CANARY WHARF GROUP PLC

Extract from the Interim Report of the Group for the six months ended 30 June 2009. The Interim Report is currently being produced and will be distributed to Shareholders at a later date.

The information in these extracts does not comprise statutory accounts within the meaning of the Companies Act 1985.

HIGHLIGHTS

- At 30 June 2009 **the Group's investment portfolio** totalling 8.0m sq ft **was 97.7% let** including the Lehman building (31 December 2008 – 7.9m sq ft of which 99.7% was let).
- At 30 June 2009 **the weighted average lease term** for the investment portfolio **was 16.9 years** (or 14.7 years assuming the exercise of break options).
- **Operating profit** for the six months ended 30 June 2009 **decreased to £146.2m** from £178.8m as a result of the completion of work on two pre-sold properties. **Profit before tax was £98.3m** (six months ended 30 June 2008 – £82.9m).
- **The weighted average initial yield for the office portfolio valuation was 7.3%** at 30 June 2009, up by 40 bps since 31 December 2008. **The equivalent yield for the retail portfolio valuation was 7.2%** up by 60 bps in the period.
- **Including development sites, the market value of the property portfolio** to be retained **was £4,603.5m** at 30 June 2009 against £4,925.5m at 31 December 2008, **a reduction of 7.5%** adjusting for additions.
- **Net assets fell** from £1,664.3m at 31 December 2008 **to £1,514.3m** at 30 June 2009, **a reduction of £150.0m** or **9.0%,** primarily as a result of the fall in the value of the property portfolio.
- Adjusted **NAV per share reduced by £0.44 or 13.3%** from £3.32 at 31 December 2008 **to £2.88** and adjusted **NNNAV** per share **reduced by £0.34 or 10.0%** from **£3.38 to £3.04** over the period.
- At 30 June 2009 **the weighted average maturity of the Group's borrowings was 14.1 years** (31 December 2008 – 14.8 years) and **the weighted average cost of debt** at both dates **was 6.0%** (or 6.2% including credit wraps).
- **Practical completion achieved on 15 Canada Square,** a 0.4m sq ft building pre-sold to KPMG.
- **At 30 June 2009 construction continued on 0.6m sq ft** of which **0.3m sq ft** has been **pre-sold.** Subsequent to the period end, **practical completion was achieved on 5 Churchill Place, a 0.3m sq ft building** of which 83.0% is leased to JP Morgan Markets Limited.
- **Practical completion** also **achieved** subsequent to the year end **on the retail expansion** projects **at Churchill Place and Park Pavilion.**
- **Construction commenced on** the **Crossrail station** at Canary Wharf.

RESULTS IN BRIEF

	Unaudited Six months ended 30 June 2009 £m	Unaudited Six months ended 30 June 2008 £m
Rental income	**157.2**	139.7
Operating profit	**146.2**	178.8
Exceptional items:		
- share of associates' operating losses	**(5.2)**	–
- net gain on repurchase of securitised debt	**68.4**	–
Profit on ordinary activities before tax	**98.3**	82.9
Profit before tax excluding exceptional items	**35.1**	82.9
Tax	**(30.4)**	78.5
Profit for the financial period	**67.9**	161.4
Basic and diluted earnings per share	**10.6p**	25.3p

CHAIRMAN'S AND CHIEF EXECUTIVE'S STATEMENT

The first half of 2009 saw continuing difficult market conditions which in retrospect may prove to have been the bottom of the Real Estate cycle. Meanwhile Canary Wharf Group has remained well positioned. Contributing to this were its long average unexpired leases with upwards only rent reviews, high occupancy levels, relatively resilient average rental levels and an excellent retail offering. These factors combined with a healthy balance sheet and substantial cash reserves and the lack of speculative development provided stability to the company.

Following the period end as general market conditions have continued to ease and global capital markets have improved there has been some transactional evidence of stabilisation in values and an improvement in yields in the property sector.

This improvement has been evidenced by the current valuation of Canary Wharf properties conducted as at 14 September 2009 as part of the refinancing exercise of Songbird Estates plc ("Songbird"). This valuation reflects an overall increase of £17.5 million (0.5%) in the office portfolio and an increase of £20 million (4.9%) in retail since 30 June 2009.

The recently announced substantial investment in Songbird led by two of the world's largest investors - Qatar Investment Authority and China Investment Corporation, will provide the Group with a stable financial shareholder base. The investment is a vote of confidence in London as a global financial centre, in the Canary Wharf Estate and in the company's management.

As other signs of confidence returning to financial and real estate sectors appear, there is increasing activity and the Group is well positioned to take advantage of an upturn in the property cycle. The Group has the advantage of a large, unlevered land bank with the benefit of planning permission, construction speed, quality and cost efficiencies which will enable buildings to be provided rapidly when they are needed at Canary Wharf. The company is ready and able to exploit development of opportunities as they are identified given its proven expertise and skilled team backed by a strong financial position.

Property Valuations and Rental Levels

Prime office rents in Docklands have fallen 17.0 % over the first six month period to 30 June 2009 and by 21.9% in the 12 month period since 30 June 2008. However these reductions in the Canary Wharf area are less than those which are reflected in the Central London Prime Index, which is down by 31.4% over the same 12 month period and the City of London Prime Index, which is down by 21.1 % over the same six month period and 30.9% over the same 12 month period (Source: CBRE Prime Rent Index.)

The Group's asset valuations fell 5.5% over the six month period to 30 June 2009 and 25.1% in the 12 months to June 09 (or 20.0% over the 12 months if the Lehman Brothers building at 25 Bank Street is excluded). This compares with the IPD All Office (-13.7% and -31.4%) and City Office (-13.7% and -34.0%) indices in the same six month and 12 month periods to 30 June 2009. (Source IPD).

Financial

Net assets fell from £1,664.3m at 31 December 2008 to £1,514.3m at 30 June 2009, a reduction of £150.0m. The reduction was attributable to the fall in the value of the Group's investment properties over the period, partly offset by the profit after tax for the six months of £67.9m.

The first half of 2009 saw a further increase in initial yields of approximately 40 bps, taking the weighted average initial yield for the office portfolio to 7.3% (31 December 2008 – 6.9%). This movement in initial yields was reflected in the reduction in the market value of the company's property portfolio which at the half year was £4,603.5m in comparison with £4,925.5m at the end of 2008, a decline of 7.5% (See 'Business Review – Valuations').

