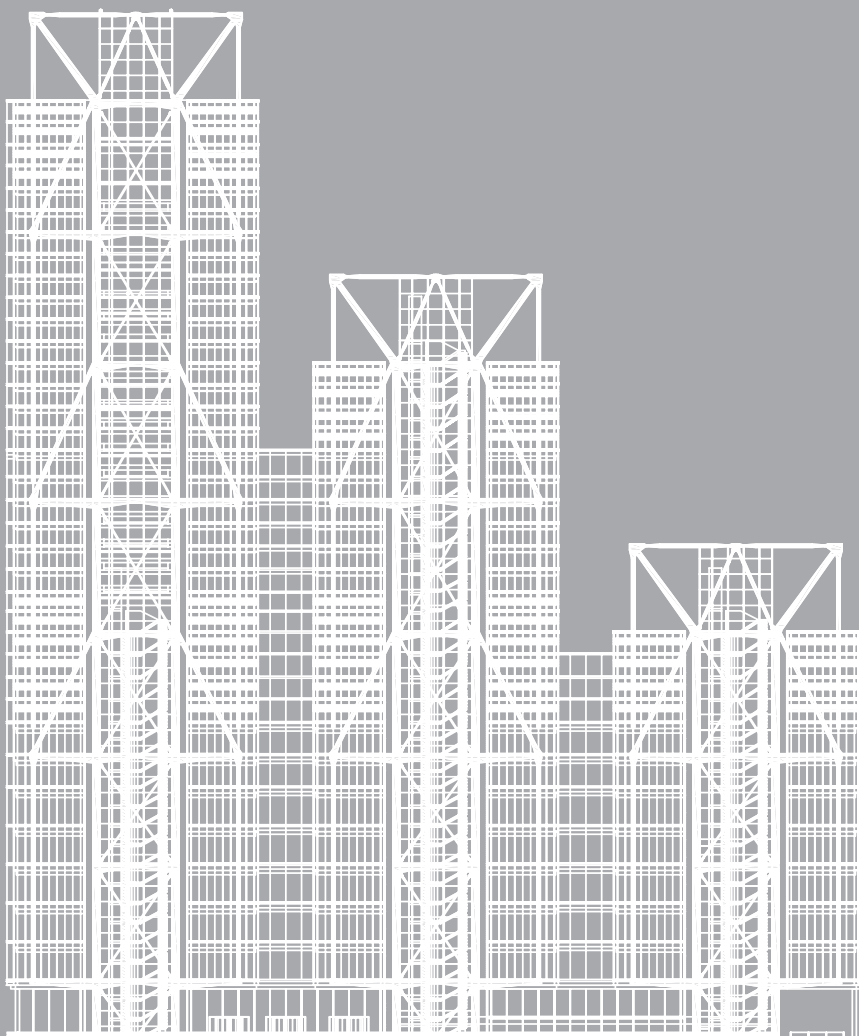


# CANARY WHARF

G R O U P P L C



30 June 2008 Interim Report



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# Highlights

- The market value of the investment portfolio reduced in value by 9.2%, disregarding additions, during the first six months of 2008.
- The market value of the entire property portfolio at 30 June 2008 was £6,726.5m against £7,274.3m at 31 December 2007, a reduction of 9.6% disregarding additions (Note (i)).
- Net assets fell from £3,206.9m at 31 December 2007 to £2,717.3m at 30 June 2008, a reduction of £489.6m or 15.3%, (Note (ii)) primarily as a result of the fall in the value of the property portfolio.
- Adjusted net asset value per share reduced by £1.20 or 20.7% from £5.79 at 31 December 2007 to £4.59 and NNNAV per share reduced by £0.53 or 10.0% from £5.33 to £4.80 (Note (ii)).
- The profit after tax for the six months ended 30 June 2008 was £161.4m (six months ended 30 June 2007 – £19.9m).
- The group paid a dividend of 16p per ordinary share on 9 April 2008 (Note (iii)).
- In the six months ended 30 June 2008 leasing transactions of approximately 200,000 sq ft were achieved at rents ranging from £45.00 to £49.00 psf (Note (v)).
- At 30 June 2008 the group's investment portfolio totalling 7.9m sq ft was 99.7% let (31 December 2007 – 7.9m sq ft of which 99.6% was let) (Note (iv)).
- At 30 June 2008 the weighted average lease term for the investment portfolio was 18.4 years (or 15.6 years assuming the exercise of break options) (Note (iv)).
- Construction continued on 1.3m sq ft of which 1.0m sq ft has been pre-sold and 86.0% of the remainder has been pre-let (Note (v)).
- Infrastructure work continued on Riverside South (1.9m sq ft of potential development) and staged construction continued at 25 Churchill Place (515,000 sq ft of potential development) (Note (vi)). Construction commenced on expansion of the retail portfolio on the Estate (Note (vii)).
- At 30 June 2008 the group had unsecured cash of £725.4m (31 December 2007 – £855.7m) (Note (viii)).
- Subsequent to the period end, the group announced it had entered into exclusive talks and signed heads of terms with JPMorgan for the construction of a new building at Riverside South.

## Note:

- (i) Refer to 'Business Review – Valuations' for a comparison with the carrying value for accounts purposes.
- (ii) Refer to 'Business Review – Balance Sheet and Key Performance Indicators'.
- (iii) Refer to Note 11 of the Notes to this Interim Report.
- (iv) Refer to 'Business Review – Property Portfolio' for further details.
- (v) Refer to 'Business Review – Leasing' for further details.
- (vi) Refer to 'Business Review – Development' for further details.
- (vii) Refer to 'Business Review – Construction' for further details.
- (viii) Refer to Note 8 of the Notes to this Interim Report.

# Results in Brief

	<b>Unaudited Six months ended 30 June 2008 £m</b>	Unaudited Six months ended 30 June 2007 £m
Rental income (Note (i))	<b>139.7</b>	138.2
Exceptional item: – deferred proceeds on sale of property	<b>–</b>	8.3
Operating profit	<b>178.8</b>	128.3
Exceptional item: – charges relating to repayment of debt (Note (ii))	<b>–</b>	(16.9)
Profit on ordinary activities before taxation	<b>82.9</b>	17.0
Profit before taxation excluding exceptional items	<b>82.9</b>	25.6
Profit after tax	<b>161.4</b>	19.9
Basic and diluted earnings per share (Note (iii))	<b>25.3p</b>	3.1p

Note:

- (i) Refer to 'Business Review – Operating Results'.
- (ii) Refer to Note 2 of the Notes to this Interim Report.
- (iii) Refer to Note 4 of the Notes to this Interim Report.

# Chairman's and Chief Executive's Statement

Progress continued in all areas of our business at Canary Wharf during the six months to 30 June 2008 against a backdrop of ongoing turbulence in the property market. Later in this statement we deal with significant events which have occurred since the period end.

Lettings on approximately 200,000 sq ft net of office space were completed during the period including 165,000 sq ft net to Moody's at £45.50 psf. Furthermore, in March 2008 we opened a new 40,000 sq ft net extension to the Cabot Place retail mall which is fully let.

Construction on existing projects for State Street, Fimalac/Fitch, KPMG and JPMorgan (who have retained ownership of the building being constructed for Bear Stearns at 5 Churchill Place) continued and are all due to be completed on time and on budget between later this year and 2010. Together this totals some additional 1.3m sq ft net.

Other smaller, but meaningful lettings have been completed at Canary Wharf since the period end, illustrating our ability to meet the needs of both large and small tenants. An important example is the letting to China Construction Bank which is the world's second largest bank by market capitalisation. We are delighted that China Construction Bank has chosen Canary Wharf for its base. With Infosys and Satyam already at Canary Wharf, we believe this is proving to be an attractive location for the London base of businesses from emerging markets and that this trend will continue. The 120,000 sq ft net letting by Citigroup to Crossrail and the letting by Clifford Chance of space to KPMG also illustrate the continuing attraction and flexibility of the Canary Wharf Estate to all types of occupiers.

Since the end of the period under review, we have also signed exclusivity and Heads of Terms with JPMorgan for an office on the Estate at Riverside South which would be one of the largest single new building transactions in recent UK history. We have already completed substantial infrastructure work on the Riverside South site, which will reduce the lead time for occupation and enable us to meet requirements for delivery, as well as scale of building, facilities and infrastructure.

Despite rents across London being adversely affected by market conditions, the quality and continuing attraction of the Estate are reflected in prime rents at Canary Wharf moving only marginally from £47.50 to £45.00 psf during the period.

## Retail

During the period ended 30 June 2008 we have been able to establish new Zone A rental highs at Cabot Place and in the Jubilee Place mall. The retail facilities at Canary Wharf continue to flourish, despite difficult conditions in the retail market generally. There are now 740,000 sq ft net of retail and leisure facilities, including 200 bars and restaurants. The retail story is one of continued success. However, the footfall figures which have so far increased year on year may not remain unaffected by the conditions impacting the retail market generally. The unique characteristics of the location serve offices, visitors and, importantly, the local community and the 'shopping experience' will continue to encourage growth. Additional projects to extend retail at Canary Wharf will provide the opportunity for tenants, such as Roka and Tom's Kitchen, to open at Canary Wharf for the first time.

