CANARY WHARF GROUP PLC

Extracts from the Report and Financial Statements of the group for the year ended 31 December 2008. The 2008 Report and Financial Statements are currently being produced and will be distributed to shareholders at a later date. The information in these extracts does not comprise statutory accounts within the meaning of the Companies Act 1985.

HIGHLIGHTS

- In 2008 **leasing transactions of approximately 205,000 sq ft were achieved,** at rents ranging from £45.00 to £49.00 per sq ft.
- On 17 November 2008 **the group announced the sale and proposed staged development of Riverside South to JP Morgan for** an initial consideration of **£237.9m.**
- At 31 December 2008 **the group's investment portfolio** totalling 7.9m sq ft **was 99.7% let** (31 December 2007 – 7.9m sq ft of which 99.6% was let) including the building occupied by Lehman (in administration).
- At 31 December 2008 **the weighted average lease term** for the investment portfolio **was 18.0 years** including Lehman (or 15.2 years assuming exercise of break options).
- **Operating profit increased from £309.0m to £369.6m** and the **profit before tax** for the year **was £268.9m** (2007 – £104.3m).
- The **weighted average equivalent yield for the office portfolio was 6.5%** at 31 December 2008, up by 90 bps for the six months and 130 bps for the year. The **equivalent yield for the retail portfolio was 6.6%** at 31 December 2008, up by 80 bps for the six months since 30 June 2008 and 110 bps for the year.
- **Including development sites, the market value of the property portfolio** to be retained at 31 December 2008 **was £4,925.5m, a reduction of 19.8% since 30 June 2008** (adjusting for additions and the sale of Riverside South) **and 26.5**% **over the year.**
- **Net assets fell** from £3,206.9m at 31 December 2007 **to £1,664.3m at 31 December 2008, a reduction of £1,542.6m** or 48.1%**, and decreased by** £1,053.0m or **38.8% from £2,717.3m at 30 June 2008.** These reductions were primarily attributable to the fall in the value of the property portfolio.
- **Adjusted net asset value per share was £3.32 at 31 December 2008, a reduction of £2.47 or 42.7%** from £5.79 **over the year and** a reduction of **£1.27** or 27.7% **from** £4.59 at **30 June 2008.**
- **NNNAV per share reduced by £1.95 or 36.6%** from £5.33 at 31 December 2007 **to £3.38 at 31 December 2008, and reduced by £1.42** or (29.6)% **from** £4.80 at **30 June 2008.**
- **The group paid a dividend of 16p per ordinary share** on 9 April 2008.
- **Planning approval** was received at Canary Wharf during 2008 **for a 1.3m sq ft of development at Heron Quays West, an approximately 220,000 sq ft hotel/serviced apartment development. a 100,000 sq ft of retail space** and a rooftop park **above the Crossrail station** and a **30,000 sq ft retail** building in **Middle Dock**. **Approval for increased density at 25 Churchill Place and Heron Quays West** was also obtained.
- **Outline planning consent was awarded for the 7.0m sq ft** (gross) mixed use **scheme at Wood Wharf.**
- On 24 December 2008 **the group announced that it will construct the Crossrail station at Canary Wharf for a fixed price of £500.0m, of which** £350.0m will be met from the Crossrail budget and **£150.0m will be contributed by the group.**
- **Practical completion of 20 Churchill Place**, a 300,000 sq ft building constructed for Prudential for occupation by State Street, was **achieved** on schedule.
- **Construction continued on 1.0m sq ft of which 0.7m sq ft** has been **pre-sold and 86.0% of the remainder** has been **pre-let**. Work also continued on the **JP Morgan** building at Riverside South.

RESULTS IN BRIEF

	2008 **£m**	2007 £m
Rental income	**287.5**	275.3
Exceptional item:		
– deferred proceeds on sale of property	**–**	19.2
Operating profit	**369.6**	309.0
Operating profit excluding exceptional item	**369.6**	289.8
Exceptional items:		
– share of associates' operating loss	**(23.2)**	–
– profit on sale of development property	**118.6**	–
– charges relating to repayment of debt	**–**	(16.9)
Profit on ordinary activities before taxation	**268.9**	104.3
Profit before taxation excluding exceptional items	**173.5**	102.0
Taxation – tax (charge)/credit	**(19.4)**	18.2
Profit for the financial year	**249.5**	122.5
Dividend per share	**16.0p**	–
Basic and diluted earnings per share	**39.0p**	19.2p

CHAIRMAN'S AND CHIEF EXECUTIVE'S STATEMENT

During 2008 the Central London office market began to feel the effects of the global credit crisis and the recession in the UK. This resulted in increased investment yields on commercial real estate as capital values fell, nominal rents eased and occupational demand declined. Over the past year and specifically in the last few months, the gap between prime yields on property and the cost of five year money has widened to levels last seen a decade ago. We anticipate that rents and occupational demand may ease further across the central London market of which Canary Wharf is an integral part.

Canary Wharf Group plc remains in a healthy position with cash balances of approximately £1 billion at the year end and is in compliance with the financial covenants in all of its facilities which are non recourse with no cross collateralisation or parent level guarantees. Moreover, the rental income on the company's investment properties is in excess of the interest and amortisation of the group's debt, and undeveloped land is held debt free. The average maturity of the group's borrowings is 14.8 years, which compares with the weighted average unexpired lease term of 15.2 years assuming exercise of all breaks.

Progress at Canary Wharf

Lettings / Pre Sales

In November 2008 we welcomed the decision by JP Morgan to acquire the Riverside South site at Canary Wharf and to sign up to the phased construction of the JP Morgan consolidated European headquarters. Canary Wharf Group will act as construction and development manager on this important project.

During the year although the market weakened we concluded a total of more than 200,000 sq ft of lettings, of which the largest was to the rating agency Moody's. Construction continued on the new buildings for KPMG, Fitch, JP Morgan and the State Street building – on which practical completion has now been reached. Together these buildings total 1.3m sq ft of which about 1.25m sq ft have been pre-sold or pre let and over the next two years they will be occupied by around 7,000 staff.

As manager of the Canary Wharf estate, the company will continue to manage its investment portfolio prudently in the light of wider market conditions. After selling over £1 billion of mature well let buildings over the past five years, Canary Wharf has also let strongly and avoided speculative buildings on the Estate at a time when occupational markets remain weak.

Retail

Retail expansion continued with construction continuing on 38,000 sq ft of new retail space in the Canada Square Pavilion and Churchill Place Retail Extension for which Jamie's Italian, Roka, Canteen, Drake and Morgan and branches of Lloyds and Barclays have already signed up. Despite the difficult conditions for retail business in the UK generally from which Canary Wharf is not entirely exempt, footfall levels at Canary Wharf have remained high. Our focus has remained on working with our strong base of retail tenants to manage through these challenging times.

