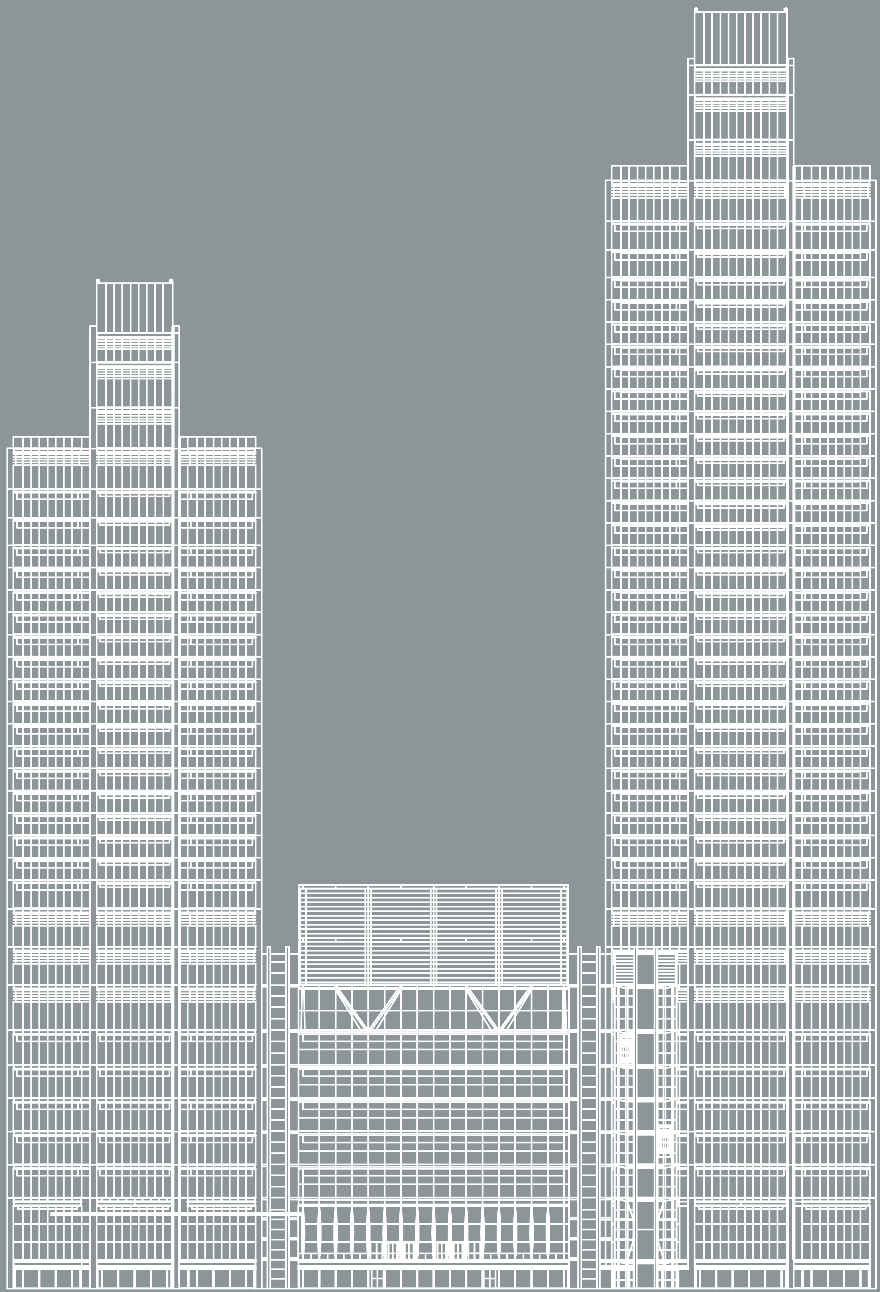
CANARY WHARF
GROUP PLC



2008 Report & Financial Statements

Contents

Front cover: Illustration of proposed office development at Riverside South.

Highlights

- In 2008 leasing transactions over approximately 205,000 sq ft were achieved, at rents ranging from £45.00 to £49.00 per sq ft (Note (i)).
- 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 (Note (ii)).
- 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 (Note (iii)).
- 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) (Note (iii)).
- 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 since 30 June 2008 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 and 110 bps for the year (Note (iv)).
- 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 (Note (iv)).
- 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 (Note (v)). These reductions were primarily attributable to the fall in 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 (Note (v)).
- 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 (Note (v)).
- The group paid a dividend of 16p per ordinary share on 9 April 2008 (Note (vi)).
- Further planning approval was received at Canary Wharf during 2008 for a 1.3m sq ft development at Heron Quays West, an approximately 220,000 sq ft hotel/serviced apartment development (Note (vii)), 100,000 sq ft of retail space and a rooftop park above the Crossrail station (Note (viii)) and a 30,000 sq ft retail building in Middle Dock. Approval for increased density at 25 Churchill Place was also obtained (Note (vii)).
- Outline planning consent was awarded for the 7.0m sq ft (gross) mixed use scheme at Wood Wharf (Note (vii)).
- 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 (Note (viii)).
- Practical completion of 20 Churchill Place, a 300,000 sq ft building constructed for Prudential for occupation by State Street, was achieved on schedule (Note (ix)).
- 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 (Note (ix)). Work also continued on the JP Morgan building at Riverside South (Note (ii)).

Note:

(i) See 'Business Review – Leasing'.
(ii) See 'Business Review – JP Morgan'.
(iii) See 'Business Review – Property portfolio'.
(iv) See 'Business Review – Valuations' for a comparison with the carrying value for accounts purposes and details of movements in yield.
(v) See 'Business Review – Balance sheet and key performance indicators'.
(vi) Refer to Note 7.
(vii) See 'Business Review – Development properties'.
(viii) See 'Business Review – Crossrail'.
(ix) See 'Business Review – Construction'.

Results in Brief

	Note	2008 £m	2007 £m
Rental income	(i)	**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	(i)	**369.6**	289.8
Exceptional items:			
– share of associates' operating losses	(i)	**(23.2)**	–
– profit on sale of development property	(i)	**118.6**	–
– charges relating to repayment of debt	(ii)	**–**	(16.9)
Profit on ordinary activities before tax		**268.9**	104.3
Profit before tax excluding exceptional items	(i)	**173.5**	102.0
Tax (charge)/credit	(iii)	**(19.4)**	18.2
Profit for the financial year		**249.5**	122.5
Dividend per share	(iv)	**16.0p**	–
Basic and diluted earnings per share	(v)	**39.0p**	19.2p

Note:
(i) Refer to 'Business Review – Operating results'.
(ii) Refer to Note 4 for details of the charges relating to repayment of debt.
(iii) Refer to Note 5.
(iv) Refer to Note 7.
(v) Refer to Note 9.

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 £1bn at the year end. It is in compliance with the financial covenants in all of its facilities which are non recourse and 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 the 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. The 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 State Street with practical completion now reached on the State Street building. 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 will be occupied by around 7,000 staff.

As manager of the Estate, the company will continue to manage its investment portfolio prudently in light of wider market conditions. After selling over £1bn of mature well let buildings in the past five years, the group 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 Administrator continues under the lease which is so far unaffected. Nomura now leases 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 drawdown on this arrangement following such 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 re-let 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%

(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 65.0% of the group's property portfolio, has the benefit of the arrangement with AIG referred to earlier which covers the payment of four years of contracted rent following a default which, as previously stated, has not occurred. AIG posted cash collateral in December 2008, pursuant to its contractual obligations under this arrangement, 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 South/JP Morgan site. Good progress was also made on the neighbouring Wood Wharf site, in which Canary Wharf is a 25.0% joint venture partner, where outline permission was granted for a 7.0m sq ft (gross) mixed use development.

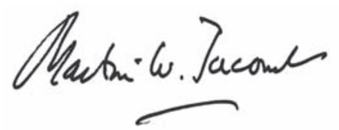
Crossrail

In December 2008 agreements were concluded between the group, the Department for Transport and TfL for the 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 Limited 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.

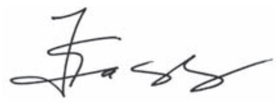
Conclusion

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 to 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 who, despite challenging market conditions, have contributed to some noticeable successes over the last twelve months.



SIR MARTIN JACOMB
Chairman



GEORGE IACOBESCU CBE
Chief Executive

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.

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

Central London office leasing market overview

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

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 a 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 of the group are under lease to a range of tenants. 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.

The properties included in the group's investment portfolio at 31 December 2008 are shown in the following table.

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 Mellon, 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 (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.

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 £2.55bn 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 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.

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 JP Morgan Markets Limited (formerly Bear Stearns).
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.

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 the 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 cost to the group.

In valuing the properties on the Estate the valuers take account of market evidence which in the latter part of the year included the 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, discounted at 6.2%, being the group's weighted average cost of debt. This amount excludes the profit already recognised in the profit and loss account on the disposal of the site and assumes JP Morgan does not proceed with full build out.

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.

Tax

EZAs have been utilised in the year to shelter most of the group's 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 was 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 (Note 10) 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.

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 (Note 4).

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).

Tax for 2008 comprised a corporation tax charge of £8.8m and a deferred tax charge of £10.6m. Tax for 2007 was wholly attributable to deferred tax (Note 5).

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 (Note 9).

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, 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 tax required by accounting standards but which, in management's judgement, is for the most part unlikely to crystallise.

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%)	5	**188.7**	191.3	(22.8)
Contingent tax on property disposals	6	**(78.5)**	(63.4)	(194.1)
Undiscounted deferred tax	7	**(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	8	**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	9	**£3.32**	£4.59	£5.79
Adjusted net assets per share before dividends		**£5.04**	£6.32	£7.36
Adjusted NNNAV per share	9	**£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') 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 Note 16(9).

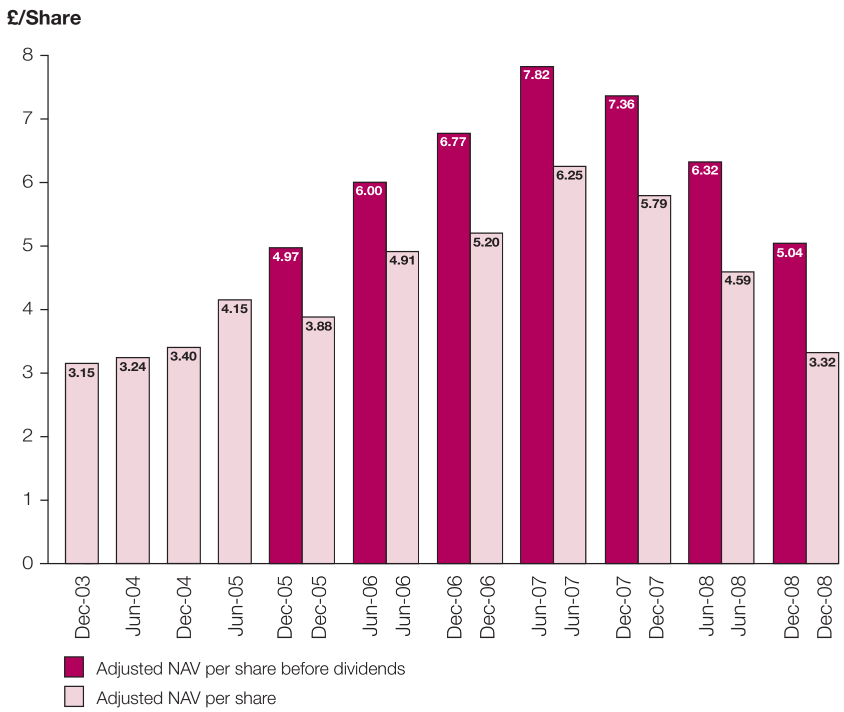
(6) Refer to 'Business Review – Tax'.

(7) Refer to Note 17.

(8) 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).

(9) 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.

The movement in net asset value per share from 31 December 2003 to 31 December 2008 is shown in the following chart which shows the position both before and after dividends:



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

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 tax 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 only enters into derivative transactions (principally interest rate swaps) 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 (see Note 16(8)).

