CANARY WHARF GROUP PLC

Extracted from the Financial Statement of the Group for the year ended 31 December 2012. The 2012 Financial Statement is currently being produced and will be distributed to Shareholders at a later date. The information in this extract does not comprise statutory accounts within the meaning of the Companies Act 2006.

HIGHLIGHTS

Development programme on schedule

- **25 Churchill Place** – topped out, cladding and building services installation in progress.
- **Crossrail station:**
  - station box delivered to Crossrail 5 months ahead of schedule.
  - construction commenced on 115,000 sq ft of retail and leisure space above the station.
- **Retail expansion** – 44,000 sq ft extension to Jubilee Place mall on track to open in November 2013. 64.0% let or in solicitors' hands at 31 December 2012.
- **Joint ventures:**
  - **20 Fenchurch Street** – topped out in 2012. 352,000 sq ft or 53.0% prelet.
  - **Shell Centre** – planning application submitted in December 2012.
- **Land assembly** – 100.0% ownership of Wood Wharf secured and a new master plan being developed for approximately 4.6m sq ft, divided equally between office and residential.

Continued leasing activity and secure income stream

- Weighted average lease term is 15.5 years or 14.2 years assuming exercise of all break options.
- Lease extension signed with Bank of New York Mellon on over 152,000 sq ft in One Canada Square at £42.50 psf (10.4% ahead of built ERV at 31 December 2011).
- Further lettings of approximately 25,000 sq ft, including leases with rents in the range £40.00 – £43.00 psf.

Portfolio valuation shows continued growth

- Retail portfolio performing well – valuation up 9.9% over year and 4.8% in second half.
- Office portfolio valuation increased by 2.5%, of which 2.4% in second half.
- Office benchmark initial yield reduced to 5.0%.
- Market value of investment portfolio up by 3.4% over year.
- Including land, portfolio valuation up 4.1% over year, adjusting for capital expenditure and Wood Wharf acquisition.

Secure financial position provides foundation for Group's strategy

- Unrestricted cash of £586.9m at 31 December 2012 after payment of £115.1m of dividends (Note (ii)).
- £190.0m construction loan facility secured against 25 Churchill Place with first drawdown in January 2013 (Note (iii)).
- Scheduled loan amortisation of £74.7m paid in year (Note (iii)).
- Average loan maturity of 13 years compares with weighted average lease term.

Financial summary

- Dividends of 4p and 14p per share paid in year (Note (iv)).
- Net assets £2,498.4m at 31 December 2012, an increase of £60.5m or 2.5% from £2,437.9m at 31 December 2011, net of dividends paid. Net assets at 31 December 2012 compares with £2,457.0m at 30 June 2012, an increase of £41.4m or 1.7%, net of £89.5m dividend paid in September 2012.
- Adjusted NAV per share £4.22 compared with £3.99 at 31 December 2011 (as restated), an increase of 23p or 5.8%, and £4.15 at 30 June 2012, an increase of 7p or 1.7%.
- Loss before tax £3.7m (2011 – loss of £51.6m).
- Profit after tax £1.6m (2011 – profit of £22.6m).

Note:
(i) For further information on the above refer to the Business Review unless otherwise stated.
(ii) Refer to Note 14.
(iii) Refer to Note 16.
(iv) Refer to Note 7.

CANARY WHARF GROUP PLC

RESULTS IN BRIEF

	Note	**2012 £m**	2011 £m
Rental income	(i)	**263.8**	251.3
Operating profit	(i)	**195.5**	180.1
Exceptional item: – movement in uneconomic hedge provision	(ii)	**(0.9)**	(25.5)
Loss on ordinary activities before tax		**(3.7)**	(51.6)
Loss before tax excluding exceptional items	(i)	**(2.8)**	(26.1)
Tax	(iii)	**5.3**	74.2
Profit for the financial year		**1.6**	22.6
Dividend paid	(iv)	**(115.1)**	(45.0)
Basic and diluted earnings per share	(v)	**0.3p**	3.5p

Note:
(i) Refer to Business Review.
(ii) Refer to Note 4.
(iii) Refer to Note 5.
(iv) Refer to Note 7.
(v) Refer to Note 9.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER'S STATEMENT

Introduction

In 2012, the Group continued to build on its success in activities ranging from construction through to leasing and asset management, while laying the foundations for its continued diversification and growth. The recent topping out of 25 Churchill Place marked the completion of the original masterplan for the Canary Wharf Estate and the Group now looks forward to a new phase of development as it responds to the needs of the next generation of business and residential occupiers.

The Group has played a key role in shaping London's reputation as a preeminent global centre for business. This experience in developing a successful global business hub and providing a strong retail and leisure offering will be critical as it moves forward with its new phase of developments, including 4.6m sq ft net of retail, residential and office/high tech development on the 20 acre Wood Wharf site, the redevelopment of the 1.4m sq ft net mixed use development at the 5.25 acre Shell Centre site on the South Bank and the 690,000 sq ft 20 Fenchurch Street office development in the heart of the City's insurance district. The Group believes strongly in working with its clients, tenants or purchasers and local communities to understand what they consider important and develop sites in a responsible manner. As well as the Group's impact on London's ability to remain at the forefront of global business, it has contributed materially to the economic development of inner East London and remains committed to working hand in hand with local communities to deliver the regeneration of this and other areas of London. Working with neighbouring stakeholders, the Group's vision is to create and nurture vibrant new communities that meet the economic, environmental and social needs of today while anticipating those of tomorrow.

Although the leasing environment remains challenging, the Group is particularly pleased with progress at 20 Fenchurch Street where 53.0% of the building by space has now been prelet to a number of leading insurance tenants. In contrast to most other retail developments in the UK, the Group's retail and leisure space at Canary Wharf remains fully let, and demand for new space remains strong.

The Group has now turned its focus to a new phase of more diverse developments to ensure it is positioned to take advantage of London's new growth sectors and looks forward to seeing new projects come to fruition. Activities undertaken in 2012 in pursuit of this diversification have positioned the Group well to take advantage of the strengths of the London market and, in particular, to benefit from strong demand in TMT and residential markets.

Financial Review

Net assets totalled £2,498.4m at 31 December 2012, representing an increase of £60.5m or 2.5% since 31 December 2011. This increase was primarily due to the revaluation surplus of £174.1m, offset by interim dividends paid totalling £115.1m. Prior to the payment of dividends, net assets increased by £175.6m or 7.2% over the year. Net assets at the year end were £41.4m or 1.7% higher than at 30 June 2012, net of a dividend of £89.5m paid in September 2012.

The market value of the investment portfolio increased by 3.4% over the year, driven by an increase of 2.5% in the office portfolio and a 9.9% increase in the retail portfolio. Yields on fully let office properties hardened in the second half of the year with the benchmark initial yield reducing by approximately 25 bps. The increase in the valuation of the retail portfolio reflected progress with the expansion of Jubilee Place mall, continued growth in passing rents and a slight hardening in yields of about 10 bps over the year.

