**CANARY WHARF GROUP PLC**

Extracted from the Interim Report of the Group for the six months ended 30 June 2013. The Interim Report for the half year ended 30 June 2013 is currently being produced and will be distributed to shareholders at a later date. The information in this extract does not comprise statutory accounts within the meaning of the Companies Act 2006.

## HIGHLIGHTS (i)

**Portfolio valuation continues to advance**

- Portfolio valuation up 2.6% to £5,673.0m over the period, including land and adjusting for property acquisitions and other capital expenditure.
- Market value of investment portfolio up 2.3% over the period.
- Retail investment portfolio performing well – valuation up 6.7% in the half year.
- Office investment portfolio valuation up 1.6%.
- Benchmark initial yield unchanged at 5.0%.

**Financial summary**

- Net assets £2,626.7m at 30 June 2013, an increase of £128.3m or 5.1% from £2,498.4m at 31 December 2012.
- Adjusted net assets per share £4.46 compared with £4.22 at 31 December 2012, an increase of 5.7%.
- Adjusted NNNAV per share £3.58 compared with £3.11 at 31 December 2012, an increase of 15.1%.
- Profit before tax £2.6m (6 months ended 30 June 2012 – £3.2m).
- Profit after tax £4.8m (6 months ended 30 June 2012 – £5.9m).

**Secure income stream**

- Weighted average lease term 14.6 years or 13.4 years assuming exercise of all break options.
- Lettings of approximately 100,000 sq ft, subsequent to the period end.

**Secure financial position provides foundation for Group's strategy**

- Average loan maturity of 12.5 years compares with weighted average lease term.
- Drawdowns commenced under £190.0m construction loan facility secured against 25 Churchill Place.

**Development programme pipeline progressing well**

- **25 Churchill Place** – construction continues on schedule and within budget.
- **Canary Wharf Crossrail station** – on schedule and within budget. Construction continues on 115,000 sq ft of retail space above the station, opening on a phased basis between 2015 and 2018.
- **Retail expansion** – 44,000 sq ft expansion of Jubilee Place mall on schedule to open in November 2013, of which 92.3% is currently let or in solicitors' hands.
- **Joint ventures:**
  - **20 Fenchurch Street** – 57.0% let with negotiations on a further 100,000 sq ft.
  - **Shell Centre** – conditional planning consent achieved in May 2013 although now subject to call in by the Secretary of State.

**Investment portfolio**

- **Level39** – Europe's largest accelerator space for technology opened in March 2013.
- **Level 42** – approval for the conversion of an additional floor in One Canada Square to expand the offering to high growth companies.
- **7 Westferry Circus** – 177,700 sq ft building on the Estate acquired in March 2013 for £46.6m.
- **15 Westferry Circus** – 171,000 sq ft building on the Estate acquired subsequent to the period end.
- **Refurbishment of One Canada Square** substantially complete at cost of £34.0m.

Note:
(i) Refer to Business Review.

**RESULTS IN BRIEF**

| | Note | **Unaudited Six months ended 30 June 2013 £m** | Unaudited Six months ended 30 June 2012 £m |
|---|---|---|---|
| Rental income | (i) | **134.6** | 130.3 |
| Exceptional item:<br>– refurbishment costs | (i) | **(6.0)** | – |
| Operating profit | (i) | **89.9** | 103.5 |
| Exceptional item:<br>– movement in uneconomic hedge provision | (ii) | **11.0** | 0.4 |
| Profit on ordinary activities before tax | | **2.6** | 3.2 |
| (Loss)/profit before tax excluding exceptional items | (i) | **(2.4)** | 2.8 |
| Tax | (iii) | **2.2** | 2.7 |
| Profit after tax | | **4.8** | 5.9 |
| Basic and diluted earnings per share | (iv) | **0.8p** | 0.9p |

Note:
(i) Refer to Business Review – Operating Results.
(ii) Refer to Note 2.
(iii) Refer to Note 3.
(iv) Refer to Note 4.

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER'S OPERATIONAL STATEMENT

### Introduction

In the 6 months to 30 June 2013, the Group has made significant progress on its development and construction activities whilst laying foundations for the next phase of our development programme. This will encompass a significant residential component in addition to office and retail. During this period the existing portfolio moved up in value, reflecting the quality of properties and a more positive economic backdrop.

Whilst building on the strength of our portfolio at Canary Wharf, the diversification of our product continues to demonstrate our commitment to broadening our reach. Efforts have been intensified beyond the Canary Wharf Estate portfolio in the City with the 20 Fenchurch Street building, on the South Bank with the Shell Centre development and with the Wood Wharf development which is adjacent to the Canary Wharf district. We value the contribution of the communities with which we are involved and, to that end, an extensive community engagement has been instigated both at the Shell Centre and more recently at Wood Wharf. We will continue to ensure that we understand local needs and find ways for our developments to bring benefits for everyone.

There has been clear evidence of growing demand in the office letting market and early signs of a tightening of supply in our core markets. At Canary Wharf, this has been reflected in office lettings by the Group of around 100,000 sq ft and other substantial lettings on the Estate, the bulk of which have been concluded since the end of June. We continue to enjoy sustained retail strength at Canary Wharf where there are no current vacancies and high levels of demand for newly created space. At 20 Fenchurch Street 57.0% of space is now let, including a spectacular sky garden restaurant. The success of the Level39 project at One Canada Square is evident after only being open for a few months. The space is already full of aspiring young TMT companies and entrepreneurs prompting the opening of a 'High growth space' on level 42 in the building.

We have the largest pipeline of any London developer and we are financially well positioned to deliver this 10.8m sq ft of demand led development and also take advantage of the opportunities for development and rental growth that this vibrant city's property market has to offer.

### Financial Review

Net assets totalled £2,626.7m at 30 June 2013, representing an increase of £128.3m or 5.1% from £2,498.4m at 31 December 2012. This increase was mainly attributable to the revaluation surplus on investment properties of £123.5m and to the profit after tax for the 6 months of £4.8m. Adjusted NAV per share was £4.46 at 30 June 2013 compared with £4.22 at 31 December 2012, an increase of 24p or 5.7%.

Adjusted NNNAV per share at 30 June 2013 was £3.58 compared with £3.11 at 31 December 2012, an increase of 15.1%. This increase in adjusted NNNAV was greater than the increase in adjusted NAV as a result of favourable valuation movements in the Group's interest rate swaps and securitisation Notes.

The portfolio valuation continued to move ahead. The retail portfolio again performed particularly well, increasing by 6.7% in the 6 months, reflecting a slight hardening in yields, progress with the expansion of Jubilee Place mall and growth in passing rents. The valuation of the office portfolio was up by 1.6% in the period and this resulted in an overall increase in the investment portfolio of 2.3%. Including development sites, the market value of the total portfolio, adjusting for property acquisitions and capital expenditure, increased by 2.6% in the 6 months.

The weighted maturity of the Group's loan facilities was 12.5 years which compares favourably with the weighted average unexpired lease term.

### Operational Review

#### Leasing

Occupancy levels in the Group's investment portfolio at Canary Wharf stood at 95.3% at 30 June 2013, increasing to 96.0% following recent lettings. The weighted average lease term is 14.6 years or 13.4 years, assuming exercise of all break options.

At Canary Wharf, after a relatively subdued start to the year, enquiry levels have increased significantly. This is reflected in the 2 major lettings concluded immediately subsequent to the period end. Shell has agreed to take a further 38,225 sq ft in 40 Bank Street and this was followed by the letting of 54,000 sq ft on levels 7 and 8 in One Canada Square.

