# CANARY WHARF
GROUP PLC

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NATWEST • THE NORTHERN TRUST COMPANY • NOVARTIS EURO
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## 2010 Report & Financial Statements

The cover depicts office tenants, subtenants and occupiers of buildings owned by the Company during the year ending 31 December 2010.

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# Highlights

- On 4 October 2010, the Company paid an interim dividend of 11.736p per share totalling £75.0m (Note (i)).
- Net assets increased to £2,387.9m at 31 December 2010, an increase of £332.5m or 16.2% from £2,055.4m at 30 June 2010 and by £462.9m or 24.0% from £1,925.0m at 31 December 2009 (Note (ii)). The increases were partly attributable to the increase in value of the property portfolio and partly to the profit after tax for the year.
- Adjusted NAV per share was £3.90 at 31 December 2010, an increase of 22p or 6.0% from £3.68 at 30 June 2010 and an increase of 43p or 12.4% from £3.47 over the year (Note (ii)).
- Adjusted NNNAV per share increased to £3.36 at 31 December 2010, up by 19p or 6.0% from £3.17 at 30 June 2010, and by 5p or 1.5% from £3.31 at 31 December 2009 (Note (ii)).
- The market value of the retained investment property portfolio increased by 4.7% to £4,638.5m over the six months ended 31 December 2010 and 9.7% since 31 December 2009 (Note (iii)).
- Including development sites, the market value of the retained property portfolio was £4,907.0m at 31 December 2010 against £4,694.5m at 30 June 2010 and £4,448.0m at 31 December 2009 (Note (iii)).
- The weighted average initial yield for the office portfolio valuation was 4.8% at 31 December 2010, an improvement of 20bps since 30 June 2010. The initial yield for the retail portfolio was 4.9%, an improvement of 30bps since 30 June 2010 (Note (iii)).
- The weighted average equivalent yield for the office portfolio valuation was 5.2% at 31 December 2010, an improvement of 50bps since 30 June 2010 and 31 December 2009. The equivalent yield for the retail portfolio was 5.4%, an improvement of 30bps since 30 June 2010 and 90bps in the year (Note (iii)).
- At 31 December 2010 the Group's retained investment portfolio totalling 6.9m sq ft was 97.1% let (31 December 2009 – 8.0m sq ft of which 96.2% was let, including the Lehman building as fully let) (Note (iv)).
- At 31 December 2010 the weighted average unexpired lease term for the retained investment portfolio was 16.9 years (or 15.7 years assuming the exercise of break options) (Note (iv)).
- Operating profit for 2010 reduced to £179.2m from £281.4m. Profit after tax for the year increased to £168.2m (2009 – £87.0m).
- The Group completed the sale of 25 Bank Street to J.P. Morgan for a gross consideration of £495.0m and agreed terms with AIG for the termination of the rental cover facility on the building for a receipt of £144.5m (Note (v)).
- The sale of 5 Churchill Place was completed for a total consideration of £208.0m reflecting an initial yield of 5.9% (Note (v)).
- The Group acquired the substantial majority of the drawn balance under the Drapers Gardens construction loan facility for £112.8m. Subsequently the joint venture entities which owned Drapers Gardens sold the property for a gross consideration of £242.5m reflecting an initial yield of 5.2% and the loan facility was repaid (Note (vi)).
- The Group entered into a joint venture with Land Securities for the development of 20 Fenchurch Street (Note (vii)).
- The Group restructured existing leases and granted new leases to Barclays Capital over a total of 1,152,000 sq ft, consolidating the occupation of Barclays Capital from three into two buildings on the Estate (Note (viii)).
- The Group also concluded lettings of approximately 187,000 sq ft to Shell and lettings over an additional 200,000 sq ft during the period (Note (viii)).
- The Group acquired 1 Park Place, a building located adjacent to the Estate for £17.5m with two alternative planning permissions for 214,000 sq ft or 950,000 sq ft. The Group also acquired the remaining interests in Heron Quays West in June 2010, a site with planning consent for 1.3m sq ft of office space (Note (ix)).
- Further progress was made on the Crossrail station project which continues to be on schedule and within budget (Note (x)).

Note:
(i) See Note 7.
(ii) Refer to Business Review – Balance sheet and key performance indicators.
(iii) Refer to Business Review – Valuations for a comparison with the carrying value for accounts purposes and details of movements in yields.
(iv) Refer to Business Review – Property portfolio for basis of calculation.
(v) Refer to Business Review – Property sales.
(vi) Refer to Business Review – Drapers Gardens.
(vii) Refer to Business Review – Fenchurch Street.
(viii) Refer to Business Review – Leasing.
(ix) Refer to Business Review – Development properties.
(x) Refer to Business Review – Crossrail.

# Results in Brief

| | Note | **2010 £m** | 2009 £m |
|---|---|---|---|
| Rental income (excluding adjustment for UITF 28) | (i) | **287.5** | 318.4 |
| Exceptional item: | | | |
| – write off of Lehman incentives | (i) | **(53.6)** | – |
| Operating profit | (i) | **179.2** | 281.4 |
| Exceptional items: | | | |
| – release impairment of investments in associates before interest and tax | (i) | **4.1** | 13.8 |
| – profit on sale of investment property | (i) | **158.8** | – |
| – termination of AIG facility | (ii) | **144.5** | – |
| – breakage costs on interest rate swaps | (iii) | **(46.9)** | – |
| – net (loss)/gain on repurchase of securitised debt | (iii) | **(5.5)** | 68.4 |
| Profit on ordinary activities before tax | | **219.7** | 134.8 |
| Profit before tax excluding exceptional items | (i) | **18.3** | 52.6 |
| Tax | (iv) | **(51.5)** | (47.8) |
| Profit for the financial year | | **168.2** | 87.0 |
| Dividend paid | (v) | **(75.0)** | – |
| Basic and diluted earnings per share | (vi) | **26.3p** | 13.6p |

Note:
(i) Refer to Business Review – Operating results.
(ii) Refer to Note 16.
(iii) Refer to Note 4 for details of the charges and gains relating to repayment of debt.
(iv) Refer to Note 5.
(v) Refer to Note 7.
(vi) Refer to Note 9.

# Chairman's and Chief Executive's Statement

## Introduction

Canary Wharf Group's operations throughout 2010 achieved success both at Canary Wharf and also in the City of London. Through a combination of sales and lettings, more than 2.5m sq ft of office transactions were completed on our properties at Canary Wharf, which are close to fully let (97.1%). During the year, the retail malls at Canary Wharf, which are also fully let, experienced increases in footfall, rent and turnover. Significant tenant demand remains.

Over the year, the overall market value of properties held for investment increased by £411.5m, or 9.7% to £4,638.5m. The market value of the offices alone increased by 8.0% whilst the market value of the retail portfolio increased by 25.0% over the year. Adjusted net asset value per share at 31 December 2010 rose to £3.90, a 12.4% rise over the year. Rental levels at Canary Wharf have remained stable, not having seen the volatility of office rental values experienced elsewhere in London over the last two years. Bearing in mind the diminished availability of Grade A office space in central London, we expect rental levels at Canary Wharf to increase in 2011.

## Operational Review

### Activities in Canary Wharf

The Group's largest single transaction was the sale at the year end of 25 Bank Street to J.P. Morgan. This, together with the termination of the related AIG facility, produced an aggregate consideration of £639.5m. As part of this transaction, the Group will continue construction up to grade level at the J.P. Morgan Riverside South site where there is currently permission for development of up to 1.9m sq ft.

At the beginning of 2010, the Group sold 5 Churchill Place for £208.0m, demonstrating continued investment demand for the high quality Grade A assets which are the Group's particular strength and for which it is well known. Reflecting our confidence in future demand at Canary Wharf, we purchased the 1 Park Place site for £17.5m with a view to future redevelopment of this strategic site located at the heart of Canary Wharf. This site already has the benefit of two pre-existing planning consents for 214,000 sq ft and 950,000 sq ft respectively. This acquisition was followed by the purchase of the last two units to complete land assembly of the Heron Quays West site where there is an existing 1.3m sq ft planning consent.

Leasing activity at Canary Wharf was strong throughout 2010. We started the year with the restructuring and consolidation of leases to Barclays Capital, involving the extension of leases of 1.1m sq ft until 2032. A significant letting to a new arrival on our Canary Wharf Estate was to Shell, which leased 187,000 sq ft in 40 Bank Street. A further 200,000 sq ft was let to a variety of high quality tenants further diversifying the tenant mix on the Estate.

Taken together, the transactions involving Barclays Capital, Shell and J.P. Morgan represent a significant vote of confidence in the stability and future of London and Canary Wharf.

The occupation of the newly leased space and the arrival of J.P. Morgan staff will, during the next 12 months, increase the existing working population at Canary Wharf by more than 11,000, taking the total to over 105,000. This daily population will have obvious consequential benefits for the Group's retail operations. The increase in value of our existing retail property during the year reflected a 5.0% increase in footfall and the arrival of such names as Aquascutum, Tiffany & Co and Jaeger, all of whom opened new units at Canary Wharf. This was in spite of the weekend disruptions to service on the Jubilee line caused by continuing work on the still incomplete improvements to the signalling system.

The management of our retail assets continued to be active during the year, including the conversion of some car parking areas below shop level into new retail space for the expansion of existing units. This process is expected to continue and we are also pursuing further opportunities to extend the retail offering in order to respond to increasing demand for restaurants and shops.

Construction on the Estate importantly included the Group's building of the Crossrail station at Canary Wharf which is on schedule and on budget. A £350.0m funding agreement was signed for TfL ensuring funding is in place to complete this work by the Group. During the year the Government gave full backing to the Crossrail project and we are naturally pleased that this project, essential for the future prosperity of London, continues on schedule for completion in 2018.

### Activities in the City

Our activity outside the Canary Wharf district was marked by the completion of the construction in the City of London of the Drapers Gardens joint venture development in which the Group had a 20% share. Construction of Drapers Gardens was managed by the Group and the building then let to BlackRock for a term of 25 years. In addition, the substantial majority of the loan facility for this development was purchased by the Group. Subsequently, our entire interest in this project was disposed of successfully. Reflecting the comprehensive nature of the Group's capabilities, all the elements which went into ensuring the success of this venture; construction, letting, loan acquisition and eventual sale, were handled by the Group.

In December the Group concluded a 50:50 joint venture agreement with Land Securities for what will be an iconic development at 20 Fenchurch Street, where construction has already started. The Group will be the sole construction manager of this project, as well as the joint development manager. In order to maintain flexibility to pursue future development opportunities, 35.0% of the project was syndicated on an equal pro rata basis to Qatar Holdings, China Investment Corporation, and Morgan Stanley Real Estate Special Situations Fund. The Group will retain in full, the profits from its role as construction manager and joint development manager.

## Financial

Net assets increased from £2,055.4m at 30 June 2010 to £2,387.9m at 31 December 2010, an increase of £332.5m or 16.2%. Over the full year, net assets increased by £462.9m from £1,925.0m, an increase of 24.0%. These increases were attributable in part to the increase in the carrying value of the Group's investment portfolio by £369.7m and in part to the retained profit for the year. The increase since 30 June 2010 is also post the interim dividend of £75.0m paid in October 2010.

The recovery in the property market continued in the second half of the year, albeit at a slightly slower pace than in the first half. At 31 December 2010 the weighted average equivalent yield for the office property was 5.2%, an improvement of 50bps since 30 June 2010. The weighted average equivalent yield for the retail portfolio hardened by 30bps to 5.4%. These reductions in yields underpinned an increase in the carrying value of the retained investment portfolio of 4.9% since June, taking the increase for the year to 9.0%.

Adjusted NAV per share increased from £3.68 at 30 June 2010 to £3.90 at 31 December 2010, an increase of 22p or 6.0%. Over the full year, adjusted NAV per share increased by 12.4% from £3.47, an increase of 43p.

Profit before tax for 2010 was £219.7m in comparison with £134.8m for 2009. The results for 2010 were robust and included a number of exceptional items, in particular, the profit realised on sale of 25 Bank Street (£158.8m) and the amount received on termination of the related AIG facility (£144.5m). These exceptional profits were partially offset by the write off of Lehman incentives in the first half of the year (£53.6m) and the costs associated with prepaying the loans secured against 5 Churchill Place and 10 Cabot Square/ 20 Cabot Square (£46.9m). Earnings per share for 2010 were 26.3p compared to 13.6p in 2009.

At 31 December 2010, the Group had unsecured cash deposits of £879.1m. The weighted average cost of debt was stable at 6.3% and the weighted average maturity was 14.9 years which compares with the weighted average unexpired lease length assuming exercise of all break options of 15.7 years. This matching of income to debt maturities is a demonstration of the Group's financial planning which underlies its strong financial position at the year end.

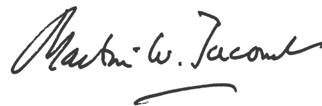
The results for the year are covered in more detail in the Business Review – Operating Results.

## Conclusion

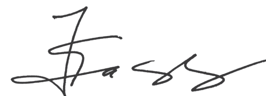
None of the success achieved in 2010 would have been possible without the continued commitment of all staff and the steadfast support of shareholders for which the Board expresses its thanks.

The Group is well capitalised with strong financial and human resources. This enables us, with our deep and proven management experience, to work our capital selectively and efficiently. We are looking actively at other opportunities in Central London as well as those on the Estate where we can maximise our capabilities in construction, development, marketing and finance and to create value for all our shareholders.

We are mindful of the continuing uncertainty over the pace of economic recovery. However, the Board believes the Group is strongly positioned to take advantage of opportunities in what is set to be a supply constrained market of quality grade A space.



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 2010, as well as summarising significant events which have occurred subsequent to this date.

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

## Central London office leasing market overview

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

**Demand and take up**

The Central London market enjoyed a strong end to the year as take-up was buoyed by some very large deals in December 2010. As a consequence take-up for the fourth quarter was 4.5m sq ft, pushing the total for 2010 to 15.0m sq ft which was the strongest annual performance since 2006. This was 67.0% higher than for 2009 with sharp increases experienced across all types of space, particularly prelets.

Despite lingering uncertainty surrounding the economic outlook, occupiers have continued to press ahead with a number of large occupational decisions. With a number of the largest requirements now satisfied, it is possible that the first half of 2011 could see a weaker level of transactions. However, from 2012 take-up should rise strongly as the UK economic recovery becomes fully entrenched and a number of lease expiries in the next three years should also help stimulate demand.

**Supply and demand**

Against the backdrop of very strong demand and a limited amount of development activity, London availability was 14.6m sq ft at the end of 2010 which represents a 31.0% fall since the market peak in the second quarter of 2009. Reflecting a similar trend, the Central London vacancy rate fell from 5.9% to 5.5%. This compares to 7.2% at the end of last year and is the lowest since 2008.

Development completions are expected to fall sharply in 2011, reaching just 1.2m sq ft, before rising to 2.4m sq ft in 2012. With demand expected to be relatively strong over the period, availability will fall steadily over the next two years before rising as development activity picks up again.

**Rental outlook**

Rental growth continued across most Central London markets during 2010, although the pace slowed in the final quarter. City rents moved to £55.00 per sq ft at the end of 2010, from a low of £42.00 per sq ft in 2009 representing a 31.0% increase. By comparison rental levels at Canary Wharf have remained relatively stable at £37.50 per sq ft, not having seen the volatility of office rental values experienced elsewhere in the Central London market over the last two years.

Rent free periods on 10 year leases ended the year down as landlords reacted to market conditions. Consequently City rent frees had tightened to 24 months by the year end.

The tight supply conditions expected this year will continue to support rental growth over the next 2-3 years.

## Property portfolio

The Group is engaged in property investment and development and is currently primarily 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 20 Fenchurch Street in the City. At 31 December 2010 the retained investment portfolio comprised 16 completed properties (out of the 35 constructed on the Estate) totalling 6.9m sq ft of NIA.