Including development sites, the market value of the total portfolio increased by 4.1% over the year, adjusting for capital expenditure and the benefit of consolidating and revaluing Wood Wharf for the first time subsequent to the acquisition of the stakes previously held by Ballymore and BWB. The increase in the valuation of the portfolio reflecting capital expenditure since 30 June 2012 was 2.2%.

The loss before tax for the year, before exceptional items, was £2.8m in comparison with £26.1m for 2011. The improvement in comparison with the previous year was primarily attributable to an increase in rental income, combined with a reduction in service charge voids and administrative expenses.

Adjusted NAV per share was £4.22 at 31 December 2012, compared with £3.99 (restated) per share at 31 December 2011, an increase of 23p or 5.8%. The year end adjusted NAV compared with £4.15 at 30 June 2012 prior to payment in September of an interim dividend of 14p per share.

At 31 December 2012, the Group had unsecured cash deposits of £586.9m. Following a restructuring of the interest rate hedging relating to the Group's £350.0m retail loan, the weighted average cost of debt reduced from 6.2% to 5.8%. The weighted average maturity of the Group's loan facilities was 13.0 years which compares with the weighted average unexpired lease term of 14.2 years assuming exercise of all lease break options.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER'S STATEMENT (Continued)

Operational Review

Leasing

London's real estate investment market continues to be strong. There is, however, continued caution in the leasing market which has experienced reduced demand from tenants. The insurance market is a notable exception to this trend and the Group has been able to take advantage of strong demand from this sector at the 20 Fenchurch Street development, a joint venture with Land Securities. The Group has now prelet over 350,000 sq ft in this building to 7 different tenants, including prelets secured since the year end. These lettings are equivalent to 53.0% of the space in the building. The Group looks forward to announcing more prelets at this new addition to the London sky-line which will be completed in April 2014.

At Canary Wharf, Bank of New York Mellon extended its lease on over 152,000 sq ft in One Canada Square for a term of 8 years at £42.50 psf. Further lettings totalling approximately 25,000 sq ft, including leases with rents in the range of £40.00 – £43.00 psf, were concluded at Canary Wharf during the period.

There is substantial high quality demand for the Group's retail space at Canary Wharf where 100% of units are let. Reflecting this demand, the Group is constructing a 44,000 sq ft extension to the Jubilee Place mall and 115,000 sq ft of retail and leisure space on 4 levels above the Crossrail station. As fast as this space is being built, it is being leased by a growing range of retailers, restauranteurs and other leisure companies including Cos, Le Pain Quotidien, Rituals and Oliver Bonas. At Jubilee Place mall, 16 out of the 26 new retail units are now either let or in solicitors' hands, ahead of it's opening in November 2013 and 44.0% of the Crossrail units are already in solicitors' hands. The Group is currently focused on the services and fit out of the upper levels of the Crossrail retail which will open on a phased basis out to 2018 when the first trains run. The first units will open in 2015.

There is similar momentum at the Crossrail station site, where the Group has delivered the station box 5 months ahead of schedule and handed it over to Crossrail which is currently installing the track ready to receive 2 tunnelling machines in April and May this year.

Crossrail's opening in 2018 will double the capacity of the already strong transport links at Canary Wharf, improving connectivity and resilience and bringing fresh impetus by boosting the accessibility of the Estate to both workers and visitors from new areas of London. Journey times to the Canary Wharf Estate will be cut to just 6 minutes from Liverpool Street, 8 minutes from Farringdon and 39 minutes from Heathrow, with 12 trains per hour in each direction during the peak.

Occupancy levels in the Group's investment portfolio at Canary Wharf stood at 95.5% at 31 December 2012. The weighted average lease term is 14.2 years, assuming exercise of all break options. Approaching 40.0% of the Group's tenants at Canary Wharf are non banking sector and the Group's goal is to see this figure grow over time on the Estate and in adjacent developments.

Construction and development pipeline

Canary Wharf Group has the largest pipeline of any London developer, and has a track record of completing projects both on time and to budget. The Group has now built approximately 16.0m sq ft of office and retail space in the last couple of decades, of which it retains ownership of around 7.0m sq ft.

The Group started building Canary Wharf in 1988 and installed the final section of the steel frame of 25 Churchill Place in February 2013 on schedule, completing the original masterplan for the Estate. The building is set to house the European Medicines Agency from mid 2014. A prelet of 250,000 sq ft out of the 500,000 sq ft property was agreed with EMA in August 2011 and the balance of the available space will be marketed as construction continues. The installation of cladding and building services is now in progress.

The Group has planning permission for another 9.2m sq ft of mixed use space in the pipeline at Canary Wharf and adjacent Wood Wharf. Planning consents for the sites at One Park Place, Heron Quays West, and Newfoundland are currently being reviewed to ensure the Group is best placed to continue offering potential occupiers bespoke, high quality space which reflects the market's changing needs.

The Group is prioritising market driven, smaller, more focused developments, which will help increase its exposure to London's new growth markets, including the TMT and residential sectors. With this in mind, the Group has established Level39, Europe's largest FinTech accelerator space, at One Canada Square on the Canary Wharf Estate. Level39 aims to link London's growing technology scene with Canary Wharf's existing financial and professional services community. In doing so, it aims to improve the transparency and competitiveness of London's financial services sector and complement existing clusters in the City fringe, South Bank and West End. It builds on the Group's track record in helping businesses as they grow and playing a key role in shaping London's profile as a global business innovation hub.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER'S STATEMENT (Continued)

The Group now has 100% ownership of the 20 acre Wood Wharf site and is currently developing a new masterplan for the next generation of business and residential space at the site. This development represents the evolution of the Group as it looks to provide space for London's growth business sectors, including technology and new media firms. Wood Wharf is an opportunity to develop the Group's experience in the commercial property sector and create a new and dynamic urban community which will form an exciting mixed use creative district. The design team comprises some of the best architectural talent in the world, following the appointment of the building and landscape architects for the site, including Terry Farrell, Herzog & de Meuron, Allies and Morrison and Stanton Williams. An extensive consultation process with local communities and stakeholders is ongoing and will enable the Group to understand the needs and aspirations of the local community. It is anticipated that an application for planning consent will be submitted in late 2013.

2012 saw the Group moving apace with its developments beyond the Canary Wharf Estate. The construction of 20 Fenchurch Street, remains on budget and on time, and is due to complete in April 2014. The building is designed to facilitate the latest efficient space planning, and will have spectacular 360 degree views of the capital. Designed by leading architect Rafael Viñoly, the building flares upward from its base and the 38 storey building will be capped with a 'sky garden' with leisure and restaurant facilities.

Following a comprehensive community consultation process, the Group submitted a planning application for the Shell Centre redevelopment, a 50:50 joint venture with Qatari Diar, in December 2012. When redevelopment is complete, it will comprise around 1.6m sq ft including the original Shell Tower. This is going to be an important new development for London, a harmonious and balanced site catering for a roughly equal mixture of commercial and residential tenants, as well as an appropriate share of retail and leisure space, attractive to all users of this busy part of London's South Bank.

Progress during 2012 has only been possible through the hard work of staff and the Board is grateful for their continuing commitment.