Turnover excluding construction contracts for the first six months of 2009 was £189.4m, in line with the first half of the previous year (2008: £189.7m). Gross profit excluding construction contracts for the period was £138.3m in comparison with £137.8m for 2008.

The weighted average cost of debt of the period remained 6.2% and the weighted average maturity of debt is now 14.1 years.

On a like-for-like basis, pre-tax profit before exceptional items and the profit on construction contracts was £14.2m, against £24.1m for the previous year. The reduction was mainly attributable to a significant reduction in interest receivable as a result of the falls in market rates of interest witnessed over the last year.

CHAIRMAN'S AND CHIEF EXECUTIVE'S STATEMENT (continued)

The total profit before tax for the period of £98.3m compared with a profit for the six months ended 30 June 2008 of £82.9m. The profit for this period included a gain of £68.4m attributable to the repurchase of certain of the Group's floating rate notes in April 2009 and an exceptional charge of £5.2m in relation to the write-down of the investment in Wood Wharf. Excluding these exceptional items, the profit for the period was £35.1m in comparison with £82.9m for the previous year, a reduction of £47.8m mainly attributable to the timing of profit recognition on pre-sold properties which in turn is dictated by the timing of the works completed. For the six months ended 30 June 2009 £20.9m of profit was recognised on such long term contracts in comparison with £58.8m for the first half of 2008. This reduction was attributable to the completion of 20 Churchill Place in December 2008 and 15 Canada Square in April 2009.

Profit after tax for the six months ended 30 June 2009 was £67.9m in comparison with £161.4m for the previous year which included a deferred tax credit of £78.5m. For 2009 the tax charge of £30.4m comprised corporation tax of £12.8m and deferred tax of £17.6m.

Adjusted net asset value per share at 30 June 2009 was £2.88 in comparison with £3.32 at 31 December 2008, a reduction of £0.44. Adjusted NNNAV per share fell by £0.34 to £3.04.

Office

Design, planning and infrastructure work, including excavation and piling, continues on a new European headquarters for J.P. Morgan at Riverside South. This site was sold to J.P. Morgan in November 2008. The scheme has planning consent for up to 1.9m net sq ft.

During the period practical completion was achieved for 15 Canada Square, a 400,000 sq ft building pre-sold to KPMG. Fit out is underway and occupancy is expected in 2010. Subsequent to the period end, practical completion was achieved on 5 Churchill Place, a 314,000 sq ft building of which 262,000 sq ft is pre-let to JP Morgan Markets Limited. Practical completion is expected on 30 North Colonnade, a 330,000 sq ft building pre-sold to Fimalac for occupation by Fitch Ratings, in November 2009.

Morgan Stanley served notice in January 2009 to exercise a break option over their lease of six floors in 20 Cabot Square with effect from 1 February 2010, while still continuing to occupy or lease more than 1.0m sq ft in other buildings at Canary Wharf.

Drapers Gardens, the 300,000 net sq ft development in the City of London, is nearing practical completion on time and on budget. The Group is the Development Manager for the project and a 20.0% joint venture partner. Discussions are underway with potential occupants of this space.

The Group is a 25.0% joint venture partner in Wood Wharf immediately adjacent to the East of the Estate. Outline planning permission has already been received for 4.6m net sq ft of mixed, commercial, retail and residential development. During the period of review, detailed planning applications have been lodged for three office buildings on the northern side of the seven hectare site with floor space of 1.5m net sq ft.

The Group's investment portfolio was 97.7% let at 30 June 2009 with a weighted average lease term of 16.9 years or 14.7 years assuming all breaks are exercised.

In September 2008 Lehman Brothers, which leases 25 Bank Street from the Group, went into administration. Occupation by the Lehman Brothers administrator continues under the terms of lease, with the contracted rent currently continuing to be paid. Nomura currently sub leases from the administrator 350,000 sq ft out of the 1,023,000 sq ft leased by Lehman Brothers, with an additional 90,000 sq ft sub-let to other companies. After the reported period ended Nomura announced it was taking 541,000 sq ft of space in Watermark Place to complement its existing space at Nomura House. We anticipate that Nomura is likely to move to Watermark Place at the expiry of their sublease at the end of 2010/early 2011.

An arrangement with AIG, supported by cash collateral, provides, at the request of Canary Wharf, payment of the contracted rent due under the Lehman lease for a period of four years in the event of, and as from, whole or partial default on rental payments due under the lease. The four years of rent cover, which has yet to be triggered, gives the Group more flexibility and time to complete an occupational transaction on the building, especially given the potential upturn in the economy and constriction of supply of office space in Central London after 2010.

Retail

Retail tenant demand on the Canary Wharf Estate remains robust with a 98% occupancy level, despite difficult retail trading conditions in the wider economy and weekend closures on the Jubilee Line and Docklands Light Railway. These closures will result in significant upgrades to both lines and are likely to end in early 2010. Two new retail precincts, Churchill Place and The Park Pavilion totalling 37,500 sq ft reached practical completion prior to the period. These are now fully let and opening on schedule this year, with tenants such as Jamie's Italian, Barclays, Wahaca, the Parlour, Drake & Morgan and Rocket. Other new tenant signings include Charles Tyrwhitt, Kurt Geiger, Lloyds TSB, and Brown's Florists.

The Group's retail tenants will further benefit from KPMG, State Street, Fitch Ratings and Moody's opening new office space at Canary Wharf in 2009 and 2010, bringing approximately 7,000 additional workers to the Estate on a daily basis.

Transport Developments

Construction of the Crossrail project started in May 2009 when work began on the Canary Wharf Crossrail station. The station is being designed and constructed by the Group for a fixed price of £500m (of which the Group is contributing £150m). Above the station the Group has received planning permission for 100,000 square feet of retail space, a roof-top park and community facilities. This space will be retained by the Group after completion of construction of the Crossrail station.

Crossrail will benefit all of London, including Canary Wharf, bringing an additional 1.5m people within a 60 minute commute of Central London.

Work has been underway throughout the first half of 2009 on other transport improvements in the East London area, which will significantly enhance accessibility to Canary Wharf. These works will lead to increased capacity of 33% on the Jubilee Line; and 50% increased capacity on the Bank-Lewisham DLR line.

The other improvements underway in the local area include the DLR being extended to Woolwich, refurbishment of the East London Line, which reopens in 2010 and the recent agreement to include the Thames Clippers boat service on the Oyster Card system and to run increased services between London Bridge and Canary Wharf Pier.

