CANARY WHARF GROUP PLC

Extracts from the financial statements of the company for the year ended 31 December 2007. The report and financial statements are currently being produced and will be distributed to all shareholders at a later date. The information in these extracts does not comprise statutory accounts within the meaning of the Companies Act 1985 and all references to financial statements should be interpreted as references to these extracts.

HIGHLIGHTS

- **Net assets increased** from £2,905.3m at 31 December 2006 **to £3,206.9m at 31 December 2007, an increase of** £301.6m or **10.4% but fell from £3,349.7m at 30 June 2007, a reduction of** £142.8m or **4.3%**.
- **Adjusted net asset value per share increased by £0.59 (11.3%)** from £5.20 **over the year** but **reduced by £0.46 (7.4)%** from £6.25 at 30 June 2007 **to £5.79 at 31 December 2007**.
- **NNNAV per share increased from £4.58 at 31 December 2006 to £5.33 at 31 December 2007, an increase of £0.75 (16.4%)** but **reduced by £0.32 (5.7%) from** £5.65 at **30 June 2007**.
- **The market value of the property portfolio** at 31 December 2007 **increased to £7,274.3m** at 31 December 2007 **an increase of 4.8% over the year** but reduced from £7,465.0m at 30 June 2007, a reduction of 4.3% (disregarding additions).
- The **profit** after tax for the year **was £122.5m** (2006 – £43.8m).
- At 31 December 2007 **the group had unsecured cash of £855.7m**.
- On 26 March 2008 **the group declared a dividend of 16p per ordinary share** which will be paid to shareholders on 9 April 2008.
- In 2007 **transactions over 755,000 sq ft were achieved,** including an agreement for sale upon completion of a new 320,000 sq ft building to Fimalac.
- At 31 December 2007 **the group's investment portfolio** totalling 7.9m sq ft **was 99.6% let** (31 December 2006 – 7.9m sq ft of which 95.6% was let)
- At 31 December 2007 **the weighted average unexpired lease term** for the investment portfolio **was 18.7 years** (or 15.8 years assuming exercise of break options).
- **1.3m sq ft is under construction** of which 1.0m sq ft has been pre-sold and 259,000 sq ft of the remainder has been pre-let.
- **Heads of terms have been agreed for** the design, build, financing and leasing of the **Crossrail** station at Canary Wharf.
- **Infrastructure work is underway at Riverside South** (1.9m sq ft of potential development) **and staged construction** commenced **at 25 Churchill Place** (350,000 sq ft of potential development). **Redevelopment of Cabot Place Retail Mall** was **completed** in March 2008.
- In June 2007 the group entered into a **joint venture for the redevelopment of Drapers Gardens, London EC2.**

RESULTS IN BRIEF

	2007 £m	2006 £m
Rental income.	**275.3**	255.7
Exceptional item:		
– deferred proceeds on sale of property	**19.2**	–
Operating profit	**309.0**	174.4
Operating profit excluding exceptional item.	**289.8**	174.4
Exceptional item:		
– (charges)/gains relating to repayment of debt.	**(16.9)**	123.3
Profit on ordinary activities before taxation	**104.3**	104.1
Profit/(loss) before taxation excluding exceptional items.	**102.0**	(19.2)
Taxation – deferred tax credit/(charge).	**18.2**	(60.3)
Profit after tax	**122.5**	43.8
Basic and diluted earnings per share.	**19.2p**	6.9p

CHAIRMAN'S AND CHIEF EXECUTIVE'S STATEMENT

2007 was a successful year reflecting a solid performance across the full range of the company's activities with 1.4m sq ft of new space under construction, applications lodged for 1.3m sq ft of new space and 755,000 sq ft of transactions concluded during the year. These transactions, together with those concluded since the end of 2007, have established a range of rental pricing of £45.50 per sq ft to £49.00 per sq ft at Canary Wharf. These achievements were secured in a year where initially favourable conditions deteriorated and became increasingly challenging in the second half of the year.

The quality of our portfolio is reflected in year end valuations which have been impacted less than the general market during 2007. Although experiencing a fall in the latter part of 2007, year on year the market value of our Canary Wharf property portfolio was up 4.8% excluding additions and up 7.9% including capital expenditure. We believe that the resilience of the Canary Wharf Group portfolio is based on its high quality building specifications which are amongst the best in Europe, leases with an average unexpired term of 18.7 years and an extraordinarily high occupancy rate (99.6%). Moreover, 60% of the Canary Wharf portfolio has been completed since 2002.

Since the start of the year further lettings over 200,000 sq ft have been concluded including 170,000 sq ft to the rating agency, Moody's. This means that all three premier rating agencies are now at Canary Wharf, which is firmly established as one of the leading financial centres in Europe. We were pleased to see that in October 2007 agreement was reached on the Crossrail project which is essential to the future prosperity of London and to London's position as the financial capital of Europe.

Financial Strength

At 31 December 2007, the group's free cash totalled £855.7m. The rental income on the company's investment properties is in excess of the service and amortisation of the company's debt. The undeveloped land and car parks are held debt free.

The restructuring of the group's securitisation and other bank loans during the year have resulted in an increase in the average maturity of the group's borrowings to 16.2 years, which compared with an average unexpired lease term of 18.7 years.

Moreover, more than 80% of the group's bonds are AAA or AA rated and over 95% of the group's bonds are rated A or above.

Dividend

We believe that the company is well placed to deal with current market conditions and to support further development both on and off the Estate when conditions allow. Given this positioning of the company and in particular the significant cash balances and the security of long term financing, the board has today declared a dividend of 16p per ordinary share which will be paid to shareholders on 9 April 2008.

Property valuations

The market value of the property portfolio at 31 December 2007 was £7,274.3m against £6,737.4m at 31 December 2006 and £7,465.0m at 30 June 2007. This represents the 4.8% increase referred to above but a reduction of 4.3% since 30 June 2007, disregarding additions in the period. In comparison with 30 June 2007, yields have increased by approximately 50 bps. However, the softening of yields has been partially mitigated by new lettings, the burn off of rent free periods and the proximity of fixed rent increases, growth in rents and expansion of the retail estate. A breakdown of the valuations is set out in the Business Review.

Financial review

Net assets increased from £2,905.3m at 31 December 2006 to £3,206.9m at 31 December 2007, an increase of 10.4%, but fell from £3,349.7m at 30 June 2007. The reduction in the second half of the year was attributable to the fall in the value of the group's investment properties over the period.

Adjusted net asset value per share was £5.79 at 31 December 2007 up 11.34% from £5.20 at 31 December 2006 (see 'Business Preview – Balance sheet'). The adjusted NNNAV per share increased by £0.75 from £4.58 to £5.33 (16.4%) over the year due to new lettings and increases in the value of the portfolio in 2007.

