Songbird Estates plc
2013 Report and Financial Statements

Registered number: 5043352

Songbird Estates plc

Songbird Estates plc is a company limited by shares and incorporated in England and Wales. The principal activity of the Company is the management of its investment in its main operating subsidiary, Canary Wharf Group plc.

Contents

Find more online at
www.songbirdestates.com

Highlights

Significant increase in NAV

- Net assets £2,660.6m at 31 December 2013, an increase of £886.2m or 49.9% from £1,774.4m at 31 December 2012, and an increase of £650.0m or 32.3% from £2,010.6m at 30 June 2013.
- Adjusted NAV per share £2.90 compared with £2.10 at 31 December 2012, an increase of 38.1%, and £2.23 at 30 June 2013, an increase of 30.0%.
- Adjusted NNNAV per share £2.36 compared with £1.46 at 31 December 2012, an increase of 61.6%, and £1.73 at 30 June 2013, an increase of 36.4%.
- Underlying profit before tax £22.4m (2012 - £23.3m).
- Profit before tax £1,036.7m (2012 - £201.5m).
- Profit after tax £900.8m (2012 - £183.5m).

Strong growth in portfolio valuation

- Portfolio valuation up 14.9% to £6,571.5m over year and 9.7% in second half, including land and adjusting for property acquisitions and other capital expenditure.
- Market value of total investment portfolio up 9.6% over year and 7.1% in the second half.
- Office benchmark initial yield reduced by 25 bps to 4.75%.
- Office investment portfolio valuation up 8.6% over year, adjusting for acquisitions, and 6.9% in the second half.
- Retail investment portfolio valuation up 14.7% in year and 8.2% in second half.

Secure income stream

- Weighted average lease term 14.5 years, or 12.9 years assuming exercise of all break options.
- Lettings at Canary Wharf of approximately 132,000 sq ft in the year.
- Subsequent to year end, prelet of 207,000 sq ft to EY in 25 Churchill Place at a rent of £48.50 psf.

Note:
For further information on the above, refer to the Strategic report.

Secure financial position provides foundation for the Group's strategy

- Average loan maturity of 11.6 years supported by weighted average lease term.
- Look through LTV reduced from 65.5% at 31 December 2012 to 56.3% at 31 December 2013.

Development pipeline progressing well

- **25 Churchill Place** - construction continues on schedule and within budget.
- **Canary Wharf Crossrail station** - on schedule and within budget. Construction continues on 115,000 sq ft of leisure and retail space above the station opening on a phased basis between 2015 and 2018.
- **Retail expansion** - 44,000 sq ft extension of Jubilee Place mall opened in November 2013.
- **Joint ventures:**
  - 20 Fenchurch Street - 87.0% let or in solicitors' hands.
  - Shell Centre - planning inquiry concluded and result awaited.

Active management of the investment portfolio

- **Level39** - Europe's largest Fintech accelerator space for technology opened in March 2013.
- **Level 42** - floor in One Canada Square converted to accommodate high growth companies.
- **7 Westferry Circus** - 177,700 sq ft building on the Estate acquired in March 2013 for £46.6m.
- **15 Westferry Circus** - 171,000 sq ft building on the Estate acquired in July 2013, funded by a £128.0m loan and related swap.
- **Refurbishment of One Canada Square** - completed at cost of £34.0m.

Adjusted net assets up 49.9% to

£2,660.6m

(2012 - £1,774.4m)

Adjusted NAV per share up 38.1% to

£2.90

(2012 - £2.10)

Adjusted NNNAV per share up 61.6% to

£2.36

(2012 - £1.46)

Profit before tax

£1,036.7m

(2012 - £201.5m)

Results in brief

	Note	2013 £m	2012 £m
Rental income	(i)	274.3	263.8
Refurbishment costs	(ii)	(6.0)	–
Underlying operating profit	(ii)	215.9	222.1
Capital and other items:			
– revaluation of investments in associates	(iii)	10.3	3.6
– net revaluation movements	(iv)	855.9	215.7
– movement on derivatives net of Preference Shares expense	(v)	148.1	(41.1)
Underlying profit before tax	(ii), (vi)	22.4	23.3
Profit on ordinary activities before tax	(ii)	1,036.7	201.5
Tax (including deferred tax)	(vii)	(135.9)	(18.0)
Profit after tax	(ii)	900.8	183.5
Basic and diluted earnings per share	(vi)	84.8p	15.9p

Note:
(i) See Note 5.
(ii) See 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

"The strong underlying operational performance of the main operating company, Canary Wharf Group plc, and improving market conditions, resulted in a sharp rise in the valuation of the investment and development portfolio."

David Pritchard
Chairman

Introduction

In 2013, the strong underlying operational performance of the main operating company, Canary Wharf Group plc, and improving market conditions resulted in a sharp rise in the valuation of the investment and development portfolio. This rise reflected a robust leasing performance across the Group's office and retail space and an impact from the strategic decision to pursue residential development. There has also been strong demand for investment stock and development sites leading to yield compression. Occupancy in the Group's portfolio increased to around 97.0% which is the highest level since the beginning of the financial crisis. Leasing strength has been reflected beyond the Group's portfolio across the whole Canary Wharf Estate which is home to an increasing mixture of high quality tenants.

As part of a continuing drive to diversify the Group's portfolio and give the business increased flexibility and strength, significant steps have been taken to bring major projects in our large London pipeline closer to fruition. Evidence of progress can be seen in the resolution to grant planning permission for the 58 storey Newfoundland building which will be the first exclusively residential building on the Estate.

Immediately to the east of the Estate, Canary Wharf Group has submitted a planning application for a 4.9m sq ft development comprising office, residential and retail buildings. This exciting new district will also contain a park and a wide range of leisure facilities, further strengthening the already diverse offering at Canary Wharf. Meanwhile, Canary Wharf Group has also been developing plans for residential space at the Shell Centre on the South Bank. Initial approval was granted for this 1.4 m sq ft development of 2 office and 6 residential buildings from Lambeth Council and the Greater London Authority, but this decision has since been called in by the Secretary of State and, following an extensive planning inquiry, we are awaiting the outcome of this process.

The Board is confident about the immediate prospects for the London real estate market. The Group's development pipeline is well positioned to take advantage of increasing demand and the prospect of a shortfall in supply of both prime commercial and residential space. As a reflection of this confidence, the Group is starting enabling works for a new building of up to 700,000 sq ft on the eastern section of the Heron Quays West site. Following the major strategic decision to extend the Group's traditional commercial and retail expertise to residential development, the Group will now also be establishing a residential portfolio containing homes for both sale and rent.

Financial review

The Group has had a highly successful year and the financial highlights are set out below.

Adjusted NAV up 38.1% year on year

Adjusted NAV per share was £2.90 at 31 December 2013, compared with £2.10 at 31 December 2012, an increase of 80p or 38.1%. The increase in the second half of the year was 67p or 30.0%, from £2.23 at 30 June 2013.

Market value of investment portfolio up 9.6% to £5,515.0m

The market value of the investment portfolio increased by 9.6% over the year, excluding acquisitions, driven by an increase of 8.6% in the office portfolio and 14.7% in the retail portfolio. Yields on fully let office properties hardened in the second half of the year by approximately 25 bps and this, combined with strong leasing activity in the period, translated into a second half increase in valuation for the office portfolio of 6.9%. The retail portfolio increased in value by 8.2% in the second half as a combined result of a 15 bps reduction in yields, rental growth and the opening of the Jubilee Place mall extension.

Chairman's operational review continued

Market value of total portfolio up 14.9% to £6,571.5m
Including development sites, the market value of the total portfolio increased by 14.9% in the year and 9.7% in the second half. This reflected the progress achieved in bringing forward for development key sites such as Newfoundland and Wood Wharf. The development portfolio also benefited from the demand for sites capable of accommodating residential development.

Financial position
At 31 December 2013, the Group had unsecured cash deposits of £456.3m and, excluding the Preference Shares, the weighted average cost of debt was 5.7%. At a corporate level, the Group's look through LTV ratio was 56.3%, down from 65.5% at the previous year end. The weighted average maturity of Canary Wharf Group's borrowing facilities was 11.6 years, which compares with a weighted average unexpired lease term of 12.9 years assuming exercise of all break options. This term has increased since year end by 0.7 years following completion of the lease to EY.

Underlying profit before tax for the year ended 31 December 2013 was £22.4m in comparison with £23.3m for 2012. Including capital and other items, profit after tax for 2013 was £900.8m in comparison with £183.5m in 2012.

At Canary Wharf

Letting performance
Canary Wharf Group's commercial and retail leasing activity gathered real momentum over the year. This continued into 2014 when EY signed an agreement for 207,000 sq ft at 25 Churchill Place, the final building to be completed in Canary Wharf Group's original masterplan of Canary Wharf. Under this prelet, EY is taking a 25 year lease at a rent of £48.50 psf. In February 2014, EMA also agreed to take a further floor, taking its total occupancy in this building to 280,000 sq ft. The building is now virtually fully let with the exception of 2 floors which are both under option.

During the year, Shell agreed a further lease of 38,225 sq ft across 2 levels at 40 Bank Street, taking its space in the building to 225,000 sq ft, and at One Canada Square, 81,300 sq ft of space was let to HSBC. Including other smaller lettings, a total of approximately 132,000 sq ft was leased in the year.

Reflecting strong demand for space across the whole Estate, including the letting to EY, over 411,000 sq ft has been let during the first quarter of 2014 of which 321,000 sq ft are lettings and sublettings in buildings owned by the Group. Over 585,000 sq ft remains under offer on the Estate of which 106,000 sq ft is being negotiated with the Group. If all these transactions complete, the overall vacancy rate at Canary Wharf will fall to just over 4.3% and to 2.2% for the Group.

This activity shows that the Group is continuing to offer attractive space to an increasingly broad range of corporate and professional services companies. Demonstrating the breadth of this appeal, new arrivals on the Estate include EY, HS2, The General Pharmaceutical Council and NetNames.

Development pipeline
At around 11m sq ft, including the Shell Centre site, the Group has one of the largest development pipelines of any London developer and also has a record of completing projects on time and on budget.

During the year, Canary Wharf Group received revised approval for a 700,000 sq ft office development on the eastern side of Heron Quays West and has also submitted an application for a building of up to 700,000 sq ft on the western side of Heron Quays West.

In addition, a revised 650,000 sq ft planning application has been submitted for One Park Place on West India Avenue, together with details for the scheme designed by Michael Squires & Partners.

In December 2013, Canary Wharf Group submitted the planning application for the exciting 4.9m sq ft mixed use district east of the Estate which demonstrates the ongoing commitment to the regeneration of this part of East London. This 25 building development is expected to appeal to many of our new target tenants, for example in the TMT sector. Interest is already being expressed from established and independent retail brands looking to associate with this significant new mixed use district which will complement the existing Estate. The first phase will see the construction of 884 residential units in 3 buildings designed by Herzog & de Meuron and Stanton Williams and 2 separate office buildings designed by Allies and Morrison. If planning permission is granted, construction is expected to start in the fourth quarter of 2014, with the first buildings completed in 2017.

As mentioned previously, after the year end, approval was obtained for the 470,000 sq ft Newfoundland residential development. Newfoundland will feature striking steel diamond shapes on the façade and will comprise 566 apartments with a health club and spa on level 24. Alongside the development, Canary Wharf Group is providing off site around 280 associated affordable housing units.

Retail performance

Retail leasing on the Estate continues to be successful maintaining 100.0% occupancy over the last 3 years and an impressive offering of over 300 shops, bars and restaurants now available across 4 shopping malls. The Group's proactive management strategy continues to enhance the retail and restaurant mix, ensuring it meets the demands of the core office and shopper catchments. Our understanding of these demands has resulted in the sustained increase in footfall and consumer spend experienced at Canary Wharf over recent years, despite difficult conditions in the wider retail market.

In November 2013, Canary Wharf Group opened 27 new units in the Jubilee Place mall extension, creating 44,000 sq ft of additional retail space, which is fully let. A high number of leases were renewed in the period and achieved material increases in rent, which reflected continued successful trading by existing units. The Company was also pleased to welcome international, high quality retailers to the Estate including Banana Republic, Cos, bareMinerals and Rituals.

The retail success continues at the Canary Wharf Crossrail station where 70.5% of the space in the 86,000 sq ft first phase of the development, which is due to open in May 2015, is already prelet or in solicitors' hands. This phase is offering a new range of spacious lifestyle retail units including a boutique cinema, a live music venue and a sports bar. Once completed, there will be a total of 115,000 sq ft of leisure and retail space in the 4 levels above the station.

Construction progress

The Group has now built over 16.0m sq ft of office and retail space at Canary Wharf and a further 1.0m sq ft across London in developments at Drapers Gardens and 20 Fenchurch Street. Closer to the Estate, the Group acted as development manager at the Pan Peninsula residential development. Subject to planning, the Group intends to start construction of the 1.4m sq ft Shell Centre Development and at Wood Wharf which is likely to appeal to a wide range of prospective tenants and residents.

The Canary Wharf Estate's array of high rise buildings has been enhanced by the completion of 25 Churchill Place which was formally topped out in February 2013. The cladding is complete and construction is on schedule and on budget to be handed over to its new tenants in April 2014.

Canary Wharf Crossrail station will be the largest in the Crossrail network and is already a formidable landmark building with a striking wooden feature roof that is almost complete. Construction of the station, which could house One Canada Square lying flat, is progressing well ahead of time and within budget. The tunnel boring machines passed through the station during 2013, and the internal fit out is well advanced.

Chairman's operational review continued

Above: 20 Fenchurch Street, viewing area

Diversification/Level39

In March 2013, Canary Wharf Group launched Level39, Europe's largest Fintech accelerator space. The space is 100.0% let and has received an incredible 500 applicants, 80 of which were accepted. In response to this demand, the decision was taken to open another floor in One Canada Square, 'level 42', which accommodates the higher growth companies in the Fintech space. This floor already has 7 occupants and the Group is in talks with a further 4 potential occupants to take more space. We believe that these high growth companies in One Canada Square, and their peers, will be a natural fit for the new district the Group hopes to develop to the east of Canary Wharf.

Investment

Canary Wharf Group added 2 properties to its portfolio during the period, bringing its wholly owned buildings to 18 out of the 35 on the Estate. The reacquisition of both the 177,000 sq ft 7 Westferry Circus for £46.6m, and the 171,000 sq ft 15 Westferry Circus, which was funded by a £128m loan in July 2013, increased the property portfolio to 7.4m sq ft. The Group is uniquely placed to assess tenant demand across different requirements and these buildings will offer a contrasting style and price attractive to a range of diverse occupiers.

Joint ventures

At 20 Fenchurch Street, the prelettings momentum has continued during 2013 and into 2014 with 80.0% of the building now prelet to a range of companies including Liberty Syndicates, Liberty Mutual, Markel, Lancashire Insurance, Vanquis Bank, Allied World Assurance Company and Jane Street. A further 7.0% is also under offer. This building, our joint venture with Land Securities, is a notable addition to London's evolving skyline. Its unique 3 tiered sky garden has been let to Rhubarb and will boast a high quality restaurant, bar and cafe, together with an open air viewing area which will be open to the public at no cost providing a new place from which to view London.

As mentioned previously, we are awaiting the outcome of the Shell Centre planning inquiry. Canary Wharf Group owns a 50.0% interest in this development with Qatari Diar and Canary Wharf Group has been appointed construction manager and joint development manager for this project.

Sustainability

The Group aims to design, build and manage some of the most sustainable office, residential and retail buildings in London. The Group is also committed to avoiding pollution and to monitoring and reducing any emissions which may have an adverse impact on the environment or local community. This commitment to sustainability is taken seriously and during 2013 the Group achieved a B+ ranking which reflects a rigorous and transparent approach to sustainability reporting. The Group also participates in the EPRA sustainability benchmarking scheme and earlier this year Canary Wharf Group became one of the first 6 companies in the world to achieve certification to the Carbon Trust Waste Standard.

Conclusion

The Board is positive about the Group's prospects. Continued diversification into new areas and new sectors is supported by the well established expertise of Canary Wharf Group in construction, leasing and property management. The Group's extensive and diverse market-led development pipeline positions the Group well to deliver into London's strong commercial and residential property markets that are currently underpinned by an increasing demand which looks likely to be sustained.

David Pritchard
Chairman

An effective performance

The Strategic report covers the following areas:

This Strategic report has been prepared in order to provide additional information to shareholders on the Group's strategic direction.

The Strategic report contains certain forward looking statements. These statements are made by the Board in good faith based on the information available to them up to the time of their approval of this report and such statements should be treated with caution due to the inherent uncertainties, including economic and business risk factors, underlying any such forward looking information.

The Board, in preparing this Strategic report, has complied with Section 414C of the Act.

This Strategic report has been prepared for the Group as a whole and therefore gives greater emphasis to those matters which are significant to the Company and its subsidiary undertakings when viewed as a whole.

A list of defined terms used throughout these financial statements is provided in Definitions on pages 71 to 72.

