
31 December 2011	314 8	290 4	**605 2**

	Securitised debt £m	Other secured loans £m	**Total derivative liabilities £m**
Within one year	29 9	26 4	**56 3**
In one to 2 years	29 3	25 1	**54 4**
In 2 to 5 years	88 4	74 9	**163 3**
In 5 to 10 years	148 3	110 9	**259 2**
In 10 to 20 years	299 8	157 5	**457 3**
In 20 to 30 years	68 1	14 7	**82 8**
31 December 2012	663 8	409 5	**1,073 3**

The impact of changes in interest rates would be on interest receivable since substantially all borrowings are subject to interest rate swaps and all cash deposits are at floating rates However, the Consolidated Income Statement is also impacted by changes in the fair value of derivatives that are not considered effective for accounting purposes A 0 5% higher/(lower) parallel shift in the interest rate curve used to value the derivatives with all other variables held constant, would have increased/(decreased) the Group's net assets for 2012 by £119 3m/(£(130 7)m (2011 – £119 0m/£(130 4)m) by changing the profit or loss for the year by the same amount Other equity reserves would have been unchanged as none of the Group's derivatives qualify for hedge accounting The 0 5% sensitivity has been selected based on the directors' view of a reasonable interest rate curve movement assumption

21 Net debt

	2012 £m	2011 £m
Securitised debt	**2,625 2**	2,682 7
Wood Wharf loan notes	**67 0**	–
Other secured loans	**1,229 2**	1 263 1
	3,921 4	3 945 8
Non equity shares and associated financing costs	**272 9**	270 5
Gross debt	**4,194 3**	4,216 3
Current liabilities	**114 3**	93 6
Non current liabilities		
– borrowings	**3,554 7**	3,575 6
– derivatives included in non current liabilities	**525 3**	547 1
Gross debt	**4,194 3**	4 216 3
Cash and cash equivalents	**(749 7)**	(996 1)
Monetary deposits	**(2 3)**	(3 9)
Net debt	**3,442 3**	3,216 3

As a result of the terms and conditions of the Preference Shares, such shares have been classified as borrowings The terms and conditions of the Preference Shares were amended in the year and further details of the amended terms are disclosed in Note 24 The Consolidated Income Statement includes a charge to profit in respect of the coupon payable calculated at 8 76% per annum after allowing for the related interest rate swap Fees incurred of £7 2m in connection with the amendment to the terms of the Preference Shares have been deferred and will be amortised over the remaining life of the Preference Shares A Preference Dividend of £6 0m (including related swap costs) has been accrued at 31 December 2012 and was paid in January 2013 (31 December 2011 – £nil)

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

	Securitised debt £m	Wood Wharf loan notes £m	Other secured loans £m	Total borrowings £m	Non equity shares £m	Total £m
1 January 2012	2 682 7	–	1 263 1	3,945 8	270 5	**4,216 3**
Secured against Wood Wharf	–	27 7	4 9	32 6	–	**32 6**
On acquisition of BWB's interest in Wood Wharf	–	48 0	–	48 0	–	**48 0**
Effective interest rate adjustment	(2 6)	(0 4)	1 2	(1 8)	(5 9)	**(7 7)**
Accrued finance charges	(3 5)	–	(0 9)	(4 4)	26 3	**21 9**
Repaid in year	(57 5)	(8 3)	(8 9)	(74 7)	(20 3)	**(95 0)**
Movements in fair value of derivatives	6 1	–	(30 2)	(24 1)	2 3	**(21 8)**
31 December 2012	**2,625 2**	**67 0**	**1,229 2**	**3,921 4**	**272 9**	**4,194 3**
Payable within one year or on demand	82 5	8 2	17 6	108 3	6 0	**114 3**
Payable in more than one year	2 256 4	58 8	974 9	3 290 1	264 6	**3,554 7**
Derivatives classified as						
– non current liabilities	286 3	–	236 7	523 0	2 3	**525 3**
	2,625 2	**67.0**	**1,229 2**	**3,921 4**	**272 9**	**4,194 3**

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

21 Net debt continued

(1) At 31 December 2012, the following notes issued by CWF II a subsidiary of Canary Wharf Group, were outstanding

Class	Principal £m	Interest	Repayment
A1	1 037 8	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	183 2	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
	2 347 0		

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% 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 2012 carrying the interest rates stated £1,037 8m of A1 Notes – 6 455% £400 0m of A3 Notes – 5 952% and £183 2m of B Notes – 6 800%