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, which are not subject to cross default provisions and are non-recourse.

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 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.

(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.

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:

	2008 £m	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.

Directors' Report

for the year ended 31 December 2008

The directors present their report with the audited financial statements for the year ended 31 December 2008.

Principal activity and business review

The principal activity of the company is to act as a holding company for a group which specialises in integrated property development, investment and management. The group's primary business is the provision of grade 'A' office space and high quality retail facilities on the Estate, which comprises some 97 acres within the Central London property market. The group's activities also extend to joint venture projects outside of the Estate, such as the Wood Wharf mixed use development with Ballymore and BWB and the redevelopment of Drapers Gardens.

A detailed review of the business of the company both during the year and its position at 31 December 2008 can be found in the 'Business Review' and also in the 'Chairman's and Chief Executive's Statement'. The principal risks and uncertainties facing the group can be found in the 'Business Review', together with a measure of the group's performance by reference to an appropriate key performance indicator.

Post balance sheet events

Details of post balance sheet events are shown in Note 27 to the financial statements.

Results and valuations

The results for the year are set out in the consolidated profit and loss account. Changes in the market value of land and buildings during 2008 are reviewed in the 'Business Review – Valuations'.

Dividends and reserves

A dividend of £102.2m was paid during the year. The profit for the year of £249.5m (2007 – £122.5m) is to be transferred to reserves.

Share capital

There were 639,015,845 ordinary shares of 1p each in issue at 31 December 2008 and 31 December 2007. The interest of Songbird, through its wholly owned subsidiary SFL, remained at 60.8% of the issued share capital of the company.

Going concern

The group's business activities, together with the factors likely to affect its future development, performance and position (including the principal risks and uncertainties) are set out in the 'Business Review'. The finances of the group, its liquidity position and borrowing facilities are described in the 'Business Review – Treasury objectives and risks'. This includes reference to the position in respect of the loan covenants under the group's facilities.

The group has considerable financial resources and at 31 December 2008 had free cash balances totalling £1,011.3m. In addition the group enjoys the benefit of leases with a weighted average unexpired lease term of 15.2 years (including the Lehman lease but assuming the exercise of all breaks), and the average maturity of the group's debt was 14.8 years. At 31 December 2008 the occupancy level was 99.7% which was prior to Morgan Stanley serving notice to break in 20 Cabot Square with effect from February 2010. Accordingly, the directors believe that the group is well placed to manage its business risks successfully despite the current uncertain economic climate.

Having made the requisite enquiries, the directors have a reasonable expectation that the company and the group have adequate resources to continue their operations for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the annual report and accounts.

Directors

During the year the following directors served on the board of the company:

A Peter Anderson, II
John Carrafiell
Robert Falls
George Iacobescu CBE
Sir Martin Jacomb
Sam Levinson
Alex Midgen
Toby Phelps (alternate director to John Carrafiell and Robert Falls)

In accordance with the company's articles of association, Sir Martin Jacomb, Robert Falls and Alex Midgen will retire by rotation at the annual general meeting and, being eligible, will offer themselves for reappointment. All three directors standing for re-appointment are non-executive directors and, as such, do not have service contracts.

Directors' responsibilities

UK company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company, and the group, at the end of the financial year and of the results of the group for the year then ended. Under that law the directors have elected to prepare the financial statements in accordance with UK GAAP (United Kingdom Accounting Standards and applicable law). In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of each company in the group and which enable them to ensure that the financial statements comply with the Companies Act 1985. The directors are also responsible for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Directors' and officers' liability insurance

The company provides an indemnity to all directors (to the extent permitted by law) in respect of liabilities incurred as a result of their office. The group also has in place liability insurance covering the directors and officers of group companies. Both the indemnity and insurance were in force during the year. However, neither the indemnity or the insurance provide cover in the event that the director is proven to have acted dishonestly or fraudulently.

Corporate governance

As an unlisted public company the company is not required to comply with the provisions of the Combined Code on Corporate Governance. The directors are, however, mindful of their responsibilities to all shareholders.

The directors have been briefed during the year on their new statutory duties under the Companies Act 2006. The core duty is to act in good faith and in a way most likely to promote the success of the company for the benefit of its shareholders as a whole. With these matters in mind the following principles of corporate governance continue to be applied.

- The board comprises two executive directors and five non-executive directors. As well as being non-executive chairman of the company, Sir Martin Jacomb is considered to be an independent non-executive director.
- There is a clear division of responsibilities between the chairman and the chief executive. As non-executive chairman, Sir Martin Jacomb is primarily responsible for the strategic direction of the group and as chief executive, George Iacobescu is responsible for operational control including implementation of all development, construction and maintenance projects.
- The board meets at least four times a year and has formally adopted a schedule of powers which are reserved to the board. The board has full and timely access to all relevant information to enable it to discharge its duties effectively.
- A formal process has been adopted by the board to manage directors' conflicts of interest.
- All directors are subject to election by shareholders at the first opportunity following their appointment by the board. Subsequently they must seek re-appointment at least every three years.
- All directors have direct access to the advice and services of the company secretary and are able to seek independent professional advice at the expense of the company if required in connection with their duties.
- Independent professional advisers specific to the company have been appointed.
- Formal arrangements are in place in relation to the provision of services and information to Songbird.
- The board retains responsibility for the maintenance by the group of a sound system of internal control and for reviewing its effectiveness. In addition to identifying, managing and mitigating risk across the group's operations, the system of internal control is designed to ensure effective and efficient operations and compliance with applicable laws and regulations. The group's system of internal control is continuously reviewed. All risks identified by this process have been reviewed and amended as appropriate to reflect the current market conditions.

Committees

Audit, Remuneration and Operating Committees have been established with formally delegated duties and responsibilities. Formal Terms of Reference for all three committees have been adopted by the board and are reviewed on a regular basis. Both the Remuneration and Audit Committees comprise non-executive directors only.

The Audit Committee meets at least four times a year and is chaired by John Carrafiell. All meetings are attended by the company's external auditors who also have direct access to the chairman.

The Remuneration Committee, chaired by Sir Martin Jacomb, is responsible for reviewing the performance of the executive directors and management team, setting their remuneration packages and agreeing compensation policies for the group.

Powers not reserved to the board are delegated to the Operating Committee which is chaired by George Iacobescu and comprises Peter Anderson, John Carrafiell, Robert Falls, Sam Levinson and Toby Phelps.

Conflicts of interest

The Companies Act 2006 provisions in relation to the directors' duty to avoid actual or potential conflicts of interest came into effect on 1 October 2008. At the 2008 annual general meeting shareholders approved a resolution pre-authorising directors' identified conflicts of interest. Following such pre-authorisation, and in advance of 1 October 2008, the board adopted a formal process by which to manage directors' conflicts of interest. This formal process provides a framework within which the non-conflicted directors can manage circumstances where the pre-authorised conflicts occur so that the interests of the company remain safeguarded. This process is operating effectively and an annual review will be conducted of the conflicts disclosed during the preceding 12 months in order to identify any necessary changes required to the process.

Policies

Environmental

The company is committed to fully understanding the environmental and social impact of development on the Estate and, of outside projects, as appropriate. As a result, it is also committed to applying environmental best practice wherever practical in the design, construction and management of buildings and their surroundings for the benefit of tenants, employees, the local community, shareholders and the environment. The company has maintained ISO 14001 accreditation since early 2005 with environmental management being an inherent part of construction since 2002. The company is a member of the UK Green Building Council, Green500 and the Better Buildings Partnership. During 2008, the group also received further recognition of its environmental commitment with Canary Wharf Contractors Limited being named in the Sunday Times 50 Best Green Companies and receiving several Green Apple Awards for new buildings at Canary Wharf.

Environmental responsibility

The board retains overall responsibility for the monitoring and implementation of the group's environmental policy and is assisted by the company's EMRG which comprises senior executives of the group. A clear governance process has been developed and implemented to enable the EMRG, and ultimately the board, to identify, manage and respond to the environmental and social risks and opportunities that may affect the group's operations.

The EMRG is responsible for the development and establishment of the EMS throughout the group which has been developed to focus attention on those objectives and targets where improvements and actions are necessary to meet the monitoring and reporting process formally adopted by the group. Identified Environmental System Managers have responsibility for the implementation of the EMS throughout their respective business areas. Employee environmental awareness is key to the success of the EMS and as a result is incorporated into the staff induction programme with regular updates via in-house newsletters and presentations.

The group publishes annually a separate Corporate Social Responsibility Report which provides details of performance against specified targets and objectives. This report together with additional supporting information and group publications, can be downloaded from the company's environmental website, www.greencanarywharf.com. The group environmental policies are also set out in full on this website. The success of the company in meeting its environmental and social goals was reflected by being selected by the Sunday Times as one of the Top 50 Green Companies and by the receipt of several Green Apple Awards during 2008.

Employment

The company has adopted the terms of the Code of Practice for the elimination of discrimination, on all grounds, including disability discrimination. To effect this policy the company has implemented a continuing programme of action with the aim of providing an equal working environment where all employees are treated with respect and dignity. The group continues to keep employees informed of events relevant to their employment via 'all staff' communications and an intranet. Staff consultative committees, at which matters raised by employees are considered by management and staff representatives, have been established and meet every two months. The group's employment policy is regularly reviewed to incorporate changes to legislation and ensure best practice is maintained.

Equal opportunities

The group is committed to equality of opportunity and it is the policy of the group to make all employment decisions based on the applicant's ability, experience and qualification without regard to age, sex, race, colour, sexual orientation, ethnic origin, disability or marital status. The group values the benefits a diverse workforce can bring. The group embraces diversity as a practical contribution to its business success.

Due consideration is given to the recruitment, promotion, training and working conditions of all employees including those with disabilities. In the event of an employee becoming disabled the group uses its best endeavours to ensure continuity of employment.

Training and development
The policy of the group is to continuously develop its workforce with the aim of maximising its success in the marketplace. The training and development of staff is, therefore, integral to the business process. An annual appraisal programme enables the assessment of individual performance, progress and career prospects within the group. A group training manager was appointed during the year to pursue training initiatives and to expand the internal training capacity.

Health and safety
The group is committed to ensuring the working conditions of its employees incorporate the best standards of health, safety and welfare that can reasonably be achieved and that all group premises are maintained as safe environments. Accordingly, adequate resources are made available for these purposes and procedures exist to enable all staff to be informed and consulted on health and safety matters and to make known their views.

When striving to create the best standards of the built environment the group seeks to promote a safe and healthy environment for its employees, tenants and visitors. The group's continuing commitment to ensuring such a safe and healthy environment is embodied into the formally adopted group health, safety and welfare policy. All legislation relating to health and safety is observed both in letter and in spirit.

Treasury
Details of the group's treasury objectives and policies can be found in the 'Business Review – Treasury objectives' and the fair value of the group's debt is disclosed in Note 16.

Payment of suppliers
It is the group's policy to settle the terms of payment with suppliers when agreeing the terms of each transaction, to ensure that suppliers are made aware of the terms of payment and to abide by the terms of payment.

The number of days of purchases outstanding for the group at 31 December 2008 was 27 (31 December 2007 – 22). The company had no trade creditors outstanding at either 31 December 2008 or 31 December 2007.

Donations

The group made charitable donations of £1,281,340 during 2008 (2007 – £394,451) primarily in support of local community initiatives. This included £1,000,000 (2007 – £nil) contributed to the Isle of Dogs Community Foundation under the terms of the Section 106 agreement for Riverside South.

Political donations (as defined by the Companies Act 2006 and which include donations in kind) made by the group during 2008 comprised £22,457 to the Labour Party and £19,500 to the Conservative Party (2007 – £65,680 to the Labour Party and £11,500 to the Conservative Party), reflecting the group's continued commitment to the local community. No political expenditure (as defined by the Companies Act 2006) was incurred by the group during 2008 (2007 – £1,200 for the Labour Party and £3,588 for the Conservative Party).