Rental income for the year increased from £255.7m for 2006 to £275.3m for 2007, reflecting increased occupancy on the Estate and uplifts in rent achieved on review.

Excluding exceptional items, the profit before tax for the year was £102.0m, in comparison with a loss of £19.2m for 2006. The increase in profit was primarily attributable to the recognition of £104.0m of profit on pre-sold properties. After tax, the profit for the period was £122.5m in comparison with £43.8m for 2006.

Pre-sales and lettings

The pre-sale of a new 320,000 sq ft London headquarters for Fimalac/Fitch at 30 North Colonnade was concluded in June 2007. During the year an additional 435,000 sq ft of lettings were also agreed at Canary Wharf, of which 301,575 per sq ft were the lettings in 40 Bank Street to Barclays Capital (an existing tenant) on rents ranging from £44 per sq ft to £47.50. The rent agreed with Moody's on 170,000 sq ft in One Canada Square some 10 months later was £45.50 per sq ft, which illustrates that rents at Canary Wharf are holding up in the face of more challenging letting conditions.

Following the latest lettings, the vacancy rate for the company's portfolio at Canary Wharf is 0.4%, with the overall vacancy rate at Canary Wharf down to around 2.5%.

Development – Canary Wharf

Construction is continuing on schedule and on budget on the State Street building, the KPMG building, the Fimalac/Fitch building and the building to be occupied by Bear Stearns, which is in the process of being acquired by JPMorgan Chase. These four buildings together totalling 1.3m sq ft are all due to complete between 2008 and 2010.

Infrastructure works have also commenced on the new buildings at 25 Churchill Place and on the Riverside development. On Riverside, the London Borough of Tower Hamlets approved our revised planning application, which is in line with the Mayor of London's sustainability requirements, meets future market demands and increases the size of potential development to 1.9m sq ft. We will not, however, pursue speculative development and will therefore, only build up to grade without a pre-sale or a pre-let. Consent has also been obtained to increase the permitted density on the North Quay site, which will be adjacent to the Canary Wharf Crossrail station, to 2.4m sq ft.

In all our new buildings we are increasingly looking at sustainability in both construction and occupancy. This is reflected in the Green Apple Award for the KPMG building. Amongst other features, the KPMG building will show a 50% reduction in CO_2 emissions against current requirements and 20% of materials used will be recycled. It will be one of the most environmentally friendly office buildings in the UK and we intend this to be the standard bearer for new Canary Wharf buildings which will reflect best environmental practice.

We have also joined the Green 500 and the Mayor of London and Clinton Climate Initiative through which we will be looking at the feasibility of retro-fitting some of the buildings on the Estate which date back to the 1990s to enhance environmental performance.

Other developments

The Wood Wharf development project where we are partners with BWB and Ballymore is the largest planned development in London and will meet new environmental and planning standards. It is a unique project on which Canary Wharf has assumed the role of development manager. Discussions with the planning authorities are continuing and a formal application will be lodged shortly. In addition we are development manager on the Ballymore projects at Crossharbour and Millharbour.

In June 2007 we announced the formation of a joint venture for the redevelopment of the Drapers Gardens scheme in the City of London which will be a 300,000 sq ft prime commercial office development. The company has acquired a 20% stake in the companies owning the property.

All these projects are a natural extension of the group's skill and expertise outside Canary Wharf and we will continue to look outside Canary Wharf at projects where we can add value.

Retail

Retail has performed strongly in recent years and during 2007 both footfall and turnover again increased despite increasingly difficult general market conditions. As illustrations of the success of retail at Canary Wharf, retail currently experiences a footfall of just over 800,000 per week and rents have risen significantly with prime rents showing increases of up to 100% on rent review over the last 12 months.

Projects such as the redevelopment of the Cabot Place Retail Mall, which was completed in March 2008, have increased the scale, quality and diversity of retail at Canary Wharf. New names associated with the West End have made their debut in this redevelopment; Kate Kuba, Dune, Myla, River Island, Hugo Boss, Massimo Dutti and an 18,000 sq ft Zara store. The Cabot Place extension increased Cabot Place retail by 38,500 sq ft (40%) and brought the total retail and leisure facilities on the Estate to approximately 740,000 sq ft.

Canary Wharf is currently the second largest shopping centre within the M25; future development of new and existing schemes will continue to improve the retail on the Estate. Approval for a combined total of approximately 37,450 sq ft of additional retail has already been obtained of which 35,353 sq ft has been pre-let with discussions taking place on the remaining unit.

Transport

There are numerous transport projects underway, all of which will expand and improve accessibility to Canary Wharf. In October 2007 the Government agreed to finance Crossrail and we reached an agreement to design, build, finance and contribute to the new Crossrail station at Canary Wharf – something we believe is essential for London.

There are welcome improvements on the Jubilee Line, DLR, Thameslink and East London Line. The Jubilee Line signal upgrade is 55% complete and full operation of the new signalling system is expected at the end of 2009. Phases 1 & 2 of improvements to the DLR are now 34% complete and with completion due in 2010. The DLR will also be extended beyond City Airport; work on this extension to Woolwich is 73% complete and due to be finished in 2009. The Jubilee Line and DLR improvements will together add respectively a further 45% and 50% capacity to the existing lines at Canary Wharf.

The East London Line is being extended north to Highbury & Islington and south to Croydon and capacity will be increased by approximately 60% when the line reopens in 2010. Improvements are also being made to the Thameslink service.

Finally, British Airways will be launching a business class only service between London and New York from London City Airport.

London office market overview

After a strong and robust first half of the year, the market slowed through the remainder of 2007 and this continued into the first quarter of 2008. The 679,000 sq ft monthly average of transactions in 2008 is significantly down on the monthly average of 1.2m sq ft for 2007. Development in Central London is due to peak this year, with 7.7m sq ft of prime office space scheduled for completion.

Where Canary Wharf has some differentiation from the overall dynamic of the Central London market is the ability to swiftly deliver bespoke buildings of very high quality which has led to the continued very high occupancy of the Estate. This is coupled with almost complete control of the supply and timing of future developments.

Conclusion

It is still too early to assess the ultimate impact of current financial market conditions, but we are sure that the high quality of our buildings, length of unexpired leases, high occupancy rate at Canary Wharf and the company's strong financial position mean that we are well placed to manage these challenging conditions.

Furthermore, we have an exceptionally strong management team with broad core competencies, which is equipped to take advantage of new opportunities whether at Canary Wharf or beyond in Central London – when we can add value and generate superior returns.

Finally, we would like to thank, on behalf of the board, staff at all levels without whose contribution the recent successes would not have been possible.

SIR MARTIN JACOMB
Chairman

GEORGE IACOBESCU CBE
Chief Executive

BUSINESS REVIEW

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

Central London office leasing market overview

The following commentary on the Central London market was provided by Knight Frank.