The principal amount of the Notes outstanding at 31 December 2012 was £2 347 0m, or £2,227 3m excluding the Notes repurchased The Notes are secured on certain property interests of Canary Wharf Group and the rental income stream therefrom

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 £262 1m as cash collateral in respect of this obligation The annual fee payable in respect of the arrangement is £2 1m

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 2012 was 14 9 years (31 December 2011 – 15 5 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) Canary Wharf Group has 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 loan is repayable in June 2016

(3) Canary Wharf Group has a £350 0m loan facility secured against Canary Wharf Group's principal retail properties and its car parking interests

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

In December 2012 Canary Wharf Group cancelled the interest rate hedge and paid the negative mark to market of £29 1m A new interest rate swap was then put in place at a rate of 0 5425% which, including the margin of 2 75% has served to reduce the effective interest rate under the loan facility to 3 3% from 7 2% The costs associated with breaking the interest rate swap have been taken to Derivative financial instruments in Non current liabilities

(4) A bank loan comprising an initial principal of £608 8m is secured against One Churchill Place This loan amortises with a balloon payment of £155 0m on maturity in July 2034 The loan carries a hedged interest rate of 5 82% During 2012, £8 9m of loan principal was repaid in accordance with the loan agreement, reducing the principal at 31 December 2012 to £550 7m

Notes to the consolidated financial statements continued

for the year ended 31 December 2012

21 Net debt continued

(5) 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 drawdowns had been made under this facility at 31 December 2012 The margin on the loan is 300 bps over LIBOR from first drawdown to rent commencement, following which the margin may drop to 225 bps subject to the satisfaction of certain interest cover tests A forward starting interest rate swap was entered into in October 2012 at a rate of 1 017% which fixes the interest rate payable under the loan The fixed rate payable during the construction phase including the 300 bps margin is 4 02% The termination date under the swap is in December 2016 Upfront fees of £4 2m were incurred on entering into the facility and a commitment fee of 150 bps p a is payable on the undrawn facility At 31 December 2012 total fees of £7 2m had been incurred which have been deferred and will be amortised over the life of the loan

(6) The consideration for the acquisition of BWB's 50 0% interest in Wood Wharf was £52 4m The £52 4m payment comprised an upfront payment of £4 4m and loan notes with the following repayment profile 30 September 2012 – £8 25m (redeemed) 30 September 2013 – £8 25m, 30 September 2014 – £15 5m and 30 September 2015 – £16 0m Interest is payable on the loan notes at a rate of 6 3% p a

(7) Prior to the acquisition of Wood Wharf the joint venture entities had entered into a non recourse loan facility of £5 2m The loan carries an interest rate of LIBOR plus a margin of 2 5% and the final maturity is in December 2013 Amortisation of £0 3m was paid in the year and the balance owing on the loan at 31 December 2012 was £4 6m

The joint venture entities had also issued discounted loan notes with an outstanding value at 31 December 2012 of £27 5m to fund the acquisition of certain parts of Wood Wharf Interest on the discounted loan notes is payable at 3 month LIBOR plus 1 0% p a from the dates specified and at 31 December 2012 the notes in issue were as follows

	In issue £	Discount £	Nominal value £	Interest trigger date
'A' loan notes	8 659,498	–	8 659 498	6 February 2006
'B' loan notes	7 640,000	–	7 640 000	6 February 2009
'C' loan notes	7,217 290	32 710	7,250,000	6 February 2013
'D' loan notes	3 948,716	582,534	4 531,250	6 February 2016
	27 465,504	615,244	28 080 748	

The loan notes are fully cash collateralised (see Note 16) and are due for repayment 15 years from the date of issue in February 2021 If the holder of the loan notes serves a redemption notice before the repayment date then the loan note repayment date is 12 months from the date of the notice so long as that date does not fall due before the interest trigger date During 2012, £0 8m of the discounted loan notes were redeemed

Maturity profile of borrowings

	Securitised debt £m	Other secured loans £m	Wood Wharf loan notes £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 2 years	172 4	31 7	–	–	**204 1**
In 2 to 5 years	520 6	526 4	–	441 4	**1,488 4**
In 5 to 10 years	832 4	144 9	–	–	**977 3**
In 10 to 20 years	1,375 3	343 8	–	–	**1,719 1**
In 20 to 30 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**