## Property Valuations

The change in capitalisation rates used to arrive at investment values, combined with the slight reduction in prime rental levels, has led to the market value of the group's property portfolio declining by 9.6% to £6,726.5m. The investment portfolio reduced in value by 9.2% disregarding additions. The market value of the group's property portfolio at 30 June 2008, excluding properties under construction held for sale, was £6,138.0m against £6,763.3m at 31 December 2007, a fall of 10.5% disregarding additions. These reductions are broadly in line with the general market and reflect a further softening of yields in the market by approximately 50 bps in comparison with 31 December 2007. The general fall in market values has nevertheless been partly mitigated by the benefit of new lettings, the expiry of rent-free periods and the proximity of fixed rent increases.

## Financial Review

Net assets fell from £3,206.9m at 31 December 2007 to £2,717.3m at 30 June 2008, a reduction of £489.6m. The reduction was attributable to the fall in

value of the group's investment properties over the period, combined with the payment of the dividend of £102.2m that was declared in April 2008. The reduction was partly offset by the profit after tax for the six months ended 30 June 2008 of £161.4m.

Adjusted net asset value per share at 30 June 2008 was £4.59 in comparison with £5.79 at 31 December 2007, a reduction of £1.20. Adjusted NNNAV per share fell by 53p to £4.80.

The profit of £161.4m for the period compared with a profit for the six months ended 30 June 2007 of £19.9m, or £28.5m excluding exceptional items. The increase in profit of £132.9m was in part attributable to a deferred tax credit of £78.5m and in part attributable to the recognition in the first half of 2008 of £58.8m of profit on pre-sold properties, in comparison with £18.2m for the first half of 2007. In addition £15.7m of income was recognised in 2008 in connection with the surrender of certain leases. This space has already been re-let to a range of tenants and the resulting increased rental income will begin to flow during the course of 2009.

At 30 June 2008 free cash stood at £725.4m. Subsequent to the period end we signed a facility agreement increasing the existing retail loan by £50.0m. This increase is secured on the extension to Cabot Place West which opened in March 2008 and further bolsters our liquidity position.

The recent failure of Lehman is a significant event. Lehman currently leases 1.023m sq ft net at 25 Bank Street of which 148,000 sq ft net is sub-let to other tenants. On 14 September 2008 Lehman filed for bankruptcy in the US and subsequently for administration in the UK. Nomura has announced that it has reached an agreement with the Lehman administrator to acquire the European and Middle Eastern equities and investment banking operations of Lehman. The Canary Wharf securitisation has the benefit of an agreement with AIG which covers the contracted rent for the entire building for a period of 4 years after a payment default by Lehman. Credit enhancements and liquidity back up facilities relating to the Lehman lease arising out of the Canary Wharf securitisation are detailed in the 'Business Review'.

## Construction and Development

There is existing planning permission for a further 6.1m sq ft net of office space, including the Riverside South site.

This figure includes an increase in planning permission during the period to 515,000 sq ft net from 375,000 sq ft at 25 Churchill Place. At the Churchill Place site we have completed infrastructure works so as to reduce the lead time for occupation, and designed the foundations to allow for different building configurations to enable an eventual occupant to benefit from a bespoke building. It is, however, our policy not to develop speculative buildings at Canary Wharf.

We have recently lodged an application for a 215,000 sq ft net development on a site adjacent to 15 Westferry Circus at Canary Wharf to include a boutique hotel, serviced apartments, restaurants, and a training and local business centre for the community.

The group also has planning permission for a 2.4m sq ft net development at the North Quay site. Construction can start once the Crossrail station structure has been completed.

In the City of London work is continuing on the 300,000 sq ft net development at Drapers Gardens, where we are Development Manager and a 20.0% joint venture partner. Steel superstructure work is currently under way and we anticipate completion in 2010.

On the Wood Wharf site adjoining Canary Wharf, we are a 25.0% partner and Development Manager. A formal planning application has been submitted by the Wood Wharf joint venture covering a 7.0m sq ft gross mixed used scheme.

## Transportation

We welcome Royal Assent for the Crossrail project. We believe Crossrail constitutes an integral addition to London's future transport network and will secure future growth and underline London's position as one of the world's leading financial centres.

# Chairman's and Chief Executive's Statement continued

Canary Wharf will make a financial contribution towards the cost of construction of the Crossrail station and will act as Project Manager/General Contractor for the station.

Improvements to the Jubilee Line and the DLR, which are significant, are continuing on schedule and due to be completed in 2009 and 2010 respectively.

## Community and Environment

The environmental impact of buildings and development is of increasing importance to us and to our tenants. At Canary Wharf this has always been taken seriously and is reflected in the Group's membership of organisations, such as the UK Green Building Council, the Green500 and the Better Building Partnership. We have also recently received recognition of our environmental commitment, most notably with the Green Apple award for the KPMG building at 15 Canada Square, with Canary Wharf Contractors Limited being named in the *Sunday Times* 50 Best Green Companies and also by being a sector leader in the 2007 Business in the Environment Index.

We continue to be actively involved with local boroughs and London community projects through organisations such as our Local Business Liaison Office, which supports the local business community by sourcing and matching local buyers and suppliers. This programme is now being extended across the Thames Gateway boroughs. The Group also works closely with organisations such as London First and the East London Business Alliance.



**SIR MARTIN JACOMB**  
Chairman

It is only through this type of involvement and links with the local community that the Olympics related regeneration aspirations for Thames Gateway can be met in the period leading up to and beyond 2012.

## Outlook

Take up of office space across Central London has continued to fall during the second quarter ended 30 June 2008 to its lowest level since 2003. Availability has increased to 13.5m sq ft net. However, this is still below the long term average of 14.7m sq ft net. The impact of the recent general market turmoil has yet to be assessed and it is not yet possible to predict when there will be an easing of current market conditions. Development activity is likely to have peaked in 2008 and will be followed by a marked slow down. Current supply is therefore likely to match demand more closely from 2010.

## Conclusion

Difficult conditions in the property market as a whole clearly persist, both as regards the demand for space and in the investment market, but we view the future with confidence, believing that we are well placed to meet the current challenging environment. The dedication, hard work and high levels of skill of our staff have been at the foundation of your company's achievements and provide the basis of our belief in future progress.



**GEORGE IACOBESCU CBE**  
Chief Executive



# Business Review

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

## Property Portfolio

The activities of the group are engaged in property investment and property development and are currently focused on the development of the Estate. The group is also involved through joint ventures in the development of Wood Wharf and the redevelopment of Drapers Gardens. At 30 June 2008 the investment property portfolio comprised 16 completed properties (out of the 30 constructed on the Estate) totalling 7.9m sq ft of NIA of which 99.7% was let (31 December 2007 – 7.9m sq ft of which 99.6% was let). As well as the rental income generated from properties, income is generated from managing the entire Estate which, in addition to the completed properties owned by the group, includes a further 14 completed properties totalling 6.3m sq ft which are in other ownerships.

The properties of the group are under lease to tenants which provide a diversified income stream. At 30 June 2008 the weighted average unexpired lease term for the investment property portfolio was approximately 18.4 years (or 15.6 years assuming the exercise of outstanding break options) (31 December 2007 – 18.7 years or 15.8 years respectively). Of the square footage under lease, 65.3% does not expire or cannot be terminated by tenants during the next ten years.

## Lehman

It is too early to assess the full impact of the failure of Lehman which occurred after the period end. However, Nomura has announced that it has reached agreement to acquire the European equities and investment banking operations of Lehman and efforts are being made by the administrator to sell other parts of the business as a going concern.

Lehman currently leases 1.023m sq ft in 25 Bank Street on a tenancy which is due to expire in July 2033. The obligations of the lease are guaranteed by Lehman Brothers Holdings Inc, the US parent. Of the 1.023m sq ft, Lehman occupies approximately 875,000 sq ft, and of the remaining 148,000 sq ft approximately 100,000 sq ft is sub-let until 2013 and the balance sub-let for a maximum of 2 years. This space reverts to Lehman on the expiry of the various

sub-leases. The current rent payable by Lehman for the entire building is £41.00 psf which will rise to £53.00 psf in November 2008.

25 Bank Street is included within the CWFII securitisation which has approximately £2.55 billion of notes in issuance. The securitisation has the benefit of an arrangement with AIG which provides for the payment of the contracted rent under the lease following a default by Lehman, either in its entirety or to cover any shortfall. The agreement is for a period of 4 years from a payment default by Lehman. Under this agreement, AIG are obliged to maintain a certain credit rating. Following the recent downgrade, AIG are now required to either post collateral to meet their obligations under the agreement, or have the commitments under the facility guaranteed by an entity having the requisite credit ratings.

