Songbird
Estates plc

30 June 2006
Interim Report

Contents

Highlights

- Net assets attributable to members of the company increased from £892.0 million at 31 December 2005 to £1,069.2 million at 30 June 2006, an increase of £177.2 million or 19.9% (Note (i)).
- Adjusted net asset value per share attributable to members of the company increased by £0.44 (23.8%) from £1.85 to £2.29 and adjusted triple net asset value ('NNNAV') per share attributable to members of the company increased by £0.40 (24.7%) from £1.62 to £2.02 (Note (i)).
- The market value of the property portfolio at 30 June 2006 was £6,216.2 million against £5,658.5 million at 31 December 2005, an increase of 9.2% disregarding additions in the period (Note (ii)).
- An interim dividend of 18p per share was paid on 19 April 2006 totalling £110.9 million (Note (iv)).
- In the six months ended 30 June 2006, transactions over 450,000 sq ft were achieved including an agreement for sale, upon completion, of a new 300,000 sq ft (approximately) building at 20 Churchill Place to Prudential Retirement Income Limited ('Prudential') for a consideration of £199.5 million (Note (iii)). Following completion the building will be occupied by SSB Realty, LLC ('State Street Bank').
- At 30 June 2006 Canary Wharf Group's investment portfolio totalling 7.9 million sq ft was 92.3% let (31 December 2005 – 7.9 million sq ft, of which 89.6% was let) (Note (iii)).
- Subsequent to the period end Canary Wharf Group completed approximately 390,000 sq ft of further lettings including a pre-let to Bear Stearns Companies Inc. ('Bear Stearns') of 206,000 sq ft in a new 300,000 sq ft building to be constructed at 5 Churchill Place (Note (iii)).
- Reflecting lettings subsequent to the period end, the vacancy rate at September 2006 is 5.6%, or 4.1% allowing for space under offer (Note (iii)).

Notes:

(i) See 'Business Review – Balance Sheet' for details.

(ii) See 'Business Review – Valuations' for details.

(iii) See 'Business Review – Property Portfolio' for details.

(iv) See Note 5 of the notes to these financial statements.

Results in Brief

	Unaudited Six months ended 30 June 2006 £m	Unaudited Six months ended 30 June 2005 £m
Rental income (Note (i))	**123.8**	135.9
Operating profit	**106.9**	116.5
Exceptional items:		
– profit on sale of properties (Note (ii))	**–**	55.7
– deemed loss on part disposal of investment (Note (ii))	**–**	(15.7)
– gains/(charges) relating to repayment of debt (Note (ii))	**123.3**	(97.8)
Profit/(loss) on ordinary activities before taxation	**104.6**	(89.7)
Loss on ordinary activities before taxation excluding exceptional items (Note (ii))	**(18.7)**	(31.9)
Taxation – deferred tax (Note (iii))	**(110.6)**	20.8
Loss on ordinary activities after taxation	**(6.0)**	(68.9)
Minority interest	**(10.2)**	1.5
Loss on ordinary activities attributable to members of the company	**(16.2)**	(67.4)
Loss per share (Note (iv))	**(3.7)p**	(15.6)p

Notes:

(i) See 'Business Review – Operating Results' for details.

(ii) See 'Business Review – Operating Results' for details of the profit on sale of properties, Note 9 for details of the deemed loss on part disposal of investment and Note 2 for details of the gains or charges relating to repayment of debt.

(iii) See Note 3 of the notes to these financial statements.

(iv) See Note 6 of the notes to these financial statements.

Chairman's Statement

An extremely busy 2005 came to a close with Canary Wharf Group successfully disposing of seven properties on the Canary Wharf estate (the 'Estate'). I am delighted to be in a position to report continuing achievements into 2006 with a positive first six months of the year which saw a dividend payment of 18p per share, further lettings of approximately 150,000 sq ft on the Estate by Canary Wharf Group, together with the commencement of approximately 0.7 million sq ft of new construction. Moreover, since the period end transactions on a further 390,000 sq ft have been concluded with the most recent lettings producing headline rents in excess of £40 per sq ft.

FINANCIAL

Financial Review

Net assets increased from £1,808.0 million at 31 December 2005 to £2,167.2 million at 30 June 2006, an increase of £359.2 million, or 19.9%. The increase in net assets was primarily driven by the revaluation of the group's property portfolio to £6,216.2 million, reflecting an increase of 9.2%, of which the increase in the valuation of the investment portfolio was £439.0 million or 8.3%. This was offset by the loss attributable to members of the company of £16.2 million and the dividend paid to equity shareholders of £78.0 million. Adjusted net asset value per share increased from £1.85 to £2.29, an increase of 23.8%.

Rental income for the six months ended 30 June 2006 was £123.8 million, against £135.9 million for the six months ended 30 June 2005 reflecting the successful sale of seven properties during the course of 2005.

During the period the Canary Wharf Group acquired three finance leases covering properties on the Estate in connection with which it recognised an exceptional gain of £123.3 million. Excluding this exceptional item, the loss on ordinary activities before tax for the six months ended 30 June 2006 was £18.7 million (six months ended 30 June 2005 – £31.9 million). After tax, the group recorded a loss for the period attributable to members of £16.2 million (six months ended 30 June 2005 – loss of £67.4 million).

Further detail on the group's results can be found in the 'Business and Financial Review – Operating Results'.

Subsequent to the period end, in July 2006 Songbird Acquisition Limited entered into an interest rate hedging arrangement with Europhypo AG, to expire on 20 February 2008. This has the effect of limiting the maximum and minimum interest rates payable by the company on its indebtedness to banks.

Dividends

In April 2006, a dividend of 18p per share was paid to all SG, A and B shareholders, bringing the total dividend paid by the company to date to 34.61p per SG, A and B ordinary 10p share. At 31 December 2005 an accrual of £28.7 million had been made in respect of the 10p D share dividend and following the 30 June 2006 revaluation, this accrual has been further increased to £33.3 million. The D share dividend is not payable until 2007.

LEASING

Since January of this year an aggregate of approximately 540,000 sq ft of further lettings was concluded on the Estate to a variety of tenants of which 390,000 sq ft was achieved subsequent to 30 June 2006. Whereas some of these recent lettings have been to existing tenants wishing to increase their existing space to meet growing business demands, such as Bear Stearns, Barclays Bank PLC and Morgan Stanley, a number of new tenants including Australia and New Zealand Banking Group Limited, Alvarez & Marsal, Jones Lang LaSalle Incorporated and Atos Euronext Market Solutions have also decided to establish a base at Canary Wharf. These recent lettings clearly indicate the ability of the Canary Wharf Group to meet the varied business needs of a diverse range of tenants ranging from the financial sector through to the property sector.

As a result of the lettings concluded to date, the vacancy rate at Canary Wharf in buildings owned by the Canary Wharf Group at September 2006 has now fallen to 5.6% from 10.4% at 31 December 2005.

Further detail on all of the recent lettings can be found in the 'Business Review – Property Portfolio'.

Chairman's Statement continued

DEVELOPMENT

As has been evidenced by recent announcements, 2006 has to date been an encouraging year for development on the Estate with the recommencement of construction on existing sites. Construction of the new 300,000 sq ft building at 20 Churchill Place as the new London Headquarters for State Street has commenced, with completion expected in Autumn 2008. This recommencement of construction on the Estate, together with the announcements that Canary Wharf Group is in detailed negotiations with KPMG for a new 400,000 sq ft purpose built building and has signed agreements for a new 300,000 sq ft building to be developed at 5 Churchill Place, of which Bear Stearns will occupy 206,000 sq ft as their European headquarters, have been extremely positive for Canary Wharf.

Retail has continued to expand during the period and the redevelopment of Cabot Hall, which will commence in January 2007 with expected occupancy in March 2008, will increase the retail area on the Estate by approximately 40,000 sq ft.

Progress is continuing on the Wood Wharf development with an outline planning application for the entire Wood Wharf site expected by the first quarter of 2007. Good progress is also being made on the 1 Millharbour and London Arena construction management contracts obtained where Canary Wharf Contractors Limited is acting as construction manager.

Canary Wharf Group continues to maintain the integrity of the Estate by its ownership of approximately 7.9 million sq ft of completed office properties including approximately 600,000 sq ft of retail space. This is in addition to the parks, roads and other public areas on the Estate which are managed by the Canary Wharf Group.

CONCLUSION

I am delighted to have been able to report on behalf of my board colleagues that the promising start to 2006 has continued throughout the period to 30 June 2006 and beyond. We continue to look forward to a positive end to 2006 and start to 2007 for both the company and the Canary Wharf Group.

DAVID PRITCHARD
Chairman

Business Review

PROPERTY PORTFOLIO

The principal asset of the company is its direct and indirect investment in Canary Wharf Group. The activities of Canary Wharf Group are currently focused on the development of the Estate including Heron Quays and the adjacent sites at Canary Riverside and North Quay and, through a joint venture with British Waterways Board ('BWB') and Ballymore Properties Limited ('Ballymore'), land adjacent to the Estate known as Wood Wharf. Canary Wharf Group has two principal business streams: property investment and property development. At 30 June 2006, the investment portfolio comprised 16 completed properties totalling 7.9 million sq ft of net internal area ('NIA') of which 92.3% was let (31 December 2005 – 7.9 million sq ft of which 89.6% was let). As well as the rental income generated from completed properties, income is generated from managing the entire Estate which, in addition to the properties owned by Canary Wharf Group, includes 14 properties totalling 6.3 million sq ft which are in other ownerships.

Canary Wharf Group's properties are under lease to high quality tenants which provide a diversified income stream. At 30 June 2006 the weighted average unexpired lease term for the office property portfolio was approximately 20.3 years (or 17.5 years assuming the exercise of outstanding break options) (31 December 2005 – 21.0 years or 18.1 years assuming the exercise of break options). Of the square footage under lease, 73.2% does not expire or cannot be terminated by tenants during the next ten years.