Auditors and disclosure of information to auditors

A resolution to re-appoint Deloitte LLP as the company's auditors will be proposed at the forthcoming annual general meeting.

So far as the directors are aware, there is no relevant audit information of which the auditors are unaware and each director has taken all reasonable steps to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

Annual general meeting

The annual general meeting of the company will be held at 11.00 am on Wednesday 10 June 2009 at 10 Upper Bank Street, Canary Wharf, London E14 5JJ. The Notice of Meeting, together with an explanation of the items of special business to be considered at the meeting, is enclosed with this report.

By order of the board

JOHN GARWOOD
Secretary
25 March 2009

Independent Auditors' Report to the Members of Canary Wharf Group plc

We have audited the group and individual company financial statements (the 'financial statements') of Canary Wharf Group plc for the year ended 31 December 2008 which comprise the consolidated profit and loss account, the consolidated statement of total recognised gains and losses, the balance sheets, the consolidated cash flow statement and the Notes numbered 1 to 27. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with s235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and UK Accounting Standards (UK GAAP) are set out in the statement of directors' responsibilities. Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the 'Directors' Report' is consistent with the financial statements. The information given in the 'Directors' Report' includes that specific information presented in the 'Chairman's and Chief Executive's Statement' and the 'Business Review' that is cross referred from the 'Principal activity and business review' section of the 'Directors' Report'.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the other information contained in the Report and Financial Statements as described in the contents section, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any further information outside the Report and Financial Statements.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the company and the group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Practice, of the state of affairs of the individual company and of the group as at 31 December 2008 and of the profit of the group for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the 'Directors' Report' is consistent with the financial statements.

Deloitte LLP

DELOITTE LLP
Chartered Accountants and Registered Auditors
London
United Kingdom
25 March 2009

Consolidated Profit and Loss Account

for the year ended 31 December 2008

	Note	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	10	**–**	19.2
		1.5	22.3
Operating Profit	2	**369.6**	309.0
Exceptional items:			
– share of associates' operating losses	12	**(23.2)**	–
– profit on sale of development property	10	**118.6**	–
Interest receivable	3	**47.0**	51.3
Interest payable:			
– before exceptional item:			
– group	4	**(242.6)**	(238.7)
– associated undertakings	4	**(0.5)**	(0.4)
Exceptional item:			
– charges relating to repayment of debt	4	**–**	(16.9)
		(243.1)	(256.0)
Profit on ordinary activities before tax		**268.9**	104.3
Tax	5	**(19.4)**	18.2
Profit for the financial year	19	**249.5**	122.5
Basic and diluted earnings per share	9	**39.0p**	19.2p

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

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 2008

	Note	2008 £m	2007 £m
Profit for the financial year after tax:			
– group		**273.2**	122.9
– share of losses of associated undertakings		**(23.7)**	(0.4)
Unrealised movement on revaluation of investment properties	10	**(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

	Note	2008 £m	2007 £m
Fixed assets			
Investment properties	10	**4,245.5**	5,908.4
Properties under construction	10	**125.7**	61.4
Properties held for development	10	**199.8**	232.3
Other tangible fixed assets	11	**1.9**	0.9
Investments	12	**22.7**	24.8
		4,595.6	6,227.8
Current assets			
Debtors: due in more than one year	13	**243.7**	302.9
Debtors: due within one year	13	**80.4**	69.4
Cash at bank and in hand	14	**1,183.8**	1,135.5
		1,507.9	1,507.8
Creditors: Amounts falling due within one year	15	**(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	16	**(3,995.4)**	(3,924.6)
Provisions for liabilities	17	**(71.4)**	(69.7)
Net assets		**1,664.3**	3,206.9
Capital and reserves			
Called up share capital	18	**6.4**	6.4
Reserves:			
– share premium	19	**146.2**	146.2
– revaluation reserve	19	**1,521.9**	3,211.8
– capital redemption reserve	19	**0.7**	0.7
– special reserve	19	**264.8**	264.8
– profit and loss account	19	**(275.7)**	(423.0)
Shareholders' funds	20	**1,664.3**	3,206.9

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

Approved by the board on 25 March 2009 and signed on its behalf by:

A PETER ANDERSON, II
Managing Director, Finance

Company Balance Sheet

at 31 December 2008

	Note	2008 £m	2007 £m
Fixed assets			
Investments	12	**1,119.1**	2,776.1
Current assets			
Debtors	13	**1,081.4**	1,157.0
Cash at bank and in hand		**0.3**	0.8
		1,081.7	1,157.8
Creditors: Amounts falling due within one year	15	**(10.3)**	(8.9)
Net current assets		**1,071.4**	1,148.9
Total assets less current liabilities		**2,190.5**	3,925.0
Creditors: Amounts falling due after one year	16	**(520.1)**	(498.6)
Net assets		**1,670.4**	3,426.4
Capital and reserves			
Called up share capital	18	**6.4**	6.4
Reserves:			
– share premium	19	**146.2**	146.2
– capital redemption reserve	19	**0.7**	0.7
– special reserve	19	**739.8**	2,396.8
– profit and loss account	19	**777.3**	876.3
Shareholders' funds	20	**1,670.4**	3,426.4

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

Approved by the board on 25 March 2009 and signed on its behalf by:

A PETER ANDERSON, II
Managing Director, Finance

Consolidated Cash Flow Statement

for the year ended 31 December 2008

	Note	2008 £m	2007 £m
Net cash inflow from operating activities	22	**184.8**	430.4
Returns on investments and servicing of finance	23	**(186.7)**	(196.0)
Capital expenditure and financial investment	23	**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	23	**107.3**	33.1
Financing	23	**93.2**	172.7
Increase in cash in the year	24	**155.6**	335.9

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

The Notes numbered 22 to 24 form an integral part of this cash flow statement.

1 Basis of preparation and principal accounting policies

A summary of the principal accounting policies of the group, all of which have been applied consistently throughout this and the preceding year, is set out below.

(1) **Accounting convention**
The financial statements have been prepared on a going concern basis under the historical cost convention, as modified by the revaluation of investment properties in accordance with Note 1(4) below, and in accordance with applicable UK accounting standards.

(2) **Basis of consolidation**
The consolidated financial statements incorporate the assets and liabilities of all subsidiary undertakings at 31 December 2008 and their results for the year then ended.

(3) **Profit and loss account**
Turnover, which is stated net of VAT, comprises rental income and service charges and revenues earned on long term contracts. Marketing and administrative costs which are not development expenses are charged to the profit and loss account when incurred.

Rental income is recognised on a straight line basis over the life of the lease or until each rental review date as appropriate. Service charge income is recognised as it falls due. The group's policy on the recognition of income on long term contracts is disclosed in Note 1(4) below.

(4) **Property interests**
The group's property interests comprise investment properties, properties under construction and properties held for development.

Investment properties
Investment properties are revalued at the balance sheet date and, in accordance with SSAP 19, no provision is made for depreciation. This departure from the requirements of the statutory accounting rules (which require all properties to be depreciated) is, in the opinion of the directors, necessary for the financial statements to show a true and fair view. Depreciation is only one of the factors reflected in the annual valuation and the amount attributable to this factor is not capable of being separately identified or quantified. Surpluses or deficits on investment properties are transferred to the revaluation reserve, unless a deficit is expected to be permanent and exceeds previous surpluses recognised on the same property, in which case the excess is charged to the profit and loss account.

Properties under construction and properties held for development
Properties held for development and properties under construction which are to be retained are categorised as fixed assets and included in the consolidated balance sheet at their fair value at the date of acquisition by CWEL an entity in the CWHL group in December 1995, together with subsequent additions at cost, less subsequent disposals, subject to any provision for impairment.

Properties under construction which are to be retained are transferred to investment properties on an individual building basis when construction is complete.

Properties under construction, or held for development where the group has entered into an inter-related agreement for construction and sale, are categorised as current assets and stated at the lower of cost (namely fair value at the date of acquisition plus subsequent additions at cost) and net realisable value. Where the linked construction and sale of such properties is based on significant input to the design of the property from the purchaser the contract is accounted for as a long term contract in accordance with SSAP 9. Turnover on such contracts is calculated by reference to the estimated value of work performed to date as a proportion of the total anticipated cost of the project. Profit is recognised when the final outcome of the project can be assessed with reasonable certainty, by including in the profit and loss account turnover and related costs as contract activity progresses.

Where the sale and construction of such properties are capable of operating independently of each other, the sale and construction contracts are accounted for as separate transactions.

Additions to properties under construction or held for development include all expenses of development, including attributable interest where appropriate. Interest capitalised is calculated by reference to the rate of interest payable on the borrowings drawn down to finance the development.

Disposal of properties
Profits or losses arising from the sale of properties are calculated by reference to the carrying value at the end of the previous year, adjusted for UITF 28 and subsequent capital expenditure (where applicable) and are included in the profit and loss account as an exceptional item. Such profits or losses are recognised upon completion of sale.

Properties acquired with the intention of re-sale are categorised as current assets and stated at the lower of cost and net realisable value. Profits or losses arising on the sale of such assets are included in the profit and loss account. No such properties were held at 31 December 2008 or 2007.

(5) **Lease incentives**
Lease incentives include rent free periods and other incentives given to lessees on entering into lease agreements. Under UITF 28 the aggregate cost of lease incentives is recognised as an adjustment to rental income, allocated evenly over the lease term or the term to the first open market rent review if earlier. Consideration is also given at each balance sheet date as to whether an adjustment is required to the period for which rentals are expected to be recovered and hence over which incentives should be amortised. The cost of lease incentives is included within debtors due in more than one year. Accordingly the valuation of investment properties is reduced for these incentives.

(6) **Other tangible fixed assets**
Other tangible fixed assets are stated at cost net of depreciation and any provision for impairment. They are depreciated so as to write off the cost in equal annual instalments over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

Computer equipment	33.0%
Fixtures and equipment	25.0%

(7) **Debt**
Debt instruments are stated initially at the amount of net proceeds. The finance costs of such debt instruments are allocated to periods over the term of the debt at a constant rate on the carrying amount. The carrying amount is increased by the finance cost in respect of the reporting period and reduced by payments made in respect of the debt in that period. Finance costs are charged to the profit and loss account, except in the case of development financings where interest and related financing costs are capitalised as part of the cost of development.

The group uses derivative financial instruments to manage exposure to interest rate movements. The group does not hold or issue derivative financial instruments for speculative purposes.

For an interest rate swap to be treated as a hedge the instrument has to be related to a liability and must change the nature of the interest rate by converting a variable rate to a fixed rate. Interest differentials under these swaps are recognised by adjusting interest payable over the period of the liability.

(8) **Investments**
Fixed asset investments are stated at cost less any provision for impairment.

Investments in associated undertakings are included in the financial statements using the equity method. In the consolidated balance sheet, investments in associated undertakings are stated at the group's share of net assets or liabilities. The group's share of the associated undertakings' profits or losses after tax is included in the consolidated profit and loss account.

(9) **Finance leases**
Sales and leasebacks (where the leaseback is treated as a finance lease as defined by SSAP 21 and FRS 5) are recorded in the balance sheet as assets and as obligations to pay future rentals. Rents payable are apportioned between the finance charge and a reduction in the outstanding obligation for future amounts payable.

The total finance charge, which includes the amortisation of deferred expenses relating to finance leases, is allocated to accounting periods over the lease terms so as to produce a constant periodic charge on the remaining balance of the obligation for each accounting period.

(10) **Vacant leasehold property**

Provision is made for the present value of the anticipated net commitments in relation to leasehold properties where there is a shortfall in rental income receivable against the rent and other costs payable.

(11) **Pensions**

The group operates three defined contribution pension schemes, however, two of these schemes are currently in the process of being wound up. Pension contributions in respect of these schemes are accrued as they fall due.