Significant Events

In September 2008 Lehman, which leased 25 Bank Street went into administration but occupation by the Lehman administrator continues under the lease which is so far unaffected. Nomura now lease 350,000 sq ft of the 875,000 sq ft actually occupied by Lehman, on a two year sub lease. An additional 150,000 sq ft is sub let to tenants such as NYSE Euronext, Jones Lang LaSalle and the FSA. An arrangement with AIG supported by cash collateral provides for payment of the complete contracted rent in the event of whole or partial default on rental payments due under the lease for a period of 4 years from the date of any rental default. To date such default has not occurred.

Since the period end Morgan Stanley has served notice, with effect from 1 February 2010, to exercise a break option of the lease over 6 floors in 20 Cabot Square which can now be refurbished . This exercise is part of Morgan Stanley's long term consolidation plan and it will continue to occupy more than 1.0m sq ft in two buildings at Canary Wharf.

Financial

Operating profit increased from £309.0m to £369.6m. The profit before tax of £268.9m for the year included an exceptional profit of £118.6m (in comparison with book cost) arising from the sale of the Riverside South site and an exceptional write-down on the group's investment in its Drapers Gardens associated undertaking of £23.2m. Excluding exceptional items, the profit before tax for the year of £173.5m compared with a profit of £102.0m for the previous year. For 2008 profits of £151.1m were recognised on pre-sold properties in comparison with £104.0m for the previous year. In addition, £16.0m of net income was recognised in 2008 primarily in connection with the surrender of certain leases in One Canada Square. This space has been relet to a range of tenants and the resulting increased rental income will begin to flow later this year.

After tax, the profit for the year was £249.5m in comparison with £122.5m for the previous year.

The second half of the year saw an increase in yields at Canary Wharf of approximately 90 bps, taking the total increase for the year to approximately 130 bps. This increase was reflected in the market value of your company's property portfolio at the year end which was £4,925.5m compared with £6,763.3m at the end of 2007, a decline of 26.5% per cent (including the Lehman downgrade) disregarding additions and the sale of Riverside South. A breakdown of the valuations is set out in 'Business review – Valuations'.

At 31 December 2008 99.7% of your Company's space was let and the average term of lease was 18.0 years (including the Lehman building), or 15.2 years if all break options are exercised. As we experienced in the last downturn, however, space is likely to become available as a number of tenants and owners on the Estate take steps to manage their excess space.

As a result of the reduction in property valuations, net assets reduced from £3,206.9m at 31 December 2007 to £1,664.3m at 31 December 2008, a reduction of 48.1%. The fall in the second half of the year, from £2,717.3m at 30 June 2008, was 38.8%.

Adjusted net asset value per share was £3.32 at 31 December 2008, down from £5.79 at 31 December 2007 and £4.59 at 30 June 2008. Adjusted NNNAV per share fell by £1.95 to £3.38 at the year end.

The position with regard to the group's loan covenants, with which we are fully compliant, is set out in 'Business review – Treasury objectives and risks'.

The group's securitisation, which encompasses seven properties representing 65% of the group's property portfolio, has the benefit of the arrangement with AIG referred to above which covers the payment of four years of contracted rent following a default which, as stated above, has not occurred. AIG posted cash collateral in December 2008, pursuant to its contractual obligations under this arrangement in an amount of approximately £224.0m.

The Future

We remain confident in the future of Canary Wharf and we are prepared for development and growth at Canary Wharf when market conditions allow.

During 2008 planning permission was secured on 1.8m sq ft of which 1.3m sq ft was for the Heron Quays West development, 220,000 sq ft for a new mixed use hotel and serviced apartment development, 100,000 sq ft of retail over the Crossrail station to be built at Canary Wharf, over 30,000 sq ft for a retail building in the Middle Dock and an increase of 140,000 sq ft in the permitted development on 25 Churchill Place. In total we currently have planning permission on 4.4m sq ft of space in addition to the Riverside / JP Morgan site. Good progress was also made on the neighbouring Wood Wharf site in which Canary Wharf is a 25 % joint venture partner where outline permission was granted for a 7.0m sq ft (gross) mixed use development.

Crossrail

In December 2008 agreements were concluded between Canary Wharf Group the Department for Transport and TfL for Canary Wharf Group to design and build the Crossrail station at Canary Wharf and to contribute £150m to its £500m cost. This commitment followed shortly on from announcements of significant contributions to the Crossrail project from BAA and the City of London which together signal the commitment of business to this vital project. In 2017 Crossrail will bring an additional 1.5m people within 60 minutes commute of London and ensure that the transport infrastructure is in place to enable London as a whole and Canary Wharf in particular to thrive.

Conclusion

In recent years Canary Wharf has built a strong balance sheet and it also derives income from high quality assets let to a diverse tenant base on long leases. Coupled with the high level of occupancy these factors help preserve value while generating steady rental income and resilient operating profits. During 2009 we will continue our focus on our operations and control of costs, maximising our customer relationships to attract and retain occupiers in our prime office and retail buildings.

On behalf of the Board, we would like to thank staff at Canary Wharf who, despite challenging market conditions, have contributed to some noticeable successes over the last twelve months.

BUSINESS REVIEW

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

The following Business Review aims to provide shareholders with an overall summary of the business of the group both during the year ended, and as at, 31 December 2008.

Central London office leasing market overview

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

Demand and take-up

Total take-up for 2008 fell by 22.0% as the Central London office market began to feel the effects of the global credit crisis and the recession in the UK. Around 12.2m sq ft was transacted over the course of the year, on par with the long-term average but the lowest since 2005. The largest transaction of the year was at Riverside South, Canary Wharf where JP Morgan forward-purchased 1.9m sq ft for its own occupation. There was 3.7m sq ft of take-up in the final quarter, 14.0% above the long-term average, although the West End returned one of its lowest recorded quarterly totals despite having shown some resilience during the first three quarters.

Active demand fell by 18.0% to 6.1m sq ft, largely as a result of the removal of JP Morgan's requirement. While this is well below the 10.1m sq ft of active requirements witnessed at the beginning of 2006, levels remain above those seen at the bottom of the previous cycle.

Supply and development

Availability rose for the fifth consecutive quarter and now totals 18.5m sq ft, representing a vacancy rate of 8.3%. While availability has increased by 35.0% over the last 12 months, levels remain below the long-term average and around half of the level seen during the early 1990's, despite the 3.9m sq ft of speculative development completions which came to the market over the course of 2008.