Supply and development

Supply rose across all markets in the final quarter of 2007. There is 13.7m sq ft currently available in Central London reflecting a vacancy rate of 6.2%, a 26.0% increase on the previous quarter's level although still 21.0% below the 10 year average of 17.3m sq ft. The supply of new and refurbished space showed the largest increase as a number of large speculative City schemes near completion. The volume of second hand grade 'A' space on the market rose to 5.8m sq ft in the final quarter of 2007, although this is still 11.0% below the average for the last 10 years.

Speculative development activity continued to rise with 9.6m sq ft under construction, 6.4m sq ft of which is in the City. Despite the historically high construction levels, the supply of new and refurbished units across Central London remains 36.0% below the long term average.

Demand and take-up

As expected, take-up in the fourth quarter across Central London fell from the levels seen throughout 2007 as occupiers considered the effects of the current turmoil in the debt markets on their businesses. Take up totalled 2.6m sq ft in the final quarter of 2007, 44.0% lower than the third quarter level and 21.0% below the long term average quarterly take up. The City witnessed the biggest fall with a reduction in take up for all grades of space.

The final quarter of 2007 saw a fall in levels of active demand at a Central London level, which now stands at 8.4m sq ft although in the West End demand is still rising. Active requirements from financial sector occupiers fell by 17.0% to 2.5m sq ft, while the media sector saw active requirements increase by 29.0% and now accounts for more than 20.0% of all active demand.

Rental profile

The West End market has witnessed annual growth in headline rental values from £90.00 per sq ft to stand at £110.00 per sq ft. This reflects a year-on-year increase of 22.0%. Rental levels have benefited from continued demand from financial sector occupiers for the limited grade 'A' accommodation.

In the City, with take up down and availability rising again, prime rents remained unchanged at £63.50 per sq ft and net effective rents at £59.00 per sq ft.

Given that availability is rising again, landlords may start to offer more generous incentive packages going forward, suggesting that net effective rents will decline this year.

Prime headline rents at Canary Wharf on part floor lettings remained steady at £50.00 per sq ft. For whole floors the tone is around £47.50 per sq ft although this changed little over the course of 2007. Outside Canary Wharf the prime rent on Docklands space rose to £29.50 per sq ft.

Property portfolio

The activities of the group are currently focused on the development of the Estate. The group is also involved through joint ventures in the development of Wood Wharf and the redevelopment of Drapers Gardens. At 31 December 2007 and 31 December 2006 the investment arm comprised 16 completed properties (out of the 30 constructed on the Estate) totalling 7.9m sq ft of NIA. The properties included in the total at 31 December 2007 are shown in the table on the following page.

BUSINESS REVIEW (Continued)

Property address	Approx. NIA sq ft	Leased %	External valuation £m	Principal tenants
One Churchill Place	1,014,400	100.0	800.0	Barclays Bank, BGC, LOCOG
10 Cabot Square	639,000	100.0	332.0	Barclays Capital, WPP Group
20 Cabot Square	562,000	100.0	250.0	Morgan Stanley, Barclays Capital
One Canada Square	1,236,200	99.0	873.7	KPMG, Mirror Group Newspapers, State Street, Bear Stearns, Bank of New York
33 Canada Square	562,700	100.0	425.0	Citigroup
20 Bank Street	546,500	100.0	500.0	Morgan Stanley
25-30 Bank Street	1,023,300	98.9	955.0	Lehman Brothers
40 Bank Street	607,400	96.9	472.5	Barclays Bank, Skadden, Allen & Overy, BGC, ANZ
50 Bank Street	209,800	100.0	167.5	Northern Trust, Goldenberg Hehmeyer
10 Upper Bank Street	1,000,400	100.0	850.0	Clifford Chance, Infosys, FTSE, Total
Cabot Place Retail	95,700	100.0	166.0	Various retail tenants
Canada Place Retail	72,200	100.0	175.0	Various retail tenants
Jubilee Place Retail	89,400	100.0	106.1	Various retail tenants
Churchill Place Retail	22,400	100.0	5.9	Barclays Bank and various retail tenants
16-19 Canada Square	204,500	100.0	57.8	Waitrose Food & Home, Reebok, Plateau Restaurant
Reuters Plaza	8,900	100.0	11.9	Smollenskys, Carluccios
Car Parks	–	–	62.9	
Total	7,894,800	99.6	6,211.3	

At 31 December 2007 the investment property portfolio was 99.6% let (31 December 2006 – 95.6%), net of sub-lets back to the group.

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 in the ownership of the group, includes 14 properties totalling 6.3m sq ft in other ownerships.

The properties of the group are under lease to high quality tenants which provide a diversified income stream. At 31 December 2007 the weighted average unexpired lease term for the investment property portfolio was approximately 18.7 years, or 15.8 years assuming exercise of outstanding break options (31 December 2006 – 19.8 years or 17.1 years respectively). Of the square footage under lease, 68.6% does not expire or cannot be terminated by tenants during the next 10 years.

Leasing

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

- Barclays Bank agreed to lease a total of 301,575 sq ft in 40 Bank Street on three separate leases expiring in April 2023. Barclays Bank will take up the space on a phased basis over the next 18 months at rents ranging from £44.00 per sq ft to £47.50 per sq ft. In addition Damac Properties and Mirae took a total of 11,485 sq ft in this building for terms of 5 years and 10 years respectively.

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

- In One Canada Square, Michael Page took 6,548 sq ft for a 5 year term, Bank of New York renewed a lease of 6,463 sq ft for one year and Primus Telecommunications exercised a break over 8,800 sq ft. In December 2007 the group took a surrender of 27,231 sq ft on the 18th floor from Mirror Group Newspapers and simultaneously re-let the space to the FSA for a term of 10 years. Subsequent to the year end the group announced that it had entered into an agreement for lease with Moody's, the international credit rating agency, for approximately 170,000 sq ft on a 15 year lease which includes space formerly occupied by the Telegraph Media Group on floors 11-16. The group also took a surrender of the 37th floor (28,435 sq ft) from Burlington Resources and re-let the space to Abbey Business Centres for a term of 15 years. The rents achieved on these recent lettings ranged from £45.50 to £49.00 per sq ft.

As a result of these lettings, vacancy in completed buildings on the Estate owned by the group reduced to 0.4%.

BUSINESS REVIEW (Continued)

All space previously sub-let back to the group has now been re-let or is subject to call options. At 31 December 2007 the net present value in respect of the remaining sub-let liabilities had reduced to approximately £30.0m discounted at 6.1% being the group's weighted average cost of debt (31 December 2006 – £43.8m, discounted at 6.1%). These sub-let commitments have been reflected in the market valuation of the group's properties.