CWFII also has the benefit of a £300.0m liquidity facility provided by Lloyds Bank plc, under which drawings may be made in the event of a cash flow shortage under the securitisation. Holders of the secured bonds issued by CWFII have recourse only to the assets, guarantees and liquidity facility of CWFII and there is no recourse to the company.

## Leasing

During the first half of 2008 the group announced letting transactions over a total of approximately 200,000 sq ft in One Canada Square.

- An agreement was concluded with Moody's, the international credit rating agency, for approximately 165,000 sq ft on a 15 year lease which included space formerly occupied by the Telegraph on floors 11-16.
- The group also took a surrender of floor 37 (28,435 sq ft) from Burlington Resources and re-let the space to Abbey Business Centres for a term of 15 years.
- Hartford Life took a short term lease of 2,045 sq ft on floor 29.

The rents achieved on these lettings ranged from £45.00 to £49.00 psf. In addition, Global Sage renewed their lease over 3,331 sq ft on floor 27.

## Business Review continued

Subsequent to the period end China Construction Bank took a 10 year lease on 7,700 sq ft in 40 Bank Street and Execujet took a 5 year lease on 2,000 sq ft in One Canada Square.

All space previously sub-let back to the group has now been re-let or is subject to call options. At 30 June 2008 the estimated net present value of sub-let liabilities had reduced to approximately £24.6m discounted at 6.2% being the group's weighted average cost of debt (31 December 2007 – £30.0m, discounted at 6.1%). These sub-let commitments have been reflected in the market valuation of the group's properties.

### Construction

The following properties were under construction at 30 June 2008:

Property address	NIA (sq ft)	Expected completion date	Status
20 Churchill Place	300,000	October 2008	Pre-sold to Prudential for occupation by State Street.
15 Canada Square	400,000	April 2009	Pre-sold to KPMG.
5 Churchill Place	300,000	May 2009	259,000 sq ft pre-let to Bear Stearns.
30 North Colonnade	320,000	October 2010	Pre-sold to Fimalac for occupation by Fitch.
	1,320,000		

In addition to the above, work commenced on the expansion of two of the group's retail malls. This expansion will provide a further 38,000 sq ft of lettable space.

In summary, the total development capacity at 30 June 2008 at each of the group's development sites was as follows:

### Development

The site at 25 Churchill Place could accommodate approximately 375,000 sq ft of new development on the basis of the previous planning approval but an application to increase the permitted development to approximately 515,000 sq ft has been approved by the LBTH planning committee. At Riverside South initial ground works are under way which will significantly accelerate the completion time for the development. At North Quay, local authority consent has been granted for 2.4m sq ft. There is also further development capacity at Heron Quays West subject to acquiring the remaining leasehold interests on the site which are outside the control of the group. Consent has been granted to increase the development of this site to 1.3m sq ft. A further application has been submitted on the adjacent Newfoundland site for 0.2m sq ft of mixed use development.

	NIA m sq ft
Based on existing planning permissions:	
– 25 Churchill Place	0.4
– Riverside South	1.9
– North Quay	2.4
– Heron Quays West	1.3
	6.0
Subject to planning consent:	
– 25 Churchill Place increase	0.1
– Newfoundland site	0.2
	6.3

Subsequent to the period end, consent was granted on the 25 Churchill Place increase.

The group has continued to work with Ballymore and BWB on the redevelopment of the Wood Wharf site. 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. An outline planning application has been submitted for this development and further design work has been carried out on the first phase of office and residential buildings.

Construction work has continued on Drapers Gardens. The scheme comprises approximately 300,000 sq ft of prime commercial development scheduled for completion in 2010. The group acquired 20.0% of the share capital in the companies that own the property and has assumed the role as development manager with responsibility for the day to day running of the scheme. This represents the group's first involvement in a scheme away from the Estate and, coupled with involvement as construction manager on Ballymore's Millharbour project, demonstrates that the group's skills are transferable to developments away from the Estate.

Subsequent to the period end, the Crossrail project received Royal Assent. Under an agreement between the group and the Secretary of State for Transport signed in October 2007 the group will design, build and finance construction of a station on the Estate and on completion, lease the station to TfL. It is anticipated that construction will be funded by way of a construction loan facility in conjunction with a contribution from the group. Subject to planning permission, the group has been granted the right to develop a retail complex above the station.

## Valuations

The net assets of the group, as stated in its consolidated balance sheet as at 30 June 2008, were £2,717.3m. In arriving at this total:

- (i) properties held as investments were carried at £5,380.1m, which represents the market value of those properties of £5,658.0m at that date as determined by the group's external valuers, CBRE, Savills and Cushman less an adjustment of £277.9m for tenant incentives;

- (ii) the properties held for development were carried at £276.9m, representing their cost to the group; and
- (iii) the property under construction to be retained by the group was carried at £92.4m, representing its cost to the group.

Excluding additions, the valuation of the investment portfolio on the basis of market value fell by £573.8m or 9.2% over the six months to 30 June 2008. After allowing for adjustments in respect of lease incentives, the carrying value of the investment property portfolio reduced by £548.8m over the period. This reduction was primarily driven by a softening in yields in the market of approximately 50 bps. The group continues to be of the view that the low vacancy rate on the Estate together with long unexpired average lease terms put the group in a strong position to weather the more uncertain economic outlook.

CBRE and Savills have provided a joint opinion as at 30 June 2008 that the market value of properties held for development was £330.0m, in comparison with a carrying value for accounts purposes of £276.9m. 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 £330.0m represents a reduction of 33.5%, after additions, over the market value at 31 December 2007, and reflects a more uncertain outlook for development.

The valuers also provided an opinion as at 30 June 2008 that the market value of the property under construction to be retained by the group was £150.0m, in comparison with an historical cost of £92.4m, and the market value of properties under construction to be sold was £588.5m, in comparison with the historical cost of £283.0m.

Excluding properties under construction to be sold, the market value of the property portfolio reduced by £721.4m or 10.5% over the six months, after additions. This reduction in value was driven by the factors referred to earlier.

## 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 2008		31 December 2007	
	Carrying value £m	Market value in existing state £m	Carrying value £m	Market value in existing state £m
Investment properties	5,380.1 <sup>(1)</sup>	5,658.0 <sup>(2)</sup>	5,908.4 <sup>(1)</sup>	6,211.3 <sup>(2)</sup>
Properties under construction	92.4	150.0	61.4	100.0
Properties held for development	276.9	330.0	232.3	452.0
	<b>5,749.4</b>	<b>6,138.0</b>	6,202.1	6,763.3
Properties under construction held for sale	283.0 <sup>(3)</sup>	588.5	215.4 <sup>(3)</sup>	511.0
	<b>6,032.4</b>	<b>6,726.5</b>	6,417.5	7,274.3

Note:

- (1) The carrying value of investment properties represents market value less an adjustment for UITF 28.
- (2) Stated at market value in existing state before adjustment for UITF 28. The UITF 28 adjustment attributable to investment properties at 30 June 2008 was £277.9m (31 December 2007 – £302.9m).
- (3) Represents historical cost to the group. The carrying value in the balance sheet at 30 June 2008 is stated net of £290.2m transferred to cost of sales (31 December 2007 – £210.8m), £nil transferred to payments on account (31 December 2007 – £4.6m) and £7.2m of costs accrued in accordance with SSAP 9 (31 December 2007 – £nil).

### Taxation

The group has EZAs available to shelter future operating profits, taxable profits and gains arising on the sale of properties. The benefit of certain of these EZAs has been recognised in the current period.

The deferred tax liability recognised in respect of the potential clawback of EZAs primarily relates to two assets acquired in the year ended 31 December 2006 (Note 3). Substantially all other EZAs available in the group are attached to assets that are now of negligible value following an internal property restructuring in 2005. As a result there is no uplift in the value of the group's investment properties attributable to the EZAs available to the group. Whereas the group can claim these EZAs based on the original qualifying expenditure, a third party purchaser would only be able to claim EZAs by reference to the post restructuring values. Furthermore, as these assets to which the EZAs attach are negligible in value, a disposal of the property to which the qualifying

expenditure relates would not result in a material clawback of EZAs claimed prior to 30 June 2008. As a result there is no significant deferred tax liability in respect of these EZAs.

If the group were to dispose of its property portfolio at the market value disclosed in this 'Business Review', a tax liability of £63.4m would arise (31 December 2007 – £194.1m). This liability is stated after taking into account the tax liabilities relating to deferred accounting profits on properties under construction held for sale and the benefit of the remaining EZAs which would have been 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. In line with FRS19 a deferred tax asset of £36.2m has been recognised including EZAs available to relieve future forecast taxable profits.

## Operating Results

The following review of the group's operating results relates to the six months ended 30 June 2008. The comparatives relate to the six months ended 30 June 2007.