The properties included in the Group's investment portfolio to be retained at 31 December 2010 are shown in the table below.

| Property address | NIA sq ft | Leased % | **External valuation £m** | Principal tenants and sub tenants |
|---|---|---|---|---|
| One Churchill Place | 1,014,400 | 100.0 | **725.0** | Barclays Bank, BGC |
| 10 Cabot Square/ 5 North Colonnade | 639,000 | 99.6 | **350.0** | Barclays Capital, WPP Group |
| 20 Cabot Square/ 10 South Colonnade | 562,000 | 99.8 | **310.0** | Barclays Capital |
| One Canada Square | 1,236,200 | 90.5 | **647.2** | Bank of New York Mellon, Moody's, HSBC, Mirror Group, State Street, FSA, NYSE |
| 33 Canada Square | 562,700 | 100.0 | **366.0** | Citi |
| 20 Bank Street | 546,500 | 100.0 | **418.0** | Morgan Stanley |
| 40 Bank Street | 607,400 | 86.8 | **350.0** | Shell, Skadden, Allen & Overy, ANZ, JLL |
| 50 Bank Street | 209,800 | 100.0 | **152.5** | Northern Trust, Goldenberg Hehmeyer |
| 10 Upper Bank Street | 1,000,400 | 100.0 | **715.0** | Clifford Chance, FTSE, Total |
| Cabot Place Retail | 139,600 | 100.0 | **161.4** | Boots, Tesco, Zara and other retail tenants |
| Canada Place Retail | 72,200 | 100.0 | **166.2** | Gap, Next and other retail tenants |
| Jubilee Place Retail | 89,400 | 100.0 | **108.0** | Boots, M&S Food, Wagamama and other retail tenants |
| Churchill Place Retail | 22,400 | 100.0 | **19.3** | Barclays Bank, Jamie's Italian and other retail tenants |
| 16-19 Canada Square | 211,500 | 100.0 | **68.8** | Waitrose Food & Home, Reebok, Plateau Restaurant |
| Reuters Plaza | 8,900 | 100.0 | **13.8** | Carluccio's, Smollensky's |
| Park Pavilion | 22,000 | 100.0 | **19.3** | Lloyds Bank, Canteen, The Parlour, Roka and Wahaca |
| Car parks | – | – | **48.0** | |
| Total | 6,944,400 | 97.1 | **4,638.5** | |

At 31 December 2010 the investment property portfolio was 97.1% let (31 December 2009 – 96.2%). In calculating the occupancy level at 31 December 2009, 25 Bank Street was treated as fully let because of the subleases in the building and the 4 years' cover provided by AIG.

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 19 properties totalling 8.7m sq ft in other ownerships.

The properties of the Group are under lease to a range of tenants. At 31 December 2010 the weighted average unexpired lease term for the office investment portfolio was approximately 16.9 years, or 15.7 years assuming the exercise of outstanding break options (31 December 2009 – 15.8 years or 14.8 years respectively). At 31 December 2009 the calculation of the weighted average lease term took into account the restructuring of leases with Barclays Capital, excluded 5 Churchill Place which was subject to an agreement for sale, and substituted the original term of the Lehman lease with the 4 years' cover provided by AIG. Of the office square footage under lease at 31 December 2010 79.6% does not expire or cannot be terminated by tenants during the next 10 years.

## Property sales

In December 2010 the Group announced the sale of 25 Bank Street to J.P. Morgan for a gross consideration of £495.0m. The building, which comprises more than 1.0m sq ft, will become the new European headquarters of J.P. Morgan's investment banking operations in 2012. The building was valued at £360.0m at 31 December 2009, reducing to £350.0m at 30 June 2010. Prior to the sale of the building, the Group agreed terms with AIG for the termination of the rental cover facility relating to the building in consideration for a receipt of £144.5m (see Business Review – Lehman). The combined receipt of £639.5m compares with a market valuation, including the AIG arrangement, of £550.0m at 30 June 2010 (see Business Review – Balance Sheet and key performance indicators).

Following the sale of 25 Bank Street, the directors are of the view that the Group is in a strong position to respond to the anticipated tightening in the occupier market.

In January 2010, the Group completed the sale of 5 Churchill Place for a gross consideration of £208.0m reflecting an initial yield of 5.9%.

## Lehman

In September 2008 Lehman went into administration however the Administrator continued to pay rent on 25 Bank Street until the first quarter of 2010. Following Lehman's administration Nomura subleased approximately 420,000 sq ft from the Administrator on a 2 year sublease, subject to a break option in September 2010. This break option was subsequently exercised.

At 31 December 2009 lease incentives included £53.6m attributable to Lehman's lease at 25 Bank Street. As the Administrator ceased paying rent on the building with effect from 31 March 2010, the remaining Lehman incentives were written off to the profit and loss account in the first half of the year and treated as an exceptional item.

A facility with AIG provided for payment of up to the full amount of the contracted rent at the election of the Group in the event of default, for a period of 4 years from the date of first drawdown following rental default. Any amounts drawn down under this facility were repayable from recoveries received from the Administrator, from Lehman's parent company guarantee, or from rentals in the property which exceed the contracted rents that would have been received from Lehman under its lease.

In November 2010 terms were agreed with AIG for the termination of the facility in consideration for a payment to the Group of £144.5m. This sum comprised the net present value of the available drawings under the facility, net of facility fees payable to AIG and anticipated recoveries from Lehman's parent company guarantee.

## Leasing

In addition to the Barclays Capital restructuring and new leases in respect of 1,152,000 sq ft in 10 Cabot Square and 20 Cabot Square completed in January 2010, the terms of which were summarised in the 2009 Report & Financial Statements, the Group completed letting transactions totalling approximately 387,000 sq ft in the year as detailed below.

In June 2010 the Group completed the letting of approximately 187,000 sq ft of space to Shell in 40 Bank Street. Shell has taken a lease on 10 floors for a term of 15 years (subject to a tenant break option at the expiry of year 10) at a rent of £37.50 per sq ft for the office space. With the exception of one floor, all of the 187,000 sq ft was leased in shell and core condition and has a rent free period of 42 months. The leases have a 12 month penalty if the break option at year 10 of the term is exercised. This space was previously leased to Barclays Capital. A further 95,000 sq ft leased to Barclays Capital in 40 Bank Street was leased back to the Group with effect from October 2010.

In February 2010 KPMG exercised break options in relation to its leases over 4 floors in One Canada Square totalling approximately 109,800 sq ft and in addition exercised an option to sublease to the Group (for the remaining term of approximately 6.75 years) a further floor in the building comprising 28,600 sq ft. The options to determine these leases were granted in connection with KPMG's relocation to a new headquarters building constructed at 15 Canada Square. The leases on the 5 floors terminated on 30 June 2010. Of these floors, 4 have subsequently been re-leased in their current condition, subject to minor refurbishment works.

Including these floors, the following leases were completed in the period in respect of space in One Canada Square:

- FSA took an additional 27,900 sq ft on level 25 bringing its current occupancy to over 136,000 sq ft in the building.
- HSBC leased 82,150 sq ft on levels 7-9, formerly occupied by KPMG, for 5 years subject to annual rolling break options.
- NYSE relocated from 25 Bank Street and leased 28,500 sq ft on level 38 for 10 years with a break option at the end of the fourth year.
- Regus renewed its lease over 14,445 sq ft on level 29 for a 10 year term subject to a 24 month rent free period.
- Samsung Electronics took a lease of 1,844 sq ft on level 34.
- Knight Frank renewed its lease of 981 sq ft on level 6.

A surrender was agreed of J.P. Morgan's space on floors 44-46 of One Canada Square totalling 87,500 sq ft. This space was previously leased to April 2013 and J.P. Morgan has paid a surrender premium equivalent to the foregone rent and service charges, together with dilapidations. Gaining this space early is of benefit to the Group given the current limited availability on the owned Estate and will allow early leasing of the space combined with the benefit of the rental prepayment.

In 40 Bank Street, levels 6 and 7 comprising 38,200 sq ft, have been taken by Jones Lang LaSalle on a lease to 2017. In addition Interquest has taken 2,650 sq ft on level 18 for a term of 10 years, subject to a 5 year break option, and Servcorp took a lease of 2,898 sq ft on the same floor for a similar term.

Subsequent to the year end, Servcorp took an additional 1,877 sq ft on level 18 and China Construction Bank has taken 1,997 sq ft adjacent to their existing unit on that floor.

Expiries and break options over 44,500 sq ft in One Canada Square have been exercised by other tenants, of which 22,100 sq ft was with effect from March 2010 and the remainder from June 2010 or later.

All options on sublet space back to the Group have been exercised. At 31 December 2010, the estimated net present value of sublet liabilities was approximately £37.6m discounted at 6.3%, being the Group's weighted average cost of debt (31 December 2009 – £72.9m, discounted at 6.4%). These sublet commitments have been reflected in the market valuation of the Group's properties. The reduction in sublet liabilities reflects the letting to Shell of 187,000 sq ft of space in 40 Bank Street previously leased to Barclays Capital, the surrender of space sublet in 25 Bank Street prior to its sale to J.P. Morgan, and the expiry of certain other subleases.

## Development properties

In January 2010 the Group acquired a long leasehold interest in 1 Park Place for £17.5m. This site, which is located adjacent to the Estate, benefits from two alternative planning consents for approximately 214,000 sq ft or 950,000 sq ft of development. Although the Group has yet to announce plans for this site it offers a significant opportunity for future development.

In addition, in June 2010 the Group acquired the remaining interests at Heron Quays West and as a result the Group has secured full control of this important development site with consent for office space of 1.3m sq ft. Consent has also been granted on the adjacent Newfoundland site for 0.2m sq ft of mixed use development.

Of the remaining development sites, 25 Churchill Place can accommodate up to approximately 0.5m sq ft of new development and North Quay has planning consent for 2.4m sq ft.

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

| | NIA m sq ft |
|---|---|
| Based on existing planning permissions: | |
| – 25 Churchill Place | 0.53 |
| – North Quay | 2.39 |
| – Heron Quays West | 1.33 |
| – Newfoundland | 0.23 |
| – Crossrail retail | 0.11 |
| – 1 Park Place (proposed development) | 0.70 |
| | 5.29 |
| Wood Wharf (25.0% share of 4.62m sq ft) | 1.15 |
| Sold to J.P. Morgan: | |
| – Riverside South (the Group acting as development and construction manager) | 1.90 |

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. Outline consent for 4.6m sq ft net was granted in May 2009. Further design work has been carried out on the first phase of office buildings and related infrastructure and detailed consent was granted on three buildings totalling 1.5m sq ft in July 2009.

The site at Riverside South was acquired by J.P. Morgan in November 2008 and the Group was appointed to act as development and construction manager under a contract with an original term to October 2013. In conjunction with J.P. Morgan's acquisition of 25 Bank Street, this contract was modified and extended to October 2016. As part of this modification, the Group's option to purchase the site was changed to a right of first offer.

During the course of 2009 and 2010 design and infrastructure works were completed on site. J.P. Morgan has now given the go ahead to bring the development to street level.

Up to the end of 2010 the Group received £68.5m as an advance of developers' profit in conjunction with the scheme and a further £7.5m is receivable in May 2011. These sums will be set against the Group's entitlement to future profits if J.P. Morgan proceeds with full construction.

## Drapers Gardens

Practical completion was achieved on Drapers Gardens in November 2009. The scheme comprised approximately 290,000 sq ft of prime commercial office space. The Group had a 20.0% interest in the property and acted as development manager with responsibility for the day to day management of this scheme. In January 2010 the Group purchased for a cash consideration of £112.8m the substantial majority of the drawn balance under the Drapers Gardens construction loan facility. The Group then provided funding under the terms of this facility for the remaining costs of completing the project.

In February 2010 the Group announced that BlackRock had taken a lease on the whole of Drapers Gardens for a term of 25 years at a rent of £49.00 per sq ft on the office accommodation, with a rent free period of 36 months. The rent is subject to open market reviews on every fifth anniversary of the term commencement and, in the case of the first rent review, subject to a floor of 2.5% and a cap of 4.5% compounded annually over the preceding 5 years. The net annual rent on the property will be £12.8m on the expiry of the rent free period in March 2013.

In August 2010 the entities which owned the Drapers Gardens property exchanged contracts to sell the property with completion occurring in November 2010. The gross

aggregate consideration was £242.5m, reflecting an initial yield of 5.2%, prior to a deduction for the rent free period granted to BlackRock.

## Fenchurch Street

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

Planning consent for the proposed 37 storey building was granted in October 2009. It will provide approximately 690,000 sq ft of world class space in floor plate sizes of 14,000 sq ft to 28,000 sq ft, with a sky garden on the top 3 floors. Construction commenced on site in January 2011.

Land Securities and the Group have been appointed as joint development managers and both are responsible for leasing, with Land Securities taking the lead. Canary Wharf Contractors Limited, a wholly owned subsidiary of the Group, has been appointed as construction manager.

## 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 has taken responsibility for the design and construction of the Crossrail station, bearing the time and cost risks for a fixed price of £500.0m, of which £350.0m will be met from the Crossrail project's budget. The Group will bear the risk in relation to costs above the fixed price limit. The Group's anticipated contribution of £150.0m will be credited against any transport Section 106 contributions for certain agreed development sites on the Estate (comprising North Quay, Heron Quays West including Newfoundland and Riverside South) which may be required as part of proposed alterations to the London Plan. Accordingly, costs incurred on construction of the station are allocated to the Group's properties held for development.

Construction commenced on the Crossrail station at Canary Wharf in May 2009 and costs incurred to the end of 2010 totalled £105.4m. The station box is expected to be completed and handed over to CLRL by summer 2012 and the project is on schedule and on budget. The first trains are due to run in 2018 when Crossrail opens for passenger service. Planning permission has also been granted for a 100,000 sq ft retail area above the station which will be subject to a long lease to the Group.

## Valuations

The net assets of the Group, as stated in its Consolidated Balance Sheet at 31 December 2010, were £2,387.9m. In arriving at this total:

(i) properties held as investments were carried at £4,498.3m, which represents the market value of those properties of £4,638.5m at that date as determined by the Group's external valuers, CBRE, Savills or Cushman, less an adjustment of £140.2m for tenant incentives; and

(ii) properties held for development were carried at £299.7m, representing their cost to the Group.

In January 2010 the Group completed the sale of 5 Churchill Place for a gross consideration of £208.0m. The carrying value of the building at 31 December 2009 was £177.7m which was calculated by reference to the gross aggregate consideration, adjusted for a fitout allowance and rental support to be provided by the Group in respect of two unlet floors of £2.2m per annum for 5 years.

In December 2010, 25 Bank Street was sold for a gross consideration of £495.0m. The market value of the building at 31 December 2009 was £360.0m, reducing to £350.0m at 30 June 2010.

The valuations at 31 December 2010 are based on assumptions which include future rental growth, anticipated void costs, the appropriate discount rate or yield and, in the case of development properties, the estimated costs of completion. In valuing the properties on the Estate the valuers also take account of market evidence which included the sales of 5 Churchill Place and 25 Bank Street, and the lettings completed in the year referred to earlier in this Business Review.

The valuation of the investment portfolio to be retained on the basis of market value increased by £206.5m or 4.7% in the second half of the year. After also allowing for adjustments in respect of lease incentives and capital expenditure, the carrying value of the investment portfolio increased by £207.7m or 4.9% over the six months. The increase was primarily driven by the reduction in yields in the market as detailed below. Over the full year, the market value of the retained investment portfolio increased by £411.5m or 9.7% and the carrying value increased by £369.7m or 9.0%.

At 31 December 2010 the weighted average initial yield for the office portfolio was 4.8% (30 June 2010 – 5.0%, 31 December 2009 – 6.3%) and the weighted average equivalent yield was 5.2% (30 June 2010 – 5.7%, 31 December 2009 – 5.7%). The weighted average initial yield for the retail portfolio was 4.9% (30 June 2010 – 5.2%, 31 December 2009 – 5.7%) and the weighted average equivalent yield was 5.4% (30 June 2010 – 5.7%, 31 December 2009 – 6.3%).

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.

| | Note | **31 December 2010** | | 30 June 2010 | | 31 December 2009 | |
|---|---|---|---|---|---|---|---|
| | | **Carrying value £m** | **Market value in existing state £m** | Carrying value £m | Market value in existing state £m | Carrying value £m | Market value in existing state £m |
| Retained portfolio: | | | | | | | |
| Investment properties | 1,4 | **4,498.3** | **4,638.5** | 4,276.9 | 4,432.0 | 4,102.8 | 4,227.0 |
| Properties held for development | | **299.7** | **268.5** | 294.0 | 262.5 | 247.5 | 221.0 |
| | | **4,798.0** | **4,907.0** | 4,570.9 | 4,694.5 | 4,350.3 | 4,448.0 |
| Sold properties: | | | | | | | |
| Investment property held for sale | 2,4 | **–** | **–** | – | – | 177.7 | 192.0 |
| Investment property sold in year | 3,4 | **–** | **–** | 348.3 | 350.0 | 304.0 | 360.0 |
| | | **4,798.0** | **4,907.0** | 4,919.2 | 5,044.5 | 4,832.0 | 5,000.0 |
| Property under construction – Riverside South | 5 | **74.6** | **127.3** | 72.0 | 124.9 | 56.8 | 115.1 |
| | | **4,872.6** | **5,034.3** | 4,991.2 | 5,169.4 | 4,888.8 | 5,115.1 |

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 2010 was £140.2m (30 June 2010 – £155.1m, 31 December 2009 – £124.2m).

