CANARY WHARF GROUP PLC

Extracted from the Interim Report of the Group for the 6 months ended 30 June 2014. The Interim Report for the half year ended 30 June 2014 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

Financial summary

- Adjusted NAV per share £6.01 compared with £5.53 at 31 December 2013, an increase of 8.7%.
- Adjusted NNNAV per share £5.09 compared with £4.56 at 31 December 2013, an increase of 11.6%.
- Net assets £3,106.3m at 30 June 2014, an increase of £154.0m or 5.2% from £2,952.3m at 31 December 2013.
- Profit before tax excluding exceptional items £11.4m (6 months ended 30 June 2013 – loss of £2.4m).
- Loss after tax £118.2m (6 months ended 30 June 2013 – profit of £4.8m) after provision of £169.7m for the potential premium payable in connection with redemption of £577.9m of A1 Notes.
- Absent the provision for this potential premium, and the tax relief thereon, the increase in adjusted NAV per share would have been 12.5% rather than 8.7%.

Continued growth in portfolio valuation

- Portfolio valuation up 8.4% to £6,280.5m over period, including land and adjusting for disposal of 10 Upper Bank Street.
- Market value of investment portfolio up 4.8% over period after adjusting for disposal of 10 Upper Bank Street.
- Retail investment portfolio performing strongly – valuation up 12.7% over period.
- Retained office investment portfolio valuation up 3.0%.

Sale of 10 Upper Bank Street and repayment of securitisation notes

- June 2014, Group sold 10 Upper Bank Street for consideration of £795.0m in comparison with year end valuation of £780.0m (30 June 2013 – £685.0m).
- Group retained a 10.0% equity interest in the building and assumed the role of asset manager.
- June 2014, Group cancelled £26.1m of B3 Notes and £35.3m of C2 Notes held by a Group company and terminated related interest rate swaps at a cost of £17.9m.
- July 2014, Group redeemed £577.9m of A1 Notes.

Secure income stream

- Weighted average lease term at 30 June 2014 of 14.1 years or 12.3 years assuming exercise of all break options, increasing to 14.8 years or 13.2 years respectively including 25 Churchill Place.
- Lettings of approximately 342,000 sq ft, in period including prelet of 207,000 sq ft to EY in 25 Churchill Place.

Secure financial position provides foundation for Group's strategy

- Average loan maturity of 10.0 years supported by weighted average lease term.
- Corporate loan to value ratio of 37.5% at 30 June 2014.
- Refinancing of the Group's £350.0m retail loan facility completed after the period end (Note 15).

Development programme pipeline progressing well

- 25 Churchill Place – practical completion of base building achieved on schedule in July 2014.
- Canary Wharf Crossrail station on schedule and within budget.
- Construction continues on 115,000 sq ft leisure and retail space above station, opening on phased basis from May 2015.
- Joint ventures:
  - 20 Fenchurch Street – 90.0% let or under offer.
  - Shell Centre – June 2014, Secretary of State gave go ahead for redevelopment of Shell Centre site but now subject to Section 288 legal challenge.

Note:
For further information on the above, refer to Business Review.

RESULTS IN BRIEF

	Note	**Unaudited Six months ended 30 June 2014 £m**	Unaudited Six months ended 30 June 2013 £m
Rental income	(i)	**141.0**	134.6
Exceptional item:			
– refurbishment costs	(i)	**–**	(6.0)
Operating profit	(i)	**116.1**	89.9
Exceptional items:			
– net profit on sale of investment property	(i)	**9.1**	–
– swap termination cost net of release of uneconomic hedge provision	(ii)	**(2.4)**	–
– movement in retained uneconomic hedge provision	(ii)	**(16.0)**	11.0
– accelerated amortisation of deferred financing adjustments	(ii)	**10.8**	–
– provision for premium on redemption of securitised debt	(ii)	**(169.7)**	–
(Loss)/profit on ordinary activities before tax		**(156.8)**	2.6
Profit/(loss) before tax excluding exceptional items	(i)	**11.4**	(2.4)
Tax	(iii)	**38.6**	2.2
(Loss)/profit after tax		**(118.2)**	4.8
Basic and diluted (losses)/earnings per share	(iv)	**(18.5)p**	0.8p

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 REVIEW

Introduction

The 6 months to 30 June 2014 have been extremely active and exciting for Canary Wharf Group with very substantial progress across our activities. The period has marked our evolution into a fully fledged diversified developer and builder encompassing infrastructure, office, residential and retail space as well as cementing our status as a creator of communities and places where people and businesses want to be.

This operational activity has been underpinned by a strong financial performance during the 6 month period. Valuations have been increasing over the last few periods and we are now seeing a firming of rents across our portfolio of predominantly large commercial buildings, which we believe will sustain current yields and underpin valuations.

In June, we announced the sale of 10 Upper Bank Street to a separate limited partnership whose partners are China Life Insurance Company Limited, a leading global commercial insurer and Qatar Holding LLC, one of the world's largest sovereign wealth funds, and Canary Wharf Group for a consideration of £795.0m. At 1,028,000 sq ft this is one of only 6 buildings of over a million square feet in London, all of which are situated on the Canary Wharf Estate. The sale underlines the demand for buildings of this scale and is a great example of the quality of our portfolio and the kind of partnerships which demonstrate the attractiveness of London as a destination for international businesses. The entire office space is leased to Clifford Chance LLP, one of the 'magic circle' law firms, while the retail unit is let to the world's biggest hospital group, HCA International Limited. Given the strategic importance of the partnership, under the terms of the transaction, the Company acquired a 10.0% stake in the building and will manage the asset on behalf of the investors.

During the period, we have made material progress in advancing our extensive development pipeline and continuing the diversification of the portfolio. The strategic decision we announced in March to move into residential markets is now being implemented. We are well positioned to build into a market where demand continues to exceed supply.

Having gained planning permission in March for the Newfoundland residential tower at Canary Wharf, the first residential building inside the Estate, we are currently undertaking preparatory works to enable us to commence building later in the year.

Shortly after the period end, we received outline consent from Tower Hamlets Council for a major new development on the east side of the Canary Wharf Estate, the area formerly known as Wood Wharf. The enabling works and utility diversions have already begun at this 4.9m sq ft 'next phase' of Canary Wharf, which is one of the largest developments in London. Designed by a number of the world's pre-eminent planners and architects, construction is scheduled to start later in the year. This scheme will materially expand Canary Wharf through the addition of 30 new buildings and extend its appeal as a mixed use working and living urban district.

We are disappointed that a legal challenge has been launched by an individual against the permission granted earlier this year by the Secretary of State for the joint venture Shell Centre redevelopment following an exhaustive planning enquiry. We remain confident that our plans which will bring substantial benefits to the local community and create a vibrant new community at London's South Bank will proceed as hoped.

A series of additional milestones have been achieved during and just post the period:

- Lettings momentum has continued during the period across the office and retail portfolios. We have let more than 340,000 sq ft of office space on the Estate in the period, including at One Canada Square and 25 Churchill Place. Outside the Estate, our joint venture at 20 Fenchurch Street in the City is now over 90.0% let or in solicitors' hands. We have continued to experience exceptional interest in our retail offering, not just for existing space, but also for the brand new units above the Canary Wharf Crossrail station, which are scheduled to open in May 2015.

- Canary Wharf Group's retail portfolio valuation has risen above £1billion for the first time, testament to the hugely successful strategy and active ongoing portfolio management across the range of malls and new space. Vacancy rates are at their lowest levels ever.

- Canary Wharf Group has forged ahead in the area of financial technology and the hub we have developed on Level39 and on level 42 of One Canada Square is recognised as being among the foremost in Europe. We are considering opening an additional level to complement the hugely popular Fintech space already created, and we are working on plans to ensure the new site adjacent to Canary Wharf appeals to creative media, technology and telecommunications companies which we hope will host many of the companies graduating from our existing space in One Canada Square.

- In late July, Canary Wharf Group unveiled a new vision and brand mark which is intended to secure greater recognition and create a stronger identity as it evolves into a developer of not just high quality office space, but also landmark residential, retail and leisure space in London.

- Also in July, Canary Wharf Group reached the major occasion of generating over £1billion worth of business for local companies since 1997. We are truly proud of this manifestation of our commitment to local communities and businesses, which lies at the heart of what we stand for. Many local people and over 1,700 companies have benefited from this huge figure, delivered through our business support initiatives and joint ventures. Our economic impact will widen as we continue to expand our footprint and we anticipate additional material benefits to local communities and businesses as a result of the new extension and, hopefully, the Shell Centre.

Financial Review

We continued to perform strongly in the first half of the year.

Adjusted NAV up 8.7%

Adjusted NAV per share rose to £6.01 at 30 June 2014 from £5.53 at 31 December 2013, an increase of £0.48 or 8.7%. This translated into an increase in the adjusted NAV for Songbird, the Group's majority shareholder, from £2.90 at the year end to £3.19 at 30 June 2014, an increase of 10.0%.

Adjusted NNNAV per share increased by 11.6% to £5.09 from £4.56 at 31 December 2013. The increase in adjusted NNNAV per share for Songbird was 12.7% from £2.36 at the year end to £2.66 at 30 June 2014.