Outlook

Despite the continued challenging economic climate, the Group is well positioned for the next property cycle, as land for development is held debt free and with most planning permissions in place. As stated above, reports suggest a contraction in the supply of office space in Central London after 2010 (Source CBRE Central London ViewPoint, July 2009).

Staff

We and the whole board would like to thank all our staff for their dedicated work during this challenging period.

BUSINESS REVIEW

The following 'Business Review' is intended to provide shareholders with an overall summary of the business of the Group both during the six months ended, and as at, 30 June 2009.

A list of defined terms used throughout this Interim Report is provided in 'Definitions'.

Property Portfolio

The Group is engaged in property investment and property development and is currently focused on the development of the Estate. The Group is also separately involved, through joint ventures, in the development of Wood Wharf and the redevelopment of Drapers Gardens. At 30 June 2009 the investment property portfolio comprised 16 completed properties (out of the 32 constructed on the Estate) totalling approximately 8.0m sq ft of NIA.

The properties of the Group are under lease to high quality tenants. At 30 June 2009 the weighted average unexpired lease term for the office investment property portfolio was approximately 16.9 years, including 25 Bank Street let to Lehman, or 14.7 years assuming the exercise of outstanding break options (31 December 2008 – 18.0 years or 15.2 years respectively). Of the square footage under lease, 65.9% does not expire or cannot be terminated by tenants during the next ten years.

At 30 June 2009 the investment property portfolio was 97.7% let including the 1,023,000 sq ft at 25 Bank Street occupied by the administrators of Lehman, Nomura and certain other tenants (31 December 2008 – 99.7%). As noted under 'Leases' below, a number of tenants have exercised options to determine their leases at various dates in the next year and if all such leases are taken into account the vacancy rate would rise to 6.9% prior to any reletting.

As well as the rental income generated from properties, income is generated from managing the entire Estate. This, in addition to the completed properties owned by the Group, and includes a further 16 completed properties totalling 7.0m sq ft which are in other ownerships.

Lehman

In September 2008 Lehman went into administration. However, occupation of Lehman's building at 25 Bank Street by the administrators has continued. Nomura has taken a two-year sublease of 350,000 sq ft of the 1,023,000 sq ft leased by Lehman which will expire in March 2011, subject to breaks in September and December 2010. An additional 90,000 sq ft is sub-let to tenants such as Jones Lang LaSalle and NYSE Euronext. An arrangement with AIG supported by cash collateral provides for payment of up to the full amount of the contracted rent in the event of whole or partial default on rental payments due under the lease for a period of four years from the date of any draw down on this arrangement following rental default. No such default has occurred at the date of this Interim Report.

Leases

The Group has received notice from Morgan Stanley of the exercise, with effect from 1 February 2010, of the break option relating to the lease of 20 Cabot Square. Morgan Stanley currently occupies approximately 345,500 sq ft over six floors at 20 Cabot Square and will continue to lease this space until February 2010 in accordance with the terms of its lease. Morgan Stanley will also continue to lease 546,500 sq ft at 20 Bank Street on a lease expiring in 2028 and to own and occupy the 448,500 sq ft building at 25 Cabot Square.

As part of the agreement with State Street covering the construction of its new headquarters at 20 Churchill Place, State Street has exercised options to determine its leases over two floors in One Canada Square totalling approximately 58,000 sq ft. In addition, State Street has exercised an option to sub-lease to the Group (for the remaining term of approximately nine years) one floor in One Canada Square, totalling approximately 26,200 sq ft, which was sub-leased from another tenant in the building. The options to determine these leases were granted to provide for the relocation of State Street to 20 Churchill Place, which completed in December 2008. State Street continues to occupy approximately 57,000 sq ft in One Canada Square on leases which expire in 2018.

Following its acquisition of Bear Stearns, JP Morgan has determined its leases over two floors in One Canada Square totalling approximately 48,000 sq ft. JP Morgan continues to occupy leases over three floors of One Canada Square totalling approximately 87,000 sq ft on leases which have a tenant break in April 2013. JP Morgan also has a short term lease over a further 22,100 sq ft.

In addition, breaks over 15,800 sq ft in One Canada Square have been exercised by other tenants, of which 2,400 sq ft is with effect from September 2009 and the remainder from January 2010. The Group is in negotiations to renew the leases on the majority of this space.

All options to sub-let space back to the Group have now been exercised. At 30 June 2009 the estimated net present value of sub-let liabilities was approximately £23.5m discounted at 6.2% being the Group's weighted average cost of debt (31 December 2008 – £20.6m, discounted at 6.2%). These sub-let commitments have been reflected in the market valuation of the Group's properties.

BUSINESS REVIEW (Continued)

Construction

In April 2009 the Group completed the construction of a 400,000 sq ft building at 15 Canada Square which was pre-sold to KPMG in November 2006. The profit on sale of this building has been recognised over the period of its construction. KPMG currently occupies 138,000 sq ft in One Canada Square on leases which are subject to break options exercisable on a maximum of four months' notice.

Construction continued on the following properties at 30 June 2009:

Property address	NIA sq ft	Expected/Actual completion date	Status
5 Churchill Place	314,000	August 2009	Completed on schedule. 262,000 sq ft pre-let to JP Morgan Markets Limited
30 North Colonnade	330,000	September 2009	Pre-sold to Fimalac for occupation by Fitch
	644,000		

In addition to the above, subsequent to the period end practical completion was achieved on the expansion of two of the Group's retail malls, including a new retail building adjoining One Canada Square, Park Pavilion. This expansion has provided a further approximately 37,500 sq ft of lettable retail space which is fully let to tenants including Barclays, Jamie's Italian, Lloyds TSB, Roka, Wahaca, Canteen and Drake & Morgan.

Development

The site at 25 Churchill Place can now accommodate approximately 515,000 sq ft of new development. At North Quay, planning consent has been granted for 2.4m sq ft. There is also further development capacity at Heron Quays West subject to acquiring the remaining leasehold interests on the site which are outside the control of the Group. Consent has been granted to increase the development of office space on this site to 1.3m sq ft. Consent has also been granted on the adjacent Newfoundland site for 0.2m sq ft of mixed use development.