On 27 February 2006 the company announced that Canary Wharf Group had entered into an agreement for the sale, upon completion, of 20 Churchill Place to Prudential for £199.5 million for occupation by State Street in early 2009. When completed in 2008 the building will comprise approximately 300,000 sq ft, excluding ancillary space. State Street currently occupies approximately 114,700 sq ft in One Canada Square. The new building will enable State Street to consolidate its offices in the West End, City and Canary Wharf into one location. In connection with the sale agreement Canary Wharf Group may take a surrender from State Street of two floors in One Canada Square totalling 57,046 sq ft which have break options in 2013. The remaining space occupied by State Street has break options in 2008.

In the six months ended 30 June 2006 Canary Wharf Group announced other lettings totalling in excess of 150,000 sq ft:

- Saxo Bank agreed to lease a total of 19,519 sq ft in 40 Bank Street for a 7 year term.
- Alvarez & Marsal, Diligence and CFA Institute agreed to lease space totalling 12,272 sq ft in One Canada Square on terms ranging from 5 to 10 years.
- Morgan Stanley agreed to lease 25,200 sq ft in 25-30 Bank Street for an 18 month term.
- Barclays Bank PLC ('Barclays') agreed to lease 97,149 sq ft to July 2014 on levels 14-16 of One Churchill Place. This space forms part of the space originally sub-let back to Canary Wharf Group by Barclays.

Subsequent to the period end, Canary Wharf Group completed approximately 390,000 sq ft of further lettings:

- Bear Stearns has agreed to pre-let 206,000 sq ft in a new 300,000 sq ft building to be constructed at 5 Churchill Place for occupation in 2009.
- Bear Stearns also agreed to lease a further 22,000 sq ft on level 50 of One Canada Square on a 7 year term and renewed its lease of 19,888 sq ft on level 25 until April 2013. These leases are subject to break options exercisable after July 2008 in the case of level 50 and, on three months notice, at any time in relation to level 25. Bear Stearns has other leases over 115,000 sq ft in One Canada Square of which 27,700 sq ft is subject to a break option in September 2006 with the remainder expiring in April 2013.
- Australia and New Zealand Banking Group Limited has taken approximately 39,000 sq ft in 40 Bank Street on a 10 year lease.
- Atos Euronext Market Solutions has agreed to lease approximately 40,000 sq ft on levels 20 and 21 of 25 Bank Street on a lease until 2013.

Business Review continued

- Jones Lang LaSalle Incorporated leased approximately 51,000 sq ft in 25 Bank Street on a 7 year term.
- Duff & Phelps leased 7,300 sq ft in 40 Bank Street until July 2010.
- Satyam and City University agreed to lease a total of 4,600 sq ft in One Canada Square on terms ranging from 5 to 10 years.

Reflecting these lettings, the vacancy rate at September 2006 is 5.6%, or 4.1% allowing for space under offer.

Under the terms of agreements for lease entered into in previous years, Canary Wharf Group committed to take back certain space on short-term sub-leases following the expiry of which the space will revert to the relevant tenant. The net present value of these sub-let liabilities has reduced markedly over the period. At 31 December 2005 the net present value in respect of 713,900 sq ft of sub-let space was estimated at approximately £149.0 million, discounted at 5.5% being Canary Wharf Group's weighted average cost of debt at that date. At 30 June 2006 the estimated net present value had reduced to approximately £95.0 million, discounted at 6.0%, being Canary Wharf Group's weighted average cost of debt. This reduction was primarily attributable to the lettings achieved during the period over 142,000 sq ft of the sub-let space leaving 224,400 sq ft to be let. Of this, a further 98,000 sq ft was let subsequent to the period end reducing the estimated net present value of sub-let liabilities to approximately £84.3 million, discounted at 6.0%. These sub-let commitments have been reflected in the market valuation of the group's properties. The remaining space is currently under offer or subject to call options.

Development sites on the original Estate could accommodate a total of approximately 1.2 million sq ft of new development. In addition, Canary Wharf Group has development sites at North Quay and Riverside which have development capacity of 2.4 million sq ft and 1.8 million sq ft respectively. There is further development capacity on Heron Quays West subject to planning permission. Construction of new buildings on these sites will commence as and when market conditions allow.

Canary Wharf Group's other development sites are summarised in the following table:

	NIA (million sq ft)
Based on existing planning permissions:	
Canary Wharf (DS3, BP2, BP4)[1]	1.2
Riverside South	1.8
North Quay	2.4
	5.4
Subject to planning application:	
Heron Quays West	0.6
Total[2]	6.0

Notes:

(1) Includes 300,000 sq ft on parcel BP2 (5 Churchill Place) of which Canary Wharf Group has pre-let 206,000 sq ft to Bear Stearns.

(2) Total for development sites which are wholly in the ownership of Canary Wharf Group.

In addition to the above, Canary Wharf Group is working with Ballymore and BWB on the re-development of the Wood Wharf site which is immediately adjacent to the Estate. The master plan for the scheme, in which Canary Wharf Group has a 25.0% interest, sets a framework for approximately 6.5 million sq ft (gross) of mixed commercial, residential and retail development.

VALUATIONS

The net assets of the group, as stated in its consolidated balance sheet as at 30 June 2006, were £2,167.2 million including the minority interest. In arriving at this total:

(i) properties held as investments were carried at £5,645.5 million, which represents the market value of those properties of £5,743.2 million at that date as determined by Canary Wharf Group's external valuers, CB Richard Ellis Limited, Surveyors and Valuers ('CBRE'), Savills Commercial Limited, Chartered Surveyors ('Savills'), or Cushman &

Wakefield Healey & Baker, Real Estate Consultants ('CWHB'), less an adjustment of £97.7 million for tenant incentives as required by UITF 28; and

(ii) properties held for development shown as fixed assets were carried at £263.9 million, representing their cost to the group.

Excluding additions in the six months ended 30 June 2006, the valuation of the investment property portfolio on the basis of market value increased by £439.0 million or 8.3%. After allowing for adjustments in respect of UITF 28, the carrying value of the investment property portfolio increased by £438.1 million in the six months ended 30 June 2006. This increase was driven by a combination of a yield shift in the market for properties let on long leases to creditworthy tenants, the benefit of new lettings achieved in the period and an increase in headline rents.

CBRE and Savills have provided a joint opinion as at 30 June 2006 that the market value of properties held for development was £430.0 million, in comparison with a carrying value for accounts purposes of £263.9 million. In valuing the properties held for development, the valuers have allowed for estimated costs to complete, including an allowance for fit-out. In addition, they have allowed for letting, disposal, marketing and financing costs. The market value of £430.0 million represents an increase of 20.0%, excluding additions, over the market value at 31 December 2005 which reflects the improving prospects for new development.

Savills has also provided an opinion as at 30 June 2006 that the market value of the property under construction was £43.0 million in comparison with an historical cost of £24.2 million.

The market value of the entire property portfolio including investment properties, properties held for development and the property under construction, increased by £524.2 million or 9.2% in the six months ended 30 June 2006, excluding additions. This increase was driven by the factors referred to above.

As previously disclosed, there are a number of properties which are subject to leases back to Canary Wharf Group. These have been taken into account in the valuations summarised in the table below which shows the carrying value of the group's properties for accounts purposes in comparison with the supplementary valuations provided by the external valuers:

	30 June 2006		31 December 2005	
	Carrying value £m	**Market value in existing state £m**	Carrying value £m	Market value in existing state £m
Investment properties	**5,645.5**[(1)]	**5,743.2**[(2)]	5,204.7[(1)]	5,301.5[(2)]
Properties held for development	**263.9**	**430.0**	259.1	357.0
	5,909.4	**6,173.2**	5,463.8	5,658.5
Properties under construction and held for sale	**24.2**[(3)]	**43.0**	–	–
	5,933.6	**6,216.2**	5,463.8	5,658.5

Notes:

(1) The carrying value of investment properties represents market value less an adjustment for UITF 28.

(2) Stated at market value in existing state before adjustment for UITF 28. The UITF 28 adjustment attributable to investment properties at 30 June 2006 was £97.7 million (31 December 2005 – £96.8 million).

(3) Represents historical cost to the group. The carrying value in the balance sheet at 30 June 2006 is stated net of £8.9 million transferred to cost of sales and £15.3 million transferred to payments on account in accordance with Statement of Standard Accounting Practice 9 (Stocks and Long Term Contracts) ('SSAP 9').

Business Review continued

TAXATION

The group has Enterprise Zone Allowances ('EZAs') available to shelter future operating profits and taxable profits and gains arising on the sale of properties.

There is no uplift in the value of Canary Wharf Group's investment properties attributable to EZAs because, as a result of an internal property restructuring in the year ended 31 December 2005, the interests to which the EZAs attach are of negligible value. Whereas the group can claim EZAs on the qualifying expenditure originally incurred, a third party purchaser would only be able to claim EZAs by reference to these negligible values. The £nil uplift in market value does not therefore represent the potential value of EZAs to the group.

In addition, as the assets to which the EZAs attach are of negligible value, a disposal of property will not trigger a clawback of any EZAs previously claimed. As a result, there is no longer any deferred tax liability provided in respect of prior year claims made by the group. However, as a result of the acquisition of two finance lessor companies from a third party in the period (Note 11(2)), a deferred tax liability of £110.3 million has been recognised in respect of EZA claims made by those companies in prior years (Note 3).

If the group were to dispose of its property portfolio at the market value disclosed in this 'Business Review', no tax liability would arise (31 December 2005 – £nil) after taking into account all available losses. This allows for tax on trading profits and net chargeable gains that would arise on the sale of properties under construction and properties held for development, including land interests. In addition, had Canary Wharf Group disposed of its property portfolio at the balance sheet date, the benefit of the remaining EZAs would have been crystallised as a balancing allowance. This benefit has been taken into account in calculating the tax liability of £nil.

A corporation tax liability on chargeable gains of £228.4 million has been reduced to £nil by capital losses brought forward of £83.3 million and revenue losses (including EZA balancing allowances) of £145.1 million. In line with Financial Reporting Standard 19 (Deferred tax) ('FRS 19') the benefit of these losses has not been recognised through the creation of a deferred tax asset in the balance sheet.

OPERATING RESULTS

The following review of the group's operating results relates to the six months ended 30 June 2006. The comparatives relate to the six months ended 30 June 2005.