Market value of total portfolio up 8.4% to £6,280.5m

The increase in value of the total portfolio, including development sites, reflected progress with the development of 25 Churchill Place, which reached practical completion after the period end. This property will be reclassified as an investment property in the second half of the year.

Market value of the development portfolio up by 16.8% to £817.5m

The development portfolio benefited from continued progress made with bringing forward for development key sites such as Newfoundland, as well as demand in the investment market for sites capable of accommodating residential schemes.

Market value of the retained investment portfolio up by 4.8% to £4,961.0m

The increase in market value was in part driven by the retail portfolio which continued to perform strongly. The retail malls are now valued at more than £1 billion for the first time, with the completed malls increasing in value over the 6 months by 12.7% to £978.0m. In addition, the new mall being constructed above the Canary Wharf Crossrail station increased in value from £36.5m to £67.0m reflecting construction progress in the period.

The retained office portfolio increased in value by 3.0% to £3,983.0m. Whilst the benchmark initial yield for rack rented properties remained at 4.75%, there was a 10 bps hardening of yields overall with the weighted average equivalent yield reducing from 5.1% to 5.0%. In particular, the valuation of the larger properties in the portfolio benefited from the depth of demand in the investment market for large lot sizes as illustrated by completion of the 10 Upper Bank Street transaction. The valuers are assuming rental growth over the next few years which will underpin the valuations going forward and, we believe, ensure that lower yields are sustainable.

Net assets up by 5.2%

Net assets totalled £3,106.3m at 30 June 2014, up from £2,952.3m at 31 December 2013, an increase of £154.0m or 5.2%. This increase was attributable to the revaluation surplus of £225.1m recognised on the Group's investment portfolio, together with a revaluation surplus of £47.1m recognised on the Group's 15.0% investment in 20 Fenchurch Street.

Excluding exceptional items, the profit before tax for the 6 months ended 30 June 2014 was £11.4m in comparison with a loss of £2.4m for the 6 months ended 30 June 2013.

Following the redemption of £577.9m of A1 Notes in connection with the 10 Upper Bank Street transaction, the Company is seeking a determination as to whether or not an additional premium would be payable and proceedings have been issued to clarify the position. In the meantime £169.7m has been placed in an escrow account pending Court determination and a corresponding provision has been recognised for accounts purposes.

Financial position

Subsequent to the period end, we completed a refinancing of the £350.0m retail loan facility which will see the facility increase to £600.0m. The new 5 year facility comprises a £360.0m fixed loan and a £240.0m revolver, of which £40.0m will become available upon completion of the Canary Wharf Crossrail mall in May 2015. This revolving facility will enable the Group to manage its cash position more efficiently while providing additional liquidity and funding for its development pipeline. The initial margin is LIBOR plus 150 bps.

Reflecting the refinancing and allowing for the redemption of Notes in connection with the sale of 10 Upper Bank Street, the weighted average maturity of the Group's facilities is now 10.0 years. This compares with a weighted average unexpired lease term, including 25 Churchill Place, of 13.2 years, assuming exercise of all break options. The Group's weighted average cost of debt following redemption of the A1 Notes reduced from 5.7% to 5.5%.

At 30 June 2014, the Group's ratio of net debt to the market value of the property portfolio was 37.5%.

Operational Review

Planning Progress

We have made major planning progress during and just post the period. This progress will underpin our development activity for the next 5 years and more which enables us to take material steps forward in diversifying into London's residential market.

Our Newfoundland residential development represents a major and exciting expansion of our residential portfolio complementing our successful commercial and expanded retail portfolio. This will be the first time people can live, as well as work and play, at Canary Wharf. We firmly believe Newfoundland, together with plans recently submitted for land to the east of the existing Estate, enhances Canary Wharf's reputation as one of Europe's prime mixed use destinations.

Construction has started with completion scheduled for 2018. This dedicated residential building will comprise 566 high quality one, 2 and 3 bedroom apartments and suites with enhanced floor to ceiling heights. This living space will be complemented by 14,360 sq ft of retail space as well as 36,300 sq ft of external and 16,000 sq ft of internal amenity space, incorporating a health club and spa situated high in the building offering superb views of London. In addition to the building on the Estate, Canary Wharf Group will be providing the equivalent of approximately 280 affordable off site housing units nearby at Lovegrove Walk, Barchester Street and Burdett Road.

In June, the Secretary of State for Communities and Local Government approved the redevelopment of the Shell Centre site on London's South Bank following approvals from Lambeth Council and the Mayor's office. We are disappointed that a legal challenge has been launched by a single individual against the Secretary of State's decision despite the exhaustive enquiries that have been carried out.

We are very excited to be commencing work on the extension to Canary Wharf on the eastern side of the Estate later this year. This high quality mixed development will coincide with the arrival of Crossrail in 2018, reinforcing Canary Wharf's resilience and its status as one of London's most vibrant and dynamic mixed use commercial and residential districts.

This new Canary Wharf neighbourhood will provide 2.6m sq ft of residential, including 3,100 new homes ranging from park side townhouses to outstanding high rise buildings designed by some of the world's most renowned architects. It will include a mix of private, intermediate and social housing as well as a network of high quality parks and public squares with around 9 acres of interconnected public spaces including a kilometre of dock edge walkways. The new district will also contain a variety of commercial offices totalling 1.9m sq ft appealing to a wide range of tenants, but with a focus on the creative media, technology and telecommunications sector. It will include a new 420 place primary school, an NHS medical centre, a community centre, a hotel and more than 100 new high street shops, restaurants and cafes totalling 0.4m sq ft.

The development is expected to create over 17,000 new jobs within the new district alone, with 3,500 of these taken by local residents. When completed, together with Heron Quays West and North Quay, the extension will help bolster the existing working population of Canary Wharf of around 105,000 to over 200,000 people within 10 years.

Leasing Activity

Commercial

During the period we have leased over 340,000 sq ft of office space of which, over 100,000 sq ft was at One Canada Square. In May we let 45,000 sq ft on levels 45 and 46 to the European Banking Authority while in March Medical Defence Union , the UK's leading medical defence body, agreed to take 47,016 sq ft on levels 32 and 33 and National Bank of Abu Dhabi let 11,267 sq ft on level 28. In February, Pirean, one of the start-ups from Level39 let 2,259 sq ft on part of level 34.

Medical Defence Union will be relocating from their offices on the South Bank in late 2014 or early 2015. Under the terms of a new sub lease and subsequent lease, Medical Defence Union will occupy its space in One Canada Square for a term of 15 years. National Bank of Abu Dhabi's space will complement its existing premises in Knightsbridge. Their lease is for a 10 year term.

Also on the Estate, we completed the preletting of 25 Churchill Place with an additional prelet to European Medicines Agency of 28,000 sq ft, and a material 207,000 sq ft prelet to EY for the remainder of the building. We are very satisfied with the rents achieved for these 2 lettings which were in the high £40s psf for 24 and 25 year leases respectively.

This collection of lettings demonstrates the healthy demand for the offices we have created which are characterised by their large floor plates and high quality.

We are pleased with the progress at 20 Fenchurch Street. Its unique 3 tiered sky garden will include a high quality restaurant, bar and café, together with an open air viewing area which will be accessible to the public at no cost, commanding excellent views over London.

These lettings, along with others announced at the end of 2013, have increased the occupancy rate across the whole Canary Wharf Group portfolio to 97.2%.

Retail

Our retail portfolio is now valued in excess of £1 billion, a significant landmark both for Canary Wharf's retail offering and the wider London property market.

Our retail portfolio displays huge strength, and interest is already being expressed for space we have yet to commence work on. Demand from high end retail brands remains significant.

The retail and leisure development above the new Crossrail Station, combined with the recent Jubilee Place mall extension, represents one of the largest retail expansions currently underway. Retail brands taking space in the Crossrail station include Everyman Cinema, Sports Bar & Grill, Poncho8 and Bespoke Cycling, with the building's space already 90.0% let or in solicitors' hands ahead of a May 2015 opening.

A number of leases are due to expire in December of 2014 in Canada Place and we are using the opportunity to renew, move and actively manage the mall which will remain fully let following this process.

Technology Developments

Our high growth space at Level39 and on level 42, which has attracted interest from more than 800 financial technology start-ups, has come on in leaps and bounds during the year to date and is recognised as Europe's foremost Fintech hub.

I'm pleased to have participated in the creation of a new industry body called Innovate Finance which we launched together with the Chancellor of the Exchequer and the City of London Corporation in August. Innovate Finance will be the voice of UK Fintech, strengthening its presence and demonstrating that this recognised industry has come of age in London. It is supported by 50 founding member companies, including Barclays, Lloyds, RBS, Santander and Telefonica.

We are considering adding a third level to our Fintech space at One Canada Square given the speed with which space at Level39 and on level 42 has been snapped up. Level 42 is now 70.0% let and discussions are ongoing for additional space. The creation of this critical mass of start-ups and increasingly mature companies is exciting to see, and coincides with our aim to develop the Canary Wharf extension into a high tech hub for London. The success of the initiatives to date, demonstrates the appetite for new types of space in new areas of London, adjacent to the financial industries upon which the Fintech industry thrives.