Conclusion

While the Board remains cautiously optimistic about the near term market environment, it is confident that through its demand led pipeline, commitment to diversification and reputation for excellence and responsible development, it has laid the foundations for future success. The Board is also excited about the prospects for the Shell Centre redevelopment where planning has now been submitted after a long and careful period of consultation, and it is looking forward to starting on site, hopefully by the end of 2013.

Having put a series of critical building blocks in place in 2012, with the prospect of development at the Shell Centre and at Wood Wharf, the Group looks forward to delivering the next exciting phase of its pipeline. It will continue the diversification of its growing portfolio to encompass an increasingly diverse range of tenants. The Board is confident the Group is well positioned due to the flexibility of its space and ability to fine tune timing, to successfully diversify its tenant base and accommodate the growing TMT sector. The Group's track record in working with small businesses and growth sectors is strong and it will look to build on this in the future, as it continues to play its part in shaping London's profile as a leading global centre for both commerce and financial services.

BUSINESS REVIEW

The following Business Review aims to provide shareholders with a summary of the business of the Group both during the year ended and as at 31 December 2012, as well as summarising significant events which have occurred after this date.

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

Central London office leasing market overview

The following commentary on the Central London office market was provided by CBRE.

Demand and take up

Central London take up fell by 7.0% in 2012 to 9.8m sq ft from 10.5m sq ft in 2011 as the uncertainty generated by the eurozone sovereign debt crisis and subdued economic outlook caused occupiers to postpone real estate decisions. As a result, annual take up remained below the 10 year annual average of 11.8m sq ft, with all Central London markets recording below trend levels.

The volume of space under offer fell by 4.0% over the year to 2.0m sq ft from 2.1m sq ft in 2011, 23.0% below the 10 year average of 2.6m sq ft.

Supply and development

Central London availability increased from 15.4m sq ft in 2011 to reach 16.5m sq ft in 2012, causing the availability rate to rise from 7.1% to 7.5%. The annual increase was driven by uplifts in early marketed space (3.8m sq ft), which is 12 months from completion, and new completed space (3.8m sq ft), rising by 39.0% and 4.0% respectively.

Availability was 6.0% below the 10 year average of 17.4m sq ft in quarter 4 2012, however rising development completion levels means that the upward trend observed in 2012 should continue in 2013. The Central London vacancy rate increased to 5.3% in 2012 from 5.2% in 2011.

Completion levels totalled 2.3m sq ft in 2012, marking an increase from the 1.7m sq ft that completed in 2011, but remained some way below the 10 year average of 4.3m sq ft. Completion levels are expected to return to trend in 2013 when 4.4m sq ft is scheduled for delivery.

Rents

Prime rents were largely unchanged across Central London in 2012, with the City and West End remaining at £55.00 psf and £92.50 psf respectively. Canary Wharf rents were also unchanged at £38.50 psf to £41.50 psf.

Property portfolio

The Group is engaged in property investment and development and is currently primarily focused on the development of the Estate. Elsewhere in London the Group is involved through joint ventures in the redevelopment of 20 Fenchurch Street and the Shell Centre.

In January 2012, the Group completed the acquisition of BWB's 50.0% interest in the Wood Wharf joint venture and was granted a new overriding 250 year lease of the site. As a result the Group achieved full control of this scheme and consequently transferred the carrying value of its combined investment to Properties held for development within Tangible fixed assets. Further details on the acquisition of this site can be found in the Business Review – Wood Wharf.

BUSINESS REVIEW (Continued)

At 31 December 2012, the Group's investment property portfolio comprised 16 completed properties (out of the 35 constructed on the Estate) totalling approximately 7.0m sq ft of NIA. The properties included in the Group's investment property portfolio at 31 December 2012 are shown in the table below.

Property address	NIA sq ft	Leased %	**External valuation £m**	Principal tenants and sub tenants
One Churchill Place	1,038,500	100.0	**770.0**	Barclays, BGC
10 Cabot Square/5 North Colonnade	634,100	100.0	**400.0**	Barclays, WPP Group
20 Cabot Square/10 South Colonnade	558,100	100.0	**353.0**	Barclays
One Canada Square	1,220,500	81.8	**653.3**	Moody's, Bank of New York Mellon, Mirror Group, FSA, State Street, Euler, Metlife
33 Canada Square	562,700	100.0	**385.0**	Citigroup
20 Bank Street	546,500	100.0	**440.0**	Morgan Stanley
40 Bank Street	606,000	85.1	**328.0**	Shell, Skadden, Allen & Overy, ANZ, JLL
50 Bank Street	210,600	100.0	**145.0**	Northern Trust, Goldenberg Hehmeyer
10 Upper Bank Street	1,027,300	100.0	**675.0**	Clifford Chance, FTSE, Total
Cabot Place Retail	141,600	99.6	**186.5**	Boots, Tesco, Zara and other retail tenants
Canada Place Retail	71,300	100.0	**186.4**	Gap, Next and other retail tenants
Jubilee Place Retail	93,500	100.0	**156.8**	Boots, M&S Food, Wagamama and other retail tenants
Churchill Place Retail	34,900	100.0	**20.3**	Barclays, Jamie's Italian and other retail tenants
16-19 Canada Square	213,600	99.8	**82.9**	Waitrose Food & Home, Reebok, Plateau Restaurant
Reuters Plaza	8,900	100.0	**16.4**	Carluccio's, Smollensky's
Park Pavilion	22,900	100.0	**21.9**	Lloyds Bank, Canteen, The Parlour, Roka and Wahaca
Car parks	–	–	**42.0**	
Total	6,991,000	95.5	**4,862.5**	

At 31 December 2012, the investment property portfolio was 95.5% let (31 December 2011 – 96.5%). The weighted average unexpired lease term for the investment portfolio at 31 December 2012 was approximately 15.5 years, or 14.2 years assuming the exercise of outstanding break options (31 December 2011 – 16.2 years or 14.9 years respectively). Of the square footage under lease at 31 December 2012, 76.3% does not expire or cannot be terminated by tenants during the next 10 years.

As well as the rental income generated from completed properties, income is generated from managing the entire Estate which, in addition to the completed properties owned by the Group at 31 December 2012, includes 19 properties totalling 8.7m sq ft in other ownerships.

Leasing

In June 2012, the 20 Fenchurch Street joint venture announced the first letting in the building for 51,000 sq ft on levels 26 and 27 to Markel at a rent of £65.00 psf. In September 2012, Kiln Group Limited leased 78,200 sq ft and Ascot Underwriting leased 29,400 sq ft on level 33. In December 2012, Royal Sun Alliance leased 76,000 sq ft on levels 14 to 17 inclusive. Following the letting of 66,300 sq ft to Liberty Syndicates and 51,000 sq ft to Liberty Mutual in February 2013, approximately 53.0% of the office space is now let. The joint venture is also in negotiations with other potential occupiers of the building.

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

- In January 2012, the Group renewed leases with Bank of New York Mellon on 152,226 sq ft for a term of 8 years from 1 January 2014 at a rent of £42.50 psf (10.4% ahead of built ERV) subject to an 18 month rent free period. There will be tenant only break options over 2 floors totalling 56,249 sq ft in January 2019 subject to a 10 month rent penalty. This lease compares with the valuers' headline ERV at 31 December 2011 of £38.50 psf for lettings greater than 100,000 sq ft of existing space.