2 The investment property held for sale comprised 5 Churchill Place which was sold in January 2010. At 31 December 2009, the market value in existing state was stated before adjustment for UITF 28 and was calculated by reference to the sale price of £208.0m less adjustments for a fitout allowance and provisions for rent free and rental support commitments. The UITF 28 adjustment attributable to this property at 31 December 2009 was £14.3m. This building reached practical completion in August 2009.

3 The investment property sold in the year comprised 25 Bank Street which was sold in December 2010. Market value in existing state is stated before adjustment for UITF 28. The UITF 28 adjustment attributable to investment property sold in the year was £1.7m at 30 June 2010 and £56.0m at 31 December 2009.

4 The total carrying value of the investment property portfolio at 31 December 2010 was £4,498.3m (30 June 2010 – £4,625.2m, 31 December 2009 – £4,584.5m). The total market value of the property portfolio at 31 December 2010 was £4,638.5m (30 June 2010 – £4,782.0m, 31 December 2009 – £4,779.0m).

5 The property under construction comprises Riverside South. The carrying value in the balance sheet at 31 December 2010 is stated net of £55.6m of costs transferred to cost of sales (30 June 2010 – £51.9m, 31 December 2009 – £40.2m) and £19.0m transferred to payments on account (30 June 2010 – £20.1m, 31 December 2009 – £16.6m). The market value in existing state at 31 December 2010 includes the present value of the minimum developer's profit which will be generated from the development of the Riverside South site assuming J.P. Morgan does not proceed with full build out, discounted at 6.3%, being the Group's weighted average cost of debt, and excludes the profit already recognised in the profit and loss account on the disposal of the site in 2008.

CBRE and Savills have provided a joint opinion as at 31 December 2010 that the market value of sites held for development, comprising North Quay, Heron Quays West, Newfoundland, 1 Park Place, 25 Churchill Place and the Crossrail retail site, was £268.5m. This compares with a carrying value for accounts purposes of £299.7m, including £77.9m (31 December 2009 – £57.0m) of costs allocated in respect of Crossrail. In valuing the sites held for development, the valuers have allowed for estimated costs to complete, including an allowance for fitout and developer's profit. In addition they have allowed for letting, disposal, marketing and financing costs. The market value of £268.5m represents a reduction of 1.7%, after additions, over the market value at 31 December 2009. At 31 December 2010 the market value of these sites was £31.2m below their carrying value. In assessing the requirement for an impairment provision the directors have had regard to the net realisable value of the sites as supplied by the external valuers. On this basis the directors have concluded that no provision for impairment is required as at 31 December 2010.

The market value of the entire property portfolio to be retained increased by £191.8m or 4.1% in the second half of the year, adjusting for additions. For the full year market value increased by £336.0m or 7.4%. These movements were driven by the factors referred to above.

## Operating results

The following review of the Group's operating results relates to the year ended 31 December 2010. The comparatives relate to the year ended 31 December 2009.

Turnover of the Group is generated primarily by the rents and service charges earned from its property interests on the Estate, together with the recognition of amounts in respect of work performed under long term contracts. Before exceptional items, turnover for 2010 was £374.5m, against £481.3m for 2009, of which rental income was £248.7m (2009 – £267.2m). The impact of UITF 28 (excluding the exceptional write off of Lehman incentives) was to reduce rental income by £38.8m compared with £51.2m for 2009. Excluding the impact of UITF 28, rental income decreased from £318.4m in 2009 to £287.5m in 2010, a fall of 9.7%, primarily attributable to the exercise of break options and the cessation of rent from the Administrator on 25 Bank Street. During 2010 the Group recognised £18.3m of income in connection with the termination by tenants of certain leases on the Estate (2009 – £13.5m).

In the first quarter of 2010 the Administrator ceased paying rent on 25 Bank Street. Lease incentives attributable to Lehman's lease were previously being amortised over the period to the first open market rent review in November 2013 but, following the Administrator ceasing to pay rent, the remaining incentives, totalling £53.6m, were written off to the profit and loss account in the first half of the year and treated as an exceptional item.

Service charge income increased from £73.8m for 2009 to £74.3m for 2010, an increase of £0.5m or 0.7% and miscellaneous income, including insurance rents and the provision of tenant specific services outside the standard service charge, fell from £21.1m for 2009 to £17.8m for 2010, primarily as a result of lower insurance premiums.

Turnover for 2010 also included £15.4m recognised on the construction of the development property at Riverside South (Note 10) which is accounted for as a long term contract in accordance with SSAP 9. In 2009, turnover from long term contracts totalled £105.7m and the reduction in turnover from this source was attributable to the completion in that year of 15 Canada Square (KPMG) and 30 North Colonnade (Fitch).

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 presold properties. Rents payable and property management costs were £98.9m for 2010 in comparison with £91.0m for 2009. Taking into account service charge and miscellaneous income totalling £92.1m for 2010, a deficit was recorded on property management of £6.8m (2009 – profit of £3.9m).

Provisions of £1.8m relating to the remaining vacant leasehold property, rent support commitments and certain other obligations were released in 2010 compared with £1.5m in 2009.

Cost of sales for 2010 also included £2.4m of dilapidations and other costs attributable to the termination of leases, as compared with £8.9m in 2009. In addition 2010 included £10.4m of costs relating to long term contracts, net of a release of £5.0m of surplus accruals relating to properties completed in prior years (2009 – £65.9m). No profit has been recognised on the long term contract entered into in connection with the sale of Riverside South although the potential surplus has been taken into account in calculating adjusted NAV (see balance sheet and key performance Indicators). The previous year included £39.8m of profit recognised on presold properties.

Gross profit (net property income) for 2010 was £211.0m, a reduction of £106.0m in comparison with 2009. The reduction was primarily attributable to the write off of Lehman incentives of £53.6m, a reduction of £34.8m in profit recognised on presold properties and the reduction in rental income.

Administrative expenses for 2010 were £40.1m in comparison with £38.4m for 2009. The increase in administrative expenses was primarily attributable to expenses associated with property lettings during the year, which were partly offset by a reduction in payroll costs.

Other operating income excluding exceptional items totalled £8.3m for 2010 (2009 – £2.8m). During the period the Group earned additional fees in connection with one of the properties completed in 2009.

Operating profit for the year was £179.2m in comparison with £281.4m for 2009. The reduction in operating profit of £102.2m was largely attributable to the factors impacting on gross profit detailed above.

In 2010, a net provision release of £4.1m was recognised in relation to the impairment of the Group's investments in its associates and joint ventures which has been treated as an exceptional item. This amount included a release of the impairment provision held against the Group's investment in Drapers Gardens following the sale of the building.

In 2009, a net release of £13.8m in the provision against the Group's investments in associates was recognised in the profit and loss account and treated as an exceptional item. The release of a provision against the Drapers Gardens project was partly offset by a charge of £5.6m recognised in relation to the Group's investment in WWLP.

In December 2010 the Group completed the disposal of 25 Bank Street for a gross consideration of £495.0m which resulted in a profit of £158.8m (see Note 10 for further details). In conjunction with the sale of 25 Bank Street, the Group agreed terms with AIG for the termination of the rental cover facility on this building for a net receipt of £144.5m. Both of these amounts have been taken to the profit and loss account and treated as exceptional items.

Net interest payable for 2010 excluding exceptional items was £214.5m, against £228.8m for 2009. The reduction was attributable to interest income recognised by the Group on the Drapers Gardens construction loan and the repayment of the loans secured against the buildings located at 5 Churchill Place and at 10 Cabot Square and 20 Cabot Square.

The interest rate swap associated with the construction loan facility secured against 5 Churchill Place was broken at the same time as the loan was repaid at a cost of £15.9m. In addition, the interest rate swap associated with the loan facility secured against the buildings at 10 Cabot Square and 20 Cabot Square was broken at a cost of £23.7m. Deferred financing costs of £6.3m, which were previously being amortised over the term of the loan to January 2013, and repayment fees of £1.0m have also been written off. These charges have been taken to the profit and loss account and treated as exceptional items.

In April 2009 the Group repurchased an aggregate principal amount of £119.7m of certain Notes for a consideration, excluding accrued interest, of £35.5m. These Notes remain in issue and continue to be fully hedged. However, from the perspective of the consolidated accounts the hedges are deemed to be uneconomic. Accordingly, after allowing for the mark to market on related interest rate swaps at the date of the repurchase totalling £14.6m, the Group recognised a gain of £68.4m which was treated as an exceptional item. The movement in the mark to market of the hedges in the current year of £5.5m has also been treated as an exceptional item (Note 4).

The profit on ordinary activities after interest for 2010 was £219.7m in comparison with a profit of £134.8m for 2009. The results for 2010 included a number of exceptional items, comprising: the profit on sale of 25 Bank Street of £158.8m; the net receipt of £144.5m from the termination of the AIG facility; the write off of unamortised lease incentives of £53.6m in respect of the Lehman lease; a provision release of £4.1m in respect of the investment in associates; a charge of £5.5m in respect of the movement in fair value of hedges deemed uneconomic following the acquisition of certain Notes in 2009; and charges of £46.9m in relation to closing out certain interest rate swaps and debt. Excluding exceptional items, the profit on ordinary activities after interest for 2010 was £18.3m in comparison with £52.6m for 2009. The reduction in pre-exceptional profit of £34.3m was largely attributable to the recognition of profits on presold properties totalling £39.8m in 2009 compared with £5.0m in 2010.

Tax for 2010 comprised a corporation tax charge of £35.7m (2009 – £30.7m) and a deferred tax charge of £15.8m (2009 – £17.1m) (Note (5)).

Profit after tax for 2010 was £168.2m in comparison with £87.0m for 2009. Basic and diluted earnings per share for 2010 were 26.3p in comparison with 13.6p for 2009 (Note 9).

Excluding the exceptional items totalling £201.4m referred to above and tax relief of £19.4m thereon, the adjusted loss per share for 2010 was 2.2p (2009 – earnings per share of 0.8p). The weighted average number of shares in issue was 639.0m at both 31 December 2010 and 31 December 2009. There were no instruments which gave rise to a dilution of earnings as defined by FRS 22 at either 31 December 2010 or 31 December 2009.

## Tax

If the Group were to dispose of its property portfolio at the market value disclosed in this Business Review, a tax liability of £104.8m would arise (31 December 2009 – £78.0m). 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. This contingent liability is included in calculating adjusted NAV.

## 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 2010 were £2,387.9m in comparison with £2,055.4m at 30 June 2010 and £1,925.0m at 31 December 2009. The increase in net asset value for the year was attributable to the revaluation surplus on investment properties of £369.7m and the profit after tax for the year of £168.2m, partly offset by the dividend paid of £75.0m.

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

Adjusted NAV takes into account the valuation of properties under construction and properties held for development which are held in the balance sheet at cost. It also adds back the provision for deferred tax required by accounting standards but which, in the judgement of the directors, is for the most part unlikely to crystallise.

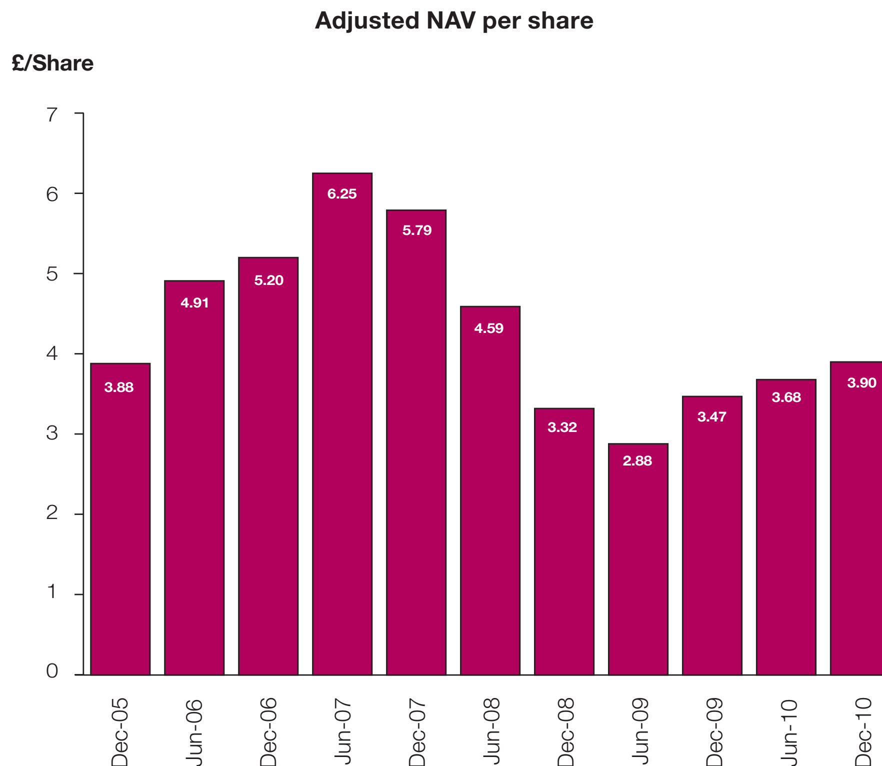
Adjusted NAV per share at 31 December 2010 is set out in the table below, which for comparison purposes also includes adjusted NNNAV per share.

Adjusted NAV per share increased by 12.4% from £3.47 at 31 December 2009 to £3.90 at 31 December 2010. The increase from £3.68 at 30 June 2010 was £0.22 or 6.0%. These increases were attributable to the increase in the valuation of the Group's portfolio and the profit for the year, including the profit on sale of 25 Bank Street.

| | Note | **31 December 2010 £m** | 30 June 2010 £m | 31 December 2009 £m |
|---|---|---|---|---|
| Net assets per Consolidated Balance Sheet | | **2,387.9** | 2,055.4 | 1,925.0 |
| Add back deferred tax | | **85.8** | 74.1 | 70.0 |
| Net assets prior to deferred tax | | **2,473.7** | 2,129.5 | 1,995.0 |
| Revaluation of property portfolio: | | | | |
| – investment property | 1 | **–** | 200.0 | 190.0 |
| – properties held for development | 2 | **(31.2)** | (31.5) | (26.5) |
| – property under construction | 3 | **52.7** | 52.9 | 58.3 |
| **Adjusted net assets** | | **2,495.2** | 2,350.9 | 2,216.8 |
| Fair value adjustments in respect of financial assets and liabilities less tax relief at 28.0% | 4 | **(155.2)** | (147.4) | 69.3 |
| Contingent tax on property disposals | 5 | **(104.8)** | (87.7) | (78.0) |
| Undiscounted deferred tax | 6 | **(89.5)** | (89.6) | (91.2) |
| **Adjusted NNNAV** | | **2,145.7** | 2,026.2 | 2,116.9 |
| **Adjusted net assets per share** | 7 | **£3.90** | £3.68 | £3.47 |
| **Adjusted NNNAV per share** | 7 | **£3.36** | £3.17 | £3.31 |

Note:
1 The market value of 25 Bank Street reflected in the balance sheet at 30 June 2010 of £350.0m (31 December 2009 – £360.0m) excluded the benefit of the arrangement with AIG which provided for the payment of 4 years' contracted rent upon default by Lehman as the arrangement was not transferable to a purchaser of the property. The market value of this building, adjusted to include the arrangement with AIG was £550.0m (31 December 2009 – £550.0m). The valuation uplift did not allow for the annual commitment fees payable by the Group to AIG of approximately £3.6m per annum payable over the entire term of the Group's securitisation.
2 Revalued at market value in existing state.
3 Deferred profit on construction of Riverside South (refer to Business Review – Valuations).
4 Refer to Note 16(9).
5 Refer to Business Review – Tax.
6 Refer to Note 17.
7 Calculated by reference to the closing number of shares of 639.0m at each balance sheet date. There were no dilutive instruments outstanding at any of the balance sheet dates.

The movement in net asset value per share from 31 December 2005 to 31 December 2010 is shown in the following chart:




Over the period since December 2005 the Company paid distributions totalling £483.9m, equivalent to 76p per share.

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 adjusted NAV per share. In calculating NNNAV per share, however, the full undiscounted liability has been deducted, along with the contingent tax payable on disposal of properties at their revalued amount. NNNAV per share also factors in the fair value of financial assets and liabilities.

## 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 Group and allocates specific day to day monitoring and control responsibilities as appropriate. The current key risks include the cyclical nature of the property market, financing risk, concentration risk and policy and planning risks. The turmoil in the financial markets during 2008 and the first half of 2009 resulted in an unusually pronounced negative impact on the real estate market, although the market has since staged a partial recovery.