In response to the uncertain economic conditions and the difficulty in obtaining funding, the volume of space under construction fell considerably to 7.0m sq ft at the year-end. This represents a fall of 27.0% over the course of the year. As developers continue to place schemes on hold, construction activity will fall further during the course of 2009. This should help ease pressure on availability from 2010 onwards.

Rental profile

The prime City rent declined to £53.50 per sq ft at the end of 2008, compared to £63.50 per sq ft a year earlier. Current market conditions of rising availability and below average demand are expected to persist in the near-term. City rents will therefore remain under pressure in 2009 and increasingly more generous incentive packages will be offered.

In the West End, prime rents fell by 14.0% in the final quarter of 2008 from £107.50 per sq ft to £92.50 per sq ft. The fall in demand from the financial sector coupled with the growing expectation that availability will continue to rise, particularly of tenant release space, will put core rents under further pressure in 2009. Incentives continue to rise, with the typical rent-free period on a 10 year term now at 18 months.

Prime headline rents on whole floors in Canary Wharf were approximately £42.50 per sq ft at the end of 2008, down from £47.50 per sq ft a year earlier. Outside Canary Wharf the prime rent edged down from £32.50 per sq ft in the second half of 2008 to £31.00 per sq ft at the year end.

Property portfolio

The group is engaged in property investment and property development and is 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 2008 and 31 December 2007 the investment portfolio comprised 16 completed properties (out of the 31 constructed on the Estate) totalling 7.9m sq ft of NIA. The properties included in the group's investment portfolio at 31 December 2008 are shown in the table below.

BUSINESS REVIEW (Continued)

Property address	NIA sq ft	Leased %	External valuation £m	Principal tenants and sub-tenants
One Churchill Place	1,014,400	100.0	630.0	Barclays Bank, BGC, LOCOG
10 Cabot Square	639,000	100.0	260.0	Barclays Capital, WPP Group
20 Cabot Square	562,000	100.0	200.0	Barclays Capital, Morgan Stanley
One Canada Square	1,236,200	99.8	688.4	Bank of New York, JP Morgan, KPMG, Mirror Group Newspapers, State Street
33 Canada Square	562,700	100.0	305.0	Citigroup
20 Bank Street	546,500	100.0	385.0	Morgan Stanley
25-30 Bank Street	1,023,300	98.9	410.0	Lehman, Nomura
40 Bank Street	607,400	98.4	375.0	Barclays Bank, Skadden, Allen & Overy, BGC, ANZ
50 Bank Street	209,800	100.0	130.0	Northern Trust, Goldenberg Hehmeyer
10 Upper Bank Street	1,000,400	100.0	645.0	Clifford Chance, Infosys, FTSE, Total
Cabot Place Retail	95,700	99.2	124.3	Various retail tenants
Canada Place Retail	72,200	100.0	121.9	Various retail tenants
Jubilee Place Retail	89,400	100.0	85.5	Various retail tenants
Churchill Place Retail	22,400	95.6	8.7	Barclays Bank and various retail tenants
16-19 Canada Square	204,500	100.0	51.2	Waitrose Food & Home, Reebok, Plateau Restaurant
Reuters Plaza	8,900	100.0	10.0	Carluccio's, Smollensky's
Car Parks	–	–	53.0	
Total	7,894,800	99.7	4,483.0	

At 31 December 2008 the investment property portfolio was 99.7% let including the 525,000 sq ft occupied by Lehman who are in administration (31 December 2007 – 99.6%), 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 owned by the group, includes 15 properties totalling 6.6m sq ft in other ownerships.

The properties of the group are under lease to tenants which cover a range of income streams. At 31 December 2008 the weighted average unexpired lease term for the investment property portfolio was approximately 18.0 years, or 15.2 years assuming the exercise of outstanding break options (31 December 2007 – 18.7 years or 15.8 years respectively). Of the square footage under lease, 65.9% does not expire or cannot be terminated by tenants during the next ten years.

Lehman

On 15 September 2008 Lehman entered into administration in the UK and its ultimate parent, Lehman Brothers Holdings Inc., applied for Chapter 11 insolvency protection in the USA.

Lehman currently leases 1.023m sq ft in 25-30 Bank Street on a tenancy which is due to expire in July 2033. The obligations of the lease are guaranteed by Lehman Brothers Holdings Inc. Lehman now occupies approximately 525,000 sq ft, having sub-let 350,000 sq ft to Nomura, for approximately two years from December 2008 at the passing rent. Approximately 100,000 sq ft of the remaining 148,000 sq ft is sub-let until 2013 and the balance is sub-let for a maximum of 2 years. This space reverts to Lehman on the expiry of the various sub-leases. The current rent payable by Lehman for the entire building increased from £41.00 per sq ft to £53.00 per sq ft as a result of a stepped rent review in November 2008. The administrator remains in occupation of the building and rent for the first quarter of 2009 was paid on schedule.

25-30 Bank Street is included within the CWF II securitisation which has approximately £2.55 billion of notes in issuance. The securitisation has the benefit of an arrangement with AIG which provides for the payment of the contracted rent under the lease following a default from Lehman, either in its entirety or to cover any shortfall. The agreement is for a period of 4 years from a payment default by Lehman. Under this agreement, AIG is obliged to maintain a certain credit rating and following its downgrade AIG posted collateral in December 2008 pursuant to its contractual obligations to an amount of approximately £224.0m. This collateral is held in AIG bank accounts with the Bank of New York Mellon, London branch and AIG has granted security over the deposits as collateral for its obligations. Separately, the securitisation has the benefit of an arrangement with AIG which covers default by the tenant of 33 Canada Square during the full term of the lease. Following its downgrade, AIG posted a further £276.0m of cash collateral in relation to this arrangement.

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.

Holders of the secured bonds issued by CWF II have recourse only to the assets, guarantees and liquidity facility of CWF II and there is no recourse to the company.

BUSINESS REVIEW (Continued)

JP Morgan

On 14 November 2008 the group announced it had concluded an agreement for the staged development of Riverside South with JP Morgan. Under this agreement the site has been sold to JP Morgan for £237.9m. Infrastructure work on the site had already started and JP Morgan has instructed the group to complete on its behalf the design, planning and further infrastructure works for a new European headquarters building which will be designed to meet its expected future operational needs. The group will act as Development and Construction manager.

While the group is completing the design, planning, piling and raft construction JP Morgan will, subject to market conditions, decide when to instruct the group to proceed with final construction. If construction is postponed, or deferred altogether, the group will be paid for completed work and also retain £76.0m representing a portion of developer's profit related to the development.