Construction

On 29 June 2007 terms were agreed with Fimalac for the sale, and an agreement for the construction, of a new £290.0m headquarters for Fitch. The new building under construction at 30 North Colonnade will comprise approximately 320,000 sq ft and is scheduled for completion in the second half of 2010. On exchange, the group received an initial payment of £165.4m from Fimalac in respect of the site.

The following properties were under construction at 31 December 2007:

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

In addition to the construction of new office buildings, the group has redeveloped the western end of the Cabot Place Retail Mall, which opened in March 2008. This redevelopment increased the existing retail area by approximately 38,500 sq ft (approximately 7.3%), adding new retailers to the Estate including Zara, River Island and Leon.

The remaining development site on the Estate at BP4 could accommodate approximately 0.4m sq ft of new development. Following the sale of 30 North Colonnade to Fimalac, the group has decided to proceed with the phased construction of BP4. In addition, the group has development sites at North Quay and Riverside South. At Riverside South a revised planning consent in respect of 1.9m sq ft was agreed and initial ground works are underway which will accelerate the completion time for the development for any prospective occupant. At North Quay the local authority granted consent for an increase in the permitted density to 2.4m sq ft and there is further development capacity at Heron Quays West.

The group entered into an option deed with BWB in November 2007 which allows for the group to elect for the drawdown of a 999 year lease of additional land south of Heron Quays West. The option deed is for a period of 5 years from November 2007. An initial option payment of £2.25m was made and is to be followed by annual payments of £250,000 on each anniversary of the option deed. If the group exercises the option, BWB has the right to receive a fixed stream of rental payments throughout the duration of the lease or to commute the rental payments into a capital sum payable on the fifth anniversary of the option deed. Subsequent to the option deed, an application was made to increase the permitted density on Heron Quays West to 1.25m sq ft. Construction of new buildings on this and other sites will commence as and when market conditions allow.

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

The development capacity at each of the above sites is as follows:

	NIA m sq ft
Based on existing planning permissions:	
– Canary Wharf	0.4
– Riverside South	1.9
– North Quay	2.4
	4.7
Subject to planning application:	
– Heron Quays West	1.3
	6.0

In addition to the above, the group is working with Ballymore and BWB on the redevelopment of the Wood Wharf site. The master plan for the scheme, in which the group has a 25.0% interest, sets a framework for 6.5m sq ft (gross) of mixed commercial, residential and retail development.

BUSINESS REVIEW (Continued)

On 15 June 2007 the group announced an agreement with MSREF V and Exemplar to undertake the redevelopment of Drapers Gardens. The scheme comprises approximately 300,000 sq ft of prime commercial development and is scheduled for completion in the autumn of 2009. The group acquired 20.0% of the share capital in the companies that own the property and has assumed the role as development manager with day to day running of the scheme. This represents the group's first involvement in a scheme away from the Estate and, coupled with involvement as construction manager on Ballymore's Crossharbour and Millharbour projects, demonstrates that the group's skills are transferable to developments away from the Estate.

Valuations

The net assets of the group, as stated in its consolidated balance sheet at 31 December 2007, were £3,206.9m. In arriving at this total:

(i) properties held as investments were carried at £5,908.4m, which represents the market value of those properties of £6,211.3m at that date as determined by the group's external valuers, CBRE, Savills and Cushman, less an adjustment of £302.9m for tenant incentives as required by UITF 28;

(ii) properties held for development were carried at £232.3m, representing their cost to the group; and

(iii) properties under construction to be retained by the group were carried at £61.4m, representing their cost to the group.

Excluding additions, the valuation of the investment portfolio on the basis of market value increased by £136.2m or 2.2% over the year. After allowing for adjustments in respect of UITF 28 the carrying value of the investment portfolio increased by £179.1m over the year. The increase was primarily driven by the benefit of new lettings which was partly offset by a softening of yields in the market. In comparison with 30 June 2007, the valuation of the investment portfolio reduced by £270.8m or 4.2% as a result of the increase in yields. The group is of the view that the low vacancy rate on the Estate and the long unexpired average lease terms puts the group in a strong position to weather the more uncertain economic outlook.

CBRE and Savills have provided a joint opinion at 31 December 2007 that the market value of properties held for development was £452.0m, in comparison with a carrying value for accounts purposes of £232.3m. In valuing the properties held for development, the valuers have allowed for estimated costs to complete, including an allowance for fit out. In addition they have allowed for letting, disposal, marketing and financing costs. The market value of £452.0m represents a reduction of 15.1%, excluding additions and transfers, since 30 June 2007 which reflects a more uncertain outlook for development in the second half of the year.

The valuers also provided an opinion at 31 December 2007 that the market value of properties under construction and held for sale was £511.0m, in comparison with an historical cost of £215.4m, and the market value of the property under construction to be retained by the group was £100.0m, in comparison with an historical cost of £61.4m.

The market value of the entire property portfolio including investment properties, properties held for development and properties under construction increased by £330.7m or 4.8% over the year, excluding additions and transfers, and reduced by £323.1m or 4.3% in the six months ended 31 December 2007. This reduction was driven by the factors referred to above.

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

BUSINESS REVIEW (Continued)

	31 December 2007		30 June 2007		31 December 2006	
	Carrying value £m	**Market value in existing state £m**	Carrying value £m	Market value in existing state £m	Carrying value £m	Market value in existing state £m
Investment properties	**5,908.4(1)**	**6,211.3(2)**	6,145.6(1)	6,470.6(2)	5,715.9(1)	6,058.4(2)
Properties under construction	**61.4**	**100.0**	36.3	65.0	46.2	95.0
Properties held for development	**232.3**	**452.0**	210.6	511.0	204.3	415.0
	6,202.1	**6,763.3**	6,392.5	7,046.6	5,966.4	6,568.4
Properties under construction held for sale	**215.4(3)**	**511.0**	141.3(3)	418.4	69.1(3)	169.0
	6,417.5	**7,274.3**	6,533.8	7,465.0	6,035.5	6,737.4

Note:
(1) The carrying value of investment properties represents market value less an adjustment for UITF 28.
(2) Stated at market value in existing state before adjustment for UITF 28. The UITF 28 adjustment attributable to investment properties at 31 December 2007 was £302.9m (30 June 2007 – £325.0m, 31 December 2006 – £342.5m).
(3) Represents historical cost to the group. The carrying value in the balance sheet at 31 December 2007 is stated net of £210.8m (30 June 2007 – £178.2m, 31 December 2006 – £76.4m) transferred to cost of sales, £4.6m (30 June 2007 – £5.0m, 31 December 2006 – £2.2m) transferred from payments on account and £nil (30 June 2007 – £41.9m, 31 December 2006 – £9.5m) of costs accrued in accordance with SSAP9.

Taxation

The group has EZAs available to shelter future operating and taxable profits and gains arising on the sale of properties.