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

	NIA m sq ft
Based on existing planning permissions:	
- 25 Churchill Place	0.5
- North Quay	2.4
- Heron Quays West	1.3
- Newfoundland	0.2
- Crossrail retail	0.1
	4.5
Sold to JP Morgan:	
- Riverside South	1.9
	6.4
Wood Wharf (25% share of 4.6m sq ft)	1.2

The site at Riverside South was acquired by JP Morgan in November 2008 and JP Morgan has instructed the Group to complete on its behalf the design and infrastructure works for a new European headquarters building. Should JP Morgan decide to proceed with full construction, the Group will act as Development and Construction Manager. If construction is postponed, or deferred altogether, the Group receives £76.0m representing a portion of the developer's profit related to the development. If JP Morgan proceed with full construction, additional fees are due.

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.

Construction work has also continued on Drapers Gardens. The scheme comprises approximately 300,000 sq ft of prime commercial development scheduled for completion in November 2009. The Group acquired 20.0% of the share capital in the companies that own the property and continues to act as Development Manager with responsibility for the day to day running of the scheme.

BUSINESS REVIEW (Continued)

Crossrail

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

The Group will design and construct the Crossrail station for a fixed price of £500.0m, of which £350.0m will be met from Crossrail's £15.9bn budget with the Group bearing the risk in relation to costs above the fixed price limit. The Group's 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) which may be required as part of proposed alterations to the London Plan. Accordingly, costs incurred on construction of the station will be allocated to the Group's properties held for development.

Construction commenced on the Crossrail station at Canary Wharf in early 2009. The station box is expected to be completed and handed over to CLRL by summer 2012. The first trains are due to run in 2017 when Crossrail opens for passenger service. Planning permission has also been granted for a 100,000 sq ft retail area 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 as at 30 June 2009, were £1,514.3m. In arriving at this total:

(i) properties held as investments were carried at £4,040.6m, which represents the market value of those properties of £4,247.5m at that date as determined by the Group's external valuers, CBRE, Savills and Cushman less an adjustment of £206.9m for tenant incentives;

(ii) the properties held for development were carried at £221.7m, representing their cost to the Group; and

(iii) the property under construction to be retained by the Group was carried at £142.9m, representing its cost to the Group.

Adjusting for additions, the valuation of the investment portfolio on the basis of market value reduced by £248.5m or 5.5% over the six months ended 30 June 2009. After allowing for adjustments in respect of lease incentives, the carrying value of the investment portfolio reduced by £217.9m over the period. This reduction was primarily driven by an increase in initial yields of approximately 40 bps as a result of which the weighted average initial yield of the office portfolio increased from 6.9% to 7.3%. At 30 June 2009 the weighted average equivalent yield for the office portfolio, which takes into account the valuers' forecast of future rental values, was 6.3% (31 December 2008 – 6.5%) and for the retail portfolio 7.2% (31 December 2008 – 6.6%). The directors are of the view that the low vacancy rate on the Estate, together with long unexpired average lease terms, position the Group to take advantage of any improvement in the economic outlook as and when it comes.

CBRE and Savills have provided a joint opinion as at 30 June 2009 that the market value of sites held for development, comprising North Quay, Heron Quays West, Newfoundland, 25 Churchill Place and Crossrail retail, was £186.0m. This compares with a carrying value for accounts purposes of £221.7m. In valuing the properties held for development, the valuers have allowed for estimated costs to complete, including an allowance for fit-out. In addition they have allowed for letting, disposal, marketing and financing costs. The market value of £186.0m represents a reduction of 34.0%, after additions, over the market value at 31 December 2008 and is £35.7m below the carrying value of the sites. In assessing the requirement for an impairment provision the directors have had regard to the net realisable value of the sites as supplied by the external valuers. On this basis the directors have concluded that no provision for impairment is required as at 30 June 2009.

The valuers also provided an opinion as at 30 June 2009 that the market value of the property under construction to be retained by the Group was £170.0m, in comparison with an historical cost of £142.9m. The market value of properties under construction to be sold was £329.5m, in comparison with the historical cost of £126.7m.

The market value of the property portfolio to be retained reduced by £374.1m or 7.5% over the period adjusting for additions. This reduction in value was driven by the factors referred to above.

BUSINESS REVIEW (Continued)

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.

		30 June 2009		31 December 2008	
	Note	**Carrying value £m**	**Market value in existing state £m**	Carrying value £m	Market value in existing state £m
Investment properties	1	**4,040.6**	**4,247.5**	4,245.5	4,483.0
Property under construction		**142.9**	**170.0**	125.7	182.5
Properties held for development		**221.7**	**186.0**	199.8	260.0
		4,405.2	**4,603.5**	4,571.0	4,925.5
Properties under construction held for sale	2	**126.7**	**329.5**	222.5	536.6
		4,531.9	**4,933.0**	4,793.5	5,462.1

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 30 June 2009 was £206.9m (31 December 2008 – £237.5m).

2 The carrying value in the balance sheet at 30 June 2009 is stated net of £120.7m (31 December 2008 – £229.1m) transferred to cost of sales, £9.5m (31 December 2008 – £0.4m) transferred to payments on account of pre-sold properties and £3.5m (31 December 2008 – £6.9m) of costs accrued in accordance with SSAP9. The market value in existing state also includes the present value of the minimum developer's profit which will be generated from Riverside South, discounted at 6.2% (31 December 2008 – 6.2%) being the Group's weighted average cost of debt. This amount excludes the profit already recognised in the profit and loss account on disposal of the site.

The valuations are based on assumptions which include future rental income, anticipated void costs, the appropriate discount rate or yield and, in the case of development properties, the estimated costs to completion. The valuers also make reference to market evidence of transaction prices for similar properties on the Estate.

Operating Results

The following review of the Group's operating results relates to the six months ended 30 June 2009. The comparatives relate to the six months ended 30 June 2008.

The turnover of the Group is generated primarily by the rents and service charges earned from its property interests on the Estate, together with the recognition of amounts in respect of work performed on long-term contracts. Turnover for the six months ended 30 June 2009 was £240.6m, against £327.8m for the six months ended 30 June 2008, of which rental income after UITF 28 was £126.6m (six months ended 30 June 2008 – £119.5m). The impact of UITF 28 was to reduce rental income by £30.6m in the six months ended 30 June 2009 (six months ended 30 June 2008 – £20.2m). Excluding the impact of UITF 28, rental income increased from £139.7m to £157.2m, an increase of 12.5%, primarily attributable to the benefit of rent reviews and fixed stepped rental increases. In the six months ended 30 June 2009 the Group recognised £14.9m of income in connection with the termination of certain leases on the Estate compared with £23.4m in 2008.