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 pre-sale contracts. Turnover for the six months ended 30 June 2008 was £327.8m, against £282.2m for the six months ended 30 June 2007, of which rental income after UITF 28 was £119.5m (six months ended 30 June 2007 – £119.0m). The impact of UITF 28 was to reduce rental income by £20.2m in the six months ended 30 June 2008 (six months ended 30 June 2007 – £19.2m). Excluding the impact of UITF 28, rental income increased from £138.2m to £139.7m, an increase of 1.1%, primarily attributable to the benefit of rent reviews and increased retail rents. In the six months ended 30 June 2008 the group recognised £23.4m of income in connection with the termination of certain leases on the Estate by tenants (six months ended 30 June 2007 – £nil).

Service charge income increased from £30.9m to £33.5m and miscellaneous income, including insurance rents, increased from £12.3m to £13.3m over the period. The six months ended 30 June 2008 also included £138.1m of turnover recognised on the construction of development properties that have been pre-sold (Note 9) (six months ended 30 June 2007 – £120.0m) in accordance with SSAP 9.

Cost of sales includes rents payable and property management costs, movements on provisions for vacant leasehold properties and certain other lease commitments, as well as costs allocated to cost of sales on the construction of properties held for sale. Rents payable and property management costs were £44.4m in comparison with £41.4m for the six months ended 30 June 2007. Taking into account service charge and miscellaneous income totalling £46.8m

for the six months ended 30 June 2008 (six months ended 30 June 2007 – £43.2m), a surplus on Estate management of £2.4m was achieved (six months ended 30 June 2007 – £1.8m). These surpluses were attributable to the low vacancy levels across the Estate.

The six months ended 30 June 2008 also included £7.7m of dilapidations and other costs attributable to the termination of leases in the period (six months ended 30 June 2007 – £nil). Provisions relating to vacant leasehold properties, rent support commitments and certain other obligations reduced by £0.2m in the six months ended 30 June 2008, whereas there was a net increase in such provisions of £2.6m in the six months ended 30 June 2007.

Cost of sales for the six months ended 30 June 2008 also included £79.3m (six months ended 30 June 2007 – £101.8m) of costs on construction of properties held for sale resulting in £58.8m of profit being recognised on construction contracts (six months ended 30 June 2007 – £18.2m).

For the six months ended 30 June 2008 gross profit, or net property income, was £196.6m, an increase of £60.2m over the six months ended 30 June 2007, of which £40.6m was attributable to the recognition of construction profit and £15.7m to the surrender of leases. Excluding the profit recognised on long term contracts and surrender premia received in the period net of dilapidations costs, net property income was £122.1m (six months ended 30 June 2007 – £118.2m).

Administrative expenses for the six months ended 30 June 2008 were £18.8m in comparison with £18.4m for the six months ended 30 June 2007. Operating profit for the period was £178.8m, in comparison with £128.3m for the six months ended 30 June 2007. The increase in operating profit of £50.5m was largely attributable to the increase in net property income, partly offset by £8.3m of deferred proceeds from the sale of two buildings in 2003 which was treated as an exceptional item in the six months ended 30 June 2007.

Net interest payable for the six months ended 30 June 2008 was £95.9m against £94.4m for the six months ended 30 June 2007 excluding exceptional items. In the six months ended 30 June 2007, the group restructured its securitised debt resulting in an exceptional charge of £16.9m (Note 2).

The profit on ordinary activities after interest for the six months ended 30 June 2008 was £82.9m in comparison with a profit of £17.0m for the six months ended 30 June 2007. The results for the six months ended 30 June 2007 included certain exceptional profits and losses as described above. Excluding exceptional items, the profit on ordinary activities after interest for the six months ended 30 June 2007 was £25.6m.

Taxation for the six months ended 30 June 2008, which has been calculated by reference to the anticipated effective tax rate for the year to 31 December 2008, is wholly attributable to deferred tax. At 30 June 2008 the group has recognised deferred tax assets on unclaimed EZAs and timing differences arising from profit recognition on long term contracts in accordance with FRS 19, which has resulted in a credit of £78.5m in the period.

The profit for the financial period after taxation for the six months ended 30 June 2008 was £161.4m in comparison with £19.9m for the six months ended 30 June 2007.

Basic and diluted earnings per share for the six months ended 30 June 2008 was 25.3p (six months ended 30 June 2007 – earnings of 3.1p) as referred to in Note 4.

Adjusted basic and diluted earnings per share, excluding exceptional items, for the six months ended 30 June 2008 was 25.3p (six months ended 30 June 2007 – 4.5p). Adjusted earnings per share for the six months ended 30 June 2007 was calculated on the profit after tax excluding the £16.9m of exceptional charges on the restructuring of debt and the deferred proceeds of £8.3m from the sale of two properties in 2003. There were no such 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 Financial Reporting Standard 22 (Earnings per share) at either 30 June 2008 or 30 June 2007.

The company declared an interim dividend of 16.0p per ordinary share totalling £102.2m which was paid on 9 April 2008.

### **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 2008 were £2,717.3m in comparison with £3,206.9m at 31 December 2007. The reduction in net asset value was primarily attributable to the revaluation deficit of £548.8m and the dividend paid in the period of £102.2m, partly offset by the profit on ordinary activities of £161.4m.

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 taxation required by accounting standards but which, in the judgement of the directors, is unlikely to crystallise.

	<b>30 June 2008 £m</b>	31 December 2007 £m
Net assets per statutory balance sheet	<b>2,717.3</b>	3,206.9
Adjust for deferred tax	<b>(36.2)</b>	42.3
Net assets prior to deferred tax	<b>2,681.1</b>	3,249.2
Revaluation of property portfolio:		
– properties held for development <sup>(1)</sup>	<b>53.1</b>	219.7
– properties under construction <sup>(2)</sup>	<b>200.4</b>	230.2
<b>Adjusted net assets<sup>(3)</sup></b>	<b>2,934.6</b>	3,699.1
Fair value adjustments in respect of financial assets and liabilities less tax relief at 28% (31 December 2007 – 30%) <sup>(4)</sup>	<b>191.3</b>	(22.8)
Contingent tax on property disposals <sup>(5)</sup>	<b>(63.4)</b>	(194.1)
Undiscounted deferred tax <sup>(6)</sup>	<b>5.3</b>	(75.4)
<b>Adjusted NNNAV<sup>(3)</sup></b>	<b>3,067.8</b>	3,406.8
Cumulative dividends paid since completion of the offer process <sup>(7)</sup>	<b>1,104.2</b>	1,002.0
Adjusted NNNAV before dividends	<b>4,172.0</b>	4,408.8
<b>Adjusted net assets per share<sup>(8)</sup></b>	<b>£4.59</b>	£5.79
Adjusted net assets per share before dividends <sup>(8)</sup>	<b>£6.32</b>	£7.36
<b>Adjusted NNNAV per share<sup>(8)</sup></b>	<b>£4.80</b>	£5.33
Adjusted NNNAV per share before dividends <sup>(8)</sup>	<b>£6.53</b>	£6.90

Note:

- (1) Revalued to market value in existing state.
- (2) Uplift to market value on pre-sold properties under construction of £305.5m (31 December 2007 – £295.6m) less cumulative profit of £162.7m recognised by 30 June 2008 (31 December 2007 – £103.9m), together with uplift to market value on properties under construction to be held of £57.6m (31 December 2007 – £38.6m).
- (3) Excludes potential value to the group of EZAs (refer to 'Business Review – Taxation').
- (4) Refer to Note 8(3).
- (5) Refer to 'Business Review – Taxation'.
- (6) Refer to Note 3.
- (7) 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).
- (8) Calculated by reference to the closing number of shares in issue of 639.0m (31 December 2007 – 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 net asset value 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 2008 net debt (after cash in hand and cash collateral) stood at £3,067.9m, up from £2,849.4m at 31 December 2007, and comprised:

	<b>30 June 2008 £m</b>	31 December 2007 £m
Securitised debt	<b>2,640.9</b>	2,644.8
Loans	<b>1,260.6</b>	1,263.4
Finance lease obligations	<b>41.6</b>	41.7
Construction loans	<b>68.9</b>	35.0
<b>Total borrowings</b>	<b>4,012.0</b>	3,984.9
Less:		
– cash collateral for borrowings	<b>(131.7)</b>	(144.0)
– cash collateral for construction	<b>(76.6)</b>	(115.9)
– other cash collateral	<b>(10.4)</b>	(19.9)
	<b>3,793.3</b>	3,705.1
Less: cash deposits	<b>(725.4)</b>	(855.7)
<b>Net debt</b>	<b>3,067.9</b>	2,849.4

The group's borrowings are secured against designated property interests and are non-recourse to the group. They are subject to lending covenants that include maximum loan to value ratios and minimum interest coverage ratios. The group was in compliance with all lending covenants at 30 June 2008 and throughout the period then ended.

The increase in total borrowings from £3,984.9m to £4,012.0m reflects draw downs under the group's construction loan facility, net of the scheduled amortisation of debt. The reduction in cash and term deposits from £1,135.5m to £944.1m is primarily as a result of the funding of construction costs and the payment of dividends.