- In April 2012, Metlife took an additional 12,900 sq ft on level 34 at a rent of £43.00 psf subject to a 15 month rent free period. The lease term is 9 years subject to a break option in October 2018. A further rent free period of 6 months will be granted in the event the break option is not exercised. Metlife's break option in July 2012 over its lease of 10,784 sq ft on level 28 was not exercised and this lease now runs through to expiry in January 2015.

- Novartis renewed its lease over 1,995 sq ft on level 34 for a further 3 years at a rent of £40.00 psf.

BUSINESS REVIEW (Continued)

- Doyle Clayton Solicitors took 1,066 sq ft on level 10 for a term of 5 years at a rent of £42.50 psf subject to a 6 month rent free period. There is a break option at the expiry of the third year and if the option is not exercised an additional 4 month rent free period will be granted. Kingsley Hamilton took 2,603 sq ft, also on level 10, for a term of 5 years at a rent of £40.00 psf subject to a 6 month rent free period. There is a break option at expiry of the third year.
- Telecom2 Limited took 3,206 sq ft on level 29 for a 5 year term at a rent of £41.50 subject to a 4 month rent free period. There is no break option.

In 40 Bank Street, Maypole Energy has taken 3,553 sq ft on level 19 for a term of 5 years at a rent of £42.50 psf subject to a rent free period of 4 months. There is a break option upon expiry of the third year of the lease and if the option is not exercised an additional 4 month rent free period will be granted.

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

All options to sublet space back to the Group have been exercised and at 31 December 2012 the estimated net present value of sublet liabilities was approximately £26.1m discounted at 6.2%, being the Group's weighted average cost of debt for the year (31 December 2011 – £31.0m discounted at 6.2%). These sublet commitments have been reflected in the market valuation of the Group's properties.

Retail

Retail and restaurants at Canary Wharf have continued to perform well against a challenging retail environment nationally. Footfall for 2012 was up 1.11% on 2011 against a reduction of 3.03% in the national benchmark.

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

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

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

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

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

Construction began in February 2012 on the 44,000 sq ft expansion of Jubilee Place mall which will open for trade on 1 November 2013. At 31 December 2012, 16 of the 26 new units were exchanged or in solicitors' hands representing 64.0% of the total income.

Construction is progressing well on the 115,000 sq ft of retail and leisure accommodation above the Crossrail station, of which 100,000 sq ft is retail. Within the development, 87,000 sq ft is scheduled to open for trade in April 2015, ahead of the actual station opening in 2018. Solicitors have been instructed on 6 lettings, representing 44.0% of the available space and 38.0% of the total income.

Construction

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

EMA will occupy the promenade, ground and first 9 floors in the 20 storey building. The agreed rent is £46.50 psf commencing 1 January 2015 with 5 yearly upwards only rent reviews. The length of the lease is 25 years with no break options and EMA has staged options to take an additional 4 floors of around 27,500 sq ft each. EMA will receive the equivalent of a 37 month rent free period in cash, which will be used to pay for EMA's fit out in the building.

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

BUSINESS REVIEW (Continued)

The Group is also acting as Construction Manager for the development at 20 Fenchurch Street (see Business review – 20 Fenchurch Street).

Crossrail

Construction commenced on the Crossrail station at Canary Wharf in May 2009 and has progressed ahead of schedule. The platform level was handed over to CLRL in March 2012, 5 months ahead of schedule, to enable access for the tunnelling machines. The station will be provided to CLRL for a fixed price of £350.0m and the Group bears the risk for the difference between actual costs and the fixed price payable by CLRL. The project is performing well against budget. The first trains are due to run in 2018 when Crossrail opens for passenger service. As referred to in the Retail section, construction is progressing on 115,000 sq ft of retail and leisure space above the station which will be subject to a long lease to the Group. The structure has been completed and internal works have commenced.

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

Wood Wharf

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

The Group secured 100.0% ownership of Wood Wharf by combining its original 25.0% effective interest with the 75.0% interests acquired from its joint venture partners, BWB and Ballymore. It also agreed the restructuring of BWB's ongoing participation as freeholder of Wood Wharf. As a result, the Group now has control over the timing and design of this scheme.

Wood Wharf will be a new mixed use development scheme adjacent to the existing Estate. In May 2009, the current master plan received outline planning consent for 4.6m sq ft net. This consent, which was renewed in 2012 and represents an area almost one third of the size of the Estate, currently comprises approximately 1.25m sq ft of residential, 3.1m sq ft of offices, 0.2m sq ft of retail and a 0.2m sq ft hotel. Detailed consent was granted on the 3 office buildings closest to the Estate totalling 1.5m sq ft net in July 2009. Having secured full control of the scheme, the best uses for the site are being reviewed, potentially altering the mix of uses in favour of residential, reducing the size of individual office buildings to appeal to new target sectors and to integrate and connect this new district to the existing Estate. Work on the revised master plan is progressing and it is envisaged that application for a revised outline planning consent will be submitted in late 2013.

The acquisition of Ballymore's interest was completed in December 2011, for a consideration of £38.0m. The consideration for the subsequent acquisition of BWB's 50.0% interest in Wood Wharf in January 2012 was £52.4m together with a restructured 250 year lease that will see an annual ground rental payment to BWB increasing to £6.0m by 2016. For the remainder of the lease, this ground rent will be subject to upwards only reviews linked to the passing rent achieved on the office buildings and the ground rents paid by purchasers of the residential apartments built in the scheme. The £52.4m payment comprises an upfront payment of £4.4m and a series of 4 annual payments up to and including 2015.

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

Other development sites

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

Heron Quays West has consent for an office scheme of over 1.3m sq ft. However, a number of alternative development options, both for office and also mixed office and residential use, are being considered.

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

The remaining development site at North Quay has planning consent for almost 2.4m sq ft.

BUSINESS REVIEW (Continued)

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

	NIA m sq ft
Canary Wharf, based on existing planning permissions:	
– North Quay	2.39
– Heron Quays West	1.33
– Newfoundland	0.23
– One Park Place (proposed development)	0.65
– Wood Wharf	4.60
	9.20
Sold to J.P. Morgan:	
– Riverside South (Canary Wharf Group acting as development and construction manager)	1.90
In joint venture with Qatari Diar:	
– Shell Centre (see Business review – Shell Centre)	1.40

The site at Riverside South was acquired by J.P. Morgan in November 2008 and the Group was appointed to act as development and construction manager under a contract with a term to October 2016. The contract includes a right of first offer in the event J.P. Morgan decides to sell the site. J.P. Morgan has instructed the Group to proceed with the next phase of infrastructure works, consisting of river wall protection, utilities installation and the lower ground level floor slab, and these are now progressing well with completion targeted for the last quarter of 2013.

The Group has received £76.0m as an advance of developer's profit in conjunction with the development. This sum will be set against the Group's entitlement to future profits if J.P. Morgan proceeds with full construction.