Turnover is generated primarily by the rents and service charges earned by Canary Wharf Group from its property interests on the Estate. Turnover for the six months ended 30 June 2006 was £171.8 million (six months ended 30 June 2005 – £174.1 million). Rental income reduced from £135.9 million to £123.8 million, a reduction of 8.9%. The impact of UITF 28 was to reduce rental income by £0.9 million in the six months ended 30 June 2006 (six months ended 30 June 2005 – £0.4 million). Excluding the impact of UITF 28, rental income reduced from £136.3 million to £124.7 million, primarily attributable to rental income foregone on buildings sold in the year ended 31 December 2005, partly offset by the benefit of rent reviews. Service charge income increased from £27.3 million to £27.4 million and miscellaneous income (including insurance rents) increased from £10.9 million to £11.7 million over the period. Turnover for the six months ended 30 June 2006 also included £8.9 million recognised on the construction of 20 Churchill Place (six months ended 30 June 2005 – £nil) in accordance with SSAP 9.

Cost of sales includes rents payable, property management costs, movements on provisions for vacant leasehold properties and certain other lease commitments, costs incurred on 200/202 Aldersgate Street and 20 Little Britain (together 'Aldersgate Street') while in Canary Wharf Group's ownership and costs allocated to cost of sales on the construction of 20 Churchill Place. Rents payable and property management costs were £40.5 million for the six months ended 30 June 2006 in comparison with £43.0 million for the six months ended 30 June 2005. Taking into account service charge and miscellaneous income totalling £39.1 million for the six months ended 30 June 2006 (six months ended 30 June 2005 – £38.2 million), void costs were £1.4 million (six months ended

30 June 2005 – £4.8 million, of which £2.8 million comprised costs incurred on Aldersgate Street). The reduction in void costs relates to recent lettings and the consequent increase in occupancy on the Estate. In addition, cost of sales for the six months ended 30 June 2006 included £8.9 million of costs recognised on the construction of 20 Churchill Place (six months ended 30 June 2005 – £nil), partly offset by a release of a provision against vacant leasehold properties of £2.9 million and other leasehold commitments of £1.3 million (Note 13) (six months ended 30 June 2005 – £1.0 million).

For the six months ended 30 June 2006 gross profits were £126.6 million compared with £132.1 million for the six months ended 30 June 2005. The reduction in gross profit was attributable to the factors referred to above.

Administrative expenses for the six months ended 30 June 2006 were £19.9 million (six months ended 30 June 2005 – £16.3 million) of which £17.3 million (six months ended 30 June 2005 – £13.6 million) related to Canary Wharf Group. The increase in administrative costs incurred by Canary Wharf Group was primarily attributable to fees relating to internal property restructurings undertaken in the period and costs associated with the sale of 20 Churchill Place.

For the six months ended 30 June 2006 operating profit was £106.9 million in comparison with £116.5 million for the six months ended 30 June 2005. The reduction in operating profit of £9.6 million was in part attributable to the reduction in net property income and in part to the increase in administrative expenses.

In the six months ended 30 June 2005 the group recorded a net profit of £55.7 million on the disposal of two properties (20 Canada Square and 15 Westferry Circus) by Canary Wharf Group. This was shown as an exceptional item after operating profit in accordance with Financial Reporting Standard 3 (Reporting Financial Performance).

In the year ended 31 December 2005, IPC Advisors Limited exercised warrants to subscribe for 54,007,620 ordinary shares in Canary Wharf Group of which a warrant for 42,273,251 was exercised in the six months ended 30 June 2005. The exercise of warrants was accounted for as a deemed partial disposal of the interest in Canary Wharf Group resulting in a charge to the group's profit and loss account of £27.7 million, of which £15.7 million was recognised in the six months ended 30 June 2005 (Note 9).

Net interest payable excluding exceptional items for the six months ended 30 June 2006 was £125.6 million (six months ended 30 June 2005 – £148.4 million) including the finance cost of non-equity shares of £11.1 million (six months ended 30 June 2005 – £22.4 million). In the six months ended 30 June 2006, Canary Wharf Group recognised a gain of £123.3 million in connection with the acquisition of three finance leases which was treated as an exceptional item (Note 11(2)). For the six months ended 30 June 2005 there were exceptional charges of £97.8 million incurred in respect of the early repayment of debt by Canary Wharf Group (refer to 'Business Review – Borrowings'). Excluding these exceptional items, the reduction in net interest payable of £22.8 million was attributable in part to lower levels of debt resulting from property sales during the year ended 31 December 2005, in part to a restructuring of debt undertaken by Songbird Acquisition Limited ('SAL') in November 2005 and in part to the reduced charge in respect of non-equity shares.

The loss on ordinary activities before tax for the six months ended 30 June 2006 was £104.6 million (six months ended 30 June 2005 – £89.7 million). The results for the six months ended 30 June 2006 and the six months ended 30 June 2005 included certain exceptional profits and losses as described above. Excluding exceptional items, the loss on ordinary activities before tax for the six months ended 30 June 2006 was £18.7 million (six months ended 30 June 2005 – £31.9 million).

Taxation for the six months ended 30 June 2006, which has been calculated by reference to the anticipated effective tax rate for the year to 31 December 2006, is primarily attributable to the increase in the deferred tax provision of £110.3 million arising from the acquisition

Business Review continued

of three finance leases in the period (Note 11(2)). In the six months ended 30 June 2005 the deferred tax provision reduced by £20.8 million. The deferred tax asset at 31 December 2005 of £29.0 million related primarily to acquisition adjustments recognised on the acquisition of Canary Wharf Group as required by Financial Reporting Standard 6 (Acquisitions and Mergers).

The loss after taxation for the six months ended 30 June 2006 was £6.0 million (six months ended 30 June 2005 – £68.9 million), of which a loss of £10.2 million was attributable to the minority interest (six months ended 30 June 2005 – profit of £1.5 million).

On 19 April 2006, the company paid an interim dividend of 18p per share on the SG ordinary 10p shares ('SG Shares'), A ordinary 10p shares ('A Shares') and B ordinary 10p shares ('B Shares') totalling £110.9 million. Of this amount, £32.9 million was attributable to the preference dividend due to the SG shareholders which has been treated as a finance cost of non-equity shares.

BALANCE SHEET

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 2006 were £2,167.2 million including the minority interest, equivalent to £2.43 per equity share calculated on the basis of the number of shares in issue excluding the SG Shares and the class D 10p share ('D Share') (31 December 2005 – £1,808.0 million equivalent to £2.06 per equity share). The increase in net asset value over the six months ended 30 June 2006 was primarily due to the surplus on revaluation of the investment properties attributable to members of the company of £266.3 million (60.6p per equity share) offset by the loss for the period attributable to members of the company of £16.2 million (3.7p per equity share) and the interim dividend paid to equity shareholders of 18p per share.

Allowing for the revaluation of properties held for development to market value, the surplus in the market value of 20 Churchill Place over historical cost, adjusting for deferred taxation and re-classifying all classes of shares as equity, the adjusted net asset value per share at 30 June 2006 was as set out in the table on the following page:

	30 June 2006 £m	31 December 2005 £m
Net assets per statutory balance sheet	**2,167.2**	1,808.0
Add back deferred tax	**81.6**	(29.0)
Net assets prior to deferred tax provision	**2,248.8**	1,779.0
Revaluation of property portfolio:		
– properties held for development[1]	**166.1**	97.9
– properties under construction[1]	**18.8**	–
	2,433.7	1,876.9
Minority interest per statutory balance sheet	**(1,098.0)**	(916.0)
Minority interest in adjustments above	**(104.5)**	(27.0)
Reclassify D Share and SG Shares as equity[3]	**142.6**	174.6
Add back accrued interest on D Share and SG Shares[3]	**35.6**	30.1
Adjusted net assets attributable to members of the company[2]	**1,409.4**	1,138.6
Further adjustments:		
Fair value adjustment in respect of financial assets and liabilities net of tax relief thereon[4]	**(109.6)**	(255.7)
Contingent tax on property disposals[5]	**–**	–
Undiscounted deferred taxation[6]	**(158.1)**	28.7
Minority interest in further adjustments	**104.9**	89.0
Adjusted NNNAV[2]	**1,246.6**	1,000.6
Cumulative dividends paid[7]	**179.9**	95.2
Adjusted NNNAV before dividends	**1,426.5**	1,095.8
Adjusted net assets per share[8]	**£2.29**	£1.85
Adjusted net assets per share before dividends[8]	**£2.58**	£2.00
Adjusted NNNAV per share[8]	**£2.02**	£1.62
Adjusted NNNAV per share before dividends[8]	**£2.32**	£1.78

Notes:

(1) Stated at market value in existing state.

(2) Excludes the potential value to the group of EZAs (refer to 'Business Review – Taxation').

(3) The reclassifications required by Financial Reporting Standard 25 (Financial Instruments – Disclosure and Presentation) ('FRS 25') have been reversed in order that net assets per share can be calculated on all shares in issue.

(4) Refer to Note 11(8).

(5) Refer to 'Business Review – Taxation'.

(6) Refer to Note 13.

(7) Cumulative dividends paid of £213.2 million (31 December 2005 – £102.3 million) of which £33.3 million (31 December 2005 – £7.1 million) has been accounted for as a reduction in the liability recorded in respect of the SG Shares (Note 4).

(8) Calculated by reference to the closing number of shares of 616.1 million in issue at 30 June 2006 and 31 December 2005.

Business Review continued

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

BORROWINGS

In February 2006, Canary Wharf Group acquired three finance leases secured on certain properties on the Estate, funded by the release of charges over £836.7 million of cash deposits as described in Note 11(2). As a result, the group recognised a gain of £123.3 million which has been included in interest payable and treated as an exceptional item.

During the year ended 31 December 2005 Canary Wharf Group completed a comprehensive refinancing exercise, the objective of which was to refinance fixed rate long-term debt with medium term bank debt. In connection with this refinancing Canary Wharf Group entered into a three year £750.0 million bridge facility to refinance the assets released from the securitisation structure. At 31 December 2005, £546.4 million of this loan had been repaid, primarily following the sale of certain properties. In March 2006 the remainder of the loan was repaid and Canary Wharf Group's retail assets were refinanced with a new £300.0 million facility (Note 11(4)).