Canary Wharf Group is also spear heading a new Smart City project. As the creator of the original smart city 2 decades ago, in the Canary Wharf Estate itself, and as we ourselves have evolved into a truly integrated developer, we believe we are well placed to champion partnerships between the burgeoning London tech sector and major institutions seeking the solutions future cities will need to be responsive to their communities and businesses.

Sustainability/Corporate Responsibility

Our vision has always been to create diverse and harmonious neighbourhoods, supporting the communities within which we reside. The generation by the Group of £1 billion of business for local companies since 1997 is testament to that ethos. This landmark sum demonstrates our commitment to the community in this dynamic and culturally rich area of London. We plan to double this figure through the Canary Wharf extension project, and the Shell Centre as we continue to generate jobs and business for local residents and companies. We believe this commitment to community gives us part of our 'right to operate' as a responsible London developer.

Board/Personnel

Progress made during the first half of this year would not have been possible without the hard work and engagement of staff through the business for which the Board expresses its gratitude.

In July, after 4 years as a director of the company, Ahmad Al-Sayed decided to stand down. The Board is grateful to Ahmad Al-Sayed for his contribution and support during his time as director and welcomes his replacement Khaled Sultan Al-Rabban to the Board.

Strategy and Outlook

Canary Wharf Group has the largest pipeline of any London developer with 9.8m sq ft at Canary Wharf and 1.4m sq ft elsewhere in London. In order to fund our planned expansion into sale, rental and social housing, and the ongoing diversification of our office and retail offering, we have refinanced our £350.0m retail loan into a £600.0m facility incorporating a £240.0m revolver, giving additional liquidity.

We are pleased that the strategic decision to move into residential is already coming to fruition. We have been, and continue to, closely monitor the London residential market and see a steady flow of requirement for housing in the high quality but affordable market for which we are building.

It has been well documented that London needs 50,000 new homes a year to meet demand, but only 30,000 a year are currently being built. Canary Wharf Group's move into the residential market will both help address this shortfall at the same time as diversifying our own market exposure and enhancing our flexibility as a developer well into the future.

On the commercial side, we continue to see demand from within and outside the UK for high quality offices and believe that firming rents in this market will sustain current yields and underpin the rising valuations in the medium-term.

The arrival of Crossrail will double the transport capacity to the Estate, putting it within a few minutes of the City and West London, as well as other major transport hubs such as London City and Heathrow airports, and further enhancing its attraction.

Creating places with this mixture of top quality space at the right prices, will ultimately enable us to fulfil the aim of creating sustainable, lively and happy communities encompassing a diverse range of people and businesses. The world wants to come to London and international demand remains strong, reflecting this city's attraction as a place to live and work.

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 2014. 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.

Principal Activities

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

Sale of 10 Upper Bank Street and prepayment of securitised debt

On 20 June 2014, the Group completed the sale of 10 Upper Bank Street, a 1.0m sq ft building on the Estate primarily let to Clifford Chance, for a total consideration of £795.0m. The building was acquired by an entity which is controlled as to 70.0% by China Life Insurance Company Limited and as to 20.0% by Qatar Holding LLC. The Group has acquired a 10.0% equity interest in this entity and has assumed the role of asset manager for the building.

The sale proceeds were applied, in part, to the redemption of £577.9m of A1 Notes on 22 July 2014. The Securitisation Trustee has indicated to the Group that it is unclear to the Securitisation Trustee as to whether an additional premium of £168.7m, being an amount equivalent to any spens which might be payable on redemption, should be paid to the holders of the A1 Notes in connection with the redemption. The Group has made an application to the Court for a declaration as to whether or not, on a true construction of the Note conditions and other relevant contractual documentation, the additional premium is payable to the noteholders.

The Group agreed, without prejudice to any interpretation of the conditions of the A1 Notes, to place on deposit with Deutsche Bank AG, London Branch, as Escrow Agent, an amount equal to the premium. The Escrow Agent will hold this amount in escrow (together with interest thereon) until either:

(i) a final court order is made as to whether or not the premium is payable in relation to the redemption;
(ii) CWFII as issuer and the Securitisation Trustee agree on an amount payable in relation to the redemption; or
(iii) CWFII and the noteholders agree on an amount payable in relation to the redemption.

Depending on which of these conditions is satisfied, the Escrow Agent will release funds either back to the Group or to CWFII for payment to the A1 noteholders.

The building was released from the securitisation by the redemption of £577.9m of A1 Notes and the cancellation of £26.1m of B3 Notes and £35.3m of C2 Notes, which had been acquired by the Group in 2009. The cancellation of the B3 Notes and C2 Notes involved a partial termination of the related interest rate swaps at a cost of £17.9m.

Property Portfolio

Following the sale of 10 Upper Bank Street, the Group's retained investment portfolio at 30 June 2014, comprised 17 completed properties (out of the 35 constructed on the Estate) totalling approximately 6.4m sq ft of NIA. Practical completion of 25 Churchill Place was achieved in July 2014, bringing the completed investment portfolio to 6.9m sq ft in 18 properties.

The weighted average unexpired lease term for the Group's retained investment property portfolio at 30 June 2014 was approximately 14.1 years, or 12.3 years assuming the exercise of outstanding break options (31 December 2013 – 14.5 years or 12.9 years respectively). Including 25 Churchill Place, the weighted average unexpired lease term increased to 14.8 years or 13.2 years respectively.

The investment property portfolio was 97.2% let at 30 June 2014 (31 December 2013 – 97.0%). 66.6% 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 completed properties, income is generated from managing the entire Estate which, in addition to the completed properties owned by the Group at 30 June 2014, included 18 properties totalling 9.4m sq ft in other ownerships.

Leasing

In February 2014, EMA exercised its option to lease an additional floor (level 10) of approximately 28,000 sq ft in 25 Churchill Place at a rent of £46.50 psf with a 37 month rent free period from 1 July 2015. This will take EMA's total occupation to 282,000 sq ft.

Also in February 2014, EY agreed to lease approximately 207,000 sq ft in 25 Churchill Place at a rent of £48.50 psf. EY will occupy levels 14 to 21, which leaves just 2 floors unlet, one of which is under option to EMA and one is under option to EY.

As part of this transaction, the Group has taken an assignment of EY's lease at Becket House. This comprises 146,000 sq ft of office space on a lease expiring in September 2026 at an average rent of £35.00 psf. EY will continue to occupy Becket House until its space at 25 Churchill Place is fully fitted out, which is anticipated in July 2015. A provision of £27.1m for the potential net liability in relation to this property has been recognised in the Balance Sheet at 30 June 2014.

In March 2014, the National Bank of Abu Dhabi entered into a lease for 11,267 sq ft on level 28 of One Canada Square. Of the space leased, 4,522 sq ft was taken from the area vacated by Coutts & Company following the surrender of its lease. The new lease is for a term of 10 years at a rent of £40.00 psf following a 20 month rent free period. The lease is subject to a break option at the end of year 7 and if the break option is not exercised the tenant will be given a further 9 month rent free period.

In May 2014, a reversionary lease of part of the space occupied by State Street in One Canada Square was signed with Medical Defence Union comprising 47,286 sq ft on levels 32 and 33. The lease commences in July 2018 for a term of 11 years at a rent of £38.50 psf subject to a rent free period of 24 months. The rent rises to £42.50 psf with effect from the first review in June 2019. The tenant has a break option at June 2024 with a 9 month rent penalty if exercised. In connection with the grant of the reversionary lease, the State Street lease of levels 32 and 33 in One Canada Square was varied to reduce the rent from £40.00 psf to £38.50 psf.

The European Banking Authority entered into an agreement in May 2014 for 44,956 sq ft on levels 45 and 46 of One Canada Square for a term of 12 years at a rent of £40.00 psf, following a 32 month rent free period. The tenant has a break option at the end of year 6 and if the break option is exercised there is a 16 month rent penalty. The break option can only be exercised if the European Parliament removes the European Banking Authority from the UK.

In addition, Pirean let 2,259 sq ft on level 34 of One Canada Square. Previously an occupier within the Group's technology accelerator space on Level39, Pirean is the first company to graduate from Level39 to take leased space on the Estate. The lease is for a term of 5 years from February 2014 at a rent increasing to £42.50 psf from August 2015.

At 20 Fenchurch Street, the Group is acting as joint development manager with Land Securities. In the 6 months ended 30 June 2014, the joint venture completed leases on over 200,000 sq ft to tenants including Allied World Assurance Company (41,100 sq ft), CNA (35,200 sq ft), DWF (43,400 sq ft), Jane Street Capital (27,800 sq ft), Lancashire Insurance (27,100 sq ft) and Vanquis Bank (26,500 sq ft). As a result, 87.0% of the space is let, with a further 3.0% under offer. The first office tenants are now in occupation. In addition the retail space in the sky garden at the top of the building has been let to Rhubarb which will open the space in December 2014.