Leasing

During 2008 the group completed letting transactions over a total of approximately 205,000 sq ft.

- An agreement was concluded with Moody's, the international credit rating agency, for approximately 165,000 sq ft on a 15 year lease which included space formerly occupied by the Telegraph on floors 11-16 in One Canada Square.
- The group also took a surrender of floor 37 (28,435 sq ft) in One Canada Square from Burlington Resources and re-let the space to Abbey Business Centres for a term of 15 years.
- Hartford Life took a short term lease of 2,045 sq ft on floor 29 in One Canada Square.
- Execujet took a 5 year lease on 2,000 sq ft in One Canada Square.
- China Construction Bank took a 10 year lease on 7,700 sq ft in 40 Bank Street.

The rents achieved on these lettings ranged from £45.00 to £49.00 per sq ft. In addition, Global Sage renewed their lease over 3,331 sq ft on floor 27 in One Canada Square.

Subsequent to the year end the group received notice from Morgan Stanley of the exercise, with effect from 1 February 2010, of the break option relating to the lease of 20 Cabot Square, which was due to expire in 2020. Morgan Stanley currently occupies approximately 345,500 sq ft at 20 Cabot Square and will continue to occupy this space until February 2010 in accordance with the terms of its lease. Morgan Stanley will also continue to lease 546,500 sq ft at 20 Bank Street and to own and occupy the 448,500 sq ft building at 25 Cabot Square.

All space previously sub-let back to the group has now been re-let or is subject to call options. At 31 December 2008 the net present value of the remaining sub-let liabilities had reduced to approximately £20.6m discounted at 6.2% being the group's weighted average cost of debt (31 December 2007 – £30.0m, discounted at 6.1%). These sub-let commitments have been reflected in the market valuation of the group's properties.

Construction

In December 2008 the group completed the construction of a 300,000 sq ft building at 20 Churchill Place which had been pre-sold to Prudential in 2006 for occupation by State Street.

Construction continued on the following properties at 31 December 2008:

Property address	NIA sq ft	Expected completion date	Status
15 Canada Square	400,000	April 2009	Pre-sold to KPMG.
5 Churchill Place	300,000	May 2009	259,000 sq ft pre-let to Bear Stearns and now assumed by JP Morgan.
30 North Colonnade	320,000	September 2009	Pre-sold to Fimalac for occupation by Fitch.
	1,020,000		

In addition to the above, work commenced on the expansion of two of the group's retail malls, including a new retail building adjoining One Canada Square. This expansion will provide a further 38,000 sq ft of lettable space.

BUSINESS REVIEW (Continued)

Development properties

The site of 25 Churchill Place can now accommodate approximately 515,000 sq ft of new development after planning permission was granted on 7 November 2008 to increase the permitted development from 375,000 sq ft. At North Quay local authority consent has been granted for 2.4m sq ft. There is also further development capacity at Heron Quays West subject to acquiring the remaining leasehold interests on the site which are outside the control of the group. Consent was granted on 17 November 2008 to increase the development of this site to 1.3m sq ft. A further application was submitted during the year for the adjacent Newfoundland site and consent was granted on 19 November 2008 for 0.2m sq ft of mixed use development.

In summary, the total development capacity at each of the group's development sites is as follows:

	NIA m sq ft
Based on latest planning permissions:	
– 25 Churchill Place	0.5
– North Quay	2.4
– Heron Quays West	1.3
– Newfoundland site	0.2
	4.4
Sold to JP Morgan (see 'Business Review – JP Morgan'):	
– Riverside South	1.9
	6.3

The group has continued to work with Ballymore and BWB on the redevelopment of Wood Wharf. The master plan for the scheme, in which the group has a 25.0% interest, sets a framework for approximately 7.0m sq ft gross of mixed commercial, residential and retail development. A formal resolution for 4.6m sq ft net was awarded on 9 October 2008 for this development and further design work is being carried out on the first phase of office buildings.

Construction work has continued on Drapers Gardens. The scheme comprises approximately 300,000 sq ft of prime commercial development scheduled for completion in Autumn 2009. The group acquired 20.0% of the share capital in the companies that own the property and has assumed the role of development manager with responsibility for the day to day running of the scheme.

Crossrail

In December 2008 the group concluded agreements with the Secretary of State for Transport and TfL's subsidiary CLRL to contribute £150.0m towards the cost of the new Crossrail station at Canary Wharf.

The group will design and construct this Crossrail station for a fixed price of £500.0m. The group has worked extensively with CLRL on redesigning the station, resulting in significant cost savings for the project. £350.0m of the station's £500.0m costs will be met from Crossrail's £15.9bn budget with the group bearing the risk in relation to costs above the fixed price limit. The group's contribution of £150.0m will be applied against any Section 106 contributions for certain agreed development sites on the Estate which may be required as part of proposed alterations to the London Plan.

Construction of the Crossrail station at Canary Wharf started in early 2009. The station box is expected to be completed and handed over to CLRL by summer 2012. The first trains are due to run in 2017 when Crossrail opens for passenger service. Planning permission has also been granted for a 100,000 sq ft retail area and public park above the station. The park will be a focal point of the design and will be semi-covered by an environmentally sustainable timber lattice roof, providing views of the docks and the Estate.

Valuations

The net assets of the group, as stated in its consolidated balance sheet at 31 December 2008, were £1,664.3m. In arriving at this total:

(i) properties held as investments were carried at £4,245.5m, which represents the market value of those properties of £4,483.0m at that date as determined by the group's external valuers, CBRE, Savills and Cushman, less an adjustment of £237.5m for tenant incentives;

(ii) properties held for development were carried at £199.8m, representing their cost to the group; and

(iii) the property under construction to be retained by the group was carried at £125.7m, representing its cost to the group.

BUSINESS REVIEW (Continued)

In valuing the properties on the Estate the valuers take account of market evidence which in the latter part of the year included conclusion of the JP Morgan transaction, the sub-lease of 350,000 sq ft by Lehman to Nomura and the re-acquisition of 10 Canada Square by HSBC.

Adjusting for additions, the valuation of the investment portfolio, on the basis of market value, reduced by £1,755.3m or 28.1% over the year. After also allowing for adjustments in respect of lease incentives, the carrying value of the investment portfolio reduced by £1,689.9m over the year. The reduction was primarily driven by an increase in yields in the market by approximately 130 bps. In comparison with 30 June 2008, the carrying value of the investment portfolio reduced by £1,141.1m or 20.9% primarily as a result of an increase in yields of 90 bps. At 31 December 2008 the weighted average equivalent yield for the office portfolio was 6.5% (31 December 2007 – 5.2%) and for the retail portfolio 6.6% (31 December 2007 – 5.5%). The directors continue to be of the view that the low vacancy rate on the Estate and long unexpired average lease terms place the group in a strong position to withstand the difficult economic climate.