The enduring demand for high quality retail space at Canary Wharf is evident as 100.0% of the existing units continue to be occupied. Significantly, during the period a series of leading brands such as Banana Republic, Orlebar Brown, Asics, Wolford, Michael Kors, Monica Vinader, Godiva and Le Pain Quotidien announced that they will open branches in the 44,000 sq ft Jubilee Place shopping mall extension when it opens its doors in early November 2013. All 27 units in this extension are now let, in solicitors' hands or under offer and the new brands will be welcome additions to the carefully selected retail mix. The lettings success in the Jubilee Place mall expansion further highlights that Canary Wharf is an attractive destination for leading retailers where the retail offering caters for both the existing work force and visitors alike.

The retail offer at Canary Wharf will be further enhanced by 115,000 sq ft of new leisure and retail space which is currently under construction across 4 levels above the Canary Wharf Crossrail station. This retail space is already attracting substantial interest 2 years before the first phase opens in 2015 with around 50.0% of the 88,000 sq ft now let, in solicitors' hands or under offer. Phase II, which will comprise 27,000 sq ft is due to open in 2018 when the station itself opens for use.

In the City, we have taken advantage of the strength in the insurance sector during the period, with ongoing momentum in the leasing activity at 20 Fenchurch Street, a joint venture with Land Securities. Over 380,000 sq ft in this building is now prelet to 7 different tenants and the joint venture looks forward to announcing more pre let activity before its completion in 2014.

**Investment Portfolio**

Following the reacquisition of 7 Westferry Circus and 15 Westferry Circus, the investment portfolio of the Group at Canary Wharf has increased to 7.4m sq ft. 7 Westferry Circus was originally sold by the Group in November 2005 for £96.6m and then reacquired in March 2013 for £46.6m. In August, 15 Westferry Circus was reacquired for £128.0m, funded by way of a 3 year loan facility; the Group also assumed a £11.4m liability on a related out of the money swap. These acquisitions will help us in leveraging our position and knowledge of the Estate to reposition these assets so that they are more attractive to a broader range of occupiers.

**Construction and development pipeline**

As mentioned earlier, we have the largest pipeline of any London developer and our status as an integrated developer means we have a track record of completing projects both on time and to budget. We currently have planning permission for 9.45m sq ft of mixed use space in the pipeline at Canary Wharf and at the adjacent Wood Wharf site. Although permission was secured in May by the joint venture with Qatari Diar for the 1.40m sq ft mixed use redevelopment of the Shell Centre site, the application has since been called in by the Secretary of State (see Shell Centre paragraph below).

**At Canary Wharf:**

*25 Churchill Place*
The completion of 25 Churchill Place is on track. The installation of cladding and building services is now in progress and the European Medicines Agency is due to occupy 250,000 sq ft in mid 2014. This is the final building in the original masterplan for Canary Wharf and the remaining 275,000 sq ft is being marketed while construction completes.

*Newfoundland*
In June, we submitted planning permission to Tower Hamlets council for a residential development at the western end of the Estate. If successful, the development will be the first fully residential tower on the Canary Wharf Estate, containing around 550 apartments. We are excited about the prospect of introducing high quality residential development to the Canary Wharf Estate.

*Additional sites*
Approval for an approximately 700,000 sq ft building on the Heron Quays West site has recently been obtained and planning consent for the additional site at One Park Place remains under review.

*Crossrail*
In May and June, the Crossrail project celebrated one of its biggest milestones so far when tunnelling machines, Elizabeth and Victoria, entered the Canary Wharf station box. This was a symbolic moment for the project and represented a large and tangible step towards the implementation of a new world class rail line which will vastly benefit Londoners by reducing travel times and enhancing capacity. The Group is proud to be building this station at Canary Wharf which is on budget and on schedule.

The opening of the Canary Wharf Crossrail station will double the resilience of the existing strong transport links at the Estate, improve connectivity and significantly reduce journey times from other parts of London, raising its attractiveness as an office, retail and residential destination.

**CHAIRMAN AND CHIEF EXECUTIVE OFFICER'S OPERATIONAL STATEMENT (Continued)**

*Wood Wharf*
In April, the Group appointed Allies and Morrison, an architecture and urban planning practice, to help evolve the masterplan for the proposed development of the waterfront mixed use 20 acre site at Wood Wharf. The practice will lead on the design of the masterplan for the site, with Terry Farrell and Partners consulting on the scheme as it moves towards a planning application later this year. The design work is being done in close consultation with the local community and London Borough of Tower Hamlets, and will respond to the shift in the style of working environments seen across London. The revised development will contain 1.8m sq ft of office space, 2.6m sq ft of residential and 0.26m sq ft of retail. The development is being designed to accommodate the future needs of growing business sectors such as TMT and will be another major step for the regeneration of this part of London.

**Away from Canary Wharf:**

*20 Fenchurch Street*
The Rafael Vinoly designed 20 Fenchurch Street development remains on budget and on time and is due to complete in April 2014. The 37 storey building with 3 storey sky garden is proving popular with the insurance community in whose centre it is located.

*Shell Centre*
The Shell Centre redevelopment on London's South Bank was approved by Lambeth Council's Planning Committee in May and by the GLA on 17 July 2013. We were, however, notified on 4 September 2013 that the Secretary of State for Communities and Local Government has called in the application to redevelop this site. This decision is disappointing, not only to us and our joint venture partners Qatari Diar, but also to the Lambeth Borough Council and the Mayor of London who had strongly supported and approved the proposed scheme. Support for this scheme, which was designed to be sympathetic to the heritage and character of the local area, has also been expressed by the local community through the extensive consultation process. This decision may delay the project and could jeopardise the supply of new homes including affordable housing, the Section 106 benefits for Lambeth, thousands of jobs and the regeneration of the local area. We will now be working with our joint venture partner to consider the most effective means of addressing this situation.

**TMT**

Our ambition to attract tenants from London's growth markets, including the TMT sector, to Canary Wharf and later to the Wood Wharf development, took a significant step forward during the period with the launch of the Level39 project. Level39 is Europe's largest accelerator space for financial, retail and future city technologies and is based at One Canada Square. It has been a huge success. Over 250 applications have been received and all desk spaces have now been let on Level39. As a result of this demand, a second floor is being opened to accommodate more, high growth TMT companies. This is the start of a new ecosystem at Canary Wharf, which we aim to continue to nurture within our existing and future space. One example of this is the Level39 Future Cities initiative, a partnership with the Future Cities Catapult, which aims to help UK businesses develop cutting edge, high value urban solutions and sell them to the world.

Improved infrastructure is critical to growth and investing in these kinds of initiatives will be integral to the success of the Group and to London's competitiveness as a place to invest. The built environment at Canary Wharf is one of the most technologically advanced in London, making it a fitting place to push boundaries in future cities technology, as well as a source of capital for companies pioneering in this sector.

A further testament to our commitment to transport and digital connectivity is the decision to install 02's fast, free wifi across the whole Estate which is a natural next step in providing tenants with the services they expect from London's primary business centre.

**Sustainability**

We are pleased to have achieved a commendable GRI accredited B+ ranking for our sustainability performance in 2012 and our 2012 Sustainability Report is now GRI compliant.

The B+ mark indicates a move towards a rigorous and transparent approach to sustainability reporting, reflecting the significant work the Group does in and around Canary Wharf with local communities, suppliers, investors and all other stakeholders. This further underpins our commitment to assuring transparency and setting and meeting targets in this area. The report is also aligned with EPRA Best Practices Recommendations on Sustainability Reporting. Reporting against best practices in this area means assuring best practice standards and transparency performance and setting clear targets for the future.

**Board/Staff**

After a period of 7 years as a director, Robert Falls is leaving the Board to pursue new opportunities in the real estate market. Robert has been a source of valued advice and support during his time as a director and we wish him every success for the future. Robert will be replaced by Olivier de Poulpiquet who is a Managing Director at Morgan Stanley and Co Chief Executive Officer globally of Morgan Stanley Real Estate.