### Cyclical nature of the property market

The valuation of the Group's assets is subject to many external economic and market factors. The turmoil in the financial markets during 2008 and 2009 was reflected in the property market by such factors as the oversupply of available space in the office market, a 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. In the latter half of 2009 and during the course of 2010 there were signs of a tightening of supply which has been reflected in an increase in valuations and a compression in yields. Changes in the financial and property markets are kept under constant review so that the Group can react appropriately and adjust the business plan of the Group accordingly. The impact of the ongoing uncertainty 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 risks can be found in the section Business Review – Treasury objectives and risks.

The ongoing uncertainty in financial markets continues to significantly limit 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. These risks are closely monitored.

## Treasury objectives and risks

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

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

**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 both 31 December 2010 and 31 December 2009 all of the Group's borrowings 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 2010 the average maturity of the Group's debt was 14.9 years (2009 – 14.0 years). Shorter term flexibility is achieved by holding cash on deposit and through construction facilities typically with a term of 3-6 years arranged to fund the development of new properties. None of the Group's facilities matures before 2014.

The Group's loan facilities are secured on certain individual properties, 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 70.5% of the investment property portfolio by value. The principal amount outstanding at 31 December 2010 was £2,462.1m or £2,342.4m excluding the repurchased Notes.

    Maximum LMCTV ratio of 100%. Based on the valuations at 31 December 2010, the LMCTV ratio at the interest payment date in January 2011 would have been 73.7%.

    The securitisation has no minimum ICR covenant. The Group has the ability to remedy a breach of covenant by depositing eligible investments (including cash). The final maturity date of the securitisation is 2035, subject to earlier amortisation on certain classes of Notes.

(ii) Loan of £568.1m secured against One Churchill Place, representing 15.6% of the investment property portfolio by value.

    This facility is not subject to any LTV or ICR covenants and has a final maturity of 2034, subject to amortisation over that term.

(iii) Loan of £350.0m secured against the retail and infrastructure parking properties of the Group, representing 13.9% of the investment property portfolio by value.

Maximum LTV ratio of 70.0%. Based on the valuations at 31 December 2010, the LTV was 54.6%.

Minimum ICR covenant of 120.0%. The covenant was satisfied throughout the year. The Group has the ability to remedy any potential breach of covenant by depositing cash.

The facility repayment date is 17 December 2014.

**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.

## Borrowings

At 31 December 2010, net debt (after cash in hand and cash collateral) stood at £2,292.3m, down from £2,843.1m at 31 December 2009, and comprised:

| | **31 December 2010 £m** | 31 December 2009 £m |
|---|---|---|
| Securitised debt | **2,423.7** | 2,484.7 |
| Loans | **919.4** | 1,276.4 |
| Finance lease obligations | **41.6** | 41.2 |
| Construction loan | **–** | 123.4 |
| Total borrowings | **3,384.7** | 3,925.7 |
| Less: | | |
| – cash collateral for borrowings | **(194.4)** | (139.4) |
| – cash collateral for construction | **(5.1)** | (18.3) |
| – other cash collateral | **(13.8)** | (10.0) |
| | **3,171.4** | 3,758.0 |
| Less: cash deposits | **(879.1)** | (914.9) |
| Net debt | **2,292.3** | 2,843.1 |

The Group's borrowings are secured against designated property interests, have no cross default provisions and are subject to lending covenants that include maximum LTV ratios and minimum ICRs as outlined earlier in the loan covenants section of the Business Review – Treasury objectives and risks. For all of its loans, the Group was in compliance with its lending covenants at 31 December 2010 and throughout the year then ended.

In January 2010 the Group sold 5 Churchill Place and repaid the drawn balance of £123.5m under its construction loan facility. At the same time the Group broke the interest rate swap associated with this facility at a cost of £15.9m.

In November 2010 the Group repaid the remaining balance of a bank loan of £348.7m secured against 10 Cabot Square and 20 Cabot Square. This loan had a scheduled repayment date of January 2013. The associated interest rate swap arrangement was broken at a cost of £23.7m. In addition, deferred financing costs of £6.3m which were previously being amortised over the term of the loan to January 2013, and repayment fees of £1.0m were written off to the profit and loss account.

Following repayment of the loan referred to above, 10 Cabot Square and 20 Cabot Square were transferred to the Group's securitisation in substitution for 25 Bank Street and 40 Bank Street. 25 Bank Street was subsequently sold to J.P. Morgan and 40 Bank Street was held debt free at the year end.

The decrease in total borrowings from £3,925.7m to £3,384.7m reflects the repayment of the loans referred to previously and scheduled amortisation. The increase in cash and term deposits from £1,082.6m to £1,092.4m is primarily attributable to the sales of 5 Churchill Place and 25 Bank Street, and the termination of the AIG rental cover facility, partly offset by the loan repayments referred to earlier.

At 31 December 2010 the fair value adjustment in respect of the Group's financial assets and liabilities calculated in accordance with FRS 13 (excluding debtors and creditors falling due within one year) was a liability of £215.5m before tax relief (31 December 2009 – asset of £96.2m).

At 31 December 2010, the Group's weighted average cost of debt was 6.3% excluding credit wraps (or 6.3% including credit wraps) in comparison with 6.3% excluding credit wraps (or 6.4% including credit wraps) at 31 December 2009.

## Cash flow

Net cash inflow from operating activities for 2010 was £227.3m in comparison with £331.4m for 2009, a reduction of £104.1m. This reduction was primarily attributable to receipts in connection with properties in the course of construction during 2009.

Returns on investments and servicing of finance resulted in an outflow of £247.6m for 2010 compared with £242.0m for 2009. The increase in net cost was primarily attributable to the fall in margins earned on the Group's cash balances. The total for 2010 included £40.6m of swap and debt breakage costs, whereas the previous year included financing costs of £12.7m.

Capital expenditure and financial investment for 2010 resulted in a cash inflow of £659.9m, compared with an outflow of £112.9m for 2009. 2010 expenditure included £93.5m of development expenditure and net investments and loans to associated and joint venture undertakings in the year of £15.2m. The total for the year also included net proceeds of £190.0m from the sale of 5 Churchill Place and £469.7m from the sale of 25 Bank Street. The 2009 amount included £90.8m of development expenditure incurred on properties excluding presold properties and funding of the Group's investment in associated undertakings of £5.2m.

The financing cash outflow for 2010 was £549.4m compared with £62.9m for 2009. The total for 2010 included £123.5m relating to the repayment of the Group's construction loan and £366.9m relating to the repayment of the loan secured against 10 Cabot Square and 20 Cabot Square and other scheduled amortisation. The cash outflow for 2009 included £35.5m incurred on the partial buyback of the Notes, which was partly offset by £20.5m drawn down under the Group's construction loan facility.

# Directors' Report

for the year ended 31 December 2010

The directors present their annual report with the audited financial statements for the year ended 31 December 2010.

## Principal activity and business review

The principal activity of the Company is to act as a holding company for the Group which specialises in integrated property development, investment and management. The Group's business is focused on 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 redevelopment of Drapers Gardens and 20 Fenchurch Street and the Wood Wharf mixed use development with Ballymore and BWB.

A detailed review of the business of the Company both during the year and its position at 31 December 2010 can be found in the Business Review and also in the Chairman's and Chief Executive's Statement which are both to be treated as being part of this Directors' Report. The principal risks and uncertainties facing the Group can be found in the Business Review – Principal risks and uncertainties, together with a measure of the Group's performance by reference to an appropriate key performance indicator (see Business Review – Balance sheet and key performance indicators).

## 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 2010 are reviewed in the Business Review – Valuations.

## Dividends and reserves

The profit for the year of £168.2m (2009 – £87.0m) is to be transferred to reserves. A dividend of £75.0m was paid during 2010 (2009 – £nil).

## Share capital

There were 639,015,845 ordinary shares of 1p each in issue at 31 December 2010 and 31 December 2009. The interest of Songbird in the Company, through its wholly owned subsidiary SFL was 69.3% throughout the year.

## 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 2010 had free cash balances totalling £879.1m. In addition the Group enjoys the benefit of leases with a weighted average unexpired lease term of 15.7 years assuming the exercise of all break options and an average maturity of the Group's debt of 14.9 years. At 31 December 2010 the occupancy level was 97.1%. Accordingly, the directors believe that the Group is well placed to manage its business risks successfully despite the continuing 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:

Sir Martin Jacomb
George Iacobescu CBE
A Peter Anderson, II
Ahmad Al-Sayed
Brian Carr (resigned 25 May 2010)
Brian Niles (appointed 26 May 2010)
Robert Falls
Sam Levinson
Alex Midgen
Richard Archer (alternate director to George Iacobescu, appointed 1 July 2010)
Russell Lyons (alternate director to A Peter Anderson, II, appointed 1 July 2010)

In accordance with the Company's articles of association, Robert Falls, George Iacobescu and Alex Midgen will retire by rotation at the AGM and, being eligible, will offer themselves for reappointment. With the exception of George Iacobescu all of the other directors standing for reappointment are non executive directors and, as such, do not have service contracts. George Iacobescu's service contract with the Company is terminable upon not less than 12 months' notice by either party.

## Directors' responsibilities

United Kingdom 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 UKGAAP (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 accounting 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 adequate accounting records which disclose with reasonable accuracy at any time the financial position of each company in the Group which enable them to ensure that the financial statements comply with the Act. 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.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## 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 the Group companies. Both the indemnity and insurance were in force during the year ended 31 December 2010. However, neither the indemnity nor 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 UK Corporate Governance Code. The directors are, however, mindful of their responsibilities to all shareholders. The directors are fully aware of their statutory duties under the Act and, in particular, the core duty to act in good faith and in a way most likely to promote the success of the Company and the Group for the benefit of its shareholders as a whole.

The following principles of corporate governance continue to be applied.

- The Board comprises two executive directors (each has an alternate director) and six non executive directors. As well as being Non Executive Chairman, 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 reappointment 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. Membership of each of the committees is detailed in Shareholders' Information.

The Audit Committee meets at least four times a year and is chaired by Sam Levinson. The Company's external auditors have direct access to the chairman of the committee.

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.

## Conflicts of interest

The Board has adopted a formal process by which to manage directors' conflicts, which provides a framework within which non conflicted directors can manage circumstances where pre authorised conflicts occur to safeguard the interests of the Company. This process is operating effectively and annual reviews are conducted of any conflicts disclosed during the preceding 12 months in order to identify any necessary changes required to the process.

## Policies

**Environmental**
The Group is committed to applying environmental best practice wherever practical in the design, construction and management of the Estate and to properties situated elsewhere, for the benefit of the environment, tenants, employees, the community and stakeholders. A summary of the Group environmental policy is set out below and the full environmental policy is available on the website www.canarywharf.com.

The Group targets the reduction of energy, water and resource use and the re-use and the recycling of waste where possible during the design, construction and management of properties. The minimisation of disruption and disturbance to the environment and local community is also targeted during the construction and management of buildings. The Group is also committed to preventing pollution, monitoring and reducing any emissions which may have an adverse impact on the environment and/or local community.

The Group endeavours to raise awareness and promote effective management of environmental and social issues with staff, designers, suppliers and contractors. It also works with suppliers and contractors to establish effective environmental supply chain management and to promote the procurement of sustainable products and materials. The Group works with other parties to identify key environmental and social issues and to share solutions and best practice in managing environmental impact.

Information on the Group's environmental and corporate responsibility performance is published annually with third party verification.

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 and the Better Building Partnership, it was also judged second most environmentally friendly property developer and placed 22nd across all business sectors in the 2010 Sunday Times Best Green Companies Awards.

**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 CRG which comprises senior executives of the Group. A clear governance process has been developed and implemented to enable the CRG, 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 CRG 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 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 website.

**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.

**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 in 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 2010 was 20 (31 December 2009 – 29). The Company had no trade creditors outstanding at either 31 December 2010 or 31 December 2009.

## Donations

The Group made charitable donations of £576,455 during 2010 (2009 – £686,998) primarily in support of local community initiatives. This included £250,000 (2009 – £250,000) 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 Act and which include donations in kind) made by the Group during 2010 comprised £47,571 to the Labour Party, £13,000 to the Conservative Party and £3,435 to the Liberal Democrat Party (2009 – £49,218 to the Labour Party, £20,400 to the Conservative Party and £nil to the Liberal Democrat Party). No political expenditure (as defined by the Act) was incurred by the Group during 2010 (2009 – £nil).

## Auditor and disclosure of information to the auditor

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

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

This confirmation is given and should be interpreted in accordance with Section 418(2) of the Act.

## Annual general meeting

The AGM will be held at 11:00am on Tuesday, 17 May 2011 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 R GARWOOD
Secretary
Canary Wharf Group plc
Registered No: 4191122
24 March 2011

# Independent Auditor's Report to the Members of Canary Wharf Group plc

We have audited the financial statements of Canary Wharf Group plc for the year ended 31 December 2010 which comprise the Consolidated Profit and Loss Account, the Consolidated Statement of Total Recognised Gains and Losses the Consolidated and Company Balance Sheets, the Consolidated Cash Flow Statement and the related Notes 1 to 26. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Act. 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 auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

## Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and the parent company's affairs as at 31 December 2010 and of the Group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

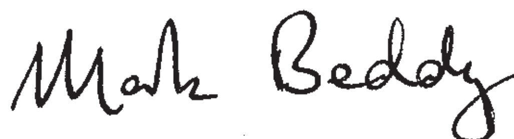
## Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Mark Beddy (Senior Statutory Auditor)
for and on behalf of DELOITTE LLP
Chartered Accountants and Statutory Auditor
London
24 March 2011

# Consolidated Profit and Loss Account

for the year ended 31 December 2010

| | Note | **2010 £m** | 2009 £m |
|---|---|---|---|
| Turnover: | | | |
| – before exceptional item | | **374.5** | 481.3 |
| Exceptional item: | | | |
| – write off of Lehman incentives | 13 | **(53.6)** | – |
| | | **320.9** | 481.3 |
| Cost of sales | | **(109.9)** | (164.3) |
| **Gross profit** | | **211.0** | 317.0 |
| Administrative expenses | | **(40.1)** | (38.4) |
| Other operating income | | **8.3** | 2.8 |
| **Operating profit** | 2 | **179.2** | 281.4 |
| Exceptional items: | | | |
| – release of impairment of investments in associates before interest and tax | 12 | **4.1** | 13.8 |
| – profit on sale of investment property | 10 | **158.8** | – |
| – termination of AIG facility | 16 | **144.5** | – |
| Interest receivable | 3 | **25.8** | 14.2 |
| Interest payable: | | | |
| – before exceptional item: | | | |
| – Group | 4 | **(236.2)** | (242.7) |
| – associates | 4 | **(4.1)** | (0.3) |
| Exceptional items: | | | |
| – net (loss)/gain on repurchase of securitised debt | 4 | **(5.5)** | 68.4 |
| – breakage costs on interest rate swaps and debt | 4 | **(46.9)** | – |
| | | **(292.7)** | (174.6) |
| **Profit on ordinary activities before tax** | | **219.7** | 134.8 |
| Tax | 5 | **(51.5)** | (47.8) |
| **Profit for the financial year** | 19 | **168.2** | 87.0 |
| Basic and diluted earnings per share | 9 | **26.3p** | 13.6p |

The above results relate to the continuing activities of the Group and its share of associated and joint venture undertakings.