CBRE and Savills have provided a joint opinion at 31 December 2008 that the market value of properties held for development was £260.0m, in comparison with a carrying value for accounts purposes of £199.8m. In valuing the properties held for development, the valuers have allowed for estimated costs to complete, including an allowance for fitout. In addition they have allowed for letting, disposal, marketing and financing costs. Excluding Riverside South, which was sold to JP Morgan in November 2008, the market value of £260.0m represents a reduction of 13.7%, adjusting for additions and transfers over the year but an increase of 8.7% since 30 June 2008. The increase in value in the second half of the year primarily reflects the beneficial impact on development property values of completing the Riverside South transaction.

The valuers also provided an opinion at 31 December 2008 that the market value of the property under construction to be retained by the group was £182.5m, in comparison with a historical cost of £125.7m and at 31 December 2007, a market value of £100.0m and a historical cost of £61.4m. The increase in value of this property over the year reflected the construction works completed and the recognition of developer's profit. The market value of the properties under construction to be sold was £536.6m in comparison with a historical cost of £222.5m.

The market value of the property portfolio to be retained reduced by £1,778.5m or 26.5% over the year, adjusting for additions and the sale of the Riverside South site, of which £1,219.2m or 19.8% occurred in the final six months. 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 below, which shows the carrying value of the group's properties for accounts purposes in comparison with the supplementary valuations provided by the external valuers.

		31 December 2008		30 June 2008		31 December 2007	
	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
Investment properties	1	**4,245.5**	**4,483.0**	5,380.1	5,658.0	5,908.4	6,211.3
Properties under construction		**125.7**	**182.5**	92.4	150.0	61.4	100.0
Properties held for development		**199.8**	**260.0**	276.9	330.0	232.3	452.0
		4,571.0	**4,925.5**	5,749.4	6,138.0	6,202.1	6,763.3
Properties under construction held for sale	2	**222.5**	**536.6**	283.0	588.5	215.4	511.0
		4,793.5	**5,462.1**	6,032.4	6,726.5	6,417.5	7,274.3

Note:

1 The carrying value of investment properties represents market value less an adjustment for UITF 28. Market value in existing state is stated before adjustment for UITF 28. The UITF 28 adjustment attributable to investment properties at 31 December 2008 was £237.5m (30 June 2008 – £279.9m, 31 December 2007 – £302.9m).

2 The carrying value in the balance sheet at 31 December 2008 is stated net of £229.1m (30 June 2008 – £290.2m, 31 December 2007 – £210.8m) transferred to cost of sales, £0.4m (30 June 2008 – £nil, 31 December 2007 – £4.6m) transferred to payments on account and £6.9m (30 June 2008 – £7.2m, 31 December 2007 – £nil) of costs accrued in accordance with SSAP 9. The market value in existing state at 31 December 2008 includes the present value of the minimum developer's profit which will be generated from the development of the Riverside South site assuming JP Morgan do not proceed with full build out, discounted at 6.2%, being the group's weighted average cost of debt, and excludes the profit already recognised in the profit and loss account on the disposal of the site.

BUSINESS REVIEW (Continued)

The valuations 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 to completion. The valuers also make reference to market evidence of transaction prices for similar properties but they have noted in their reports that in the current economic environment there have been fewer comparable transactions on arms length terms, partly due to the lack of liquidity in the capital markets. Consequently there is a greater degree of uncertainty in respect of the figures reported by the valuers than at previous balance sheet dates.

Taxation

EZAs have been utilised in the year to shelter for the most part its taxable profits and gains arising. Going forward, EZAs will continue to shelter a small part of taxable profits until they are abolished in April 2011 due to a change in law. This abolition of EZAs will result in approximately £6.2m of lost tax relief.

If the group were to dispose of its property portfolio at the market value disclosed in this 'Business Review', a tax liability of £78.5m would arise (31 December 2007 – £194.1m). 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 be 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.

Operating results

The following review of the group's operating results relates to the year ended 31 December 2008. The comparatives relate to the year ended 31 December 2007.

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 long-term contracts. Turnover for 2008 was £697.2m, against £559.4m for 2007, of which rental income was £242.0m (2007 – £234.0m). The impact of UITF 28 was to reduce rental income by £45.5m compared with £41.3m for 2007. Excluding the impact of UITF 28, rental income increased from £275.3m in 2007 to £287.5m in 2008 an increase of 4.4%, primarily attributable to the benefit of rent reviews and increased retail rental income. During 2008 the group recognised £24.3m of income in connection with the termination of certain leases on the Estate by tenants (2007 – £nil).

Service charge income increased from £62.2m for 2007 to £67.3m for 2008, an increase of £5.1m or 8.2% and miscellaneous income including insurance rents and the provision of tenant specific services outside the standard service charge fell from £24.8m for 2007 to £23.8m for 2008.

Turnover for 2008 also included £339.8m recognised on the construction of development properties that have been pre-sold and are accounted for as long-term contracts in accordance with SSAP 9 (2007 – £238.4m).

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 held for sale. Rents payable and property management costs were £92.2m for 2008 in comparison with £84.4m for 2007. Taking into account service charge and miscellaneous income totalling £91.1m for 2008, a deficit was recorded on property management of £1.1m (2007 – surplus of £2.6m).

Provisions relating to the remaining vacant leasehold property, rent support commitments and certain other obligations reduced by £0.3m in 2008 compared with an increase of £4.2m in 2007.

Cost of sales for 2008 also included £8.3m of dilapidations and other costs attributable to the termination of leases whereas 2007 included £2.9m of surrender premiums paid to certain tenants in order to obtain vacant possession. In addition 2008 included £188.7m of costs relating to long term contracts (2007 – £134.4m), resulting in £151.1m of profit being recognised on such contracts (2007 – £104.0m).

Gross profit for 2008 was £408.3m, an increase of £74.8m over 2007, which was attributable to the factors referred to above.

Administrative expenses for 2008 were £40.2m in comparison with £46.8m for 2007. The reduction in administrative expenses was in part attributable to a reduction in staff costs. Leasing and marketing costs were also lower than the previous year, offset by fees incurred in connection with the review of potential development and investment opportunities.

Operating profit for the year was £369.6m in comparison with £309.0m for 2007. The increase in operating profit of £60.6m was largely attributable to the increase in profits recognised on long-term contracts.