At 30 June 2008 the fair value adjustment in respect of the group's financial assets and liabilities (excluding debtors and creditors falling due within one year) calculated in accordance with FRS 13 was a gain of £265.7m before tax (31 December 2007 – liability of £32.5m).

At 30 June 2008 the group's weighted average cost of debt was 6.0% excluding credit wraps (or 6.2% including credit wraps) in comparison with 5.9% excluding credit wraps (or 6.1% including credit wraps) at 31 December 2007.



## Cash Flow

Net cash inflow from operating activities for the six months ended 30 June 2008 was £54.0m in comparison with £268.6m for the six months ended 30 June 2007. Net cash expended on properties in the course of construction held for sale was £117.2m in the six months ended 30 June 2008 in comparison with a cash inflow of £128.7m for the six months ended 30 June 2007. Excluding the impact of such cash flows, operating cash inflows increased from £139.9m to £171.2m. This increase was primarily attributable to increased rental income and changes in working capital.

Returns on investments and servicing of finance resulted in an outflow of £89.5m for the six months ended 30 June 2008 compared with £103.2m for the six months ended 30 June 2007. The six months ended 30 June 2007 included £10.3m of fees on loans drawn down and repaid in the period. No such fees were incurred for the six months ended 30 June 2008.

Capital expenditure and financial investment for the six months ended 30 June 2008 resulted in a cash outflow of £78.5m, compared with £31.4m for the six months ended 30 June 2007. The six months ended 30 June 2008 included £74.9m (six months ended 30 June 2007 – £23.6m) of development expenditure incurred on properties to be retained by the group and funding of the group's investment in associated undertakings of £3.6m (six months ended 30 June 2008 – £7.4m).

On 9 April 2008, a dividend of 16.0p per share was paid totalling £102.2m.

The financing cash inflow for the six months ended 30 June 2008 was £24.8m compared with an inflow of £162.1m for the six months ended 30 June 2007. The six months ended 30 June 2008 included £31.8m excluding interest drawn down under the group's construction loan facility (June 2007 – £17.8m). The six months ended 30 June 2007 included net proceeds of £148.0m from a restructuring of the group's securitisation.

## 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 'Risks and Uncertainties' and 'Treasury Objectives' in the 'Business Review' section of the 2007 Report and Financial Statements of the group.

# Unaudited Consolidated Profit and Loss Account

for the six months ended 30 June 2008

Audited Year ended 31 December 2007 £m		Note	<b>Unaudited Six months ended 30 June 2008 £m</b>	Unaudited Six months ended 30 June 2007 £m
559.4	Turnover		<b>327.8</b>	282.2
(225.9)	Cost of sales		<b>(131.2)</b>	(145.8)
333.5	<b>Gross profit</b>		<b>196.6</b>	136.4
(46.8)	Administrative expenses		<b>(18.8)</b>	(18.4)
3.1	Other operating income:		<b>1.0</b>	2.0
	– before exceptional item			
	Exceptional item:			
19.2	– deferred proceeds on sale of property	5	–	8.3
309.0	<b>Operating profit</b>		<b>178.8</b>	128.3
51.3	Interest receivable	2	<b>25.0</b>	21.5
	Interest payable before exceptional item:			
(238.7)	– group	2	<b>(120.6)</b>	(115.8)
(0.4)	– associated undertakings	2	<b>(0.3)</b>	(0.1)
	Exceptional item:			
(16.9)	– charges relating to repayment of debt	2	–	(16.9)
(256.0)			<b>(120.9)</b>	(132.8)
	<b>Profit on ordinary activities for the financial period before taxation</b>		<b>82.9</b>	17.0
104.3	Taxation	3	<b>78.5</b>	2.9
18.2				
122.5	<b>Profit for the financial period after taxation</b>	11	<b>161.4</b>	19.9
19.2p	Basic and diluted earnings per share	4	<b>25.3p</b>	3.1p

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

The Notes numbered 1 to 14 form an integral part of this Interim Report.

The interim results for the six months ended 30 June 2008 were approved by the board on 24 September 2008.

# Unaudited Consolidated Statement of Total Recognised Gains and Losses

for the six months ended 30 June 2008

Audited Year ended 31 December 2007 £m		Note	<b>Unaudited Six months ended 30 June 2008 £m</b>	Unaudited Six months ended 30 June 2007 £m
122.9 (0.4)	Profit for the financial period after taxation: – group – share of associated undertakings		<b>161.7 (0.3)</b>	20.0 (0.1)
179.1	Unrealised (deficit)/surplus on revaluation of investment properties	5	<b>(548.8)</b>	424.5
<u>301.6</u>	<b>Total recognised gains and losses relating to the period</b>		<b><u>(387.4)</u></b>	<u>444.4</u>

# Unaudited Consolidated Balance Sheet

at 30 June 2008

Audited 31 December 2007 £m		Note	<b>Unaudited 30 June 2008 £m</b>	Unaudited 30 June 2007 £m
	<b>Fixed assets</b>			
5,908.4	Investment properties	5	<b>5,380.1</b>	6,145.6
61.4	Properties under construction	5	<b>92.4</b>	36.3
232.3	Properties held for development	5	<b>276.9</b>	210.6
0.9	Other tangible fixed assets		<b>0.8</b>	0.7
24.8	Investments	6	<b>28.0</b>	20.6
6,227.8			<b>5,778.2</b>	6,413.8
	<b>Current assets</b>			
302.9	Debtors: due in more than one year	7	<b>287.0</b>	325.0
69.4	Debtors: due within one year		<b>92.7</b>	60.4
1,135.5	Cash at bank and in hand	8	<b>944.1</b>	1,128.8
1,507.8			<b>1,323.8</b>	1,514.2
(534.4)	Creditors: Amounts falling due within one year	9	<b>(414.5)</b>	(568.6)
973.4	<b>Net current assets</b>		<b>909.3</b>	945.6
7,201.2	<b>Total assets less current liabilities</b>		<b>6,687.5</b>	7,359.4
	Creditors: Amounts falling due after more than one year	8	<b>(3,949.2)</b>	(3,915.1)
(3,924.6)	Provisions for liabilities	10	<b>(21.0)</b>	(94.6)
(69.7)	<b>Net assets</b>		<b>2,717.3</b>	3,349.7
3,206.9	<b>Capital and reserves</b>			
6.4	Called up share capital		<b>6.4</b>	6.4
	Reserves:			
146.2	– share premium	11	<b>146.2</b>	146.2
3,211.8	– revaluation reserve	11	<b>2,663.0</b>	3,457.2
0.7	– capital redemption reserve	11	<b>0.7</b>	0.7
264.8	– special reserve	11	<b>264.8</b>	264.8
(423.0)	– profit and loss account	11	<b>(363.8)</b>	(525.6)
3,206.9	<b>Shareholders' funds</b>	12	<b>2,717.3</b>	3,349.7

The Notes numbered 1 to 14 form an integral part of this Interim Report.

# Unaudited Consolidated Cash Flow Statement

for the six months ended 30 June 2008

Audited Year ended 31 December 2007 £m		Note	<b>Unaudited Six months ended 30 June 2008 £m</b>	Unaudited Six months ended 30 June 2007 £m
430.4	Net cash inflow from operating activities		<b>54.0</b>	268.6
(196.0)	Returns on investments and servicing of finance		<b>(89.5)</b>	(103.2)
(104.3)	Capital expenditure and financial investment		<b>(78.5)</b>	(31.4)
–	Equity dividends paid		<b>(102.2)</b>	–
(300.3)			<b>(270.2)</b>	(134.6)
	<b>Cash (outflow)/inflow before management of liquid resources and financing</b>		<b>(216.2)</b>	134.0
130.1	Management of liquid resources		<b>61.1</b>	71.1
33.1	Financing		<b>24.8</b>	162.1
172.7			<b>(130.3)</b>	367.2
335.9	<b>(Decrease)/increase in cash in the period</b>	8	<b>(130.3)</b>	367.2
	<b>Reconciliation of operating profit to operating cash flows</b>			
309.0	Operating profit		<b>178.8</b>	128.3
0.4	Depreciation charges		<b>0.1</b>	0.1
–	Share option costs		<b>–</b>	0.1
(12.4)	Decrease/(increase) in debtors		<b>2.0</b>	(7.5)
35.9	(Decrease)/increase in creditors		<b>(27.4)</b>	2.0
(16.3)	Expenditure charged to provisions		<b>(2.5)</b>	(5.8)
4.7	Movements in provisions		<b>(0.1)</b>	3.5
41.3	Amortisation of lease incentives		<b>20.2</b>	19.2
289.0	Long term contract proceeds		<b>15.1</b>	181.3
(117.2)	Profit recognised on long term contracts		<b>(58.8)</b>	(18.2)
(104.0)	Long term contract costs		<b>(73.4)</b>	(34.4)
430.4	Net cash inflow from operating activities		<b>54.0</b>	268.6

# Unaudited Consolidated Cash Flow Statement continued

for the six months ended 30 June 2008

Audited Year ended 31 December 2007 £m		<b>Unaudited Six months ended 30 June 2008 £m</b>	Unaudited Six months ended 30 June 2007 £m
<b>Returns on investments and servicing of finance</b>			
52.7	Interest received	<b>30.1</b>	24.3
(236.1)	Interest paid	<b>(119.1)</b>	(116.2)
(2.1)	Interest element of finance lease rentals	<b>(0.5)</b>	(1.0)
(9.9)	Financing expenses on loans drawn down	-	(9.7)
(0.6)	Financing expenses and breakage costs on loans repaid <sup>(i)</sup>	-	(0.6)
(196.0)	Net cash outflow	<b>(89.5)</b>	(103.2)

Note:

- (i) For the six months ended 30 June 2007, financing expenses and breakage costs on loans repaid included an exceptional charge of £16.9m in connection with restructuring the group's securitisation (Note 2) of which £0.6m was paid and £16.3m related to the write-off of deferred costs.