The Notes numbered 1 to 26 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 2010

| | Note | 2010 £m | 2009 £m |
|---|---|---|---|
| Profit for the financial year after tax: | | | |
| – Group | | **168.2** | 73.5 |
| – share of profits of associated and joint venture undertakings | | **–** | 13.5 |
| Unrealised movement on revaluation of investment properties | 10 | **369.7** | 173.7 |
| **Total recognised gains and losses relating to the year** | | **537.9** | 260.7 |

# Consolidated Note of Historical Cost Profits and Losses

for the year ended 31 December 2010

| | 2010 £m | 2009 £m |
|---|---|---|
| Reported profit on ordinary activities for the financial year before tax | **219.7** | 134.8 |
| Realisation of property revaluation losses in previous years | **(82.7)** | – |
| **Historical cost profit for the financial year before tax** | **137.0** | 134.8 |
| **Historical cost profit for the financial year after tax** | **85.5** | 87.0 |

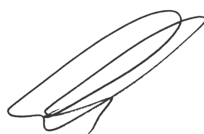
# Consolidated Balance Sheet

at 31 December 2010

| | Note | 2010 £m | 2009 £m |
|---|---|---|---|
| **Fixed assets** | | | |
| Investment properties | 10 | **4,498.3** | 4,584.5 |
| Properties held for development | 10 | **299.7** | 247.5 |
| Other tangible fixed assets | 11 | **1.0** | 1.5 |
| Investments | 12 | **53.9** | 37.4 |
| | | **4,852.9** | 4,870.9 |
| **Current assets** | | | |
| Debtors: Amounts due in more than one year | 13 | **140.2** | 194.5 |
| Debtors: Amounts due within one year | 13 | **69.4** | 53.2 |
| Cash at bank and in hand | 14 | **1,092.4** | 1,082.6 |
| | | **1,302.0** | 1,330.3 |
| Creditors: Amounts due within one year | 15 | **(371.5)** | (377.0) |
| **Net current assets** | | **930.5** | 953.3 |
| **Total assets less current liabilities** | | **5,783.4** | 5,824.2 |
| Creditors: Amounts due after more than one year | 16 | **(3,279.3)** | (3,811.5) |
| Provisions | 17 | **(116.2)** | (87.7) |
| **Net assets** | | **2,387.9** | 1,925.0 |
| **Capital and reserves** | | | |
| Called up share capital | 18 | **6.4** | 6.4 |
| Reserves: | | | |
| – share premium | 19 | **146.2** | 146.2 |
| – revaluation reserve | 19 | **2,148.0** | 1,695.6 |
| – capital redemption reserve | 19 | **0.7** | 0.7 |
| – special reserve | 19 | **264.8** | 264.8 |
| – profit and loss account | 19 | **(178.2)** | (188.7) |
| **Shareholders' funds** | 20 | **2,387.9** | 1,925.0 |

The Notes numbered 1 to 26 form an integral part of these financial statements.

Approved by the Board on 24 March 2011 and signed on its behalf by:



A PETER ANDERSON, II
Managing Director, Finance

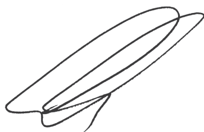
# Company Balance Sheet

at 31 December 2010

| | Note | 2010 £m | 2009 £m |
|---|---|---|---|
| **Fixed assets** | | | |
| Investments | 12 | **2,256.1** | 2,051.1 |
| **Current assets** | | | |
| Debtors: Amounts due within one year | 13 | **996.1** | 1,074.8 |
| Cash at bank and in hand | | **0.1** | 0.1 |
| | | **996.2** | 1,074.9 |
| Creditors: Amounts due within one year | 15 | **(4.6)** | (4.7) |
| **Net current assets** | | **991.6** | 1,070.2 |
| **Total assets less current liabilities** | | **3,247.7** | 3,121.3 |
| Creditors: Amounts due after more than one year | 16 | **(563.0)** | (541.5) |
| **Net assets** | | **2,684.7** | 2,579.8 |
| **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 | **1,876.8** | 1,671.8 |
| – profit and loss account | 19 | **654.6** | 754.7 |
| **Shareholders' funds** | 20 | **2,684.7** | 2,579.8 |

The Notes numbered 1 to 26 form an integral part of these financial statements.

Approved by the Board on 24 March 2011 and signed on its behalf by:



A PETER ANDERSON, II
Managing Director, Finance

# Consolidated Cash Flow Statement

for the year ended 31 December 2010

| | Note | **2010 £m** | 2009 £m |
|---|---|---|---|
| **Net cash inflow from operating activities** | 22 | **227.3** | 331.4 |
| Returns on investments and servicing of finance | 23 | **(247.6)** | (242.0) |
| Tax | | **(5.4)** | (14.8) |
| Capital expenditure and financial investment | 23 | **659.9** | (112.9) |
| Equity dividend paid | 7 | **(75.0)** | – |
| | | **331.9** | (369.7) |
| **Cash inflow/(outflow) before management of liquid resources and financing** | | **559.2** | (38.3) |
| Management of liquid resources | 23 | **(45.6)** | 4.8 |
| Financing | 23 | **(549.4)** | (62.9) |
| **Decrease in cash in the year** | 24 | **(35.8)** | (96.4) |

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.

# Notes to the Financial Statements

for the year ended 31 December 2010

## 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 as stated in the Going concern section of the Director's Report 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 United Kingdom accounting standards.

(2) **Basis of consolidation**

The consolidated financial statements incorporate the assets and liabilities of all subsidiary undertakings at 31 December 2010 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 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 Consolidated 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 finance costs where appropriate. Finance costs capitalised are 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, or, where relevant, the historical cost to the Group on achieving practical completion, 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.

(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. If a derivative ceases to act as an economic hedge, a provision is recognised for its out of the money fair value.

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

Investments in associates and joint ventures are included in the financial statements using the equity method. In the Consolidated Balance Sheet, investments in associates and joint ventures are stated at the Group's share of net assets or liabilities. The Group's share of the associates and joint ventures 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 a defined contribution pension scheme. Pension contributions in respect of the scheme are accrued as they fall due.

(12) **Share based payments**

Songbird Shares held by the Trust may be allocated to employees of the Group under the terms of share schemes adopted from time to time by the Company. The terms of the allocation may allow the employee to opt for a cash settlement calculated at the end of the vesting period linked to the market price of Songbird Shares at that date.

For cash settled share allocations, a liability is recorded based on the market value of the shares at each balance sheet date. The cost of equity settled share allocations is measured at the grant date based on the market value of the shares at that date. The associated cost is charged to the same expense category as the employment cost of the relevant employee, spread on a straight line basis over the relevant vesting period.

Songbird Shares held by the Company or its subsidiaries are 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 substantively 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 0.4% to 3.0% 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

| | Note | 2010 £'000 | 2009 £'000 |
|---|---|---|---|
| The operating profit is stated after charging: | | | |
| – depreciation | 11 | **607** | 645 |
| – directors' emoluments | 8 | **6,160** | 9,972 |
| – operating lease rentals: | | | |
| – land and buildings | | **–** | 360 |

The operating lease rentals relate to the vacant leasehold properties referred to in Note 17.

| **Remuneration of the auditors** | 2010 £'000 | 2009 £'000 |
|---|---|---|
| Audit fees: | | |
| – audit fees for the audit of the Company | **52** | 52 |
| – audit of subsidiaries pursuant to legislation | **423** | 485 |
| Total audit fees | **475** | 537 |
| Fees to the auditors for other services: | | |
| – interim review | **52** | 53 |
| – tax | **429** | 624 |
| – other services | **86** | 43 |
| – pension fund audit | **10** | 19 |
| Total non audit fees | **577** | 739 |

Audit fees of £52,000 were incurred by the Company in 2010 out of a total of £475,000 (2009 – £52,000 out of £537,000).

## 3 Interest receivable

| | 2010 £m | 2009 £m |
|---|---|---|
| Interest receivable and similar income | **25.8** | 14.2 |

## 4 Interest payable

| | 2010 £m | 2009 £m |
|---|---|---|
| Notes and debentures | **155.7** | 158.9 |
| Bank loans and overdrafts | **79.0** | 76.7 |
| Finance lease charges | **0.6** | 1.6 |
| Construction loan | **0.9** | 10.3 |
| Share of associated undertakings | **4.1** | 0.3 |
| | **240.3** | 247.8 |
| Less: | | |
| Capitalised interest at 6.5% on the construction loan | **–** | (4.8) |
| Interest payable before exceptional items | **240.3** | 243.0 |
| Exceptional items: | | |
| – net gain on repurchase of securitised debt | **–** | (83.0) |
| – movement in uneconomic hedge provision (Note 17) | **5.5** | 14.6 |
| – breakage costs on interest rate swaps | **39.6** | – |
| – fees paid | **1.0** | – |
| – write off unamortised costs | **6.3** | – |
| | **52.4** | (68.4) |
| Total interest payable | **292.7** | 174.6 |

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.

The Group's £155.0m construction loan, which was secured on 5 Churchill Place, was repaid in January 2010 upon the sale of this building. The Group paid £15.9m to cancel its liability under the associated interest rate swap arrangements.

The remaining balance of £348.7m on the loan secured against 10 Cabot Square and 20 Cabot Square was repaid in November 2010. As a result of the repayment the Group paid £23.7m to cancel its liability under the associated swap arrangements. In addition, deferred financing costs totalling £6.3m and repayment fees of £1.0m were written off to the profit and loss account. The charges relating to the repayment of the two loans have been treated as exceptional items. Both these items are deductible for tax purposes.

During 2009 the Group repurchased certain of its Notes which gave rise to a net gain of £83.0m. The repurchased Notes remain in issue and are held by another group company. Accordingly, the Notes remain in issue and the associated interest rate hedging instruments remain in place. For the purposes of the consolidated accounts the Group is required to treat the interest rate swaps held in connection with the repurchased Notes as uneconomic hedges. At 31 December 2009 the mark to market adjustment for such deemed uneconomic hedges was £14.6m and this was deducted against the gain on repurchase.

At 31 December 2010, the mark to market adjustment for the hedges deemed uneconomic was £20.1m, resulting in a charge to the profit and loss account for 2010 of £5.5m. This amount has also been treated as an exceptional item. The net gain of £68.4m recognised in 2009 resulted in the recognition of a deferred tax liability of £15.9m at 31 December 2009. The change in the uneconomic hedge provision has led to a release of £0.4m of the deferred tax liability in 2010 after discounting.

Interest payable of £4.8m was transferred to properties under construction in 2009 (Note 10) representing financing costs associated with the Group's construction loan facility up to practical completion of 5 Churchill Place in August 2009.

## 5 Tax

| | 2010 £m | 2009 £m |
|---|---|---|
| Current tax: | | |
| UK corporation tax (see below) | **(35.7)** | (30.7) |
| Deferred tax: | | |
| Origination and reversal of timing differences: | | |
| – current period | **1.7** | (19.5) |
| Net effect of discount | **(17.5)** | 2.4 |
| Total deferred tax (Note 17) | **(15.8)** | (17.1) |
| Total tax charge on profit on ordinary activities | **(51.5)** | (47.8) |
| Tax reconciliation: | | |
| Group profit on ordinary activities before tax | **219.7** | 134.8 |
| Tax on profit on ordinary activities at UK corporation tax rate of 28.0% (2009 – 28.0%) | **(61.5)** | (37.7) |
| Effects of: | | |
| Changes in tax rate | **3.1** | – |
| Adjustment in respect of prior years | **2.4** | – |
| Tax losses, allowances and other timing differences | **20.8** | 8.0 |
| Expenses not deductible for tax purposes | **(0.5)** | (1.0) |
| Current tax charge for the period | **(35.7)** | (30.7) |

## 6 Profit for the financial year

Of the consolidated profit transferred to reserves of £168.2m (2009 – £87.0m) a profit of £179.9m (2009 – £909.4m) is dealt with in the Company's financial statements. The Company's profit included £0.8m (2009 – £4.1m) attributable to subsidiary dividends received and a £205.0m release of the provision against the Company's investment in subsidiaries (2009 – release of £932.0m). As permitted by the Act, no profit and loss account is presented for the Company.

## 7 Dividends

| | 2010 £m | 2009 £m |
|---|---|---|
| Dividends | **75.0** | – |

On 4 October 2010 a dividend of 11.736p per share was paid totalling £75.0m. No dividends were declared or paid during 2009.

## 8 Directors and employees

(1) **Staff costs**

All employees of the Group, including directors:

| | 2010 £m | 2009 £m |
|---|---|---|
| Wages and salaries | **55.6** | 59.4 |
| Social security costs | **5.8** | 6.5 |
| Other pension costs (Note 21) | **3.8** | 4.1 |
| | **65.2** | 70.0 |

A deferred cash incentive plan was established to retain and incentivise the executive directors and senior members of the management team. Payments under this plan were made in 2009.

The average monthly number of employees, including directors, of the Group during 2010 was 878 (2009 – 965) as set out below.

| | 2010 | 2009 |
|---|---|---|
| Construction | **145** | 208 |
| Property management | **593** | 605 |
| Administration | **140** | 152 |
| | **878** | 965 |

(2) **Directors' remuneration**

| | 2010 £'000 | 2009 £'000 |
|---|---|---|
| Emoluments (including bonuses) | **6,160** | 9,972 |

Neither of the alternate directors received remuneration from the Company for their services as directors to the Company. Consequently the remuneration received by the alternate directors as executives of the Group is excluded from the above disclosures.

No contributions were made by the Company during 2009 or 2010 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:

| | 2010 £'000 | 2009 £'000 |
|---|---|---|
| Emoluments (including bonuses) | **4,212** | 6,512 |

No contributions were made by the Company during 2009 or 2010 to any pension plan for the benefit of the highest paid director.

(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 the Songbird Shares allocated pursuant to the scheme referred to in Note 8(5) below.

The following table provides details of the Songbird Shares allocated to the directors.

| | Date of grant | Transferable from | 31 December 2010 Number of shares |
|---|---|---|---|
| G Iacobescu CBE | December 2010 | 30 June 2011 | 350,000 |
| A Peter Anderson, II | December 2010 | 30 June 2011 | 200,000 |

(5) **Share based payments**

The Trust holds Songbird Shares which may be used to satisfy any allocations of shares or options granted under any 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 EES Trustees International Limited.

Where a participant had the right to take a cash alternative sum in substitution for taking shares 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.

In September 2010, Songbird announced the Open Offer which was approved by its shareholders in October 2010. As part of this exercise, the Trust took up its entitlement under the Open Offer and acquired a further 1,174,972 Songbird Shares.

In December 2010 the Group allocated 2,165,000 Songbird Shares to certain directors and senior employees who may elect to have these shares released to them at any time between 30 June 2011 and 31 December 2013 subject to any dealing restrictions. When the beneficiary of the allocation elects to have the Songbird Shares released they may choose to sell any or all of their allocated shares. In this event the Group has the option to pay the equivalent amount in cash.

At 31 December 2010, the trustee of the Trust held 8,217,170 Songbird Shares (31 December 2009 – 7,042,198 shares), including the Songbird Shares allocated to employees referred to above.

## 9 Earnings per share

The basic and diluted earnings per share for 2010 have been calculated by reference to the profit attributable to ordinary shareholders after tax of £168.2m (2009 – £87.0 m) 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 presold properties under construction

**Properties held as tangible fixed assets**

| | Investment properties £m | Properties held for development £m |
|---|---|---|
| 1 January 2010 (pre-adjustment for UITF 28) | 4,779.0 | 247.5 |
| Adjustment for UITF 28 | (194.5) | – |
| 1 January 2010 | 4,584.5 | 247.5 |
| Additions | 78.5 | 52.2 |
| Transfer to tenant incentives | (53.4) | – |
| Disposal of property | (481.0) | – |
| Revaluation | 369.7 | – |
| **31 December 2010** | **4,498.3** | **299.7** |
| Adjustment for UITF 28 (Note 13) | 140.2 | |
| **Market value at 31 December 2010** | **4,638.5** | |
| Of which: | | |
| Subject to lease and finance leaseback arrangements | 76.8 | – |
| Historical cost of freehold properties | 2,217.6 | 281.2 |
| Historical cost of long leasehold properties | – | 18.5 |

**Presold properties under construction**

| | |
|---|---|
| Additions | 17.8 |
| Transferred to cost of sales | (2.4) |
| Transferred to payments on account | (15.4) |
| **31 December 2010** | **–** |

Additions to properties for the year ended 31 December 2010 totalled £130.7m, of which £53.4m has been transferred to tenant incentives (Note 13).

In January 2010 the Group acquired the long leasehold interests in 1 Park Place, a site adjoining the Estate. The site was acquired for £17.5m plus fees and currently benefits from two alternative planning consents. The site is held under leases which expire in 2186.

In January 2010 the Group completed the disposal of 5 Churchill Place for a gross aggregate consideration of £208.0m. The market value of the property at 31 December 2009 was £192.0m and the UITF 28 adjustment attributable to the property was £14.3m. Allowing for adjustments in construction costs recognised in the period of £1.0m, the carrying value at the date of sale was £176.7m.

In December 2010 the Group completed the disposal of 25 Bank Street for a gross aggregate consideration of £495.0m. The market value of the property at 31 December 2009 was £360.0m, reducing to £350.0m at 30 June 2010, and the carrying value after adjusting for tenant incentives in accordance with UITF 28 was £304.3m at 31 December 2009 and £348.3m at 30 June 2010. After taking into account costs associated with selling the building, including relocating existing sub tenants, legal and professional fees, certain other allowances and the write off of unamortised tenant incentives the Group recorded a profit on disposal of £158.8m. There was no tax as a result of this transaction.

As disclosed in Note 13, in the first half of the year unamortised lease incentives attributable to Lehman's lease were written off to the profit and loss account and treated as an exceptional item within turnover. This treatment has not been changed as a result of the sale of 25 Bank Street. Unamortised tenant incentives attributable to other sub tenants in the building at the date of disposal totalled £1.0m.