The refinancing completed in the six months ended 30 June 2006 resulted in initial net proceeds of approximately £95.0 million net of financing expenses.

In November 2005 SAL concluded a refinancing of its loan facility and subsequent to the period end SAL entered into a hedging arrangement utilising an interest rate collar whereby the LIBOR element of the interest rate payable on its loan will be capped at 5.75% with a floor of 4.63%.

At 30 June 2006, net debt (after cash in hand and cash collateral) stood at £3,500.3 million, down from £3,703.2 million at 31 December 2005 comprising:

	30 June 2006 £m	31 December 2005 £m
Securitised debt	**2,573.4**	2,582.9
SAL loans	**539.2**	542.4
Other secured loans	**1,296.2**	1,201.1
Finance lease obligations	**42.0**	1,002.0
Total borrowings	**4,450.8**	5,328.4
Less: cash collateral for borrowings	**(310.2)**	(985.6)
Less: other cash collateral	**(6.4)**	(2.3)
	4,134.2	4,340.5
Less: cash deposits	**(812.1)**	(842.0)
Net debt excluding non-equity share capital and financing	**3,322.1**	3,498.5
Non-equity share capital and financing	**178.2**	204.7
	3,500.3	3,703.2

The reduction in total borrowings from £5,328.4 million at 31 December 2005 to £4,450.8 million at 30 June 2006 primarily reflects the acquisition of three finance leases and the repayment of the remainder of the £750.0 million loan facility referred to above, partially offset by Canary Wharf Group's drawdown under the new retail facility. The reduction in total borrowings was accompanied by a reduction in cash and term deposits from £1,829.9 million to £1,128.7 million, primarily as a result of the cash used to acquire the finance leases described above, and partially offset by the net proceeds from the drawdown of the new retail loan facility.

At 30 June 2006, the group's weighted average cost of debt was 6.0% excluding credit wraps (or 6.1% including credit wraps), in comparison with 5.5% excluding credit wraps at 31 December 2005 (or 5.6% including credit wraps). The increase in the weighted average cost of debt is attributable to the acquisition of the three finance leases by Canary Wharf Group which were previously fully cash collateralised and incurred interest at a rate linked to LIBID.

At 30 June 2006 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 Financial Reporting Standard 13 (Derivatives and other financial instruments) was £156.5 million.

CASH FLOW

Net cash inflow from operating activities for the six months ended 30 June 2006 was £107.7 million, in comparison with £119.1 million for the six months ended 30 June 2005. The reduction in net cash inflow was attributable in part to working capital movements and in part to a reduction in rents receivable following the sale of buildings in the year ended 31 December 2005.

Returns on investments and servicing of finance totalled £120.9 million for the six months ended 30 June 2006 compared with £356.9 million for the six months ended 30 June 2005. The six months ended 30 June 2006 included £1.7 million of breakage costs and fees on loans drawndown and repaid in the period compared with £212.8 million of breakage costs and fees in respect of the restructuring of financing facilities during the six months ended 30 June 2005.

Capital expenditure and financial investment for the six months ended 30 June 2006 resulted in a cash inflow of £169.6 million compared with £384.5 million for the six months ended 30 June 2005. The six months ended 30 June 2006 included £174.6 million received in respect of the sale of 20 Churchill Place, less development expenditure of £18.8 million, property acquisition expenditure of £3.5 million and funding of the group's associated undertaking by £9.7 million. The six months ended 30 June 2005 included proceeds of £472.3 million on the disposal of two properties, less development expenditure of £33.0 million and £52.8 million in respect of the acquisition of Aldersgate Street.

The financing cash outflow for the six months ended 30 June 2006 was £779.6 million compared with an inflow of £1,123.4 million for the six months ended 30 June 2005. The six months ended 30 June 2006 included £836.6 million expended on the acquisition of three finance leases by Canary Wharf Group, funded by the removal of restrictions over certain cash collateral accounts (Note 11(2)). The six months ended 30 June 2006 also included repayment by Canary Wharf Group of £203.6 million remaining on its £750.0 million loan facility (Note 11(4)), funded by the drawdown of a new £300.0 million retail facility (Note 11(4)). The six months ended 30 June 2005 included a net inflow of £120.9 million in respect of the exercise of warrants over Canary Wharf Group shares, drawdowns under new bank facilities totalling £1,728.2 million and the drawdown under Canary Wharf Group's second securitisation of £360.4 million. These were partially offset by the repayment of Canary Wharf Group's first securitisation, the redemption of certain notes from Canary Wharf Group's second securitisation, and the repayment of certain finance leases and other loans totalling £1,110.5 million.

Unaudited Consolidated Profit and Loss Account for the six months ended 30 June 2006

Audited Year ended 31 December 2005 £m		Notes	**Unaudited Six months ended 30 June 2006 £m**	Unaudited Six months ended 30 June 2005 £m
348.6	Turnover		**171.8**	174.1
(84.7)	Cost of sales		**(45.2)**	(42.0)
263.9	**GROSS PROFIT**		**126.6**	132.1
(39.5)	Administrative expenses		**(19.9)**	(16.3)
	Other operating income:			
3.5	– before exceptional items		**0.2**	0.7
12.1	– exceptional item: net profit on sale of long leasehold property	7	**–**	–
240.0	**OPERATING PROFIT**		**106.9**	116.5
	Exceptional items:			
204.9	– net profit on sale of properties		**–**	55.7
(27.7)	– loss on deemed part disposal of investment	9	**–**	(15.7)
91.1	Interest receivable	2	**22.9**	44.5
	Interest payable:			
(388.6)	– before exceptional item	2	**(148.5)**	(192.9)
(116.1)	– exceptional item: charges relating to repayment of debt	2	**123.3**	(97.8)
(504.7)			**(25.2)**	(290.7)
3.6	**PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION**		**104.6**	(89.7)
57.9	Taxation	3	**(110.6)**	20.8
61.5	**(LOSS)/PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION**		**(6.0)**	(68.9)
(77.7)	Minority interest	15	**(10.2)**	1.5
(16.2)	**LOSS ON ORDINARY ACTIVITIES ATTRIBUTABLE TO MEMBERS OF THE COMPANY**		**(16.2)**	(67.4)
(3.8)p	Basic and diluted loss per share	6	**(3.7)p**	(15.6)p

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

The notes numbered 1 to 18 form an integral part of this Interim Report.

The interim results for the six months ended 30 June 2006 were approved by the Board of Directors on 28 September 2006.

Unaudited Consolidated Statement of Total Recognised Gains and Losses for the six months ended 30 June 2006

Audited Year ended 31 December 2005 £m		Notes	**Unaudited Six months ended 30 June 2006 £m**	Unaudited Six months ended 30 June 2005 £m
	Loss on ordinary activities after taxation attributable to members of the company:			
(16.2)	– group		**(16.1)**	(67.4)
–	– share of associated undertaking		**(0.1)**	–
547.2	Unrealised surplus on revaluation of investment properties attributable to members of the company – group	7	**266.3**	343.4
531.0	**TOTAL RECOGNISED GAINS AND LOSSES RELATING TO THE PERIOD**		**250.1**	276.0

Note of Historical Cost Profits and Losses

Audited Year ended 31 December 2005 £m		Notes	**Unaudited Six months ended 30 June 2006 £m**	Unaudited Six months ended 30 June 2005 £m
3.6	Reported profit/(loss) on ordinary activities before taxation		**104.6**	(89.7)
22.5	Realisation of property revaluation gains of the previous periods	7	**–**	15.6
26.1	**HISTORICAL COST PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION**		**104.6**	(74.1)
(2.3)	**HISTORICAL COST LOSS FOR THE PERIOD RETAINED AFTER TAXATION AND MINORITY INTERESTS**		**(16.2)**	(57.7)

The notes numbered 1 to 18 form an integral part of this Interim Report.

Unaudited Consolidated Balance Sheet at 30 June 2006

Audited 31 December 2005 £m		Notes	**Unaudited 30 June 2006 £m**	Unaudited 30 June 2005 £m
	FIXED ASSETS			
5,204.7	Investment properties	7	**5,645.5**	5,386.2
259.1	Properties held for development	7	**263.9**	255.1
2.4	Other tangible fixed assets		**2.3**	2.5
2.8	Investments	8	**12.4**	2.0
72.6	Goodwill	9	**70.7**	76.6
5,541.6			**5,994.8**	5,722.4
	CURRENT ASSETS			
–	Property held for sale	7	**–**	97.0
96.8	Debtors: due in more than one year	10	**97.7**	91.4
104.0	Debtors: due within one year		**54.8**	42.4
1,829.9	Cash at bank and in hand	11	**1,128.7**	2,372.7
2,030.7			**1,281.2**	2,603.5
(245.5)	**CREDITORS: Amounts falling due within one year**	12	**(430.0)**	(847.9)
1,785.2	**NET CURRENT ASSETS**		**851.2**	1,755.6
7,326.8	**TOTAL ASSETS LESS CURRENT LIABILITIES**		**6,846.0**	7,478.0
(5,462.4)	**CREDITORS: Amounts falling due after more than one year**	11	**(4,550.6)**	(5,766.4)
(56.4)	Provisions for liabilities	13	**(128.2)**	(69.2)
1,808.0	**NET ASSETS**		**2,167.2**	1,642.4
	CAPITAL AND RESERVES			
43.3	Called up share capital	14	**43.9**	43.3
	Reserves:			
375.5	– share premium	15	**380.7**	375.5
604.5	– revaluation reserve	15	**870.8**	406.2
(1.0)	– own shares	15	**(0.6)**	(1.2)
(130.3)	– profit and loss account	15	**(225.6)**	(115.0)
892.0	**SHAREHOLDERS' FUNDS**		**1,069.2**	708.8
916.0	Minority interest	15	**1,098.0**	933.6
1,808.0	**TOTAL CAPITAL EMPLOYED**		**2,167.2**	1,642.4

The notes numbered 1 to 18 form an integral part of this Interim Report.