We are maintaining our construction and letting programmes whilst also devoting considerable time and resource to progressing our development pipeline. All of this requires, considerable commitment and hard work from staff at all levels for which the Board continues to be grateful.

**Conclusion**

It is encouraging to see the London property market demonstrating signs of strengthening and it is a source of pride that the Group has remained a consistent and present force in the market place throughout the difficult conditions of recent years. Sentiment has been gradually improving throughout the period and this is slowly translating into more activity. There has been a spate of deals in various parts of London in recent months, including the August announcement that KPMG is to acquire a further 200,000 sq ft in 30 North Colonnade at Canary Wharf. Interest and viewings at Canary Wharf have doubled in the last 6 months and the progression of our development pipeline, positions the Group well to take advantage of the strengths of the London market. Building blocks are being put in place to broaden our product, location and tenant bases which will, in particular accommodate residential development and the burgeoning TMT sector. This positions us well to capitalise on rising valuations and rents, and to provide London with the flexible, bespoke space it needs. We are looking forward to the future with confidence in the London market in which our Company is an important player.

## BUSINESS REVIEW

The following Business Review is intended to provide shareholders with an overall summary of the business of the Group, both during the 6 months ended and also as at 30 June 2013. Where applicable, it also summarises significant events which have occurred subsequent to this date.

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

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

### Investment Portfolio

At 30 June 2013, the Group's investment portfolio comprised 17 completed properties (out of the 35 constructed on the Estate) totalling approximately 7.2m sq ft of NIA.

In March 2013, the Group acquired the long leasehold interests in 7 Westferry Circus at Canary Wharf for £46.6m plus SDLT and fees. This building was originally constructed by the Group in 1992 and sold in November 2005 for £96.6m. The building totals 177,700 sq ft across 8 floors and includes 157,100 sq ft of office space and 15,500 sq ft of retail space. The office space is fully let to EMA until December 2014. Following EMA's move to its new offices at 25 Churchill Place, the Group intends to refurbish the office space and market the building. The retail space in the building is fully let to a range of tenants including Starbucks, Pret A Manger and Savills.

The weighted average unexpired lease term for the investment property portfolio at 30 June 2013 was approximately 14.6 years, or 13.4 years assuming the exercise of outstanding break options (31 December 2012 – 15.5 years or 14.2 years respectively). The reduction of 0.9 years since the year end reflects the acquisition of 7 Westferry Circus in the period which is let on a lease expiring in December 2014. On a like for like basis, the weighted average unexpired lease term at 30 June 2013 would have been 15.0 years or 13.7 years assuming the exercise of all break options.

Subsequent to the period end, in July 2013, the Group acquired 15 Westferry Circus, a 171,000 sq ft building on the Estate, fully let to Morgan Stanley on a lease expiring in August 2026. As consideration for the acquisition, the Group paid approximately £128.0m, fully funded by way of a 3 year loan facility, and has assumed a pre existing senior interest swap which was secured against the building and had an out of the money position of £11.4m. This property was originally constructed by the Group in 2002 and sold in 2005 for consideration of £134.8m. As a result of this building being reacquired, the Group's portfolio had increased to 7.4m sq ft at the date of this report.

The investment property portfolio was 95.3% let at 30 June 2013 (31 December 2012 – 95.5%). 69.2% of the square footage under lease to office tenants does not expire, or cannot be terminated by the tenants, during the next 10 years.

As well as the rental income generated from properties owned by the Group, income is generated from managing the entire Estate which, in addition to the 17 completed properties owned by the Group at 30 June 2013, included 18 properties totalling 8.5m sq ft in other ownerships.

#### One Canada Square

In the first half of the year, the Group substantially completed an extensive refurbishment of the mechanical and engineering systems in One Canada Square, a multi let building of over 1.2m sq ft at the heart of the Estate. The total spend was approximately £34.0m plus VAT which was incurred over the last 5 years. This total has now been analysed to determine the extent to which works related to repairs or capital expenditure as applicable. As a result, it is anticipated that capital allowances will be claimed on approximately £29.0m of expenditure. The balance of £5.0m (or £6.0m including irrecoverable VAT) has been classified as repairs and taken to the profit and loss account in the period. This adjustment is included within cost of sales and disclosed as an exceptional item, but is net asset neutral.

#### Level39

In March 2013 Level39, Europe's largest accelerator space for financial, retail and future technologies, was opened by the Mayor of London, Boris Johnson. Level39 provides office space for tech companies as well as events and social space designed to help these growing businesses create, test the market and deliver world class financial, retail and future city technology products and services. The aim is that by attracting high growth technology companies to Level39 they will then view space at Canary Wharf and Wood Wharf as attractive long term options.

Since opening, the facility has hosted a significant number of events targeting the TMT sector and has achieved 100.0% occupancy. There are currently applications from over 80 additional high tech companies looking to locate to Level39. The success of Level39 has already resulted in a number of these existing tech companies expanding and, with the demand for more space, a high growth technology floor has been created on level 42 where these growing companies are now being housed.

**BUSINESS REVIEW (Continued)**

**Leasing**

At 20 Fenchurch Street, the Group is acting as joint development manager with Land Securities. The joint venture let 66,300 sq ft to Liberty Syndicates in February 2013, together with 51,000 sq ft to Liberty Mutual. Markel has now taken an additional 24,500 sq ft in the building increasing its total letting to 74,500 sq ft. At the date of this report, 57.0% of the space is let, including all the retail space in the sky garden at the top of the building which is let to Rhubarb. The joint venture is currently in negotiations on over 100,000 sq ft and expects to let further space ahead of practical completion in April 2014.

At Canary Wharf, after a relatively quiet start to the year, the level of enquiries and tenant presentations has increased significantly. During this period the number of viewings has doubled in comparison to the second half of 2012. In the last 3 months of the period, proposals were made to 24 companies of which 7 were on over 100,000 sq ft of space, 6 were between 30,000 sq ft and 100,000 sq ft and 11 were under 30,000 sq ft.

Subsequent to the period end, Shell agreed to take a further 38,225 sq ft across 2 floors in 40 Bank Street, taking its total space in this building to 225,000 sq ft. The latest lease is at a rent of £36.00 psf for a term of 5 years, subject to a 9 month rent free period and a break option at year 3. Secure Trading, a Fintech company, is under offer on part of level 19 measuring 6,243 sq ft, at a rent of £40.00 psf on a 10 year lease with a break option at year 5.

In One Canada Square, levels 7 and 8 totalling 54,000 sq ft have just been let in their existing condition for a term of 5 years subject to annual breaks after the first 2 years. In addition the firm of accountants Kingsley Hamilton took a further 1,154 sq ft of expansion space at a rent of £40.00 psf on a lease expiring on 31 October 2017.

In terms of space under offer, a recruitment company is taking 2,594 sq ft on part of level 28 at £42.50 psf on a 5 year lease with a break option at year 3 and a broker on part of level 28 is taking 1,241 sq ft at a rent of £41.00 psf on a 3 year term.

All options to sublet space back to the Group have been exercised and at 30 June 2013 the estimated net present value of sublet liabilities was approximately £22.1m discounted at 5.8%, being the Group's weighted average cost of debt (31 December 2012 – £26.1m discounted at 6.2%). These sublet commitments have been reflected in the market valuation of the Group's properties.

**Retail**

At 30 June 2013, the retail malls at Canary Wharf continued to be fully let with demand from both new entrants and existing occupiers looking to expand. In Canada Place Mall, Boots expanded into the space formerly occupied by Fat Face and has been able to extend the cosmetics range in the store as a result. HMV continued to trade following its being placed into administration in January 2013 as the Canary Wharf unit was one of the core group of units which was acquired by the new owners when the business emerged from administration.

In Cabot Place, the unit formerly occupied by Jessops, which was also placed into administration in January 2013, was acquired by Ryman at an increased rent. In One Canada Square, a new food retailer, Pure, was introduced to replace a food outlet that was under performing. The Group will continue to actively manage the existing retail portfolio.