In November 2008 the Group entered into an agreement with J.P. Morgan for the development of the Riverside South site on the Estate. The Group will act as development and construction manager in relation to the site and is entitled to £76.0m as an advance of developer's profit, of which £67.5m had been received by 31 December 2010. These sums will be set against the Group's entitlement to future profits arising from the development. Income earned on this project subsequent to the sale of the site in 2008 has been deferred and will be recognised in the profit and loss account in accordance with SSAP 9. No profit has been recognised on this project to date. The 2008 agreement, which was previously due to expire in 2013, has been modified and extended to October 2016. As part of this modification, the Group's option to purchase the site has been changed to a right of first offer.

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. It is anticipated the Group will contribute £150.0m towards the cost and the balance of £350.0m will be met from Crossrail's budget. The cost to the Group will be accounted for when incurred as additions to development properties and the Riverside South contract and allocated to each property on a square footage 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. At 31 December 2010 such costs totalled £105.4m of which £27.5m has been allocated to the Riverside South contract and £77.9m to development properties.

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 2010 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 surplus arising on the valuations at 31 December 2010 of £369.7m has been transferred to 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 2010, 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.

## 11 Other tangible fixed assets

| | Fixtures and equipment £m | Computer equipment £m | Total £m |
|---|---|---|---|
| Cost: | | | |
| 1 January 2010 | 14.6 | 1.1 | 15.7 |
| Additions | 0.1 | – | 0.1 |
| **31 December 2010** | **14.7** | **1.1** | **15.8** |
| Depreciation: | | | |
| 1 January 2010 | (13.1) | (1.1) | (14.2) |
| Charge for the period (Note 2) | (0.6) | – | (0.6) |
| **31 December 2010** | **(13.7)** | **(1.1)** | **(14.8)** |
| Net book amount: | | | |
| **31 December 2010** | **1.0** | **–** | **1.0** |
| 1 January 2010 | 1.5 | – | 1.5 |

## 12 Investments

| | 31 December 2010 | | 31 December 2009 | |
|---|---|---|---|---|
| | **Group £m** | **Company £m** | Group £m | Company £m |
| Subsidiary undertakings | **–** | **2,256.1** | – | 2,051.1 |
| Associated and joint venture undertakings | **42.8** | **–** | 27.8 | – |
| Shares | **10.9** | **–** | 9.4 | – |
| Other investments | **0.2** | **–** | 0.2 | – |
| | **53.9** | **2,256.1** | 37.4 | 2,051.1 |

In June 2007, the Group entered into a joint venture with MSREF V and Omega to undertake the redevelopment of Drapers Gardens. At 31 December 2009 the Group had invested £11.1m and incurred fees of £0.7m in consideration for a 20.0% stake in the joint venture. In 2010 a total of £5.8m of the investment in the Drapers Gardens entities, of which £2.1m had been provided by the Group, was reclassified as subordinated loans. The property was completed in November 2009 and in February 2010 it was announced that the building had been let in its entirety to BlackRock.

In June 2007, the Drapers Gardens entities entered into a £172.5m construction loan facility with Lehman which was subsequently syndicated to certain other banks resulting in Lehman retaining a minority share. Following Lehman being placed into administration, there was an interruption to the funding provided by Lehman and the Group made additional loans totalling £1.0m to the joint venture to fund its 20.0% share of the shortfall. Lehman subsequently recommenced funding and all of its lending obligations were satisfied up to 31 May 2009. Funding for the project was then provided by one member of the syndicate on a super senior basis.

In January 2010, the Group purchased for a consideration of £112.8m the substantial majority of the drawn balance of the construction loan facility. From January to April 2010 the Group provided funding for the project on a super senior loan basis. Subsequently, the project was funded by way of subordinated loans from the Group to the Drapers Gardens Unit Trust.

In November 2010, the joint venture entities which owned the Drapers Gardens development completed the sale of the property for £242.5m, excluding a deduction for the rent free period granted to BlackRock. The purchase price reflected an initial yield of 5.2% on expiry of the rent free period in March 2013. All loans from the Group to the Drapers Gardens entities have now been repaid. Certain of the profits and losses on disposal were shared equally with the other joint venture partner and the residual assets are to be shared in proportion to their equity holdings. As part of the loan repayments, Drapers Gardens Unit Trust paid £14.7m to break an interest rate swap liability.

The Group's investment in the Drapers Gardens entities was written down by £3.9m to £7.9m at the previous year end. As a result of the sale, £2.7m of the impairment was released resulting in a gain which has been recognised as an exceptional item. The Group's share of interest payable by the Drapers Gardens entities, including the swap breakage payment referred to above, was £3.9m giving rise to an overall share of loss of £1.2m in the year. There was no tax as a result of this transaction.

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 £25.7m (31 December 2009 – £25.0m) 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 entered into a non recourse loan facility of £9.0m, of which £5.8m had been drawn down at 31 December 2009. The loan matured in February 2010 and the lender agreed to a rollover of the £5.8m drawn under this facility until 2013. During the year the loan was reduced by £0.6m. The bank 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. The investment in WWLP has been written up by £1.4m to £21.8m at 31 December 2010 by reference to a valuation of the development undertaken by CBRE. This has been taken to the profit and loss account and treated as an exceptional item. The total provision at 31 December 2010 was £4.2m. There was no tax as a result of this impairment.

In October 2010, the Group announced that it had entered into a joint venture with Land Securities to develop 20 Fenchurch Street. The property has been sold by Land Securities to the joint venture at a price of £90.2m, in line with the March 2010 valuation. After syndication, the Group has a 15% equity interest in the joint venture and will act as construction manager and joint development manager. The Group's investment was stated at £16.4m at 31 December 2010, representing the initial investment plus associated fees, together with subsequent funding. At 31 December 2010 the 20 Fenchurch Street entities had assets of £103.7m and liabilities of £4.9m.

The investments referred to earlier have been accounted for as investments in associated and joint venture undertakings. The Group's share of the results and net assets/(liabilities) of its associated and joint venture undertakings are derived from the management accounts of those entities and are as follows:

For the year ended 31 December 2010:

| | Drapers Gardens | WWLP | 20 Fenchurch Street | Total |
|---|---|---|---|---|
| Profit before interest and tax | 3.4 | 6.0 | – | 9.4 |
| Interest payable | (20.7) | (1.0) | – | (21.7) |
| (Loss)/profit after interest and tax | (17.3) | 5.0 | – | (12.3) |
| Group share | (1.2) | 1.2 | – | – |
| Net assets | 11.2 | 87.4 | 98.8 | 197.4 |
| Group share | 4.6 | 21.8 | 16.4 | 42.8 |

The Group's investment in shares represents Songbird Shares held in trust.

| | £m |
|---|---|
| Cost: | |
| 1 January 2010 | 9.4 |
| Additions | 1.5 |
| **31 December 2010** | **10.9** |

Details of the Group's investment in Songbird Shares are disclosed in Note 8(5).

The Group owns 52,079 B preferred ordinary shares of 0.1p and 112,220 ordinary shares of 0.1p in HSO, an unlisted company registered in England and Wales, being approximately 13.0% of its nominal share capital. The principal activity of HSO is the provision of broadband telecommunications services. The consideration paid was £2.1m representing the historical cost to the Group including fees. During 2010 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 2010.

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 2010 and the investment was stated at £2,256.1m, net of a provision of £729.0m (2009 – £2,051.1m, net of a provision of £934.0m).

At 31 December 2010 the Company's principal subsidiary undertakings, all of which were 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 |
| 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 |
| Canary Wharf Finance (Investments) Limited | £1 Ordinary | Investment company |

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

## 13 Debtors

| | **31 December 2010** | | 31 December 2009 | |
|---|---|---|---|---|
| | **Group £m** | **Company £m** | Group £m | Company £m |
| **Due within one year:** | | | | |
| Trade debtors | **4.9** | **1.4** | 5.4 | 0.7 |
| Other debtors | **18.9** | **0.1** | 17.5 | – |
| Amounts owed by subsidiary undertakings | **–** | **90.3** | – | 174.8 |
| Loans to subsidiary undertakings | **–** | **904.1** | – | 899.2 |
| Prepayments and accrued income | **43.2** | **0.2** | 25.6 | 0.1 |
| Amounts recoverable on contracts (Note 15) | **2.4** | **–** | 4.7 | – |
| | **69.4** | **996.1** | 53.2 | 1,074.8 |

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 2010 | 95.5 | 99.0 | 194.5 |
| Recognition of rent during rent free periods | 6.7 | – | 6.7 |
| Write off relating to sale of property | (6.8) | (8.5) | (15.3) |
| Transferred from historical cost of property | – | 53.4 | 53.4 |
| Write off of Lehman incentives | (40.1) | (13.5) | (53.6) |
| Amortisation of lease incentives | (19.5) | (26.0) | (45.5) |
| **31 December 2010** | **35.8** | **104.4** | **140.2** |

Debtors due in more than one year comprise the cumulative adjustment in respect of lease incentives required by UITF 28. 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. The cost of other incentives is included within debtors due in more than one year and spread on a straight line basis over the same period. Accordingly the external valuation of investment properties has been reduced for these incentives.

In the first quarter of 2010 the Administrator ceased paying rent on 25 Bank Street. Lease incentives attributable to Lehman's lease were previously being amortised over the period to the first open market rent review in November 2013 but, following the Administrator ceasing to pay rent, the remaining incentives, totalling £53.6m, were written off to the profit and loss account and treated as an exceptional item. There was no deferred tax arising as a result of this adjustment.

## 14 Financial assets

The Group's financial assets comprise short term trade debtors (Note 13) and cash deposits. Cash deposits totalling £1,092.4m at 31 December 2010 (31 December 2009 – £1,082.6m) comprised deposits placed on money market at call and term rates. Total cash deposits included £194.4m (31 December 2009 – £139.4m) held by third parties as cash collateral for the Group's borrowings, £5.1m (31 December 2009 – £18.3m) charged to third parties in connection with the Group's construction obligations, and a further £13.8m (31 December 2009 – £10.0m) charged to third parties as security for the Group's obligations. Unsecured cash deposits totalled £879.1m at 31 December 2010 (31 December 2009 – £914.9m).

## 15 Creditors: Amounts due within one year

| | **31 December 2010** | | 31 December 2009 | |
|---|---|---|---|---|
| | **Group £m** | **Company £m** | Group £m | Company £m |
| Borrowings (Note 16) | **105.4** | **–** | 114.2 | – |
| Trade creditors | **13.7** | **–** | 24.6 | – |
| Amounts due to subsidiary undertakings | **–** | **0.4** | – | 0.4 |
| Taxation and social security costs | **7.4** | **2.0** | 5.2 | 1.1 |
| Corporation tax | **55.0** | **–** | 24.8 | – |
| Other creditors | **21.2** | **–** | 13.5 | – |
| Accruals | **63.2** | **2.2** | 69.8 | 3.2 |
| Deferred income | **68.1** | **–** | 102.5 | – |
| Payments on account | **37.5** | **–** | 22.4 | – |
| | **371.5** | **4.6** | 377.0 | 4.7 |

Payments on account comprise the amounts received in respect of the presale of freehold properties and the long term development contract for the construction of Riverside South on behalf of J.P. Morgan:

| | Riverside South £m |
|---|---|
| 1 January 2010 | 22.4 |
| Amounts received | 32.9 |
| Recorded as turnover | (15.4) |
| Work in progress transfer | (2.4) |
| **31 December 2010** | **37.5** |

## 16 Creditors: amounts due after more than one year

Creditors due after more than one year comprise:

| | 31 December 2010 | | 31 December 2009 | |
|---|---|---|---|---|
| | **Group £m** | **Company £m** | Group £m | Company £m |
| Securitised debt | **2,338.0** | **–** | 2,396.8 | – |
| Construction loans | **–** | **–** | 123.4 | – |
| Other secured loans | **899.7** | **–** | 1,250.1 | – |
| Finance lease obligations | **41.6** | **–** | 41.2 | – |
| Amounts due to subsidiary undertakings | **–** | **563.0** | – | 541.5 |
| | **3,279.3** | **563.0** | 3,811.5 | 541.5 |

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 2010 | 2,484.7 | 123.4 | 1,276.4 | 41.2 | 3,925.7 |
| Deferred financing expenses | 0.8 | – | 3.9 | – | 4.7 |
| Exceptional write off of deferred financing expenses on loan repayment | – | – | 6.4 | – | 6.4 |
| Accrued finance charges | (2.8) | 0.1 | (0.4) | 0.4 | (2.7) |
| Repaid in year | (59.0) | (123.5) | (366.9) | – | (549.4) |
| **31 December 2010** | **2,423.7** | **–** | **919.4** | **41.6** | **3,384.7** |
| Payable within one year or on demand | 85.7 | – | 19.7 | – | 105.4 |
| Payable in more than one year | 2,338.0 | – | 899.7 | 41.6 | 3,279.3 |
| | 2,423.7 | – | 919.4 | 41.6 | 3,384.7 |

(1) At 31 December 2010 the following notes issued by CWF II were outstanding:

| Class | Principal £m | Interest | Repayment |
|---|---|---|---|
| A1 | 1,139.1 | 6.455% | By instalment from 2009 to 2030 |
| A3 | 400.0 | 5.952% | By instalment from 2032 to 2035 |
| A7 | 222.0 | Floating | In 2035 |
| B | 197.0 | 6.800% | By instalment from 2005 to 2030 |
| B3 | 104.0 | Floating | In 2035 |
| C2 | 275.0 | Floating | In 2035 |
| D2 | 125.0 | Floating | In 2035 |
| | 2,462.1 | | |

In April 2009 the Group repurchased certain floating rate Notes with an aggregate principal amount of £119.7m for an aggregate consideration, excluding accrued interest, of £35.5m.

The Notes repurchased have not been cancelled, remain in issue and, in accordance with the requirements of the CWF II securitisation, continue to be fully hedged. The repurchase was accounted for as an extinguishment of debt. The gain on the transaction of £68.4m, being the difference between the aggregate principal amount repurchased and the aggregate consideration paid, adjusting for unamortised deferred fees on issue, stepped

interest accruals and the mark to market on related derivatives, was taken to the profit and loss account for 2009 and treated as an exceptional item.

Interest on the floating Notes is at three month LIBOR plus a margin. The margins on these Notes are: A7 Notes – 0.19% p.a., increasing to 0.475% in January 2017; B3 Notes – 0.28% p.a., increasing to 0.70% in January 2017; C2 Notes – 0.55% p.a., increasing to 1.375% in April 2014; and D2 Notes – 0.84% p.a., increasing to 2.1% 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%. These swaps expire in 2035 concurrent with the Notes.

In addition to the three classes of floating rate Notes referred to above, the following classes of fixed rate Notes remained outstanding at 31 December 2010, carrying the interest rates stated: £1,139.1m of A1 Notes – 6.455%; £400.0m of A3 Notes – 5.952%; £197.0m of B Notes – 6.800%.

The principal amount of the Notes outstanding at 31 December 2010 was £2,462.1m, or £2,342.4m excluding the Notes repurchased. The Notes are secured on certain property interests of the Group and the rental income stream therefrom. In November 2010 two of the charged properties, being 25 Bank Street and 50 Bank Street, were withdrawn from the securitisation and substituted by 10 Cabot Square and 20 Cabot Square. In conjunction with this substitution £65.7m was added to cash collateral to cover any shortfall in debt service.

Prior to withdrawing 25 Bank Street, the CWF II securitisation had the benefit of an agreement with AIG which provided at the election of the Group for the payment of the contracted rent under the lease following a default by Lehman, either in its entirety or to cover any shortfall. The agreement was for a period of four years from the first draw down and any amounts claimed were repayable by the Group if subsequent recoveries made in respect of amounts claimed or subsequent rentals in the properties exceeded the rents that would have been received from Lehman. The annual fee payable in respect of this arrangement was £3.6m. In November 2010, terms were agreed with AIG for the termination of the facility in consideration for a payment to the Group of £144.5m. This sum represented the net present value of the amounts anticipated to be drawn under the facility, net of the fees payable to AIG and the anticipated recovery from the Lehman administration process.

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 approximately £258.7m as cash collateral in respect of this obligation. The annual fee payable in respect of the arrangement is £2.2m.

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

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 2010 £58.4m remained unamortised (31 December 2009 – £63.2m).

The weighted average maturity of the debentures at 31 December 2010 was 16.1 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 was charged at LIBOR plus a margin of 0.9% hedged at 5.625%. At 31 December 2009, £123.4m including interest had been drawn down under this facility. Practical completion of the building was achieved in August 2009 and the loan was repaid in January 2010 upon completion of the sale of the building. As a result of repaying the loan the Group paid £15.9m to cancel its liability under the associated interest rate swap arrangements.