Unaudited Consolidated Cash Flow Statement for the six months ended 30 June 2006

Audited Year ended 31 December 2005 £m		Notes	**Unaudited Six months ended 30 June 2006 £m**	Unaudited Six months ended 30 June 2005 £m
178.1	**NET CASH INFLOW FROM OPERATING ACTIVITIES**		**107.7**	119.1
(785.2)	Returns on investments and servicing of finance		**(120.9)**	(356.9)
1,161.6	Capital expenditure and financial investment		**169.6**	384.5
(72.0)	Dividend		**(78.0)**	–
(1.3)	Acquisition		–	–
303.1			**(29.3)**	27.6
481.2	**Cash inflow before management of liquid resources and financing**		**78.4**	146.7
(528.3)	Management of liquid resources		**671.3**	(644.5)
246.1	Financing		**(779.6)**	1,123.4
199.0	**(DECREASE)/INCREASE IN CASH IN THE PERIOD**	11	**(29.9)**	625.6

Audited Year ended 31 December 2005 £m		**Unaudited Six months ended 30 June 2006 £m**	Unaudited Six months ended 30 June 2005 £m
	Reconciliation of operating profit to operating cash flows		
240.0	Operating profit(1)	**106.9**	116.5
0.6	Depreciation charges	**0.1**	0.5
0.1	Provision against investment	**–**	0.1
1.7	Amortisation of share option costs	**0.5**	1.5
(12.1)	Profit on disposal of Aldersgate Street(1)	**–**	–
(8.4)	(Increase)/decrease in debtors	**(8.2)**	33.4
(22.7)	Increase/(decrease) in creditors	**14.7**	(23.0)
3.8	Amortisation of goodwill	**2.0**	1.7
(23.0)	Utilisation of provisions	**(7.4)**	(12.7)
(3.4)	Amortisation of lease incentives	**0.9**	(0.4)
1.5	Other movements in provisions	**(1.8)**	1.5
178.1	Net cash inflow from operating activities	**107.7**	119.1

Note:

(1) For the year ended 31 December 2005, operating profit included an exceptional profit on the sale of Canary Wharf Group's long leasehold interests in Aldersgate Street (Note 7). There were no pre-operating exceptional items in either the six months ended 30 June 2006 or 30 June 2005.

Unaudited Consolidated Cash Flow Statement for the six months ended 30 June 2006 continued

Audited Year ended 31 December 2005 £m		**Unaudited Six months ended 30 June 2006 £m**	Unaudited Six months ended 30 June 2005 £m
	Returns on investments and servicing of finance		
91.1	Interest received	**21.2**	33.9
(333.9)	Interest paid	**(136.9)**	(148.6)
(46.7)	Interest element of finance lease rentals	**(3.5)**	(29.4)
(33.3)	Financing expenses on loans drawndown	**(1.2)**	(25.7)
(194.1)	Financing expenses and breakage costs on loans repaid[1]	**(0.5)**	(187.1)
(268.3)	Dividends paid to minority shareholders	**–**	–
(785.2)	Net cash outflow	**(120.9)**	(356.9)

Note:

(1) For the year ended 31 December 2005, expenses and breakage costs on loans repaid included an exceptional charge of £194.1 million in connection with prepaying and refinancing Canary Wharf Group's securitisations and certain other loans (six months ended 30 June 2005 – £187.1 million) (Note 2).

Audited Year ended 31 December 2005 £m		**Unaudited Six months ended 30 June 2006 £m**	Unaudited Six months ended 30 June 2005 £m
	Capital expenditure and financial investment		
(52.8)	Acquisition of property interests	**(3.5)**	(52.8)
(68.5)	Additions to properties	**(18.8)**	(33.0)
(0.2)	Purchase of tangible fixed assets	**–**	(0.2)
110.0	Sale of leasehold property interests	**–**	–
1,175.6	Sale of investment properties[1]	**27.0**	472.3
–	Deferred income relating to agreement to sell property under construction	**174.6**	–
(2.5)	Loans to associated undertaking	**(9.7)**	(1.8)
1,161.6	Net cash inflow	**169.6**	384.5

Note:

(1) Capital expenditure and financial investment for the year ended 31 December 2005 included £1,175.6 million of proceeds from the sale of investment properties (six months ended 30 June 2005 – £472.3 million). A further £27.0 million from the sale of 30 South Colonnade was received in January 2006.

Audited Year ended 31 December 2005 £m		Notes	**Unaudited Six months ended 30 June 2006 £m**	Unaudited Six months ended 30 June 2005 £m
	Financing			
(628.3)	Repayment of securitised debt	11	**(5.4)**	(553.4)
(7.1)	Repayment of SG Shares		**(27.3)**	–
30.6	Drawdown of acquisition loans		**–**	24.4
1,728.2	Drawdown of secured loans		**302.3**	1,728.2
(674.2)	Repayment of acquisition loans		**–**	–
549.4	Drawdown of SAL loan		**165.7**	–
–	Repayment of SAL loan	11	**(171.3)**	–
142.7	Proceeds from exercise of Canary Wharf Group warrants	9	**–**	120.9
(1,015.3)	Repayment of secured loans	11	**(207.0)**	(311.8)
360.4	Issue of securitised debt		**–**	360.4
5.0	Finance lease premiums		**–**	–
(245.3)	Repayment of finance leases	11	**(836.6)**	(245.3)
246.1	Net cash (outflow)/inflow		**(779.6)**	1,123.4

The above cash flows relate to the continuing activities of the group and its share of the associated undertaking.

Notes to the Interim Report for the six months ended 30 June 2006

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

This Interim Report has been prepared having regard to the guidance in the non-mandatory statement issued by the Accounting Standards Board, 'Interim Reports', and on the basis of the accounting policies set out in the group's financial statements for the year ended 31 December 2005, save for adoption of Financial Reporting Standard 20 (Share-Based Payments) ('FRS 20') which now has effect.

The financial information for the six months ended 30 June 2006 and 30 June 2005 is unaudited.

The results for the year ended 31 December 2005 are not statutory accounts. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditors' report on those accounts was not qualified and did not contain statements under Section 237 (2) or (3) of the Companies Act 1985.

The published 2005 Report and Financial Statements contained a typographical error in that turnover was incorrectly stated as £384.6 million rather than £348.6 million. In the preliminary announcement released on 23 March 2006 turnover was correctly stated as £348.6 million.

Accounting for share-based payments

The group's accounting policy for share options has changed to comply with FRS 20. B Shares are held in trust in connection with Canary Wharf Group's share scheme. The allocation under the remaining share scheme outstanding at 30 June 2006 allows the members of the scheme to opt for a cash settlement, calculated in accordance with the terms of the grant at the end of the vesting period and linked to the market price of the B Shares at that date. For cash-settled share-based share option schemes, a liability is recorded based on the market value of the shares at each balance sheet date. The associated cost is charged to the same expense category as the employment cost of the relevant employee, spread on a straight-line basis over the relevant vesting period. Previously the historical cost of the B Shares was amortised over the vesting period of relevant schemes on a straight-line basis. The carrying value of the B Shares held in the Canary Wharf Employee Share Ownership Plan Trust (the 'Trust') continues to be recorded as an own shares reserve at historical cost.

This change in accounting policy did not give rise to a material adjustment to the carrying value of the B Shares or the liabilities of the group at 31 December 2005.

2 INTEREST

Audited Year ended 31 December 2005 £m		**Unaudited Six months ended 30 June 2006 £m**	Unaudited Six months ended 30 June 2005 £m
	Receivable:		
91.1	Bank interest receivable	**22.9**	44.5
	Payable:		
(164.4)	Notes and debentures	**(76.8)**	(84.1)
(55.0)	SAL loan	**(18.9)**	(28.5)
(79.3)	Bank loans and overdrafts	**(37.7)**	(29.7)
(45.2)	Finance lease charges	**(3.9)**	(28.2)
(44.7)	Finance costs of non-equity shares (Note 4)	**(11.1)**	(22.4)
–	Share of associated undertaking's bank loans	**(0.1)**	–
(388.6)		**(148.5)**	(192.9)
	Exceptional items:		
–	Gains relating to repayment of finance leases	**123.3**	–
	Charges relating to early repayment of debt:		
(194.1)	– repayment of finance leases, prepayment and breakage costs	**–**	(187.1)
78.0	– write-off of deferred financing costs, fair value adjustments and other accounting adjustments	**–**	89.3
(116.1)		**123.3**	(97.8)

During the six months ended 30 June 2006, the group recognised gains on the acquisition of finance leases totalling £123.3 million as detailed in Note 11(2). These gains have been taken to the profit and loss account as an exceptional item. As a result of the property interests acquired the group has recognised a deferred tax provision of £110.3 million (Note 13).

During the year ended 31 December 2005 Canary Wharf Group incurred prepayment and breakage costs totalling £194.1 million (six months ended 30 June 2005 – £187.1 million) in relation to the prepayment and refinancing of certain loans, principally Canary Wharf Group's first securitisation. These costs were charged to the profit and loss account as an exceptional item due to their size.

Notes to the Interim Report for the six months ended 30 June 2006 continued

Financing costs relating to the inception of the group's borrowings are deferred and amortised to the profit and loss account over the term of the debt at a constant rate based on the carrying amount of the debt in accordance with Financial Reporting Standard 4 (Capital Instruments) ('FRS 4'). As a result of prepaying certain of Canary Wharf Group's borrowings, the unamortised portion of the financing costs relating to the debt prepaid was written-off to the profit and loss account. The repayment of debt by Canary Wharf Group in the year ended 31 December 2005 also resulted in the release of certain fair value adjustments together with the related deferred tax provision which was recognised at the time of the acquisition. The net amount written-off totalling £116.1 million has been taken to the profit and loss account and shown as an exceptional item, of which £97.8 million was written-off in the six months ended 30 June 2005.

There was no deferred tax as a result of any of the transactions in the year ended 31 December 2005.