Service charge income increased from £33.5m to £36.3m and miscellaneous income, including insurance rents, reduced from £13.3m to £11.6m over the period, primarily as a result of lower insurance premiums.

The six months ended 30 June 2009 also included £51.2m recognised on the construction of development properties that have been pre-sold and are accounted for as long-term contracts in accordance with SSAP 9 (six months ended 30 June 2008 – £138.1m). The reduction in turnover from this source was accounted for by the completion of 20 Churchill Place for State Street in December 2008 and 15 Canada Square for KPMG in April 2009.

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 pre-sold properties. Rents payable and property management costs were £46.1m in comparison with £44.4m for the six months ended 30 June 2008. Taking into account service charge and miscellaneous income totalling £47.9m for the six months ended 30 June 2009 (six months ended 30 June 2008 – £46.8m), a surplus on property management of £1.8m was achieved (six months ended 30 June 2008 – a surplus of £2.4m).

The six months ended 30 June 2009 also included £6.5m of dilapidations and other costs attributable to the termination of leases in the period compared with £7.7m in the six months ended 30 June 2008. Provisions of £1.5m were released relating to a vacant leasehold property, rent support commitments and certain other obligations in the six months ended 30 June 2009. This compares with a release of £0.2m in the six months ended 30 June 2008.

BUSINESS REVIEW (Continued)

Cost of sales for the six months ended 30 June 2009 also included £30.3m (six months ended 30 June 2008 – £79.3m) of costs on construction of properties held for sale resulting in £20.9m of profit being recognised on such contracts (six months ended 30 June 2008 – £58.8m).

For the six months ended 30 June 2009 gross profit, or net property income, was £159.2m, a decrease of £37.4m against the six months ended 30 June 2008, attributable to the factors referred to above.

Administrative expenses for the six months ended 30 June 2009 were £13.7m in comparison with £18.8m for the six months ended 30 June 2008. The reduction in administrative expenses was primarily attributable to a reduction in leasing expenses and staff costs. Operating profit for the period was £146.2m, in comparison with £178.8m for the six months ended 30 June 2008. The decrease in operating profit of £32.6m was largely attributable to the decrease in profit recognised on pre-sold properties as a result of the completion of 20 Churchill Place and 15 Canada Square.

In the six months ended 30 June 2009, a charge of £5.2m was recognised in relation to the impairment of the Group's investment in WWLP. This amount has been treated as an exceptional item.

Net interest payable for the six months ended 30 June 2009 excluding exceptional items was £111.1m against £95.9m for the six months ended 30 June 2008. The increase was attributable to lower rates of interest earned on the Group's cash balances. 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 totalling £14.6m, the Group recognised a gain of £68.4m on the repurchase which has been treated as an exceptional item.

Finance costs incurred on the Group's outstanding construction loan of £5.1m were capitalised as part of the construction cost of 5 Churchill Place (six months ended 30 June 2008 – £2.1m).

The profit on ordinary activities after interest for the six months ended 30 June 2009 was £98.3m in comparison with £82.9m for the six months ended 30 June 2008. The results for the six months ended 30 June 2009 included an exceptional profit on the buy back of Notes described above and an exceptional charge in relation to the write-down of the investment in Wood Wharf. Excluding these items, the profit on ordinary activities after interest for the six months ended 30 June 2009 was £35.1m in comparison with £82.9m for 30 June 2008. The reduction in pre-exceptional profit of £47.8m was largely attributable to the timing of profit recognition on pre-sold properties and lower interest receivable.

Tax for the six months ended 30 June 2009, which comprised corporation tax of £12.8m and a deferred tax charge of £17.6m, has been calculated by reference to the anticipated effective tax rate for the year to 31 December 2009. During the six months ended 30 June 2009 the Group has recognised a deferred tax liability on the repurchase of Notes of £14.5m net of discounting and deferred tax assets on the provision for uneconomic hedges. During the six months ended 30 June 2008 the Group recognised deferred tax assets on unclaimed EZAs and timing differences arising from profit recognition on long term contracts which resulted in a credit of £78.5m in the period.

The profit for the financial period after tax for the six months ended 30 June 2009 was £67.9m in comparison with £161.4m for the six months ended 30 June 2008, the reduction being attributable to the matters outlined above.

Basic and diluted earnings per share for the six months ended 30 June 2009 was 10.6p (six months ended 30 June 2008 – 25.3p).

Adjusted earnings per share for the six months ended 30 June 2009, excluding exceptional items, was 3.3p, calculated on the profit after tax excluding the exceptional gain on the repurchase of certain Notes, the deferred tax charge thereon and the exceptional charge in relation to the Group's investment in Wood Wharf. There were no exceptional items in the six months ended 30 June 2008. In both periods, earnings per share was calculated by reference to the weighted average of 639.0m shares in issue. There were no instruments which gave rise to a dilution of earnings as defined by FRS 22 at either 30 June 2009, 31 December 2008 or 30 June 2008.

Tax

In 2008 EZAs were utilised to shelter most of the Group's taxable profits and gains arising. EZAs will continue to shelter a small part of taxable profits until they are abolished in April 2011 due to a change in law. This abolition of EZAs will result in approximately £6.2m of lost tax relief (31 December 2008 - £6.2m).

If the Group was to dispose of its property portfolio at the market value disclosed in this 'Business Review', a tax liability of £38.8m would arise (31 December 2008 – £78.5m). 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.

BUSINESS REVIEW (Continued)

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 30 June 2009 were £1,514.3m in comparison with £1,664.3m at 31 December 2008. The reduction in net asset value was primarily attributable to the revaluation deficit on investment properties of £217.9m partly offset by the profit after tax of £67.9m.

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 prior to the payment of dividends. 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 30 June 2009 is set out in the table below, which for comparison purposes also includes NNNAV per share.