(3) The Group has entered into a £350.0m loan facility secured against the Group's retail properties and its car parking interests.

This loan facility carries interest at LIBOR plus a margin of 2.75%. The Group has entered into an arrangement whereby the exposure to the movement in three month LIBOR rates is fully hedged with fixed interest rate swaps at a weighted average including margins of 7.2%. The loan is repayable in December 2014.

(4) A bank loan with an outstanding principal of £348.7m, secured against 10 Cabot Square and 20 Cabot Square was repaid in November 2010. The associated interest rate swap was broken at a cost of £23.7m and this has been

taken to the profit and loss account and shown as an exceptional item. Deferred financing costs of £6.3m, which were previously being amortised over the term of this loan to January 2013, and repayment fees of £1.0m have been written off and treated as part of the exceptional charge.

(5) A bank loan comprising an initial principal of £608.8m is secured against One Churchill Place. This loan amortises with a balloon payment of £155.0m on maturity in July 2034. The loan carries a hedged interest rate of 5.82%. During 2010 £8.0m of loan principal was repaid in accordance with the loan agreement, reducing the principal at 31 December 2010 to £568.1m.

(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 0.7% at 31 December 2010 (31 December 2009 – 1.0%).

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

| | **31 December 2010** | | 31 December 2009 | |
|---|---|---|---|---|
| | **Loans £m** | **Finance leases £m** | Loans £m | Finance leases £m |
| In less than one year or on demand | **66.1** | **–** | 72.4 | – |
| In more than one year but less than two years | **66.5** | **–** | 73.2 | – |
| In more than two years but not more than five years | **572.1** | **–** | 1,031.0 | – |
| In more than five years | **2,555.7** | **41.6** | 2,631.6 | 41.2 |
| | **3,260.4** | **41.6** | 3,808.2 | 41.2 |

(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 2010 (including accrued interest payable) was:

| | **31 December 2010** | | | 31 December 2009 | | |
|---|---|---|---|---|---|---|
| | **Floating £m** | **Fixed £m** | **Total £m** | Floating £m | Fixed £m | Total £m |
| Securitised debt | **–** | **2,423.7** | **2,423.7** | – | 2,484.7 | 2,484.7 |
| Secured loans | **–** | **919.4** | **919.4** | – | 1,276.4 | 1,276.4 |
| Construction loan | **–** | **–** | **–** | – | 123.4 | 123.4 |
| Finance leases | **41.6** | **–** | **41.6** | 41.2 | – | 41.2 |
| | **41.6** | **3,343.1** | **3,384.7** | 41.2 | 3,884.5 | 3,925.7 |
| Less: Cash collateral for borrowings (Note 14) | **(42.4)** | **(152.0)** | **(194.4)** | (42.4) | (97.0) | (139.4) |
| | **(0.8)** | **3,191.1** | **3,190.3** | (1.2) | 3,787.5 | 3,786.3 |

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

| | **31 December 2010** | | 31 December 2009 | |
|---|---|---|---|---|
| | **Weighted average interest rate %** | **Weighted average period Years** | Weighted average interest rate % | Weighted average period Years |
| Securitised debt | **6.3** | **16.1** | 6.4 | 16.7 |
| Secured loans | **6.3** | **11.9** | 6.3 | 10.0 |

(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 2010 was an unrecognised liability of £215.5m before tax relief (31 December 2009 – asset of £96.2m) comprising the following:

| | **31 December 2010** | | 31 December 2009 | |
|---|---|---|---|---|
| | **Book value £m** | **Fair value £m** | Book value £m | Fair value £m |
| Primary financial instruments held or issued to finance the Group's operations: | | | | |
| – cash on deposit earning floating rates of interest | **1,092.4** | **1,092.4** | 1,082.6 | 1,082.6 |
| – short term financial liabilities and current portion of long term borrowings | **(105.4)** | **(105.4)** | (114.2) | (114.2) |
| – long term borrowings | **(3,237.7)** | **(3,191.0)** | (3,770.3) | (3,455.5) |
| – finance leases | **(41.6)** | **(41.6)** | (41.2) | (41.2) |
| Derivative financial instruments held to manage interest rate profile: | | | | |
| – interest rate swaps | **–** | **(262.2)** | – | (218.6) |

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:

| | 31 December 2010 | | | 31 December 2009 | | |
|---|---|---|---|---|---|---|
| | **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 | **–** | **(218.6)** | **(218.6)** | – | (429.8) | (429.8) |
| Gains and losses arising in previous years that were recognised in the year | **–** | **39.6** | **39.6** | – | 22.7 | 22.7 |
| Gains and losses arising before 1 January that were not recognised in the year | **–** | **(179.0)** | **(179.0)** | – | (407.1) | (407.1) |
| Gains and losses arising in the year that were not recognised in the year | **–** | **(83.2)** | **(83.2)** | – | 188.5 | 188.5 |
| Unrecognised gains and losses on hedges at 31 December | **–** | **(262.2)** | **(262.2)** | – | (218.6) | (218.6) |
| Of which: | | | | | | |
| Gains and losses expected to be recognised in the following year | **–** | **–** | **–** | – | (15.9) | (15.9) |
| Gains and losses expected to be recognised after the following year | **–** | **(262.2)** | **(262.2)** | – | (202.7) | (202.7) |

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

## 17 Provisions for liabilities

| | Leasehold property £m | Other lease commitments £m | Uneconomic hedge £m | Deferred tax £m | Total £m |
|---|---|---|---|---|---|
| 1 January 2010 | 1.0 | 2.1 | 14.6 | 70.0 | 87.7 |
| Utilisation of provision | – | (2.5) | – | – | (2.5) |
| Initial recognition | – | 9.6 | – | – | 9.6 |
| (Release)/increase in provision | (0.6) | 0.7 | 5.5 | 15.8 | 21.4 |
| **31 December 2010** | **0.4** | **9.9** | **20.1** | **85.8** | **116.2** |

**Vacant leasehold properties**

At 31 December 2010 the provision for the estimated net liability in respect of leasehold properties, discounted at 6.3% being the Group's weighted average cost of debt, was £0.4m (31 December 2009 – £1.0m and 6.4% respectively). A break notice was served on the landlord in respect of the final leasehold property and as a result this lease was determined in July 2009.

**Other lease commitments**

In connection with the sale of 5 Churchill Place, the Group has agreed to pay rents and other costs incurred on 2 unlet floors for a period of 5 years from the date of sale. The Group recognised a provision of £9.6m discounted at 6.3% which was deducted from the profit on disposal of the building. At 31 December 2010 this provision totalled £7.7m, discounted at 6.4%, with the reduction in provision reflecting a combination of changes in potential future letting assumptions and the discount unwind.

In connection with the sale of certain properties during 2005, the Group agreed to provide rental support and recognised a provision in respect of this commitment at the date of disposal. At 31 December 2010 the remaining provision was £2.2m calculated on the basis of a discount rate of 6.3% (31 December 2009 – £2.1m, discounted at 6.4%).

**Uneconomic hedge**

The provision in respect of uneconomic hedges arises from the repurchase of the securitised debt in 2009 as explained in Note 4.

**Deferred tax**

| | **31 December 2010 £m** | 31 December 2009 £m |
|---|---|---|
| Accelerated capital allowances claimed | **(69.1)** | (65.7) |
| Other timing differences | **(20.4)** | (25.5) |
| Undiscounted deferred tax liability | **(89.5)** | (91.2) |
| Discount | **3.7** | 21.2 |
| Discounted deferred tax liability | **(85.8)** | (70.0) |

| | **31 December 2010 £m** | 31 December 2009 £m |
|---|---|---|
| At 1 January | **(70.0)** | (52.9) |
| Deferred tax charge in the profit and loss account for the year | **(15.8)** | (17.1) |
| At 31 December | **(85.8)** | (70.0) |

The net deferred tax position is stated on a discounted basis. The deferred tax liability of £89.5m (31 December 2009 – £91.2m), stated gross of a discount of £3.7m (31 December 2009 – £21.2m), is recognised at 31 December 2010, 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 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 £91.1m (31 December 2009 – £68.4m) reduced from £97.3m (31 December 2009 – £75.2m) by EZA balancing allowances.

The Finance Act 2010, which provides for a reduction in the main rate of corporation tax from 28.0% to 27.0% effective from 1 April 2011, was substantively enacted on 21 July 2010. The impact of the rate reduction has been to reduce the deferred tax liability provided at 31 December 2010 by £3.2m.

The Government announced on 23 March 2011 that the rate of corporation tax would be reduced by 1.0% to 26.0% from April 2011, with future reductions in the tax rate of 1.0% each year down to 23.0% by April 2014. The rate reduction already announced and future reductions are expected, when substantively enacted, to have a similar impact on the financial statements as outlined above, however, the actual impact will be dependent on the deferred tax position at that time.

## 18 Share capital

| | Authorised | | Issued, allotted and fully paid | |
|---|---|---|---|---|
| | **2010 £m** | 2009 £m | **2010 £m** | 2009 £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 shares of 1p each, of which 639,015,845 were in issue at 31 December 2010. There were no changes to the share capital during the year. No options over the ordinary shares of the Company were outstanding at 1 January or 31 December 2010, nor were any granted during the year.

## 19 Reserves

| | Share premium £m | Revaluation reserve £m | Capital redemption reserve £m | Special reserve £m | Profit and loss £m | Total £m |
|---|---|---|---|---|---|---|
| **Group** | | | | | | |
| 1 January 2010 | 146.2 | 1,695.6 | 0.7 | 264.8 | (188.7) | 1,918.6 |
| Revaluation of investment properties | – | 369.7 | – | – | – | 369.7 |
| Transfer of realised revaluation deficit | – | 82.7 | – | – | (82.7) | – |
| Profit for the financial year | – | – | – | – | 168.2 | 168.2 |
| Dividend | – | – | – | – | (75.0) | (75.0) |
| **31 December 2010** | **146.2** | **2,148.0** | **0.7** | **264.8** | **(178.2)** | **2,381.5** |

The capital redemption reserve arose from the purchase and cancellation of the Company's 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.

| | Share premium £m | Capital redemption reserve £m | Special reserve £m | Profit and loss £m | Total £m |
|---|---|---|---|---|---|
| **Company** | | | | | |
| 1 January 2010 | 146.2 | 0.7 | 1,671.8 | 754.7 | 2,573.4 |
| Transfer | – | – | 205.0 | (205.0) | – |
| Profit for the financial year | – | – | – | 179.9 | 179.9 |
| Dividend | – | – | – | (75.0) | (75.0) |
| **31 December 2010** | **146.2** | **0.7** | **1,876.8** | **654.6** | **2,678.3** |

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 2010 | 1,925.0 | 2,579.8 |
| Revaluation movement | 369.7 | – |
| Profit for the financial year | 168.2 | 179.9 |
| Dividend | (75.0) | (75.0) |
| **31 December 2010** | **2,387.9** | **2,684.7** |

## 21 Pension schemes

The Group operates a defined contribution pension scheme. The assets of the scheme are held in an independently administered fund. The pension cost, which amounted to £3.8m in the year (2009 – £4.1m) represents contributions payable by the Group to the scheme.

## 22 Reconciliation of operating profit to operating cash flows

| | 2010 £m | 2009 £m |
|---|---|---|
| **Operating activities** | | |
| Operating profit | **179.2** | 281.4 |
| Depreciation charges | **0.6** | 0.6 |
| Increase in debtors | **(16.3)** | (1.8) |
| (Decrease)/increase in creditors | **(23.3)** | 6.0 |
| Expenditure charged to provisions | **(2.5)** | (0.6) |
| Movements in provisions | **(0.4)** | (1.5) |
| Amortisation of lease incentives[1] | **92.4** | 51.2 |
| Long term contract proceeds | **32.9** | 141.1 |
| Long term contract profits | **(5.0)** | (39.8) |
| Long term contract costs | **(30.3)** | (105.2) |
| Net cash inflow | **227.3** | 331.4 |

Note:
(1) Operating profit for 2010 is stated inclusive of an exceptional write off of Lehman incentives totalling £53.6m (Note 13). There were no pre-operating profit exceptional items in respective of the previous year.

## 23 Analysis of cash flows

| | 2010 £m | 2009 £m |
|---|---|---|
| **Returns on investments and servicing of finance** | | |
| Interest received | **26.1** | 16.5 |
| Interest paid | **(232.6)** | (244.3) |
| Interest element of finance lease rentals | **(0.5)** | (0.2) |
| Financing expenses on loans drawn down | **–** | (12.7) |
| Swap breakage costs[1] | **(40.6)** | – |
| Financing expenses on repurchase of securitised debt[2] | **–** | (1.3) |
| Net cash outflow | **(247.6)** | (242.0) |

Note:
(1) In January 2010 the Group repaid the construction loan secured against 5 Churchill Place and paid £15.9m to cancel the liability under the associated interest rate swap. In November 2010 the Group repaid the loan secured against 10 Cabot Square and 20 Cabot Square and paid £23.7m to cancel the associated interest rate swap. Fees of £1.0m were also paid. These costs have been recognised as exceptional items in the profit and loss account.
(2) In April 2009 the Group incurred fees of £1.3m in connection with the repurchase of £119.7m of securitised debt on which a net gain of £68.4m was recognised as an exceptional item in the profit and loss account (Note 4). The profit and loss account for 2010 includes an increase of £5.5m in the fair value adjustment for the derivative instruments deemed to be uneconomic as a result of this transaction which has been recognised as an exceptional item. The increase in provision did not result in an additional cash outflow in the year (Note 4).

| | 2010 £m | 2009 £m |
|---|---|---|
| **Capital expenditure and financial investment** | | |
| Additions to properties | **(93.5)** | (90.8) |
| Acquisition of property interests | **(34.0)** | (7.5) |
| Acquisition of shares in parent company | **(1.5)** | (9.2) |
| Purchase of tangible fixed assets | **(0.1)** | (0.2) |
| Sale of investment properties[3] | **659.7** | – |
| AIG settlement | **144.5** | – |
| Investments and loans to associates[4] | **(15.2)** | (5.2) |
| Net cash inflow/(outflow) | **659.9** | (112.9) |

Note:
(3) Comprising proceeds in respect of 5 Churchill Place and 25 Bank Street, less associated costs and fees.
(4) The provision against the impairment of the Group's investment in associated undertakings was reduced by £4.1m in the year (2009 – £13.8m) which has been treated as an exceptional item.

| | **2010 £m** | 2009 £m |
|---|---|---|
| **Management of liquid resources** | | |
| Cash placed on deposit not available on demand | **(86.8)** | (30.2) |
| Cash withdrawn from deposit accounts | **41.2** | 35.0 |
| Net cash (outflow)/inflow | **(45.6)** | 4.8 |

| | **2010 £m** | 2009 £m |
|---|---|---|
| **Financing** | | |
| Repayment of secured debt | **(366.9)** | (15.7) |
| Repayment of securitised debt | **(59.0)** | (32.2) |
| Drawdown of construction loan | **–** | 20.5 |
| Repayment of construction loan | **(123.5)** | – |
| Repurchase of securitised debt(5) | **–** | (35.5) |
| Net cash outflow | **(549.4)** | (62.9) |

Note:
(5) In April 2009 the Group repurchased securitised debt in an aggregate principal amount of £119.7m for an aggregate consideration, excluding accrued interest, of £35.5m and recognised an exceptional gain of £68.4m.

## 24 Analysis and reconciliation of net debt

| | 1 January 2010 £m | Cash flow £m | Other non cash changes £m | **31 December 2010 £m** |
|---|---|---|---|---|
| Cash at bank | 1,082.6 | 9.8 | – | **1,092.4** |
| Amounts on deposit not available on demand | (167.7) | (45.6) | – | **(213.3)** |
| | 914.9 | (35.8) | – | **879.1** |
| Debt due after 1 year | (3,770.3) | 472.2 | 60.4 | **(3,237.7)** |
| Debt due within 1 year | (114.2) | 117.5 | (108.7) | **(105.4)** |
| Finance lease | (41.2) | 0.5 | (0.9) | **(41.6)** |
| | (3,925.7) | 590.2 | (49.2) | **(3,384.7)** |
| Amounts on deposit not available on demand | 167.7 | 45.6 | – | **213.3** |
| Net debt | (2,843.1) | 600.0 | (49.2) | **(2,292.3)** |

| | |
|---|---|
| Increase in cash | **9.8** |
| Reduction in debt and lease financing | **590.2** |
| Change in net debt resulting from cash flows | **600.0** |
| Non cash movement in net debt | **(49.2)** |
| Movement in net debt | **550.8** |
| Net debt at 1 January 2010 | **(2,843.1)** |
| **Net debt at 31 December 2010** | **(2,292.3)** |

## 25 Contingent liabilities and financial commitments

At 31 December 2010 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 2010, given fixed first ranking charges over cash deposits totalling £199.5m (31 December 2009 – £157.7m).