3 TAXATION

Audited Year ended 31 December 2005 £m		**Unaudited Six months ended 30 June 2006 £m**	Unaudited Six months ended 30 June 2005 £m
	Current tax:		
–	UK corporation tax (see below)	**–**	–
	Deferred tax:		
	Origination and reversal of timing differences in		
58.0	the current period	**(110.5)**	21.3
(0.1)	Net effect of discount	**(0.1)**	(0.5)
57.9	Total deferred tax (Note 13)	**(110.6)**	20.8
57.9	Total tax on profit and loss on ordinary activities	**(110.6)**	20.8

The charges and credits for the six months ended 30 June 2006 and the comparative periods relate solely to deferred tax.

In accordance with FRS 19 the group provides for the potential clawback of EZAs claimed in the event of the sale of the property interest to which those claims relate. In connection with certain refinancings during the year ended 31 December 2005, certain property interests were restructured and transferred between companies within the Canary Wharf Group. As a result of this property restructuring the potential for clawback of EZAs was reduced and provisions for deferred tax totalling £158.4 million, net of a discount of £68.7 million, were released to the profit and loss account, of which a total of £86.8 million, net of a discount of £34.8 million, was released in the six months ended 30 June 2005.

As a result of the acquisitions referred to in Note 11(2) Canary Wharf Group has acquired property interests where it is possible that a clawback of EZAs may arise in the event that those property interests are sold. Under FRS 19 a provision is required in respect of this potential liability of £185.4 million, net of a discount of £75.1 million, resulting in a charge to the profit and loss account of £110.3 million. Other movements in deferred tax of £0.3 million resulted in a total charge to the profit and loss account of £110.6 million.

No provision for corporation tax has been made in the consolidated results of the group for the six months ended 30 June 2006, the year ended 31 December 2005 or the six months ended 30 June 2005 due to the availability of tax losses and other reliefs arising in these periods, the availability of tax losses brought forward from previous periods and the availability of other tax reliefs. It is anticipated that remaining capital losses and other tax reliefs, including EZAs, will reduce future tax charges.

4 FINANCE COSTS OF SHARES

As a result of the redemption rights attaching to the SG Shares, and in accordance with FRS 25, the profit and loss account includes an appropriation of profit shown as interest payable in respect of the SG Shares accumulated at 8% per annum. On 25 November 2005 a dividend of 16.61p per SG Share, totalling £30.3 million, was paid to the SG shareholders which was accounted for as £23.2 million of interest payable with the remaining £7.1 million serving to reduce the liability recorded in respect of the SG Shares. On 19 April 2006, a dividend of 18.00p per SG Share, totalling £32.9 million, was paid to the SG shareholders which has been accounted for as £5.6 million of interest payable with the remaining £27.3 million serving to reduce the liability recorded in respect of the SG Shares.

On 28 April 2006 5,813,470 SG Shares were converted into B Shares. As a result of this conversion, £1.1 million of dividends paid to SG shareholders which was previously classified as a reduction in the liability recorded in respect of this class of shares was reclassified as an appropriation of profit (Note 15).

At 30 June 2006, £2.3 million was accrued in respect of interest accumulated on the SG Shares (31 December 2005 – £1.4 million, 30 June 2005 – £7.5 million).

In accordance with FRS 25, the terms of the dividends payable on the D Share require the classification of this share within creditors falling due in more than one year and the recognition of dividends as interest payable. This resulted in an accrual in respect of D Share dividends of £33.3 million at 30 June 2006 (31 December 2005 – £28.7 million, 30 June 2005 – £14.9 million).

No such appropriation of profit is required to be recognised in respect of the other classes of shares under FRS 4 or FRS 25. Net of the dividends paid (Note 5), the appropriation of profit accruing for the six months ended 30 June 2006, but not recognised in this Interim Report, was £3.3 million on the A Shares (year ended 31 December 2005 – £2.0 million, six months ended 30 June 2005 – £10.8 million) and £2.0 million on the B Shares (year ended 31 December 2005 – £1.3 million, six months ended 30 June 2005 – £7.1 million).

Notes to the Interim Report for the six months ended 30 June 2006 continued

5 DIVIDENDS

Audited Year ended 31 December 2005 £m		**Unaudited Six months ended 30 June 2006 £m**	Unaudited Six months ended 30 June 2005 £m
72.0	Dividends paid at 16.61p per ordinary share	**–**	–
–	Dividends paid at 18.00p per ordinary share	**78.0**	–
72.0		**78.0**	–
	The amount recognised as dividend paid comprised:		
43.3	Payment on A Shares	**47.0**	–
28.7	Payment on B Shares	**31.0**	–
72.0		**78.0**	–

On 25 November 2005 the company paid an interim dividend of 16.61p per share totalling £102.3 million, of which £30.3 million was paid to the SG shareholders.

On 19 April 2006 the company paid an interim dividend of 18.00p per share totalling £110.9 million, of which £32.9 million was paid to the SG shareholders.

The payments to the SG shareholders were accounted for as described in Note 4.

6 LOSS PER SHARE

The basic and diluted loss per share is calculated by reference to the loss attributable to members of the company and transferred from reserves for the six months ended 30 June 2006 of £16.2 million (year ended 31 December 2005 – £16.2 million, six months ended 30 June 2005 – £67.4 million), and on the weighted average of 433.0 million (31 December 2005 – 430.7 million, 30 June 2005 – 431.0 million) ordinary shares in issue excluding the SG Shares and the D Share and the shares owned by the Trust in respect of the Canary Wharf 2004 Deferred Share Plan.

There were no dilutive instruments at 30 June 2006, 31 December 2005 or 30 June 2005.

7 INVESTMENT PROPERTIES, PROPERTIES HELD FOR DEVELOPMENT AND PROPERTY UNDER CONSTRUCTION

Freehold properties held as tangible fixed assets

	Investment properties £m	Properties held for development £m	Property under construction £m
At 1 January 2006 pre-adjustment for UITF 28	5,301.5	259.1	
Adjustment for UITF 28	(96.8)	–	
As at 1 January 2006	5,204.7	259.1	
Additions (net of adjustment for UITF 28)	2.7	22.7	
Transferred to property under construction	–	(17.9)	
Revaluation	438.1	–	
As at 30 June 2006	**5,645.5**	**263.9**	
Adjustment for UITF 28 (Note 10)	97.7		
Market value at 30 June 2006	**5,743.2**		
Of which, subject to lease and finance leaseback arrangements	90.7		
Historical cost	4,212.8		
Freehold property under construction			
Transferred from properties held for development			17.9
Additions			6.3
Transferred to cost of sales			(8.9)
Transferred to payments on account			(15.3)
As at 30 June 2006			**–**

Additions to properties for the six months ended 30 June 2006 totalled £33.5 million. In the above table additions are stated net of £1.8 million of tenant works which have been classified as other tenant incentives for the purposes of UITF 28 and included as part of debtors falling due after one year (Note 10).

Investment properties are recorded at valuation less the cost of unamortised tenant incentives incurred at the balance sheet date in accordance with UITF 28. The remaining unamortised tenant incentives are held within debtors falling due in more than one year (Note 10).

Notes to the Interim Report for the six months ended 30 June 2006 continued

Canary Wharf Group's investment properties have been revalued externally as at 30 June 2006 on the basis of market value. The valuation of office investment properties was undertaken by either CBRE or Savills. The valuation of retail investment properties was undertaken by CWHB. Each property has been valued individually on a free and clear basis and not as part of a portfolio and no account has been taken of any intragroup leases or arrangements. Whilst allowance has been made for any purchaser's expenses, no allowance has been made for any seller's expenses of realisation nor for any taxation which might arise in the event of disposal. The surplus arising on the valuations at 30 June 2006 of £438.1 million has been transferred to the revaluation reserve. Of the total revaluation surplus of £438.1 million, £171.8 million is attributable to the minority interest, and £266.3 million to the members of the company.

Properties held for development at 30 June 2006, which are to be retained as investment properties, are carried at their fair value at the time of the acquisition of Canary Wharf Group in May 2004 less subsequent disposals, plus additions at cost, subject to any provision for impairment.

Canary Wharf Group has entered into an agreement for the sale of 20 Churchill Place upon completion for a consideration of £199.5 million (see 'Business Review – Property Portfolio'). As a result, the historical cost to the group of this site of £17.9 million has been transferred from properties held for development to freehold property under construction held as a current asset and, at 30 June 2006, is carried net of £8.9 million taken to cost of sales in accordance with SSAP 9 as Canary Wharf Group fulfils its obligations under the sale agreement. The remaining balance of £15.3 million after additions in the period of £6.3 million has been offset against payments on account in creditors falling due within one year (Note 12).

In April 2005 Canary Wharf Group acquired the long leasehold interests in Aldersgate Street. The valuation at the date of acquisition on this basis, ignoring intragroup leases, was £97.0 million. On 2 December 2005, Canary Wharf Group disposed of its long leasehold interests in Aldersgate Street for a total consideration of £110.0 million and recognised a profit of £12.1 million after expenses attributable to the sale, which was taken to the profit and loss account and shown as an exceptional item. There was no deferred tax charge as a result of this transaction.

8 INVESTMENTS

Audited 31 December 2005 £m		**Unaudited 30 June 2006 £m**	Unaudited 30 June 2005 £m
2.5	Associated undertaking	**12.1**	1.7
0.3	Other investments	**0.3**	0.3
2.8		**12.4**	2.0

In April 2005, BWB appointed Canary Wharf Group, together with Ballymore, as its partner for the development of Wood Wharf, a site adjacent to the Estate. The Wood Wharf Limited Partnership ('WWLP') has been established to oversee the development of an approximately 6.5 million sq ft (gross) mixed use scheme in which Canary Wharf Group has a 25.0% effective interest. Canary Wharf Group has subscribed £1,000 of equity share capital in the partners of WWLP and has, in addition, provided interest free long-term loans to fund the working capital requirements of the partnership, which are repayable out of development profits.