Below: Canary Wharf Estate 2014

Principal activities

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 and an adjacent development to the east of Canary Wharf. Elsewhere in London, Canary Wharf Group is involved through joint ventures in the redevelopment of 20 Fenchurch Street and the Shell Centre.

Property portfolio

At 31 December 2013, Canary Wharf Group's investment property portfolio comprised 18 completed properties (out of the 35 constructed on the Estate) totalling approximately 7.4m sq ft of NIA. The properties included in Canary Wharf Group's investment property portfolio at 31 December 2013 are shown in the following table, along with the properties under construction, which will increase the portfolio to approximately 8.0m sq ft.

Property address	NIA sq ft	Leased %	External valuation £m	Principal tenants and sub tenants
Investment properties:				
One Churchill Place	1,038,500	100.0	820.0	Barclays, BGC
10 Cabot Square/ 5 North Colonnade	634,100	100.0	450.0	Barclays, WPP Group
20 Cabot Square/ 10 South Colonnade	558,100	100.0	392.0	Barclays
One Canada Square	1,220,500	87.7	679.4	Moody's, Bank of New York Mellon, Mirror Group, FCA, Euler, Metlife
33 Canada Square	562,700	100.0	405.0	Citigroup
20 Bank Street	546,500	100.0	475.0	Morgan Stanley
40 Bank Street	606,000	92.1	359.0	Shell, Skadden, Allen & Overy, ANZ, JLL
50 Bank Street	210,600	91.2	149.5	Northern Trust
10 Upper Bank Street	1,027,300	100.0	780.0	Clifford Chance, FTSE, Total
7 Westferry Circus	177,700	100.0	44.5	EMA
15 Westferry Circus	171,000	100.0	142.5	Morgan Stanley
Cabot Place Retail	141,600	100.0	207.3	Boots, Tesco, Zara and other retail tenants
Canada Place Retail	71,300	100.0	209.7	Gap, Next and other retail tenants
Jubilee Place Retail	137,500	95.7	201.0	Banana Republic, Boots, M&S Food, Wagamama and other retail tenants
Churchill Place Retail	34,900	100.0	21.5	Barclays, Jamie's Italian and other retail tenants
16–19 Canada Square	213,600	100.0	94.6	Waitrose Food & Home, Reebok, Plateau Restaurant
Reuters Plaza	8,900	100.0	21.1	Carluccio's, Smollensky's
Park Pavilion	22,900	100.0	23.9	Lloyds Bank, Canteen, The Parlour, Roka and Wahaca
Car parks	–	–	39.0	
	7,383,700	97.0	5,515.0	
Properties under construction:				
25 Churchill Place	545,000	89.5	320.0	
Crossrail Retail	115,000	70.5	36.5	
	8,043,700	**96.1**	**5,871.5**	

Occupancy at 31 December 2013

97.0%

(95.5% at 31 December 2012)

Weighted average unexpired lease term

14.5 years

or 12.9 years after exercise of break options

At 31 December 2013, the investment property portfolio was 97.0% let, up from 95.5% at the previous year end. The weighted average unexpired lease term for the investment portfolio at 31 December 2013 was approximately 14.5 years, or 12.9 years assuming the exercise of outstanding break options (31 December 2012 - 15.5 years or 14.2 years respectively). This weighted average unexpired lease term excludes 25 Churchill Place which, when completed and let, will serve to increase the weighted average lease term by approximately 0.7 years. Of the square footage under lease at 31 December 2013, 70.0% 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 2013, includes 17 properties totalling 8.4m sq ft in other ownerships.

All options to sublet space back to Canary Wharf Group have been exercised and at 31 December 2013 the estimated net present value of sublet liabilities was approximately £18.2m discounted at 5.7%, being Canary Wharf Group's weighted average cost of debt (31 December 2012 - £26.1m discounted at 6.2%). These sublet commitments have been reflected in the market valuation of Canary Wharf Group's properties.

Property acquisitions

In March 2013, Canary Wharf Group acquired long leasehold interests in 7 Westferry Circus at Canary Wharf for £46.6m plus SDLT and fees. This building was originally constructed by Canary Wharf Group in 1992 and sold in November 2005 for £96.6m. The building totals 177,700 sq ft across 8 floors and includes 157,100 sq ft of office space and 15,500 sq ft of retail space. The office space is fully let to EMA until December 2014. Following EMA's move to its new offices at 25 Churchill Place, Canary Wharf Group intends to refurbish the office space and market the building. The retail space in the building is fully let to a range of tenants including Starbucks, Pret A Manger and Savills.

In July 2013, Canary Wharf Group acquired 15 Westferry Circus, a 171,000 sq ft building on the Estate which is fully let to Morgan Stanley on a lease expiring in August 2026. As consideration for the acquisition, Canary Wharf Group paid approximately £128.0m, fully funded by way of a 3 year loan facility, and assumed a pre existing interest swap which was secured against the building and had an out of the money position of £10.6m. This property was originally constructed by Canary Wharf Group in 2002 and sold in 2005 for a consideration of £134.8m.

As a result of 7 Westferry Circus and 15 Westferry Circus being reacquired, Canary Wharf Group's portfolio has increased by approximately 350,000 sq ft to 7.4m sq ft.

One Canada Square

In the first half of the year, Canary Wharf Group substantially completed an extensive refurbishment of the mechanical and engineering systems in One Canada Square, a multi let building of over 1.2m sq ft at the heart of the Estate. The total spend was approximately £34.0m plus VAT which was incurred over the last 5 years. This total has now been analysed to determine the extent to which works related to repairs or capital expenditure. As a result, it is anticipated that capital allowances will be claimed on approximately £29.0m of expenditure. The balance of £5.0m (or £6.0m including irrecoverable VAT) has been classified as repairs and taken to the profit and loss account in the year. This adjustment is included within cost of sales but is net asset neutral.

Leasing

After a relatively quiet start to the year, the level of enquiries and tenant presentations increased significantly in the second half.

Shell agreed to lease a further 38,225 sq ft across 2 floors in 40 Bank Street, taking its total space in this building to 225,000 sq ft. The latest lease is at a rent of £36.00 psf for a term of 5 years, subject to a 9 month rent free period and a break option at year 3. Secure Trading, a Fintech company, leased 7,937 sq ft on level 19, at a rent of £40.00 psf on a 10 year lease with a break option at year 5.

In One Canada Square, a total of 81,300 sq ft was let to HSBC on levels 7 to 9. These floors were let in their existing condition at a rent of £35.00 psf for a term of 5 years subject to annual break options after the first 2 years. In addition there have been a number of smaller lettings in One Canada Square at rents in the range of £40.00 - £41.00 psf. Lettings at Canary Wharf during 2013 totalled approximately 132,000 sq ft.

In August 2011, EMA agreed a prelet of 250,000 sq ft at 25 Churchill Place, comprising the promenade, ground and levels one to 9, at a rent of £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. EMA is receiving the equivalent of a 37 month rent free period in cash, which is being used to pay for EMA's fit out in the building. In February 2014, EMA exercised its option to lease an additional floor (level 10), at a rent of £46.50 psf with a 37 month rent free period from 1 July 2015. This takes EMA's total occupation in the building to 280,000 sq ft.

In February 2014, EY agreed to lease approximately 207,000 sq ft in the building at a rent of £48.50 psf. EY will occupy levels 14 to 21 which leaves just 2 floors unlet, one of which is under option to EMA and one is under option to EY. As part of this transaction, Canary Wharf Group will take an assignment of EY's lease at Becket House, 1 Lambeth Palace Road, London, on 1 July 2015. This comprises 146,000 sq ft of office space on a lease expiring in September 2026 at an average rent of £35.00 psf.

At 20 Fenchurch Street, Canary Wharf Group is acting as joint development manager with Land Securities. The joint venture let 66,300 sq ft to Liberty Syndicates in February 2013, together with 51,000 sq ft to Liberty Mutual. Markel has now taken an additional 24,500 sq ft in the building, increasing its total letting to 74,500 sq ft. In addition, 122,500 sq ft of other lettings were achieved, including Lancashire Insurance (27,100 sq ft), Vanquis Bank (26,500 sq ft), Allied World Assurance Company (41,100 sq ft), and Jane Street (27,800 sq ft). A further 78,700 sq ft is under offer. As a result, 87.0% of the space is either let or under offer, including all the retail space in the sky garden at the top of the building which is let to Rhubarb.

Right: 25 Churchill Place

Leasing continued

Level39

Level39 was launched in March 2013 as Europe's largest accelerator space for financial, retail, cyber and future city technologies. Since then, Level39 has developed rapidly following significant media exposure and widespread attendance to events in the space. It has hosted over 200 events (including Wired, PayPal, Microsoft and IBM) with in excess of 25,000 visitors attending. There have been over 500 enquiries and the community has grown from 4 to 68 member companies. The space remains at 100.0% occupancy with additional workstations and private offices due to be installed to accommodate demand.

As a result of this growth, level 42 was opened in September 2013 to enable Level39's high growth technology companies of more than 8 employees to transition to their own self contained office. Level 42 has grown to 7 companies occupying 60 desks with further growth in team numbers and new companies expected throughout 2014.

Retail

Retailers in Canary Wharf enjoyed a strong finish to 2013, with increased sales during the crucial Christmas trading period. Footfall in November and December increased significantly and demand for additional space from both existing and new tenants strengthened throughout the year.

The Group continues to actively asset manage the existing retail portfolio. Moleskine will open its first UK store in Cabot Place in April 2014 following The White Company's successful upsize to the Jubilee Place mall extension. In Canada Place, Boots expanded into an adjoining unit to enable it to offer a more extensive range of cosmetics.

High profile bar and restaurateur ETM Group opened 'One Canada Square', its new restaurant in the lobby of the main tower. It both complements and adds to the extensive restaurant offer which already exists at Canary Wharf.

The Jubilee Place mall extension of 44,000 sq ft opened for trade in November 2013. New international retailers here include Banana Republic, Cos, bareMinerals, Rituals, Oliver Bonas, Tiger of Sweden, Wolford, Le Pain Quotidien, Pretty Ballerinas, Godiva and Asics. These offerings were blended with niche, London focused retailers Orlebar Brown, Monica Vinader, Cath Kidston and Emmett Shirts. Subsequent to the year end Mac, Michael Kors and Paul have opened for trade and will be joined by Barbour International in April 2014. The enlarged Jubilee Place mall is enjoying stronger footfall and 2 asset management initiatives have been implemented to freshen the tenant mix in the original mall.

The top 4 levels of the Canary Wharf Crossrail station, which accounts for 96,000 sq ft of the total 115,000 sq ft of space, will open in May 2015, ahead of the anticipated station opening in 2018. As at 31 December 2013, 12 lettings had been exchanged or were in solicitors' hands, representing 56.0% by area. Since then a further 3 lettings have been agreed, increasing the percentage either let or in solicitors' hands to 70.5% of the accommodation opening in 2015.

Construction

As well as the retail expansion projects, work continued towards completion of 25 Churchill Place, a new 545,000 sq ft office building to be occupied by EMA and EY. Work on the building began in February 2012 and the structure was formally topped out in February 2013. Cladding and building services installation are complete and undergoing testing. Construction is on schedule for delivery with the EMA floors fitted out in mid 2014.

In addition to the construction projects at Canary Wharf, Canary Wharf Group is also acting as construction manager for the development at 20 Fenchurch Street (see Strategic report - 20 Fenchurch Street) and for the redevelopment of the Shell Centre (see Strategic report - Shell Centre).

Crossrail

Construction commenced on the Canary Wharf Crossrail station in May 2009 and has progressed ahead of schedule. The station will be delivered to CRL 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 CRL. Canary Wharf Group's 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, 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 have been allocated to these development properties.

The project is performing well against budget. The tunnel boring machines have passed through the station and the platform levels handed back to Canary Wharf Group for the next phase of works. The first trains are due to run in 2018 when Crossrail opens for passenger service. The structure is complete and internal works are well advanced. Work is now progressing on the retail levels above the station and the feature roof, which is almost complete.

"At around 11.0m sq ft, including the Shell Centre site, the Group has one of the largest development pipelines of any London developer and also has a record of completing projects on time and on budget."

Development

Wood Wharf

In January 2012, Canary Wharf Group acquired full control of the Wood Wharf joint venture and 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, CRT and Ballymore. It also agreed the restructuring of CRT's ongoing participation as freeholder of Wood Wharf. As a result, Canary Wharf Group now has control over the timing and design of the scheme.

Wood Wharf will be a new mixed use development scheme adjacent to the existing Estate. In May 2009, the current master plan received 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. Having gained full control of the scheme, the best uses for the site have been reviewed, leading to an alteration to 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.

An application for a revised outline planning consent reflecting this mix was submitted in December 2013 for a 4.9m sq ft mixed use development comprising 3,100 residential units, around 1.9m sq ft of commercial and 270,000 sq ft of retail space. In addition, design work is proceeding on the first phase of private and affordable residential property and on 2 office buildings.

Other sites

Heron Quays West currently has consent for an office scheme of over 1.3m sq ft. However, in view of changing market conditions, Canary Wharf Group has reviewed alternative development options and in July 2013 submitted an application for an office development comprising approximately 700,000 sq ft on the eastern half of the site. Outline consent for this scheme was awarded on 30 August 2013. Canary Wharf Group is now working on the submission of detailed planning for the scheme. An application has also been made for outline consent on a second 700,000 sq ft office development on the western half of the site and this is currently being considered by LBTH.

In March 2014, Canary Wharf Group received planning consent for a residential scheme on the adjacent Newfoundland site subject to concluding a Section 106 agreement. The scheme extends to 470,000 sq ft over 58 floors and replaces the existing consent for 230,000 sq ft of hotel and serviced apartments. Construction is anticipated to start in mid 2014 and initial utility works are already underway.

One Park Place benefits from planning consent for approximately 950,000 sq ft of development. However, in December 2013 Canary Wharf Group submitted a new application for a revised scheme of approximately 650,000 sq ft. This scheme is being considered by LBTH and is expected to receive consent in mid 2014.

The remaining development site at North Quay has planning consent for almost 2.4m sq ft of office space. However, this is being reviewed to determine whether an alternative mixed use scheme would be more appropriate.

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

	NIA m sq ft
Total development pipeline:	
Canary Wharf, based on existing and/or proposed consents:	
- Heron Quays West	1.40
- North Quay	2.39
- Newfoundland	0.48
- One Park Place	0.65
- Wood Wharf	4.90
	9.82
Sold to J.P. Morgan:	
- Riverside South	1.90
In joint venture with Qatari Diar:	
- Shell Centre (see Strategic report - Shell Centre)	1.40

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. In 2012 J.P. Morgan 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 slabs. These works are now substantially completed and J.P. Morgan has agreed that the riverside walkway should be reopened until the next stage of construction commences.

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 should J.P. Morgan proceed with full construction.

Right: Proposed Shell Centre

Joint ventures

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. After syndication, Canary Wharf Group has retained a 15.0% equity interest in this project. 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.

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 was topped out at the end of 2012 and the cladding is substantially completed. The development remains on schedule to achieve practical completion for tenant fit out in April 2014, with the first tenant due to move in shortly afterwards.

A solar glare issue was identified in the third quarter of 2013. A solution has been identified and was submitted to the planning authority in February 2014. The joint venture expects that this will be installed during 2014 and completed within the overall budget for the development.

As referred to in Strategic report – Leasing, the building is currently 87.0% prelet or under offer. The joint venture has now set up the property management team, ready to take over the building on completion.

Shell Centre

In July 2011, Canary Wharf Group and Qatari Diar concluded *a 50:50 joint venture agreement to redevelop the Shell Centre*. The joint venture agreed to pay £300.0m to secure the 5.25 acre site on a 999 year lease. Of this total, £30.0m was paid on exchange of the agreement with Shell and the balance 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 is also 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 initially agreed to take a 210,000 sq ft prelet of one of the 2 new office buildings to be constructed on the site but has subsequently agreed to increase the lease to the full 245,000 sq ft available in the building. In total the redevelopment will comprise 523,000 sq ft of office space, 79,000 sq ft of shops, restaurants, cafes and a health club, together with 835,000 sq ft of residential, creating 877 homes.

In May 2013, a resolution to grant planning permission was achieved subject to finalising a Section 106 agreement and stage 2 referral to the GLA and Secretary of State. In July the GLA issued its stage 2 report endorsing Lambeth's right to determine the application and support the development plans. Subsequently, in September 2013, the joint venture was notified that the Secretary of State had called in the planning application. The planning inquiry concluded in December 2013 and we understand that the planning inspector submitted his report to the Secretary of State in the last week of February.