All options to sublet space back to the Group have been exercised and at 30 June 2014 the estimated net present value of sublet liabilities was approximately £10.6m discounted at 5.7%, being the Group's weighted average cost of debt (31 December 2013 – £18.2m discounted at 5.7%). These sublet commitments have been reflected in the market valuation of the Group's properties.

Level39

Level39 was launched in March 2013 as Europe's largest accelerator space for financial, retail, cyber and future city technologies. Since then, Level39 has developed rapidly following significant media exposure, widespread attendance of events in Space39 and the launch of ClubLounge39.

The accelerator space has hosted over 300 events including events for Wired, PayPal, Facebook and IBM, with in excess of 45,000 visitors having attended. Member companies of Level39 have received some 500 hours of expert mentoring from experienced industry professionals and entrepreneurs.

Level39 has received over 750 enquiries from technology companies and has accepted more than 130 member companies. The space is at 94.0% occupancy, with additional workstations and private offices opened in May 2014 to accommodate demand from growing member companies.

As a result of this growth, the High Growth Space on level 42 of One Canada Square was opened in September 2013. This space enables Level39's member companies of more than 8 employees to transition to their own self contained office. This space is already occupied by 11 companies and approximately 70.0% let with further growth in team numbers and new companies expected throughout the remainder of this year and 2015.

BUSINESS REVIEW (Continued)

Retail

Centre footfall for the first six months of the year at Canary Wharf was 13.3% up on the same period in 2013 and compares with a national average of minus 0.2% for the same period.

In November 2013, the Jubilee Place mall extension opened. This 2 level construction project resulted in the addition of over 44,000 sq ft of retail space to the Jubilee Place mall. Retail brands that opened within the extension included a complementary mix of fashion, accessories, cosmetics and lifestyle brands. Banana Republic, COS, Monica Vinader, Orlebar Brown and Wolford opened alongside eateries Le Pain Quotidien and Paul. In the first quarter of 2014, heritage brand Barbour International and North American brands MAC and Michael Kors also opened within the extension.

The addition of these brands demonstrates the Group's commitment to the provision of a high quality and diverse retail tenant mix that continues to grow and strengthen year on year and has facilitated positive asset management through the integration of new tenants to the existing mall level. French fashion brand Sandro Paris has opened in the Jubilee Place mall and in the last quarter of 2014 innovative beauty concept Blow will open its second London unit.

115,000 sq ft of leisure and retail space is under construction at the Canary Wharf Crossrail station with phase 1 comprising 97,000 sq ft across the top 4 floors of the station. Phase 1 will open in May 2015, 3 years in advance of the opening of the Crossrail network in 2018. Over 90.0% of the retail space available within phase 1 of the development is either let or in solicitors' hands. The leasing strategy implemented has addressed the continued demand for new retail and leisure provision at Canary Wharf. Openings within phase 1 include the first Everyman Cinema to open in east London, the opening of Psycle, a boutique spinning class provider, and Bespoke, a specialist bicycle store. The leisure provision will be complemented by a mix of 7 new cafes, bars and restaurants that include The Big Easy, an American grill restaurant renowned for quality food complemented by a live music programme, The Sports Bar & Grill, Canary Wharf's first specialist sports screening venue, The Breakfast Club, Poncho No. 8, Roti Chai and Sticks 'n' Sushi.

In 2014 the retail tenant mix in the Cabot Place mall continues to strengthen through the addition of premium retail brands. In April 2014, Moleskine opened its first store in the UK and in September 2014 luxury footwear store Crockett & Jones will open with premium British fashion brand Paul Smith opening in November 2014.

The majority of leases in the Canada Place mall expire at the end of 2014. The expiry of these leases will facilitate the introduction of new retail brands to this mall and the upsizing of selected units through positive asset management initiatives. Refreshing the tenant mix within Canada Place mall will ensure that it continues to attract visitors from the working and residential populations.

Construction

25 Churchill Place
On 1 July 2014, base building practical completion was achieved at 25 Churchill Place, a new 545,000 sq ft office building to be occupied by EMA and EY. Work on the building began in February 2012 and the structure was topped out in February 2013. Practical completion of the building and EMA's fit out was certified in July 2014 and EMA completed its move into the lower half of the building. Alterations to the top floor have been undertaken as requested by EY, which has completed the design of its fitout and is due to start construction in September for occupation in the third quarter of 2015.

Canary Wharf 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 platform levels were handed back by CRL in the third quarter of 2013, and the second phase of works are now well advanced with the ticket hall level finishes and services almost complete. The first trains are due to run in 2018 when Crossrail opens for passenger service. The retail levels are being fitted out with shop fronts and finishes, and it is planned that units in the upper levels will be open for business in May 2015. The Upper Bank Street Bridge is complete and the road connection to Aspen Way reopened in June 2014.

BUSINESS REVIEW (Continued)

Development

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. Wood Wharf will form a new mixed use extension to Canary Wharf and an application for a revised outline planning consent was submitted in December 2013. This 4.9m sq ft development will comprise 3,100 residential units, around 1.9m sq ft of commercial and 270,000 sq ft of retail space. In July 2014, outline consent was awarded subject to concluding a Section 106 agreement, which is expected shortly. Design work is proceeding on the first phase of private and affordable residential property and on 2 office buildings, in preparation for submitting details to LBTH.

Other 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. Outline consent for this scheme was awarded on 30 August 2013. The Group is now working on the submission of detailed planning for the scheme.

An application has also been made for outline consent on a second 700,000 sq ft office development on the western half of the site and this was approved by the LBTH planning committee in April 2014, subject to conclusion of a Section 106 Agreement which is expected to be completed shortly. A new application for a slightly different building is now being worked up for a potential tenant.

In March 2014, the Group received planning consent for a residential scheme on the adjacent Newfoundland site, and the Section106 agreement was concluded in June. The scheme extends to 470,000 sq ft over 58 floors and replaces the previous consent for 230,000 sq ft of hotel and serviced apartments. Construction is anticipated to start in January 2015 and utility diversion works are underway.

One Park Place benefits from planning consent for approximately 950,000 sq ft of development. However, in December 2013 the Group submitted a new application for a revised scheme of approximately 650,000 sq ft. This scheme is currently being considered by LBTH and is expected to receive consent later this year.

The remaining development site at North Quay has planning consent for almost 2.4m sq ft of office space. This is being reviewed to determine whether an alternative mixed use 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 m sq ft
Total development pipeline:	
Canary Wharf, based on existing and/or proposed consents:	
– Heron Quays West	1.40
– North Quay	2.39
– Newfoundland	0.48
– One Park Place	0.65
– Wood Wharf	4.90
	9.82
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

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 decide to sell the site. In 2012, J.P. Morgan 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 works are now substantially completed and J.P. Morgan has agreed that the riverside walkway should be reopened until the next stage of construction commences.

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. J.P. Morgan is currently considering its options.

Joint Ventures

In addition to the construction projects at Canary Wharf, the Group is involved in joint ventures as well as acting as construction manager for the development at 20 Fenchurch Street (see Business Review – 20 Fenchurch Street) and for the redevelopment of the Shell Centre (see Business Review – Shell Centre).

20 Fenchurch Street

In 2010, the Group and Land Securities formed 20 Fenchurch Street Limited Partnership, 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.

Practical completion was achieved in March 2014 and the building was completed on schedule and within budget. The first tenants took up occupation in May and June 2014. The building provides approximately 690,000 sq ft of world class space in floor plate sizes of 14,000 sq ft to 28,000 sq ft, with the sky garden and restaurant on the top 3 floors currently being fitted out.

A solar glare issue was identified in the third quarter of 2013. A solution has been identified and is now being installed within the overall budget for the development, and completion is expected by the end of 2014.

As referred to in the Business Review – Leasing, the building is currently 90.0% prelet or under offer. The property management team has been established and has taken over the day to day running of the building.

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 was conditional on planning permission being received for the project within 3 years, subject to extension by statutory processes as set out below.

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 will be 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 for their use. Shell have also agreed to take a 245,000 sq ft prelet of the entirety of one of the 2 new office buildings to be constructed on the site. In total the redevelopment will comprise 523,000 sq ft of office space, 79,000 sq ft of retail, restaurants, cafes and a health club, together with 835,000 sq ft of residential, creating 877 apartments.

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 the Secretary of State. In July 2013, the GLA issued its stage 2 report endorsing Lambeth's right to determine the application and support the development plans.

Subsequently, in September 2013, the joint venture was notified that the Secretary of State had called in the planning application. The planning inquiry concluded in December 2013 and in June 2014 the Secretary of State gave his approval to the scheme. However, at the end of the subsequent 6 week statutory period, a Section 288 objection to the Secretary of State's decision was filed and a court date has now been set for the case to be heard in December 2014.

In anticipation of a successful outcome, the joint venture is continuing to work towards completing documentation with Shell; design of the first phase of buildings and tendering of the initial construction packages; and preparation of the marketing and sales campaign for the private residential apartments.