21 Net debt continued

Maturity profile of borrowings continued

	Securitised debt £m	Other secured loans £m	Wood Wharf loan notes £m	Preference Shares £m	**Total £m**
Contractual undiscounted cash flows at 31 December 2012					
Within one year	170 5	33 4	11 0	23 5	**238 4**
In one to 2 years	172 0	381 9	17 7	23 7	**595 3**
In 2 to 5 years	495 5	147 6	18 2	73 8	**735 1**
In 5 to 10 years	744 0	96 0	29 7	314 3	**1,184 0**
In 10 to 20 years	1 219 4	256 2	—	—	**1,475 6**
In 20 to 30 years	928 1	204 2	—	—	**1,132 3**
	3,729 5	**1,119 3**	**76 6**	**435 3**	**5,360 7**
Comprising					
Principal repayments	2 227 2	997 5	67 8	275 0	**3,567 5**
Interest payments	1,502 3	121 8	8 8	160 3	**1,793 2**
	3,729 5	**1,119 3**	**76 6**	**435 3**	**5,360 7**

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 on borrowings at the balance sheet dates were as follows

	2012 %	2011 %
Securitisation	**6 22**	6 22
Other secured loans	**4 79**	6 16
Wood Wharf loan notes	**4 35**	—

Comparison of market values and carrying amount

	2012			2011		
	Market value £m	**Carrying amount £m**	**Difference £m**	Market value £m	Carrying amount £m	Difference £m
Securitisation	**(2,521 2)**	**(2,338 9)**	**(182.3)**	(2,305 5)	(2 402 5)	97 0
Wood Wharf loan notes	**(67 0)**	**(67 0)**	—	—	—	—
Secured loans	**(994 4)**	**(992 5)**	**(1 9)**	(997 8)	(996 2)	(1 6)
Non equity shares	**(270 6)**	**(270 6)**	—	(270 5)	(270 5)	—
	(3,853 2)	**(3,669 0)**	**(184.2)**	(3,573 8)	(3 669 2)	95 4
Other financial liabilities						
— interest rate derivatives	**(525 3)**	**(525 3)**	—	(547 1)	(547 1)	—
Cash and monetary deposits	**752 0**	**752 0**	—	1,000 0	1 000 0	—
Total	**(3,626 5)**	**(3,442 3)**	**(184.2)**	(3,120 9)	(3 216 3)	95 4

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

Notes to the consolidated financial statements continued

for the year ended 31 December 2012

21 Net debt continued

Carrying value of categories of financial instruments

	2012 £m	2011 £m
Financial assets		
Loans and receivables	**777 4**	1,019 9
Available for sale	**0 2**	0 2
	777 6	1 020 1
Assets not classified as financial assets	**5,564 7**	5 147 9
Total assets	**6,342 3**	6 168 0
Financial liabilities		
FVTPL	**(525 3)**	(547 1)
Amortised cost	**(3,769 2)**	(3 757 5)
	(4,294 5)	(4,304 6)
Liabilities not classified as financial liabilities	**(273 4)**	(210 0)
Total liabilities	**(4,567 9)**	(4 514 6)
Net assets	**1,774 4**	1 653 4

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 to generate the desired interest profile and to manage the Group's exposure to interest rate fluctuations The Group's policy is to keep the majority of its borrowings at fixed rates After taking into account interest rate hedging and cash deposits the only borrowings which remain as floating debt comprise certain liabilities taken on as part of the acquisition of Wood Wharf

Liquidity risk

The Group's policy is to ensure continuity of funding and at 31 December 2012 the average maturity of Canary Wharf Group's debt was 13 0 years (31 December 2011 – 13 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

The 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 main facilities are as follows

(i) CWF II securitisation, encompassing 7 investment properties representing 65 6% of the investment property portfolio by value The principal amount outstanding at 31 December 2012 was £2 347 0m or £2,227 3m excluding the repurchased Notes

Maximum LMCTV ratio of 100 0% Based on the valuations at 31 December 2012 the LMCTV ratio at the interest payment date in January 2013 would have been 70 2%

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 £550 7m secured against One Churchill Place, representing 15 8% 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 retail and infrastructure parking properties of Canary Wharf Group representing 15 6% of the investment property portfolio by value

Maximum LTV ratio of 70 0% Based on the valuations at 31 December 2012, the LTV was 46 5%

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

The facility repayment date is 17 December 2014

21 Net debt continued

Financial risks continued
Loan covenants continued

(iv) Loan of £92 3m secured against 50 Bank Street, representing 3 0% 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 2012 the LTV was 63 7%

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

Capital risk
The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns The capital structure of the Group consists of debt cash and cash equivalents and monetary assets, as disclosed elsewhere in this Note and equity including reserves, as disclosed in Note 24 and the Consolidated Statement of Changes in Equity