20 Fenchurch Street

In 2010, the Group and Land Securities formed 20 FSLP, a 50:50 joint venture to develop 20 Fenchurch Street in the City. The existing property, which was acquired as a cleared site with some ancillary neighbouring holdings, was sold by Land Securities to the partnership for a consideration of £90.2m, in line with the March 2010 valuation. After syndication, the Group has retained a 15.0% equity interest in this project.

Planning consent for a 37 storey building was granted in October 2009. The building will provide approximately 690,000 sq ft of world class space in floor plate sizes of 14,000 sq ft to 28,000 sq ft, with a sky garden on the top 3 floors. Construction commenced on site in January 2011 and is progressing on schedule and within budget. The building has been topped out and completion is expected in March 2014.

Canary Wharf Contractors Limited, a wholly owned subsidiary of the Group, was appointed as sole construction manager. Land Securities and the Group were appointed as joint development managers and both are responsible for leasing. As referred to in the section Business review – leasing, 20 Fenchurch Street is currently 53.0% prelet.

Shell Centre

In July 2011, the Group and Qatari Diar concluded an agreement to redevelop the Shell Centre. The Group and Qatari Diar have entered into a 50:50 joint venture and have committed to contributing £150.0m each to the joint venture to secure the 5.25 acre site on a 999 year lease. The Group's contribution is being met from existing corporate resources. The aggregate £300.0m payment for the site is conditional on planning permission being received for the project within 3 years. The Group will act as construction manager for the project and will also be joint development manager with Qatari Diar. The joint development manager fees generated from the transaction are being apportioned between the parties.

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

The joint venture parties submitted a planning application for 1.4m sq ft (net) in December 2012 and are working towards achieving consent during the course of 2013.

BUSINESS REVIEW (Continued)

Valuations

The net assets of the Group, as stated in its Consolidated Balance Sheet at 31 December 2012, were £2,498.4m. In arriving at this total:

(i) properties held as investments were carried at £4,783.6m, which represents the market value of those properties of £4,862.5m at that date as determined by the Group's external valuers, CBRE, Savills or Cushman, less an adjustment of £78.9m for tenant incentives;

(ii) properties under construction were carried at £143.3m, representing their cost to the Group; and

(iii) properties held for development were carried at £351.0m, representing their cost to the Group.

At 31 December 2012, the yields applied in deriving the market valuation of the investment properties can be summarised as:

	31 December 2012 %	30 June 2012 %	31 December 2011 %
Office portfolio:			
Weighted average initial yield	**5.0**	5.1	5.1
Weighted average equivalent yield	**5.4**	5.5	5.4
Retail portfolio:			
Weighted average initial yield	**5.0**	5.0	5.1
Weighted average equivalent yield	**5.1**	5.2	5.2

The retail portfolio again performed strongly with market value increasing by 9.9% in the year. This increase was driven in part by a slight hardening in yields, in part by rental growth and in part by progress made with the expansion of the Jubilee Place mall. The market value of the office portfolio increased by 2.5% over the same period, primarily as a result of a tightening in yields in the second half of the year. For rack rented office properties, such as One Churchill Place and 33 Canada Square, the initial yield reduced by approximately 25 bps to 5.125% in the case of Churchill Place and 5.0% in the case of 33 Canada Square.

Taking office and retail together, the market value of the investment portfolio increased by £162.0m or 3.4% in 2012. After allowing for additions and adjustments in respect of tenant incentives, the carrying value of the investment portfolio increased by £174.1m or 3.8%.

In the second half of the year, the valuation of the investment portfolio increased by £128.5m or 2.7% and the carrying value increased by £135.3m or 2.9% after additions. This increase was driven by the tightening in yields for the office portfolio, resulting in an increase in market value of 2.4%, and the continued growth in the retail portfolio, which increased in value by 4.8%.

The valuers have also provided their opinions of the market value for sites held for development. During the year the Group achieved full ownership of Wood Wharf which has been transferred from Investments to Development properties (see Business Review – Wood Wharf). 25 Churchill Place, which was previously classified as a Development property, was transferred to Properties under construction on commencement of shell and core works in February 2012 (see Business Review – Construction). Crossrail retail was also transferred from Development property to Properties under construction during the second half of the year. The other development sites, held throughout the period, comprised North Quay, Heron Quays West, Newfoundland and One Park Place. The development sites were valued in aggregate at £415.0m at 31 December 2012 compared with a carrying value for accounts purposes of £351.0m.

The properties under construction were valued at £137.5m in comparison with an aggregate historical cost of £143.3m. The valuation of these sites is stated by the valuers net of provision for developer's profit of £83.7m which will be released as these properties are let up and approach completion.

The market value of certain of the development sites was below the carrying value of these sites. In assessing the requirement for an impairment provision the directors have had regard to the net realisable value of the sites as supplied by the external valuers. On this basis the Board has concluded that no provision for impairment is required as at 31 December 2012.

BUSINESS REVIEW (Continued)

	Note	**31 December 2012** Carrying value £m	**31 December 2012** Market value in existing state £m	30 June 2012 Carrying value £m	30 June 2012 Market value in existing state £m	31 December 2011 Carrying value £m	31 December 2011 Market value in existing state £m
Retained portfolio:							
Investment properties	(i)	**4,783.6**	**4,862.5**	4,639.0	4,734.0	4,590.9	4,700.5
Properties under construction	(ii)	**143.3**	**137.5**	87.3	96.0	–	–
Properties held for development	(ii)	**351.0**	**415.0**	361.4	413.5	303.2	293.5
		5,277.9	**5,415.0**	5,087.7	5,243.5	4,894.1	4,994.0
Sold property:							
Property under construction at Riverside South	(iii)	**69.6**	**139.7**	67.1	134.9	75.6	133.7
		5,347.5	**5,554.7**	5,154.8	5,378.4	4,969.7	5,127.7

Note:

(i) The carrying value of investment properties represents market value less an adjustment for UITF 28. The UITF 28 adjustment attributable to investment properties at 31 December 2012 was £78.9m (30 June 2012 – £95.0m, 31 December 2011 – £109.6m). Market value in existing state is shown prior to this adjustment.

(ii) Properties held for development at 31 December 2011 included 25 Churchill Place which has been reclassified to Properties under construction following commencement of shell and core works in February 2012. Properties held for development at 31 December 2011 and 30 June 2012 also included Crossrail retail. This has been reclassified to Properties under construction following the Board's decision to develop this site and the subsequent commencement of construction in July 2012.

(iii) The carrying value in the balance sheet at 31 December 2012 is stated net of £66.6m transferred to cost of sales (30 June 2012 – £61.1m, 31 December 2011 – £61.0m) and £3.0m transferred to payments on account (30 June 2012 – £6.0m, 31 December 2011 – £14.6m). Market value in existing state includes the present value of the minimum developer's profit which will be generated from the development of the Riverside South site assuming J.P. Morgan does not proceed with full build out and excludes the profit already recognised in the profit and loss account on the disposal of the site in 2008.

The market value of the entire property portfolio after adjusting for the acquisition of Wood Wharf and other additions, increased by £211.3m or 4.1%. This increase in value was driven in part by the tightening in yields and in part by the progress achieved on the development sites.