BUSINESS REVIEW (Continued)

In 2008 a charge of £23.2m in relation to the group's investment in Drapers Gardens was recognised in the profit and loss account and treated as an exceptional item. In 2007 £19.2m of deferred proceeds and surplus accruals from the sale of two buildings in 2003 was treated as an exceptional item.

In November 2008, the group sold Riverside South to JP Morgan for an initial consideration of £237.9m. As a result the group recognised a profit of £118.6m net of historical costs incurred by the group on the site and selling fees. This has been shown as an exceptional item after operating profit in accordance with FRS 3. The market value of this site at 31 December 2007 was £200.0m. Further detail on this transaction is provided in the 'Business Review – JP Morgan'.

Net interest payable for 2008 excluding exceptional items was £196.1m, against £187.8m for 2007. Finance costs incurred on the construction loan of £5.6m were capitalised as part of the construction cost of 5 Churchill Place (2007 – £1.8m). In 2007 the group restructured its securitised debt resulting in an exceptional charge of £16.9m.

The profit on ordinary activities after interest for 2008 was £268.9m in comparison with a profit of £104.3m for 2007. 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 2008 was £173.5m (2007 – £102.0m).

Taxation for 2008 comprised a corporation tax charge of £8.8m and a deferred tax charge of £10.6m. Taxation for 2007 was wholly attributable to deferred tax.

The profit after tax for 2008 was £249.5m in comparison with £122.5m for 2007. Basic and diluted earnings per share for 2008 was 39.0p in comparison with 19.2p for 2007.

The adjusted basic and diluted earnings per share for 2008 excluding exceptional items was 24.1p (2007 – 18.8p). Adjusted earnings per share for 2008 has been calculated on the profit after tax excluding the profit on disposal of the Riverside South site of £118.6m and the charge of £23.2m in respect of Drapers Gardens, 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. 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 2008 or 31 December 2007.

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 2008 were £1,664.3m in comparison with £3,206.9m at 31 December 2007. The fall in net asset value was primarily attributable to the revaluation deficit on investment properties of £1,689.9m and the dividend paid in the year of £102.2m, partly offset by the profit for the year of £249.5m.

The group's main objective is to maximise net assets from managing its investment property and development property 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 for the most part unlikely to crystallise.

BUSINESS REVIEW (Continued)

Adjusted NAV per share at 31 December 2008 is set out in the table below, which for comparison purposes also includes adjusted NNNAV per share.

	Note	**31 December 2008 £m**	30 June 2008 £m	31 December 2007 £m
Net assets per statutory balance sheet		**1,664.3**	2,717.3	3,206.9
Add back deferred tax		**52.9**	(36.2)	42.3
Net assets prior to deferred tax		**1,717.2**	2,681.1	3,249.2
Revaluation of property portfolio:				
– investment property	1	**155.0**	–	–
– properties held for development	2	**60.2**	53.1	219.7
– properties under construction to be retained	3	**56.8**	57.6	38.6
– properties under construction to be sold	4	**130.2**	142.8	191.6
Adjusted net assets		**2,119.4**	2,934.6	3,699.1
Fair value adjustments in respect of financial assets and liabilities less tax relief at 28.0% (31 December 2007 – 30.0%)		**188.7**	191.3	(22.8)
Contingent tax on property disposals	5	**(78.5)**	(63.4)	(194.1)
Undiscounted deferred tax		**(67.8)**	5.3	(75.4)
Adjusted NNNAV		**2,161.8**	3,067.8	3,406.8
Cumulative dividends paid since completion of the Offer Process	6	**1,104.2**	1,104.2	1,002.0
Adjusted NNNAV before dividends		**3,266.0**	4,172.0	4,408.8
Adjusted net assets per share	7	**£3.32**	£4.59	£5.79
Adjusted net assets per share before dividends		**£5.04**	£6.32	£7.36
Adjusted NNNAV per share	7	**£3.38**	£4.80	£5.33
Adjusted NNNAV per share before dividends		**£5.11**	£6.53	£6.90

Note:

(1) The market value of 25-30 Bank Street reflected in the balance sheet at 31 December 2008 of £410.0m excludes the benefit of the arrangement with AIG which provides for the payment of 4 years' contracted rent upon default by Lehman (See 'Business Review – Lehman in administration') as the arrangement cannot be transferred to a purchaser of the property. The market value of this building adjusted to include the arrangement with AIG is £565.0m. The valuation uplift does not allow for the ongoing commitment fees payable by the group to AIG of approximately £3.6m per annum.

(2) Revalued at market value in existing state.

(3) Uplift to market value on properties under construction to be retained by the group of £56.8m (30 June 2008 – £57.6m, 31 December 2007 – £38.6m).

(4) Uplift to market value on pre-sold properties under construction of £314.1m (30 June 2008 – £305.5m, 31 December 2007 – £295.6m) less cumulative profit of £183.9m recognised to 2008 (30 June 2008 – £162.7m, 31 December 2007 – £103.9m) (refer to 'Business Review – Valuations').

(5) Refer to 'Business Review – Taxation'.

(6) The company paid interim dividends as follows: 8 September 2005 – 65p (£407.7m); 30 December 2005 – 45p (£287.6m); 7 November 2006 – 48p (£306.7m) and 9 April 2008 – 16p (£102.2m).

(7) Calculated by reference to the closing number of shares of 639.0m at each balance sheet date. There were no dilutive instruments outstanding at either date.

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 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.

Principal risks and uncertainties

The principal risks and uncertainties facing the business are monitored through continuous assessment, regular formal quarterly reviews 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 current key risks include the property market upheaval, financing risk, concentration risk and policy and planning risks. In addition, unprecedented turmoil in the financial markets has resulted in an unusually pronounced negative impact on the real estate market. In the current difficult economic environment there is an increased risk that further softening of yields could put pressure on loan to value covenants in the group's facilities (see 'Treasury objectives and risks').

BUSINESS REVIEW (Continued)

Property market upheaval
The valuation of the group's assets is subject to many external economic and market factors which are cyclical in nature. The previously mentioned unprecedented turmoil in the financial markets has been reflected in the property market by such factors as the oversupply of available space in the office market, a recent significant decline in tenant demand for space in London and a change in the market perception of property as an investment resulting in a negative impact on property valuations in general. Such issues are kept under constant review so that the group can react appropriately and tailor the business plan of the group accordingly. The impact of the ongoing upheaval in the financial and property markets continues to be closely monitored.