(12) **Accounting for share options**

All of the options granted under the Deferred Plan have now vested and the majority have been exercised. The majority of holders were able to opt for a cash settlement calculated at the end of the vesting period in accordance with the terms of the grant and linked to the market price of the B Shares at that date. For cash settled share options, a liability is recorded based on the market value of the shares at each balance sheet date. The cost of equity settled share options is measured at the grant date and is based on the market value of B Shares at that date. In both cases the associated cost was charged to the same expense category as the employment cost of the relevant employee, spread on a straight line basis over the relevant vesting period. The remaining B Shares held in trust continue to be recorded as a fixed asset investment at historical cost less any provision for impairment.

(13) **Tax**

Current tax is provided at amounts expected to be paid or recovered using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax assets and liabilities arise from timing differences between the recognition of gains and losses in the financial statements and their recognition in the corporation tax return. Under FRS 19 deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is not recognised when fixed assets are revalued, unless by the balance sheet date there is a binding agreement to sell the revalued assets and the gain or loss expected to arise on a sale has been recognised in the financial statements.

Deferred tax is measured at the average tax rates expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is measured on a discounted basis to reflect the time value of money over the period between the balance sheet date and the dates on which it is estimated that the underlying timing differences will reverse. Discount rates of 0.8% to 2.4% have been adopted reflecting the post tax yield to maturity that can be obtained on government bonds with similar maturity dates and currencies to those of the deferred tax assets or liabilities.

2 Operating profit

The operating profit is stated after charging:

	Note	2008 £'000	2007 £'000
– depreciation	11	**584**	353
– directors' emoluments	8	**7,121**	7,174
– operating lease rentals:			
– land and buildings		**1,259**	10,253

The operating lease rentals relate to the vacant leasehold properties referred to in Note 17. 2007 includes a surrender premium of £6,350,000 paid on one of these properties.

Audit fees

	2008 £'000	2007 £'000
Remuneration of the auditors:		
– audit fees for the audit of the company	**51**	50
– audit of subsidiaries pursuant to legislation	**428**	378
Total audit fees	**479**	428
Fees to the auditors for other services:		
– other services pursuant to legislation	**58**	46
– corporate finance transactions	**–**	72
– tax	**215**	355
– other services	**100**	192
– pension fund audit	**12**	10
Total non audit fees	**385**	675

Audit fees of £51,000 were incurred by the company in 2008 out of a total of £479,000 (2007 – £50,000 out of £427,845).

3 Interest receivable

	2008 £m	2007 £m
Bank interest receivable	**47.0**	51.3

4 Interest payable

	2008 £m	2007 £m
Notes and debentures	**161.8**	160.3
Bank loans and overdrafts	**78.2**	76.3
Finance lease charges	**2.6**	2.1
Construction loan	**5.6**	1.8
Share of associated undertakings	**0.5**	0.4
	248.7	240.9
Less:		
Interest at 6.5% (2007 – 6.5%) on the construction loan transferred to properties under construction	**(5.6)**	(1.8)
Interest payable before exceptional items	**243.1**	239.1
Exceptional items:		
– charges relating to early repayment of debt:		
– prepayment and breakage costs	**–**	0.6
– write off of deferred financing costs and other accounting adjustments	**–**	16.3
	–	16.9
Total interest payable	**243.1**	256.0

Financing costs relating to the inception of the group's debt are deferred and amortised to the profit and loss account over the term of the debt at a constant rate based on the carrying amount of the debt in accordance with FRS 4. In addition, any premium on issue of debt is deferred and amortised over the term of that debt. As a result of prepaying certain of the group's borrowings, the unamortised portion of the financing costs relating to the debt prepaid, totalling £16.3m, was written off to the profit and loss account in 2007 and shown as an exceptional item. There was no deferred tax as a result of the repayment of debt.

Interest payable of £5.6m was transferred to properties under construction in 2008 (2007 – £1.8m) (Note 10) representing financing costs associated with the group's construction loan facility.

5 Tax

	2008 £m	2007 £m
Current tax:		
UK corporation tax (see below)	**(8.8)**	–
Deferred tax:		
Origination and reversal of timing differences:		
– current period	**7.7**	16.2
– changes in tax rate	**–**	3.0
Net effect of discount	**(18.3)**	(1.0)
Total deferred tax (Note 17)	**(10.6)**	18.2
Total tax (charge)/credit on profit on ordinary activities	**(19.4)**	18.2
Tax reconciliation:		
Group profit on ordinary activities before tax	**268.9**	104.3
Tax on profit on ordinary activities at UK corporation tax rate of 28.5% (2007 – 30.0%)	**(76.6)**	(31.3)
Effects of:		
Tax losses, allowances and other timing differences	**68.7**	32.5
Expenses not deductible for tax purposes	**(0.9)**	(1.2)
Current tax charge for the period	**(8.8)**	–

The tax rate of 28.5% is calculated by reference to the current corporation tax rate of 28.0% which was in effect for the final three quarters of the year and the previous rate of 30.0% which was in effect for the first quarter of the year.

6 Profit for the financial year

Of the consolidated profit transferred to reserves of £249.5m (2007 – £122.5m) a loss of £1,653.8m (2007 – a profit of £435.5m) is dealt with in the company's financial statements. The company's profit included £nil (2007 – £115.0m) attributable to subsidiary dividends received and a £1,657.0m increase in the provision against the company's investment in subsidiaries (2007 – a release of £315.0m). As permitted by Section 230(3) of the Companies Act 1985, no profit and loss account is presented for the company.

7 Dividends

	2008 £m	2007 £m
Dividends per ordinary share	**102.2**	–
	102.2	–

On 9 April 2008 a dividend of 16.0p per share was paid totalling £102.2m. No dividends were declared or paid during 2007.

8 Directors and employees

(1) **Staff costs**

All employees of the group, including directors:

	2008 £m	2007 £m
Wages and salaries	**59.2**	55.5
Social security costs	**6.4**	6.5
Other pension costs (Note 21)	**4.3**	3.0
	69.9	65.0

A deferred cash incentive plan has been established to retain and incentivise the executive directors and senior members of the management team. Payments under this plan were made in 2007 and 2008. Further payments are linked to participants remaining employed by the group and performance related milestones which include leasing, financial and operational targets.

The average monthly number of employees, including directors, of the group during 2008 was 959 (2007 – 869) as set out below.

	2008	2007
Construction	**238**	205
Property management	**570**	525
Administration	**151**	139
	959	869

(2) **Directors' remuneration**

	2008 £'000	2007 £'000
Emoluments (including bonuses)	**7,121**	7,174

The amounts shown above exclude benefits arising on the exercise of options granted to the executive directors under the Deferred Plan, details of which are set out in (4) below.

No contributions were made by the company during 2008 or 2007 to any pension plan for the benefit of the executive directors. Contributions made by the company during earlier years either remain within the company's money purchase pension plan or have been transferred into another arrangement at the election of the director.

(3) **Highest paid director**

The amounts set out in (2) above include remuneration in respect of the highest paid director as follows:

	2008 £'000	2007 £'000
Emoluments (including bonuses)	**3,837**	3,747

No contributions were made by the company during 2008 or 2007 to any pension plan for the benefit of the highest paid director. Details of share based payments received by the highest paid director during 2008 are disclosed in (4) below.

(4) **Directors' share options**

No director held any options to subscribe for ordinary shares in the company during the year. The aggregate emoluments disclosed above do not include any options granted under the Deferred Plan to subscribe for B Shares. The following table provides details of the executive directors' share options under the Deferred Plan both during the year and as at 31 December 2008.

	Date of grant	Exercisable from	1 January 2008	Exercised during year	31 December 2008
G Iacobescu CBE	23/09/04	21/05/06	439,970	439,970(1)	–

Note:

(1) Exercised on 9 January 2008 at £1.77 per B Share. The pre-tax benefit to G Iacobescu was £1,241,198.37 which included a Trust distribution of £462,452.47.

(2) None of the other directors have any remaining unexercised options.

(3) Options granted under the Deferred Plan do not benefit from HMRC approval for income tax and national insurance purposes.

Further information about the Deferred Plan, under which options have been granted over B Shares, may be found in (5) below.

(5) **Share based payments**

During the year the company operated the Deferred Plan in conjunction with the Trust.

The Deferred Plan is a discretionary plan which does not benefit from approved status for income tax purposes. Under the terms of the Deferred Plan, options over B Shares are granted to participants at the discretion of the Remuneration Committee. No consideration was payable for the grant of an option and an exercise price of £1.00 was payable upon exercise, in full or in part, of the option. Unless the Remuneration Committee determines otherwise, an option may normally be exercised on or after the first anniversary of the grant date in respect of 50.0% of the B Shares to which it relates. The balance of the option was normally exercisable on or after the second anniversary of the grant date. Options normally lapse on the third anniversary of the date of grant unless determined otherwise by the board. Upon exercise or part-exercise of an option, the participant also receives a distribution equating to any net dividend received on the shares since the date of grant. The trustee of the Trust waived its entitlement to dividend (save for 0.01p per share) on any shares in excess of those required to satisfy outstanding options. The terms of the Deferred Plan allowed participants who were granted options on or after December 2005 to elect to take a cash equivalent value in substitution for exercising their options.

During the year options over 666,970 B Shares were exercised under the Deferred Plan and participants with options over a further 17,250 B Shares elected to take a cash sum in substitution for exercising their options. At 31 December 2008, options over 60,000 B Shares were outstanding.

Date of grant	Exercise period	1 January 2008 B Shares	Exercised B Shares	Surrendered for cash alternative B Shares	**31 December 2008 B Shares**	Aggregate net value(1) of shares at date of exercise or surrender £	Share distributions(2) made by Trustee out of dividend income £
23/09/04	21/05/06 to 22/09/08	439,970	439,970	–	**–**	778,747	462,452
03/05/05	21/05/06 to 22/09/09	60,000	–	–	**60,000**	–	–
20/12/05	20/12/06 to 19/12/08	57,500	57,500(3)	–	**–**	30,366	50,888
20/12/05	20/12/07 to 19/12/08	181,000	169,500(4)	11,500(5)	**–**	178,976	160,185
05/12/06	01/05/08 to 19/12/08	5,750	–	5,750	**–**	7,382	4,054
		744,220	666,970	17,250	**60,000**	995,471	677,579

Note:

(1) Market value of shares less cost of exercise.

(2) Dividends received on shares under option are distributed to participants as and when the options are exercised or a cash equivalent value is taken in substitution for exercising the option.

(3) Exercised over various dates throughout the year at an average price of £0.5281.

(4) Exercised over various dates throughout the year at an average price of £0.9889.

(5) Surrendered for cash equivalent on 7 January 2008 at an average price of £1.781.

Details of the options held by the executive directors can be found in (4) above.

The Trust holds B Shares which may be used to satisfy options granted under the Deferred Plan or any other share plan the company may adopt. The assets of the Trust are held separately from those of the company and the trustee of the Trust is Halifax EES Trustees International Limited.

Where a participant has the right to take a cash alternative sum in substitution for exercising an option the company has agreed to loan the necessary sum to the trustee and the trustee has agreed to sell such shares as may be necessary to repay the loan unless determined otherwise by the board.

At 31 December 2008, the trustee of the Trust held 299,253 B Shares (31 December 2007 – 966,223).

At 31 December 2007 the group had accrued £0.4m in respect of its liability under the Deferred Plan. This amount related to shares over which options had vested but had not been exercised. No such accrual was required at 31 December 2008.

9 Earnings per share

The basic and diluted earnings per share for 2008 have been calculated by reference to the profit attributable to ordinary shareholders after tax of £249.5m (2007 – £122.5m) and on the weighted average of 639.0m shares in issue at each year end.

There were no outstanding dilutive instruments at either balance sheet date.