The funding of WWLP has been accounted for as an investment in an associated undertaking and comprises an initial entry premium plus expenses of £2.2 million together with the group's share of the net assets of WWLP. The results of WWLP attributable to the group have been derived from WWLP's management accounts for the six months ended 30 June 2006. The group's share of the results and net assets of WWLP is as follows:

	Six months ended 30 June 2006 £m
Loss before interest and tax	(0.2)
Interest receivable	0.2
Interest payable	(0.5)
Loss after tax	(0.5)
Group share (25%)	(0.1)

	30 June 2006 £m
Net assets excluding loans from investors	40.1
Group share (25%)	10.0

Notes to the Interim Report for the six months ended 30 June 2006 continued

9 GOODWILL

On 8 March 2005 outstanding warrants over 42,273,251 ordinary shares in Canary Wharf Group were exercised at a subscription price of £2.86 per share resulting in the combined interest of the company and SAL reducing to 61.85%. On 29 November 2005 further outstanding warrants at a subscription price of £1.86 per share were exercised over 11,734,369 ordinary shares in Canary Wharf Group further reducing the combined interest of the company and SAL to 60.80%. The exercise of warrants was accounted for as a deemed disposal by the company and SAL of part of their combined interest in Canary Wharf Group, as a result of which their share of the net assets of Canary Wharf Group reduced by £27.7 million of which £15.7 million related to the six months ended 30 June 2005. This was taken to the profit and loss account and shown as an exceptional item in the periods concerned.

10 DEBTORS DUE IN MORE THAN ONE YEAR

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

	Rent-free periods £m	Other tenant incentives £m	Total £m
1 January 2006	47.6	49.2	96.8
Transfer from properties held as fixed assets (Note 7)	–	1.8	1.8
Recognition of rent during rent-free periods	7.2	–	7.2
Amortisation of lease incentives	(1.4)	(6.7)	(8.1)
30 June 2006	**53.4**	**44.3**	**97.7**

11 NET DEBT

The amounts at which borrowings are stated including share capital reclassified in accordance with FRS 25 comprise:

	Securitised debt £m	SAL loans £m	Secured loans £m	Finance lease obligations £m	Total borrowings £m	Non-equity share capital £m	**Total £m**
1 January 2006	2,582.9	542.4	1,201.1	1,002.0	5,328.4	204.7	**5,533.1**
Drawndown in period	–	165.7	302.3	–	468.0	–	**468.0**
Deferred financing expenses	(1.5)	3.4	(1.2)	(3.2)	(2.5)	–	**(2.5)**
Accrued finance charges	(2.6)	(1.0)	1.0	3.1	0.5	5.5	**6.0**
Reclassify to equity	–	–	–	–	–	(4.7)	**(4.7)**
Repaid in period	(5.4)	(171.3)	(207.0)	(836.6)	(1,220.3)	(27.3)	**(1,247.6)**
Exceptional gain on acquisition of finance leases	–	–	–	(123.3)	(123.3)	–	**(123.3)**
30 June 2006	**2,573.4**	**539.2**	**1,296.2**	**42.0**	**4,450.8**	**178.2**	**4,629.0**
Payable within one year or on demand	20.3	–	22.5	–	42.8	35.6	78.4
Payable in more than one year	2,553.1	539.2	1,273.7	42.0	4,408.0	142.6	4,550.6
	2,573.4	**539.2**	**1,296.2**	**42.0**	**4,450.8**	**178.2**	**4,629.0**

(1) In November 2005 SAL entered into a new loan facility of which £544.5 million had been drawndown at 31 December 2005. The amount of the facility drawn at 30 June 2006 was £538.9 million and a further £25.1 million was available to be drawn at that date. The loan is repayable in full in November 2007 although repayment of £520.9 million of the amount drawn at 30 June 2006 may be extended by six months at the option of SAL. Interest is payable at 3 month LIBOR plus 1.771%. The weighted average interest rate on the outstanding facilities was 6.5% as at 30 June 2006. These facilities are guaranteed by the company and by charges over the assets of the company and SAL.

Subsequent to the period end, from 18 August 2006, SAL entered into a hedging arrangement using an interest rate collar under which the LIBOR element of the interest rate payable will be capped at 5.75% with a floor of 4.63%.

Notes to the Interim Report for the six months ended 30 June 2006 continued

(2) On 1 February 2006, Canary Wharf Group concluded the acquisition from Barclays of CWCB Finance Leasing (DS7B) Limited (formerly Barclays Capital Leasing (No 165) Limited) ('BCL (165)') and Canary Wharf Finance Leasing (BP1/DS6) Limited (formerly Barclays Capital Leasing (No 166) Limited) ('BCL (166)') for a consideration of £0.1 million in excess of net assets acquired. In September 1997 BCL (165) entered into an agreement for lease in respect of certain floors in One Canada Square which were immediately leased back to Canary Wharf Group from the date of acquisition on finance lease terms. As a result of the acquisition of BCL (165), cash deposits totalling £112.0 million held by Canary Wharf Group as security for the finance lease were released from charge. BCL (165) has been consolidated in the accounts of Canary Wharf Group from the date of acquisition, the effect of which was that finance lease receivables and payables totalling £111.9 million were offset.

In March 1998 BCL (166) entered into an agreement for lease in respect of certain floors in 33 Canada Square and in September 2003 it entered into an agreement for lease of One Churchill Place. In each case the respective property was subject to an agreement to lease back to Canary Wharf Group from the date of acquisition on finance lease terms. As a result of the acquisition of BCL (166), cash deposits totalling £724.6 million held by Canary Wharf Group as security for the finance leases were released from charge. BCL (166) has been consolidated in the accounts of Canary Wharf Group from the date of acquisition, the effect of which was that finance lease receivables totalling £728.0 million were offset against finance lease payables totalling £852.2 million resulting in a gain of £123.3 million after fees which has been recorded as an exceptional item.

The consideration payable on acquisition of the two companies has been treated as a charge required to restructure the finance leases and shown as a component within interest payable in the six months ended 30 June 2006.

As a result of these acquisitions a deferred tax provision of £110.3 million has been recognised (Note 3).

(3) During the six months ended 30 June 2005 Canary Wharf Group drewdown £369.4 million under a new bank loan facility to fund the refinancing of three finance leases which had been secured against 10 Cabot Square and 20 Cabot Square. The loan carries interest at a rate of 5.82% and is repayable in 2008. The loan is secured against Canary Wharf Group's property interests in 10 Cabot Square and 20 Cabot Square.

(4) In May 2005, Canary Wharf Group completed a refinancing of its securitised properties which involved the repayment of all debt outstanding under its first securitisation, the repayment of a bank loan facility of £85.0 million and repayment of £135.0 million of notes from its second securitisation. These repayments were funded by a bank loan facility of £750.0 million and a tap issue of £360.0 million of floating rate notes on Canary Wharf Group's second securitisation.

The £750.0 million facility was drawn in full and carried interest at an initial rate of LIBOR plus 1%. During the course of 2005 £546.4 million of this facility was repaid primarily as a result of the disposal of four properties. Following these loan repayments, the margin on the loan reduced to LIBOR plus 85 bps by March 2006 when the remainder of the loan was refinanced with a new £300.0 million facility secured against Canary Wharf Group's principal retail properties. The retail loan facility carries interest at LIBOR plus a variable margin rate, subject to, inter alia, prevailing loan to value and interest cover ratio tests. At 30 June 2006 the margin was set at 70 bps. The loan is repayable in March 2011.

(5) In accordance with Financial Reporting Standard 7 (Fair values in acquisition accounting), a fair value adjustment was made to the carrying value of Canary Wharf Group's debt on the acquisition of Canary Wharf Group by the company and SAL in May 2004 which gave rise to an increased liability of £207.5 million. This amount is amortised to the profit and loss account over the life of the relevant debt instrument. As a result of the restructuring of Canary Wharf Group's financing referred to in Note 11(4), £94.9 million of the fair value adjustment was released in the year ended 31 December 2005. At 30 June 2006 £94.6 million remained unamortised (31 December 2005 – £97.3 million). The fair value adjustment initially gave rise to a deferred tax asset of £55.9 million of which £28.4 million remained unamortised at 30 June 2006 (31 December 2005 – £29.2 million, 30 June 2005 – £30.0 million).

(6) At 30 June 2006 the group held sterling cash deposits totalling £1,128.7 million (31 December 2005 – £1,829.9 million) comprising deposits placed on money market at call and term rates. Total cash deposits included £310.2 million (31 December 2005 – £985.6 million) held by third parties as cash collateral for the group's borrowings and £6.4 million (31 December 2005 – £2.3 million) charged to third parties as security for the group's obligations. Unsecured cash deposits totalled £812.1 million at 30 June 2006 (31 December 2005 – £842.0 million).

(7) The movement in net debt for the six months ended 30 June 2006 was as follows:

	1 January 2006 £m	Cash flow £m	Other non-cash changes £m	**30 June 2006 £m**
Cash at bank	1,829.9	(701.2)	–	**1,128.7**
Amounts on deposit not available on demand	(987.9)	671.3	–	**(316.6)**
	842.0	(29.9)	–	**812.1**
Debt due after 1 year	(4,285.8)	(90.8)	10.6	**(4,366.0)**
Debt due within 1 year	(40.6)	40.6	(42.8)	**(42.8)**
Finance leases due after 1 year	(1,002.0)	836.9	123.1	**(42.0)**
	(5,328.4)	786.7	90.9	**(4,450.8)**
Non-equity share capital	(174.6)	27.3	4.7	**(142.6)**
Financing costs of non-equity shares	(30.1)	5.6	(11.1)	**(35.6)**
	(5,533.1)	819.6	84.5	**(4,629.0)**
Amounts on deposit not available on demand	987.9	(671.3)	–	**316.6**
Net debt	(3,703.2)	118.4	84.5	**(3,500.3)**

Notes to the Interim Report for the six months ended 30 June 2006 continued

	Six months ended 30 June 2006 £m
Decrease in cash	**(701.2)**
Decrease in debt and lease financing	**819.6**
Change in net debt resulting from cash flows	**118.4**
Non-cash movement in net debt	**84.5**
Movement in net debt	**202.9**
Net debt at 1 January 2006	**(3,703.2)**
Net debt at 30 June 2006	**(3,500.3)**

(8) At 30 June 2006 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 Financial Reporting Standard 13 (Derivatives and other financial instruments) was £156.5 million before tax relief (31 December 2005 – £365.3 million).