Financing risk
The broader economic cycle inevitably leads to movements in inflation, interest rates and bond yields. The group finances its operations largely through a mixture of surplus cash, secured borrowing and debentures. The group borrows at both fixed and floating rates and uses interest rate swaps 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. Further details on the management of treasury risk can be found in the section 'Business Review – Treasury objectives and risks'.

The current financial markets turmoil has significantly limited the availability of funding. In common with other UK property companies, lack of financing facilities may have an impact on the business of the group if the lending market remains limited for the foreseeable future.

Concentration risk
The majority of the group's real estate assets are currently located on or adjacent to the Estate with tenants that are mainly linked to the financial services industry. Wherever possible steps are taken to mitigate or avoid material consequences arising from this concentration. The focus of the group continues to remain on and around the Estate, however, where value can be added the group will consider opportunities elsewhere.

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 taxation could limit the ability of the group to maximise the long term potential of its assets.

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 debtors and trade creditors 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. 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 in sterling at 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 and at 31 December 2008 all of the group's borrowings (31 December 2007 – 100%) 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 2008 the average maturity of the group's debt was 14.8 years (2007 – 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. The first of the group's facilities to mature is the £350.0m loan facility secured on the retail portfolio (maturity March 2011). Thereafter the group does not have any loan maturities before 2013.

The group's loan facilities are secured on certain individual properties, not subject to cross default provisions and non-recourse.

BUSINESS REVIEW (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 the group's facilities are as follows:

(i) CWF II securitisation, encompassing seven investment properties representing 64.8% of the investment property portfolio by value.

Maximum LMCTV ratio of 100%. Based on the valuations at 31 December 2008 the LMCTV ratio was 86.2%, excluding the £224.0m of cash collateral posted by AIG in respect of the HQ2 (25 Bank Street) facility, and 78.6% including such cash collateral.

The securitisation has no minimum ICR covenant. The group has the ability to remedy a breach of covenant by depositing eligible investments (including cash).

(ii) Loan of £583.8m secured against One Churchill Place, representing 14.1% of the investment property portfolio by value.

This facility is not subject to any LTV or ICR covenants.

(iii) Loan of £367.1m secured against 10 Cabot Square and 20 Cabot Square, representing 10.2% of the investment property portfolio by value.

Maximum LTV ratio of 85.0%. Based on the valuations at 31 December 2008 the LTV ratio was 79.5%.

This facility is also subject to a minimum ICR test of 100% which was satisfied throughout the year. Subsequent to the year end, Morgan Stanley gave notice to break its lease of 20 Cabot Square with effect from February 2010. To prevent the serving of the notice leading to a breach of the test, a portion of the swap was broken at a cost of £8.1m and a new swap entered into which serves to fix the rate of interest at a weighted average, including margin, of 5.6%. The board anticipates that this restructuring will enable the group to meet its ICR covenants for the remaining life of the loan.

The group has the ability to remedy a breach of covenant by depositing cash.

(iv) Loan of £350.0m secured against the principal retail properties of the group, representing 9.1% of the investment property portfolio by value.

Maximum LTV ratio of 75.0%, reducing to 70.0% from March 2010. Based on the valuations at 31 December 2008 the LTV ratio would have been 87.0% but in order to avoid a breach of covenant at the next test date in April 2009 the lender agreed that additional uncharged properties be added to the facility. The LTV after adding such properties is 71.7%, not including the increase in value of the retail development properties at completion.

The loan also has a maximum ICR covenant of 110.0% which was satisfied throughout the year. The group has the ability to remedy a breach of covenant by depositing cash.

(v) Construction loan facility of £155.0m secured against 5 Churchill Place.

Maximum LTV ratio of 80.0% calculated on the value of the property at completion, reducing to 70.0% 6 months following practical completion. Based on the valuation at 31 December 2008 the LTV was 50.35%.

The loan will be subject to a minimum ICR of 110.0% from the date 6 months following practical completion of the property.

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 JP Morgan and at 31 December 2008 £54.3m remained available to draw down (31 December 2007 – £118.4m).

The Drapers Gardens joint venture, in which the group has a 20.0% interest, has a £172.5m construction loan facility under which Lehman is the principal lender of a syndicate including other banks. Lehman continues to have an 18.9% holding in the loan facility following syndication. Since Lehman's entry into administration, the remaining banks have continued to meet their share of the funding requirements to 31 December 2008 and the shortfall has been met by way of additional shareholder loans. Excluding Lehman's commitment, £51.5m of the loan remained to be drawn down at 31 December 2008.

BUSINESS REVIEW (Continued)

Borrowings

In September 2008 an additional £50.0m was drawn down under the group's retail loan facility, increasing the amount drawn to £350.0m. The increased loan carries a weighted average interest rate of 6.12% and is repayable in March 2011.

At 31 December 2008, net debt (after cash in hand and cash collateral) stood at £2,900.8m, up from £2,849.4m at 31 December 2007, and comprised:

	31 December 2008 £m	31 December 2007 £m
Securitised debt	**2,637.5**	2,644.8
Loans	**1,305.6**	1,263.4
Finance lease obligations	**41.6**	41.7
Construction loan	**99.9**	35.0
Total borrowings	**4,084.6**	3,984.9
Less:		
- cash collateral for borrowings	**(135.0)**	(144.0)
- cash collateral for construction	**(25.1)**	(115.9)
- other cash collateral	**(12.4)**	(19.9)
	3,912.1	3,705.1
Less: cash deposits	**(1,011.3)**	(855.7)
Net debt	**2,900.8**	2,849.4

The increase in total borrowings from £3,984.9m to £4,084.6m reflects draw downs under the construction loan facility and the retail loan facility, partly offset by the scheduled amortisation of debt. The increase in cash and term deposits from £1,135.5m to £1,183.8m is primarily as a result of the initial proceeds from the agreement to sell Riverside South and the draw down under the retail loan partly offset by the funding of construction costs and the payment of dividends.

At 31 December 2008 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 an unrecognised asset of £262.1m before tax relief (31 December 2007 – liability of £32.5m).

At 31 December 2008, the group's weighted average cost of debt was 6.0% excluding credit wraps (or 6.2% including credit wraps) in comparison with 5.9% excluding credit wraps (or 6.1% including credit wraps) at 31 December 2007.

Cash flow

Net cash inflow from operating activities for 2008 was £184.8m in comparison with £430.4m for 2007, a decrease of £245.6m. This decrease was primarily attributable to a reduction in net proceeds from properties in the course of construction which were pre-sold. Excluding this item operating cash inflows increased from £258.6m to £266.1m.