At Jubilee Place, construction began in February 2012 on the 44,000 sq ft expansion of the mall which will open for trade on 1 November 2013. The retail brands due to open include Banana Republic, COS, The White Company, bareMinerals, Rituals, Oliver Bonas, Emmett Shirts and Le Pain Quotidien, alongside independent swimwear designer Orlebar Brown. At the date of this report, 22 of the 27 new units had exchanged and 3 were in solicitors' hands, taking the total committed to 92.3% of the available space and 90.5% of total income. The final 2 units are at heads of terms.

Construction is progressing well on the 115,000 sq ft of retail and leisure accommodation above the Canary Wharf Crossrail station, of which 100,000 sq ft is retail. Within the development 87,000 sq ft is scheduled to open for trade in April 2015, ahead of the actual station opening in 2018. The first 4 lettings have now exchanged and 2 more are in solicitors' hands, which in total represents 35.0% of both the available space and total income.

**Construction**

As well as the retail expansion projects, work continued towards completion of 25 Churchill Place, a new 525,000 sq ft office building. In August 2011, EMA agreed a prelet of 250,000 sq ft in this building which is on schedule to complete in mid 2014.

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

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

As well as the construction projects at Canary Wharf, the Group is also acting as construction manager for the development at 20 Fenchurch Street (see Business Review – 20 Fenchurch Street).

**Crossrail**

Construction commenced on the Canary Wharf Crossrail station in May 2009 and has progressed ahead of schedule. The station will be delivered to CRL for a fixed price of £350.0m and the Group bears the risk for the difference between actual costs and the fixed price payable by CRL. The Group's contribution to construction of the station will be credited against any Crossrail Section 106 and/or CIL contributions for certain agreed development sites on the Estate (comprising North Quay, Heron Quays West, Newfoundland and Riverside South) which may be required as part of the London Plan. Accordingly, any costs borne by the Group on construction of the station have been allocated to these development properties.

The project is performing well against budget. The tunnel boring machines arrived at the station from the east in May and June 2013 and the first trains are due to run in 2018 when Crossrail opens for passenger service. The structure is complete and internal works are well advanced.

**Development Sites**

Heron Quays West currently has consent for an office scheme of over 1.3m sq ft. However, in view of changing market conditions, the Group has reviewed alternative development options and in July 2013 submitted an application for an office development comprising approximately 700,000 sq ft on the eastern half of the site. Consent for this scheme was awarded on 30 August 2013. Options for the western half of the site are still under consideration.

In July 2013, the Group also submitted a planning application for a residential scheme on the adjacent Newfoundland site. The scheme proposed extends to 485,000 sq ft over 59 floors and will replace the existing consent for 230,000 sq ft of hotel and serviced apartments. If the Group is successful in obtaining consent for the residential scheme, a start on site is anticipated by the end of the year.

One Park Place benefits from planning consent for approximately 950,000 sq ft of development but the Group intends to submit a new application for a revised scheme of approximately 650,000 sq ft now that the acquisition of 15 Westferry Circus has been completed.

The remaining development site at North Quay has planning consent for almost 2.4m sq ft of office space. However, this is to be reviewed to determine whether an alternative scheme would be more appropriate.

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

| | NIA<br>m sq ft |
|---|---|
| Total development pipeline: | |
| | |
| Canary Wharf, based on existing and/or proposed consents: | |
| – Heron Quays West | 1.33 |
| – North Quay | 2.39 |
| – Newfoundland | 0.48 |
| – One Park Place | 0.65 |
| – Wood Wharf | 4.60 |
| | 9.45 |
| Sold to J.P. Morgan: | |
| – Riverside South (the Group acting as development and construction manager) | 1.90 |
| | |
| In joint venture with Qatari Diar: | |
| – Shell Centre (see Business Review – Shell Centre) | 1.40 |

**BUSINESS REVIEW (Continued)**

The site at Riverside South was acquired by J.P. Morgan in November 2008 and the Group was appointed to act as development and construction manager under a contract with a term to October 2016. The contract includes a right of first offer in the event J.P. Morgan decides to sell the site. J.P. Morgan has instructed the Group to proceed with the next phase of infrastructure works consisting of river wall protection, utilities installation and the lower ground level floor slabs. These are progressing well with completion now targeted for the first quarter of 2014.

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

**Wood Wharf**

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

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

Wood Wharf will be a new mixed use development scheme adjacent to the existing Estate. In May 2009, the current master plan received planning consent for 4.6m sq ft net. This consent, which was renewed in 2012 and represents an area almost one third of the size of the Estate, currently comprises approximately 1.25m sq ft of residential, 3.1m sq ft of offices, 0.2m sq ft of retail and a 0.2m sq ft hotel. Detailed consent was granted on the 3 office buildings closest to the Estate totalling 1.5m sq ft net in July 2009. Having gained full control of the scheme, the best uses for the site have been reviewed, leading to an alteration to the mix of uses in favour of residential, reducing the size of individual office buildings to appeal to new target sectors and to integrate and connect this new district to the existing Estate.

Work on an amended master plan is progressing well and it is envisaged that application for a revised outline planning consent will be submitted in late 2013. At the same time, design work is proceeding on the first phase of private and affordable residential property and on 2 office buildings, in order to submit full details of these to the planning authority.

**20 Fenchurch Street**

In 2010, the Group and Land Securities formed 20 FSLP, a 50:50 joint venture to develop 20 Fenchurch Street in the City. After syndication, the Group has retained a 15.0% equity interest in this project. Canary Wharf Contractors Limited, a wholly owned subsidiary of the Group, was appointed as sole construction manager. Land Securities and the Group were appointed as joint development managers and both are responsible for leasing.

Planning consent for a 37 storey building was granted in October 2009. The building will provide approximately 690,000 sq ft of world class space in floor plate sizes of 14,000 sq ft to 28,000 sq ft, with a sky garden on the top 3 floors. Construction commenced on site in January 2011 and is progressing on schedule and within budget. The building was topped out at the end of 2012 and the cladding is nearing completion. The building remains on schedule to achieve practical completion in April 2014, with the first tenant due to move in shortly afterwards. As referred to in Business Review – leasing, the building is currently 57.0% prelet. The joint venture is now setting up the property management team, ready to take over the building on completion.

**Shell Centre**

In July 2011, the Group and Qatari Diar concluded a 50:50 joint venture agreement to redevelop the Shell Centre. The joint venture agreed to pay £300.0m to secure the 5.25 acre site on a 999 year lease. Of this total, £30.0m was paid on exchange of the agreement with Shell and the balance is conditional on planning permission being received for the project within 3 years.

The Group will act as construction manager for the project and is also joint development manager with Qatari Diar. The joint development manager fees generated from the transaction are being apportioned between the parties.

The development will be mixed use, comprising office, residential and retail space, which will regenerate an important section of the South Bank in central London. The existing 27 storey tower in the middle of the Shell Centre will be preserved and retained by Shell. Shell initially agreed to take a 210,000 sq ft prelet of one of the 2 new office buildings to be constructed on the site but have subsequently agreed to increase the lease to the full 245,000 sq ft available in the building. In total the redevelopment will comprise 523,000 sq ft of office space, 79,000 sq ft of shops, restaurants, cafes and a health club, together with 835,000 sq ft of residential, creating 877 homes.

In May 2013, a resolution to grant planning permission was achieved subject to finalising a Section 106 agreement and stage 2 referral to the GLA and Secretary of State. On 17 July the GLA issued its stage 2 report endorsing Lambeth's right to determine the application and supportive of the development plans. Subsequently, on 4 September 2013, the joint venture was notified that the Secretary of State had called in the planning application. This is a disappointing decision which may delay the project and with it the regeneration of the local area and the creation of thousands of jobs. The joint venture will, however, be considering the most effective means of addressing this issue.