Market valuation of total investment portfolio up

9.6%

to £5,515.0m

Market valuation of total portfolio up

14.9%

to £6,571.5m

Valuations

The net assets of the Group, as stated in the Consolidated Balance Sheet at 31 December 2013, were £2,660.6m. In arriving at this total:

(i) properties held as investments were carried at £5,334.7m, which represents the market value of those properties of £5,515.0m at that date as determined by Canary Wharf Group's external valuers, CBRE, Savills or Cushman, less an adjustment of £173.2m for tenant incentives and £7.1m for deferred lease negotiation costs;

(ii) properties under construction were carried at £354.5m, representing the market value of those sites of £356.5m as determined by Canary Wharf Group's external valuers, less an adjustment of £2.0m for deferred lease negotiation costs; and

(iii) properties held for development were carried at £755.0m, representing their market value of £700.0m, 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 2013, the yields applied in deriving the market valuation of Canary Wharf Group's investment properties were as follows:

	31 December 2013 %	30 June 2013 %	31 December 2012 %
Office portfolio:			
Weighted average initial yield:			
- excluding 7 Westferry Circus and 15 Westferry Circus	**5.0**	5.0	5.0
- including 7 Westferry Circus and 15 Westferry Circus	**5.2**	5.3	—
Weighted average equivalent yield	**5.1**	5.3	5.4
Retail portfolio:			
Weighted average initial yield	**4.4**	4.8	5.0
Weighted average equivalent yield	**4.8**	5.0	5.1

The weighted average initial yield for the portfolio at 30 June 2013 was impacted by the acquisition of 7 Westferry Circus in March 2013, let on a lease expiring in December 2014. Excluding this acquisition, the weighted average initial yield for the remainder of the portfolio at 30 June 2013 was 5.0%, unchanged from 31 December 2012. 15 Westferry Circus was acquired in July 2013 and is let on a lease expiring in 2026.

In the second half of 2013, the investment market continued to recover strongly and this resulted in a 25 bp reduction to 4.75% in the benchmark initial yield applied to properties let on long leases. This served to increase the value of such properties as One Churchill Place, which is let to Barclays, and 33 Canada Square, which is let to Citibank, by approximately 5.0%. Larger increases in value were, however, recorded on 10 Cabot Square and 20 Cabot Square which both benefit from RPI linked rent reviews.

Elsewhere in London, the transactions in relation to Broadgate and More London have served to demonstrate the depth of demand for larger lot sizes let to good covenants. This has helped to drive the valuations at Canary Wharf, particularly for 10 Upper Bank Street, a 1.0m sq ft building let to Clifford Chance until 2028. Taking these factors into account, the overall increase in the valuation of the office portfolio in the second half, excluding acquisitions, was 6.9%. The total increase for the year was 8.6%.

The retail investment portfolio also performed strongly with market value increasing by 14.7% over the year, of which 8.2% was in the second half. The increase in valuation was driven by a combination of a 15 bp reduction in yields in the second half, rental growth and the opening of the Jubilee Place mall extension.

Taking office and retail together, the market value of the investment portfolio increased by £465.5m or 9.6% in the year and by 7.1% in the second half, excluding acquisitions. After allowing for capital expenditure, including the acquisitions of 7 Westferry Circus and 15 Westferry Circus and adjustments in respect of lease incentives and deferred negotiation costs, the carrying value of the investment portfolio increased by £467.7m over the year or 9.6%.

The properties under construction were valued at £356.5m in comparison with £137.5m at 31 December 2012. The valuation of these sites reflects their stage of construction and letting at the year end. In the case of 25 Churchill Place, the full benefit of the valuation of the EY transaction will not be seen until the 2014 interim results.

The valuers have also provided their opinions of the market value for sites held for development which comprised North Quay, Heron Quays West, Newfoundland, One Park Place and Wood Wharf. Excluding the adjustment for ground rents, these sites were valued in aggregate at £700.0m at 31 December 2013, in comparison with £415.0m at 31 December 2012. The significant increase in value reflects the demand for sites capable of accommodating residential development. The valuation at the year end is equivalent to a value of £74.00 psf of developable space in comparison with significantly higher land values in the City. Canary Wharf Group therefore believes that its sizeable land bank is a significant competitive advantage in the current market.

Valuations continued

The market value of the entire property portfolio, after adjusting for property acquisitions and other capital expenditure, increased by £850.1m or 14.9% in the year and by 9.7% in the second half. This increase in value was driven by the factors stated previously.

The valuations at 31 December 2013 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. The valuers also make reference to market evidence of transaction prices for similar properties on the Estate.

In valuing the sites held for development and properties under construction, the valuers have allowed for estimated costs to complete, including an allowance for fit out and developer's profit.

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 following table, 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 2013		30 June 2013		31 December 2012	
	Note	Carrying value £m	Market value in existing state £m	Carrying value £m	Market value in existing state £m	Carrying value £m	Market value in existing state £m
Retained portfolio:							
Investment properties	(i)	**5,334.7**	**5,515.0**	4,838.1	5,020.5	4,676.1	4,862.5
Property under construction	(ii)	**354.5**	**356.5**	210.8	212.5	135.8	137.5
Properties held for development	(iii)	**755.0**	**700.0**	495.0	440.0	470.0	415.0
		6,444.2	**6,571.5**	5,543.9	5,673.0	5,281.9	5,415.0
Sold property:							
Property under construction at Riverside South	(iv)	**75.2**	**151.2**	70.0	143.1	69.6	139.7
		6,519.4	**6,722.7**	5,613.9	5,816.1	5,351.5	5,554.7

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 2013 was £180.3m (30 June 2013 - £182.4m, 31 December 2012 - £186.4m). Market value in existing state is shown prior to these amounts.

(ii) The carrying value represents market value less an adjustment for deferred lease negotiation costs of £2.0m (30 June 3013 - £1.7m, 31 December 2012 - £1.7m).

(iii) Includes 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 31 December 2013 (30 June 2013 - £55.0m, 31 December 2012 - £55.0m) (Note 22). The market value in existing state is shown prior to this amount.

(iv) The carrying value in the Consolidated Balance Sheet at 31 December 2013 is stated net of £79.4m of costs transferred to cost of sales (30 June 2013 - £70.3m, 31 December 2012 - £66.6m) and £4.2m transferred to payments on account (30 June 2013 - £0.3m, 31 December 2012 - £(3.0)m, transferred from payments on account). 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 already recognised on the disposal of the site in 2008.

Underlying profit before tax

£22.4m

for the year to 31 December 2013 (2012 - £23.3m)

Operating results

The following review of the Group's operating results relates to the year ended 31 December 2013. The comparatives relate to the year ended 31 December 2012.

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 2013 was £379.9m, against £361.6m for 2012, of which rental income after the adjustments required to spread lease incentives and committal rent increases increased from £259.4m to £268.8m.

The impact of spreading lease incentives was to reduce rental income by £5.5m in 2013 compared with £4.4m in 2012. Excluding the accounting adjustments arising from spreading tenant incentives, rental income increased from £263.8m in 2012 to £274.3m in 2013, an increase of £10.5m or 4.0% of which £9.4m was attributable to the acquisitions of 7 Westferry Circus and 15 Westferry Circus during the year. The balance of the increase was attributable to increased retail rents.

Service charge income reduced from £79.4m for 2012 to £77.1m for 2013, a reduction of £2.3m or 2.9%. However, miscellaneous income, including insurance rents, the provision of tenant specific services outside the standard service charge and fees recognised on the provision of development and construction management services, increased from £16.9m for 2012 to £20.2m for 2013. During 2013, Canary Wharf Group recognised £1.0m of income in connection with the termination by tenants of certain leases on the Estate (2012 - £0.3m).

Turnover and cost of sales for 2013 also included £12.8m recognised on the construction contract for Riverside South, compared with £5.6m in 2012. 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 (Note 4).

Cost of sales includes rents payable, property management costs including refurbishment and repair costs, movements on provisions for certain lease commitments, as well as costs recognised on construction contracts.

In the first half of the year, Canary Wharf Group substantially completed the refurbishment of the mechanical and engineering systems in One Canada Square and determined that £6.0m of the total cost of £34.0m plus VAT should be classified as repairs and taken to cost of sales in the year. The remainder of the costs have been capitalised and were included as additions to investment properties within Non current assets as they were incurred. This reclassification from building cost to cost of sales has resulted in an equivalent increase in the revaluation movement on One Canada Square in the year.

Excluding the adjustment to One Canada Square referred to previously, rents payable and property management costs were £100.1m for 2013 in comparison with £96.1m for 2012. Taking into account service charge and miscellaneous property income totalling £94.2m for 2013 (2012 - £93.3m), a deficit was recorded on property management of £5.9m (2012 - £2.8m). 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 2013 relating to certain rent support commitments and other obligations (2012 - £0.6m). Cost of sales for 2013 also included £1.0m of costs attributable to the termination of leases (2012 - £0.9m).

Net development, rental and related income for 2013 was £259.4m, an increase of £1.0m compared with 2012, net of the £6.0m charge in respect of refurbishment costs referred to previously.

Administrative expenses for 2013 were £45.3m in comparison with £38.6m for 2012. The increase in administrative expenses was in part attributable to a £3.3m charge recognised in relation to an allocation of shares to certain directors and senior employees of Canary Wharf Group in the year. In addition, professional fees were higher in the year, primarily as a result of fees incurred in pursuing a claim against Lehman Brothers Inc. as a guarantor of the Lehman lease at Canary Wharf.

Underlying operating profit (as defined in Note 4) for 2013 was £215.9m in comparison with £222.1m for 2012. Of the reduction of £6.2m, £6.0m was attributable to the refurbishment of One Canada Square.

A net revaluation surplus of £855.9m (Note 6) was recognised in the Consolidated Income Statement in the year compared with £215.7m in 2012. The changes in the valuation of the property portfolio are explained in more detail in Strategic report - Valuations. The Group also recognised its share of the revaluation surplus recorded on 20 Fenchurch Street totalling £10.3m for 2013 (2012 - £3.6m). Revaluation movements are classified as a capital and other item.

Total operating profit for 2013 was £1,082.1m compared with £441.4m in 2012. The increase was attributable to revaluation movements, together with the other factors referred to above.

Underlying net financing costs (Note 7) for 2013 were £193.5m against £198.8m for 2012. Underlying net financing costs are stated net of £14.2m of interest which has been capitalised and transferred to properties under construction within Non current assets (2012 - £6.3m). This amount represents the finance charge relating to Canary Wharf Group's 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 £2.6m was largely attributable to the additional facilities taken out to fund the acquisitions of 7 Westferry Circus and 15 Westferry Circus. In addition, interest receivable was £4.3m lower than the previous year.

Adjusted NAV per share

up 38.1%

to £2.90

Adjusted NNNAV per share

up 61.6%

to £2.36

Operating results continued

Movements in the fair value of derivative financial instruments and the finance costs of non equity shares resulted in a net credit of £148.1m being recognised in the Consolidated Income Statement as a Capital and other item in 2013 compared with a net charge of £41.1m in 2012. The finance cost relating to the non equity shares reduced from £27.6m in 2012 to £25.6m in 2013 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 2013 was £1,036.7m in comparison with £201.5m for 2012. The results for 2013 and 2012 included certain capital and other profits and losses as described above. Underlying profit before tax for 2013 was £22.4m (2012 - £23.3m). Excluding the £6.0m charge in respect of refurbishment costs, the underlying profit for the year was £28.4m, representing an increase of £5.1m in comparison with the previous year.

Tax for 2013 comprised a corporation tax charge of £6.1m and a deferred tax charge of £129.8m. Tax for 2012 comprised a corporation tax credit of £7.5m and a deferred tax charge of £25.5m.

Including capital and other items, the profit for the year after tax for 2013 was £900.8m in comparison with £183.5m for 2012.

The basic and diluted earnings per share (Note 4) for 2013 was 84.8p (2012 - 15.9p). There were no adjustments required in respect of dilutive instruments at either 31 December 2013 or 31 December 2012.

Tax

The contingent tax payable if Canary Wharf Group was to dispose of its owned property portfolio at the market values disclosed in this Strategic report 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.

Consolidated Balance Sheet and key performance indicators

Net assets in the Group's Consolidated Balance Sheet were £2,660.6m at 31 December 2013 in comparison with £2,010.6m at 30 June 2013 and £1,774.4m at 31 December 2012. The increase in net assets over the year of £886.2m was primarily attributable to the profit after tax of £900.8m 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 £12.2m.

The increase in net assets since 30 June 2013 of £650.0m was attributable to the profit in the second half of the year of £661.5m, which included the increase in the valuation of the property portfolio in the second half of £710.1m, partly offset by the £12.2m dividend paid to non controlling interests.

The Company's objective is to manage its investment in Canary Wharf Group so as to maximise NAV from Canary Wharf Group's property investment and development activities, although the Group is impacted by movements in the wider property market. The Board considers that the most appropriate indicator of the Group's performance is adjusted 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 £2.10 at 31 December 2012 to £2.90 at 31 December 2013, an increase of 80p or 38.1% per share. In the second half of 2013, adjusted NAV per share increased by 67p per share or 30.0% from £2.23 at 30 June 2013. The increase in adjusted NAV can be attributed to the factors noted above.

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

	Note	31 December 2013 £m	30 June 2013 £m	31 December 2012 £m
Adjusted net assets attributable to members of the Company	(i)	**2,150.2**	1,652.4	1,556.5
Fair value adjustment in respect of financial assets and liabilities net of tax thereon	(ii)	**(434.8)**	(490.2)	(665.3)
Deferred tax	(iii)	**(149.6)**	(41.0)	(15.1)
Non controlling interest in above adjustments		**179.0**	162.7	208.4
Adjusted NNNAV		**1,744.8**	1,283.9	1,084.5
Adjusted NAV per share	(i), (iv)	**£2.90**	£2.23	£2.10
Adjusted NNNAV per share	(iv)	**£2.36**	£1.73	£1.46

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 each Balance Sheet date.

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. In 2013, the Board approved a further £10.0m in aggregate to repurchase its own shares subject to certain conditions (Note 24) of which £35,609 was utilised in purchasing 29,526 shares. In total, 24,539,346 shares were bought back and cancelled at an aggregate cost of £30.4m.

As a result of the Share Buyback, the number of Ordinary Shares in issue reduced from 764.9m to 740.4m. Reversing the impact of the Share Buyback on a proforma basis would have resulted in an adjusted NAV attributable to members of the Company of £1,586.9m at 31 December 2012, £1,682.8m at 30 June 2013 and £2,180.5m at 31 December 2013. Likewise, adjusted NNNAV would have increased to £1,114.9m at 31 December 2012, £1,314.3m at 30 June 2013 and £1,770.0m at 31 December 2013.

On the basis of the pre Share Buyback number of Ordinary Shares of 764.9m, adjusted NAV per share would have been £2.85 at 31 December 2013 (30 June 2013 - £2.20, 31 December 2012 - £2.07) and adjusted NNNAV per share would have been £2.31 (30 June 2013 - £1.72, 31 December 2012 - £1.46). The impact on adjusted NAV as at 30 June 2013 and 31 December 2013 of the 29,526 shares purchased in the first half of 2013 was £0.1m which had a negligible impact on adjusted NAV per share and NNNAV per share.

Treasury objectives and risks

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 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 in Note 21.

Borrowings

At 31 December 2013, net debt (including derivative financial instruments at fair value, net of monetary deposits and cash and cash equivalents) stood at £3,607.0m, an increase of £164.7m from £3,442.3m at 31 December 2012. The components of net debt are disclosed in Note 21.

In December 2011, Canary Wharf Group entered into a 5 year £190.0m development loan facility to fund the construction of a new building at 25 Churchill Place. This 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 4.017%. The termination date under the swap is in December 2016. The loan is also 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 draw down under this loan facility was in January 2013 and at 31 December 2013, £108.2m had been drawn down.

In July 2013, Canary Wharf Group entered into a £128.0m loan facility to fund the acquisition of 15 Westferry Circus. The facility comprises a fixed interest loan of £31.5m and a floating rate loan of £96.5m, of which £1.5m was repaid immediately. Interest on the fixed rate loan is 2.722% and on the floating rate loan is 3 month LIBOR plus a margin of 2.3%. At the same time, Canary Wharf Group assumed a pre existing interest rate swap which serves to fix LIBOR at 4.75%, taking the total cost of borrowing on this tranche to 7.05%. The loan is repayable in April 2016.

In September 2013, Canary Wharf Group entered into a £26.0m loan facility secured against 7 Westferry Circus. The facility carries interest at 3 month LIBOR plus a margin of 295 bps and will amortise by reference to the rents received. There is no interest rate hedging on this facility.

Canary Wharf Group's borrowings are secured against designated property interests, and are subject to lending covenants that include maximum LTV ratios and minimum ICRs as outlined in Note 21. For all of its loans, the Group was in compliance with its lending covenants at 31 December 2013 and throughout the year then ended.

Total borrowings, including derivatives at fair value, reduced from £4,194.3m at 31 December 2012 to £4,187.0m at 31 December 2013, reflecting a £179.9m favourable movement in the fair value of derivatives, together with loan amortisation paid in the year. These factors were in part offset by drawings under the construction loan and the other draw downs referred to previously.

The increase in total borrowings was accompanied by a reduction in cash and cash equivalents from £749.7m to £586.1m, primarily attributable to construction and development expenditure, the acquisition of investment properties and investments in associates.

Consolidated Balance Sheet and key performance indicators continued

Borrowings continued

Excluding the Preference Shares, the weighted average maturity of the Group's loans was 11.6 years at 31 December 2013 (31 December 2012 – 13.0 years).