10 Investment properties, properties held for development and properties under construction

Freehold properties held as tangible fixed assets

	Investment properties £m	Properties held for development £m	Properties under construction £m
1 January 2008 (pre-adjustment for UITF 28)	6,211.3	232.3	61.4
Adjustment for UITF 28	(302.9)	–	–
1 January 2008	5,908.4	232.3	61.4
Additions	27.0	85.2	64.3
Disposal of development site	–	(117.7)	–
Revaluation	(1,689.9)	–	–
31 December 2008	**4,245.5**	**199.8**	**125.7**
Adjustment for UITF 28 (Note 13)	237.5		
Market value at 31 December 2008	**4,483.0**		
Of which:			
Subject to lease and finance leaseback arrangements	81.1		
Historical cost	2,591.2		
Pre-sold properties under construction			
Additions			177.7
SSAP 9 accrual			6.9
Transferred to cost of sales			(188.7)
Transferred from payments on account (net)			4.1
31 December 2008			**–**

In November 2008 the group entered into an agreement for the sale of the Riverside South site to JP Morgan and received an initial payment of £237.9m which resulted in a profit being recognised on disposal of £118.6m. The historical cost to the group of the site was £117.7m and fees of £1.6m were incurred on disposal. JP Morgan has appointed the group to act as Development and Construction Manager in relation to a new European headquarters to be built on the site. Costs incurred in relation to this contract are recoverable from JP Morgan and have been offset against payments received on account (Note 15). If construction is postponed or deferred altogether the group will receive £76.0m as an advance of developer's profit, of which £15.0m had already been received at 31 December 2008. At 31 December 2008 the carrying value of this, and other properties carried as current assets, is stated net of amounts taken to cost of sales, or transferred to payments on account in accordance with SSAP 9.

On 12 December 2008, the group achieved practical completion on 20 Churchill Place, a 300,000 sq ft building which had been pre-sold to Prudential for occupation by State Street. Profits have been recognised over the period of construction in accordance with SSAP 9.

On 24 December 2008 the group entered into agreements with the Secretary of State for Transport and CLRL for the design and construction of the Crossrail station at Canary Wharf for a fixed price of £500.0m. The group will contribute £150.0m towards the cost and the balance of £350.0m will be met from the Crossrail budget. The anticipated £150.0m cost to the group will be accounted for when incurred as additions to development properties and allocated to each development property on a sq ft basis. 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.

Investment properties are recorded at valuation less the cost of unamortised tenant incentives incurred at the balance sheet date in accordance with UITF 28. The unamortised tenant incentives are held within debtors falling due in more than one year in the balance sheet (Note 13).

The group's investment properties have been revalued externally at 31 December 2008 on the basis of market value. The valuation of office investment properties was undertaken by either CBRE or Savills. The valuation of retail investment properties was undertaken by Cushman. Each property has been valued individually on a free and clear basis and not as part of a portfolio and no account has been taken of any intragroup leases or arrangements. Whilst allowance has been made for any purchaser's expenses, assumed by the valuers to be at rates between 4.6% and 5.2% depending on lot size, no allowance has been made for any seller's expenses of realisation or for any tax which might arise in the event of disposal. The deficit arising on the valuations at 31 December 2008 of £1,689.9m has been transferred from the revaluation reserve.

The assumptions upon which the valuations are based are summarised in the 'Business Review – Valuations'.

Properties held for development at 31 December 2008, which are to be retained as investment properties, are carried at their fair value at the time of acquisition of the CWHL group in December 1995, less subsequent disposals plus additions at cost, subject to any provision for impairment.

At 31 December 2008, properties under construction held for investment included £8.1m in respect of financing costs (31 December 2007 – £2.5m).

During 2007 the group received £8.3m of deferred proceeds and released surplus accruals and deferred income totalling £10.9m relating to the sale of properties in 2003. There were no such transactions in 2008.

11 Other tangible fixed assets

	Fixtures and equipment £m	Computer equipment £m	Total £m
Cost:			
1 January 2008	12.8	1.1	13.9
Additions	1.6	–	1.6
31 December 2008	**14.4**	**1.1**	**15.5**
Depreciation:			
1 January 2008	(11.9)	(1.1)	(13.0)
Charge for the period (Note 2)	(0.6)	–	(0.6)
31 December 2008	**(12.5)**	**(1.1)**	**(13.6)**
Net book amount:			
31 December 2008	**1.9**	**–**	**1.9**
31 December 2007	0.9	–	0.9

12 Investments

	2008		2007	
	Group £m	**Company £m**	Group £m	Company £m
Subsidiary undertakings	**–**	**1,119.1**	–	2,776.1
Associated undertakings	**22.3**	**–**	24.2	–
Shares	**0.2**	**–**	0.4	–
Other investments	**0.2**	**–**	0.2	–
	22.7	**1,119.1**	24.8	2,776.1

In June 2007 the group entered into a joint venture with MSREF V and Omega to undertake the redevelopment of Drapers Gardens. The group has invested £9.3m (31 December 2007 – £6.7m) and incurred fees of £0.7m in consideration for a 20.0% stake in the joint venture. Drapers Gardens has a reporting date of 31 December and its results attributable to the group have been derived from its management accounts to 31 December 2008. Drapers Gardens is structured as a Jersey property unit trust and the unit holders in which the company has an investment are registered in the Netherlands.

Drapers Gardens entered into a £172.5m construction loan facility with Lehman which was subsequently syndicated to certain other banks (see 'Business Review – Treasury objectives'). Lehman retained an 18.9% share in the facility but has not met its funding obligations since being placed in administration in September 2008. The other banks in the syndicate have continued to honour their commitment under the construction loan facility. The group has made additional loans totalling £0.7m to Drapers Gardens to fund its 20.0% share of the shortfall in funding arising from Lehman's administration. The initial tranche of this loan attracted interest at 20.0% and subsequent loan tranches were interest free and repayable on demand.

The group's investment in the Drapers Gardens venture has been written down by £10.0m to £nil by reference to a market valuation of the development undertaken by CBRE and a provision of £13.2m has been made to reflect the group's share of the joint venture's losses (see table on following page and Note 17).

Under the terms of the joint venture agreement for Drapers Gardens, the group has a liability to contribute a maximum of an additional £2.7m. In addition the group has contingent liabilities on Drapers Gardens, totalling £5.1m (Note 25).

In April 2005 BWB appointed the group, together with Ballymore, as its partner for the development of Wood Wharf. WWLP is incorporated in the United Kingdom and has been established to oversee the development of an approximately 7.0m sq ft (gross) mixed use scheme in which the group has a 25.0% effective interest. The group has subscribed for £2,000 of equity share capital in the partners of WWLP and for interest free long term redeemable loan notes totalling £21.6m (2007 – £15.5m) to fund the working capital requirements of the partnership, which are redeemable at par in 2030, subject to being repayable out of development profits.

WWLP has entered into a loan facility of £9.0m, repayable in 2010 of which £6.3m had been drawn down at 31 December 2008 (31 December 2007 – £5.2m). This loan must first be repaid before the loan provided to WWLP by the group can be repaid. All loans must have been repaid in full prior to any dividends being declared.

The investment in WWLP includes an initial entry premium of £1.9m and is stated net of the group's share of WWLP's losses since acquisition.

These investments have been accounted for as investments in associated undertakings. The group's share of the results and net assets/liabilities of its associates derived from the management accounts of the associated undertakings are as follows:

For the year ended 31 December 2008

	Drapers Gardens £m	WWLP £m	Total £m
Loss before interest and tax	(113.0)	(1.8)	(114.8)
Interest receivable	–	1.9	1.9
Interest payable	–	(2.1)	(2.1)
Loss after interest and tax	(113.0)	(2.0)	(115.0)
Group share	(22.6)	(0.5)	(23.1)
Net (liabilities)/assets	(66.0)	81.3	15.3
Group share	(13.2)	20.4	7.2

The investment in shares represents the B Shares held in trust in connection with the group's share option scheme (Note 8(5)).

	£m
Cost:	
1 January 2008	1.0
Transferred to participants in the Deferred Plan	(0.7)
31 December 2008	0.3
Amortised:	
Amounts amortised at 1 January 2008	(0.6)
Amortised in 2008	0.5
31 December 2008	(0.1)
Net book amount:	
31 December 2008	**0.2**
31 December 2007	0.4

Details of movements in the investment in B Shares have been disclosed in Note 8(5).

The group owns 52,079 0.1p B preferred ordinary shares and 72,050 0.1p ordinary shares in HSO, an unlisted company registered in England and Wales, being approximately 13.0% of its nominal share capital. The principal activity of HSO is the provision of broadband telecommunications services. The consideration paid was £2.1m representing the historical cost to the group including fees. During 2008 the carrying value of the investment was held at £0.2m (after a total provision of £1.9m), based on the net asset value of HSO at 31 December 2008.

The company holds the entire issued share capital of CWEL comprising 651,778,264 ordinary shares of 1p each. The directors have considered the value of the company's investment in CWEL at 31 December 2008 and the investment was stated at £1,119.1m, net of a provision of £1,866.0m (2007 – £2,776.1m, net of a provision of £209.0m).

At 31 December 2008 the company's principal subsidiary undertakings, all of which were incorporated in Great Britain, registered in England and Wales and wholly owned, were as follows:

Name	Description of shares	Principal activities
Directly held by the company:		
Canary Wharf Estate Limited	£1 Ordinary	Holding company
Canary Wharf Developments Limited	£1 Ordinary	Property development
Indirectly held by the company:		
Canary Wharf Holdings Limited	£1 Ordinary	Holding company
	£1 Preferred Redeemable	
Canary Wharf Limited	£1 Ordinary	Property development
	£1 Preferred Redeemable	
Canary Wharf Investments Limited	£1 Ordinary	Property investment
	£1 Deferred	
Canary Wharf Contractors Limited	£1 Ordinary	Property construction
Canary Wharf Management Limited	£1 Ordinary	Property management
Heron Quays Properties Limited	£1 Ordinary	Property development
Norquil Limited	£1 Ordinary	Property investment
Canary Wharf Finance II plc	£1 Ordinary	Investment company
CW Lending II Limited	£1 Ordinary	Investment company
Canary Wharf Investments (Crossrail) Limited	£1 Ordinary	Investment company

A complete list of the company's subsidiary undertakings will be attached to the company's annual return when it is submitted to the Registrar of Companies.

13 Debtors

	2008		2007	
	Group £m	**Company £m**	Group £m	Company £m
Due within one year:				
Trade debtors	**6.4**	**0.7**	10.4	–
Other debtors	**8.7**	**–**	33.0	–
Amounts owed by subsidiary undertakings	**–**	**195.2**	–	310.7
Loans to subsidiary undertakings	**–**	**884.7**	–	845.5
Prepayments and accrued income	**29.5**	**0.8**	26.0	0.8
Amounts recoverable on contracts (Note 15)	**35.8**	**–**	–	–
	80.4	**1,081.4**	69.4	1,157.0

Loans to subsidiary undertakings carry interest at a rate linked to LIBOR and are repayable on demand.

	Rent free periods £m	Other tenant incentives £m	Total £m
Due in more than one year:			
1 January 2008	116.7	186.2	302.9
Recognition of rent during rent free periods	9.6	–	9.6
Amortisation of lease incentives	(14.2)	(40.9)	(55.1)
Unwind of discount/release of other lease provisions	–	(17.5)	(17.5)
Release of accruals	–	(2.4)	(2.4)
31 December 2008	**112.1**	**125.4**	**237.5**
Receivable under a lease termination agreement			6.2
31 December 2008			**243.7**

At 31 December 2008 a further £7.2m receivable under lease termination agreements was included in prepayments and accrued income within debtors due in less than one year (2007 – £nil).

Debtors due in more than one year comprise the cumulative adjustment in respect of lease incentives required by UITF 28 and amounts receivable in more than twelve months in relation to lease termination agreements. Lease incentives include rent free periods and other incentives given to lessees on entering into lease arrangements. Under UITF 28, the aggregate cost of lease incentives is recognised as an adjustment to rental income, allocated evenly over the lease term or the term to the first market rent review if earlier. Accordingly the external valuation of investment properties is reduced for these incentives.

At 31 December 2008 lease incentives included £63.8m attributable to the lease to Lehman which are being amortised over the period to the first open market rent review in November 2013. The arrangement with AIG provides for the payment of 4 years contracted rent upon default by Lehman. Should this occur the incentives would need to be amortised over this period.