Credit risk
Credit risk associated with trade receivables is disclosed in Note 13

The Group's 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 Group's maximum exposure to credit risk

Externally imposed capital requirements
The Group is not subject to externally imposed capital requirements

22 Other non current liabilities

	Wood Wharf deferred consideration £m	Wood Wharf ground rent obligation £m	**Total £m**
On acquisition of BWB s interest in Wood Wharf	9 5	55 0	**64 5**
Accrued finance charges	—	5 3	**5 3**
Repaid in period	(1 0)	(2 9)	**(3 9)**
31 December 2012	**8 5**	**57 4**	**65 9**

Prior to Canary Wharf Group's acquisition of Wood Wharf the joint venture entities entered into a put and call option agreement with UBS UK Properties Limited to acquire 2 Harbour Quay on Wood Wharf The consideration ranges from £10 25m to £10 75m depending on the exercise date of the option which is anytime between 25 December 2014 and 25 December 2017 During that time the joint venture entities have the right to acquire the building and UBS have the right, on giving notice, to require the purchase of the building on 25 December 2016 or 25 December 2017

As part of the agreement initial payments of £2 5m have been made and annual payments of £1 0m are required in order to retain the option to purchase If the option is exercised by either party, the initial payments and the subsequent annual payments will be deducted from the consideration At 31 December 2012 the deferred consideration payable to UBS is carried at £8 5m including related fees

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 net present value of the minimum contracted ground rents payable under the terms of the 250 year lease, discounted at the rate inherent in the lease was estimated at £55 0m at the date of inception of the lease

Notes to the consolidated financial statements continued

for the year ended 31 December 2012

23 Provisions

Provisions have been made in respect of the following liabilities

	Other lease commitments £m
1 January 2011	9 8
Utilisation of provision	(2 8)
Unwind of discount	0 4
Change in provision	1 9
31 December 2011	9 3
Utilisation of provision	(3 0)
Unwind of discount	0 6
Change in provision	0 7
31 December 2012	**7 6**

Lease commitments

In connection with the sale of 5 Churchill Place in 2010 Canary Wharf Group 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 3% which was deducted from the profit on disposal of the building At 31 December 2012, the provision totalled £5 5m discounted at 6 2% (31 December 2011 – £7 3m at 6 2%) 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 2012 was £2 0m calculated on the basis of a discount rate of 6 2% (31 December 2011 – £2 0m discounted at 6 2%) This commitment relates to the lease back of certain car parking spaces which will expire in 2028

24 Share capital

Issued share capital comprises

	2012 £m	2011 £m
Equity shares		
– Ordinary Shares	**74 0**	76 5
Shares not classified as equity		
– Preference Shares	**275 0**	275 0
Total	**349 0**	351 5

As at 31 December 2012 a total of 740 404 142 Ordinary Shares compared with 764,913,962 at 31 December 2011 There were 275,000 000 Preference Shares in issue at 31 December 2012 and 31 December 2011

Share Buyback

On 30 August 2012 the Ordinary Shareholders approved a Share Buyback authorisation which provides for a maximum of 5 0% of the issued share capital of the Company to be purchased The authority permits the Company to make on market purchases, at a price not less than the nominal value of 10p per share nor more than the highest of (i) an amount equal to 5 0% above the average market value of an Ordinary Share for the 5 business days immediately preceding the day on which that Ordinary Share is contracted to be purchased, and (ii) the higher of the price of the last independent trade and the highest current independent bid on AIM in each case, exclusive of expenses The Share Buyback authority allows the Company to enter into a buyback contract until the end of the annual general meeting of the Company to be held in 2013 Such a contract may be executed or completed after the Share Buyback authorisation has ceased to have effect

A total of 24 509,820 Ordinary Shares were acquired at an average cost of 122p per share and subsequently cancelled prior to 31 December 2012 under the terms of the buyback authority representing 3 2% of the Ordinary Shares prior to the buyback The aggregate cost of the Share Buyback, including fees was £30 3m

In December 2012 the Board authorised a further £10 0m aggregate spend on the Share Buyback As at 21 March 2013 an additional 29 526 Ordinary Shares had been acquired at an aggregate cost of £35,609 including fees

24 Share capital continued

Share Buyback continued
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,
- 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, and
- there is no right of redemption attaching to the Ordinary Shares

Dividends on the Ordinary Shares may be paid without the consent of the Preference Shareholders provided that the Look Through LTV is below 75% following payment and all dividends on the Preference Shares have both become payable and been paid up to the most recent dividend payment date