During the year ended 31 December 2006 two finance lessor companies were acquired from a third party. A deferred tax liability net of discount of £42.8m (31 December 2006 – £61.1m) is recognised in respect of the potential clawback of EZAs resulting from claims made by these companies.

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

If the group were to dispose of its property portfolio at the market value disclosed in this 'Business Review', a tax liability of £194.1m would arise (31 December 2006 – £129.1m). This liability is stated after taking into account the tax liabilities relating to deferred accounting profits on properties under construction held for sale and the benefit of the remaining EZAs which would have been crystallised as a balancing allowance. This amount includes tax on trading profits and net chargeable gains that would arise on the sale of properties under construction and properties held for development, including land interests. In line with FRS 19, the benefit of EZAs has not been recognised through the creation of a deferred tax asset in the balance sheet as there is no certainty as to the time period for the realisation of this asset.

Operating results

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

Turnover of the group is generated primarily by the rents and service charges earned from its property interests on the Estate, together with the recognition of amounts in respect of work performed on the pre-sale contracts. Turnover for 2007 was £559.4m, against £370.4m for 2006, of which rental income was £234.0m (2006 – £213.7m). The impact of UITF 28 was to reduce rental income by £41.3m compared with £42.0m for 2006. Excluding the impact of UITF 28, rental income increased by £19.6m from £255.7m in 2006 to £275.3m in 2007 (7.7%), primarily attributable to the benefit of rent reviews and the commencement of rent on recently let space.

Service charge income increased from £53.6m for 2006 to £62.2m for 2007, an increase of £8.6m or 16.0%. The increase over 2006 was attributable to higher occupancy on the Estate. Miscellaneous income (which includes insurance, rents and the provision of tenant specific services outside the standard service charge) fell from £26.7m for 2006 to £24.8m for 2007.

Turnover for 2007 also included £238.4m recognised on the construction of development properties that have been pre-sold in accordance with SSAP 9 (2006 – £76.4m).

BUSINESS REVIEW (Continued)

Cost of sales includes rents payable and property management costs, movements on provisions for vacant leasehold properties and certain other lease commitments, as well as costs allocated to cost of sales on the construction of properties that have been pre-sold and accounted for as long term contracts. Rents payable and property management costs were £84.4m for 2007 in comparison with £82.2m for 2006. Taking into account service charge and miscellaneous income totalling £87.0m for 2007, a profit on estate management of £2.6m was achieved (2006 – loss of £1.9m). The reduction in void costs mainly derives from recent lettings and the consequent increase in occupancy on the Estate.

Provisions relating to vacant leasehold properties, rent support commitments and certain other obligations increased by £4.2m in 2007, whereas in 2006 there was a net release of such provisions totalling £2.2m. Cost of sales in 2007 also included £2.9m of surrender premiums paid to certain tenants in order to obtain vacant possession. In addition, cost of sales for 2007 included £134.4m of costs on long term contracts (2006 – £76.4m) resulting in £104.0m of profit being recognised on such contracts (2006 – £nil).

Gross profit for 2007 was £333.5m, an increase of £119.0m over 2006, of which £104.0m was attributable to the recognition of profit on long term contracts.

Administrative expenses for 2007 were £46.8m in comparison with £41.7m for 2006. The increase in administrative expenses was in part attributable to the payment of deferred bonuses to management and staff triggered by the achievement of certain performance goals during the year. In addition feasibility study costs were incurred in connection with the review of potential development and investment opportunities.

Operating profit for the period was £309.0m in comparison with £174.4m for 2006. The increase in operating profit of £134.6m was largely attributable to the increase in net property income, including £104.4m of profit recognised on long term contracts and £19.2m of deferred proceeds from the sale of investment properties in prior years.

Net interest payable for 2007 excluding exceptional items was £187.8m, against £193.6m for 2006. Finance costs incurred on the construction loan of £1.8m were capitalised as part of the construction cost of 5 Churchill Place. In 2006, prior to the drawdown of the construction loan, £0.7m of general interest payable was capitalised on this building. In 2007 the group restructured its securitised debt resulting in an exceptional charge of £16.9m. In 2006 the group recognised a gain of £123.3m in connection with the acquisition of three finance leases which was treated as an exceptional item. Excluding these exceptional items, the reduction in net interest payable of £5.8m was primarily attributable to lower levels of net debt resulting from amounts received on the sale of properties under construction.

The profit on ordinary activities after interest for 2007 was £104.3m in comparison with a profit of £104.1m for 2006. The results for both years included certain exceptional profits and losses as described above. Excluding exceptional items, the profit on ordinary activities after interest for 2007 was £102.0m (2006 – loss of £19.2m).

Taxation for 2007 and 2006 was wholly attributable to deferred tax. In 2006 an increase in the deferred tax provision of £60.3m arose primarily from the acquisition of finance leases in the year.

Basic and diluted earnings per share for 2007 was 19.2p in comparison with 6.9p for 2006.

The adjusted basic and diluted earnings per share for 2007 excluding exceptional items and deferred tax was 18.8p (2006 – loss of 2.9p). Adjusted earnings per share for 2007 has been calculated on the profit after tax excluding net exceptional income of £2.3m and the weighted average of 639.0m shares in issue. In 2007 exceptional items comprised deferred proceeds and the release of surplus accruals on properties sold in prior years totalling £19.2m and exceptional charges on restructuring debt of £16.9m. In 2006 exceptional items comprised a gain of £123.3m on the acquisition of finance leases. For the purposes of the calculation of adjusted earnings per share, £61.1m of the deferred tax charge for 2006 has also been excluded as it relates to the acquisition of the finance leases. There were no instruments which gave rise to a dilution of earnings as defined by Financial Reporting Standard 22 (Earnings per share) at 31 December 2007 or 31 December 2006.

Balance sheet and key performance indicators

On the basis of the group's statutory balance sheet, which does not reflect any revaluation of properties held for development or under construction, net assets at 31 December 2007 were £3,206.9m in comparison with £2,905.3m at 31 December 2006. The increase in net asset value was attributable to the revaluation surplus on investment properties of £179.1m and the profit for the year of £122.5m.

The group's main objective is to maximise growth in net assets from increases in investment property values and property 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 the movement in adjusted net asset value per share prior to payment of dividends. This measure serves to capture the board's judgements concerning, inter alia, letting strategy, redevelopment and financial structure.

Adjusted net asset value takes into account the valuation of properties under construction and properties held for development which are held in the balance sheet at cost. It also adds back the provision for deferred taxation required by accounting standards but which, in management's judgement, is unlikely to crystallise.