BUSINESS REVIEW (Continued)

Valuations

The net assets of the Group, as stated in the Consolidated Balance Sheet as at 30 June 2014, were £3,106.3m. In arriving at this total:

(i) properties held as investments were carried at £4,904.2m, which represents the market value of those properties of £4,961.0m at that date as determined by the Group's external valuers, CBRE, Savills or Cushman, less an adjustment of £56.8m for tenant incentives;

(ii) properties under construction were carried at £277.8m, representing their cost to the Group; and

(iii) properties held for development were carried at £381.5m, representing their cost to the Group.

At 30 June 2014, the yields applied in deriving the market valuation of the investment properties can be summarised as follows:

	30 June 2014 %	31 December 2013 %
Office portfolio:		
Weighted average initial yield	**5.2**	5.2
Weighted average equivalent yield	**5.0**	5.1
Retail portfolio:		
Weighted average initial yield	**4.0**	4.4
Weighted average equivalent yield	**4.3**	4.8

Taking office and retail together, the market value of the investment portfolio increased by £226.0m or 4.8% in the first half of 2014, excluding the disposal of 10 Upper Bank Street. After allowing for capital expenditure and adjustments in respect of tenant incentives, but excluding the disposal of 10 Upper Bank Street, the carrying value of the investment portfolio increased by £225.1m over the 6 months or 4.8%.

10 Upper Bank Street was sold for £795.0m, ahead of the year end valuation of £780.0m. This sale has served to demonstrate the demand for large lot sizes let to good covenants. Increases in the valuation of the larger buildings in the Group's office portfolio resulted in an overall increase in value in the period of 3.0%.

The weighted average initial yield for the office portfolio at 30 June 2014 was 5.2%, unchanged from 31 December 2013. The weighted average equivalent yield fell from 5.1% at 31 December 2013 to 5.0% at 30 June 2014.

The retail investment portfolio again performed strongly with market value increasing by 12.7%, in part as a result of a reduction in yields and in part as a result of rental growth. This served to reduce the weighted average initial yield for the retail portfolio from 4.4% at 31 December 2013 to 4.0% at 30 June 2014. The weighted average equivalent yield fell from 4.8% to 4.3%.

Properties under construction were valued at £502.0m in comparison with an aggregate historical cost of £277.8m excluding a provision for Becket House of £27.1m (Note 11). The increase in valuation was largely driven by the preletting to EY in 25 Churchill Place and the fact that the building achieved practical completion shortly after the period end.

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 £817.5m at 30 June 2014, in comparison with £700.0m at 31 December 2013, an increase of 16.8% reflecting the demand for sites capable of accommodating residential development. This valuation is equivalent to approximately £83.00 psf.

The market value of one of the development sites was below its carrying value. In assessing the requirement for an impairment provision, the directors have had regard to the net realisable value of the sites as supplied by the external valuers. On this basis the Board has concluded that no provision for impairment is required as at 30 June 2014.

The market value of the entire property portfolio increased by 8.4%. The market value after adjusting for property disposals and capital expenditure increased by £437.6m or 7.5% in the period. This increase in value was driven by the factors stated previously.

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 following table, 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 2014		31 December 2013		30 June 2013	
	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							
– retained	(i)	**4,904.2**	**4,961.0**	4,677.2	4,735.0	4,274.6	4,335.5
– sold in the period		**–**	**–**	780.0	780.0	682.9	685.0
Properties under construction	(ii)	**277.8**	**502.0**	251.1	356.5	205.5	212.5
Properties held for development		**381.5**	**817.5**	358.7	700.0	354.6	440.0
		5,563.5	**6,280.5**	6,067.0	6,571.5	5,517.6	5,673.0
Sold property:							
Property under construction at Riverside South	(iii)	**69.9**	**143.1**	75.2	151.2	70.0	143.1
		5,633.4	**6,423.6**	6,142.2	6,722.7	5,587.6	5,816.1

Notes:

(i) The carrying value represents market value less an adjustment for UITF 28. The UITF 28 adjustment attributable to investment properties at 30 June 2014 was £56.8m (31 December 2013 – £57.8m, 30 June 2013 – £63.0m of which £2.1m related to the sold building). Market value in existing state is shown prior to this adjustment.

(ii) The carrying value of properties under construction excludes £27.1m recognised as an incentive within debtors due in more than one year in respect of the assumption of EY's lease of Becket House. The Group entered into this lease in connection with the preletting of part of 25 Churchill Place to EY.

(iii) The carrying value in the Balance Sheet at 30 June 2014 is stated net of £81.6m transferred to cost of sales (31 December 2013 – £79.4m, 30 June 2013 – £70.3m) and £11.7m transferred to payments on account (31 December 2013 – £(4.2)m, 30 June 2013 – £(0.3)m). 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 on the disposal of the site in 2008.

Valuation process

Property valuations are assessed twice a year on the basis of valuation reports prepared by the external valuers. The properties are valued individually and not as part of a portfolio and no allowances have been made for expenses of realisation or for any tax that might arise. In accordance with market practice, the valuations do reflect deductions in respect of purchaser's costs and, in particular liability for SDLT as applicable at the valuation date.

These valuations conform to International Valuation Standards and are arrived at by reference to market transactions for similar properties based on:

- Information provided by the Company, such as current rents, terms and conditions of lease agreements, service charges and capital expenditure. This information is derived from the Company's financial and property management systems and is subject to the Company's overall control environment; and

- Assumptions and valuation models adopted by the valuers. These assumptions (or unobservable inputs) are typically market related, such as rental values, yields and discount rates. They are based on the valuers' professional judgement and market observation.

The key property valuations are driven principally by the terms of the leases in place at the valuation date. These determine the majority of the cash flow profile of the property for a number of years and therefore form the basis for the valuation. The valuation assumes adjustments from these rental values to current market rent at the time of the next rent review and as leases expire and are replaced by new leases. The current market level of rent is assessed based on evidence provided by the most recent relevant leasing transactions and negotiations. This is based on evidence available to the valuers at the date of valuation.

BUSINESS REVIEW (Continued)

The information provided to the valuers, and the assumptions and the valuation models used by the valuers, are reviewed by the Group's executive directors. When the valuation reports are considered appropriate they are recommended for adoption by the Audit Committee which considers the valuation reports as part of their overall responsibilities.

Valuation techniques
The following valuation techniques can be used for any given category of property:

- Discounted cash flow using the following inputs: net current rent, estimated rental value (annual rent), terminal value and discount rate; and
- Yield methodology using net current rent or estimated market rental value, capitalised with a market capitalisation rate.

The resulting valuations are cross checked against the initial yields and the fair market values per square foot derived from actual market transactions.

For properties under construction, the fair value is usually calculated by estimating the fair value of the completed property (using either of the above mentioned methodologies) less estimated costs to completion. There have been no changes in valuation techniques since the year end.

Operating Results

The following review of the Group's operating results relates to the 6 months ended 30 June 2014. The comparatives relate to the 6 months ended 30 June 2013.

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 2014 was £193.5m, against £169.8m for the 6 months ended 30 June 2013, of which rental income (after the adjustments required by UITF 28) was £140.0m for 2014 (6 months ended 30 June 2013 – £118.7m).

The impact of UITF 28 was to reduce rental income by £1.0m compared with £15.9m for the 6 months ended 30 June 2013. Excluding the impact of UITF 28, rental income increased from £134.6m to £141.0m, an increase of £6.4m or 4.8%. The increase in rental income was primarily attributable to the Group having the full benefit of rent from 7 Westferry Circus and 15 Westferry Circus which were acquired in March 2013 and July 2013 respectively. The Group also benefitted from increased retail rents. These factors were partly offset by rent foregone on 10 Upper Bank Street following the sale of this building in June 2014.

Service charge income reduced from £39.1m to £38.8m 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, increased from £7.7m to £10.3m over the period. Turnover for the 6 months ended 30 June 2014 also included £2.2m of income in connection with the termination by tenants of certain leases on the Estate (6 months ended 30 June 2013 – £0.6m).

In the 6 months ended 30 June 2014, turnover and cost of sales included £2.2m in respect of the long term contract for Riverside South in comparison with £3.7m for the 6 months ended 30 June 2013. 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).

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.

In the first half of 2013, the Group 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 were capitalised and included as additions to investment properties within fixed assets as they were incurred. The £6.0m taken to cost of sales was shown as an exceptional item.

Rents payable and property management costs were £47.4m in comparison with £49.4m for the 6 months ended 30 June 2013, excluding the adjustment relating to One Canada Square referred to above. Taking into account service charge and miscellaneous property income totalling £47.9m for the 6 months ended 30 June 2014 (6 months ended 30 June 2013 – £45.7m), a profit on property management of £0.5m was recorded (6 months ended 30 June 2013 – deficit of £3.7m).

Cost of sales for the 6 months ended 30 June 2014 also included £2.0m of ground rent payable in relation to Wood Wharf (6 months ended 30 June 2013 – £1.7m) and £1.5m of costs attributable to the termination of leases (6 months ended 30 June 2013 – £0.6m).

BUSINESS REVIEW (Continued)

A reduction in provisions of £0.1m (before adjustment for discounting) was recognised in the 6 months ended 30 June 2014 relating to certain rent support commitments and other obligations. This compared with an increase of £0.3m in the 6 months ended 30 June 2013.