**BUSINESS REVIEW (Continued)**

**Valuations**

The net assets of the Group, as stated in the Consolidated Balance Sheet as at 30 June 2013, were £2,626.7m. In arriving at this total:

(i) properties held as investments were carried at £4,957.5m, which represents the market value of those properties of £5,020.5m at that date as determined by the Group's external valuers, CBRE, Savills or Cushman, less an adjustment of £63.0m for tenant incentives;

(ii) properties under construction were carried at £205.5m, representing their cost to the Group; and

(iii) properties held for development were carried at £354.6m, representing their cost to the Group.

At 30 June 2013, the yields applied in deriving the market valuation of the investment properties can be summarised as:

| | **30 June 2013 %** | 31 December 2012 % |
|---|---|---|
| Office portfolio: | | |
| Weighted average initial yield: | | |
| – excluding 7 Westferry Circus | **5.0** | 5.0 |
| – including 7 Westferry Circus | **5.3** | – |
| Weighted average equivalent yield | **5.3** | 5.4 |
| Retail portfolio: | | |
| Weighted average initial yield | **4.8** | 5.0 |
| Weighted average equivalent yield | **5.0** | 5.1 |

The weighted average initial yield for the portfolio at 30 June 2013 was impacted by the acquisition of 7 Westferry Circus during the period, let on a lease expiring in December 2014. Excluding this acquisition, the weighted average initial yield for the remainder of the portfolio was 5.0%, unchanged from 31 December 2012.

The retail investment portfolio again performed strongly with market value increasing by 6.7%, in part as a result of a small reduction in yields, in part as a result of rental growth and in part reflecting progress with the Jubilee Place mall expansion. The market value of the office investment portfolio increased by 1.6% over the period. The benchmark initial yield for rack rented office properties remained at approximately 5.0%.

Taking office and retail together, the market value of the investment portfolio increased by £111.5m or 2.3% in the first half of 2013. After allowing for capital expenditure, including the acquisition of 7 Westferry Circus and adjustments in respect of tenant incentives, the carrying value of the investment portfolio increased by £123.5m over the 6 months or 2.6%.

The valuers have also provided their opinions of the market value for sites held for development, which comprised North Quay, Heron Quays West, Newfoundland, One Park Place and Wood Wharf. These sites were valued in aggregate at £440.0m at 30 June 2013, in comparison with £415.0m at 31 December 2012, an increase of 6.0% reflecting the demand for sites capable of accommodating residential development.

The properties under construction were valued at £212.5m in comparison with an aggregate historical cost of £205.5m. The valuation of these sites is stated by the valuers net of provision for developer's profit of £58.5m which will be released as these properties are let and approach completion.

The market value of certain of the development sites was below the carrying value of these sites. In assessing the requirement for an impairment provision, the directors have had regard to the net realisable value of the sites as supplied by the external valuers. On this basis the Board has concluded that no provision for impairment is required as at 30 June 2013.

The market value of the entire property portfolio, after adjusting for property acquisitions and other capital expenditure, increased by £141.8m or 2.6% in the period. This increase in value was driven by the factors stated previously.

The valuations at 30 June 2013 are based on assumptions which include future rental income, anticipated void costs, the appropriate discount rate or yield and, in the case of development properties, the estimated costs of completion. In addition, the valuations allow for letting, disposal, marketing and financing costs. The valuers also make reference to market evidence of transaction prices for similar properties on the Estate. In valuing the sites held for development and properties under construction, the valuers have allowed for estimated costs to complete, including an allowance for fit out and developer's profit.

**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 2013** | | 31 December 2012 | | 30 June 2012 | |
|---|---|---|---|---|---|---|---|
| | Note | **Carrying value £m** | **Market value in existing state £m** | Carrying value £m | Market value in existing state £m | Carrying value £m | Market value in existing state £m |
| Retained portfolio: Investment properties | (i) | **4,957.5** | **5,020.5** | 4,783.6 | 4,862.5 | 4,639.0 | 4,734.0 |
| Properties under construction | (ii) | **205.5** | **212.5** | 143.3 | 137.5 | 87.3 | 96.0 |
| Properties held for development | (ii) | **354.6** | **440.0** | 351.0 | 415.0 | 361.4 | 413.5 |
| | | **5,517.6** | **5,673.0** | 5,277.9 | 5,415.0 | 5,087.7 | 5,243.5 |
| Sold property: Property under construction at Riverside South | (iii) | **70.0** | **143.1** | 69.6 | 139.7 | 67.1 | 134.9 |
| | | **5,587.6** | **5,816.1** | 5,347.5 | 5,554.7 | 5,154.8 | 5,378.4 |

Note:

(i) The carrying value of investment properties represents market value less an adjustment for UITF 28. The UITF 28 adjustment attributable to investment properties at 30 June 2013 was £63.0m (31 December 2012 – £78.9m, 30 June 2012 – £95.0m). Market value in existing state is shown prior to this adjustment.

(ii) Properties held for development at 30 June 2012 included Crossrail retail which was reclassified to properties under construction following commencement of work in July 2012.

(iii) The carrying value in the balance sheet at 30 June 2013 is stated net of £70.3m transferred to cost of sales (31 December 2012 – £66.6m, 30 June 2012 – £61.1m) and £0.3m transferred from payments on account (31 December 2012 – £(3.0)m, 30 June 2012 – £(6.0)m transferred to payments on account). Market value in existing state includes the present value of the minimum developer's profit which will be generated from the development of the Riverside South site assuming J.P. Morgan does not proceed with full build out and excludes the profit already recognised in the profit and loss account on the disposal of the site in 2008.

**Operating Results**

The following review of the Group's operating results relates to the 6 months ended 30 June 2013. The comparatives relate to the 6 months ended 30 June 2012.

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 earned in respect of work performed under long term contracts and fees earned from construction and development management agreements.

Turnover for the 6 months ended 30 June 2013 was £169.8m, against £164.4m for the 6 months ended 30 June 2012. Of this amount, recognised rental income was £118.7m for 2013 compared with £115.7m for 2012. The impact of UITF 28 was to reduce rental income by £15.9m in the 6 months ended 30 June 2013 (6 months ended 30 June 2012 – £14.6m). Excluding the impact of UITF 28, rental income increased from £130.3m to £134.6m, an increase of £4.3m or 3.3%. The increase in rental income was attributable to the acquisition of 7 Westferry Circus, expiry of rent free periods and increased retail rents.

Service charge income reduced from £40.1m to £39.1m and miscellaneous income, including insurance rents, the provision of tenant specific services outside the standard service charge and fees recognised on the provision of development and construction management services, reduced from £8.5m to £7.7m over the period. Turnover for the 6 months ended 30 June 2013 also included £0.6m of dilapidations recoveries.

In the 6 months ended 30 June 2013, turnover and cost of sales included £3.7m in respect of the long term contract for Riverside South in comparison with £0.1m for the 6 months ended 30 June 2012. No profit has been recognised on this long term contract although the potential surplus has been taken into account in calculating adjusted NAV (see Business Review – Balance Sheet and Key Performance Indicators).

**BUSINESS REVIEW (Continued)**

Cost of sales includes rents payable, property management costs including refurbishment and repair costs, movements on provisions for certain lease commitments, as well as costs recognised on long term contracts.

The Group has now substantially completed the refurbishment of the mechanical and engineering systems in One Canada Square and determined that £6.0m of the total cost of £34.0m plus VAT should be classified as repairs and taken to cost of sales in the period. The remainder of the costs have been capitalised and included as additions to investment properties within fixed assets as they were incurred. The £6.0m taken to cost of sales has been shown as an exceptional item.