Preference Shares
On 30 August 2012 the Ordinary Shareholders approved the acceptance of amendments to the terms of the Preference Shares In summary, this agreement reached with the Preference Shareholders improves the overall financial position of the Company The principal amendments can be summarised as follows

- dividends on the Ordinary Shares may be paid without the consent of the holders of the Preference Shares provided that
  - the Look Through LTV is below 75 0% following payment and
  - all dividends on the Preference Shares have both become payable and been paid up to the most recent dividend payment date,
- a change to the coupon the Preference Shares from a fixed rate of 10 0% p a payable quarterly to 3 month LIBOR plus 7 75% p a payable quarterly
- any Preference Shares in issue will be redeemed by 30 August 2017 The Company may delay redemption for a further one or 2 years from the redemption date in consideration of an annual payment to holders of the Preference Shares of an amount equal to 0 5% of the nominal amount of the Preference Shares held by them In order to delay redemption for 2 years the Company must elect to delay redemption for one year and make a subsequent election to delay for a second year,
- removing the ability of the holders of the Preference Shares to require redemption of the Preference Shares such that they are not able to do so prior to the redemption date
- amending the Company s ability to redeem the Preference Shares so that any such redemption may take place only after February 2015, and
- a change to the premium payable on redemption of the Preference Shares prior to the redemption date so that it will be 2 0% of the nominal value of the Preference Shares if redemption occurs within 3 years of the adoption date and £nil thereafter

Hedging
Also on 30 August 2012, the Company entered into an interest rate swap which serves to fix the 3 month LIBOR element of the Preference Share coupon at 1 01% until August 2017 Including the margin of 7 75%, the coupon on the Preference Shares is now fixed at 8 76%

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 Warrants were exercisable at any time in the 3 year period following 19 October 2009 The Warrants expired without being exercised in October 2012

25 Dividends

During the year ended 31 December 2012 Preference Dividends totalling £20 3m including related swap costs where applicable were paid and a further £0 0m including related swap costs was accrued In 2011, Preference Dividends totalling £35 0m were paid

26 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

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

During the course of 2011 a total of 1 757,500 shares were transferred directly to recipients, sold on the open market or released within the Trust through the cash equivalent option, leaving 407,500 shares vested but unexercised at 31 December 2011 A further 1,350 000 shares were allocated in 2012 to certain directors and senior employees Of these shares 450 000 became available to be released to the beneficiaries of this allocation on 30 June 2012 and the remaining 900,000 shares may be released in 2 equal tranches on 30 June 2013 and 30 June 2014

During 2012, 32 500 shares which were allocated in 2011 and 375,000 shares which were allocated in 2012, were released to employees at a weighted average price of £1 13 per share, of which Canary Wharf Group offered a cash equivalent for 257 150 shares which were released back to the Trust

The cost to the Group of the 2012 share allocation has been calculated by reference to the market value of Songbird Shares at the grant date of £1 11 per share The cost of the allocation attributable to 2012, totalling £1 0m has been charged to the same expense category as the employment costs of the relevant employee, taken to the Consolidated Income Statement and classified within administrative expenses

At 31 December 2012 the Trust held 12,175,516 Songbird Shares including 1,350,000 Songbird Shares which have been allocated to employees but not yet released

27 Notes to the cash flow statement

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

	2012 £m	2011 £m
Profit/(loss) on ordinary activities before tax	**201 5**	(212 8)
Non cash movements		
Net valuation movements on properties	**(215 7)**	(63 7)
Share of profit after tax of associates	**(3 6)**	(7 4)
Adjustment for share allocation	**1 0**	2 3
Spreading of tenant incentives, committed rent increases and letting fees	**4 4**	0 5
Depreciation	**0 1**	0 5
	(213 8)	(67 8)
	(12 3)	(280 6)
Changes to working capital and other cash movements		
Net financing costs	**239 9**	491 5
Utilisation of and other movements in provisions	**(2 4)**	(1 4)
(Decrease)/increase in receivables	**(30 4)**	23 3
Increase in payables	**45 7**	16 6
Proceeds from construction contracts	**4 9**	11 4
Construction contract expenditure	**(5 6)**	(4 7)
Cash generated from operations	**239 8**	256 1
Income tax refunded/(paid)	**2 6**	(2 1)
Net cash from operating activities	**242 4**	254 0

28 Contingent liabilities and financial commitments

At 31 December 2012 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 2012 given fixed first ranking charges over cash deposits totalling £120 8m (31 December 2011 – £116 7m)