For the 6 months ended 30 June 2014, gross profit (net property income) was £140.5m, an increase of £32.4m compared with the 6 months ended 30 June 2013. This improvement was mainly attributable to the increase in rental income recognised after adjusting for UITF 28 of £21.3m, the £6.0m refurbishment adjustment in relation to One Canada Square recognised in 2013, together with the reduction in service charge void costs of £4.2m.

Administrative expenses for the 6 months ended 30 June 2014 were £25.7m in comparison with £19.2m for the 6 months ended 30 June 2013. The increase was in part attributable to a £4.8m charge recognised in relation to an allocation of shares to certain directors and senior employees of the Group in the period (6 months ended 30 June 2013 – £2.4m). Leasing costs were higher in the current period, primarily as a result of the preletting to EY in 25 Churchill Place, partly offset by the cost of leasing the retail expansion projects in the prior period.

Including other operating income of £1.3m for the 6 months ended 30 June 2014 (6 months ended 30 June 2013 – £1.0m), operating profit for the period was £116.1m, in comparison with £89.9m for the 6 months ended 30 June 2013.

The increase in operating profit of £26.2m was largely attributable to the factors impacting on gross profit less the increase in administrative costs detailed above.

In the 6 months ended 30 June 2014, the Group recorded a net profit of £9.1m on the disposal of 10 Upper Bank Street. This profit has been shown as an exceptional item after operating profit in accordance with FRS 3 and represents the excess over the market value at 31 December 2013 of 1.9% less fees of £5.9m.

Net interest payable for the 6 months ended 30 June 2014 excluding exceptional items was £103.2m, against £97.9m for the 6 months ended 30 June 2013. Interest payable for the 6 months ended 30 June 2014 is stated net of £8.0m which has been capitalised and transferred to properties under construction within fixed assets (6 months ended 30 June 2013 – £6.8m). This amount represents the finance charge relating to the Group's borrowings which are deemed to have been utilised in financing properties under construction and comprises £3.8m of construction loan interest and £4.2m of general interest (6 months ended 30 June 2013 – £2.6m and £4.2m respectively). The increase in net interest payable was largely attributable to the additional loan facilities taken out in 2013 to fund the acquisition of 7 Westferry Circus and 15 Westferry Circus.

In April 2009, the Group repurchased £26.1m of B3 Notes, £35.3m of C2 Notes and £58.3m of D2 Notes, an aggregate principal amount of £119.7m. Following the repurchase, the Notes remained in issue and continued 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 were deemed to be uneconomic and therefore carried at fair value. In June 2014, the Group cancelled £26.1m of B3 Notes and £35.3m of C2 Notes and paid £17.9m to terminate the related interest rate swaps. At 31 December 2013, £30.8m was provided for the deemed uneconomic hedges of which £15.5m was provided in connection with the hedges against the B3 Notes and C2 Notes. The net cost associated with termination of the swaps of £2.4m has been treated as an exceptional item, along with a £16.0m increase in the provision required in respect of the hedge against the D2 Notes (Note 2).

Following the sale of 10 Upper Bank Street, the Group redeemed £577.9m of A1 Notes in July 2014 and has provided £169.7m for the potential premium payable to the A1 noteholders, which has been disclosed as an exceptional item (Note 2). As a result of the redemption in July 2014, the Group accelerated the amortisation of certain adjustments to the carrying value of the A1 Notes recognised in accordance with FRS4 and has recognised £10.8m as an exceptional gain in the results for the six months ended 30 June 2014 (Note 2). This amount is stated net of fees of £1.8m in connection with the redemption.

The loss on ordinary activities after interest for the 6 months ended 30 June 2014 was £156.8m in comparison with a profit of £2.6m for the 6 months ended 30 June 2013. Excluding exceptional items, the profit on ordinary activities after interest for the 6 months ended 30 June 2014 was £11.4m in comparison with a loss of £0.2m for the 6 months ended 30 June 2013. The increase in profit on ordinary activities, excluding exceptional items, was largely attributable to the increase in gross profit, partly offset by the rise in administrative expenses and net interest payable.

Tax for the 6 months ended 30 June 2014, which comprised income tax of £0.5m, a corporation tax credit of £35.2m and a deferred tax credit of £3.9m, has been calculated by reference to the anticipated effective tax rate for the year to 31 December 2014. During the 6 months ended 30 June 2013, the Group recognised a corporation tax charge of £2.6m and a deferred tax credit of £4.8m.

The loss for the financial period after tax for the 6 months ended 30 June 2014 was £118.2m in comparison with a profit after tax of £4.8m for the 6 months ended 30 June 2013.

The basic and diluted losses per share for the 6 months ended 30 June 2014 was 18.5p (6 months ended 30 June 2013 – earnings of 0.8p) (Note 4).

Excluding exceptional items, adjusted earnings per share was 2.6p, calculated by reference to earnings after tax excluding the profit on disposal of 10 Upper Bank Street, the provision for the potential premium payable on the redemption of A1 Notes and the movement in the mark to market of the deemed uneconomic hedges together with the deferred tax thereon. This compares with earnings per share of 0.1p, for the 6 months ended 30 June 2013, calculated by reference to the profit after tax, excluding the movement in the mark to market of the uneconomic hedges and refurbishment costs net of applicable deferred tax.

Tax

If the Group was to dispose of its property portfolio at the market value disclosed in this Business Review, a tax liability of £300.7m would arise (31 December 2013 – £240.8m). 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. It also includes tax on trading profits and net chargeable gains that would arise on the sale of properties held for development, including land interests. The contingent tax liability is included in calculating adjusted NNNAV.

Consolidated 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 2014 were £3,106.3m in comparison with £2,952.3m at 31 December 2013. The increase in net assets of £154.0m, or 5.2%, was attributable to the revaluation movement on the Group's investment properties of £225.1m and the revaluation of investment properties held by associates of £47.1m, offset by the loss after tax for the 6 months ended 30 June 2014 of £118.2m.

The Group's main objective is to maximise net assets through managing its property investment and development activities, although the Group is impacted by movements in the wider property market. The Board considers that the most appropriate indicator of the Group's performance is 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 external 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 2014 is set out in the following table which, for comparison purposes, also includes adjusted NNNAV per share.

	Note	**30 June 2014 £m**	31 December 2013 £m
Net assets per consolidated balance sheet		**3,106.3**	2,952.3
Add back:			
– deferred tax		**(0.7)**	3.2
– provision for uneconomic hedge	(i)	**31.3**	30.8
Net assets prior to deferred tax		**3,136.9**	2,986.3
Revaluation of property portfolio:			
– properties held for development	(ii)	**436.0**	341.3
– properties under construction	(ii)	**197.1**	105.4
– properties under construction held for sale	(iii)	**73.2**	76.0
Group's share of revaluation of associate's property under construction	(iv)	**–**	21.9
Adjusted NAV		**3,843.2**	3,530.9
Fair value adjustments in respect of financial assets and liabilities less tax thereon	(v)	**(260.4)**	(344.8)
Contingent tax on property disposals	(vi)	**(300.7)**	(240.8)
Undiscounted deferred tax	(vii)	**2.1**	(1.9)
Uneconomic hedge	(i)	**(31.3)**	(30.8)
Adjusted NNNAV		**3,252.9**	2,912.6
Adjusted net assets per share	(viii)	**£6.01**	£5.53
Adjusted NNNAV per share	(viii)	**£5.09**	£4.56

Notes:

(i) Adjusted NAV is calculated after adding back the provision in respect of uneconomic hedges (Note 11) of £31.3m (31 December 2013 – £30.8m). 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 at market value in existing state and, in the case of properties under construction, after deducting £27.1m recognised in debtors due in more than one year in respect of the assumption of EY's lease of Becket House.

(iii) Deferred profit on construction of Riverside South (refer to Business Review – Valuations).

(iv) In March 2014, 20 Fenchurch Street achieved practical completion and was reclassified as an investment property (Note 6). The Group's share of any revaluation surplus is now included in the Consolidated Balance Sheet. Previously any share of the revaluation reserve movement was included as an adjustment in calculating the Group's adjusted NAV and adjusted NNNAV in accordance with the Group's policy of carrying properties under construction at historic cost.

(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 £6.01 at 30 June 2014 in comparison with £5.53 at 31 December 2013, an increase of 0.48p or 8.7%. 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.

BUSINESS REVIEW (Continued)

Borrowings

At 30 June 2014, net debt (after cash in hand and cash collateral) stood at £2,355.8m, down from £2,980.1m at 31 December 2013, and comprised:

	30 June 2014 £m	31 December 2013 £m
Securitised debt	**2,196.2**	2,242.6
Secured loans	**1,127.4**	1,130.1
Wood Wharf loan notes	**27.4**	58.5
Construction loan	**106.5**	103.5
Total borrowings	**3,457.5**	3,534.7
Less:		
– cash collateral for borrowings	**(854.6)**	(108.6)
– cash collateral for construction	**(2.3)**	(2.3)
– other cash collateral	**(11.9)**	(21.2)
	2,588.7	3,402.6
Less: cash deposits	**(232.9)**	(422.5)
Net debt	**2,355.8**	2,980.1

On 20 June 2014, the Group sold 10 Upper Bank Street for a total consideration of £795.0m (see Business Review – Property Portfolio) and £577.9m of the proceeds together with £9.4m of interest was transferred to a cash reserve to fund the subsequent redemption of A1 Notes on 22 July 2014. The Group also placed £168.7m in an escrow account pending a court decision on whether or not a premium is payable to the A1 noteholders as a result of the redemption. These amounts are included in cash collateral for borrowings.