	Note	**30 June 2009 £m**	31 December 2008 £m
Net assets per statutory balance sheet		**1,514.3**	1,664.3
Add back deferred tax		**70.5**	52.9
Net assets prior to deferred tax		**1,584.8**	1,717.2
Revaluation of property portfolio:			
- investment properties	1	**175.0**	155.0
- properties held for development	2	**(35.7)**	60.2
- property under construction to be retained	3	**27.1**	56.8
- properties under construction to be sold	4	**87.3**	130.2
Adjusted net assets		**1,838.5**	2,119.4
Fair value adjustments in respect of financial assets and liabilities less tax relief at 28.0% (31 December 2008 – 28.0%)		**230.8**	188.7
Contingent tax on property disposals	5	**(38.8)**	(78.5)
Undiscounted deferred tax		**(90.1)**	(67.8)
Adjusted NNNAV		**1,940.4**	2,161.8
Cumulative dividends paid since completion of the offer process	6	**1,104.2**	1,104.2
Adjusted NNNAV before dividends		**3,044.6**	3,266.0
Adjusted net assets per share	7	**£2.88**	£3.32
Adjusted net assets per share before dividends	7	**£4.61**	£5.04
Adjusted NNNAV per share	7	**£3.04**	£3.38
Adjusted NNNAV per share before dividends	7	**£4.76**	£5.11

Note:
1 The market value of 25-30 Bank Street included in the balance sheet at 30 June 2009 of £375.0m (31 December 2008 – £410.0m) excludes the benefit of the arrangement with AIG which provides for the payment of up to four years' contracted rent upon default by Lehman, as the arrangement cannot be transferred to a purchaser of the property. The market value of this building adjusted to include the arrangement with AIG is £550.0m (31 December 2008 – £565.0m). The valuation uplift does not allow for the ongoing commitment fees payable by the Group to AIG of approximately £3.6m per annum.
2 Revalued to market value in existing state. As noted under 'Business Review – Valuations' the directors have not recognised a provision for impairment in the Group's statutory balance sheet as the net realisable value of these properties exceeds the carrying value.
3 Revalued to market value in existing state.
4 Uplift to market value on pre-sold properties under construction of £202.8m (31 December 2008 – £314.1m) less cumulative profit of £115.5m recognised on properties under construction at 30 June 2009 (31 December 2008 – £183.9m) (refer to 'Business Review – Valuations').
5 Refer to 'Business Review – Tax'.
6 The company paid interim dividends as follows: 8 September 2005 – 65p (£407.7m); 30 December 2005 – 45p (£287.6m); 7 November 2006 – 48p (£306.7m) and 9 April 2008 – 16p (£102.2m).
7 Calculated by reference to the closing number of shares in issue of 639.0m (31 December 2008 – 639.0m). There were no dilutive instruments at either date.

BUSINESS REVIEW (Continued)

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

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

Borrowings

At 30 June 2009 net debt (after cash in hand and cash collateral) stood at £2,818.6m, down from £2,900.8m at 31 December 2008, and comprised:

	30 June 2009 £m	31 December 2008 £m
Securitised debt	**2,513.7**	2,637.5
Loans	**1,290.2**	1,305.6
Finance lease obligations	**41.4**	41.6
Construction loans	**119.1**	99.9
Total borrowings	**3,964.4**	4,084.6
Less:		
- cash collateral for borrowings	**(125.8)**	(135.0)
- cash collateral for construction	**(13.4)**	(25.1)
- other cash collateral	**(7.3)**	(12.4)
	3,817.9	3,912.1
Less: cash deposits	**(999.3)**	(1,011.3)
Net debt	**2,818.6**	2,900.8

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 below. For all of its loans, the Group was in compliance with its lending covenants at 30 June 2009 and throughout the period then ended.

The decrease in total borrowings from £4,084.6m to £3,964.4m reflects the repurchase of securitised debt and scheduled amortisation, partially offset by an additional £18.7m drawn down under the Group's construction loan facility. The reduction in cash and term deposits from £1,183.8m to £1,145.8m is primarily as a result of the funding of construction costs and the repurchase of securitised debt, partly offset by receipts in the period under the long-term contracts in relation to Riverside South and 15 Canada Square.

The weighted average maturity of the Group's borrowings at 30 June 2009 was 14.1 years (31 December 2008 – 14.8 years).

At 30 June 2009 the fair value adjustment in respect of the Group's financial assets and liabilities (excluding debtors and creditors falling due within one year) calculated in accordance with FRS 13 was an unrecognised asset of £320.6m before tax (31 December 2008 – asset of £262.1m).

The Group's weighted average cost of debt at both 30 June 2009 and 31 December 2008 was 6.0% excluding credit wraps (or 6.2% including credit wraps).

BUSINESS REVIEW (Continued)

Loan Covenants

The Group's loan facilities are subject to financial covenants which include maximum LTV ratios and minimum ICRs. The key covenants for each of the Group's facilities are as follows:

(i) CWF II securitisation, encompassing seven investment properties representing 64.6% of the investment property portfolio by value. Including the Notes repurchased, the principal amount outstanding at 30 June 2009 was £2,548.4m.

Maximum ratio of 100%. Based on the valuations at 30 June 2009, the LMCTV ratio at the interest payment date in July 2009 would have been 90.7%, excluding the £224.0m of cash collateral posted by AIG in respect of the 25 Bank Street facility, and 82.6% including such cash collateral.

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

(ii) Loan of £580.0m secured against One Churchill Place, representing 14.5% of the investment property portfolio by value.

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

(iii) Loan of £363.5m secured against 10 Cabot Square and 20 Cabot Square, representing 10.1% of the investment property portfolio by value.

Maximum LTV ratio of 85.0%. Based on the valuations at 30 June 2009 the LTV ratio at the interest payment date in July would have been 83.8%.

This facility is also subject to a minimum ICR test of 100%. During the period Morgan Stanley gave notice to break its lease on 20 Cabot Square with effect from February 2010. To prevent the serving of the notice leading to a breach of the minimum ICR test, a portion of the swap was broken at a cost of £8.1m and a new swap entered into which serves to fix the rate of interest at a weighted average, including margin of 5.6%. At this reduced interest rate, the ICR covenant was satisfied throughout the period and the board anticipates that this restructuring will enable the Group to meet its ICR covenants for the remaining term of the loan to January 2013.

The Group has the ability to remedy a breach of ICR or LTV covenants by depositing cash.

(iv) Loan of £350.0m secured against the principal retail and parking properties of the Group, representing 10.8% of the investment property portfolio by value.

Maximum LTV ratio of 75.0%, reducing to 70.0% from March 2010. In order to avoid a potential breach of covenant at the test date in April 2009 additional uncharged properties were added to the facility. In September 2009, the Group deposited cash collateral totalling approximately £8.0m. Reflecting this deposit, and based on the valuations at 30 June 2009, the LTV was 74.9%.

On 7 March 2009 the maximum ICR covenant increased from 110.0% to 120.0%. The maximum ICR covenant was satisfied throughout the period. The Group has the ability to remedy any further potential breach of covenant by depositing cash.