14 Financial assets

The group's financial assets comprise short term trade debtors (Note 13) and cash deposits. Cash deposits totalled £1,183.8m at 31 December 2008 (31 December 2007 – £1,135.5m) comprising deposits placed on money market at call and term rates. Total cash deposits included £135.0m (31 December 2007 – £144.0m) held by third parties as cash collateral for the group's borrowings, £25.1m (31 December 2007 – £115.9m) charged to third parties in connection with the group's construction obligations, and a further £12.4m (31 December 2007 – £19.9m) charged to third parties as security for the group's obligations. Unsecured cash deposits totalled £1,011.3m at 31 December 2008 (31 December 2007 – £855.7m).

15 Creditors: amounts falling due within one year

	2008 Group £m	2008 Company £m	2007 Group £m	2007 Company £m
Borrowings (Note 16)	**89.2**	**–**	60.3	–
Trade creditors	**36.3**	**0.3**	20.3	–
Amounts due to subsidiary undertakings	**–**	**5.2**	–	2.8
Taxation and social security costs	**6.9**	**1.5**	8.2	2.8
Corporation tax	**8.8**	**–**	–	–
Other creditors	**15.5**	**–**	37.8	–
Accruals	**97.6**	**3.3**	72.4	3.3
Deferred income	**83.8**	**–**	80.7	–
Payments on account	**34.3**	**–**	254.7	–
	372.4	**10.3**	534.4	8.9

Payments on account comprise the amounts received in respect of the pre-sale of three freehold properties and the long term development contract for the construction of Riverside South on behalf of JP Morgan:

	20 Churchill Place £m	15 Canada Square £m	30 North Colonnade £m	Riverside South £m	Total £m
1 January 2008	67.7	83.4	103.6	–	254.7
Amounts received	21.5	–	37.8	15.0	74.3
Recorded as turnover	(96.6)	(119.4)	(109.4)	(14.4)	(339.8)
Work in progress transfer	0.7	1.7	2.1	(0.4)	4.1
Deferred interest	2.6	2.6	–	–	5.2
Transferred to debtors (Note 13)	4.1	31.7	–	–	35.8
31 December 2008	**–**	**–**	**34.1**	**0.2**	**34.3**

20 Churchill Place was completed in December 2008.

Amounts recoverable on long term contracts, which comprise the excess of turnover recognised on 15 Canada Square and 20 Churchill Place over payments on account, have been transferred to debtors (see Note 13).

16 Creditors: amounts falling due after more than one year

Creditors due after more than one year comprise:

	2008 Group £m	2008 Company £m	2007 Group £m	2007 Company £m
Securitised debt	**2,575.9**	**–**	2,606.0	–
Construction loans	**99.9**	**–**	35.0	–
Other secured loans	**1,278.0**	**–**	1,241.9	–
Finance lease obligations	**41.6**	**–**	41.7	–
Amounts due to subsidiary undertakings	**–**	**520.1**	–	498.6
	3,995.4	**520.1**	3,924.6	498.6

The amounts at which borrowings are stated comprise:

	Securitised debt £m	Construction loan £m	Other secured loans £m	Finance lease obligations £m	Total £m
1 January 2008	2,644.8	35.0	1,263.4	41.7	3,984.9
Drawn down	–	59.6	50.0	–	109.6
Deferred financing expenses	1.2	0.8	0.7	–	2.7
Accrued finance charges	(1.6)	4.5	1.0	–	3.9
Repaid in year	(6.9)	–	(9.5)	(0.1)	(16.5)
31 December 2008	**2,637.5**	**99.9**	**1,305.6**	**41.6**	**4,084.6**
Payable within one year or on demand	61.6	–	27.6	–	89.2
Payable in more than one year	2,575.9	99.9	1,278.0	41.6	3,995.4
	2,637.5	99.9	1,305.6	41.6	4,084.6

(1) At 31 December 2008 the following notes issued by CWF II were outstanding:

Class	Principal £m	Interest	Repayment
A1	1,215.0	6.455%	By instalment from 2009 to 2033
A3	400.0	5.952%	By instalment from 2032 to 2037
A7	222.0	Floating	In 2035
B	210.8	6.800%	By instalment from 2005 to 2033
B3	104.0	Floating	In 2035
C2	275.0	Floating	In 2035
D2	125.0	Floating	In 2035
	2,551.8		

Interest on the floating notes is at three month LIBOR plus a margin. The margins on the notes are: A7 Notes – 0.19% p.a., increasing to 0.475% in January 2017; B3 Notes – 0.28% p.a., increasing to 0.7% p.a. in January 2017; C2 Notes – 0.55% p.a., increasing to 1.375% in April 2014; and D2 Notes – 0.84% p.a., increasing to 2.1% in April 2014.

All of the floating notes are hedged by means of interest rate swaps and the hedged rates plus the margin are: A7 Notes – 5.1135%; B3 Notes – 5.1625%; C2 Notes – 5.4416%; and D2 Notes – 5.8005%.

Certain of the A1, A3 and B Notes were issued at a premium which is being amortised to the profit and loss account over the life of the relevant notes. At 31 December 2008 £68.2m remained unamortised (31 December 2007 – £73.3m).

The notes are secured on certain property interests of the group and the rental income stream therefrom.

The securitisation has the benefit of an agreement 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. The amounts would be repayable by the group if subsequent recoveries made in respect of amounts claimed or subsequent rentals in the properties exceed the rents that would have been received from Lehman. Under this agreement, AIG is obliged to maintain a certain credit rating. Following the fall in its credit rating, AIG posted cash collateral 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. The amount initially posted in respect of AIG's obligations is subject to periodic adjustment to reflect movements in interest rates.

Separately, the securitisation has the benefit of an arrangement with AIG which covers the rent in the event of a default by the tenant of 33 Canada Square, over the entire term of the lease. AIG has posted a further £276.3m as cash collateral in respect of this obligation.

The annual fees payable in respect of the above arrangements currently total £7.5m.

CWF II also has the benefit of a £300.0m liquidity facility provided by Lloyds, under which drawings may be made in the event of a cash flow shortage under the securitisation. This facility is renewable annually.

The weighted average maturity of the debentures at 31 December 2008 was 17.9 years. The debentures may be redeemed at the option of the issuer in an aggregate amount of not less than £1.0m on any interest payment date subject to the current rating of the debentures not being adversely affected and certain other conditions affecting the amount to be redeemed.

(2) In February 2007 the group entered into a £155.0m 3 year construction loan facility secured on 5 Churchill Place. Interest is charged at LIBOR plus a margin of 0.9% hedged at 5.625%. At 31 December 2008 £100.7m (31 December 2007 – £36.6m) including interest had been drawn down under this facility. Upon completion of the building, the construction loan may be rolled into a 3 year investment loan with a final maturity of August 2013 or 3 years from the interest payment date or 6 months after practical completion if earlier. Practical completion of the building is anticipated in August 2009.

(3) In March 2006 the group entered into a £300.0m facility secured against the group's principal retail properties. During the year the group increased this facility by an additional £50.0m, and this was drawn in full. The loan facility carries interest at LIBOR plus a variable margin rate subject to, inter alia, prevailing LTV and ICR tests. The group has entered into an arrangement whereby the exposure to the movement in three month LIBOR rates on the facility is fully hedged with fixed interest rate swaps at a weighted average of 6.1%. The loan is repayable in March 2011.

(4) A bank loan with initial principal of £369.4m has been secured against 10 Cabot Square and 20 Cabot Square. The loan carried interest at a rate of 5.82% until April 2008 when it became a floating rate facility. The loan is repayable in January 2013. The group entered into an interest rate swap to January 2013 at a fixed rate of 5.031%. Subsequent to the year end, 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%. During 2008 £2.4m was repaid in accordance with the terms of the loan agreement reducing the principal outstanding to £367.0m.

(5) A bank loan comprising an initial principal of £608.8m is secured against One Churchill Place. The loan is fully amortising with a final maturity in July 2034. The loan carries a hedged interest rate of 5.82%. During 2008 £7.1m of the loan was repaid in accordance with the loan agreement (31 December 2007 – £7.1m), reducing the principal at 31 December 2008 to £583.7m.

(6) The group's obligations under its finance lease are secured by first ranking fixed and floating charges over the property which is the subject of the finance lease and over certain cash deposits (Note 25). The rate of interest implicit in the finance lease was 4.9% at 31 December 2008 (31 December 2007 – 4.9%).

(7) The maturity profile of the loans and finance lease obligations (excluding accrued interest payable) was as follows:

	2008		2007	
	Loans £m	**Finance leases £m**	Loans £m	Finance leases £m
In less than one year or on demand	**44.7**	**–**	14.0	–
In more than one year but less than two years	**166.9**	**–**	76.4	–
In more than two years but not more than five years	**915.0**	**–**	498.1	–
In more than five years	**2,871.8**	**41.6**	3,308.4	41.7
	3,998.4	**41.6**	3,896.9	41.7

(8) After taking into account interest rate hedging entered into by the group, the interest rate profile of the group's financial liabilities at 31 December 2008 (including accrued interest payable) was:

	2008 Floating £m	2008 Fixed £m	2008 Total £m	2007 Floating £m	2007 Fixed £m	2007 Total £m
Securitised debt	–	2,637.5	2,637.5	–	2,644.8	2,644.8
Secured loans	–	1,305.6	1,305.6	–	1,263.4	1,263.4
Construction loan	–	99.9	99.9	–	35.0	35.0
Finance leases	41.6	–	41.6	41.7	–	41.7
	41.6	4,043.0	4,084.6	41.7	3,943.2	3,984.9
Less: Cash collateral for borrowings (Note 14)	(42.4)	(92.6)	(135.0)	(42.4)	(101.6)	(144.0)
	(0.8)	3,950.4	3,949.6	(0.7)	3,841.6	3,840.9

In respect of the group's fixed rate financial liabilities:

	2008 Weighted average interest rate %	2008 Weighted average period Years	2007 Weighted average interest rate %	2007 Weighted average period Years
Securitised debt	6.2	17.9	6.2	18.8
Secured loans	6.2	9.9	5.8	11.3

(9) The difference between the fair value and the book value of the group's financial assets and liabilities (excluding debtors and creditors falling due within one year other than amounts relating to loans) at 31 December 2008 was an unrecognised asset of £262.1m before tax relief (31 December 2007 – liability of £32.5m) comprising the following:

	2008 Book value £m	2008 Fair value £m	2007 Book value £m	2007 Fair value £m
Primary financial instruments held or issued to finance the group's operations:				
– cash on deposit earning floating rates of interest	1,183.8	1,183.8	1,135.5	1,135.5
– short term financial liabilities and current portion of long term borrowings	(89.2)	(89.2)	(60.3)	(60.3)
– long term borrowings	(3,953.8)	(3,261.9)	(3,882.9)	(3,833.4)
– finance leases	(41.6)	(41.6)	(41.7)	(41.7)
Derivative financial instruments held to manage interest rate profile:				
– interest rate swaps	–	(429.8)	–	(82.0)

The fair values of derivative financial instruments have been determined by reference to market values provided by the relevant counter party. The fair values of sterling denominated fixed rate debt have been determined by reference to prices available on the markets on which they are traded.

(10) Unrecognised gains and losses on instruments used for hedging and the movements thereon are as follows:

	2008			2007		
	Gains £m	**(Losses) £m**	**Total net gains/ (losses) £m**	Gains £m	(Losses) £m	Total net gains/ (losses) £m
Unrecognised gains and losses on hedges at 1 January	**0.1**	**(82.1)**	**(82.0)**	9.2	(145.5)	(136.3)
Gains and losses arising in previous years that were recognised in the year	**–**	**–**	**–**	–	64.2	64.2
Gains and losses arising before 1 January that were not recognised in the year	**0.1**	**(82.1)**	**(82.0)**	9.2	(81.3)	(72.1)
Gains and losses arising in the year that were not recognised in the year	**(0.1)**	**(347.7)**	**(347.8)**	(9.1)	(0.8)	(9.9)
Unrecognised gains and losses on hedges at 31 December	**–**	**(429.8)**	**(429.8)**	0.1	(82.1)	(82.0)
Of which: Gains and losses expected to be recognised in the following year	**–**	**(8.1)**	**(8.1)**	–	–	–
Gains and losses expected to be recognised after the following year	**–**	**(421.7)**	**(421.7)**	0.1	(82.1)	(82.0)

(11) The group has no material monetary assets or liabilities in currencies other than pounds sterling.