A refinancing of the Group's £350.0m retail loan facility was completed after the period end (Note 15).

In December 2011, the Group entered into a 5 year £190.0m development loan facility to fund the construction of 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 have been capitalised and included as part of the cost of construction. At 30 June 2014, £110.7m had been drawn down from the facility. Following practical completion of 25 Churchill Place, in July 2014, the finance cost of this loan will be taken to the profit and loss account.

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 2014 and throughout the period then ended.

Borrowings reduced from £3,534.7m to £3,457.5m primarily as a result of the scheduled amortisation of debt and redemption of £31.5m of notes issued by CRT in connection with the acquisition of their interest in Wood Wharf. The increase in cash term deposits from £554.6m to £1,101.7m was attributable to an increase in balances held on cash collateral from £132.1m at 31 December 2013 to £868.8m at 30 June 2014 following the sale of 10 Upper Bank Street. Unsecured cash deposits reduced from £422.5m at 31 December 2013 to £232.9m at 30 June 2014 as a result of construction and development expenditure, investments in associates and joint ventures and acquisition of a 10.0% interest in the entity that acquired 10 Upper Bank Street.

The weighted average maturity of the Group's borrowings at 30 June 2014 was 9.9 years (31 December 2013 – 11.6 years) reflecting redemption of £557.9m of A1 Notes on 22 July 2014, increasing to 10.0 years following the refinancing of the retail loan in September 2014.

Comparing net debt at 30 June 2014 of £2,355.8m (31 December 2013 – £2,980.1m) with the total valuation at that date of £6,280.5m (31 December 2013 – £6,571.5m), the overall corporate LTV ratio was 37.5% (31 December 2013 – 45.3%), excluding any fair value adjustments relating to financial assets and liabilities.

At 30 June 2014, 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 £329.7m before tax (31 December 2013 – £447.8m). Including fair value adjustments, the overall corporate LTV at 30 June 2014 was 42.8% (31 December 2013 – 52.2%).

The Group's weighted average cost of debt at 30 June 2014 was 5.7% including credit wraps (31 December 2013 – 5.7%). The Group's weighted average cost of debt reduced to 5.5% on 22 July 2014 following the prepayment of A1 Notes.

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) At 30 June 2014, the CWFII securitisation encompassed 6 investment properties representing 56.8% of the investment property portfolio by value. The principal amount outstanding following redemption of £577.9m of A1 Notes, and cancellation of £61.4m of floating rate Notes held by the Group, was £1,597.5m or £1,539.2m excluding the repurchased Notes.

The maximum LMCTV ratio is 100.0%. Based on the valuations at 30 June 2014, and adjusting for the redemption of A1 Notes, the LMCTV ratio at the interest payment date in July 2014 was 55.3%.

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 £536.1m secured against One Churchill Place, representing 16.7% 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 19.7% of the investment property portfolio by value.

The maximum LTV ratio is 70.0%. Based on the valuations at 30 June 2014 the LTV was 36.0%.

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 original facility repayment date was 17 December 2014, but in September 2014 the Group completed a refinancing of the loan (Note 15).

(iv) Loan of £92.3m secured against 50 Bank Street representing 3.0% of the investment property by value.

The maximum LTV ratio is 72.5%. Based on the valuations at 30 June 2014 the LTV was 61.7%.

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.

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

(vi) Loan of £24.9m secured against 7 Westferry Circus, representing 0.8% of the investment property portfolio by value.

The maximum LTV ratio is 65.0%. Based on the valuations at 30 June 2014, the LTV was 59.3%. This facility is not subject to any ICR covenant.

The facility repayment date is 5 September 2018.

(vii) Loan of £126.2m secured against 15 Westferry Circus, representing 2.9% of the investment property portfolio by value.

The minimum ICR covenant is 100.0% which was satisfied throughout the period. The loan is not subject to any LTV covenant.

The facility repayment date is 25 April 2016.

BUSINESS REVIEW (Continued)

Cash Flow

Cash generated from operating activities for the 6 months ended 30 June 2014 was £53.9m in comparison with £103.1m for the 6 months ended 30 June 2013. The reduction of £49.2m was largely attributable to movements in working capital.

Returns on investments and servicing of finance resulted in an outflow of £124.1m for the 6 months ended 30 June 2014 compared with £100.8m for the 6 months ended 30 June 2013.

Capital expenditure and financial investment for the 6 months ended 30 June 2014 resulted in a cash inflow of £687.6m, compared with an outflow of £140.8m for the 6 months ended 30 June 2013. The 6 months ended 30 June 2014 included £789.1m relating to the sale of 10 Upper Bank Street. The transfer to cash collateral of £577.9m relating to the redemption of the A1 Notes and £168.7m in respect of the potential premium payable to the A1 noteholders is included in the cashflow statement within management of liquid resources. For the 6 months ended 30 June 2014 there was an outflow on this line of £736.7m in comparison with an inflow of £9.9m for the 6 months ended 30 June 2013.

Within capital expenditure and financial investment, the 6 months ended 30 June 2014 included £36.8m (6 months ended 30 June 2013 – £68.4m) of development expenditure. The 6 months ended 30 June 2013 also included £54.1m attributable to the acquisition of properties. Funding of the Group's associated and joint venture undertakings totalled £26.9m in the 6 months ended 30 June 2014 compared with £13.8m for the 6 months ended 30 June 2013. The Group also invested £36.1m in the vehicle which acquired 10 Upper Bank Street in June 2014.

The net cash outflow from financing activities for the 6 months ended 30 June 2014 was £73.0m compared with an inflow of £22.5m for the 6 months ended 30 June 2013. The 6 months ended 30 June 2014 included the scheduled amortisation of the Group's loans of £38.9m and the redemption of £31.5m of deferred consideration arising from the Group's acquisition of Wood Wharf, offset by £2.5m of drawings under the Group's construction loan facility. The 6 months ended 30 June 2013 included scheduled amortisation of the Group's loans of £37.4m, offset by £59.9m of drawings under the Group's construction loan facility.

Principal Risks and Uncertainties

The principal 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 2013 Report and Financial Statements of the Company.

UNAUDITED CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE SIX MONTHS ENDED 30 JUNE 2014

Audited Year ended 31 December 2013 £m		Note	**Unaudited Six months ended 30 June 2014 £m**	Unaudited Six months ended 30 June 2013 £m
364.3	Turnover		**193.5**	169.8
(118.0)	Cost of sales		**(53.0)**	(55.7)
	Exceptional item:			
(6.0)	– refurbishment costs		**–**	(6.0)
240.3	**GROSS PROFIT**		**140.5**	108.1
(43.3)	Administrative expenses		**(25.7)**	(19.2)
2.4	Other operating income		**1.3**	1.0
199.4	**OPERATING PROFIT**		**116.1**	89.9
	Exceptional item:			
–	Net profit on sale of investment property	5	**9.1**	–
(1.1)	Share of associates' operating losses		**(1.5)**	(0.4)
3.1	Interest receivable	2	**1.2**	2.0
	Interest payable before exceptional items:			
(210.4)	– Group	2	**(103.9)**	(99.9)
–	– Associates	2	**(0.5)**	–
	Exceptional items:			
–	– swap termination cost net of release of uneconomic hedge provision	2	**(2.4)**	–
15.7	– movement in retained uneconomic hedge provision	2	**(16.0)**	11.0
–	– accelerated amortisation of deferred financing adjustments	2	**10.8**	–
–	– provision for premium on redemption of securitised debt	2	**(169.7)**	–
(194.7)			**(281.7)**	(88.9)
6.7	**(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAX**		**(156.8)**	2.6
4.4	Tax	3	**38.6**	2.2
11.1	**(LOSS)/PROFIT FOR THE FINANCIAL PERIOD AFTER TAX**	12	**(118.2)**	4.8
1.7p	Basic and diluted earnings per share	4	**(18.5)p**	0.8p

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 2014 were approved by the Board on 17 September 2014.