Excluding the adjustment relating to One Canada Square referred to above, rents payable and property management costs were £49.4m in comparison with £46.3m for the 6 months ended 30 June 2012. Taking into account service charge and miscellaneous property income totalling £45.7m for the 6 months ended 30 June 2013 (6 months ended 30 June 2012 – £47.5m), a deficit on property management of £3.7m was recorded (6 months ended 30 June 2012 – surplus of £1.2m).

Cost of sales for the 6 months ended 30 June 2013 also included £1.7m of ground rent payable in relation to Wood Wharf (6 months ended 30 June 2012 – £1.4m) and £0.6m of costs attributable to the termination of leases (6 months ended 30 June 2012 - £nil).

An increase in provisions of £0.3m (before any adjustment for discounting) was recognised in the 6 months ended 30 June 2013 relating to certain rent support commitments and other obligations. This compared with an increase of £0.4m in the 6 months ended 30 June 2012.

For the 6 months ended 30 June 2013, gross profit (net property income) was £108.1m, a reduction of £8.1m in comparison with the 6 months ended 30 June 2012. This reduction was mainly attributable to the £6.0m refurbishment adjustment in relation to One Canada Square, together with increased void costs.

Administrative expenses for the 6 months ended 30 June 2013 were £19.2m in comparison with £13.4m for the 6 months ended 30 June 2012. The increase was in part attributable to a £2.4m charge recognised in relation to an allocation of shares to certain directors and senior employees in the period. In addition professional fees were higher in the period, primarily as a result of fees incurred in pursuing a claim against Lehman Brothers Inc. as guarantor of the Lehman lease at Canary Wharf.

Including other operating income of £1.0m for the 6 months ended 30 June 2013 (6 months ended 30 June 2012 – £0.7m), operating profit for the period was £89.9m, in comparison with £103.5m for the 6 months ended 30 June 2012. The reduction in operating profit of £13.6m was largely attributable to the factors impacting on gross profit and the increase in administrative costs detailed above.

Net interest payable for the 6 months ended 30 June 2013 excluding exceptional items was £97.9m, against £100.7m for the 6 months ended 30 June 2012. Interest payable for the 6 months ended 30 June 2013 is stated net of £6.8m which has been capitalised and transferred to the property under construction within fixed assets (6 months ended 30 June 2012 – £2.4m). This amount represents the finance costs relating to the Group's borrowings which are deemed to have been utilised in financing properties under construction and comprises £2.6m of construction loan interest and £4.2m of general interest.

In April 2009, the Group repurchased an aggregate principal amount of £119.7m of certain securitisation Notes. The Notes remain in issue and continue to be fully hedged in accordance with the terms of the securitisation. However, from the perspective of the consolidated accounts the hedges relating to the repurchased Notes are deemed to be uneconomic and are therefore carried at fair value. The gain associated with the movement in the mark to market of the hedges in the 6 months ended 30 June 2013 of £11.0m (6 months ended 30 June 2012 – £0.4m) has been treated as an exceptional item (Note 2).

The profit on ordinary activities after interest for the 6 months ended 30 June 2013 was £2.6m in comparison with a profit of £3.2m for the 6 months ended 30 June 2012. Excluding exceptional items, the loss on ordinary activities after interest for the 6 months ended 30 June 2013 was £2.4m in comparison with a profit of £2.8m for the 6 months ended 30 June 2012. The reduction in profit on ordinary activities was largely attributable to the reduction in gross profit and the increase in administrative expenses, which were partly offset by the reduction in net interest payable.

Tax for the 6 months ended 30 June 2013 comprised a corporation tax charge of £2.6m and a deferred tax credit of £4.8m which has been calculated by reference to the anticipated effective tax rate for the year to 31 December 2013. During the 6 months ended 30 June 2012, the Group recognised a deferred tax charge of £0.5m and a corporation tax credit of £3.2m.

The profit for the financial period after tax for the 6 months ended 30 June 2013 was £4.8m in comparison with a profit after tax of £5.9m for the 6 months ended 30 June 2012.

The basic and diluted earnings per share for the 6 months ended 30 June 2013 was 0.8p (6 months ended 30 June 2012 – earnings of 0.9p) (Note 4).

Excluding exceptional items, adjusted earnings per share were 0.1p, calculated by reference to the loss after tax excluding the movement in the mark to market of the deemed uneconomic hedges and refurbishment costs. This compares with earnings per share of 0.9p calculated on the same basis for the 6 months ended 30 June 2012.

**Tax**

If the Group was to dispose of its property portfolio at the market value disclosed in this Business Review, a tax liability of £128.4m would arise (31 December 2012 – £127.5m). This liability is stated after taking into account the tax liabilities relating to deferred accounting profits on properties under construction held for sale and, in the prior year, the benefit of tax loss balances brought forward and the remaining capital allowances 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 held for development, including land interests. This contingent tax liability is included in calculating adjusted NNNAV.

**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 2013 were £2,626.7m in comparison with £2,498.4m at 31 December 2012. The increase in net assets of £128.3m, or 5.1%, was attributable to the revaluation movement on investment properties of £123.5m and the profit after tax for the 6 months ended 30 June 2013 of £4.8m.

Although the Group is impacted by movements in the wider property market, it's main objective is to maximise net assets through managing its property investment and development activities. 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 including the Group's share of properties being developed by joint ventures. It also adds back the provision for deferred tax required by accounting standards but which, in the judgement of the Board, is for the most part unlikely to crystallise.

**BUSINESS REVIEW (Continued)**

Adjusted NAV per share at 30 June 2013 is set out in the table below which, for comparison purposes, also includes adjusted NNNAV per share.

| | Note | **30 June 2013 £m** | 31 December 2012 £m |
|---|---|---|---|
| Net assets per consolidated balance sheet | | **2,626.7** | 2,498.4 |
| Add back: | | | |
| – deferred tax | | **8.9** | 13.7 |
| – provision for uneconomic hedge | (i) | **35.5** | 46.5 |
| Net assets prior to deferred tax | | **2,671.1** | 2,558.6 |
| Revaluation of property portfolio: | | | |
| – properties held for development | (ii) | **85.4** | 64.0 |
| – properties under construction | (ii) | **7.0** | (5.8) |
| – properties under construction held for sale | (iii) | **73.1** | 70.1 |
| Group's share of revaluation of associate's property under construction | (iv) | **15.5** | 11.2 |
| **Adjusted NAV** | | **2,852.1** | 2,698.1 |
| Fair value adjustments in respect of financial assets and liabilities less tax thereon | (v) | **(391.6)** | (522.8) |
| Contingent tax on property disposals | (vi) | **(128.4)** | (127.5) |
| Undiscounted deferred tax | (vii) | **(8.3)** | (12.8) |
| Uneconomic hedge | (i) | **(35.5)** | (46.5) |
| **Adjusted NNNAV** | | **2,288.3** | 1,988.5 |
| **Adjusted net assets per share** | (viii) | **£4.46** | £4.22 |
| **Adjusted NNNAV per share** | (viii) | **£3.58** | £3.11 |

Note:
(i) Adjusted NAV is calculated after adding back the provision in respect of uneconomic hedges (Note 11) of £35.5m (31 December 2012 – £46.5m). These hedges relate to certain Notes which were repurchased by the Group in 2009 but remain in issue and continue to be fully hedged by the issuing subsidiary and are deemed to be uneconomic. As the Board does not consider this to be a liability of the Group that will crystallise, for the purposes of calculating adjusted NAV the adjustment for the uneconomic hedge provision has been added back. In calculating adjusted NNNAV per share, the full provision in respect of uneconomic hedges has been deducted.
(ii) Revalued to market value in existing state.
(iii) Deferred profit on construction of Riverside South (refer to Business Review – Valuations).
(iv) Revalued to market value in existing state at 31 March 2013.
(v) Refer to Note 10(10).
(vi) Refer to Business Review – Tax.
(vii) Refer to Note 3.
(viii) Calculated by reference to the closing number of shares in issue of 639.0m at each balance sheet date. There were no dilutive instruments at either date.