(v) Construction loan facility of £155.0m secured against 5 Churchill Place of which £119.4m was drawn down at 30 June 2009.

Maximum LTV ratio of 80.0% calculated on the value of the property at any time prior to conversion to an investment loan, reducing to 70.0% on conversion six months following practical completion with a requirement to cash collateralise any rent-free period at that time. Based on the valuation at 30 June 2009 the LTV was 70.2%. The Group has the ability to remedy a breach of covenant by depositing cash.

The loan will be subject to a minimum ICR of 110.0% from the date six months following practical completion of the property and has a final maturity of August 2012.

Cash Flow

Net cash inflow from operating activities for the six months ended 30 June 2009 was £217.8m in comparison with £54.0m for the six months ended 30 June 2008. Net cash received on properties in the course of construction held for sale was £62.4m in the six months ended 30 June 2009 in comparison with net expenditure of £117.2m for the six months ended 30 June 2008. Excluding the impact of such cash flows, operating cash inflows decreased from £171.2m to £155.4m. This decrease was primarily attributable to changes in working capital.

Returns on investments and servicing of finance resulted in an outflow of £128.0m for the six months ended 30 June 2009 compared with £89.5m for the six months ended 30 June 2008. The six months ended 30 June 2009 included £8.1m of swap breakage costs. No such costs were incurred for the six months ended 30 June 2008.

Capital expenditure and financial investment for the six months ended 30 June 2009 resulted in a cash outflow of £90.0m, compared with £78.5m for the six months ended 30 June 2008. The six months ended 30 June 2009 included £85.6m (six months ended 30 June 2008 – £74.9m) of development expenditure incurred on properties to be retained by the Group and funding of the Group's investment in associated undertakings of £4.3m (six months ended 30 June 2008 – £3.6m).

The financing cash outflow for the six months ended 30 June 2009 was £28.9m compared with an inflow of £24.8m for the six months ended 30 June 2008. The six months ended 30 June 2009 included £17.4m (excluding interest) drawn down under the Group's construction loan facility (six months ended 30 June 2008 – £31.8m). The six months ended 30 June 2009 also included £35.5m incurred on the partial buy back of the Group's securitisation Notes.

Risks and Uncertainties

The key risks and uncertainties identified by the Group continue to include the cyclical nature of the property market, financing risk, concentration risk and policy and planning risk. There is a risk that further softening of yields could put pressure on the loan to value covenants in the Group's facilities as detailed in 'Business Review – Loan Covenants'.

For further details relating to these risks and uncertainties and the way in which the Group manages such matters, refer to 'Risks and Uncertainties' and 'Treasury Objectives' in the 'Business Review' section of the 2008 Report and Financial Statements of the Group.

UNAUDITED CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE SIX MONTHS ENDED 30 JUNE 2009

Audited Year ended 31 December 2008 £m		**Unaudited Six months ended 30 June 2009 £m**	Unaudited Six months ended 30 June 2008 £m
697.2	Turnover	**240.6**	327.8
(288.9)	Cost of sales	**(81.4)**	(131.2)
408.3	**GROSS PROFIT**	**159.2**	196.6
(40.2)	Administrative expenses	**(13.7)**	(18.8)
1.5	Other operating income	**0.7**	1.0
369.6	**OPERATING PROFIT**	**146.2**	178.8
	Exceptional items:		
(23.2)	- share of associates' operating losses	**(5.2)**	–
118.6	- profit on sale of development property	**–**	–
47.0	Interest receivable	**9.9**	25.0
	Interest payable before exceptional item:		
(242.6)	- Group	**(120.8)**	(120.6)
(0.5)	- associates	**(0.2)**	(0.3)
	Exceptional item:		
–	- net gain on repurchase of securitised debt	**68.4**	–
(243.1)		**(52.6)**	(120.9)
268.9	**PROFIT ON ORDINARY ACTIVITIES FOR THE FINANCIAL PERIOD BEFORE TAX**	**98.3**	82.9
(19.4)	Tax	**(30.4)**	78.5
249.5	**PROFIT FOR THE FINANCIAL PERIOD AFTER TAX**	**67.9**	161.4
39.0p	Basic and diluted earnings per share	**10.6p**	25.3p

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

UNAUDITED CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE SIX MONTHS ENDED 30 JUNE 2009

Audited Year ended 31 December 2008 £m		**Unaudited Six months ended 30 June 2009 £m**	Unaudited Six months ended 30 June 2008 £m
	Profit for the financial period after tax:		
273.2	- Group	**73.3**	161.7
(23.7)	- share of losses of associates	**(5.4)**	(0.3)
(1,689.9)	Unrealised movements on revaluation of investment properties	**(217.9)**	(548.8)
(1,440.4)	**TOTAL RECOGNISED GAINS AND LOSSES RELATING TO THE PERIOD**	**(150.0)**	(387.4)

UNAUDITED CONSOLIDATED BALANCE SHEET AT 30 JUNE 2009

Audited 31 December 2008 £m		**Unaudited 30 June 2009 £m**	Unaudited 30 June 2008 £m
	FIXED ASSETS		
4,245.5	Investment properties	**4,040.6**	5,380.1
125.7	Properties under construction	**142.9**	92.4
199.8	Properties held for development	**221.7**	276.9
1.9	Other tangible fixed assets	**1.7**	0.8
22.7	Investments	**19.9**	28.0
4,595.6		**4,426.8**	5,778.2
	CURRENT ASSETS		
243.7	Debtors: due in more than one year	**210.0**	287.0
80.4	Debtors: due within one year	**54.2**	92.7
1,183.8	Cash at bank and in hand	**1,145.8**	944.1
1,507.9		**1,410.0**	1,323.8
(372.4)	Creditors: Amounts falling due within one year	**(373.1)**	(414.5)
1,135.5	**NET CURRENT ASSETS**	**1,036.9**	909.3
5,731.1	**TOTAL ASSETS LESS CURRENT LIABILITIES**	**5,463.7**	6,687.5
(3,995.4)	Creditors: Amounts falling due after more than one year	**(3,849.6)**	(3,949.2)
(71.4)	Provisions for liabilities	**(99.8)**	(21.0)
1,664.3	**NET ASSETS**	**1,514.3**	2,717.3
	CAPITAL AND RESERVES		
6.4	Called up share capital	**6.4**	6.4
	Reserves:		
146.2	- share premium	**146.2**	146.2
1,521.9	- revaluation reserve	**1,304.0**	2,663.0
0.7	- capital redemption reserve	**0.7**	0.7
264.8	- special reserve	**264.8**	264.8
(275.7)	- profit and loss account	**(207.8)**	(363.8)
1,664.3	**SHAREHOLDERS' FUNDS**	**1,514.3**	2,717.3