The Group's weighted average cost of debt at 31 December 2013 was 5.7% including credit wraps, but excluding the coupon on the Preference Shares (31 December 2012 – 5.8%).

The Group's look through LTV at 31 December 2013 was 56.3%, down from 65.5% at 31 December 2012, calculated as set out in the following table:

Canary Wharf Group borrows at both fixed and floating rates and uses interest rate swaps to modify exposure to interest rate fluctuations. Except for certain elements of the debt assumed in connection with the acquisition of Wood Wharf and the loan secured against 7 Westferry Circus, substantially all of the Group's drawn facilities are fixed after taking account of interest rate hedging and cash deposits held as cash collateral.

	Note	2013 £m	2012 £m
Canary Wharf Group loan facilities (including derivatives)	(i)	**3,920.4**	3,921.4
Less: Canary Wharf Group cash and monetary assets	(ii)	**(554.6)**	(720.2)
Net debt attributable to Canary Wharf Group		**3,365.8**	3,201.2
Preference shares	(i)	**266.6**	272.9
Less: cash held by Company and its wholly owned subsidiaries	(ii)	**(33.8)**	(31.8)
Songbird companies' net debt		**232.8**	241.1
Grossed up by the Company's stake in Canary Wharf Group	(iii)	**335.6**	347.5
Adjusted net debt		**3,701.4**	3,548.7
Property portfolio value	(iv)	**6,571.5**	5,415.0
Look through LTV	(v)	**56.3%**	65.5%

Note:
(i) Refer to Note 21.
(ii) Refer to Note 16.
(iii) Grossed up stake in Canary Wharf Group of 69.4%.
(iv) Refer to Note 11.
(v) Look through LTV calculated as the aggregate of Canary Wharf Group's net debt plus Songbird net debt (as grossed up by the Company's ownership percentage), all expressed as a proportion of the property portfolio value.

Cash flow

The net cash inflow from operating activities for 2013 was £259.7m in comparison with £242.4m for 2012. This increase was primarily attributable to changes in working capital. 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. Net corporation tax refunds of £3.9m were received in 2013 compared with refunds of £2.6m in 2012.

Cash flows from investing activities resulted in a cash outflow of £356.1m for 2013 compared with £118.6m for 2012. In 2013, the cash outflow included £142.5m of development expenditure, £183.5m attributable to the purchase of investment properties and £29.8m of funding of Canary Wharf Group's associated and joint venture undertakings. 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.

Cash flows from financing activities for 2013 resulted in an inflow of £157.4m compared with an outflow of £108.7m for 2012. The 2013 cash inflow included £108.2m drawn down under the construction loan facility, £26.0m secured against 7 Westferry Circus and £128.0m secured against 15 Westferry Circus, partly offset by £84.6m of scheduled loan amortisation and the dividend paid by Canary Wharf Group to its minority interests. The 2012 cash outflow 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.

Principal risks and uncertainties

Continual 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 the cyclical nature of the property market, concentration risk, financing risk and policy and planning risks.

Risk	Description
Cyclical nature of the property market	The valuation of Canary Wharf Group's assets is subject to many external economic and market factors. Following the turmoil in the financial markets and uncertainty in the Eurozone of recent years the London real estate market had to cope with a decline in demand and a potential oversupply of office space. The possible oversupply of available space in the market was, however, mitigated by the difficulty in securing finance for speculative development leading to reduced supply. The market was 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. The market has also been underpinned by continuing demand for sites capable of incorporating residential development. In the latter half of 2013, there was strong evidence of increasing demand for office space and a related increase in confidence in the office real estate market. 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.
Concentration risk	The majority of Canary Wharf 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 Canary Wharf 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 involved in joint ventures developing 20 Fenchurch Street and the Shell Centre and is also reviewing current consents for development. This review has already led to an increased focus on residential development as reflected in the revised composition of the proposed master plan for the mixed use development on land immediately east of the Estate.
Financing risk	The broader economic cycle inevitably leads to movements in inflation, interest rates and bond yields. Further details on the management of treasury risk can be found in Strategic report – Treasury objectives and risks and Note 21 which includes a summary of the key financial covenants applicable to each of the Group's facilities. At 31 December 2013 there were £275.0m of Preference Shares in issue. The rights attaching to the Preference Shares, which were varied in 2012, are disclosed in Note 24.
Policy and planning risks	All of the Group's assets are currently located within London. Appropriate contact is maintained with local and national Government, but changes in Governmental policy on planning or tax could limit the ability of the Group to maximise the long term potential of its assets. These risks are closely monitored.

Corporate governance

"The Group aims to design, build and manage some of the most sustainable office, residential and retail buildings in London."

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 also aware of their statutory duties under the Act and, in particular, the core duty to act in good faith and in a way most likely to promote the success of the Company for the benefit of its members as a whole.

The following principles of corporate governance apply:

- the Board includes 2 independent directors who must retire and stand for reappointment at each AGM;
- the Board also includes 9 non executive directors who are drawn from the sovereign wealth funds, leading investment banks and investors 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's 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 AGM;
- 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 continually 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 its main operating subsidiary, Canary Wharf Group, and is available on the Company's website.

Committees

Announcement, audit and executive committees are in place 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's website. Membership of each committee is detailed on page 26.

The Announcement Committee, which has 2 members in addition to the chairman, considers as required 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 3 Significant Shareholder appointed directors and the Chairman. Whilst it formally has powers to oversee the implementation of decisions of the Board, this committee did not meet during 2013 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's 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.

Other policies

Corporate responsibility

Due to the nature of the Company's management structure and its business being the management of its investment in Canary Wharf Group, 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 policies in these areas.

Sustainability pressures are coming from tenants and occupiers, who understandably seek more sustainable operations. These expectations are met by the Group in the design and construction of more sustainable buildings and by improving the environmental performance of existing facilities through effective retrofitting and facilities management. The Group aims to design, build and manage central London's highest quality, best value and most sustainable office, retail and residential districts and buildings. In doing so, the Group works with all its stakeholders to create and nurture vibrant, inclusive communities that meet today's economic, environmental and social needs while anticipating those of tomorrow for the benefit of the environment, tenants, employees, the community and stakeholders.

Canary Wharf Group has maintained ISO 14001 accreditation since early 2005 with environmental management being an inherent part of construction since 2002. During 2013 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 the recycling of waste where possible during the design, construction and management of properties. The minimisation of disruption and disturbance to the environment and local community is 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.

During 2013, the Group submitted the Group Sustainability Report for the first time to the GRI which promotes sustainability reporting. The Group achieved B+ status under the GRI and also participated in the EPRA Sustainability Benchmarking scheme.

The annual Group Sustainability Report 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 related to this area, can be downloaded from the Canary Wharf Group website, www.canarywharf.com.

Employment

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

Corporate governance continued

Other policies continued

Anti bribery and corruption

The Board continues to demonstrate commitment to the prevention of corruption and understands the importance of maintaining a culture in which it is not acceptable at any level. During the period, a mandatory online bribery and corruption awareness training module was introduced and to date has been completed by 90.0% of the Group's employees. The Group has adopted a formal anti bribery and corruption policy which requires all directors and employees to behave with integrity and in a manner that ensures the objectives of the policy are achieved. The Group has a strict approach to maintaining high standards of finance, business principles and ethics.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in this Strategic report. The finances of the Group, its liquidity position and borrowing facilities are described in Strategic report – Treasury objectives and risks and the risks faced by the Group are set out in Strategic report – Principal risks and uncertainties and Note 21.

The Group has considerable financial resources and at 31 December 2013 the Group had cash and monetary deposits totalling £588.4m of which £456.3m was unsecured. In addition, Canary Wharf Group enjoys the benefit of leases with a weighted average unexpired lease term of 12.9 years, assuming the exercise of all break options, and at 31 December 2013 the occupancy level in the Group's portfolio was 97.0%. Canary Wharf Group's £350.0m retail loan facility is repayable in December 2014. Canary Wharf Group is actively seeking refinancing opportunities and expects a replacement facility to be in place ahead of December 2014. The year end average maturity of the Group's debt, excluding the Preference Shares, was 11.6 years. Accordingly, the directors believe that the Group is well placed to manage its business risks successfully.

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

This Strategic report was approved by the Board and signed on its behalf by:

John Garwood
Secretary
Songbird Estates plc
Registered number: 5043352
27 March 2014

Directors' report for the year ended 31 December 2013

The directors present their report with the audited consolidated financial statements for 2013.

Results and valuations

The results for the year are set out in the Consolidated Income Statement and are analysed in the Strategic report.

Events after the balance sheet date

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

Dividends and reserves

The profit of £616.6m (2012 - £118.8m) attributable to the members of the Company has been transferred to reserves. No dividends were declared during the year ended 31 December 2013 other than the dividends in respect of the Preference Shares.

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 regular dividend policy.

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 2013, the Company had been notified of the following disclosable interests of 3.0% or more in the Ordinary Shares of the Company:

	Number 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:

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

In accordance with the Articles, David Pritchard and John Botts as independent directors of the Company will retire at the forthcoming AGM and offer themselves for reappointment. Biographical details for all the directors are provided on page 26.

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 Company's and the Group's ability to continue as a going concern.

Directors' report for the year ended 31 December 2013 continued

Directors' responsibilities continued

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 Group also has in place liability insurance covering the directors and officers of the Company and its subsidiary undertakings. Both the indemnity and insurance were in force during the year ended 31 December 2013 and at the time of approval of this Directors' report. Neither the indemnity or the insurance provide cover in the event that the director is proved to have acted dishonestly or fraudulently.

Directors' decisions and activity

The Board has 2 independent non executive directors. The remainder of the Board is formed entirely of non executive directors who are drawn from the sovereign wealth funds and leading investment banks and investors which are shareholders in the Company. The average tenure on the Board is 5.5 years. The average age of the Board of directors is 48 years old.

During the year there were 4 Board meetings of the Company. The average attendance rate in person or by telephone was 90.9% (40 out of 44 possible attendances).

The Board has ultimate responsibility for the business of the Company and for its overall management.

Key matters reserved for the Board at those meetings are:

- strategy;
- reviewing major acquisitions and disposals;
- group's property valuation;
- financial risk management;
- internal control;
- risks and related controls;
- review of major contracts;
- monitoring performance; and
- reporting to shareholders.

In addition, there is a formal 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.

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.

Auditor and disclosure of information to the auditor

A resolution to reappoint Deloitte LLP as the Company's auditor will be proposed at the AGM.

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 Section 418(2) of the Act.

Political donations

No political donations or expenditure (as defined by the Act) were made by the Company during 2013.

Political donations (as defined by the Act and which include donations in kind) made by Canary Wharf Group during 2013 comprised £28,250 to the Labour Party, £24,200 to the Conservative Party, and £31,101 to the Liberal Democrat Party (2012 - £22,100 to the Labour Party, £15,350 to the Conservative Party and £18,000 to the Liberal Democrat Party). Canary Wharf Group did not incur any political expenditure (as defined by the Act) in either 2013 or 2012.

At the 2013 AGM, the shareholders approved a resolution authorising the Company to make certain political donations up to an aggregate of £100,000. The consent lasts until the 2014 AGM. At the date of signing these financial statements, total political donations of the Group incurred since the 2013 AGM exceeded this amount and retrospective consent will therefore be requested from the shareholders at the 2014 AGM. This excess is attributable to an unusually busy period with local and European elections due in 2014, a general election in 2015 followed by London elections in 2016 as a result of which the Group is increasingly being approached to host party political events for all the major political parties.

Annual general meeting

The AGM will be held at 2.00pm on Wednesday 11 June 2014 at Level39, One Canada Square, Canary Wharf, London E14 5AB.

By order of the Board

John Garwood
Secretary
Songbird Estates plc
Registered number: 5043352
27 March 2014

Board of 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 AGM.

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 chairman of Glyndebourne Arts Trust, non executive director of Euromoney Institutional Investor PLC and the Tate Foundation and former chairman of UBM plc. 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 AGM.

Faisal Al-Hamadi

Director of the Asset Management Group of Qatar Investment Authority, Masraf AlRayan, Qatar Algerian Investment Company and Gulf Bridge International. Appointed to the Board in January 2010 by Qatar Holding shareholder group.

Khalifa Al-Kuwari

Chief operating officer and head of business development for Qatar Investment Authority and Qatar Holding and adviser to the chief executive officer of Qatar Holding. Mr Al-Kuwari sits on the board of directors of several local and international companies. Appointed to the board in January 2010 by Qatar Holding shareholder group.

Sheikh Mohammed Bin Hamad Bin Jassim Al-Thani

Chairman of Barwa Bank since August 2010, board member of Gulf Investment Group and Qatar Securities Group. Sheikh Al-Thani has held various posts in the Qatar semi governmental and private sector and worked with international banks and financial institutions. Appointed to the Board in January 2010 by Qatar Holding shareholder group.

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. Also serves as a member of the board of Stonegate Mortgage and Dynasty Financial. Appointed to the Board in April 2004 by the Glick shareholder group.

Alex Midgen

Managing director of the investment banking division of Rothschild and global co head of Rothschild's real estate advisory business. Appointed to the Board in May 2004 by the Glick shareholder group.

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 in 2012 by the Glick shareholder group.

Membership of board committees

Audit Committee

John Botts (Chairman)
Peter Harned
Alex Midgen

Announcement Committee

David Pritchard (Chairman)
Alex Midgen
Brian Niles

Executive Committee

David Pritchard (Chairman)
Jonathan Lane
Alex Midgen
Brian Niles

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 2013 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated Statement of Changes in Equity 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, 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 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 2013 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 Strategic report and the Directors' Report for the financial year for which the Group 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 2013.

Mark Beddy
(Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London
27 March 2014

Consolidated income statement for the year ended 31 December 2013

	Note	2013 Underlying* £m	2013 Capital and other £m	2013 Total £m	2012 Underlying* £m	2012 Capital and other £m	2012 Total £m
Gross development, rental and related income	5	379.9	—	379.9	361.6	—	361.6
Cost of sales							
- refurbishment		(6.0)	—	(6.0)	—	—	—
- other		(114.5)	—	(114.5)	(103.2)	—	(103.2)
Net development, rental and related income	5	259.4	—	259.4	258.4	—	258.4
Share of associates and joint ventures after tax	12	(0.6)	10.3	9.7	—	3.6	3.6
Administrative expenses		(45.3)	—	(45.3)	(38.6)	—	(38.6)
Other income		2.4	—	2.4	2.3	—	2.3
Net revaluation movements	6	—	855.9	855.9	—	215.7	215.7
Operating profit	3	215.9	866.2	1,082.1	222.1	219.3	441.4
Net financing costs							
- investment revenues	7	3.2	—	3.2	7.5	—	7.5
- financing costs	7	(196.7)	148.1	(48.6)	(206.3)	(41.1)	(247.4)
		(193.5)	148.1	(45.4)	(198.8)	(41.1)	(239.9)
Profit for the year before tax		22.4	1,014.3	1,036.7	23.3	178.2	201.5
Tax	8			(135.9)			(18.0)
Profit for the year after tax	4			900.8			183.5
Attributable to:							
Equity holders of the Company				616.6			118.8
Non controlling interest				284.2			64.7
				900.8			183.5
Earnings per share							
- basic and diluted	4			84.8p			15.9p

* As defined in Notes 1(y) and 4.

Consolidated statement of comprehensive income for the year ended 31 December 2013

	2013 £m	2012 £m
Profit after tax	**900.8**	183.5
Items that may be reclassified subsequently to profit or loss:		
Transferred from equity in respect of cash flow hedges	**6.2**	6.2
Tax on items transferred from equity (including change in tax rate)	**(4.7)**	(3.9)
Other comprehensive income for the year	**1.5**	2.3
Total comprehensive income for the year	**902.3**	185.8
Attributable to:		
Equity holders of the Company	**617.6**	120.4
Non controlling interest	**284.7**	65.4
	902.3	185.8

Other comprehensive income does not include any items that will not be reclassified subsequently to profit or loss.

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Consolidated statement of changes in equity for the year ended 31 December 2013

	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 2012	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
Profit for the year after tax	—	—	—	—	—	—	—	900.8	—	900.8
Net income recognised	—	—	—	—	—	—	—	900.8	—	900.8
Transferred to Non controlling interests	—	—	—	—	(0.5)	(0.5)	284.7	(284.2)	—	—
Transferred to income:										
- cash flow hedges	—	—	—	—	6.2	6.2	—	—	—	6.2
Tax on transfers	—	—	—	—	(4.7)	(4.7)	—	—	—	(4.7)
Total comprehensive income and expense for the year	—	—	—	—	1.0	1.0	284.7	616.6	—	902.3
Shares cancelled on acquisition	—	—	—	—	—		—	(0.1)	—	(0.1)
Acquisition of Treasury Shares	—	—	(6.9)	—	—	(6.9)	—	—	—	(6.9)
Reserve movements in respect of Treasury Shares	—	—	1.1	—	—	1.1	—	2.0	—	3.1
Dividends paid by subsidiary undertaking	—	—	—	—	—	—	(12.2)	—	—	(12.2)
31 December 2013	**1,195.1**	**2.5**	**(21.4)**	**59.5**	**(61.1)**	**1,174.6**	**913.9**	**498.1**	**74.0**	**2,660.6**

Description of the nature and purpose of each reserve

The capital redemption reserve comprises the nominal value of 24,539,346 Ordinary Shares cancelled under the Share Buyback authority (31 December 2012 - 24,509,820).