Adjusted NAV per share was £4.46 at 30 June 2013 in comparison with £4.22 at 31 December 2012, an increase of 24p or 5.7%. The increase was primarily attributable to the revaluation of the Group's property portfolio, partly offset by the loss after tax for the period.

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

**Borrowings**

At 30 June 2013, net debt (after cash in hand and cash collateral) stood at £2,762.7m, up from £2,624.0m at 31 December 2012, and comprised:

| | **30 June 2013 £m** | 31 December 2012 £m |
|---|---|---|
| Securitised debt | **2,275.8** | 2,305.6 |
| Secured loans | **973.9** | 971.6 |
| Wood Wharf loan notes | **67.6** | 67.0 |
| Construction loan | **53.5** | – |
| Total borrowings | **3,370.8** | 3,344.2 |
| Less: | | |
| – cash collateral for borrowings | **(109.4)** | (118.5) |
| – cash collateral for construction | **(2.3)** | (2.3) |
| – other cash collateral | **(11.7)** | (12.5) |
| | **3,247.4** | 3,210.9 |
| Less: cash deposits | **(484.7)** | (586.9) |
| Net debt | **2,762.7** | 2,624.0 |

In December 2011, the Group entered into a 5 year £190.0m development loan facility to fund construction of a new building at 25 Churchill Place. The facility carries interest at 3 month LIBOR plus a margin of 300 bps until rent commencement, following which the margin may drop to 250 bps, or to 225 bps, subject to satisfaction of certain interest cover tests. An interest rate swap was entered into at a rate of 1.017% which fixes the interest rate payable under the loan. The fixed rate payable during the construction phase, including the 300 bps margin, is 4.017%. The termination date under the swap is in December 2016. The loan is also subject to a maximum LTV covenant of 65.0% and is repayable in December 2016. Finance costs incurred on this loan during the construction of the building will be capitalised and included as part of the cost of construction. The first drawdown under the loan facility was in January 2013 and at 30 June 2013 £59.9m had been drawndown.

The Group's borrowings are secured against designated property interests, and are subject to lending covenants that include maximum LTV ratios and minimum ICRs as outlined in the Loan Covenants section of this Business Review. For all of its loans the Group was in compliance with its lending covenants at 30 June 2013 and throughout the period then ended.

Borrowings increased from £3,344.2m to £3,370.8m primarily as a result of the drawdowns under the construction loan facility, partly offset by scheduled loan amortisation. The reduction in cash and term deposits from £720.2m to £608.1m was primarily attributable to construction and development expenditure and the investment in associates and joint ventures, together with the acquisition of 7 Westferry Circus.

The weighted average maturity of the Group's borrowings at 30 June 2013 was 12.5 years (31 December 2012 – 13.0 years).

At 30 June 2013, 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 liability of £508.6m before tax (31 December 2012 – £687.9m).

The Group's weighted average cost of debt at 30 June 2013 was 5.8% including credit wraps (31 December 2012 – 5.8%). The Group borrows at both fixed and floating rates and uses interest rate swaps to modify exposure to interest rate fluctuations. Except for certain elements of the debt assumed in connection with the acquisition of Wood Wharf, substantially all of the Group's drawn facilities are fixed after taking account of interest rate hedging and cash deposits held as cash collateral.

**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 drawn facilities are as follows:

(i) CWF II securitisation, encompassing 7 investment properties representing 65.3% of the investment property portfolio by value. The principal amount outstanding at 30 June 2013 was £2,318.2m or £2,198.5m excluding the repurchased Notes.

Maximum LMCTV ratio of 100.0%. Based on the valuations at 30 June 2013, the LMCTV ratio at the interest payment date in July 2013 would have been 68.5%.

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

(ii) Loan of £555.2m secured against One Churchill Place, representing 15.7% of the investment property portfolio by value.

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

(iii) Loan of £350.0m secured against the principal retail and infrastructure parking properties of the Group, representing 16.1% of the investment property portfolio by value.

Maximum LTV ratio of 70.0%. Based on the valuations at 30 June 2013 the LTV was 44.0%.

The minimum ICR covenant is 120.0% and the covenant was satisfied throughout the period. The Group has the ability to remedy any potential breach of covenant by depositing cash. The facility repayment date is 17 December 2014.

(iv) Loan of £92.3m secured against 50 Bank Street representing 2.9% of the investment property by value.

Maximum LTV ratio of 75%, for the first 3 years of loan, reducing to 72.5% thereafter. Based on the valuations at 30 June 2013 the LTV was 63.7%.

The minimum ICR covenant is 150.0% and the covenant was satisfied throughout the period. The facility repayment date is 7 June 2016.

(v) Construction loan facility of £190.0m secured against 25 Churchill Place.

Maximum LTV ratio of 65.0%, based on the projected valuation at completion, and maximum loan to cost ratio of 65.0%. These covenants were satisfied throughout the period.

**Cash Flow**

The net cash inflow from operating activities for the 6 months ended 30 June 2013 was £103.1m in comparison with £164.1m for the 6 months ended 30 June 2012. The reduction of £61.0m was partly attributable to the £13.6m reduction in operating profit and the balance was attributable to movements in working capital.

Returns on investments and servicing of finance resulted in an outflow of £100.8m for the 6 months ended 30 June 2013 compared with £101.5m for the 6 months ended 30 June 2012.

Capital expenditure and financial investment for the 6 months ended 30 June 2013 resulted in a cash outflow of £140.8m, compared with £59.0m for the 6 months ended 30 June 2012. The 6 months ended 30 June 2013 included £68.4m (6 months ended 30 June 2012 – £31.0m) of development expenditure and £54.1m attributable to the acquisition of properties (6 months ended 30 June 2012 – £20.9m). Funding of the Group's associated and joint venture undertakings totalled £13.8m compared with £7.0m for the 6 months ended 30 June 2012.

The net cash inflow from financing activities for the 6 months ended 30 June 2013 was £22.5m compared with an outflow of £1.6m for the 6 months ended 30 June 2012. The 6 months ended 30 June 2013 included the scheduled amortisation of Canary Wharf Group's loans of £37.4m, offset by £59.9m of drawings under the Group's construction loan. The 6 months ended 30 June 2012 included scheduled loan amortisation of £33.2m which was offset by the assumption of debt on the acquisition of Wood Wharf.

**Principal 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.

For further details relating to these risks and uncertainties and the way in which the Group manages such matters, refer to Principal Risks and Uncertainties and Treasury Objectives in the Business Review section of the 2012 Report and Financial Statements of the Company.

## UNAUDITED CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE SIX MONTHS ENDED 30 JUNE 2013

| Audited Year ended 31 December 2012 £m | | Note | **Unaudited Six months ended 30 June 2013 £m** | Unaudited Six months ended 30 June 2012 £m |
|---|---|---|---|---|
| 335.3 | Turnover | | **169.8** | 164.4 |
| (106.1) | Cost of sales | | **(55.7)** | (48.2) |
| | Exceptional item: | | | |
| – | – refurbishment costs | | **(6.0)** | – |
| 229.2 | **GROSS PROFIT** | | **108.1** | 116.2 |
| (36.0) | Administrative expenses | | **(19.2)** | (13.4) |
| 2.3 | Other operating income | | **1.0** | 0.7 |
| 195.5 | **OPERATING PROFIT** | | **89.9** | 103.5 |
| – | Share of associates' operating losses | | **(0.4)** | – |
| 7.4 | Interest receivable | 2 | **2.0** | 4.0 |
| (205.7) | Interest payable before exceptional items: | 2 | **(99.9)** | (104.7) |
| | Exceptional item: | | | |
| (0.9) | – movement in uneconomic hedge provision | 2 | **11.0** | 0.4 |
| (206.6) | | | **(88.9)** | (104.3) |
| (3.7) | **PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAX** | | **2.6** | 3.2 |
| 5.3 | Tax | 3 | **2.2** | 2.7 |
| 1.6 | **PROFIT FOR THE FINANCIAL PERIOD AFTER TAX** | 12 | **4.8** | 5.9 |
| 0.3p | Basic and diluted earnings per share | 4 | **0.8p** | 0.9p |

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

The Notes numbered 1 to 15 form an integral part of this Interim Report.