As security for the issue of up to £2 347 0m 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 CWFII

Commitments of Canary Wharf Group for future expenditure

	2012 £m	2011 £m
Joint ventures	**45 6**	56 3
Other construction projects	**244 7**	275 7
	290 3	332 0

Of this commitment for future expenditure £15 7m related to investment properties (31 December 2011 – £47 5m)

The commitments for future expenditure relate to work on development projects where construction was committed at 31 December 2012 Any costs accrued or provided for in the Consolidated Balance Sheet at 31 December 2012 have been excluded

Canary Wharf Group has assessed that its funding commitments in relation to Crossrail have been satisfied However, there remains a contingent liability in the event the total cost of the station exceeds the original total anticipated cost of £500 0m

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 prelet or other agreement Offsetting this potential liability Canary Wharf Group benefits from warranties from the trade contractors and suppliers who worked on such buildings

Sublet commitments

Under the terms of certain agreements for lease Canary Wharf Group has committed to take back certain space on the basis of short term sub leases at the end of which the space reverts to the relevant tenants This space has been securitised but insofar as the securitisation is concerned, the tenants are contracted to pay rent on the entire amount of space leased whilst taking the covenant of Canary Wharf Group's subsidiaries on the sublet space The existence of the sublet commitments has been taken into account in arriving at the market valuation of the Group s properties at 31 December 2012

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

Property	Leaseholder	Original sublet sq ft	Relet sq ft	Net rent £m	Rent review date	Rent review basis	Term commencement	Expiry or first break
10 Upper Bank Street	Clifford Chance	52,100	52 100	0 47	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 08	N/A	OMR	Mar 2003	Mar 2013
40 Bank Street	Barclays	38 200	–	1 68	N/A	OMR	Nov 2009	Dec 2017
40 Bank Street	Barclays	76,400	38 200	2 64	N/A	OMR	Oct 2010	Dec 2017
One Canada Square	Mirror Group	26 200	–	1 00	Jun 2013	OMR	May 2009	Jun 2018
One Canada Square	KPMG	28 600	28 600	0 23	N/A	OMR	Jun 2010	Dec 2016
Total		**504,100**	**401,500**	**6 78**				

29 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 2012, £393,200 plus VAT was charged to the Company for the provision of services in 2011 which was paid in April 2012 and £431,500 plus VAT has been accrued at 31 December 2012

During 2012, Canary Wharf Group billed HsO, a company in which it holds an equity investment equivalent to approximately 13 0% of the issued share capital £35,703 plus VAT for access to the Estate s telecommunications infrastructure At 31 December 2012 the outstanding amount was £4 105 inclusive of VAT

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 2012, each of the Syndication Partners had subscribed £28 8m and Canary Wharf Group had subscribed £37 1m In 2012 Canary Wharf Group billed £2 279 027 plus VAT for construction and development management services to 20 FSLP In addition, Canary Wharf Group billed £9 381,823 plus VAT for costs which were reimbursable by 20 FSLP At 31 December 2012 the amount outstanding was £1,236 240 inclusive of VAT which was received in January 2013

In July 2011, Canary Wharf Group entered into a 50 50 joint venture with Qatari Diar to develop the Shell Centre At 31 December 2012 each partner had subscribed £25 4m Canary Wharf Group has billed £1 695,446 plus VAT for development management and administrative services Canary Wharf Group also billed £99 666 plus VAT for costs which were reimbursable by the joint venture In addition a total of £96 250 was accrued for these services At 31 December 2012, £293,625 including VAT was outstanding of which £143,625 has been received since the year end

30 Events after the balance sheet date

On 1 March 2013 Canary Wharf Group announced it had acquired long leasehold interests in 7 Westferry Circus, a 179 800 sq ft building on the Estate, for a consideration of £46 6m

In December 2012 the Board authorised a further £10 0m aggregate spend on the Share Buyback As at 21 March 2013 an additional 29,526 Ordinary Shares had been acquired at an aggregate cost of £35 609 including fees

Company balance sheet
at 31 December 2012

	Note	2012 £m	2011 £m
Fixed assets			
Investments	(c)	**2,316 3**	2,204 0
Current assets			
Debtors due in less than one year	(d)	**8 3**	8 4
Cash at bank and in hand	(e)	**10 3**	2 8
		18 6	11 2
Creditors amounts falling due within one year	(f)	**(407 3)**	(400 3)
Net current liabilities		**(388 7)**	(389 1)
Total assets less current liabilities		**1,927 6**	1,814 9
Creditors amounts falling due after more than one year	(g)	**(264 6)**	(270 5)
Net assets		**1,663 0**	1 544 4
Capital and reserves			
Called up share capital	(h)	**74 0**	76 5
Reserves			
– share premium	(i)	**1,195 1**	1,195 1
– profit and loss account	(i)	**11 7**	5 4
– other reserves	(i)	**382 2**	267 4
Shareholders' funds	(j)	**1,663 0**	1 544 4