17 Provisions for liabilities

	Vacant leasehold properties £m	Other lease commitments £m	Losses of associated undertakings £m	Deferred taxation £m	Total £m
1 January 2008	3.5	23.9	–	42.3	69.7
Utilisation of provision	(0.4)	(3.7)	–	–	(4.1)
Unwind of discount	0.2	0.2	–	–	0.4
Increase/(release) of provision	(0.3)	(18.1)	13.2	10.6	5.4
31 December 2008	**3.0**	**2.3**	**13.2**	**52.9**	**71.4**

Vacant leasehold properties
At 31 December 2008 the provision for the estimated net liability under the remaining vacant leasehold property, discounted at 6.2%, being the group's weighted average cost of debt was £3.0m (31 December 2007 – £3.5m).

At 31 December 2008 £2.3m (31 December 2007 – £11.0m) was held in cash collateral to fund costs relating to this vacant leasehold property.

A break notice has been served on the landlord of this vacant leasehold property and as a result the lease will determine in July 2009.

Associated undertakings
The group has provided £13.2m in respect of its share of the losses on Drapers Gardens (Note 12).

Other lease commitments
In connection with an agreement for lease signed in 2001 the group entered into a rent support commitment under which it may contribute a maximum of £10.00 per sq ft per annum towards the difference between the passing rent payable by Lehman at its previous premises and the rent achievable on any sub-lease. The leases on which rental support was payable were surrendered by the administrators of Lehman to the landlord. Consequently it is considered unlikely that any further amounts will become payable under this commitment and accordingly the provision has been released.

In connection with the sale of certain properties during 2005 the group agreed to provide rental support in respect of either the unexpired rent free periods or, where there is a fixed uplift in rent, until the next rent review date. The group recognised a provision in respect of these commitments at the date of disposal and at 31 December 2008 the remaining provision was £2.3m calculated on the basis of a discount rate of 6.2% (31 December 2007 – £4.6m discounted at 6.1%).

	2008 £m	2007 £m
Deferred tax:		
Accelerated capital allowances claimed	**(74.7)**	(75.4)
Other timing differences	**6.9**	–
Undiscounted deferred tax liability	**(67.8)**	(75.4)
Discount	**14.9**	33.1
Discounted deferred tax liability	**(52.9)**	(42.3)

	2008 £m	2007 £m
At start of year	**(42.3)**	(60.5)
Deferred tax (charge)/credit in the profit and loss account for the year	**(10.6)**	18.2
At end of year	**(52.9)**	(42.3)

The net deferred tax position is stated on a discounted basis. The deferred tax liability of £67.8m (31 December 2007 – £75.4m), stated net of a discount of £14.9m (31 December 2007 – £33.1m), is recognised at 31 December 2008, primarily in respect of EZA claims made in prior years. For the most part this liability relates to two finance lessor companies acquired by the group from a third party in the year ended 31 December 2006.

In accordance with FRS 19, no provision has been made for deferred tax on gains relating to properties which are revalued in the balance sheet to their market values. If the group's investment properties had been sold at the balance sheet date at the amounts stated in Note 10, the amount of tax payable over and above that already provided for in the accounts would have been £13.4m (31 December 2007 – £90.8m) reduced from £20.8m (31 December 2007 – £209.8m) by EZA balancing allowances.

18 Share capital

	Authorised		Issued, allotted and fully paid	
	2008 £m	2007 £m	2008 £m	2007 £m
Ordinary shares of 1p each	**10.0**	10.0	**6.4**	6.4

The authorised share capital of the company comprises 1,000,000,000 ordinary 1p shares, of which 639,015,845 were in issue at 31 December 2008. There were no changes to either the authorised share capital or the issued share capital during the year. No options over the ordinary shares of the company were outstanding at 1 January or 31 December 2008, nor were any granted during the year.

19 Reserves

Group	Share premium £m	Revaluation reserve £m	Capital redemption reserve £m	Special reserve £m	Profit and loss £m	Total £m
1 January 2008	146.2	3,211.8	0.7	264.8	(423.0)	3,200.5
Revaluation of investment properties	–	(1,689.9)	–	–	–	(1,689.9)
Profit for the year	–	–	–	–	249.5	249.5
Dividend	–	–	–	–	(102.2)	(102.2)
31 December 2008	**146.2**	**1,521.9**	**0.7**	**264.8**	**(275.7)**	**1,657.9**

The capital redemption reserve arose from the purchase and cancellation of own shares in previous years.

The special reserve arose from a restructuring of the group which was completed on 4 December 2001 involving the introduction of a new holding company for the group by way of a scheme of arrangement in accordance with Section 425 of the Companies Act 1985.

The group paid a dividend of 16p per ordinary share on 9 April 2008.

Company	Share premium £m	Capital redemption reserve £m	Special reserve £m	Profit and loss £m	Total £m
1 January 2008	146.2	0.7	2,396.8	876.3	3,420.0
Transfer	–	–	(1,657.0)	1,657.0	–
Loss for the year	–	–	–	(1,653.8)	(1,653.8)
Dividend	–	–	–	(102.2)	(102.2)
31 December 2008	**146.2**	**0.7**	**739.8**	**777.3**	**1,664.0**

The directors consider that positive balances on the company's profit and loss account and special reserve are distributable. Impairments of the company's investments in its subsidiaries are transferred to the special reserve.

20 Reconciliation of movements in shareholders' funds

	Group £m	Company £m
1 January 2008	3,206.9	3,426.4
Revaluation movement	(1,689.9)	–
Profit/(loss) for the financial year	249.5	(1,653.8)
Dividend	(102.2)	(102.2)
31 December 2008	**1,664.3**	**1,670.4**

21 Pension schemes

The group operates three defined contribution pension schemes, however, two of these schemes are currently in the process of being wound up. The assets of the schemes are held in independently administered funds. The pension cost, which amounted to £4.3m in the year (2007 – £3.0m), represents contributions payable by the group to all three schemes.

22 Reconciliation of operating profit to operating cash flows

	2008 £m	2007 £m
Operating activities		
Operating profit[1]	**369.6**	309.0
Depreciation charges	**0.6**	0.4
Future receipts under lease termination agreement	**(6.2)**	–
Decrease/(increase) in debtors	**22.4**	(12.4)
(Decrease)/increase in creditors	**(10.2)**	35.9
Expenditure charged to provisions	**(4.6)**	(16.3)
Amortisation of share option costs	**0.2**	–
Movements in provisions	**(0.1)**	4.7
Amortisation of lease incentives	**45.5**	41.3
Long term contract proceeds	**74.3**	289.0
Long term contract costs	**(155.6)**	(117.2)
Profit recognised on long term contracts	**(151.1)**	(104.0)
Net cash inflow	**184.8**	430.4

Note:

(1) During 2007 the group also received £8.3m of deferred proceeds and released surplus accruals and deferred income totalling £10.9m relating to sold properties which were treated as an exceptional item.

23 Analysis of cash flows

	2008 £m	2007 £m
Returns on investments and servicing of finance		
Interest received	**53.7**	52.7
Interest paid	**(237.4)**	(236.1)
Interest element of finance lease rentals	**(2.5)**	(2.1)
Financing expenses on loans drawn down	**(0.5)**	(9.9)
Financing expenses and breakage costs on loans repaid[1]	**–**	(0.6)
Net cash outflow	**(186.7)**	(196.0)

Note:

(1) The 2007 financing expenses and breakage costs on loans repaid included an exceptional charge of £16.9m in connection with restructuring the group's securitisation of which £0.6m was paid and £16.3m related to the write off of deferred costs (Note 10).

Capital expenditure and financial investment	2008 £m	2007 £m
Additions to properties	**(167.1)**	(91.6)
Acquisition of property interests	**(1.3)**	–
Purchase of tangible fixed assets	**(1.6)**	(0.9)
Sale of development property[2]	**237.9**	–
Investment in associated undertakings	**(8.7)**	(11.8)
Net cash inflow/(outflow)	**59.2**	(104.3)

Note:

(2) In 2008 the group received an initial payment of £237.9m which resulted in a profit being recognised on disposal of £118.6m after allowing for the historical cost to the group of £117.7m and fees of £1.6m (Note 10). This has been treated as an exceptional item.

Management of liquid resources	2008 £m	2007 £m
Cash placed on deposit not available on demand	**(21.0)**	(55.4)
Cash withdrawn from deposit accounts	**128.3**	88.5
Net cash inflow	**107.3**	33.1

Financing	Note	2008 £m	2007 £m
Repayment of secured debt	16	**(9.5)**	(6.8)
Repayment of securitised debt	16	**(6.9)**	(581.4)
Draw down of securitised debt	16	**–**	726.0
Draw down of secured loans	16	**50.0**	–
Draw down of construction loans	16	**59.6**	34.9
Net cash inflow		**93.2**	172.7

24 Analysis and reconciliation of net debt

	1 January 2008 £m	Cash flow £m	Other non cash changes £m	**31 December 2008 £m**
Cash at bank	1,135.5	48.3	–	**1,183.8**
Amounts on deposit not available on demand	(279.8)	107.3	–	**(172.5)**
	855.7	155.6	–	**1,011.3**
Debt due after 1 year	(3,882.9)	(109.6)	38.7	**(3,953.8)**
Debt due within 1 year	(60.3)	60.3	(89.2)	**(89.2)**
Finance lease	(41.7)	2.5	(2.4)	**(41.6)**
	(3,984.9)	(46.8)	(52.9)	**(4,084.6)**
Amounts on deposit not available on demand	279.8	(107.3)	–	**172.5**
Net debt	(2,849.4)	1.5	(52.9)	**(2,900.8)**
Increase in cash				**48.3**
Increase in debt and lease financing				**(46.8)**
Change in net debt resulting from cash flows				**1.5**
Non cash movement in net debt				**(52.9)**
Movement in net debt				**(51.4)**
Net debt at 1 January 2008				**(2,849.4)**
Net debt at 31 December 2008				**(2,900.8)**

25 Contingent liabilities and financial commitments

At 31 December 2008 certain members of the group had given fixed and floating charges over substantially all of their assets as security for certain of the group's borrowings and finance lease obligations as referred to in Note 16. In particular, various members of the group had, at 31 December 2008, given fixed first ranking charges over cash deposits totalling £160.1m (31 December 2007 – £259.9m).

As security for the issue of £2,551.8m (31 December 2007 – £2,558.7m) of securitised debt (see Note 16(1)) the company's indirect subsidiary, Canary Wharf Finance Holdings Limited, has granted a first fixed charge over the shares of CWF II and a first floating charge has been given over all of the assets of CWF II.

Commitments of the group for future expenditure:

	2008 £m	2007 £m
Crossrail station	**140.0**	–
Other construction projects	**162.0**	324.0

The commitments for future expenditure relate to the completion of construction works where construction was committed at 31 December 2008. Any costs accrued or provided for in the balance sheet at 31 December 2008 have been excluded.

Commitments of the group for the next financial year in respect of other operating leases on land and buildings are analysed as follows:

	2008 £m	2007 £m
Annual commitment for which the leases expire:		
– within one year	**0.3**	–
– between two and five years	**–**	1.3
– after five years	**–**	–
	0.3	1.3

The group entered into an option deed with BWB in November 2007 which allows for the group to elect for the draw down of a 999 year lease of additional land south of Heron Quays West. The option deed is for a period of 5 years from November 2007. An initial option payment of £2.25m was made and is followed by five annual payments of £250,000 on each anniversary of the option deed. The option may be extended by a further 2 years on payment of £1.2m per annum. If the group exercises the option, BWB has the right to receive a fixed stream of rental payments throughout the duration of the lease or to commute the rental payments into a capital sum.