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.

Non controlling interests represents those shareholdings in Canary Wharf Group which are not owned by Songbird. The total number of Ordinary Shares in Canary Wharf Group owned by Songbird was 443,305,541, representing 69.37% of the issued share capital at each Balance Sheet date.

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

Consolidated balance sheet at 31 December 2013

	Note	2013 £m	2012 £m
Assets:			
Non current assets			
Investment properties	11	5,334.7	4,676.1
Properties under construction	11	354.5	135.8
Development properties	11	755.0	470.0
Plant and equipment	11	0.8	0.6
		6,445.0	5,282.5
Other non current assets			
Investments	12	115.2	74.6
Tenant incentives and other non current assets	14	182.3	188.1
Derivatives	20	7.5	—
		6,750.0	5,545.2
Current assets			
Trade and other receivables	13	43.6	45.1
Monetary deposits	15	2.3	2.3
Cash and cash equivalents	16	586.1	749.7
		632.0	797.1
Total assets		7,382.0	6,342.3
Liabilities:			
Current liabilities			
Current portion of long term borrowings	18	(472.4)	(114.3)
Corporation tax	17	(58.0)	(48.0)
Trade and other payables	17	(246.5)	(237.0)
		(776.9)	(399.3)
Non current liabilities			
Borrowings	19	(3,358.6)	(3,554.7)
Derivative financial instruments	20	(363.5)	(525.3)
Other non current liabilities	22	(67.1)	(65.9)
Deferred tax liabilities	8	(149.6)	(15.1)
Provisions	23	(5.7)	(7.6)
		(3,944.5)	(4,168.6)
Total liabilities		(4,721.4)	(4,567.9)
Net assets		2,660.6	1,774.4
Equity			
Share capital	24	74.0	74.0
Other reserves		1,174.6	1,179.4
Retained earnings		498.1	(120.4)
Total equity attributable to members of the Company		1,746.7	1,133.0
Non controlling interests		913.9	641.4
Total equity		2,660.6	1,774.4

Approved by the Board and authorised for issue on 27 March 2014 and signed on its behalf by:

David Pritchard
Chairman

Consolidated cash flow statement for the year ended 31 December 2013

	Note	2013 £m	2012 £m
Net cash from operating activities	27	**259.7**	242.4
Interest paid		**(228.8)**	(232.3)
Interest received		**4.2**	7.1
Breakage costs		**—**	(29.1)
Expenses on amendments to Preference Shares		**—**	(7.2)
Net cash inflow/(outflow) from operating activities		**35.1**	(19.1)
Cash flows from investing activities			
Acquisition of property interests		**(183.5)**	(20.9)
Development expenditure		**(142.5)**	(75.1)
Purchase of property, plant and equipment		**(0.3)**	(0.2)
Investment in and net loans to associates		**(29.8)**	(22.4)
Net cash outflow from investing activities		**(356.1)**	(118.6)
Cash flows from financing activities			
Dividends paid to non controlling interests		**(12.2)**	(35.2)
Redemption of securitised debt		**(65.1)**	(57.5)
Repayment of secured loan		**(11.2)**	(8.9)
Repayment of Wood Wharf loan notes		**(8.3)**	(8.3)
Draw down of secured loan		**154.0**	—
Draw down of construction loan		**108.2**	—
Payment of Wood Wharf deferred consideration		**(1.0)**	(1.0)
Share Buyback		**(0.1)**	(30.3)
Wood Wharf loan notes		**—**	32.6
Acquisition of own shares		**(6.9)**	(0.1)
Net cash inflow/(outflow) from financing activities		**157.4**	(108.7)
Net decrease in cash and cash equivalents		**(163.6)**	(246.4)
Cash and cash equivalents at start of year		**749.7**	996.1
Cash and cash equivalents at end of year	16	**586.1**	749.7

Notes to the consolidated financial statements for the year ended 31 December 2013

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 2013. 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 IAS 1 Presentation of Financial Statements;
- IFRS 13 Fair Value Measurement;
- IAS 19 (revised) Employee Benefits; and
- IAS 12 Income Taxes.

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;
- IAS 27 (revised May 2011) Separate Financial Statements;
- IAS 28 (revised May 2011) Investments in Associates and Joint Ventures;
- 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;
- 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;
- Amendments to IAS 36 Impairment of Assets; and
- Amendments to IAS 39 Financial Instruments: Recognition and Measurement.

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

The directors anticipate that the adoption of these standards in future periods will have no material impact on the financial statements of the Group.

The financial statements have been prepared on a going concern basis as stated in Strategic 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.

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.

Notes to the consolidated financial statements for the year ended 31 December 2013 continued

1. Basis of preparation and significant accounting policies continued

Accounting policies continued

(b) Acquisitions and business combinations

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

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

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

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

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

The difference between the fair value of an investment property at the reporting date and its carrying amount prior to remeasurement is included in the Consolidated Income Statement as a valuation gain or loss. When the Group begins to redevelop an existing investment property for continued future use as an investment property, the property remains an investment property and is accounted for as such.

(d) Non current assets held for sale

Non current assets classified as held for sale are measured at the lower of the carrying amount and fair value less costs to sell. As investment properties are exempt from the measurement criteria of IFRS 5, any such assets which are classified as held for sale continue to be carried at fair value.

Non current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

(e) Development properties and properties under construction for investment

Development properties are those properties held with the intention to develop for future use as an investment property. When construction commences on such development properties, they are reclassified at fair value as a property under construction for investment. Such properties are recognised at fair value at each reporting date. Any gain or loss on remeasurement is taken direct to the Consolidated Income Statement. On completion, the property is transferred to investment properties.

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

(f) Plant and equipment

Plant and equipment comprises computers, furniture, fixtures and fittings and improvements to Group offices. These assets are stated at cost less accumulated depreciation and any recognised impairment and are depreciated on a straight line basis over their estimated useful lives of between 3 and 4 years.

(g) Construction contracts

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

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

Revenue on construction contracts is recognised according to the stage reached in the contract by reference to the value of work completed using the percentage of completion method. The percentage of completion is calculated by reference to costs incurred on the building compared with the estimated total costs. The gross amount due comprises costs incurred plus recognised profits less the sum of recognised losses and progress billings. Where the sum of recognised losses and progress billings exceeds costs incurred plus recognised profits, the amount is shown as payments on account.

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

1. Basis of preparation and significant accounting policies continued

Accounting policies continued

(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.

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.

Notes to the consolidated financial statements for the year ended 31 December 2013 continued

1. Basis of preparation and significant accounting policies continued

Accounting policies continued

(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) previously), 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.

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.

1. Basis of preparation and significant accounting policies continued

Accounting policies continued

(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

i) 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.

ii) Operating leases – rental income from operating leases is recognised on a straight line basis over the term of the relevant lease. Any incentives given to lessees are included in Other Non Current Assets and recognised on a straight line basis over the lease term. Initial direct costs incurred in negotiating and arranging an operating lease are deferred and recognised on a straight line basis over the lease term.

(w) Dividends

Dividend distributions to the Company's shareholders are recognised in the Group's financial statements in the period in which the dividends are paid or approved by the Company's shareholders.

(x) Segmental analysis

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

(y) Underlying earnings

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

(i) 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.

Notes to the consolidated financial statements for the year ended 31 December 2013 continued

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.

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.

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 counterparty financial institutions.

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

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

Revenue on construction contracts is recognised using the percentage of completion method. The directors have estimated the outcome of each contract on an individual basis based on the proportion of costs incurred compared with the estimated total costs and reconsider these estimates at each Balance Sheet date.

3. Operating profit

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

	2013 £'000	2012 £'000
The operating profit is stated after charging:		
– depreciation (Note 11)	127	88
– directors' emoluments (Note 10)	610	598

Auditor's remuneration

	2013 £'000	2012 £'000
Audit of Company	61	61
Audit of subsidiaries	512	513
Total audit	573	574
Audit related assurance services (interim reviews)	83	97
Other assurance services (service charge assurance work)	43	45
Audit and related assurance services	699	716
Tax compliance services	93	95
Tax advisory services	429	296
Services relating to taxation	522	391
Other non audit services not covered above	10	36
Total other non audit services	10	36
Total non audit services	532	427
Total fees	1,231	1,143
Occupational pension scheme audits	23	11

3. Operating profit continued

Audit fees

Of the audit fees incurred in 2013, £56,000 related to the audit of the consolidated accounts of Canary Wharf Group (2012 - £56,000).

Other fees

Fees of £39,000 were paid to the auditor in connection with the acquisition of 15 Westferry Circus. These fees have been capitalised as part of the cost of acquiring the building.

Fees of £5,000 were paid to the auditor in 2013 in connection with the retail swap refinancing undertaken in 2012. These fees have been netted against the loan to which the swap related and are being amortised over the remaining life of the loan.

4. Performance measures

Basic earnings and losses per share

	2013		2012	
	Earnings/ (losses) £m	Per share p	Earnings/ (losses) £m	Per share p
Underlying profit for the year before tax	**22.4**	**3.1**	23.3	3.1
Capital and other items	**1,014.3**	**139.5**	178.2	23.8
Tax	**(135.9)**	**(18.7)**	(18.0)	(2.4)
Profit after tax	**900.8**	**123.9**	183.5	24.5
Less: non controlling interest	**(284.2)**	**(39.1)**	(64.7)	(8.6)
Profit after tax attributable to members of the Company	**616.6**	**84.8**	118.8	15.9

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 2013 has been calculated by reference to the profit attributable to equity shareholders of £616.6m for 2013 (2012 - £118.8m) and on the weighted average of 725.8m Ordinary Shares in issue for 2013 (2012 - 749.2m). The weighted average number of Ordinary Shares excludes the shares held by the Trust.

Adjusted net assets per share

	31 December 2013 £m	30 June 2013 £m	31 December 2012 £m
Balance Sheet net assets	**2,660.6**	2,010.6	1,774.4
Adjustment for deferred tax	**149.6**	41.0	15.1
Mark to market of derivatives	**356.0**	405.5	525.3
Add: surplus arising on construction contracts	**76.0**	73.1	70.1
	3,242.2	2,530.2	2,384.9
Non controlling interest in the Balance Sheet	**(913.9)**	(718.7)	(641.4)
Non controlling interest on adjustments above	**(178.1)**	(159.1)	(187.0)
Adjusted net assets	**2,150.2**	1,652.4	1,556.5
Adjusted NAV per share	**290p**	223p	210p

Adjusted NAV per share includes the valuation surplus on construction contracts of £76.0m at 31 December 2013 (30 June 2013 - £73.1m, 31 December 2012 - £70.1m) and excludes fair value adjustments on derivatives and deferred tax.

There were 740.4m Ordinary Shares in issue at 31 December 2013 (30 June 2013 and 31 December 2012 - 740.4m).

In total, the Share Buyback resulted in the acquisition of 24,539,346 Ordinary Shares (31 December 2012 - 24,509,820) at an aggregate cost of £30.4m (31 December 2012 - £30.3m). Of the Ordinary Shares purchased, 24,509,820 were acquired in the second half of 2012 and 29,526 in January 2013. Stated before the impact of the Share Buyback, adjusted net assets at 31 December 2013 would have been £2,180.5m (30 June 2013 - £1,682.8m, 31 December 2012 - £1,586.8m) and the number of shares would have been 764.9m, resulting in an adjusted NAV per share of 285p (30 June 2013 - 220p, 31 December 2012 - 207p).

Notes to the consolidated financial statements for the year ended 31 December 2013 continued

5. Revenue

	2013 £m	2012 £m
Rent receivable	274.3	263.8
Recognised incentives and committed rent increases	(5.5)	(4.4)
	268.8	259.4
Service charge income	77.1	79.4
Miscellaneous income	20.2	16.9
Receivable on termination of leases	1.0	0.3
Construction contract revenue	12.8	5.6
Gross development, rental and related income	379.9	361.6
Service charge and other direct property expenses	(100.1)	(96.1)
Refurbishment costs	(6.0)	—
Movement in accruals and provisions for leasehold commitments	(0.6)	(0.6)
Payments on termination of leases	(1.0)	(0.9)
Construction contract expenditure	(12.8)	(5.6)
Net development, rental and related income	259.4	258.4

Rent receivable included contingent rents of £1.6m (2012 - £1.6m).

In 2013, the Group had 2 major customers contributing £74.9m and £44.1m of Group revenue (2012 - 2 major customers contributing £75.2m and £42.7m).

6. Net revaluation movements on property and investments

	2013 £m	2012 £m
Revaluation of:		
- investment properties	467.7	147.8
- properties under construction	110.9	(15.1)
- development properties	277.3	83.0
	855.9	215.7

In accordance with IAS 40 (amended), the revaluation movement on development properties is recognised in the Consolidated Income Statement. At 31 December 2013, a cumulative revaluation surplus on development properties of £373.5m has been recognised (31 December 2012 - £96.2m).

The revaluation surplus for development properties of £277.3m recognised in 2013 compared with a surplus of £83.0m in 2012. This movement comprised a surplus of £12.9m for properties where market value is less than historical cost (2012 - £7.5m) and a surplus of £264.4m on properties where market value exceeds historical cost (2012 - £75.5m).

7. Net finance costs

	2013 £m	2012 £m
Interest revenue		
Deposits, other loans and securities	3.2	7.5
Interest expense		
Notes and debentures	(139.3)	(139.5)
Construction loan interest	(5.9)	—
Other bank loans and overdrafts and other interest payable	(60.1)	(67.7)
Obligations under long term property lease	(5.6)	(5.4)
	(210.9)	(212.6)
Interest transferred to properties under construction	14.2	6.3
	(196.7)	(206.3)
Underlying net financing costs	(193.5)	(198.8)
Other financing income/(costs)		
Valuation movements on fair value of derivatives	179.9	(7.3)
Finance costs of non equity shares (Note 21)	(25.6)	(27.6)
Hedging reserve recycling	(6.2)	(6.2)
	148.1	(41.1)
Net financing expenses	(45.4)	(239.9)
Total financing income	3.2	7.5
Total financing expenses	(48.6)	(247.4)
Net financing costs	(45.4)	(239.9)

Financing fees included in interest payable totalled £8.6m in 2013 (2012 - £8.4m).

The amount transferred to properties under construction comprised £8.3m attributable to the cost of funds of the Group's general borrowings (2012 - £6.3m) and £5.9m of financing costs recognised on the construction loan facility (2012 - £nil). Capitalised general interest has been calculated by reference to the costs incurred by the Group on developing the properties under construction and funded by the Group's general cash resources and the weighted average cost of debt for the year of 5.7% (2012 - 6.2%).

In 2013, £6.2m was recycled to the Consolidated Income Statement from the hedging reserve as the corresponding hedged cash flows occurred in the year (2012 - £6.2m).

The valuation movement on fair value of derivatives in 2012 was stated net of £29.1m paid to break the interest rate swap on the retail loan facility (Note 21(3)).

8. Tax

	2013 £m	2012 £m
Tax charge		
Current tax charge to income	(6.1)	7.5
Deferred tax	(129.8)	(25.5)
Group total tax	(135.9)	(18.0)
Tax reconciliation		
Group profit on ordinary activities before tax	1,036.7	201.5
Tax on profit on ordinary activities at UK corporation tax rate of 23.25% (2012 - 24.5%)	(241.0)	(49.4)
Effects of:		
Change in tax rate	23.8	(1.3)
Adjustments in respect of prior years	(5.3)	7.7
Indexation allowances and net effect of restriction or reversal of previously restricted capital losses and indexation allowances	104.7	42.5
Expenses not deductible for tax purposes	(6.4)	(7.0)
Deferred tax assets not recognised on losses	(0.5)	(0.7)
Other differences	(11.2)	(9.8)
Group total tax	(135.9)	(18.0)

Notes to the consolidated financial statements for the year ended 31 December 2013 continued

8. Tax continued

The 2013 tax rate has been calculated by reference to the current corporation tax rate of 23.0% which was in effect for the final 3 quarters of the year and the previous rate of 24.0% which was in effect for the first quarter of the year.

The 2012 tax rate of 24.5% was 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 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 RPI, serve to change the Group's deferred tax independently of any movements in valuation;
- indexation allowances cannot create or increase a capital loss. Similarly capital losses are restricted on certain properties where capital allowances have been previously claimed. As such, 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 £3.9m. Taking into account changes in the availability of brought forward tax losses and other reliefs, a charge of £6.1m was recognised in the year, which served to increase the accrual for corporation tax payable to £58.0m at 31 December 2013 from £48.0m at 31 December 2012 (Note 17).