Returns on investments and servicing of finance resulted in an outflow of £186.7m for 2008 compared with £196.0m for 2007. The total for 2008 included £0.5m of fees on loans drawn down in the year compared with £10.5m for 2007 on loans drawn down and repaid.

Capital expenditure and financial investment for 2008 resulted in a cash inflow of £59.2m, compared with an outflow of £104.3m for 2007. 2008 included £167.1m of development expenditure incurred on properties to be retained by the group and funding of the group's investment in associated undertakings of £8.7m, offset by proceeds from the sale of the Riverside South site of £237.9m. 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.

On 9 April 2008, a dividend of 16.0p per share was paid totalling £102.2m.

The financing cash inflow for 2008 was £93.2m compared with £172.7m for 2007. 2008 included £59.6m drawn down under the group's construction loan facility (December 2007 – £34.9m) and £50.0m drawn down under the group's retail loan facility. 2007 included net proceeds of £148.0m arising from restructuring the group's securitisation and £34.9m drawn down under the group's construction facility.

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2008

	2008 **£m**	2007 £m
Turnover	**697.2**	559.4
Cost of sales	**(288.9)**	(225.9)
GROSS PROFIT	**408.3**	333.5
Administrative expenses	**(40.2)**	(46.8)
Other operating income:		
– before exceptional item	**1.5**	3.1
Exceptional item:		
– deferred proceeds on sale of investment property	**–**	19.2
	1.5	22.3
OPERATING PROFIT	**369.6**	309.0
Exceptional items:		
– share of associates' operating losses	**(23.2)**	–
– profit on sale of development property	**118.6**	–
Interest receivable	**47.0**	51.3
Interest payable:		
– before exceptional item:		
– group	**(242.6)**	(238.7)
– associated undertakings	**(0.5)**	(0.4)
Exceptional item:		
– charges relating to repayment of debt	**–**	(16.9)
	(243.1)	(256.0)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	**268.9**	104.3
Taxation	**(19.4)**	18.2
PROFIT FOR THE FINANCIAL YEAR	**249.5**	122.5
Basic and diluted earnings per share	**39.0p**	19.2p

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

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 DECEMBER 2008

	2008 £m	2007 £m
Profit for the financial year after taxation:		
– group	**273.2**	122.9
– share of losses of associated undertakings	**(23.7)**	(0.4)
Unrealised movement on revaluation of investment properties	**(1,689.9)**	179.1
TOTAL RECOGNISED GAINS AND LOSSES RELATING TO THE YEAR	**(1,440.4)**	301.6

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2008

	2008 £m	2007 £m
FIXED ASSETS		
Investment properties	**4,245.5**	5,908.4
Properties under construction	**125.7**	61.4
Properties held for development	**199.8**	232.3
Other tangible fixed assets	**1.9**	0.9
Investments	**22.7**	24.8
	4,595.6	6,227.8
CURRENT ASSETS		
Debtors: due in more than one year	**243.7**	302.9
Debtors: due within one year	**80.4**	69.4
Cash at bank and in hand	**1,183.8**	1,135.5
	1,507.9	1,507.8
CREDITORS: Amounts falling due within one year	**(372.4)**	(534.4)
NET CURRENT ASSETS	**1,135.5**	973.4
TOTAL ASSETS LESS CURRENT LIABILITIES	**5,731.1**	7,201.2
CREDITORS: Amounts falling due after more than one year	**(3,995.4)**	(3,924.6)
Provisions for liabilities	**(71.4)**	(69.7)
NET ASSETS	**1,664.3**	3,206.9
CAPITAL AND RESERVES		
Called up share capital	**6.4**	6.4
Reserves:		
– share premium	**146.2**	146.2
– revaluation reserve	**1,521.9**	3,211.8
– capital redemption reserve	**0.7**	0.7
– special reserve	**264.8**	264.8
– profit and loss account	**(275.7)**	(423.0)
SHAREHOLDERS' FUNDS	**1,664.3**	3,206.9

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2008

	2008	2007
	£m	£m
NET CASH INFLOW FROM OPERATING ACTIVITIES	**184.8**	430.4
Returns on investments and servicing of finance	**(186.7)**	(196.0)
Capital expenditure and financial investment	**59.2**	(104.3)
Equity dividend paid	**(102.2)**	–
	(229.7)	(300.3)
Cash (outflow)/inflow before management of liquid resources and financing	**(44.9)**	130.1
Management of liquid resources	**107.3**	33.1
Financing	**93.2**	172.7
INCREASE IN CASH IN THE YEAR	**155.6**	335.9

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

DEFINITIONS

AIG	American International Group, Inc.
Ballymore	Ballymore Properties Limited
Barclays Bank	Barclays Bank PLC
bn	Billion
board	Board of directors of Canary Wharf Group plc
bps	Basis points
BWB	British Waterways Board
CBRE	CB Richard Ellis Limited, Surveyors and Valuers
City	The City of London
CLRL	Cross London Rail Links Limited
company	Canary Wharf Group plc
Cushman	Cushman & Wakefield, Real Estate Consultants
CWF II	Canary Wharf Finance II plc
Drapers Gardens	Drapers Gardens scheme in the City of London
Estate	Canary Wharf Estate including Heron Quays West, Riverside South and North Quay
EZAs	Enterprise Zone Allowances
Fimalac	F Marc de Lachariere
Fitch	Fitch Ratings Limited
FRS 3	Financial Reporting standard 3 (Reporting financial performance)
FRS 13	Financial Reporting Standard 13 (Derivatives and other financial instruments)
FRS 19	Financial Reporting Standard 19 (Deferred tax)
group	Canary Wharf Group and its subsidiaries
ICR	Interest Cover Ratio
Knight Frank	Knight Frank LLP, Property Consultants
Lehman	Lehman Brothers Limited (in administration)
Lloyds	Lloyds Banking Group
LMCTV	Loan Minus Cash to Value
London Plan	Mayor of London planning document published by the Greater London Authority
LTV	Loan to Value
m	million
Moody's	Moody's Investor Services Limited
Morgan Stanley	Morgan Stanley & Co Limited
NAV	Net Asset Value
NIA	Net Internal Area
NNNAV	Triple Net Asset Value
Nomura	Nomura International plc
Offer Process	The acquisition of 60.8% of the group's shares by Songbird in June 2004
Prudential	Prudential Retirement Income Limited
S&P	Standard & Poors
Savills	Savills Commercial 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)
TfL	Transport for London
Trust	Canary Wharf Employees' Share Ownership Plan Trust
UITF 28	Urgent Issue Task Force 28 ('Operating leases')
VAT	Value Added Tax
WWLP	Wood Wharf Limited Partnership