The group has, in the normal course of its business, granted limited warranties or indemnities to its tenants in respect of building defects (and defects on the Estate or in the car parks) caused through breach of its obligations as developer contained in any pre-let or other agreement. Offsetting this potential liability, the group has received the benefit of warranties from the trade contractors and suppliers who worked on such buildings.

In relation to the Drapers Gardens joint venture, in which certain group companies own a 20.0% shareholding, CWHL has entered into a cost overrun guarantee in favour of the construction loan banks. CWHL has guaranteed to the bank the cost of any outstanding cost overruns in proportion to its shareholding, subject to an overall cap of £2.3m. This guarantee is joint and several with the other participants in the joint venture. In addition CWHL has entered into an interest guarantee in favour of the bank, pursuant to which it guarantees 20.0% of the interest due on the construction loan. This guarantee is limited to a maximum period of 12 months' interest following the date of practical completion of the building. The maximum amount payable under the guarantee, should it be called, is estimated at £2.8m.

Sub-let commitments

Under the terms of certain agreements for lease the group has committed to take back certain space on the basis of short term sub-leases at the end of which the space reverts to the relevant tenants. This space has been securitised but, insofar as the securitisation is concerned, the tenants are contracted to pay rent on the entire amount of space leased, whilst taking the covenant of the group on the sub-let space.

The existence of the sub-let commitments has been taken into account in the market valuation of the group's properties at 31 December 2008.

The table below summarises these sub-lets, including the rent payable for the next financial year, net of any rent receivable:

Property	Leaseholder	Original sub-let sq ft	Re-let[1] sq ft	Net rent[2] £m	Rent review date	Rent review basis	Term commence-ment	Expiry or first break
10 Upper Bank Street	Clifford Chance	52,100	52,100	0.93	N/A	N/A	Jul 2003	Jul 2013
25-30 Bank Street	Lehman	24,100	24,100	–	N/A	N/A	Jul 2003	Mar 2009
25-30 Bank Street	Lehman	100,900	90,100	3.75	Jul 2009	Fixed at £54.49p/sf[3]	Jul 2003	Jul 2013
One Churchill Place	Barclays	133,400	133,400	0.39	Jul 2009	OMR up only	Jul 2004	Jul 2019
One Churchill Place	Barclays	129,700	129,700	0.80	Jul 2009	OMR up only	Jul 2004	Jul 2014
One Churchill Place	Barclays	65,000	65,000	1.10	N/A	N/A	Jul 2004	Jul 2009
40 Bank Street	Skadden	19,500	19,500	0.53	N/A	N/A	Mar 2003	Sep 2010
40 Bank Street	Skadden	19,500	19,500	0.31	N/A	N/A	Mar 2003	Mar 2013
Total		**544,200**	**533,400**	**7.81**				

Note:

(1) A call option was granted on 10,800 sq ft of sub-let space in 25-30 Bank Street which has not been exercised. With the exception of this space, all of the sub-let space has now been re-let.

(2) The net annual sub-let rental obligations will decrease over time with the expiration of re-letting periods.

(3) Followed by annual increases to £59.65 per sq ft in 2012.

26 Ultimate parent undertaking and related party transactions

At 31 December 2008, the smallest group of which the company is a member and for which group financial statements are drawn up is the consolidated financial statements of the company. The largest group of which the company is a member for which group financial statements are drawn up is the consolidated financial statements of Songbird, the ultimate parent undertaking and controlling party. Copies of the financial statements of both companies may be obtained from the Company Secretary, One Canada Square, Canary Wharf, London E14 5AB.

There were no purchases from HSO during 2008, a company in which the group holds an equity investment equivalent to approximately 13.0% of the issued share capital. £113,403 plus VAT was owed to HSO at 31 December 2008. In addition, during 2008 the group billed HSO £38,900 plus VAT for access to the Estate's telecommunications infrastructure. At 31 December 2008 £7,114 including VAT was owed by HSO.

In December 2004 the company entered into a provision of services agreement with Songbird (the 'Provision of Services Agreement'). Under the Provision of Services Agreement the company agreed to provide certain business and corporate administration services to Songbird in consideration of a time based fee for an initial period of twelve months and to continue thereafter until terminated by either party on three months notice. No such notice has been served to date. During 2008 £470,975 plus VAT was charged by the company and at 31 December 2008 remained outstanding.

During 2005 the group entered into a consultancy services agreement dated 28 April 2005 between the company and MS under which the company appointed MS to provide consultancy services in respect of the management of the Estate and the provision of strategic advice in relation to all areas of the group's business. The fees chargeable under this agreement are calculated on a time spent basis in accordance with daily rates notified to the company and subject to a maximum limit of £1.0m in aggregate (exclusive of VAT), in any twelve month period. No amounts were payable under this agreement in 2008 or 2007.

In March 2007 the group entered into an agreement with Morgan Stanley under which the group appointed Morgan Stanley as Arranger and Bookrunner and Joint Lead Manager in respect of the restructuring of the group's securitisation involving the redemption of £572.6m of FRNs and the issue of £726.0m of new non-amortising FRNs. A total of £2.0m was paid under this agreement in 2007. Subsequent to the year end the group entered into an agreement with Morgan Stanley for advisory services relating to the administration of Lehman and the cash collateralisation of AIG's obligations.

In June 2007 the group entered into joint venture arrangements with MSREF V and Omega for the redevelopment of Drapers Gardens. During 2008 the group billed and received payment of £441,500 for construction management services to Drapers Gardens Unit Trust, in which it holds a 20.0% interest.

During 2008 a group company billed £1,003,039 plus VAT for the provision of development management services to WWLP in which the group holds a 25.0% effective interest. At 31 December 2008 £25,771 including VAT was outstanding (31 December 2007 – £19,426).

In November 2008 the group entered into a letter of engagement appointing Rothschild as financial adviser in connection with the financing of the new Crossrail station at Canary Wharf. Under the terms of this engagement, Rothschild shall receive a monthly retainer fee of £50,000 payable in arrears from 1 February 2008. In addition Rothschild is entitled to a success fee of £350,000 upon agreement of the development agreement and a further success fee of a minimum of £850,000 on agreement of the financing of the project.

27 Post balance sheet events

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.

Definitions

Administrator	PricewaterhouseCoopers LLP, administrator of Lehman
AIG	American International Group, Inc
A7 Notes	A7 Notes of the group's securitisation
B Shares	Ordinary class B shares of 10p each of Songbird
B3 Notes	B3 Notes of the group's securitisation
Ballymore	Ballymore Properties Limited
Barclays Bank	Barclays Bank PLC
BGC	BGC International
bn	billion
board	Board of directors of Canary Wharf Group plc
bps	Basis points
BWB	British Waterways Board
C3 Notes	C3 Notes of the group's securitisation
CBRE	CB Richard Ellis Limited, Surveyors and Valuers
City	The City of London
CLRL	Cross London Rail Links Limited
company	Canary Wharf Group plc
Cushman	Cushman & Wakefield, Real Estate Consultants
CWEL	Canary Wharf Estate Limited
CWF II	Canary Wharf Finance II plc
CWHL	Canary Wharf Holdings Limited
D2 Notes	D2 Notes of the group's securitisation
Deferred Plan	Canary Wharf Group 2004 Deferred Share Plan
Drapers Gardens	Drapers Gardens scheme in the City of London
EMRG	Environmental Management Review Group
EMS	Environmental Management System
Estate	Canary Wharf Estate including Heron Quays West, Riverside South and North Quay
EZAs	Enterprise Zone Allowances
Fimalac	F Marc de Lachariere
Fitch	Fitch Ratings Limited
FRNs	Floating Rate Notes
FRS 3	Financial Reporting Standard 3 (Reporting financial performance)
FRS 4	Financial Reporting Standard 4 (Capital Instruments)
FRS 5	Financial Reporting Standard 5 (Substance of Transactions)
FRS 13	Financial Reporting Standard 13 (Derivatives and other financial instruments)
FRS 19	Financial Reporting Standard 19 (Deferred tax)
FRS 25	Financial Reporting Standard 25 (Financial Instruments: Disclosure and Presentation)
group	Canary Wharf Group plc and its subsidiaries
HMRC	Her Majesty's Revenue and Customs
HSO	HighSpeed Office Limited
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
LOCOG	London Organisation Committee of the Olympic Games Limited
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
MS	Morgan Stanley European Real Estate Special Situations II Offshore Inc
MSREF V	Morgan Stanley Real Estate Fund V
NAV	Net Asset Value
NIA	Net Internal Area
NNNAV	Triple Net Asset Value
Nomura	Nomura International plc
Offer Process	The acquisition of 60.8% of the group's shares by Songbird in June 2004
Omega	Omega Land Holding II BV
Prudential	Prudential Retirement Income Limited
S&P	Standard & Poors
Savills	Savills Commercial Limited
SFL	Songbird Finance Limited
Skadden	Skadden Arps Slate Meagher & Flom LLP
Songbird	Songbird Estates plc
sq ft	Square feet/square foot
SSAP 9	Statement of Standard Accounting Practice 9 (Stocks and long term contracts)
SSAP 19	Statement of Standard Accounting Practice 19 (Accounting for Investment Properties)
SSAP 21	Statement of Standard Accounting Practice 21 (Accounting for leases and hire purchase contracts)
TfL	Transport for London
Trust	Canary Wharf Employees' Share Ownership Plan Trust
UITF 28	Urgent Issue Task Force 28 ('Operating leases')
UK	United Kingdom of Great Britain and Northern Ireland
UKGAAP	United Kingdom Generally Accepted Accounting Practice
VAT	Value Added Tax
WWLP	Wood Wharf Limited Partnership

Shareholders' Information

Directors

Executive directors

George Iacobescu CBE, Chief Executive#

A Peter Anderson, II Managing Director, Finance#

Non-executive directors

Sir Martin Jacomb, Non-executive Chairman and Independent Non-executive director +

John Carrafiell * # +

Robert Falls * #

Sam Levinson * # +

Alex Midgen +

Toby Phelps # (alternate director to John Carrafiell and Robert Falls)

Biographical details on each of the directors are available on the company's website: www.canarywharf.com

* *Audit Committee*
\# *Operating Committee*
\+ *Remuneration Committee*

Shareholder enquiries

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

Capita Registrars
Northern House
Woodsome Park
Fenay Bridge
Huddersfield
West Yorkshire
HD8 0GA
Telephone: 0871 664 0300*
Facsimile: 020 8639 2342
e-mail: ssd@capitaregistrars.com
Website: www.capitaregistrars.com

*Currently calls cost 10p per minute plus network extras.

Other enquiries

If you would like more information about Canary Wharf Group plc please contact John Garwood, Group Company Secretary. This annual report and other information on the company and the Estate are available from the company's website: www.canarywharf.com.

Registered office and registered number

One Canada Square
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London E14 5AB
Registered Number: 4191122
Telephone: 020 7418 2000
Facsimile: 020 7418 2222
Website: www.canarywharf.com

Advisers

Auditors

Deloitte LLP
2 New Street Square
London
EC4A 3BZ

Bankers

Barclays Bank PLC
One Churchill Place
Canary Wharf
London E14 5HP

Leasing agents

CB Richard Ellis Limited
St Martin's Court
10 Paternoster Row
London EC4M 7HP

Jones Lang LaSalle Limited
10 Gresham Street
London EC2V 7JD

Financial PR Advisers

Brunswick Group LLP
16 Lincoln's Inn Fields
London WC2A 3ED

Solicitors

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10 Upper Bank Street
London E14 5JJ

Slaughter and May
One Bunhill Row
London EC1Y 8YY

Valuers

CB Richard Ellis Limited
Kingsley House
1 Wimpole Street
London W1G 0RE

Cushman & Wakefield
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Savills Commercial Limited
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