	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 2012	—	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
(Charge)/credit to income	(2.1)	(7.8)	(47.8)	(3.5)	8.2	(53.0)
Credit to equity	—	—	0.3	—	—	0.3
31 December 2013	**1.4**	**6.4**	**70.2**	**15.3**	**12.3**	**105.6**

	Revaluation surpluses £m	Fair value of derivatives £m	Financial instruments £m	Other £m	Total £m
Deferred tax liabilities					
1 January 2012	(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)
(Charge)/credit to income	(86.5)	4.7	1.5	3.5	(76.8)
Charge to equity	—	(5.0)	—	—	(5.0)
31 December 2013	**(213.0)**	**(0.3)**	**(37.8)**	**(4.1)**	**(255.2)**

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

	£m
Net asset at 1 January 2012	14.3
Charge to income	(25.5)
Charge to equity	(3.9)
Net liability at 31 December 2012	(15.1)
Charge to income	(129.8)
Charge to equity	(4.7)
Net liability at 31 December 2013	**(149.6)**

8. Tax continued

The standard rate of corporation tax payable by the Group reduced from 24.0% to 23.0% with effect from 1 April 2013. Also enacted in the Finance Act 2013 are reductions in corporation tax rates to 21.0% on 1 April 2014 and 20.0% on 1 April 2015. Deferred corporation tax has been provided by reference to these enacted corporation tax rates.

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.

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 £71.9m (31 December 2012 - £87.6m) attributable to unused tax losses have not been recognised as it is not currently considered probable that they will be utilised.

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 2013, the weighted average unexpired lease term under non cancellable operating leases for the entire investment property portfolio was 12.9 years (31 December 2012 - 14.2 years).

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

	31 December 2013 £m	31 December 2012 £m
Within one year	276.3	255.3
Between 2 and 5 years	1,049.5	1,011.3
After 5 years	2,239.2	2,378.5
	3,565.0	3,645.1

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:

	2013 £m	2012 £m
Wages and salaries	63.4	57.7
Social security costs	7.3	6.4
Other pension costs	4.7	4.4
	75.4	68.5

The average monthly number of employees, including Canary Wharf Group, during 2013 was 982 (2012 - 942) as set out below:

	2013	2012
Construction	214	191
Property management	596	598
Administration	163	153
	973	942

Notes to the consolidated financial statements for the year ended 31 December 2013 continued

10. Directors and employees continued

Directors' remuneration

	2013 £'000	2012 £'000
Emoluments paid or payable	610	598

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

Highest paid director

	2013 £'000	2012 £'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.

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	50

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

In 2013, travel and other subsistence expenses totalling £11,614 were reimbursed to a non executive director.

Directors' share options
No executive share option plan has been adopted by the Company and none of the directors of the Company participate in allocations of Songbird Shares to certain directors and senior employees of Canary Wharf Group.

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 £4.7m in the year (2012 – £4.4m), 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 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**		

Non current assets and construction contracts at 31 December 2013 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 2013	4,862.5	137.5	415.0	—	**5,415.0**		
Adjust for brought forward:							
– 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**		
Carrying value at 1 January 2013	4,676.1	135.8	470.0	—	**5,281.9**	0.6	**5,282.5**
Additions	13.4	93.6	7.7	5.6	**120.3**	0.3	**120.6**
Capitalised interest	—	14.2	—	—	**14.2**	—	**14.2**
Revaluation movement	467.7	110.9	277.3	—	**855.9**	—	**855.9**
Transfer to cost of sales	(6.0)	—	—	(12.8)	**(18.8)**	—	**(18.8)**
Transfer to payments on account	—	—	—	7.2	**7.2**	—	**7.2**
Acquisition of properties	183.5	—	—	—	**183.5**	—	**183.5**
Depreciation	—	—	—	—	**—**	(0.1)	**(0.1)**
Carrying value at 31 December 2013	**5,334.7**	**354.5**	**755.0**	**—**	**6,444.2**	**0.8**	**6,445.0**
Adjust for:							
– tenant incentives*	173.2	—	—	—	**173.2**		
– unamortised lease negotiation costs*	7.1	2.0	—	—	**9.1**		
– obligations under long term property lease (Note 22)	—	—	(55.0)	—	**(55.0)**		
Market value at 31 December 2013	**5,515.0**	**356.5**	**700.0**	**—**	**6,571.5**		

* Refer to Note 14 for further details.

Notes to the consolidated financial statements for the year ended 31 December 2013 continued

11. Investment, development and construction properties and plant and equipment continued

Recurring fair value measurement
The fair value of Canary wharf Group's property portfolio at 31 December 2013 was £6,571.5m (31 December 2012 - £5,415.0m).

IFRS 13 establishes a fair value hierarchy that classifies valuation inputs into 3 levels:

- level 1: unadjusted quoted prices in active markets;
- level 2: observable inputs other than quoted prices included within level 1; and
- level 3: unobservable inputs.

All of Canary Wharf Group's properties are valued externally by qualified valuers, with office properties and future development sites valued by either CBRE or Savills and retail properties valued by Cushman & Wakefield. The valuers have classified all of Canary Wharf Group's properties as level 3.

Valuation process
Property valuations are assessed twice a year on the basis of valuation reports prepared by the external valuers. The properties are valued individually and not as part of a portfolio and no allowance has been made for expenses of realisation or for any tax that might arise. In accordance with market practice, the valuations do reflect deductions in respect of purchaser's costs and, in particular, liability for SDLT as applicable at the valuation date.

These valuations conform to International Valuation Standards and are arrived at by reference to market transactions for similar properties based on:

- information provided by Canary Wharf Group such as current rents, terms and conditions of lease agreements, service charges and capital expenditure. This information is derived from Canary Wharf Group's financial and property management systems and is subject to Canary Wharf Group's overall control environment; and
- assumptions and valuation models adopted by the valuers. These assumptions (referred to by IFRS 13 as unobservable inputs) are typically market related, such as rental values, yields and discount rates. They are based on the valuers' professional judgement and market observation.

The key property valuations are driven principally by the terms of the leases in place at the valuation date. These determine the majority of the cash flow profile of the property for a number of years and therefore form the base of the valuation. The valuation assumes adjustments from these rental values to current market rent at the time of the next rent review and as leases expire and are replaced by new leases. The current market level of rent is assessed based on evidence provided by the most recent relevant leasing transactions and negotiations. This is based on evidence available to the valuers at the date of valuation.

The information provided to the valuers, and the assumptions and the valuation models used by the valuers, are reviewed by Canary Wharf Group's executive directors. When the valuation reports are considered appropriate they are recommended for adoption by the audit committees of Canary Wharf Group and the Company which consider the valuation reports as part of their overall responsibilities.

Valuation techniques used for level 3
The following valuation techniques can be used for any given category of property:

- discounted cash flow using the following inputs: net current rent, estimated rental value (annual rent), terminal value, discount rate; or
- yield methodology using net current rent or estimated market rental value, capitalised with a market capitalisation rate.

The resulting valuations are cross checked against the initial yields and the fair market values per square foot derived from actual market transactions.

For properties under construction, the fair value is usually calculated by estimating the fair value of the completed property (using either of the above mentioned methodologies) less estimated costs to completion.

There were no transfers of properties between levels 1, 2 and 3 during the period and all properties were classified as level 3 at both the beginning and end of the period. There have been no changes in valuation technique since the previous year.

11. Investment, development and construction properties and plant and equipment continued

Quantitative information about fair value measurements using unobservable inputs (level 3)

	Fair value at 31 December 2013 £m	Valuation techniques	Unobservable inputs	Range or (weighted average)
Investment properties:				
Offices	4,647.5	Discounted cash flow	Annual rent psf (ERV)	£38.50–£41.50 psf (i)
			Discount rate	3.7–11.1% (5.9%)
			Capitalisation rate for terminal value	4.75–6.5% (5.95%)
		Yield methodology	Annual rent psf (ERV)	As above (i)
			Capitalisation rate	3.9–14.6%
			– Initial yield	(5.2%)
			– Equivalent yield	(5.1%)
Retail and parking	867.5	Discounted cash flow	Annual rent psf (ERV)	£145ZA–£360ZA (ii) (£240ZA)
			Discount rate	7.1%
			Capitalisation rate for terminal value	5.0%
		Yield methodology	Annual rent psf	As above (ii)
			Capitalisation rate	
			– Initial yield	(4.4%)
			– Equivalent yield	(4.8%)
	5,515.0			
Properties under construction:				
Offices	320.0	Capitalised net revenues less costs to complete	Capitalised net revenues	£45.00–£48.50 psf (iii)
			Estimated costs to complete	(iv)
Retail	36.5	Capitalised net revenues less costs to complete	Capitalised net revenues	As above (iii)
			Estimated costs to complete	(iv)
	356.5			
Properties held for development	700.0	Capitalised net revenues less costs to complete	Capitalised net revenues	(iii)
			Estimated costs to complete	(iv)
	6,571.5			

Note:
(i) ERV dependent on age, condition, building and floor.
(ii) Zone A to depth of 20 ft.
(iii) Capitalised net revenues calculated using estimated rentals and capitalisation rates derived from prior transactions and/or comparable transactions in the market.
(iv) Costs to complete are estimated for each construction project taking into account the stage of completion and the total estimated costs for the project.

Notes to the consolidated financial statements for the year ended 31 December 2013 continued

11. Investment, development and construction properties and plant and equipment continued

Sensitivity of measurement to changes in significant unobservable inputs

A fall in the estimated annual rents will reduce the fair value.

An increase in the discount rates and the capitalisation rates (used for both the direct capitalisation method or terminal value of discounted cash flow method) will reduce the fair value.

For properties under construction or held for development, an increase in the estimated cost to completion and/or in the forecast time to complete will reduce the fair value. The incurrence of such costs over the period to completion will increase fair value.

There are interrelationships between these inputs as they are partially determined by market conditions.

A movement in more than one unobservable input could magnify the impact on the valuation. Alternatively, the impact on the valuation could be mitigated by the interrelationships of two unobservable inputs moving in opposite directions, e.g. an increase in ERV may be offset by an increase in yield, resulting in no net impact on the valuation.

Transactions relating to property assets

On 24 December 2008, Canary Wharf Group entered into agreements with the Secretary of State for Transport and CRL for the design and construction of the Canary Wharf Crossrail station. The station will be delivered to CRL for a fixed cost of £350.0m and the construction risk is borne by Canary Wharf Group. The anticipated cost to Canary Wharf Group was accounted for when incurred, as additions to development properties and allocated to such 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 545,000 sq ft at 25 Churchill Place. Construction of the shell and core of the building commenced in February 2012 and is on schedule to complete in mid 2014.

Canary Wharf Group has entered into a £190.0m construction and development loan facility which is being utilised to fund the construction of 25 Churchill Place (Note 21 (5)). The first draw down under this loan facility occurred in January 2013.

Construction has also continued on the retail mall located above the Canary Wharf Crossrail station which is scheduled to open on a phased basis between 2015 and 2018.

Prior to draw down of the construction loan facility, Canary Wharf Group funded the development of 25 Churchill Place and the retail mall above the Canary Wharf Crossrail station from its unrestricted cash. Following the commencement of draw downs under the construction loan facility, the finance costs recognised in connection with this loan have been capitalised, together with general interest to the extent projects continue to be funded from Canary Wharf Group's unrestricted cash. At 31 December 2013, £5.9m of construction loan interest (31 December 2012 - £nil) and £14.6m of general interest (31 December 2012 - £6.3m) has been capitalised.

There is no capitalised interest in the carrying amount of the development properties at either 31 December 2013 or 31 December 2012.

In March 2013, Canary Wharf Group acquired the long leasehold interest in 7 Westferry Circus at Canary Wharf for £46.6m, plus SDLT and fees of £2.4m.

In July 2013, Canary Wharf Group acquired the long leasehold interest in 15 Westferry Circus at Canary Wharf. The acquisition was funded by a £128.0m loan from Metlife. The equity provided by Canary Wharf Group for the transaction was limited to purchase costs (including SDLT) of approximately £6.4m.

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 will act 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 will be 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, which was previously due to expire in 2013, was modified in 2010 and extended to October 2016. As part of this modification, Canary Wharf Group's option to purchase the site was changed to a right of first offer.

Included in investment properties is an amount of approximately £27.2m (31 December 2012 - £26.4m) 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 £4,417.9m (31 December 2012 - £4,111.5m). At 31 December 2013 and 31 December 2012, 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 £12.2m in 2013 (2012 - £9.7m).

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 2012	47.9
Advances received	4.9
Contract revenue recognised as revenue in the Consolidated Income Statement	(5.6)
Offset from construction contracts	11.6
31 December 2012	58.8
Advances received	9.6
Contract revenue recognised as revenue in the Consolidated Income Statement	(12.8)
Offset from construction contracts	7.2
Gross amount due to customers for contract work at 31 December 2013	**62.8**

Cumulative amounts accounted for as construction contracts are as follows:

	£m
Advances received	138.0
Recognised as revenue	(79.4)
Transferred to construction contracts	4.2
Payments on account (Note 17)	**62.8**

No retentions were held by customers for contract work at either 31 December 2013 or 31 December 2012.

12. Investments

The investments balance comprises:

	31 December 2013 £m	31 December 2012 £m
Shares	0.7	0.7
Loans	93.4	62.5
	94.1	63.2
Fees on acquisition	0.7	0.7
Share of post acquisition losses	(0.7)	(0.1)
Revaluation of property interests	21.5	11.2
Impairment of investment	(0.4)	(0.4)
	115.2	74.6

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

Investments comprise:

	31 December 2013 £m	31 December 2012 £m
Associates and joint ventures	115.0	74.4
Other investments	0.2	0.2
	115.2	74.6

Notes to the consolidated financial statements for the year ended 31 December 2013 continued

12. Investments continued

Associates and joint ventures

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

At 31 December 2013	20 Fenchurch Street £m	Shell Centre £m	Total £m
Initial investment	0.1	—	0.1
Fees	—	0.7	0.7
Loan funding	52.7	40.7	93.4
Recognised share of losses	(0.1)	(0.6)	(0.7)
Share of revaluation surplus	21.5	—	21.5
	74.2	40.8	115.0

The directors consider that the values of the projects are not less than the amounts invested at the Balance Sheet date.

Details of Canary Wharf Group's associates and joint ventures at 31 December 2013 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. In May 2013, a resolution to grant planning permission was achieved subject to finalising a Section 106 agreement and stage 2 referral to the GLA and Secretary of State. On 17 July 2013, the GLA issued its stage 2 report endorsing Lambeth Borough Council's right to determine the application and support of the development plans. Subsequently, on 4 September 2013, the Secretary of State called in the planning application which has delayed completion of the planning process and draw down of the lease from Shell until sometime in 2014. Canary Wharf Group's investment to 31 December 2013 totalled £40.8m (31 December 2012 - £26.0m) including an initial £15.0m paid upon entering into the agreement with Shell and fees of £0.7m (31 December 2012 - £0.7m). At 31 December 2013, the joint venture entities had aggregate assets of £84.6m and liabilities of £4.3m (31 December 2012 - assets of £52.1m and liabilities of £1.5m).

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 £74.2m at 31 December 2013 (31 December 2012 - £48.4m), representing the initial investment plus associated fees, together with subsequent funding and the Group's share of revaluation surpluses less Canary Wharf Group's share of operating losses. At 30 September 2013, an external valuation resulted in a cumulative revaluation surplus of £143.0m on the project of which £21.5m is attributable to Canary Wharf Group. Including the revaluation of property, at 31 December 2013 the 20 Fenchurch Street entities had assets of £504.0m and liabilities of £10.7m (31 December 2012 - assets of £325.3m and liabilities of £2.8m).

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 the Group have been derived from their latest available management accounts after making any necessary adjustments for the Group's accounting policies. The Group's share of the profits and losses of its joint ventures and associates is as follows:

Summarised profit and loss accounts for 2013	20 Fenchurch Street £m	Shell Centre £m
Administrative expenses	(0.2)	(1.1)
Revaluation gain	68.5	—
Profit before and after tax	68.3	(1.1)
Group share	10.3	(0.6)

Summarised profit and loss accounts for 2012	20 Fenchurch Street £m	Shell Centre £m
Other costs	(0.7)	—
Revaluation gain	23.9	—
Profit before and after tax	23.2	—
Group share	3.6	—

12. Investments continued

Associates and joint ventures continued

Summarised Balance Sheets at 31 December 2013	20 Fenchurch Street £m	Shell Centre £m
Total assets	504.0	84.6
Total liabilities	(10.7)	(4.3)
Net assets	493.3	80.3
Group share	74.2	40.1

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

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 2013, the carrying value of the investment was held at £0.2m (after a total provision of £0.4m), based on the net asset value of HsO at that date.

13. Trade and other receivables

	2013 £m	2012 £m
Trade receivables	7.0	10.6
Other receivables	5.5	6.4
Prepayments and accrued income	27.2	20.9
Deferred financing expenses	3.9	7.2
Total trade and other receivables	**43.6**	**45.1**

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 2013, trade receivables included one trade debtor in excess of £1.0m, with an aggregate amount outstanding of £1.7m, representing 24.3% of gross trade receivables at that date. This amount was received in January 2014.