BUSINESS REVIEW (Continued)

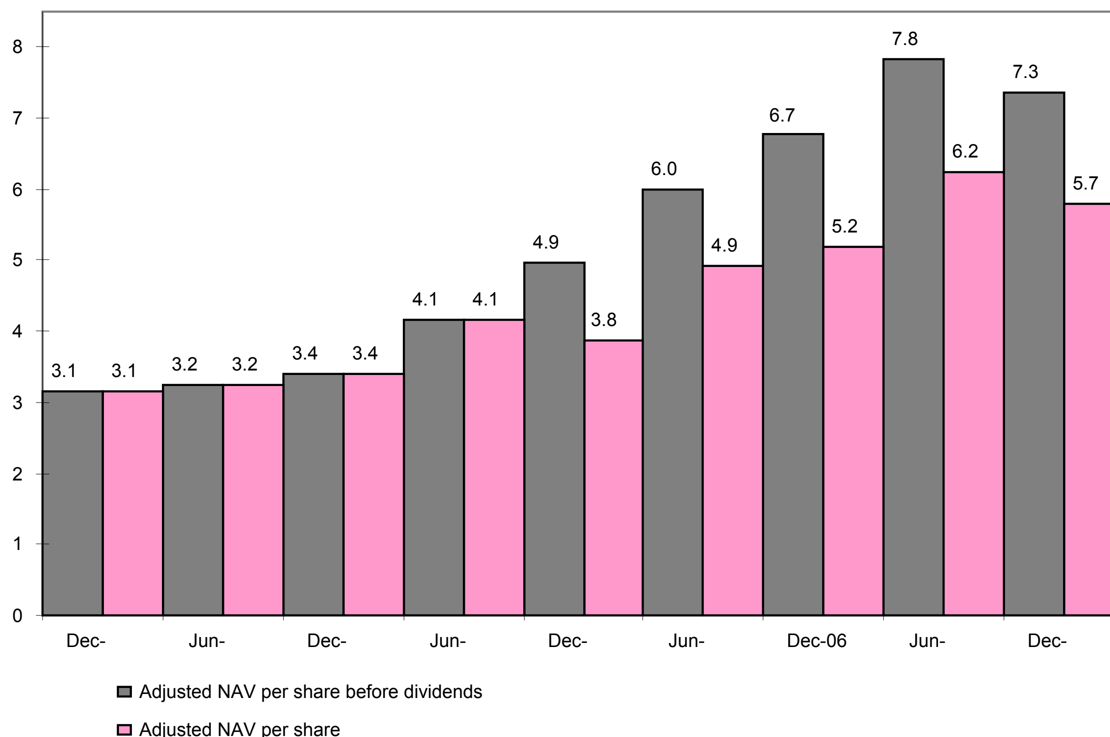
Adjusted net asset value per share at 31 December 2007 is set out in the table below, which for comparison purposes also includes adjusted NNNAV per share.

	31 December 2007 £m	30 June 2007 £m	31 December 2006 £m
Net assets per statutory balance sheet	**3,206.9**	3,349.7	2,905.3
Add back deferred tax provision	**42.3**	57.6	60.5
Net assets prior to deferred tax provision	**3,249.2**	3,407.3	2,965.8
Revaluation of property portfolio:			
– properties held for development[1]	**219.7**	300.4	210.7
– properties under construction[2]	**230.2**	287.6	148.7
Adjusted net assets[3]	**3,699.1**	3,995.3	3,325.2
Fair value adjustments in respect of financial assets and liabilities less tax relief at 30%	**(22.8)**	8.6	(159.2)
Contingent tax on property disposals[4]	**(194.1)**	(285.5)	(129.1)
Undiscounted deferred tax[5]	**(75.4)**	(109.2)	(112.1)
Adjusted NNNAV[3]	**3,406.8**	3,609.2	2,924.8
Cumulative dividends paid since completion of the offer process[5]	**1,002.0**	1,002.0	1,002.0
Adjusted NNNAV before dividends	**4,408.8**	4,611.2	3,926.8
Adjusted net assets per share[6]	**£5.79**	£6.25	£5.20
Adjusted net assets per share before dividends	**£7.36**	£7.82	£6.77
Adjusted NNNAV per share[6]	**£5.33**	£5.65	£4.58
Adjusted NNNAV per share before dividends	**£6.90**	£7.22	£6.15

Note:
(1) Stated at market value in existing state.
(2) Uplift to market value on pre-sold properties under construction of £295.6m (30 June 2007– £277.1m, 31 December 2006 – £99.9m) less profit of £104.0m recognised in 2007 (30 June 2007 – £18.2m, 31 December 2006 – £nil) together with an uplift to market value on properties under construction to be retained by the group of £38.6m (30 June 2007 – £28.7m, 31 December 2006 – £48.8m).
(3) Excludes the potential value to the group of EZAs (refer to 'Business Review – Taxation').
(4) Refer to 'Business Review – Taxation'.
(5) The company paid interim dividends as follows: 8 September 2005 – 65p (£407.7m); 30 December 2005 – 45p (£287.6m); 3 November 2006 – 48p (£306.7m).
(6) Calculated by reference to the closing number of shares of 639.0m (2006 – 639.0m). There were no dilutive instruments outstanding at either date.

BUSINESS REVIEW (Continued)

The growth in net asset value per share from December 2003 to December 2007 is shown in the following chart which shows the position both before and after dividends:



In arriving at adjusted NAV per share the provision recognised in accordance with FRS 19 has been added back. FRS 19 requires, inter alia, provision for deferred tax on capital allowances claimed, notwithstanding that no tax would become payable unless the related properties were disposed of. In contrast no provision is required for the tax which would become payable if the group was to dispose of its properties at their revalued amount. This inconsistency in the standard has therefore been reversed in calculating the adjusted NAV value per share. In calculating the NNNAV per share, however, the full undiscounted liability has been deducted along with the contingent tax payable on disposal of properties at their revalued amount.

NNNAV per share also factors in the fair value of financial assets and liabilities and any contingent tax payable in the event of disposing of the property portfolio.

Risks and uncertainties

The risks and uncertainties facing the business are monitored through continuous assessment and more regular and formal quarterly review and discussion at audit committee and board level. Board and audit committee discussion focuses on the risks identified as part of the group's system of internal control which highlights key risks faced by the company and allocates specific day to day monitoring and control responsibilities as appropriate. The key risks include the cyclical nature of the property market, financing risk, concentration risk and policy and planning risk.

BUSINESS REVIEW (Continued)

Cyclical nature of the property market
The valuation of the group's assets is subject to many external economic and market factors which are cyclical in nature. These cycles manifest themselves in the property market by such factors as the oversupply of available space in the office market, a decline in tenant demand for space in London or a change in the market perception of property as an investment. Such potential factors are constantly monitored in order to ensure that the group can react swiftly and flexibly should they arise. The upheaval in the financial markets during 2007 triggered by the problems in the US sub-prime mortgage market impacted onto the UK property and financial markets in general. The impact of this market and banking upheaval on the business of the group has been, and continues to be, closely monitored.