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

Approved by the Board on 21 March 2013 and signed on its behalf by

David Pritchard
Chairman

Notes to the company financial statements

for the year ended 31 December 2012

(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 by reference to the terms of the Preference Shares which are disclosed in Note 24

(b) Profit for the financial year

The profit recorded by the Company in 2012 was £148 9m including the release of an impairment provision against the investment in SFL of £112 3m (2011 – loss of £104 7m including impairment provision increase of £95 9m) Dividends totalling £67 0m were received from SFL in the year (2011 – £23 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

A complete list of the subsidiary undertakings of Canary Wharf Group 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 2012		2 361 2
Provision for impairment at 1 January 2012	(157 2)	
Release of provision in year	112 3	
		(44 9)
Net book value at 31 December 2012		**2,316 3**
Net book value at 31 December 2011		2,204 0

(d) Debtors

	2012 £m	2011 £m
Due within one year		
Amounts owed by subsidiary undertakings	**8 3**	8 3
Prepayments and accrued income	**—**	0 1
	8 3	8 4

(e) Financial assets

The Company's financial assets comprise short term cash deposits Cash deposits totalled £10 3m at 31 December 2012 (31 December 2011 – £2 8m) comprising deposits placed on deposit at call and term rates

(f) Creditors amounts falling due within one year

	2012 £m	2011 £m
Amounts owed to subsidiary undertakings	**398 2**	398 2
Accruals	**3 1**	2 1
Financing costs of non equity share capital	**6 0**	—
	407 3	400 3

The Company had no purchases outstanding at either 31 December 2012 or 31 December 2011

Financing costs of non equity share capital at 31 December 2012 comprised the accrued coupon payable under the terms of the Preference Shares and the related interest rate swap payments These amounts were paid in January 2013

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

	2012 £m	2011 £m
Non equity share capital		
Preference Shares	**264 6**	270 5

As a result of the terms and conditions of the Preference Shares such shares have been classified as borrowings The profit and loss account includes a charge in respect of the coupon payable calculated by reference to the terms and conditions, a summary of which is disclosed in Note 24

(h) Share capital

At 31 December 2011 a total of 764,913,962 Ordinary Shares were in issue During 2012, a total of 24,509 820 Ordinary Shares were acquired and cancelled under the terms of the Share Buyback At 31 December 2012 a total of 740 404 142 Ordinary Shares were in issue Details of the Share Buyback and the rights attaching to each class of shares as at 31 December 2012 are set out in Note 24

Notes to the company financial statements continued

for the year ended 31 December 2012

(i) Reserves

	Share premium account £m	Cancelled share reserve £m	Capital redemption reserve	Other reserves £m	Profit and loss account £m	Total £m
1 January 2012	1 195 1	59 5	—	207 9	5 4	1 467 9
Profit for the year	—	—	—	—	148 9	148 9
Transfer of movements in impairment	—	—	—	112 3	(112 3)	—
Share Buyback	—	—	2 5	—	(30 3)	(27 8)
31 December 2012	**1,195 1**	**59 5**	**2 5**	**320 2**	**11 7**	**1,589 0**

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 2012	1 544 4
Profit for the year excluding impairment release	36 6
Movement in impairment	112 3
Share Buyback adjustment	(30 3)
31 December 2012	**1,663 0**

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 2012 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 2012
- 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 2012

Mark Beddy (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, UK
21 March 2013

Shareholders' information

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 plc
25 Bank Street
Canary Wharf
London E14 5JP

Financial PR Consultant
Brunswick Group LLP
16 Lincoln's Inn Fields
London EC2V 7JD

Solicitors
Slaughter and May
One Bunhill Row
London EC1Y 8YY

Definitions

Defined term	Definition
20 Fenchurch Street	A 690,000 sq ft building under construction in the City of London
20 FSLP	20 Fenchurch Street Limited Partnership
Act	The Companies Act 2006
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
Board	Board of directors of the Company
bps	Basis points
BWB	British Waterways Board (now the Canal and River Trust)
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
CIL	Community Infrastructure Levy
CLRL	Cross London Rail Links Limited
Company	Songbird Estates plc
Cushman	Cushman & Wakefield, Real Estate Consultants
CWF II	Canary Wharf Finance II plc
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 17	International Accounting Standard 17 Leases
IAS 32	International Accounting Standard 32 Financial Instruments Presentation
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
Lloyds	Lloyds Banking Group
LMCTV	Loan Minus Cash to Value
London Plan	Mayor of London Planning document published by the Greater London Authority