Audited Year ended 31 December 2007 £m		<b>Unaudited Six months ended 30 June 2008 £m</b>	Unaudited Six months ended 30 June 2007 £m
<b>Capital expenditure and financial investment</b>			
(91.6)	Additions to properties	<b>(74.9)</b>	(23.6)
(0.9)	Purchase of tangible fixed assets	-	(0.4)
(11.8)	Investment in associated undertakings	<b>(3.6)</b>	(7.4)
(104.3)	Net cash outflow	<b>(78.5)</b>	(31.4)

Audited Year ended 31 December 2007 £m		<b>Unaudited Six months ended 30 June 2008 £m</b>	Unaudited Six months ended 30 June 2007 £m
<b>Financing</b>			
(6.8)	Repayment of secured debt	<b>(3.5)</b>	(3.7)
(581.4)	Repayment of securitised debt	<b>(3.5)</b>	(578.0)
726.0	Draw down of securitised debt	-	726.0
34.9	Draw down of construction loan	<b>31.8</b>	17.8
172.7	Net cash inflow	<b>24.8</b>	162.1

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

# Notes to the Interim Report

for the six months ended 30 June 2008

## 1 Basis of Preparation

This Interim Report has been prepared having regard to the guidance in the non-mandatory statement issued by the Accounting Standards Board, 'Half-Yearly Financial Reports', and on the basis of the accounting policies set out in the group's financial statements for the year ended 31 December 2007, which were prepared in accordance with UK GAAP.

The financial information relating to the six month periods ended 30 June 2008 and 30 June 2007 is unaudited.

The information for the year ended 31 December 2007 does not constitute statutory accounts as defined in Section 240 of the Companies Act 1985. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditors' report on those accounts was not qualified and did not contain a reference to any matters to which the auditors drew attention by way of emphasis without qualifying the report and did not contain statements under Section 237(2) or (3) of the Companies Act 1985.

## 2 Interest

Audited Year ended 31 December 2007 £m		<b>Unaudited Six months ended 30 June 2008 £m</b>	Unaudited Six months ended 30 June 2007 £m
51.3	Bank interest receivable	<b>25.0</b>	21.5
51.3		<b>25.0</b>	21.5
(160.3)	Payable:		
(76.3)	Notes and debentures	<b>(80.8)</b>	(76.2)
(2.1)	Bank loans and overdrafts	<b>(38.6)</b>	(38.6)
(1.8)	Finance lease charges	<b>(1.2)</b>	(1.0)
(0.4)	Construction loan	<b>(2.1)</b>	(0.9)
(240.9)	Share of associated undertakings	<b>(0.3)</b>	(0.1)
		<b>(123.0)</b>	(116.8)
1.8	Less: Interest at 6.5% on the construction loan transferred to properties under construction	<b>2.1</b>	0.9
(239.1)		<b>(120.9)</b>	(115.9)
	Exceptional items:		
(0.6)	Charges relating to early repayment of debt:		
(16.3)	– prepayment and breakage costs	–	(0.6)
(16.9)	– write-off of deferred financing costs	–	(16.3)
(256.0)	Total interest payable	<b>(120.9)</b>	(16.9)
		<b>(120.9)</b>	(132.8)

# Notes to the Interim Report continued

for the six months ended 30 June 2008

Financing costs relating to the inception of the group's borrowings are deferred and amortised to the profit and loss account over the term of the debt at a constant rate based on the carrying amount of the debt in accordance with Financial Reporting Standard 4 (Capital Instruments). In addition, premia on the issue of notes are amortised over the term of that debt. As a result of prepaying certain of the group's borrowings during the six months ended 30 June 2007, the unamortised portion of those costs relating to the debt prepaid totalling £16.3m was written-off to the profit and loss account. There was no deferred tax as a result of the repayment of debt in the six months ended 30 June 2007.

## 3 Taxation

Audited Year ended 31 December 2007 £m		<b>Unaudited Six months ended 30 June 2008 £m</b>	Unaudited Six months ended 30 June 2007 £m
–	Current tax: UK corporation tax (see below)	–	–
	Deferred tax:		
	Origination and reversal of timing differences:		
16.2	– current period	<b>77.7</b>	1.5
3.0	– changes in tax rate	–	1.4
(1.0)	Net effect of discount	<b>0.8</b>	–
<u>18.2</u>	Total deferred tax	<u><b>78.5</b></u>	<u>2.9</u>
<u>18.2</u>	Total tax credit on profit on ordinary activities	<u><b>78.5</b></u>	<u>2.9</u>

The charges and credits for the six months ended 30 June 2008 and the comparative periods relate solely to deferred tax.

No liability for corporation tax has been incurred in the consolidated results of the group for the six months ended 30 June 2008, the year ended 31 December 2007 or the six months ended 30 June 2007 due to the availability of tax losses and other tax reliefs arising in these periods, the availability of tax losses brought forward from previous periods and other tax reliefs available.



	<b>Unaudited 30 June 2008 £m</b>	Audited 31 December 2007 £m
Deferred tax:		
Accelerated capital allowances claimed	<b>(75.5)</b>	(75.4)
Other tax credits	<b>61.7</b>	–
Construction contracts	<b>19.1</b>	–
Undiscounted deferred tax asset/(liability)	<b>5.3</b>	(75.4)
Discount	<b>30.9</b>	33.1
Discounted deferred tax asset/(liability)	<b>36.2</b>	(42.3)
	<b>Unaudited Six months ended 30 June 2008 £m</b>	Audited Year ended 31 December 2007 £m
At start of period	<b>(42.3)</b>	(60.5)
Deferred tax credit in the profit and loss account for the period	<b>78.5</b>	18.2
At end of period	<b>36.2</b>	(42.3)

A deferred tax liability of £75.5m (31 December 2007 – £75.4m) has been recognised at 30 June 2008, primarily in respect of EZA claims made in prior years. For the most part this liability relates to two finance lessor companies acquired by the group from a third party in the year ended 31 December 2006. This deferred tax liability has been offset by deferred tax assets relating primarily to unclaimed tax allowances. Deferred tax assets have been recognised during the period as the group considers it more likely than not, based on forecast taxable profits, it will be able to utilise certain tax losses and other tax reliefs brought forward from previous periods. The net deferred tax position is stated on a discounted basis and included in debtors falling due within one year.

In accordance with FRS 19, no provision has been made for deferred tax on gains relating to properties which are revalued in the balance sheet to their market values. If the group's investment properties had been sold at the balance sheet date at the amounts stated in Note 5, the amount of tax payable, over and above that already provided for in the accounts by the group, would have been £0.9m (31 December 2007 – £90.8m), reduced from £74.3m (31 December 2007 – £209.8m) by EZA balancing allowances and capital losses carried forward.

# Notes to the Interim Report continued

for the six months ended 30 June 2008

## 4 Basic and Diluted Earnings per Share

The basic and diluted earnings per share are calculated by reference to the profit for the financial period after taxation attributable to ordinary shareholders of £161.4m (year ended 31 December 2007 – £122.5m, six months ended 30 June 2007 – £19.9m) and on the weighted average of 639.0m shares in issue at each period end.

There were no outstanding dilutive instruments at 30 June 2008 or either of the comparative period ends.

## 5 Investment Properties, Properties held for Development and Properties under Construction

Freehold properties held as tangible fixed assets:

	Investment properties £m	Properties held for development £m	Properties under construction £m
1 January 2008 (pre-adjustment for UITF 28)	6,211.3	232.3	61.4
Adjustment for UITF 28	(302.9)	–	–
1 January 2008	5,908.4	232.3	61.4
Additions	20.5	44.6	31.0
Revaluation	(548.8)	–	–
<b>30 June 2008</b>	<b>5,380.1</b>	<b>276.9</b>	<b>92.4</b>
Adjustment for UITF 28 (Note 7)	277.9		
<b>Market value at 30 June 2008</b>	<b>5,658.0</b>		
Of which, subject to lease and finance leaseback arrangements	93.1		
Historical cost	2,584.7		

Pre-sold properties under construction:

Additions	67.6
SSAP 9 accrual	7.2
Transferred to cost of sales	(79.3)
Transferred from payments on account	4.5
<b>30 June 2008</b>	<b>–</b>

Additions to properties for the six months ended 30 June 2008 totalled £163.7m.