UNAUDITED CONSOLIDATED CASH FLOW STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2009

Audited Year ended 31 December 2008 £m		**Unaudited Six months ended 30 June 2009 £m**	Unaudited Six months ended 30 June 2008 £m
184.8	**Net cash inflow from operating activities**	**217.8**	54.0
(186.7)	Returns on investments and servicing of finance	**(128.0)**	(89.5)
59.2	Capital expenditure and financial investment	**(90.0)**	(78.5)
(102.2)	Equity dividends paid	**–**	(102.2)
(229.7)		**(218.0)**	(270.2)
(44.9)	**Cash outflow before management of liquid resources and financing**	**(0.2)**	(216.2)
–	Tax	**(8.9)**	–
107.3	Management of liquid resources	**26.0**	61.1
93.2	Financing	**(28.9)**	24.8
155.6	**(DECREASE)/INCREASE IN CASH IN THE PERIOD**	**(12.0)**	(130.3)
	Reconciliation of operating profit to operating cash flows		
369.6	Operating profit	**146.2**	178.8
0.6	Depreciation charges	**0.3**	0.1
(6.2)	Future receipts under lease termination agreements	**–**	–
22.4	(Decrease)/increase in debtors	**(4.0)**	2.0
(10.2)	Decrease in creditors	**(15.6)**	(27.4)
(4.6)	Expenditure charged to provisions	**(0.6)**	(2.5)
(0.1)	Movements in provisions	**(1.5)**	(0.1)
0.2	Amortisation of share option costs	**–**	–
45.5	Amortisation of lease incentives	**30.6**	20.2
74.3	Long term contract proceeds	**114.5**	15.1
(155.6)	Long term contract profits	**(20.9)**	(58.8)
(151.1)	Long term contract costs	**(31.2)**	(73.4)
184.8	Net cash inflow from operating activities	**217.8**	54.0
	Returns on investments and servicing of finance		
53.7	Interest received	**11.2**	30.1
(237.4)	Interest paid	**(129.1)**	(119.1)
(2.5)	Interest element of finance lease rentals	**(0.2)**	(0.5)
(0.5)	Financing expenses on loans drawn down	**(0.5)**	–
–	Swap breakage costs	**(8.1)**	–
	Financing expenses on repurchase of securitised debt (1)	**(1.3)**	–
(186.7)	Net cash outflow	**(128.0)**	(89.5)

Note:
1 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.

UNAUDITED CONSOLIDATED CASH FLOW STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2009 (Continued)

Audited Year ended 31 December 2008 £m		**Unaudited Six months ended 30 June 2009 £m**	Unaudited Six months ended 30 June 2008 £m
	Capital expenditure and financial investment		
(167.1)	Additions to properties	**(78.1)**	(74.9)
(1.3)	Acquisition of property interests	**(7.5)**	–
(1.6)	Purchase of tangible fixed assets	**(0.1)**	–
237.9	Sale of development property[2]	**–**	–
(8.7)	Investment in associated undertakings	**(4.3)**	(3.6)
59.2	Net cash (outflow)/inflow	**(90.0)**	(78.5)

Note:
2 In the second half of 2008 the Group received payment of £237.9m from the sale of Riverside South which resulted in a profit being recognised on disposal of £118.6m after allowing for the historical cost to the Group of £117.7m and fees of £1.6m. This was treated as an exceptional item.

Audited Year ended 31 December 2008 £m		**Unaudited Six months ended 30 June 2009 £m**	Unaudited Six months ended 30 June 2008 £m
	Financing		
(9.5)	Repayment of secured debt	**(7.3)**	(3.5)
(6.9)	Repayment of securitised debt	**(3.5)**	(3.5)
50.0	Draw down of securitised debt	**–**	–
59.6	Draw down of construction loan	**17.4**	31.8
–	Repurchase of securitised debt[3]	**(35.5)**	–
93.2	Net cash (outflow)/inflow	**(28.9)**	24.8

Note:
3 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.

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

DEFINITIONS

Administrator	Price Waterhouse Coopers
AIG	American International Group, Inc
Ballymore	Ballymore Properties Limited
bn	billion
board	Board of directors of Canary Wharf Group plc
bps	Basis points
BWB	British Waterways Board
CBRE	CB Richard Ellis Limited, Surveyors and Valuers
CLRL	Cross London Rail Links Limited
company	Canary Wharf Group plc
Cushman	Cushman & Wakefield, Real Estate Consultants
CWF II	Canary Wharf Finance II plc
CWHL	Canary Wharf Holdings Limited
Drapers Gardens	Drapers Gardens scheme in the City of London
Estate	Canary Wharf Estate including Heron Quays West, Riverside South and North Quay
EZAs	Enterprise Zone Allowances
Fimalac	F Marc de Lachariere
Fitch	Fitch Ratings Limited
FRS 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)
Group	Canary Wharf Group and its subsidiaries
HMRC	Her Majesty's Revenue and Customs
ICR	Interest Cover Ratio
Lehman	Lehman Brothers Limited (in administration)
Lloyds	Lloyds Banking Group
LMCTV	Loan Minus Cash to Value
London Plan	Mayor of London planning document published by the Greater London Authority
LTV	Loan to Value
m	million
Morgan Stanley	Morgan Stanley & Co Limited
MS	Morgan Stanley European Real Estate Special Situations II Offshore Inc
MSREF V	Morgan Stanley Real Estate Fund V
NAV	Net Asset Value
NIA	Net Internal Area
NNNAV	Triple Net Asset Value
Nomura	Nomura International plc
Notes	Notes of the Group's securitisation
Omega	Omega Land Holding II BV
Prudential	Prudential Retirement Income Limited
S&P	Standard & Poors
Savills	Savills Commercial Limited
Songbird	Songbird Estates plc
sq ft	Square feet/square foot
SSAP 9	Statement of Standard Accounting Practice 9 (Stocks and long term contracts)
TfL	Transport for London
Trust	Canary Wharf Employees' Share Ownership Plan Trust
UITF 28	Urgent Issue Task Force 28 ('Operating leases')
UKGAAP	United Kingdom Generally Accepted Accounting Practice
VAT	Value Added Tax
WWLP	Wood Wharf Limited Partnership