UNAUDITED CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE SIX MONTHS ENDED 30 JUNE 2014

Audited Year ended 31 December 2013 £m		Note	**Unaudited Six months ended 30 June 2014 £m**	Unaudited Six months ended 30 June 2013 £m
	(Loss)/profit for the financial period after tax:			
12.2	– Group		**(116.2)**	5.2
(1.1)	– Associates		**(2.0)**	(0.4)
	Unrealised movement on revaluation of investment properties			
482.7	– Group	5	**225.1**	123.5
–	– Associates	6	**47.1**	–
493.8	**TOTAL RECOGNISED GAINS AND LOSSES RELATING TO THE PERIOD**		**154.0**	128.3

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

UNAUDITED NOTE OF HISTORICAL COST PROFITS AND LOSSES

Audited Year ended 31 December 2013 £m		Note	**Unaudited Six months ended 30 June 2014 £m**	Unaudited Six months ended 30 June 2013 £m
6.7	Reported (loss)/profit on ordinary activities before tax		**(156.8)**	2.6
–	Realisation of property revaluation gains of previous periods	5	**453.2**	–
6.7	**HISTORICAL COST PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAX**		**296.4**	2.6
11.1	**HISTORICAL COST PROFIT FOR THE PERIOD RETAINED AFTER TAX**		**335.0**	4.8

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

UNAUDITED CONSOLIDATED BALANCE SHEET AT 30 JUNE 2014

Audited 31 December 2013 £m		Note	**Unaudited 30 June 2014 £m**	Unaudited 30 June 2013 £m
	FIXED ASSETS			
5,457.2	Investment properties	5	**4,904.2**	4,957.5
358.7	Properties held for development	5	**381.5**	354.6
251.1	Properties under construction	5	**277.8**	205.5
0.8	Other tangible fixed assets		**1.1**	0.6
114.4	Investments	6	**225.1**	97.1
6,182.2			**5,789.7**	5,615.3
	CURRENT ASSETS			
57.8	Debtors: Amounts due in more than one year	7	**83.9**	63.0
44.3	Debtors: Amounts due within one year	7	**95.3**	43.8
554.6	Cash at bank and in hand	8	**1,101.7**	608.1
656.7			**1,280.9**	714.9
(772.5)	Creditors: Amounts due within one year	9	**(1,277.5)**	(397.0)
(115.8)	**NET CURRENT ASSETS/(LIABILITIES)**		**3.4**	317.9
6,066.4	**TOTAL ASSETS LESS CURRENT LIABILITIES**		**5,793.1**	5,933.2
(3,074.5)	Creditors: Amounts due after more than one year	10	**(2,454.5)**	(3,255.4)
(39.6)	Provisions	11	**(232.3)**	(51.1)
2,952.3	**NET ASSETS**		**3,106.3**	2,626.7
	CAPITAL AND RESERVES			
6.4	Called up share capital		**6.4**	6.4
	Reserves:			
146.2	– share premium	12	**146.2**	146.2
2,877.1	– revaluation reserve	12	**2,696.1**	2,517.9
0.7	– capital redemption reserve	12	**0.7**	0.7
264.8	– special reserve	12	**264.8**	264.8
(342.9)	– profit and loss account	12	**(7.9)**	(309.3)
2,952.3	**SHAREHOLDERS' FUNDS**	13	**3,106.3**	2,626.7

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 2014

Audited Year ended 31 December 2013 £m		Note	**Unaudited Six months ended 30 June 2014 £m**	Unaudited Six months ended 30 June 2013 £m
257.3	**Net cash inflow from operating activities**		**53.9**	103.1
(200.5)	Returns on investments and servicing of finance		**(124.1)**	(100.8)
3.9	Tax		**2.7**	3.9
(363.0)	Capital expenditure and financial investment	(i)	**687.6**	(140.8)
(39.9)	Equity dividends paid		**–**	–
(599.5)			**566.2**	(237.7)
(342.2)	**Cash outflow before management of liquid resources and financing**		**620.1**	(134.6)
1.2	Management of liquid resources		**(736.7)**	9.9
176.6	Financing		**(73.0)**	22.5
(164.4)	**DECREASE IN CASH IN THE PERIOD**	8	**(189.6)**	(102.2)
	Reconciliation of operating profit to operating cash flows			
199.4	Operating profit		**116.1**	89.9
0.1	Depreciation charges		**0.1**	–
(28.3)	Increase in debtors		**(24.1)**	(14.4)
52.8	(Decrease)/increase in creditors		**(40.6)**	5.6
(3.0)	Expenditure charged to provisions		**(1.5)**	(1.5)
0.6	Movements in provisions		**–**	0.4
(1.1)	Share of associates' losses		**(1.5)**	(0.4)
3.3	Share allocation costs		**4.8**	2.4
21.1	Amortisation of lease incentives		**1.0**	15.9
6.0	Refurbishment costs		**–**	6.0
9.6	Long term contract proceeds		**2.7**	2.1
(3.2)	Long term contract costs		**(3.1)**	(2.9)
257.3	**Net cash inflow**		**53.9**	103.1

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

Note:
(i) Capital expenditure and financial investment includes £795.0m of proceeds from the disposal of 10 Upper Bank Street.

UNAUDITED CONSOLIDATED CASH FLOW STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2014 (Continued)

Audited Year ended 31 December 2013 £m		**Unaudited Six months ended 30 June 2014 £m**	Unaudited Six months ended 30 June 2013 £m
	Returns on investments and servicing of finance		
4.1	Interest received	**1.3**	2.1
(204.6)	Interest paid	**(105.7)**	(102.9)
–	Swap breakage costs	**(17.9)**	–
–	Fees on repayment of loans	**(1.8)**	–
(200.5)	**Net cash outflow**	**(124.1)**	(100.8)
	Capital expenditure and financial investment		
(142.5)	Additions to properties	**(36.8)**	(68.4)
(183.5)	Acquisition of property interests	**–**	(54.1)
–	Sale of investment property net of fees	**789.1**	–
(6.9)	Acquisition of shares in parent company	**(1.3)**	(4.5)
(0.3)	Purchase of tangible fixed assets	**(0.4)**	–
(29.8)	Investments in and loans to associates	**(26.9)**	(13.8)
–	Equity investments	**(36.1)**	–
(363.0)	**Net cash inflow/(outflow)**	**687.6**	(140.8)
	Financing		
(11.2)	Repayment of secured debt	**(6.3)**	(4.8)
(65.1)	Amortisation of securitised debt	**(32.6)**	(32.6)
(8.3)	Redemption of Wood Wharf loan notes	**(31.5)**	–
(1.0)	Payment of Wood Wharf deferred consideration	**(1.0)**	–
–	Repayment of Wood Wharf loan	**(4.1)**	–
154.0	Drawdown of secured loan	**–**	–
108.2	Drawdown of construction loan	**2.5**	59.9
176.6	**Net cash (outflow)/inflow**	**(73.0)**	22.5

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

Defined term	Definition
20 Fenchurch Street	A 690,000 sq ft building under construction in the City of London
A1 Notes	Class A1 Notes of the Group's securitisation loan
Act	The Companies Act 2006
B3 Notes	Class B3 Notes of the Group's securitisation
Becket House	1 Lambeth Palace Road, London, SE1
Board	Board of directors of the Company
bps	Basis points
Canary Wharf	See Estate below
CBRE	CB Richard Ellis Limited, Surveyors and Valuers
Chairman and Chief Executive Officer	Chairman and Chief Executive Officer of the Company
C2 Notes	Class C2 Notes of the Group's securitisation
CIL	Community Infrastructure Levy
City	The City of London
Company	Canary Wharf Group plc
Court	Commercial Court
CRL	Crossrail Limited
CRT	Canal and River Trust (formerly British Waterways Board)
Cushman	Cushman & Wakefield, Real Estate Consultants
CWFII	Canary Wharf Finance II plc, the issuer of the Group's securitisation
EMA	European Medicines Agency
Escrow Agent	Deutsche Bank AG, London Branch
Estate	Canary Wharf Estate including Heron Quays West, Newfoundland, Riverside South, North Quay, Park Place and the area formerly known as Wood Wharf
Fintech	Financial technology
FRS 3	Financial Reporting Standard 3 (Reporting financial performance)
FRS 13	Financial Reporting Standard 13 (Derivatives and other financial instruments)
FRS 19	Financial Reporting Standard 19 (Deferred tax)
GLA	Greater London Authority
Group	Canary Wharf Group plc and its subsidiaries
ICR	Interest Cover Ratio
J.P. Morgan	J.P. Morgan Chase & Co
Land Securities	Land Securities Group plc
LBTH	London Borough of Tower Hamlets
LIBOR	London Interbank Offered Rate
Lloyds	Lloyds Banking Group plc
LMCTV	Loan Minus Cash to Value
London Plan	Mayor of London planning document published by the Greater London Authority
LTV	Loan to Value
m	million
NAV	Net Asset Value
NIA	Net Internal Area
NNNAV	Triple Net Asset Value
Notes	Notes of the Group's securitisation
psf	per sq ft
Qatari Diar	Qatari Diar Real Estate Investment Company
Savills	Savills Commercial Limited, Chartered Surveyors
SDLT	Stamp Duty Land Tax
Secretary of State	Secretary of State for Communities and Local Government
Section 106	Section 106 of the Town and Country Planning Act, 1990
Section 288	Section 288 of the Town and Country Planning Act, 1990
Securitisation Trustee	Trustee to the Group's securitised debt, Deutsche Trustee Company Limited
Shell	Shell International Limited
Shell Centre	Shell's headquarters on the South Bank, London
Songbird	Songbird Estates plc
sq ft	Square feet/square foot
SDLT	Stamp Duty Land Tax
UITF 28	Urgent Issue Task Force 28 (Operating leases)
Wood Wharf	A 16.8 acre extension to Canary Wharf