Investment properties are recorded at valuation less the cost of unamortised tenant incentives incurred at the balance sheet date in accordance with UITF 28. Unamortised tenant incentives are held within debtors due in more than one year (Note 7).

The group's investment properties have been revalued externally at 30 June 2008 on the basis of market value. The valuation of office investment properties was undertaken by either CBRE or Savills. The valuation of retail investment properties was undertaken by Cushman. Each property has been valued individually on a free and clear basis and not as part of a portfolio and no account has been taken of any intragroup leases

or arrangements. Whilst allowance has been made for any purchaser's expenses, no allowance has been made for any seller's expenses of realisation nor for any taxation which might arise in the event of disposal. The deficit arising on the valuations at 30 June 2008 of £548.8m has been transferred from the revaluation reserve.

Properties held for development at 30 June 2008, which are to be retained as investment properties, are carried at their fair value at the time of acquisition of the Canary Wharf Holdings Limited group in December 1995, less subsequent disposals plus additions at cost, subject to any provision for impairment.

During 2007 the group received £8.3m of deferred proceeds from the sale of two buildings in 2003, and released surplus accruals and deferred income of £10.9m relating to previously disposed properties, of which £8.3m was recognised at 30 June 2007.

## 6 Investments

Audited 31 December 2007 £m		<b>Unaudited 30 June 2008 £m</b>	Unaudited 30 June 2007 £m
24.2	Associates	<b>27.4</b>	19.8
0.4	Shares	<b>0.4</b>	0.6
0.2	Other investments	<b>0.2</b>	0.2
<u>24.8</u>		<b><u>28.0</u></b>	<u>20.6</u>

In April 2005, BWB appointed the group, together with Ballymore, as its partner for the development of Wood Wharf. WWLP was established to oversee the development of an approximately 7.0m sq ft (gross) mixed use scheme in which the group has a 25.0% effective interest. The group has provided interest free long term loans totalling £18.6m (31 December 2007 – £15.5m) to WWLP in the form of redeemable notes which are interest free and redeemable at par in 2030. WWLP has drawn down £6.6m (31 December 2007 – £5.2m) of a £9.0m loan facility which is repayable in 2010. This loan must first be repaid before the loan provided to WWLP by the group can be repaid. All loans must have been repaid in full prior to dividends being declared.

The investment in WWLP comprises an initial entry premium (plus expenses) of £1.9m together with the group's share of the net assets of WWLP.

In June 2007, the group entered into a joint venture with MSREF V and Exemplar to undertake the redevelopment of Drapers Gardens. The group has invested £7.1m (31 December 2007 – £6.7m) and incurred fees of £0.7m in consideration for a 20.0% stake in the joint venture.

# Notes to the Interim Report continued

for the six months ended 30 June 2008

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

For the six months ended 30 June 2008:

	Drapers Gardens £m	WWLP £m	<b>Total £m</b>
Loss before interest and tax	–	(0.9)	<b>(0.9)</b>
Interest receivable	–	0.9	<b>0.9</b>
Interest payable	–	(1.0)	<b>(1.0)</b>
Loss after interest and tax	–	(1.0)	<b>(1.0)</b>
Group share	–	(0.3)	<b>(0.3)</b>
Net assets at 30 June 2008	35.6	70.5	<b>106.1</b>
Group share	7.1	17.7	<b>24.8</b>

## 7 Debtors Due in More Than One Year

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

	Rent-free periods £m	Other tenant incentives £m	Total £m
1 January 2008	116.7	186.2	302.9
Recognition of rent during rent-free periods	6.2	–	6.2
Amortisation	(5.0)	(21.4)	(26.4)
Other changes in provisions and accruals	–	(4.8)	(4.8)
Total lease incentives	117.9	160.0	277.9
Receivable under lease termination agreements			9.1
<b>30 June 2008</b>			<b>287.0</b>

At 30 June 2008 a further £7.7m receivable under lease termination agreements has been included in prepayments within debtors due in less than one year.

## 8 Net Debt

The amounts at which borrowings are stated comprise:

	Securitised debt £m	Construction loan £m	Secured loans £m	Finance lease obligation £m	Total £m
1 January 2008	2,644.8	35.0	1,263.4	41.7	3,984.9
Drawn down in period	–	31.8	–	–	31.8
Deferred financing expenses	0.6	0.3	0.6	–	1.5
Accrued finance charges	(1.0)	1.8	0.1	(0.1)	0.8
Repaid in period	(3.5)	–	(3.5)	–	(7.0)
<b>30 June 2008</b>	<b>2,640.9</b>	<b>68.9</b>	<b>1,260.6</b>	<b>41.6</b>	<b>4,012.0</b>
Payable within one year or on demand	36.2	–	26.6	–	62.8
Payable in more than one year	2,604.7	68.9	1,234.0	41.6	3,949.2
	<u>2,640.9</u>	<u>68.9</u>	<u>1,260.6</u>	<u>41.6</u>	<u>4,012.0</u>

- (1) At 30 June 2008 the group held sterling cash deposits totalling £944.1m (31 December 2007 – £1,135.5m) comprising deposits placed on the money market at call and term rates. Total cash deposits included £131.7m (31 December 2007 – £144.0m) held by third parties as cash collateral for the group's borrowings, £76.6m (31 December 2007 – £115.9m) charged to third parties in connection with the group's construction obligations and £10.4m (31 December 2007 – £19.9m) charged to third parties as security for the group's other obligations. Unsecured cash deposits totalled £725.4m at 30 June 2008 (31 December 2007 – £855.7m).
- (2) In February 2007 the group entered into a £155.0m 3 year construction loan facility secured on 5 Churchill Place. Interest is charged at LIBOR plus a margin of 0.9%, hedged at 5.625%. At 30 June 2008 £70.2m including interest had been drawn down under this facility (31 December 2007 – £36.6m). The group has an option to roll this facility into an investment facility on practical completion of the building. This investment facility would then be repayable in February 2013.
- (3) At 30 June 2008 the fair value adjustment in respect of the group's financial assets and liabilities (excluding debtors and creditors falling due within one year) calculated in accordance with FRS 13 was a gain of £265.7m before tax, or £191.3m after tax (31 December 2007 – liability of £32.5m and £22.8m respectively).

# Notes to the Interim Report continued

for the six months ended 30 June 2008

(4) The movement in net debt for the six months ended 30 June 2008 was as follows:

	1 January 2008 £m	Cash flow £m	Other non-cash changes £m	30 June 2008 £m
Cash at bank	1,135.5	(191.4)	–	<b>944.1</b>
Amounts on deposit not available on demand	(279.8)	61.1	–	<b>(218.7)</b>
	<u>855.7</u>	<u>(130.3)</u>	<u>–</u>	<u><b>725.4</b></u>
Debt due after 1 year	(3,882.9)	(31.8)	7.1	<b>(3,907.6)</b>
Debt due within 1 year	(60.3)	60.3	(62.8)	<b>(62.8)</b>
Finance lease due after 1 year	(41.7)	0.5	(0.4)	<b>(41.6)</b>
	<u>(3,984.9)</u>	<u>29.0</u>	<u>(56.1)</u>	<u><b>(4,012.0)</b></u>
Amounts on deposit not available on demand	279.8	(61.1)	–	<b>218.7</b>
<b>Net debt</b>	<u>(2,849.4)</u>	<u>(162.4)</u>	<u>(56.1)</u>	<u><b>(3,067.9)</b></u>
Decrease in cash				<b>(191.4)</b>
Decrease in debt and lease financing				<b>29.0</b>
Change in net debt resulting from cash flows				<b>(162.4)</b>
Non-cash movement in net debt				<b>(56.1)</b>
Movement in net debt				<b>(218.5)</b>
Net debt at 1 January 2008				<b>(2,849.4)</b>
<b>Net debt at 30 June 2008</b>				<u><b>(3,067.9)</b></u>

## 9 Creditors: Amounts Falling Due Within One Year

Audited 31 December 2007 £m		<b>Unaudited 30 June 2008 £m</b>	Unaudited 30 June 2007 £m
60.3	Borrowings (Note 8)	<b>62.8</b>	56.0
20.3	Trade creditors	<b>26.1</b>	21.2
8.2	Taxation and social security costs	<b>3.7</b>	3.0
37.8	Other creditors	<b>10.0</b>	39.0
72.4	Accruals	<b>80.6</b>	128.6
80.7	Deferred income	<b>91.4</b>	58.2
254.7	Payments on account	<b>139.9</b>	262.6
<u>534.4</u>		<b><u>414.5</u></b>	<u>568.6</u>

Payments on account comprise the amounts received in respect of the pre-sale of the following freehold properties:

	20 Churchill Place £m	15 Canada Square £m	30 North Colonnade £m	Total £m
1 January 2008	67.7	83.4	103.6	254.7
Recorded as turnover	(47.3)	(61.3)	(29.5)	(138.1)
Advances received	1.4	–	13.7	15.1
Deferred interest	2.0	1.7	–	3.7
Work in progress transfer	0.7	1.7	2.1	4.5
<b>30 June 2008</b>	<b><u>24.5</u></b>	<b><u>25.5</u></b>	<b><u>89.9</u></b>	<b><u>139.9</u></b>

# Notes to the Interim Report continued

for the six months ended 30 June 2008

## 10 Provisions for Liabilities

	Leasehold properties £m	Other lease commitments £m	Deferred taxation £m	Total £m
1 January 2008	3.5	23.9	42.3	69.7
Utilisation of provision	(0.3)	(2.2)	–	(2.5)
Unwind of discount	0.3	0.5	–	0.8
Release of provision	(0.2)	(4.5)	(42.3)	(47.0)
<b>30 June 2008</b>	<b>3.3</b>	<b>17.7</b>	<b>–</b>	<b>21.0</b>

### Leasehold Properties

At 30 June 2008 the provision for the estimated net liability in respect of leasehold properties, discounted at 6.2%, being the group's weighted average cost of debt at that date, was stated at £3.3m (31 December 2007 – £3.5m). A break notice has been served on the landlord in respect of this property and as a result the lease will determine in July 2009.

### Other Lease Commitments

In connection with an agreement for lease signed in 2001 the group entered into a rent support commitment under which it may contribute a maximum of £10.00 psf per annum towards the difference between the passing rent payable by a tenant at its previous premises and the rent achievable on any sub-lease. The maximum amount payable in respect of this commitment at 30 June 2008 had reduced to £17.9m (nominal) with a present value of £14.5m calculated on the basis of a discount rate of 6.2% (31 December 2007 – £23.7m nominal, present value £19.3m discounted at 6.1%). This amount has been provided for in full and will be subject to review at each subsequent balance sheet date.

In connection with the sale of certain properties during 2005, the group agreed to provide rental support in respect of either the unexpired rent-free periods or, where there is a fixed uplift in rent, until the next rent review date. The group recognised a provision in respect of these commitments at the date of disposal and at 30 June 2008 the remaining provision was £3.2m calculated on the basis of a discount rate of 6.2% (31 December 2007 – £4.6m discounted at 6.1%).

### Deferred Tax

Movements on deferred tax are disclosed in Note 3.



## 11 Reserves

	Share premium account £m	Revaluation reserve £m	Capital redemption reserve £m	Special reserve £m	Profit and loss account £m	Total £m
1 January 2008	146.2	3,211.8	0.7	264.8	(423.0)	3,200.5
Revaluation of investment properties	–	(548.8)	–	–	–	(548.8)
Retained profit for the financial period	–	–	–	–	161.4	161.4
Dividends	–	–	–	–	(102.2)	(102.2)
<b>30 June 2008</b>	<b>146.2</b>	<b>2,663.0</b>	<b>0.7</b>	<b>264.8</b>	<b>(363.8)</b>	<b>2,710.9</b>

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

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

## 12 Reconciliation of Movement in Shareholders' Funds

	£m
Profit for the financial period	161.4
Revaluation deficit	(548.8)
Dividends	(102.2)
Net movement in shareholders' funds	(489.6)
1 January 2008	3,206.9
<b>30 June 2008</b>	<b>2,717.3</b>

## 13 Contingent Liabilities and Financial Commitments

### Sub-let Commitments

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

At 30 June 2008 the net present value of the remaining sub-let commitments, discounted at 6.2%, being the group's weighted average cost of debt, was £24.6m (31 December 2007 – £30.0m discounted at 6.1%). The existence of the sub-let commitments has been taken into account in the market valuation of the group's properties at 30 June 2008.

# Notes to the Interim Report continued

for the six months ended 30 June 2008

## **14 Events after the Balance Sheet Date**

On 15 September 2008 Lehman entered into administration in the UK and its ultimate parent undertaking, Lehman Brothers Holdings Inc., applied for Chapter 11 insolvency protection in the USA.

Lehman currently leases 1.023m sq ft in 25 Bank Street on a tenancy which is due to expire in July 2033. There are fixed annual rental uplifts from November 2008 until November 2013 when reviews revert to upwards only open market rent every 5 years.

25 Bank Street is included within the securitisation structure of the group. The current rent payable by Lehman is £41.00 psf which will rise to £53.00 psf in November 2008. The securitisation has the benefit of an agreement with AIG which provides for payment of the passing rent by AIG in the event of a payment default by Lehman for a period of up to 4 years from default. Holders of the secured bonds of the securitisation structure issued by CWFII have recourse only to the assets, guarantees and liquidity facility of CWFII and there is no recourse to the company or its shareholders.

At 30 June 2008, the group's net assets included £81.1m of unamortised tenant incentives in respect of Lehman. In addition, the group held a provision with a net present value of £14.5m in respect of other ongoing leasehold commitments to Lehman which arose in connection with the agreement for lease on 25 Bank Street. No trade debtors or trade creditors with Lehman were unpaid at 30 June 2008. The market value of 25 Bank Street was £855.0m.

Nomura have announced that they will be acquiring the European equities and investment banking operations of Lehman and efforts are being made to sell other parts of the Lehman business as a going concern. Accordingly it is too early to assess the full impact of the administration of Lehman. The board will continue to monitor the situation and will seek to maintain a close dialogue with the administrators.

# Independent Review Report to Canary Wharf Group plc

## Introduction

We have been engaged by the company to review the financial information in the Interim Report for the six months ended 30 June 2008 which comprises the consolidated profit and loss account, the consolidated balance sheet, the consolidated statement of total recognised gains and losses, the consolidated cash flow statement and related notes 1 to 14. We have read the other information contained in the Interim Report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with the International Standard on Review Engagements (UK and Ireland) 2410 issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the company those matters we are required to state to them in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.

## Directors' Responsibilities

The Interim Report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the Interim Report in accordance with the United Kingdom Accounting Standards Board's Statement 'Half-Yearly Financial Reports'.

## Our Responsibility

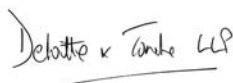
Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the Interim Report based on our review.

## Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity', issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the Interim Report for the six months ended 30 June 2008 is not prepared, in all material respects, in accordance with the United Kingdom Accounting Standards Board's Statement 'Half-Yearly Financial Reports'.



Deloitte & Touche LLP  
Chartered Accountants and Registered Auditor  
London, UK

24 September 2008

# Definitions

AIG	AIG Financial Products Corp.
Ballymore	Ballymore Properties Limited
board	Board of directors of Canary Wharf Group plc
bps	Basis points
BWB	British Waterways Board
CBRE	CB Richard Ellis Limited, Surveyors and Valuers
company	Canary Wharf Group plc
Cushman	Cushman & Wakefield, Real Estate Consultants
CWFII	Canary Wharf Finance II plc
Drapers Gardens	Drapers Gardens scheme in the City of London
Estate	Canary Wharf Estate including Heron Quays West, Riverside South and North Quay
Exemplar	Exemplar Developments LLP
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)
group	Canary Wharf Group plc and its subsidiaries
JPMorgan	JPMorgan Chase & Co
LBTH	London Borough of Tower Hamlets
Lehman	Lehman Brothers Limited
m	million
Moody's	Moody's Investor Services Limited
MSREF V	Morgan Stanley Real Estate Fund V
NAV	Net Asset Value
NIA	Net Internal Area
NNNAV	Triple Net Asset Value
Nomura	Nomura Holdings, Inc.
psf	per sq ft
Savills	Savills Commercial Limited, Chartered Surveyors
sq ft	Square feet/square foot
SSAP 9	Statement of Standard Accounting Practice 9 (Stocks and long term contracts)
Telegraph	The Telegraph Media Group
TfL	Transport for London
UITF 28	Urgent Issues Task Force Abstract 28 ('Operating lease incentives')
UK GAAP	United Kingdom Generally Accepted Accounting Practice
WWLP	Wood Wharf Limited Partnership

# Shareholders' Information

## Directors

### Executive Directors

George Iacobescu CBE  
Chief Executive#

A Peter Anderson II  
Managing Director, Finance#

### Non-Executive Directors

Sir Martin Jacomb+  
Non-Executive Chairman and Independent  
Non-Executive Director

John Carrafiell\*#+

Sam Levinson\*#+

Alex Midgen+

Robert Falls\*#

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

\* Audit Committee

# Operating Committee

+ Remuneration Committee

### Company Secretary

John Garwood

### Registered Office and Number

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*\*Calls currently cost 10p per minute plus network extras*

This Interim Report and other information on the company and the Estate are available from the company's website, [www.canarywharf.com](http://www.canarywharf.com)

# Shareholders' Information continued

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### **Auditors**

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