Definitions continued

Defined term	Definition
LTV	Loan to Value
m	Million
Midtown	Area of Central London between the City and the West End
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 Group's 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
Preference 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
Savills	Savills Commercial Limited Chartered Surveyors
SDLT	Stamp Duty Land Tax
Section 106	Section 106 of the Town and Country Planning Act 1990
SFL	Songbird Finance Limited
Share Buyback	The repurchase for cancellation of Songbird Shares
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
Songbird Shares	Ordinary Shares of the Company
sq ft	Square foot/square feet
Syndication Partners	Entities relating to Canary Wharf Group, Chengdong Investment Corporation, Morgan Stanley and Qatar Holding
TMT	Technology Media Telecommunications
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 site adjacent to the Estate

Our history

2013

On 4 January 2013, the Board announced that it had approved a further £10 0m in aggregate to repurchase its own shares (subject to certain conditions) of which £35,609 has been utilised

2012

On 12 October 2012, the Board announced that following receipt of a dividend from Canary Wharf Group, it would start a non-discretionary buyback programme with its broker, J P Morgan Cazenove, to purchase on the Company's behalf and within certain pre set parameters, its Ordinary Shares up to an aggregate cost of £30 0m The Buyback Programme initially ran from 12 October 2012 and ended on 26 October 2012 In that time, the Company repurchased and cancelled 4,803,677 Ordinary Shares A second phase of the buyback programme ran from 1 November 2012 to 27 November 2012 during which time a further 19 706,143 Ordinary Shares were repurchased The programme was extended on 4 January 2013 and concluded on 4 April 2013

On 31 August 2012, the Company amended the terms of its Preference Shares in order to reduce the short term finance risk thereby securing long term stable financing until at least 2017 The amendments allow (subject to certain conditions), the payment of dividends on the Ordinary Shares without the consent of preference shareholders and gives more control over the timing of the redemption by removing the preference shareholders' early redemption option The changes also lower the coupon payable on the Preference Shares from a fixed rate of 10 0% p a (with potential increases to 13 0% in 2014 and 15 0% in 2015), to 3 month LIBOR plus 7 75% p a (hedged at an all in rate of 8 76%)

2011

On 22 July 2011, the Company completed an agreement to acquire a further 741,387 ordinary shares in Canary Wharf Group which has increased the interest of the Company in the issued share capital of Canary Wharf Group to 69 37%

2010

On 23 September 2010, a £140 0m Open Offer was announced by the Company The Open Offer resulted in the issue of 109,375,000 Ordinary Shares which were listed on AIM The proceeds of the Open Offer were used to repurchase the £135 0m facility which comprised part of the Company's £1 03 billion capital raising and share capital reorganisation which concluded in October 2009

2009

The 2009 capital raising resulted in a more streamlined financial and corporate structure for the Company The issued ordinary share capital of the Company was changed to comprise one class of ordinary shares of 10 pence each, carrying one vote per share, which are all listed on AIM Following the 2009 Capital Raising, the majority shareholders of the Company comprise Qatar Holding, Glick Shareholders, Fullbloom Investment Corporation (a wholly owned subsidiary of CIC) and Morgan Stanley

In addition, there is £275 0m of £1 00 non convertible/non voting preference shares in issue which are held by 2 of the majority shareholders

On 20 October 2009, the Company completed an agreement to acquire a further 54,007,620 ordinary shares in Canary Wharf Group which increased the interest of the Company in the issued share capital of Canary Wharf Group to 69 25%

2007

In February 2007, the Company completed a share capital restructuring removing all past and future D share dividend liabilities in consideration for the issue of 14,478,260 B shares to British Land (Joint Ventures) Limited, the D shareholder

2004

The offer for Canary Wharf Group was declared wholly unconditional on 21 May 2004 and closed on 15 July 2004 at which time the Company, together with Songbird Acquisition Limited, held 66 32% of the issued share capital of Canary Wharf Group The Company was subsequently admitted onto AIM

Top to bottom London Docklands in 1987 facing west Canary Wharf in 2012 CGI image of Crossrail the 115,000 sq ft retail and leisure space over the new Crossrail station that is currently under development

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