Financing risk
The broader economic cycle inevitably leads to movements in inflation, interest rate and bond yields. The group finances its operations largely through a mixture of surplus cash, secured borrowing and debentures. The group borrows at both fixed and floating rates and uses interest rate swaps, caps or collars to modify exposure to interest rate fluctuations. After taking account of interest rate hedging and cash deposits held as collateral, all of the group's facilities are fixed long term loans with an average maturity of 16.2 years. Further details on the management of treasury risk can be found below, in the section 'Business Review – Treasury objectives'.

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

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

Treasury objectives

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

The group's financial instruments, other than derivatives, comprise borrowings, cash and liquid resources and various items such as trade debtors and trade creditors that arise directly from its operations. The group enters into derivative transactions (principally interest rate swaps and collars) only in order to manage the interest rate risk arising from the group's variable rate borrowings. The board reviews and agrees policies for managing the risks associated with the group's financial instruments and these policies, which have been applied consistently throughout the year, are summarised below.

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 and collars to generate the desired interest profile and to manage the group's exposure to interest rate fluctuations. The group's policy is to keep the majority of its borrowings at fixed rates, and at 31 December 2007 all of the group's borrowings (31 December 2006 – 99.3%) were fixed after taking account of interest rate hedging and cash deposits held as cash collateral.

Liquidity risk
The group's policy is to ensure continuity of funding and at 31 December 2007 the average maturity of the group's debt was 16.2 years. Shorter term flexibility is 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.

Exchange rate risk
Although the group's policy is to maximise all financing in sterling, it has previously issued some bonds in US dollars which were redeemed in April 2007. Prior to redemption the bonds were fully hedged with all principal and interest liabilities swapped into sterling at fixed rates.

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

The group has a £155.0m construction loan facility secured against 5 Churchill Place provided jointly by Barclays Bank and Bear Stearns and at 31 December 2007 £118.4m remained available to drawdown. The Drapers Gardens joint venture, in which the group has a 20.0% interest, has a £172.5m facility with Lehman Brothers, of which £102.0m remained to be drawndown at 31 December 2007.

BUSINESS REVIEW (Continued)

Borrowings

In April 2007 the group completed a restructuring of its securitisation involving the redemption of £572.6m of FRNs and the issue of £726.0m of new non-amortising FRNs. Additional proceeds of £153.4m were represented principally by £51.0m of C2 Notes, rated A, and £100.0m of D2 Notes, rated BBB. All of the new notes issued mature in October 2037.

During the year the group also entered into a £155.0m 3 year construction loan facility secured on 5 Churchill Place. A total of £36.6m including interest had been drawndown under this facility at 31 December 2007.

At 31 December 2007, net debt (after cash in hand and cash collateral) stood at £2,849.4m, down from £2,971.0m at 31 December 2006 and comprised:

	31 December 2007 £m	31 December 2006 £m
Securitised debt	**2,644.8**	2,492.5
Loans	**1,263.4**	1,269.2
Finance lease obligations	**41.7**	42.0
Construction loan	**35.0**	–
Total borrowings	**3,984.9**	3,803.7
Less:		
- cash collateral for borrowings	**(144.0)**	(145.2)
- cash collateral for construction	**(115.9)**	(143.0)
- other cash collateral	**(19.9)**	(24.7)
	3,705.1	3,490.8
Less: cash deposits	**(855.7)**	(519.8)
Net debt	**2,849.4**	2,971.0

The increase in total borrowings from £3,803.7m to £3,984.9m reflects the securitisation tap issue completed in April 2007 and drawdowns under the new construction loan facility. The increase in cash and term deposits from £832.7m to £1,135.5m is primarily as a result of the net proceeds from the tap issue and the amounts received under the agreement to sell 30 North Colonnade.

At 31 December 2007 the fair value adjustment in respect of the group's financial assets and liabilities (excluding debtors and creditors falling due within one year) calculated in accordance with FRS 13 was £32.5m before tax relief (31 December 2006 – £227.3m).

At 31 December 2007, the group's weighted average cost of debt was unchanged from 31 December 2006 at 5.9% excluding credit wraps (or 6.1% including credit wraps).

Cash flow

Net cash inflow from operating activities for 2007 was £430.4m in comparison with £471.6m for 2006. This caption now includes cash flows relating to properties in the course of construction which were pre-sold. These cash flows served to increase operating cash inflow by £67.8m in 2007 (2006 – £247.7m). Excluding the impact of these cash flows, operating cash inflows increased from £223.9m to £362.6m.

Returns on investments and servicing of finance resulted in an outflow of £196.0m for 2007 compared with £195.5m for 2006. 2007 included £10.5m of fees on loans drawn-down and repaid in the year compared with £4.5m for 2006.

Capital expenditure and financial investment for 2007 resulted in a cash outflow of £104.3m, compared with £32.2m for 2006. 2007 included £91.6m of development expenditure incurred on properties to be retained by the group and funding of the group's investment in associated undertakings of £11.8m. 2006 included £27.0m of deferred consideration received in January 2006 from the sale of 30 South Colonnade in 2005. These inflows were partly offset by development expenditure of £41.4m, property acquisition expenditure of £7.2m and funding of the group's associated undertakings by £10.5m.

The financing cash inflow for 2007 was £172.7m compared with an outflow of £758.6m for 2006. 2007 included net proceeds of £148.0m arising from restructuring the group's securitisation and £34.9m drawn down under the group's construction loan facility. 2006 included £836.6m expended on the acquisition of finance leases by the group, funded by the removal of restrictions over certain cash collateral accounts totalling £836.7m. 2006 also included repayment of £203.6m remaining on a £750.0m loan facility funded by the proceeds of a new £300.0m retail facility.

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2007

	2007 £m	2006 £m
Turnover	**559.4**	370.4
Cost of sales	**(225.9)**	(155.9)
GROSS PROFIT	**333.5**	214.5
Administrative expenses	**(46.8)**	(41.7)
Other operating income:		
– before exceptional item	**3.1**	1.6
Exceptional item:		
– deferred proceeds on sale of property	**19.2**	–
	22.3	1.6
OPERATING PROFIT	**309.0**	174.4
Interest receivable	**51.3**	43.4
Interest payable:		
– before exceptional item:		
– group	**(238.7)**	(236.7)
– associated undertakings	**(0.4)**	(0.3)
Exceptional item:		
– (charges)/gains relating to repayment of debt	**(16.9)**	123.3
	(256.0)	(113.7)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	**104.3**	104.1
Taxation	**18.2**	(60.3)
PROFIT FOR THE FINANCIAL YEAR	**122.5**	43.8
Basic and diluted earnings per share	**19.2p**	6.9p

The above results relate to the continuing activities of the group and its share of its associated undertakings.