Trade receivables more than 61 days past due at 31 December 2013 totalled £2.5m (31 December 2012 - £1.6m). At 31 December 2013 provisions against bad or doubtful trade debts totalled £0.1m (31 December 2012 - £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 2013 or 31 December 2012.

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

Notes to the consolidated financial statements for the year ended 31 December 2013 continued

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 2012	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**
Recognition of rent during rent free periods	6.8	—	6.8	—	**6.8**
Amortisation	(7.1)	(5.2)	(12.3)	(1.0)	**(13.3)**
Deferred lease negotiation costs	—	—	—	0.7	**0.7**
31 December 2013	**86.4**	**86.8**	**173.2**	**9.1**	**182.3**

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.

	2013 £m	2012 £m
Monetary deposits held at bank	**2.3**	2.3

The effective interest rate on monetary deposits was 0.6% (31 December 2012 - 0.6%).

16. Cash and cash equivalents

Cash and cash equivalents comprise:

	2013 £m	2012 £m
Unsecured cash	**456.3**	618.7
Collateral for borrowings	**108.6**	118.5
Security for obligations	**21.2**	12.5
	586.1	749.7

Unsecured cash comprises £33.8m held by the Company and its wholly owned subsidiaries and £422.5m held by Canary Wharf Group.

The effective interest rate on short term deposits at 31 December 2013 was 0.5% (31 December 2012 - 0.7%) and the deposits had an average maturity of 21 days (31 December 2012 - 61 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:

	2013 £m	2012 £m
Securitised debt	**54.1**	70.2
Secured loans	**54.5**	19.0
Wood Wharf loan notes	**—**	29.3
	108.6	118.5

Of the cash collateral disclosed above, all of the secured loans balance and £20.3m of the securitised debt balance (31 December 2012 - £13.9m) represent rental payments from tenants received in advance.

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

17. Trade and other payables and corporation tax

	2013 £m	2012 £m
Trade payables	17.8	7.8
Tax and social security costs	9.3	7.9
Other payables	16.0	10.8
Other accruals	70.9	84.7
Deferred income	69.7	67.0
Payments on account (Note 11)	62.8	58.8
Total trade and other payables	**246.5**	237.0
Corporation tax	**58.0**	48.0

Trade and other payables includes £89.8m of financial liabilities at 31 December 2013 (31 December 2012 - £93.1m). 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 23 days (31 December 2012 - 12 days). For those suppliers that do charge interest, no interest is charged on the trade payables for the first 28 days from the date of the invoice. Thereafter interest is charged on the outstanding balances at various interest rates which are determined by reference to the terms of each such agreement. The Group has financial risk management policies in place which seek to ensure that all payables are paid within the credit timeframe. The directors consider that the carrying amount of trade payables approximates their fair value.

For further information on corporation tax refer to Note 8.

18. Current portion of long term borrowings

The current portion of long term borrowings comprises:

	2013 £m	2012 £m
Accrued interest payable	25.6	24.6
Repayable within one year:		
- securitised debt	65.1	61.3
- secured loans	360.3	14.2
- financing costs of non equity shares	6.0	6.0
- Wood Wharf loan notes	15.4	8.2
Long term borrowings repayable within one year	472.4	114.3

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

19. Borrowings

Non current liability borrowings comprise:

	2013 £m	2012 £m
Securitised debt	2,187.2	2,256.4
Wood Wharf loan notes	43.2	58.8
Secured loans	758.7	974.9
Construction loan	103.4	—
	3,092.5	3,290.1
Preference Shares	266.1	264.6
	3,358.6	3,554.7

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

Notes to the consolidated financial statements for the year ended 31 December 2013 continued

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 2013, the fair value of these derivatives resulted in the recognition of a liability of £356.0m (31 December 2012 - £525.3m). The Group has no interest rate swaps or collars which qualify for hedge accounting.

	2013 £m	2012 £m
Net liabilities/(assets):		
Securitisation	200.3	286.3
Other secured loans	161.2	236.7
Preference Shares	(5.5)	2.3
	356.0	525.3

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	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

	Securitised debt £m	Other secured loans £m	Total derivative liabilities £m
Within one year	**31.2**	**33.4**	**64.6**
In one to 2 years	**27.4**	**27.4**	**54.8**
In 2 to 5 years	**49.2**	**32.0**	**81.2**
In 5 to 10 years	**40.4**	**36.7**	**77.1**
In 10 to 20 years	**67.8**	**52.0**	**119.8**
In 20 to 30 years	**11.7**	**1.6**	**13.3**
31 December 2013	**227.7**	**183.1**	**410.8**

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 2013 by £105.1m/(£(114.1)m (2012 - £119.3m/£(130.7)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

	2013 £m	2012 £m
Securitised debt	2,463.9	2,625.2
Wood Wharf loan notes	58.6	67.0
Other secured loans	1,397.9	1,229.2
	3,920.4	3,921.4
Non equity shares and associated financing costs	266.6	272.9
Gross debt	4,187.0	4,194.3
Current liabilities	472.4	114.3
Non current liabilities:		
- borrowings	3,358.6	3,554.7
- derivatives including assets	356.0	525.3
Gross debt	4,187.0	4,194.3
Cash and cash equivalents	(586.1)	(749.7)
Monetary deposits	(2.3)	(2.3)
Net debt	3,598.6	3,442.3

On 30 August 2012, amendments were made to the terms of the Preference Shares. With effect from that date the coupon payable on the Preference Shares reduced from a fixed rate of 10.0% payable quarterly to 3 month LIBOR plus 7.75% p.a. payable quarterly. Also on 30 August 2012, the Company entered into an interest swap which serves to fix the 3 month LIBOR element of the coupon to 1.01% until August 2017 and, including the margin of 7.75% p.a., fixes the coupon on the Preference Shares at 8.76% p.a.. A Preference Dividend of £6.0m (including related swap costs) was accrued at 31 December 2013 and paid in January 2014 (31 December 2012 - £6.0m).

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

	Securitised debt £m	Wood Wharf loan notes £m	Other secure loans £m	Construction loan £m	Total borrowings £m	Non equity shares £m	Total £m
1 January 2013	2,625.2	67.0	1,229.2	—	3,921.4	272.9	4,194.3
Drawn down	—	—	154.0	108.2	262.2	—	262.2
Effective interest rate adjustment	(2.8)	—	(12.3)	(5.8)	(20.9)	1.5	(19.4)
Accrued finance charges	1.5	(0.1)	1.3	1.1	3.8	24.2	28.0
Repaid in year	(65.1)	(8.3)	(11.2)	—	(84.6)	(24.2)	(108.8)
Derivative instrument assumed in year	—	—	10.6	—	10.6	—	10.6
Movements in fair value of derivatives	(94.9)	—	(75.5)	(1.7)	(172.1)	(7.8)	(179.9)
31 December 2013	**2,463.9**	**58.6**	**1,296.1**	**101.8**	**3,920.4**	**266.6**	**4,187.0**
Payable within one year or on demand	85.3	15.4	365.6	0.1	466.4	6.0	472.4
Payable in more than one year	2,187.2	43.2	758.7	103.4	3,092.5	266.1	3,358.6
Derivatives classified as:							
- non current assets	—	—	(0.3)	(1.7)	(2.0)	(5.5)	(7.5)
- non current liabilities	191.4	—	172.1	—	363.5	—	363.5
	2,463.9	58.6	1,296.1	101.8	3,920.4	266.6	4,187.0

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

Notes to the consolidated financial statements for the year ended 31 December 2013 continued

21. Net debt continued

(1) At 31 December 2013, the following notes issued by CWF II, a subsidiary of Canary Wharf Group, were outstanding:

Class	Principal £m	Interest	Repayment
A1	983.4	6.455%	By instalment from 2009 to 2030
A3	400.0	5.952%	By instalment from 2032 to 2035
A7	222.0	Floating	In 2035
B	176.3	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
	2,285.7		

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. For the purpose of preparing consolidated accounts, 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 0.70% 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 2.10% 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 2013, carrying the interest rates stated: £983.4m of A1 Notes – 6.455%; £400.0m of A3 Notes – 5.952%; and £176.3m of B Notes – 6.800%.

The principal amount of the Notes in issue at 31 December 2013 was £2,285.7m, or £2,166.0m 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 £231.4m as cash collateral in respect of this obligation. The annual fee payable in respect of the arrangement is £2.2m.

CWF II also has the benefit of a £300.0m liquidity facility provided by Lloyds, under which drawings may be made in the event of a cash flow shortage under the securitisation. This facility is renewable annually. The commitment fee payable for the provision of this facility increased from 0.487% p.a. to 0.888% p.a. from July 2013.

The weighted average maturity of the debentures at 31 December 2013 was 14.3 years (31 December 2012 – 14.9 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.

The loan facility carries interest at 3 month LIBOR plus a margin of 2.75%. An interest rate swap has been put in place at a rate of 0.5425% which, together with the margin of 2.75%, fixes the effective interest rate under the loan at 3.2925%. The loan is repayable in December 2014.

(4) A bank loan comprising an initial principal of £608.8m is secured against One Churchill Place. The loan amortises with a balloon payment of £155.0m on maturity in July 2034. This loan carries a hedged interest rate of 5.82%. In 2013, £9.6m of loan principal was repaid in accordance with the loan agreement, reducing the principal at 31 December 2013 to £541.1m.

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. The first draw down was made in January 2013 and at 31 December 2013, £108.2m had been drawn down under the facility. The margin on the loan is 300 bps over LIBOR from first draw down to rent commencement, following which the margin may drop to 250 bps or 225 bps subject to the satisfaction of certain interest cover tests.

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 4.017%. 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 amount. At 31 December 2012, £7.2m of fees had been deferred and were included within debtors due within one year. These fees have been transferred from debtors following the first draw down and are being amortised over the life of the loan.

(6) In January 2012, Canary Wharf Group acquired CRT's 50.0% interest in Wood Wharf. The consideration for the acquisition was £52.4m which comprised an upfront payment of £4.4m and loan notes with a repayment profile as follows: 30 September 2012 - £8.25m (redeemed); 30 September 2013 - £8.25m (redeemed); 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 was originally in December 2013. The term of the loan has been extended to July 2014 and the balance owing on the loan at 31 December 2013 had reduced to £4.1m.

The joint venture entities had also issued discounted loan notes with an outstanding value at 31 December 2013 of £27.7m 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 2013 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	6,890,000	—	6,890,000	6 February 2013
'D' loan notes	4,136,564	394,686	4,531,250	6 February 2016
	27,326,062	394,686	27,720,748	

The loan notes are fully cash collateralised and are due for repayment 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. £360,000 of the 'C' loan notes were redeemed in the year.

(8) In July 2013, Canary Wharf Group acquired 15 Westferry Circus and entered into a £128.0m loan facility with MetLife. The facility comprises a fixed rate interest loan of £31.475m and a floating interest loan of £96.525m, of which £1.5m was repaid. Interest on the fixed rate loan is payable at 2.722% and on the floating rate loan at 3 month LIBOR plus a margin of 2.30%. In connection with the acquisition, Canary Wharf Group also took a novation of an interest rate swap secured against the property at a fixed rate of 4.75%, fixing the all in cost of borrowing for the floating rate loan at 7.05%. This swap had an out of the money valuation at the novation date of £10.6m which has been taken to Non current liabilities and will be amortised to the profit and loss account over the term of the facility. The loans and the associated interest rate swap both terminate on 25 April 2016.

A fair value adjustment of £10.4m has been recognised on the loan facility, calculated at the date of assuming the liability, which saves to reduce the carrying value of the debt. This fair value adjustment has been recognised in Non current liabilities and will be amortised over the life of the loan facility.

(9) In September 2013, Canary Wharf Group entered into a £26.0m loan facility secured against 7 Westferry Circus. The facility carries interest at 3 month LIBOR plus 2.95% and the facility is repayable in September 2018.

Notes to the consolidated financial statements for the year ended 31 December 2013 continued

21. Net debt continued

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 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

	Securitised debt £m	Other secured loans £m	Wood Wharf loan notes £m	Preference Shares £m	Total £m
Contractual undiscounted cash flows at 31 December 2013:					
Within one year	170.5	392.2	17.6	23.0	**603.3**
In one to 2 years	170.8	30.4	17.3	25.8	**244.3**
In 2 to 5 years	516.4	441.1	3.1	87.2	**1,047.8**
In 5 to 10 years	812.9	165.0	30.1	295.3	**1,303.3**
In 10 to 20 years	1,425.4	361.4	—	—	**1,786.8**
In 20 to 30 years	802.1	176.6	—	—	**978.7**
	3,898.1	**1,566.7**	**68.1**	**431.3**	**5,964.2**
Comprising:					
Principal repayments	2,165.9	1,241.1	59.2	275.0	**3,741.2**
Interest payments	1,732.2	325.6	8.9	156.3	**2,223.0**
	3,898.1	**1,566.7**	**68.1**	**431.3**	**5,964.2**

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.

Other secured loans include the construction loan facility.

Debt service

The weighted average interest rates paid on borrowings at the Balance Sheet dates were as follows:

	2013 %	2012 %
Securitisation	**6.2**	6.2
Construction loan	**4.1**	—
Other secured loans	**4.9**	4.8
Wood Wharf loan notes	**4.1**	4.4

21. Net debt continued

Comparison of market values and carrying amount

	31 December 2013			31 December 2012		
	Market value £m	Carrying amount £m	Difference £m	Market value £m	Carrying amount £m	Difference £m
Securitisation	(2,372.9)	(2,272.5)	(100.4)	(2,521.2)	(2,338.9)	(182.3)
Wood Wharf loan notes	(58.6)	(58.6)	—	(67.0)	(67.0)	—
Secured loans	(1,229.7)	(1,227.8)	(1.9)	(994.4)	(992.5)	(1.9)
Non equity shares	(272.1)	(272.1)	—	(270.6)	(270.6)	—
	(3,933.3)	(3,831.0)	(102.3)	(3,853.2)	(3,669.0)	(184.2)
Other financial liabilities:						
- interest rate derivatives	(356.0)	(356.0)	—	(525.3)	(525.3)	—
Cash and monetary deposits	588.4	588.4	—	752.0	752.0	—
Total	(3,700.9)	(3,598.6)	(102.3)	(3,626.5)	(3,442.3)	(184.2)

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 counterparties.

Carrying value of categories of financial instruments

	2013 £m	2012 £m
Financial assets		
FVTPL	7.5	—
Loans and receivables	614.8	777.4
Available for sale	0.2	0.2
	622.5	777.6
Assets not classified as financial assets	6,759.5	5,564.7
Total assets	7,382.0	6,342.3
Financial liabilities		
FVTPL	(363.5)	(525.3)
Amortised cost	(3,926.5)	(3,769.2)
	(4,290.0)	(4,294.5)
Liabilities not classified as financial liabilities	(431.4)	(273.4)
Total liabilities	(4,721.4)	(4,567.9)
Net assets	2,660.6	1,774.4

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 and the loan secured against 7 Westferry Circus.

Liquidity risk

The Group's policy is to ensure continuity of funding and at 31 December 2013 the average maturity of Canary Wharf Group's debt was 11.6 years (31 December 2012 – 13.0 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.

Notes to the consolidated financial statements for the year ended 31 December 2013 continued

21. Net debt continued

Financial risks continued

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 63.3% of the investment property portfolio by value. The principal amount outstanding at 31 December 2013 was £2,285.7m or £2,166.0m excluding the repurchased Notes.

Maximum LMCTV ratio of 100.0%. Based on the valuations at 31 December 2013, the LMCTV ratio at the interest payment date in January 2014 would have been 63.4%.

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 £541.1m secured against One Churchill Place, representing 14.9% 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 15.7% of the investment property portfolio by value.

Maximum LTV ratio of 70.0%. Based on the valuations at 31 December 2013, the LTV was 40.7%.

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.

(iv) Loan of £92.3m secured against 50 Bank Street, representing 2.7% 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 2013 the LTV was 61.7%.

The minimum ICR covenant is 150.0%. The covenant was satisfied throughout the year.

The facility repayment date is 7 June 2016.

(v) Construction loan facility of £190.0m secured against 25 Churchill Place.

Maximum LTV ratio of 65.0%, based on the projected valuation at completion, and maximum loan to cost ratio of 65.0%. These covenants were satisfied throughout the year.

(vi) Loan of £26.0m secured against 7 Westferry Circus, representing 0.8% of the investment property portfolio by value.

Maximum LTV ratio of 65.0%. Based on the valuations at 31 December 2013, the LTV was 58.4%. This facility is not subject to any ICR covenant. The facility repayment date is 5 September 2018.

(vii) Loan of £126.5m secured against 15 Westferry Circus, representing 2.6% of the investment property portfolio by value.

The minimum ICR covenant is 100.0% which was satisfied throughout the period. The loan is not subject to any LTV covenant.