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

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

Operating results

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

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 under long term contracts and fees earned from construction and development management agreements.

Turnover for 2012 was £335.3m against £323.0m for 2011, of which rental income, after the adjustments required by UITF 28, was £233.1m (2011 – £220.7m).

The impact of UITF 28 was to reduce rental income by £30.7m compared with £30.6m for 2011. Excluding the impact of UITF 28, rental income increased from £251.3m in 2011 to £263.8m in 2012, an increase of 5.0%, partly attributable to the expiry of rent free periods and partly as a result of increased retail rents.

BUSINESS REVIEW (Continued)

Service charge income increased from £75.2m for 2011 to £79.4m for 2012, an increase of £4.2m or 5.6%. Miscellaneous income, including insurance rents and the provision of tenant specific services outside the standard service charge and fees recognised on the provision of development and construction management services, reduced from £21.6m for 2011 to £16.9m for 2012. During 2012, the Group recognised £0.3m of income in connection with the termination by tenants of certain leases on the Estate (2011 – £0.1m).

Turnover and cost of sales for 2012 also included £5.6m recognised on the long term contract for Riverside South (Note 10) compared with £5.4m in 2011. No profit has been recognised on the long term contract entered into in connection with the sale of Riverside South although the potential surplus has been taken into account in calculating adjusted NAV (see Business Review – Balance sheet and key performance indicators).

Cost of sales includes rents payable and property management costs, movements on provisions for certain lease commitments, as well as costs recognised on construction contracts. Rents payable and property management costs were £96.1m for 2012 in comparison with £101.1m for 2011. Taking into account service charge and miscellaneous property income totalling £93.3m for 2012 (2011 – £95.6m), a deficit was recorded on property management of £2.8m (2011 – £5.5m). This deficit was attributable to unlet space on which service charges were not recoverable.

An increase in provisions of £0.6m (before any adjustment for discounting) was recognised in 2012 relating to certain rent support commitments and other obligations. This compared with an increase of £1.9m in 2011. Cost of sales for 2012 also included £0.9m of dilapidations and other costs attributable to the termination of leases (2011 – £0.1m) and £2.9m of ground rent payable in relation to Wood Wharf (2011 – £nil).

Gross profit (net property income) for 2012 was £229.2m, an increase of £14.7m in comparison with 2011. The improvement was largely attributable to the increase in rental income recognised after adjusting for UITF 28 of £12.4m and the reduction in service charge voids of £2.7m.

Administrative expenses for 2012 were £36.0m in comparison with £42.0m for 2011. The reduction in administrative expenses was primarily attributable to lower staff costs and a reduction in leasing and professional fees. These reductions were partly offset by increased marketing costs.

Including other operating income of £2.3m for 2012 (2011 – £7.6m), operating profit for the year was £195.5m in comparison with £180.1m for 2011. The increase in operating profit of £15.4m was largely attributable to the factors impacting on gross profit detailed above.

Net interest payable for 2012, excluding exceptional items, was £198.3m against £206.0m in 2011. Interest payable for 2012 has been stated net of £6.3m which has been capitalised and transferred to Properties under construction within fixed assets in accordance with FRS 15. This amount represents the finance charge relating to the Group's general borrowings which are deemed to have been utilised in financing the properties under construction.

In April 2009, the Group repurchased an aggregate principal amount of £119.7m of certain securitisation Notes. These Notes remain in issue and continue to be fully hedged in accordance with the terms of the securitisation. However, from the perspective of the consolidated accounts the hedges relating to the repurchased Notes are deemed to be uneconomic and are therefore carried at fair value. The movement in the mark to market of the hedges in 2012 of £0.9m (2011 – £25.5m) has been treated as an exceptional item (Note 4).

The loss on ordinary activities before tax for 2012 was £3.7m in comparison with a loss of £51.6m for 2011. The results for 2012 include the charge of £0.9m in respect of the movement in fair value of hedges deemed to be uneconomic. Excluding exceptional items, the loss on ordinary activities before tax for 2012 was £2.8m in comparison with £26.1m for 2011. The reduction in pre exceptional loss of £23.3m was attributable to the factors referred to above.

Tax for 2012 comprised a corporation tax credit of £7.5m (2011 – £0.1m) and a deferred tax charge of £2.2m (2011 – credit of £74.3m) (Note (5)). The deferred tax credit recognised in 2011 was mainly attributable to EZAs.

Profit after tax for 2012 was £1.6m in comparison with £22.6m for 2011. Basic and diluted losses per share for 2012 was 0.3p in comparison with earnings of 3.5p for 2011 (Note (9)).

Excluding the exceptional item of £0.9m referred to above and tax relief of £0.3m thereon, adjusted earnings per share for 2012 was 0.3p (2011 – earnings per share of 6.9p after excluding exceptional items of £25.5m and tax relief thereon of £4.3m). No further adjustment is made to adjusted earnings per share for deferred tax other than for the deferred tax which is directly applicable to the exceptional items. The weighted average number of shares in issue was 639.0m at both 31 December 2012 and 31 December 2011. There were no instruments which gave rise to a dilution of earnings as defined by FRS 22 at either 31 December 2012 or 31 December 2011.

BUSINESS REVIEW (Continued)

Tax

If the Group were to dispose of its property portfolio at the market value disclosed in this Business Review, a tax liability of £127.5m would arise (31 December 2011 – £96.5m). 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. This contingent liability is included in calculating adjusted NNNAV. The liability is stated after taking into account the tax liabilities relating to deferred accounting profits on the property under construction held for sale.

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 2012 were £2,498.4m in comparison with £2,437.9m at 31 December 2011 and £2,457.0m at 30 June 2012. The increase in NAV over the year of £60.5m or 2.5% was attributable to a revaluation surplus of £174.1m and the profit after tax for the year of £1.6m. This was in part offset by dividends paid in the year totalling £115.1m. The increase in NAV since 30 June 2012 was £41.4m or 1.7%, net of a dividend of £89.5m paid in October 2012.

The Group's main objective is to maximise net assets through managing its property investment and development activities, although the Group is impacted by movements in the wider property market. The Board considers that the most appropriate indicator of the Group's performance is the movement in adjusted NAV per share. This measure serves to capture the Board's judgements concerning, inter alia, letting strategy, redevelopment and financial structure.

Adjusted NAV takes into account the valuation of properties under construction and properties held for development which are held in the balance sheet at cost, now including the Group's share of properties being developed by joint ventures. It also adds back the provision for deferred tax required by accounting standards but which, in the judgement of the Board, is for the most part unlikely to crystallise.

BUSINESS REVIEW (Continued)

Adjusted NAV per share at 31 December 2012 is set out in the table below, which for comparison purposes also includes adjusted NNNAV per share.