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 DECEMBER 2007

	2007 £m	2006 £m
Profit for the financial year after taxation:		
– group	**122.9**	44.1
– share of loss of associated undertakings	**(0.4)**	(0.3)
Unrealised surplus on revaluation of investment properties	**179.1**	790.9
TOTAL RECOGNISED GAINS AND LOSSES RELATING TO THE YEAR	**301.6**	834.7

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2007

	31 December 2007 £m	31 December 2006 £m
FIXED ASSETS		
Investment properties	**5,908.4**	5,715.9
Properties under construction	**61.4**	46.2
Properties held for development	**232.3**	204.3
Other tangible fixed assets	**0.9**	0.4
Investments	**24.8**	13.3
	6,227.8	5,980.1
CURRENT ASSETS		
Debtors: due in more than one year	**302.9**	342.5
Debtors: due within one year	**69.4**	53.3
Cash at bank and in hand	**1,135.5**	832.7
	1,507.8	1,228.5
CREDITORS: Amounts falling due within one year	**(534.4)**	(438.1)
NET CURRENT ASSETS	**973.4**	790.4
TOTAL ASSETS LESS CURRENT LIABILITIES	**7,201.2**	6,770.5
CREDITORS: Amounts falling due after more than one year	**(3,924.6)**	(3,763.8)
Provisions for liabilities	**(69.7)**	(101.4)
NET ASSETS	**3,206.9**	2,905.3
CAPITAL AND RESERVES		
Called up share capital	**6.4**	6.4
Reserves:		
– share premium	**146.2**	146.2
– revaluation reserve	**3,211.8**	3,032.7
– capital redemption reserve	**0.7**	0.7
– special reserve	**264.8**	264.8
– profit and loss account	**(423.0)**	(545.5)
SHAREHOLDERS' FUNDS	**3,206.9**	2,905.3

COMPANY BALANCE SHEET AT 31 DECEMBER 2007

	2007 £m	2006 £m
FIXED ASSETS		
Investments	**2,776.1**	2,461.1
CURRENT ASSETS		
Debtors	**1,157.0**	1,015.4
Cash at bank and in hand	**0.8**	0.1
	1,157.8	1,015.5
CREDITORS: Amounts falling due within one year	**(8.9)**	(8.5)
NET CURRENT ASSETS	**1,148.9**	1,007.0
TOTAL ASSETS LESS CURRENT LIABILITIES	**3,925.0**	3,468.1
CREDITORS: Amounts falling due after one year	**(498.6)**	(477.2)
NET ASSETS	**3,426.4**	2,990.9
CAPITAL AND RESERVES		
Called up share capital	**6.4**	6.4
Reserves:		
– share premium	**146.2**	146.2
– capital redemption reserve	**0.7**	0.7
– special reserve	**2,396.8**	2,081.8
– profit and loss account	**876.3**	755.8
SHAREHOLDERS' FUNDS	**3,426.4**	2,990.9

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2007

	2007 £m	2006 £m
NET CASH INFLOW FROM OPERATING ACTIVITIES	**430.4**	471.6
Returns on investments and servicing of finance	**(196.0)**	(195.5)
Capital expenditure and financial investment	**(104.3)**	(32.2)
Equity dividend paid	**–**	(306.7)
	(300.3)	(534.4)
Cash inflow/(outflow) before management of liquid resources and financing	**130.1**	(62.8)
Management of liquid resources	**33.1**	675.0
Financing	**172.7**	(758.6)
INCREASE/(DECREASE) IN CASH IN THE YEAR	**335.9**	(146.4)

The above cash flows relate to the continuing activities of the group.

Definitions

A7 Notes	A7 Notes of the group's securitisation
ANZ	Australia and New Zealand Banking Group Limited
B Shares	Ordinary Class B Shares of 10p each of Songbird
B3 Notes	B3 Notes of the group's securitisation
Ballymore	Ballymore Properties Limited
Barclays Bank	Barclays Bank PLC
board	Board of directors of Canary Wharf Group plc
BP4	25 Churchill Place
bps	Basis points
BWB	British Waterways Board
C3 Notes	C3 Notes of the group's securitisation
CBRE	CB Richard Ellis Limited, Surveyors and Valuers
City	The City of London
company	Canary Wharf Group plc
Cushman	Cushman & Wakefield, Real Estate Consultants
CWEL	Canary Wharf Estate Limited
CWF II	Canary Wharf Finance II plc
CWHL	Canary Wharf Holdings Limited
D2 Notes	D2 Notes of the group's securitisation
Deferred Plan	Canary Wharf Group 2004 Deferred Share Plan
Drapers Gardens	Drapers Gardens scheme in the City of London
EMRG	Environmental Management Review Group
EMS	Environmental Management System
Estate	Canary Wharf Estate including Heron Quays, Riverside South and North Quay
Exemplar	Exemplar Developments LLP
EZAs	Enterprise Zone Allowances
Fimalac	F Marc de Lachariere
Fitch	Fitch Ratings Limited
FRNs	Floating Rate Notes
FRS 4	Financial Reporting Standard 4 (Capital Instruments)
FRS 5	Financial Reporting Standard 5 (Substance of Transactions)
FRS 13	Financial Reporting Standard 13 (Derivatives and other financial instruments)
FRS 19	Financial Reporting Standard 19 (Deferred tax)
FRS 25	Financial Reporting Standard 25 (Financial Instruments: Disclosure and Presentation)
FSA	Financial Services Authority
group	Canary Wharf Group and its subsidiaries
HMRC	Her Majesty's Revenue and Customs
HSO	HighSpeed Office Limited
Knight Frank	Knight Frank LLP Property Consultants
LOCOG	The London Organising Committee of the Olympic Games Limited
m	million
Mirae	Mirae Asset Global Investment Management Limited
Moody's	Moody's Investor Services Limited
Morgan Stanley	Morgan Stanley & Co Limited
MS	Morgan Stanley European Real Estate Special Situations II Offshore Inc
MSREF V	Morgan Stanley Real Estate Fund V
NAV	Net Asset Value
NIA	Net Internal Area
NNNAV	Triple Net Asset Value
S&P	Standard & Poors
Savills	Savills Commercial Limited
SFL	Songbird Finance Limited
Skadden	Skadden Arps Slate Meagher & Flom LLP
Songbird	Songbird Estates plc
sq ft	Square feet/square foot
SSAP 9	Statement of Standard Accounting Practice 9 (Stocks and long term contracts)
SSAP 19	Statement of Standard Accounting Practice 19 (Accounting for Investment Properties)
SSAP 21	Statement of Standard Accounting Practice 21 (Accounting for leases and hire purchase contracts)
TFL	Transport for London
Trust	Canary Wharf Employees' Share Ownership Plan Trust
UITF 28	Urgent Issue Task Force 28 ('Operating leases')
UKGAAP	United Kingdom Generally Accepted Accounting Practice
VAT	Value Added Tax
WWLP	Wood Wharf Limited Partnership