The facility repayment date is 25 April 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
1 January 2013	8.5	57.4	65.9
Accrued finance charges	—	5.7	5.7
Repaid in period	(1.0)	(3.5)	(4.5)
31 December 2013	**7.5**	**59.6**	**67.1**

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 £3.5m have been made and further 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 2013, the deferred consideration payable to UBS is carried at £7.5m including related fees.

In January 2012, Canary Wharf Group acquired the remaining 50.0% effective interest in Wood Wharf from CRT for a total consideration of £52.4m. In conjunction with the acquisition, CRT granted a new 250 year lease of the site subject to a ground rent payment to CRT 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.

23. Provisions

Provisions have been made in respect of the following liabilities:

	Other lease commitments £m
1 January 2012	9.3
Utilisation of provision	(3.0)
Unwind of discount	0.6
Change in provision	0.7
31 December 2012	7.6
Utilisation of provision	(3.0)
Unwind of discount	0.5
Change in provision	0.6
31 December 2013	**5.7**

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 2013, the provision totalled £3.2m discounted at 5.7% (31 December 2012 - £5.5m 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 2013 was £2.5m calculated on the basis of a discount rate of 5.7% (31 December 2012 - £2.0m discounted at 6.2%). This commitment relates to the lease back of certain car parking spaces which will expire in 2028.

Notes to the consolidated financial statements for the year ended 31 December 2013 continued

24. Share capital

Issued share capital comprises:

	2013 £m	2012 £m
Equity shares:		
– Ordinary Shares	74.0	74.0
Shares not classified as equity:		
– Preference Shares	275.0	275.0
Total	349.0	349.0

As at 31 December 2013 a total of 740,374.616 Ordinary Shares were in issue compared with 740,404,142 at 31 December 2012. There were 275,000,000 Preference Shares in issue at both 31 December 2013 and 31 December 2012.

Share Buyback

On 30 August 2012, the ordinary shareholders of the Company approved a Share Buyback authorisation for a maximum of 5.0% of the issued share capital of the Company, which permitted 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 was 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. 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 Share Buyback. The aggregate cost of the Share Buyback, including fees, was £30.3m.

On 4 January 2013, the Company announced that the Board had authorised a further £10.0m aggregate spend on the Share Buyback. An additional 29,526 Ordinary Shares were acquired at an aggregate cost of £35,609 including fees in January 2013. On 5 April 2013, the Company announced the buyback authority had expired. The buyback authority was subsequently renewed at the AGM held on 22 May 2013 on the same terms as the previous buyback authority. The current buyback authority expires at the end of the AGM of the Company to be held in 2014 and renewal is being sought until the end of the AGM of the Company in 2015. No shares have been acquired under the current Share Buyback authority.

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.

Preference Shares

On 30 August 2012, the ordinary shareholders of the Company approved the acceptance of amendments to the terms of the Preference Shares. 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 payable on 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 was fixed at 8.76%.

25. Dividends

During the year ended 31 December 2013, Preference Share dividends totalling £24.0m, including related swap costs where applicable, were paid and a further £6.0m including related swap costs were accrued. In 2012, Preference Share dividends totalling £20.3m, including related swap costs where applicable, were paid and a further £6.0m including related swap costs was accrued.

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 which 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 could 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 recipient elected to redeem their respective share allocations by selling all or part of the allocation on the open market, Canary Wharf Group could elect instead to pay the equivalent amount in cash resulting in those share allocations being released back into the Trust to be available for any future allocations. All of these allocated shares have now been released.

A further 1,350,000 shares were allocated in 2012 to certain directors and senior employees. Of these shares, 450,000 became available for release to the beneficiaries of the allocation on 30 June 2012 and 450,000 shares became available to be released on 30 June 2013. The remaining 450,000 shares may be released from 30 June 2014.

A further 3,125,000 shares were allocated in 2013. Of these shares, 1,041,667 became available to be released to the beneficiaries of the allocation on 30 June 2013 and a further 1,041,667 shares will become available to be released on 30 June 2014. The remaining 1,041,666 shares may be released from 30 June 2015.

During 2013, 205,000 shares which were allocated in 2010, 158,333 shares which were allocated in 2012 and 466,666 shares which were allocated in 2013 were released to employees and directors at a weighted average price of £1.48 per share, of which 755,799 were acquired by the Group and released to the Trust.

During 2012, 32,500 shares which were allocated in 2010 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 257,150 shares were acquired by the Group and released to the Trust.

The cost to the Group of the 2013 share allocation has been calculated by reference to the market value of Songbird Shares at the grant date of £1.40 per share (2012 - £1.11 per share). The aggregate cost of the allocations attributable to 2013, totalling £3.3m (2012 - £1.0m), has been charged to the same expense category as the employment costs of the relevant employee, taken to the profit and loss account and classified within administrative expenses.

In 2013, the Trust acquired an additional 3,936,726 Songbird Shares at an aggregate cost of £5.7m including fees. At 31 December 2013, the Trust held 16,038,042 Songbird Shares including 3,645,001 shares which have been allocated to directors and employees but not yet released. Subsequent to the year end, 170,000 shares were released on 2 January 2014.

27. Notes to the cash flow statement

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

	2013 £m	2012 £m
Profit on ordinary activities before tax	**1,036.7**	201.5
Non cash movements		
Net valuation movements on properties	**(855.9)**	(215.7)
Refurbishment costs	**6.0**	—
Share of profit after tax of associates and joint ventures	**(10.3)**	(3.6)
Share allocation adjustment	**3.3**	1.0
Spreading of tenant incentives, committed rent increases and letting fees	**5.8**	4.4
Depreciation	**0.1**	0.1
	(851.0)	(213.8)
	185.7	(12.3)
Changes to working capital and other cash movements		
Net financing costs	**45.4**	239.9
Utilisation of and other movements in provisions	**(2.4)**	(2.4)
Decrease in receivables	**(29.6)**	(30.4)
Increase in payables	**50.3**	45.7
Proceeds from construction contracts	**9.6**	4.9
Construction contract expenditure	**(3.2)**	(5.6)
Cash generated from operations	**255.8**	239.8
Income tax refunded	**3.9**	2.6
Net cash from operating activities	**259.7**	242.4

Notes to the consolidated financial statements for the year ended 31 December 2013 continued

28. Contingent liabilities and financial commitments

At 31 December 2013, 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 2013, given fixed first ranking charges over cash deposits totalling £110.9m (31 December 2012 - £120.8m).

As security for the issue of up to £2,258.7m of securitised debt (Note 21), Canary Wharf Group has granted a first fixed charge over the shares of CWF II and a first floating charge has been given over all of the assets of CWF II.

Commitments of Canary Wharf Group for future expenditure:

	2013 £m	2012 £m
Joint ventures	**19.7**	45.6
Other construction projects	**499.8**	244.7
	519.5	290.3

Of this commitment for future expenditure, £34.2m related to investment properties (31 December 2012 - £15.7m).

The commitments for future expenditure relate to work on development projects where construction was committed at 31 December 2013. Any costs accrued or provided for in the Consolidated Balance Sheet at 31 December 2013 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 subleases 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 2013.

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
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	0.32	N/A	OMR	Jul 2004	Jul 2014
40 Bank Street	Barclays	38,200	38,200	0.96	N/A	OMR	Nov 2009	Dec 2017
40 Bank Street	Barclays	38,200	38,200	1.45	N/A	OMR	Oct 2010	Nov 2016
40 Bank Street	Barclays	38,200	—	1.68	N/A	OMR	Oct 2010	Dec 2017
One Canada Square	Mirror Group	26,200	—	1.00	N/A	OMR	May 2009	June 2018
One Canada Square	KPMG	28,600	28,600	0.23	N/A	OMR	Jun 2010	Dec 2016
Total		**432,500**	**368,100**	**5.77**				

29. Ultimate parent undertaking and related party transactions

At 31 December 2013 the smallest and largest group into which the financial statements of the Company are consolidated are the Company's consolidated financial statements embodied herein.

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 2013, £431,500 plus VAT was charged to the Company for the provision of services in 2012 which was paid in March 2013 and £431,500 plus VAT has been accrued at 31 December 2013.

During 2013, Canary Wharf Group billed HsO, a company in which it holds an equity investment equivalent to approximately 13.0% of the issued share capital, £36,541 plus VAT for access to the Estate's telecommunications infrastructure. At 31 December 2013 the outstanding amount was £4,342 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 2013, each of the Syndication Partners had invested £40.5m and Canary Wharf Group had invested £52.1m. In 2013 Canary Wharf Group billed £2,194,533 plus VAT for construction and development management services to 20 FSLP. In addition, Canary Wharf Group billed £9,881,854 plus VAT for costs which were reimbursable by 20 FSLP. At 31 December 2013, the amount outstanding was £1,084,102 including VAT which was received since the year end.

In July 2011, Canary Wharf Group entered into a 50:50 joint venture with Qatari Diar to develop the Shell Centre. At 31 December 2013 each partner had invested £40.1m. In 2013, Canary Wharf Group billed £1,183,000 plus VAT for development management services and £100,000 plus VAT for administrative services. Canary Wharf Group also billed £1,043,417 plus VAT for costs which were reimbursable by the joint venture. In addition, a total of £99,470 was accrued. At 31 December 2013, £190,674 including VAT was outstanding which has been received since the year end.

30. Post balance sheet events

In February 2014, EY agreed to lease approximately 207,088 sq ft in 25 Churchill Place, at a rent of £48.50 psf. EY will occupy floors 14 to 21 which leaves just 2 floors unlet, one of which is under option to EMA and one to EY. As part of the transaction, Canary Wharf Group will take an assignment of EY's lease at Becket House, 1 Lambeth Palace Road, London, on 1 July 2015. This comprises 146,000 sq ft of office space on a lease expiring in September 2026 at an average rent of £35.00 psf.

On 13 March 2014, LBTH passed a resolution to grant planning permission for the 470,000 sq ft, 58 storey residential building at the Group's Newfoundland site. Construction is expected to start in mid 2014 with completion scheduled for 2018. The application will now be referred to the Mayor of London for final approval and is subject to completion of Section 106 legal agreements. In addition to the building at Newfoundland, the Group will be providing the equivalent of approximately 280 affordable off-site housing units.

Company balance sheet at 31 December 2013

	Note	2013 £m	2012 £m
Fixed assets			
Investments	(c)	**2,361.2**	2,316.3
Current assets			
Debtors due in less than one year	(d)	**2.4**	8.3
Cash at bank and in hand	(e)	**12.9**	10.3
		15.3	18.6
Creditors: amounts falling due within one year	(f)	**(407.6)**	(407.3)
Net current liabilities		**(392.3)**	(388.7)
Total assets less current liabilities		**1,968.9**	1,927.6
Creditors: Amounts falling due after more than one year	(g)	**(266.1)**	(264.6)
Net assets		**1,702.8**	1,663.0
Capital and reserves			
Called up share capital	(h)	**74.0**	74.0
Reserves:			
– share premium	(i)	**1,195.1**	1,195.1
– profit and loss account	(i)	**6.6**	11.7
– other reserves	(i)	**427.1**	382.2
Shareholders' funds	(j)	**1,702.8**	1,663.0

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

Approved by the Board on 27 March 2014 and signed on its behalf by:

David Pritchard

David Pritchard
Chairman

Notes to the company's financial statements for the year ended 31 December 2013

(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 2013 was £39.9m including the release of an impairment provision against the investment in SFL of £44.9m (2012 – profit of £148.9m including impairment provision increase of £112.3m). Dividends totalling £22.5m were received from SFL in the year (2012 – £67.0m). The Company carries its investment in SFL at cost less any provisions for impairment. As permitted by Section 408 of the Act, no profit and loss account is presented for the Company in respect of either year.

(c) Investments

Investments comprise shares held directly and indirectly in the following subsidiaries:

Name	Description of shares	%	Principal activities
Songbird Finance Limited*	£1 Ordinary	100.0	Investment company
Songbird Finance (Two) Limited*	£1 Ordinary	100.0	Investment company
Songbird Acquisition Limited*	10p Ordinary	100.0	Investment company
Canary Wharf Group plc	1p Ordinary	69.4	Holding company

* Directly held.

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

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

	£m	£m
Cost and net book value:		
Cost at 1 January 2013		2,361.2
Provision for impairment at 1 January 2013	(44.9)	
Release of provision in year	44.9	
		—
Net book value at 31 December 2013		**2,361.2**
Net book value at 31 December 2012		2,316.3

(d) Debtors

	2013 £m	2012 £m
Due within one year:		
Amounts owed by subsidiary undertakings	**2.3**	8.3
Prepayments and accrued income	**0.1**	—
	2.4	8.3

Notes to the company's financial statements for the year ended 31 December 2013 continued

(e) Financial assets

The Company's financial assets comprise short term cash deposits. Cash deposits totalled £12.9m at 31 December 2013 (31 December 2012 – £10.3m), comprising deposits placed on deposit at call and term rates.

(f) Creditors: amounts falling due within one year

	2013 £m	2012 £m
Amounts owed to subsidiary undertakings	398.2	398.2
Accruals	3.4	3.1
Financing costs of non equity share capital	6.0	6.0
	407.6	407.3

Financing costs of non equity share capital at 31 December 2013 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 2014.

The amounts 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:

	2013 £m	2012 £m
Non equity share capital:		
Preference Shares	266.1	264.6

(h) Share capital

At 31 December 2012, a total of 740,404,142 Ordinary Shares were in issue. During 2013, a total of 29,526 Ordinary Shares were acquired and cancelled under the terms of the Share Buyback. At 31 December 2013, a total of 740,374,616 Ordinary Shares were in issue. Details of the Share Buyback and the rights attaching to each class of shares as at 31 December 2013 are set out in Note 24.

(i) Reserves

	Share premium account £m	Cancelled share reserve £m	Capital redemption reserve £m	Other reserves £m	Profit and loss account £m	Total £m
1 January 2013	1,195.1	59.5	2.5	320.2	11.7	1,589.0
Profit for the year	—	—	—	—	39.9	39.9
Transfer of movements in impairment	—	—	—	44.9	(44.9)	—
Share Buyback	—	—	—	—	(0.1)	(0.1)
31 December 2013	**1,195.1**	**59.5**	**2.5**	**365.1**	**6.6**	**1,628.8**

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 2013	1,663.0
Loss for the year excluding impairment release	(5.0)
Impairment release	44.9
Share Buyback adjustment	(0.1)
31 December 2013	**1,702.8**

Independent auditor's report 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 2013 which comprises 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 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, 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 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 parent 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 Company's affairs as at 31 December 2013 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; 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 Strategic report and 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 Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent 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 2013.

Mark Beddy
(Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London
27 March 2014

Shareholder enquiries

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

Capita Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU
Telephone: 0871 664 0300*
Facsimile: 020 8639 2220
Email: shareholderenquiries@capita.co.uk
Website: www.capitaassetservices.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 Consultants
Brunswick Group LLP
16 Lincoln's Inn Fields
London EC2V 7JD

Solicitors
Slaughter and May
One Bunhill Row
London EC1Y 8YY

Definitions

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.
AGM	Annual general meeting
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
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
Company	Songbird Estates plc
CRL	Crossrail Limited
CRT	Canal and River Trust, formerly British Waterways Board
Cushman	Cushman & Wakefield, Real Estate Consultants
CWF II	Canary Wharf Finance II plc
EMA	European Medicines Agency
EPRA	European Public Real Estate Association
ERV	Estimated Rental Value
EY	Ernst & Young LLP
Fintech company	Financial Technology company
FVTPL	Fair Value Through Profit and Loss
Glick Shareholders	Investment vehicles and Trusts connected with Simon Glick and his family
GRI	Global Reporting Initiative
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
IFRS 13	International Financial Reporting Standard 13 Fair Value Measurement
Land Breeze	Land Breeze S.a.r.l.

Definitions continued

Land Securities	Land Securities Group plc
Lloyds	Lloyds Banking Group
LBTH	London Borough of Tower Hamlets
LMCTV	Loan Minus Cash to Value
London Plan	Mayor of London Planning document published by the Greater London Authority
LTV	Loan to Value
m	Million
Morgan Stanley	Morgan Stanley & Co Limited including all related funds, entities and associates
MS	Morgan Stanley Real Estate Fund IV International GP LLC and Morgan Stanley European Real Estate Special Situations II Offshore Inc
NAV	Net Asset Value
NIA	Net Internal Area
NNNAV	Triple Net Asset Value
Notes	Notes of Canary Wharf Group's securitisation
OMR	Open Market Rent
Ordinary Shares	Ordinary Shares of 10p each
Preference Shares	Preference shares of £1.00 each
Preference Dividend	Dividend payable quarterly at 3 month LIBOR plus 7.75% p.a.
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
RPI	Retail Price Index
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
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

Capital history

2013	On 4 January 2013, the Board announced that it had extended the Share Buyback programme which concluded on 4 April 2013 after a further 29,526 shares had been repurchased.
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, 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 Share 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 Share Buyback programme ran from 1 November 2012 to 27 November 2012 during which time a further 19,706,143 Ordinary Shares were repurchased.
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.
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: Canary Wharf Crossrail Station, March 2014. Canary Wharf Estate, 2011. London Docklands in 1987, facing west.

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