	Note	**31 December 2012 £m**	30 June 2012 £m	Restated(iv) 31 December 2011 £m
Net assets per consolidated balance sheet		**2,498.4**	2,457.0	2,437.9
Add back:				
– deferred tax		**13.7**	12.0	11.5
– provision for uneconomic hedge	(i), (vii)	**46.5**	45.2	45.6
Net assets prior to deferred tax		**2,558.6**	2,514.2	2,495.0
Revaluation of property portfolio:				
– properties held for development	(ii)	**64.0**	52.1	(9.7)
– properties under construction	(ii)	**(5.8)**	8.7	–
– property under construction held for sale	(iii)	**70.1**	67.8	58.1
Group's share of revaluation of associate's property under construction	(iv)	**11.2**	8.7	7.6
Adjusted NAV		**2,698.1**	2,651.5	2,551.0
Fair value adjustments in respect of financial assets and liabilities less tax thereon	(v)	**(522.8)**	(381.7)	(322.1)
Contingent tax on property disposals	(vi)	**(127.5)**	(130.5)	(96.5)
Undiscounted deferred tax	(vii)	**(12.8)**	(11.6)	(11.1)
Uneconomic hedge	(i), (vii)	**(46.5)**	(45.2)	(45.6)
Adjusted NNNAV		**1,988.5**	2,082.5	2,075.7
Adjusted NAV per share	(viii)	**£4.22**	£4.15	£3.99
Adjusted NNNAV per share	(viii)	**£3.11**	£3.26	£3.25

Note:
(i) Adjusted NAV is calculated after adding back the provision in respect of uneconomic hedges (Note 17) of £46.5m (30 June 2012 – £45.2m, 31 December 2011 – £45.6m). These hedges relate to certain Notes which were repurchased by the Group in 2009 but which remain in issue and continue to be fully hedged by the issuing subsidiary and are deemed to be uneconomic. As the Board does not consider this item to be a liability of the Group that will crystallise, for the purposes of calculating adjusted NAV the adjustment for the uneconomic hedge provision has been added back. In calculating NNNAV per share, the full provision in respect of uneconomic hedges has been deducted.
(ii) Revalued at market value in existing state.
(iii) Deferred profit on construction of Riverside South (refer to Business Review – Valuations).
(iv) Adjusted NAV and adjusted NNNAV have now been calculated including the Group's share of the revaluation surplus recognised in its associates and joint ventures (Note 12). Prior to this restatement adjusted NAV per share at 31 December 2011 was £3.98 and adjusted NNNAV per share was £3.24.
(v) Refer to Note 16(11).
(vi) Refer to Business Review – Tax.
(vii) Refer to Note 17.
(viii) Calculated by reference to the closing number of shares of 639.0m at each balance sheet date. There were no dilutive instruments outstanding at any of the balance sheet dates.

Adjusted NAV per share was £4.22 at 31 December 2012 in comparison with £3.99 (as restated) at 31 December 2011, an increase of 23p or 5.8%. There was a 7p or 1.7% increase from £4.15 at 30 June 2012 which was primarily attributable to the revaluation surplus recognised in the second half of the year, partly offset by the payment of the 14p per share dividend in October 2012. The other movements in net asset value were attributable to the profit after tax for the period, excluding the movement in the uneconomic hedge provision.

In arriving at adjusted NAV per share the provision recognised in accordance with FRS 19 has been added back.

In calculating 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.

BUSINESS REVIEW (Continued)

Borrowings

At 31 December 2012, net debt (after cash in hand and cash collateral) stood at £2,624.0m, up from £2,380.2m at 31 December 2011, and comprised:

	31 December 2012 £m	31 December 2011 £m
Securitised debt	**2,305.6**	2,365.0
Loans	**971.6**	1,003.7
Wood Wharf loan notes	**67.0**	–
Total borrowings	**3,344.2**	3,368.7
Less:		
– cash collateral for borrowings	**(118.5)**	(116.7)
– cash collateral for construction	**(2.3)**	(3.9)
– other cash collateral	**(12.5)**	(14.4)
	3,210.9	3,233.7
Less: cash deposits	**(586.9)**	(853.5)
Net debt	**2,624.0**	2,380.2

In December 2011, the Group entered into a £190.0m development loan facility to fund the construction of a new building at 25 Churchill Place. The facility carries interest at 3 month LIBOR plus a margin of 300 bps until rent commencement, following which the margin may drop to 250 bps or 225 bps, subject to satisfaction of certain interest cover tests. A forward starting interest rate swap was entered into in October 2012 at a rate of 1.017% which fixes the interest rate payable under the loan. The fixed rate payable during the construction phase, including the 300 bps margin is 4.02%. The termination date under the swap is in December 2016. The loan is also subject to a maximum LTV covenant of 65.0% and is repayable in December 2016. Finance costs incurred on this loan during the construction of the building, will be capitalised and included as part of the cost of construction. The first drawdown under this loan facility was in January 2013.

The Group's borrowings are secured against designated property interests, and are subject to lending covenants that include maximum LTV ratios and minimum ICRs as outlined earlier in the Loan Covenants section of this Business Review. For all of its loans, the Group was in compliance with its lending covenants at 31 December 2012 and throughout the year then ended.

In December 2012, the Group cancelled the interest rate swap relating to the £350.0m loan facility secured against its interests in retail and car parking. The interest rate swap was broken at a cost of £29.1m including fees (Note 16(3)) and a new interest rate swap was entered into which served to fix the interest rate payable under the loan at 3.3% compared with 7.2% previously. The cost of breaking the interest rate swap has been deferred and will be amortised over the remaining life of the loan.

Borrowings decreased from £3,368.7m at 31 December 2011 to £3,344.2m at 31 December 2012 primarily as a result of scheduled loan amortisation totalling £74.7m and the deferral of the interest rate swap breakage costs, partly offset by the issue of loan notes in connection with the acquisition of Wood Wharf. The reduction in cash and term deposits from £988.5m to £720.2m is primarily attributable to construction and development expenditure and the investment in associates and joint ventures, including the acquisition of BWB's interest in Wood Wharf, together with dividends paid in 2012 totalling £115.1m.

At 31 December 2012, the fair value adjustment in respect of the Group's financial assets and liabilities calculated in accordance with FRS 13 (excluding debtors and creditors falling due within one year) was an unrecognised liability of £687.9m before tax (31 December 2011 – £435.3m).

The Group's weighted average cost of debt for the year ended 31 December 2012 was 6.2% including credit wraps (31 December 2011 – 6.2%). At year end, the weighted average cost of debt had reduced to 5.8% as a result of the rates payable on the debt entered into on acquisition of Wood Wharf and breaking the swap on the retail loan facility.

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

BUSINESS REVIEW (Continued)

Cash flow

The net cash inflow from operating activities for 2012 was £240.0m in comparison with £258.5m for 2011, a decrease of £18.5m. This reduction was primarily attributable to changes in working capital partly offset by the increase in operating profit.

Returns on investments and servicing of finance resulted in an outflow of £234.0m for 2012 compared with £208.3m for 2011. This outflow included £29.1m incurred on breaking the interest rate swap relating to the £350.0m loan facility secured against the Group's retail and car parking property interests as disclosed in the Borrowings section of this Business Review.