As security for the issue of £2,462.1m (31 December 2009 – £2,519.6m) of securitised debt (see Note 16(1)) the Company's indirect subsidiary, Canary Wharf Finance Holdings Limited granted a first fixed charge over the shares of CWF II and a first floating charge over all of the assets of CWF II.

Commitments of the Group for future expenditure:

| | **31 December 2010 £m** | 31 December 2009 £m |
|---|---|---|
| Crossrail station | **44.6** | 80.0 |
| Other construction projects | **85.0** | 99.0 |

The commitments for future expenditure relate to the completion of construction works where construction was committed at 31 December 2010. Any costs accrued or provided for in the balance sheet at 31 December 2010 have been excluded.

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 prelet 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.

**Sublet commitments**

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

The existence of the sublet commitments has been taken into account in the market valuation of the Group's properties at 31 December 2010.

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

| Property | Leaseholder | Original sublet sq ft | Relet sq ft | Net rent[1] £m | Rent review date | Rent review basis | Term commence-ment | Expiry or first break |
|---|---|---|---|---|---|---|---|---|
| 10 Upper Bank Street | Clifford Chance | 52,100 | 52,100 | 0.78 | N/A | N/A | Jul 2003 | Jul 2013 |
| One Churchill Place | Barclays | 133,400 | 133,400 | 0.13 | Jul 2014 | OMR up only | Jul 2004 | Jul 2019 |
| One Churchill Place | Barclays | 129,700 | 129,700 | 0.55 | N/A | N/A | Jul 2004 | Jul 2014 |
| 40 Bank Street | Skadden | 19,500 | 19,500 | 0.31 | N/A | N/A | Mar 2003 | Mar 2013 |
| 40 Bank Street | Barclays | 38,200 | – | 1.68 | Jul 2012 | OMR up only | Nov 2009 | Dec 2017 |
| 40 Bank Street | Barclays | 76,400 | 38,222 | 0.84 | Jul 2012 | OMR up only | Oct 2010 | Dec 2017 |
| One Canada Square | Mirror Group | 26,200 | 26,200[2] | 0.98 | June 2013 | OMR up only | May 2009 | June 2018 |
| One Canada Square | KPMG | 28,600 | 28,600[3] | 1.09 | Jul 2011 | OMR up only | Jun 2010 | Dec 2018 |
| **Total** | | **504,100** | **427,722** | **6.36** | | | | |

Note:
(1) The net annual sublet rental obligations will decrease over time with the expiration of reletting rent free periods.
(2) Level 24 occupied by the FSA on a short term basis.
(3) Level 38 leased back from KPMG upon their relocation to 15 Canada Square and sublet to NYSE Euronext.

## 26 Ultimate parent undertaking and related party transactions

At 31 December 2010, the smallest group of which the Company is a member and for which 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, Level 30, One Canada Square, Canary Wharf, London E14 5AB.

In October 2010, the Group entered into a 50:50 joint venture with Land Securities to develop 20 Fenchurch Street. Simultaneously the Group entered into syndication arrangements with the Syndication Partners. Each of the Syndication Partners is related to a shareholder in Songbird, the ultimate holding company of the Group. Under these syndication arrangements the Group retains a 15.0% economic interest in the joint venture partnership and each of the Syndication Partners retains an 11.66% interest. At 31 December 2010 each of the Syndication Partners had subscribed £12.8m and the Group £16.4m. The Group billed £948,412 plus VAT for construction and development management services to the 20 Fenchurch Street Limited Partnership. At 31 December 2010 the amount outstanding was £120,263 inclusive of VAT.

During 2010 the Group billed HSO, a company in which the Group holds an equity investment equivalent to approximately 13.0% of the issued share capital, £51,195 plus VAT for access to the Estate's telecommunications infrastructure. At 31 December 2010 the amount outstanding was £5,782 inclusive of VAT.

During 2010 a Group company billed and received £36,588 plus VAT for the provision of development management services to WWLP in which the Group holds a 25.0% effective interest. In addition the Group billed WWLP £8,213 in respect of rent and service charges for office space occupied for part of the year. At 31 December 2010 the amount outstanding was £21,500 inclusive of VAT.

In June 2007 the Group entered into joint venture arrangements with MSREF V and Omega for the redevelopment of Drapers Gardens. During 2010 the Group billed £210,000 plus VAT for construction management services to Drapers Gardens Unit Trust, in which it held a 20.0% interest. At 31 December 2010 there were no invoices outstanding.

In December 2004 the Company entered into the Provision of Services Agreement with Songbird. 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 2010 £600,000 plus VAT was charged to Songbird for the provision of services. £1,300,000 plus VAT has been accrued at 31 December 2010.

# Shareholders' information

## Directors

**Executive directors**
**George Iacobescu CBE**: Chief Executive Officer having day to day authority over the operations of the Group with a central role in the development and implementation of strategy. A member of the Board of Trustees of the British Museum. He was appointed Commander of the British Empire in 2003. #

**A Peter Anderson, II:** Managing Director, Finance with responsibility for the Group's capital raising activities, accounting, strategic planning and analysis, taxation and information technology. He is also non executive director of Transport for London and chairman of Transport for London's Finance and Policy committee. #

**Non executive directors**
**Sir Martin Jacomb:** Non Executive Chairman and independent non executive director. Also non executive chairman of Share plc and a director of Pension Insurance Corporation Limited. Sir Martin was knighted in 1985 for services to the City. +

**Ahmad Al-Sayed:** Managing director and chief executive officer of Qatar Holding LLC, the strategic and direct investment arm of Qatar Investment Authority. Also, vice chairman of Qatar Exchange, chairman of Pavilion International Development Fund (Kuala Lumpur, Malaysia) and a member of the Committee of the Council of Ministries. +

**Robert Falls:** Executive director of Morgan Stanley's European Real Estate Group with responsibility for the management of the assets of a number of Morgan Stanley funds in Europe and in conjunction with this role participates in ad hoc regional committees. * #

**Sam Levinson:** Advisor to the Glick entities and managing director of Levinson Capital Management LLC where he oversees investments for a private equity fund. A director of Songbird and all of its wholly owned subsidiaries, he also serves as a member of the board of Coleman Cable Inc.* # +

**Alex Midgen:** Managing director of the investment banking division of Rothschild and global co head of Rothschild's real estate advisory business. A director of Songbird. +

**Brian Niles:** Managing director and deputy head of European investing of Morgan Stanley Real Estate and a director of Multi Corporation B.V. Also a director of Songbird and two of its wholly owned subsidiaries, Songbird Acquisition Limited and Songbird Finance Limited. * + #

**Richard Archer** (alternate director to George Iacobescu, appointed 1 July 2010).

**Russell Lyons** (alternate director to A Peter Anderson, II, appointed 1 July 2010).

* Audit Committee
# Operating Committee
+ Remuneration Committee

# Shareholders' information continued

## Shareholder enquiries

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

Capita Registrars
The Registry
34 Beckenham Road
Beckenham, Kent
BR3 4TU

Telephone: 0871 664 0300*
Facsimile: 020 8639 2220
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 the Company, 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
Canary Wharf
London E14 5AB
Registered Number: 4191122
Telephone: 020 7418 2000
Facsimile: 020 7418 2222

## 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

### PR Advisers

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

The Communication Group
19 Buckingham Gate
London
SW1E 6LB

### Solicitors

Clifford Chance LLP
10 Upper Bank Street
London E14 5JJ

### Valuers

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

Cushman & Wakefield
43-45 Portman Square
London W1A 3BG

Savills Commercial Limited
20 Grosvenor Hill
Berkeley Square
London W1K 3HQ

# Definitions

| | |
|---|---|
| Act | The Companies Act 2006 |
| Administrator | PricewaterhouseCoopers LLP, administrator of Lehman |
| AGM | Annual General Meeting of the Company |
| AIG | American International Group, Inc |
| Ballymore | Ballymore Properties Limited |
| Barclays Bank | Barclays Bank PLC |
| BlackRock | BlackRock Investment Management (UK) Limited |
| Board | Board of directors of Canary Wharf Group plc |
| bps | Basis points |
| BWB | British Waterways Board |
| CBRE | CB Richard Ellis Limited, Surveyors and Valuers |
| Chairman | Chairman of the Company |
| Chief Executive | Chief Executive of the Company |
| City | The City of London |
| CLRL | Cross London Rail Links Limited |
| Company | Canary Wharf Group plc |
| CRG | Corporate Responsibility Group |
| Cushman | Cushman & Wakefield, Real Estate Consultants |
| CWEL | Canary Wharf Estate Limited |
| CWF II | Canary Wharf Finance II plc |
| CWHL | Canary Wharf Holdings Limited |
| Drapers Gardens | Drapers Gardens scheme in the City of London |
| EMS | Environmental Management System |
| Estate | Canary Wharf Estate including Heron Quays West, Newfoundland, Riverside South and North Quay |
| EZA | Enterprise Zone Allowance |
| Fitch | Fitch Ratings Limited |
| 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 22 | Financial Reporting Standard 22 (Earnings per share) |
| FSA | The Financial Services Authority |
| Group | Canary Wharf Group and its subsidiaries |
| HSO | HighSpeed Office Limited |
| ICR | Interest Cover Ratio |
| J.P. Morgan | J.P. Morgan Chase & Co |
| Land Securities | Land Securities Group PLC |
| Lehman | Lehman Brothers Limited (in administration) |
| Lloyds Bank | Lloyds Banking Group plc |
| LMCTV | Loan Minus Cash to Value |
| London Plan | Mayor of London planning document published by the Greater London Authority |
| LTV | Loan to Value |
| m | million |
| Moody's | Moody's Investor Services Limited |
| Morgan Stanley | Morgan Stanley & Co Limited |
| 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 |
| Non Executive | Non Executive director of the Company |
| Notes | Notes of the Group's securitisation |
| Open Offer | An open offer for the issue by Songbird of 109,375,000 ordinary shares completed in October 2010 |
| Omega | Omega Land Holding II BV |
| OMR | Open Market Rent |
| Provision of Services Agreement | Provision of services agreement entered into by the Company and Songbird |
| S&P | Standard & Poors |
| Savills | Savills Commercial Limited |
| SFL | Songbird Finance Limited |
| Shell | Shell International Limited |
| Skadden | Skadden Arps Slate Meagher & Flom LLP |
| Songbird | Songbird Estates plc |
| Songbird Shares | Ordinary shares of 10p each in Songbird |
| sq ft | square foot/feet |
| 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) |
| Syndication Partners | Entities relating to Qatar Holding LLC, Chengdong Investment Corporation and Morgan Stanley |
| TfL | Transport for London |
| Trust | Canary Wharf Employees' Share Ownership Plan Trust |
| UITF 28 | Urgent Issue Task Force 28 ('Operating Leases') |
| UKGAAP | United Kingdom Generally Accepted Accounting Practice |
| VAT | Value Added Tax |
| WWLP | Wood Wharf Limited Partnership |

# EXISTING AND FUTURE DEVELOPMENT PLAN

- Existing Buildings
- Under Construction
- Construction to Grade
- Future Development
- Bus Stop
- London Underground
- Docklands Light Railway
- Car Parking

**Riverside South**
J.P. MORGAN

**1 Westferry Circus**
CHEVRON
EUROPEAN MEDICINES AGENCY
LITTLEJOHN

**7 Westferry Circus**
EUROPEAN MEDICINES AGENCY

**11 Westferry Circus**
EDWARD JONES
READER'S DIGEST ASSOCIATION

**15 Westferry Circus**
TUBELINES

**17 Columbus Courtyard**
CREDIT SUISSE

**20 Columbus Courtyard**
CREDIT SUISSE

**One Cabot Square**
CREDIT SUISSE

**10 Cabot Square**
OGILVY & MATHER

**5 North Colonnade**
BARCLAYS CAPITAL

**25 North Colonnade**
FINANCIAL SERVICES AUTHORITY

**30 North Colonnade**
FIMALAC
FITCH RATINGS

**25 Cabot Square**
MORGAN STANLEY

**20 Cabot Square**
BARCLAYS CAPITAL

**10 South Colonnade**
BARCLAYS CAPITAL

**30 South Colonnade**
THOMSON REUTERS

**One Canada Square**
ABBEY BUSINESS CENTRES
CANARY WHARF GROUP PLC
CFA INSTITUTE
CITIHUB LTD
CLEARSTREAM BANKING
COUTTS & CO
CLYDESDALE BANK
DILIGENCE
EULER HERMES
FINANCIAL SERVICES AUTHORITY
GLOBAL SAGE
IBTIMES
INTERNATIONAL GRAINS COUNCIL
INTERNATIONAL SUGAR ORGANIZATION
J.P. MORGAN
KNIGHT FRANK
MAHINDRA SATYAM
METLIFE
MOODY'S INVESTORS SERVICE
NATWEST
NYSE EURONEXT
PREMIER FX
REGUS
SAMSUNG
STATE STREET
THE BANK OF NEW YORK MELLON
TRINITY MIRROR

**5 Canada Square**
CREDIT SUISSE
BANK OF AMERICA

**8 Canada Square**
HSBC

**15 Canada Square**
KPMG

**20 Canada Square**
MCGRAW HILL
BP

**25 Canada Square**
CAREER ACADEMIES
CITI
CHINA UNICOM
CROSSRAIL
GFT GLOBAL MARKETS
HATFIELD PHILIPS
INSTINET
INVALDI CAPITAL
LEHMAN BROTHERS - IN ADMINSTRATION
LNR
LOCOG
MUNICH RE
MWB
PRESTIGE TICKETING
RICOH UK
SUNGARD
THINK LONDON
3i INFOTECH

**33 Canada Square**
CITI

**20 Bank Street**
MORGAN STANLEY

**25 Bank Street**
J.P. MORGAN

**40 Bank Street**
ANZ BANK
ALLEN & OVERY
CHINA CONSTRUCTION BANK
DUFF & PHELPS
ESPEED
JONES LANG LASALLE
LANGUAGE LINE
MIRAE ASSET GLOBAL INVESTMENTS
ORACLE FINANCIAL SERVICES
PREMIER FX INVESTING
SAXO BANK
SERVCORP
SHELL INTERNATIONAL
SITUS
SKADDEN, ARPS, SLATE, MEAGHER & FLOM

**50 Bank Street**
GOLDENBERG HEHMEYER & CO.
NORTHERN TRUST

**10 Upper Bank Street**
CLIFFORD CHANCE
FTSE
INFOSYS
MASTERCARD
TOTAL

**One Churchill Place**
BARCLAYS
BARCLAYS WEALTH MANAGEMENT
BGC INTERNATIONAL
LOCOG

**5 Churchill Place**
J.P. MORGAN
MF GLOBAL

**20 Churchill Place**
STATE STREET

Printed on Revive 100 Silk
manufactured from 100%
recycled waste.

CarbonNeutral®
protecting our climate

ALLEN & OVERY • ANZ BANK • THE BANK OF NEW YORK
MELLON CORP • BARCLAYS CAPITAL • BARCLAYS • BGC INTER
NATIONAL • THE CFA INSTITUTE • CHINA CONSTRUCTION BANK
CITI • CITIHUB • CLEARSTREAM INTERNATIONAL • CLIFFORD
CHANCE • CLYDESDALE BANK • COUTTS & CO • DILIGENCE
DUFF & PHELPS • EULER HERMES • FINANCIAL SERVICES AUTH
ORITY • FTSE • GLOBAL SAGE • GOLDENBERG HEHMEYER • HSBC
INTERNATIONAL BUSINESS TIMES • INFOSYS • INTERNATIONAL
GRAINS COUNCIL • INTERNATIONAL SUGAR ORGANIZATION
INTERQUEST • J.P. MORGAN • JONES LANG LASALLE • KNIGHT
FRANK • LANGUAGE LINE • LONDON 2012/LOCOG • MAHINDRA
SATYAM • MASTERCARD • METLIFE • MICHAEL PAGE • MIRAE
ASSET GLOBAL INVESTMENTS • MOODY'S INVESTORS SERVICE
NATWEST • THE NORTHERN TRUST COMPANY • NOVARTIS EURO
PHARM • NYE • ORACLE FINANCIAL SERVICES • REGUS • SAMSUNG
SAXO BANK • SERVCORP • SHELL • SITUS • SKADDEN, ARPS
SLATE, MEAGHER & FLOM • STATE STREET • TOTAL • TRINITY
MIRROR • ALLEN & OVERY • ANZ BANK • THE BANK OF NEW
YORK MELLON CORP • BARCLAYS CAPITAL • BARCLAYS
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