The interim results for the 6 months ended 30 June 2013 were approved by the Board on 12 September 2013.

**UNAUDITED CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE SIX MONTHS ENDED 30 JUNE 2013**

| Audited Year ended 31 December 2012 £m | | Note | **Unaudited Six months ended 30 June 2013 £m** | Unaudited Six months ended 30 June 2012 £m |
|---|---|---|---|---|
| | Profit for the financial period after tax: | | | |
| 1.6 | – Group | | **5.2** | 5.9 |
| – | – share of losses of associates | | **(0.4)** | – |
| 174.1 | Unrealised movement on revaluation of investment properties | 5 | **123.5** | 38.8 |
| (0.1) | Reserves movement for share allocation | | **–** | – |
| 175.6 | **TOTAL RECOGNISED GAINS AND LOSSES RELATING TO THE PERIOD** | | **128.3** | 44.7 |

The Notes numbered 1 to 15 form an integral part of this Interim Report.

**UNAUDITED CONSOLIDATED BALANCE SHEET AT 30 JUNE 2013**

| Audited 31 December 2012 £m | | Note | **Unaudited 30 June 2013 £m** | Unaudited 30 June 2012 £m |
|---|---|---|---|---|
| | **FIXED ASSETS** | | | |
| 4,783.6 | Investment properties | 5 | **4,957.5** | 4,639.0 |
| 351.0 | Properties held for development | 5 | **354.6** | 361.4 |
| 143.3 | Properties under construction | 5 | **205.5** | 87.3 |
| 0.6 | Other tangible fixed assets | | **0.6** | 0.5 |
| 78.8 | Investments | 6 | **97.1** | 63.7 |
| 5,357.3 | | | **5,615.3** | 5,151.9 |
| | **CURRENT ASSETS** | | | |
| 78.9 | Debtors: Amounts due in more than one year | 7 | **63.0** | 95.0 |
| 46.2 | Debtors: Amounts due within one year | 7 | **43.8** | 35.8 |
| 720.2 | Cash at bank and in hand | 8 | **608.1** | 970.2 |
| 845.3 | | | **714.9** | 1,101.0 |
| (403.8) | Creditors: Amounts due within one year | 9 | **(397.0)** | (419.7) |
| 441.5 | **NET CURRENT ASSETS** | | **317.9** | 681.3 |
| 5,798.8 | **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **5,933.2** | 5,833.2 |
| (3,232.7) | Creditors: Amounts due after more than one year | 10 | **(3,255.4)** | (3,310.3) |
| (67.7) | Provisions | 11 | **(51.1)** | (65.9) |
| 2,498.4 | **NET ASSETS** | | **2,626.7** | 2,457.0 |
| | **CAPITAL AND RESERVES** | | | |
| 6.4 | Called up share capital | | **6.4** | 6.4 |
| | Reserves: | | | |
| 146.2 | – share premium | 12 | **146.2** | 146.2 |
| 2,394.4 | – revaluation reserve | 12 | **2,517.9** | 2,259.1 |
| 0.7 | – capital redemption reserve | 12 | **0.7** | 0.7 |
| 264.8 | – special reserve | 12 | **264.8** | 264.8 |
| (314.1) | – profit and loss account | 12 | **(309.3)** | (220.2) |
| 2,498.4 | **SHAREHOLDERS' FUNDS** | 13 | **2,626.7** | 2,457.0 |

The Notes numbered 1 to 15 form an integral part of this Interim Report.

**UNAUDITED CONSOLIDATED CASH FLOW STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2013**

| Audited Year ended 31 December 2012 £m | | Note | **Unaudited Six months ended 30 June 2013 £m** | Unaudited Six months ended 30 June 2012 £m |
|---|---|---|---|---|
| 240.0 | **Net cash inflow from operating activities** | | **103.1** | 164.1 |
| (234.0) | Returns on investments and servicing of finance | | **(100.8)** | (101.5) |
| 2.6 | Tax | | **3.9** | 5.3 |
| (118.7) | Capital expenditure and financial investment | | **(140.8)** | (59.0) |
| (115.1) | Equity dividends paid | | **–** | (25.6) |
| (465.2) | | | **(237.7)** | (180.8) |
| (225.2) | **Cash outflow before management of liquid resources and financing** | | **(134.6)** | (16.7) |
| 1.7 | Management of liquid resources | | **9.9** | (23.5) |
| (43.1) | Financing | | **22.5** | (1.6) |
| (266.6) | **DECREASE IN CASH IN THE PERIOD** | 8 | **(102.2)** | (41.8) |
| | **Reconciliation of operating profit to operating cash flows** | | | |
| 195.5 | Operating profit | | **89.9** | 103.5 |
| 0.1 | Depreciation charges | | **–** | – |
| – | Refurbishment costs | | **6.0** | – |
| (29.2) | Increase in debtors | | **(14.4)** | (2.8) |
| 45.0 | Increase in creditors | | **5.6** | 48.3 |
| (3.0) | Expenditure charged to provisions | | **(1.5)** | (1.5) |
| 0.6 | Movements in provisions | | **0.4** | 0.4 |
| – | Share of associate's losses | | **(0.4)** | – |
| 1.0 | Accrued share option costs | | **2.4** | 0.8 |
| 30.7 | Amortisation of lease incentives | | **15.9** | 14.6 |
| 4.9 | Long term contract proceeds | | **2.1** | 1.1 |
| (5.6) | Long term contract costs | | **(2.9)** | (0.3) |
| 240.0 | **Net cash inflow** | | **103.1** | 164.1 |

The Notes numbered 1 to 15 form an integral part of this Interim Report.

**UNAUDITED CONSOLIDATED CASH FLOW STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2013 (Continued)**

| Audited Year ended 31 December 2012 £m | | **Unaudited Six months ended 30 June 2013 £m** | Unaudited Six months ended 30 June 2012 £m |
|---|---|---|---|
| | **Returns on investments and servicing of finance** | | |
| 7.0 | Interest received | **2.1** | 3.5 |
| (211.9) | Interest paid | **(102.9)** | (105.0) |
| (29.1) | Swap breakage costs | **–** | – |
| (234.0) | **Net cash outflow** | **(100.8)** | (101.5) |
| | **Capital expenditure and financial investment** | | |
| (75.1) | Additions to properties | **(68.4)** | (31.0) |
| (20.9) | Acquisition of development property interests | **(5.1)** | (20.9) |
| – | Acquisition of investment property | **(49.0)** | – |
| (0.1) | Acquisition of shares in parent company | **(4.5)** | (0.1) |
| (0.2) | Purchase of tangible fixed assets | **–** | – |
| (22.4) | Investments and loans to associates | **(13.8)** | (7.0) |
| (118.7) | **Net cash outflow** | **(140.8)** | (59.0) |
| | **Financing** | | |
| (8.9) | Repayment of secured debt | **(4.8)** | (4.4) |
| (57.5) | Repayment of securitised debt | **(32.6)** | (28.8) |
| 32.6 | Wood Wharf loan notes | **–** | 32.6 |
| (8.3) | Repayment of Wood Wharf loan notes | **–** | – |
| (1.0) | Payment of Wood Wharf deferred consideration | **–** | (1.0) |
| – | Drawdown of construction loan | **59.9** | – |
| (43.1) | **Net cash outflow** | **22.5** | (1.6) |

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