Capital expenditure and financial investment for 2012 resulted in a cash outflow of £118.7m, compared with £90.9m for 2011. Expenditure for 2012 included £75.1m of development expenditure. Funding of the Group's equity investment in and loans to associated and joint venture undertakings totalled £43.3m including the payments made to secure 100.0% ownership of Wood Wharf. Expenditure for 2011 included £22.7m of development expenditure and net funding of associated and joint venture undertakings totalling £60.9m, including £19.5m invested in the Shell joint venture and £38.0m for the acquisition of Ballymore's interest in Wood Wharf.

The financing cash outflow for 2012 was £43.1m compared with £16.1m for 2011. The cash outflow for 2012 included £74.7m of scheduled amortisation loan, offset by £32.6m of loan notes assumed upon acquiring full control of Wood Wharf. The cash outflow for 2011 included £42.4m paid to restructure the Group's finance lease liability and £57.5m of scheduled debt amortisation. The 2011 cash outflows were partially offset by £92.3m drawn down on the bank loan facility secured against 50 Bank Street.

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	**2012 £m**	2011 £m
Turnover		**335.3**	323.0
Cost of sales		**(106.1)**	(108.5)
GROSS PROFIT		**229.2**	214.5
Administrative expenses		**(36.0)**	(42.0)
Other operating income		**2.3**	7.6
OPERATING PROFIT	2	**195.5**	180.1
Share of associates' operating losses	12	**–**	(0.2)
Interest receivable	3	**7.4**	7.9
Interest payable:			
– before exceptional item:			
– Group	4	**(205.7)**	(213.8)
– associates	4	**–**	(0.1)
Exceptional item:			
– movement in uneconomic hedge provision	4	**(0.9)**	(25.5)
		(206.6)	(239.4)
LOSS ON ORDINARY ACTIVITIES BEFORE TAX		**(3.7)**	(51.6)
Tax	5	**5.3**	74.2
PROFIT FOR THE FINANCIAL YEAR	19	**1.6**	22.6
Basic and diluted earnings per share	9	**0.3p**	3.5p

The above results relate to the continuing activities of the Group and its share of associates.

The Notes numbered 1 to 27 form an integral part of these financial statements.

Movements in reserves are shown in Note 19 to these financial statements.

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	**2012** **£m**	2011 £m
Profit for the financial year after tax:			
– Group		**1.6**	22.9
– share of losses of associated undertakings		**–**	(0.3)
Unrealised movement on revaluation of investment properties	10	**174.1**	72.3
Reserves movement for share allocation		**(0.1)**	0.1
TOTAL RECOGNISED GAINS AND LOSSES RELATING TO THE YEAR		**175.6**	95.0

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2012

	Note	**2012 £m**	2011 £m
FIXED ASSETS			
Investment properties	10	**4,783.6**	4,590.9
Properties held for development	10	**351.0**	303.2
Properties under construction	10	**143.3**	–
Other tangible fixed assets	11	**0.6**	0.5
Investments	12	**78.8**	120.8
		5,357.3	5,015.4
CURRENT ASSETS			
Debtors: Amounts due in more than one year	13	**78.9**	109.6
Debtors: Amounts due within one year	13	**46.2**	47.7
Cash at bank and in hand	14	**720.2**	988.5
		845.3	1,145.8
Creditors: Amounts due within one year	15	**(403.8)**	(394.4)
NET CURRENT ASSETS		**441.5**	751.4
TOTAL ASSETS LESS CURRENT LIABILITIES		**5,798.8**	5,766.8
Creditors: Amounts due after more than one year	16	**(3,232.7)**	(3,262.4)
Provisions	17	**(67.7)**	(66.5)
NET ASSETS		**2,498.4**	2,437.9
CAPITAL AND RESERVES			
Called up share capital	18	**6.4**	6.4
Reserves:			
– share premium	19	**146.2**	146.2
– revaluation reserve	19	**2,394.4**	2,220.3
– capital redemption reserve	19	**0.7**	0.7
– special reserve	19	**264.8**	264.8
– profit and loss account	19	**(314.1)**	(200.5)
SHAREHOLDERS' FUNDS	20	**2,498.4**	2,437.9

The Notes numbered 1 to 27 form an integral part of these financial statements.

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

A PETER ANDERSON, II
Managing Director, Finance

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	**2012 £m**	2011 £m
NET CASH INFLOW FROM OPERATING ACTIVITIES	22	**240.0**	258.5
Returns on investments and servicing of finance	23	**(234.0)**	(208.3)
Tax		**2.6**	(2.1)
Capital expenditure and financial investment	23	**(118.7)**	(90.9)
Equity dividend paid	7	**(115.1)**	(45.0)
		(465.2)	(346.3)
Cash outflow before management of liquid resources and financing		**(225.2)**	(87.8)
Management of liquid resources	23	**1.7**	78.3
Financing	23	**(43.1)**	(16.1)
DECREASE IN CASH IN THE YEAR	24	**(266.6)**	(25.6)

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

Note 7 together with the Notes numbered 22 to 24 form an integral part of this cash flow statement.

DEFINITIONS

20 FSLP	20 Fenchurch Street Limited Partnership
Act	The Companies Act 2006
Ballymore	Ballymore Properties Limited
Board	Board of directors of Canary Wharf Group plc
bps	Basis points
BWB	British Waterways Board (now the Canal and River Trust)
CBRE	CB Richard Ellis Limited, Surveyors and Valuers
Chairman and Chief Executive Officer	Chairman and Chief Executive Officer of the Company
CIL	Community Infrastructure Levy
City	The City of London
CLRL	Cross London Rail Links Limited
Cushman	Cushman & Wakefield, Real Estate Consultants
EMA	European Medicines Agency
ERV	Estimated Rental Value
Estate/Canary Wharf	Canary Wharf Estate including Heron Quays West, Newfoundland, Riverside South, North Quay and Park Place
EZA	Enterprise Zone Allowance
FRS 13	Financial Reporting Standard 13 (Derivatives and Other Financial Instruments)
FRS 15	Financial Reporting Standard 15 (Tangible fixed assets)
FRS 19	Financial Reporting Standard 19 (Deferred tax)
FRS 22	Financial Reporting Standard 22 (Earnings per share)
FSA	The Financial Services Authority
Group	Canary Wharf Group plc and its subsidiaries
ICR	Interest Cover Ratio
Land Securities	Land Securities Group plc
LIBOR	London Interbank Offered Rate
Lloyds	Lloyds Banking Group plc
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
Notes	Notes of the Group's securitisation
p.a.	per annum
psf	per sq ft
Qatari Diar	Qatari Diar Real Estate Investment Company
Savills	Savills Commercial Limited, Chartered Surveyors
Section 106	Section 106 of the Town and Country Planning Act 1990
Shell	Shell International Limited
Shell Centre	A 5.25 acre site on the South Bank in London
Skadden	Skadden Arps Slate Meagher & Flom LLP
Songbird	Songbird Estates plc
sq ft	square foot/feet
Syndication Partners	Qatari Holding LLC, Chendong Investment Corporation and Morgan Stanley
TMT	Technology, Media, Telecommunications
Trust	Canary Wharf Employees' Share Ownership Plan Trust
UITF 28	Urgent Issue Task Force 28 (Operating Leases)
Wood Wharf	Site adjacent to the Estate