12 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

Creditors falling due within one year comprise:

Audited 31 December 2005 £m		**Unaudited 30 June 2006 £m**	Unaudited 30 June 2005 £m
40.6	Borrowings (Note 11)	**42.8**	643.7
18.3	Trade creditors	**7.8**	26.3
4.5	Taxation and social security costs	**1.2**	2.7
15.9	Other creditors	**24.2**	8.3
92.8	Accruals	**110.1**	99.6
43.3	Deferred income	**55.4**	36.3
–	Payments on account	**152.9**	–
30.1	Financing costs of non-equity share capital (Note 11)	**35.6**	31.0
245.5		**430.0**	847.9

Payments on account comprise the amount received from Prudential for the pre-sale of 20 Churchill Place and is analysed in the table below:

	Six months ended 30 June 2006 £m
Amounts received from Prudential	174.6
Recorded as turnover	(8.9)
Applied as an offset against long-term contract balances	(15.3)
Deferred interest	2.5
	152.9

13 PROVISIONS FOR LIABILITIES

	Vacant leasehold properties £m	Other lease commitments £m	Deferred taxation £m	Total £m
1 January 2006	21.9	34.5	–	56.4
Utilisation of provision	(3.5)	(3.9)	–	(7.4)
Unwind of discount	0.7	1.1	–	1.8
Release of provision	(2.9)	(1.3)	–	(4.2)
Transferred from debtors	–	–	(29.0)	(29.0)
Charge to profit and loss account	–	–	110.6	110.6
30 June 2006	**16.2**	**30.4**	**81.6**	**128.2**

Vacant leasehold properties:
On 9 February 2004 Canary Wharf Group announced that it had signed agreements for lease relating to the pre-let to Reuters of approximately 283,000 sq ft of space in the building at 30 South Colonnade. As part of this transaction Canary Wharf Group agreed to take over three of Reuters' leasehold properties from commencement of the lease on 30 South Colonnade in May 2005. In September 2005 Canary Wharf Group paid a £3.1 million surrender premium in respect of one of these properties. The terms of the remaining two leases to expiration or first break are between two and three years.

In January 2006 £24.0 million was placed in cash collateral to fund these liabilities as a result of the sale of 30 South Colonnade. At 30 June 2006, £20.8 million remained in cash collateral after drawings to fund costs incurred on the properties.

At 30 June 2006 the provision for the estimated net liability of the remaining two properties, discounted at 6.1%, being the group's weighted average cost of debt at that date, was stated at £16.2 million (31 December 2005 – £21.9 million).

Notes to the Interim Report for the six months ended 30 June 2006 continued

Other lease commitments:
In March 2001 Lehman Brothers signed an agreement for lease in respect of 25-30 Bank Street, comprising 1,023,300 sq ft. The incentive package agreed with Lehman Brothers in connection with this lease included the following elements:

(1) a contribution of £30.00 per sq ft towards the cost of refitting the 408,728 sq ft occupied by Lehman Brothers at Broadgate, capped at £12.0 million. This has been accrued for at 30 June 2006.

(2) a rent support commitment with Lehman Brothers under which Canary Wharf Group may contribute a maximum of £10.00 per sq ft per annum towards the difference between the passing rent payable by Lehman Brothers on its leases at Broadgate and the rent achievable on any sub-lease. For 1 and 2 Broadgate, comprising 311,077 sq ft and where the leases expire in January 2017 and the passing rent is £46.86 per sq ft, rent support is only payable for the life of the first sub-lease; for the remaining space in 6 Broadgate, comprising 97,651 sq ft where the leases expire in September 2013, rent support of up to £5.00 per sq ft is payable by Canary Wharf Group on any second sub-letting, but no further amount is payable thereafter. The passing rent on the space in 6 Broadgate, varies between £44.00 per sq ft and £52.00 per sq ft but, on the majority of space, it is in the range of £44.00–£45.00 per sq ft. The terms of the Lehman Brothers' leases prevent it from sub-letting space below market levels and no amount is payable by Canary Wharf Group on space which Lehman Brothers does not sub-let.

Lehman Brothers sub-let 100,303 sq ft in 1 and 2 Broadgate at a rent higher than the passing rent and therefore it has not been necessary to make any contribution as a result of this sub-lease. In addition, Lehman Brothers have sub-let a further 108,628 sq ft in 1 and 2 Broadgate at rents of £34.00 to £37.50 per sq ft. Accordingly, the maximum amount payable in respect of the remaining space leased by Lehman Brothers at Broadgate has reduced to £27.6 million (nominal) with a present value of £21.3 million calculated on the basis of a discount rate of 6.1% (31 December 2005 – nominal £28.6 million, present value £22.1 million on the basis of a discount rate of 5.6%). This amount has been provided for in full and will be subject to review at each subsequent balance sheet date. The net release of provision of £1.3 million has been taken to cost of sales.

In connection with the sale of certain properties during the year ended 31 December 2005, Canary Wharf Group agreed to provide rental support in respect of either the unexpired rent-free periods or, where there is a fixed uplift in rent, until the next rent review date. Canary Wharf Group recognised a provision in respect of these commitments and at 30 June 2006 the remaining provision was £9.1 million calculated on the basis of a discount rate of 6.1%.

Deferred taxation:

	Unaudited 30 June 2006 £m	Audited 31 December 2005 £m
Accelerated capital allowances claimed	**(186.8)**	(0.9)
Other timing differences	**28.7**	29.6
Undiscounted deferred tax liability	**(158.1)**	28.7
Discount	**76.5**	0.3
Discounted deferred tax liability	**(81.6)**	29.0

	Six months ended 30 June 2006 £m	Year ended 31 December 2005 £m
At start of period	**–**	(28.9)
Transferred from/(to) debtors	**29.0**	(29.0)
Released to the profit and loss account	**(110.6)**	57.9
At end of period	**(81.6)**	–

In accordance with FRS 19, no provision has been made for deferred tax on gains relating to properties which are revalued in the balance sheet to their market values. If the group's investment properties had been sold at the balance sheet date at the amounts stated in Note 7, the amount of tax payable by the group would have been £nil (31 December 2005 – £nil) after taking into account available tax losses and provisions. Corporation tax on chargeable gains in relation to the sale of completed properties held by group investment companies of £181.1 million (31 December 2005 – £133.7 million) has been reduced to £nil at both 30 June 2006 and 31 December 2005 by EZA balancing allowances. There is no corporation tax on development surpluses in relation to completed properties that are held by the group's property development companies (31 December 2005 – £nil). Capital losses have reduced tax on chargeable gains by £36.1 million (31 December 2005 – £128.9 million).

The group has received legal advice and is of the opinion that the capital losses brought forward are available to set-off against capital gains arising. In line with FRS 19, the benefit of the losses has not been recognised in the deferred tax provided in the balance sheet.

As a result of the acquisitions referred to in Note 11(2), a deferred tax liability of £185.4 million, stated net of a discount of £75.1 million, has been made in respect of EZA claims made by these companies in prior years.

Notes to the Interim Report for the six months ended 30 June 2006 continued

14 SHARE CAPITAL

Issued, allotted and fully paid share capital comprised the following:

	Unaudited 30 June 2006 £000s	Audited 31 December 2005 £000s
Equity Shares:		
A Shares	**26,085**	26,085
B Shares	**17,852**	17,270
	43,937	43,355
Non-equity Shares:		
D Share	**–**	–
SG Shares	**17,675**	18,257
	61,612	61,612

On 28 April 2006, 5,813,470 SG Shares were converted into B Shares. At that date the SG Shares had a carrying value of £0.81 representing the initial proceeds of £1 per share, less issue fees, and a total of £34.4 million of principal repayments representing the amount paid to the SG Shareholders in excess of an 8% preference dividend in accordance with the rights attaching to this class of share (see Note 4). Following conversion the shares are carried at initial proceeds less issue fees.

15 RESERVES

	Share premium account £m	Revaluation reserve £m	Profit loss & account £m	Own shares £m	Total £m	Minority interest £m
1 January 2006	375.5	604.5	(130.3)	(1.0)	848.7	916.0
Revaluation of investment properties	–	438.1	–	–	438.1	–
Transfer from creditors due in more than one year	5.2	–	(1.1)	–	4.1	–
Reserve movement in respect of share option schemes	–	–	–	0.4	0.4	–
Transfer to minority interest	–	(171.8)	(10.2)	–	(182.0)	182.0
Loss for the financial period	–	–	(6.0)	–	(6.0)	–
Dividend	–	–	(78.0)	–	(78.0)	–
30 June 2006	**380.7**	**870.8**	**(225.6)**	**(0.6)**	**1,025.3**	**1,098.0**

The transfer from creditors due in more than one year relates to the conversion of SG Shares to B Shares in the period (Note 14). In respect of the shares converted the accounting treatment requiring the SG Shares to be treated as debt was reversed and the new B Shares are shown at their initial proceeds of £5.8 million of which £0.6 million is share capital and £5.2 million is share premium. The dividend paid to SG shareholders in excess of the preference dividend was treated as a repayment of debt. On conversion to B Shares the £1.1 million classified as a repayment of debt in respect of the converted shares has been reclassified as an appropriation of profit and accordingly a transfer has been reflected in reserves.

Notes to the Interim Report for the six months ended 30 June 2006 continued

16 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	£m
Shareholders' funds at 1 January 2006	892.0
Conversion of SG Shares to B Shares	4.7
Revaluation surplus	266.3
Movement in respect of share option schemes	0.4
Loss for the financial period	(16.2)
Dividend (Note 5)	(78.0)
Net movement in shareholders' funds	177.2
Shareholders' funds at 30 June 2006	**1,069.2**

17 CONTINGENT LIABILITIES AND FINANCIAL COMMITMENTS

Sub-let commitments

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

At 30 June 2006 the net present value of the remaining sub-let commitments, discounted at 6.0%, being Canary Wharf Group's weighted average cost of debt, was £95.0 million. The existence of the sub-let commitments has been taken into account in the market valuation of the group's properties at 30 June 2006.

18 POST BALANCE SHEET EVENTS

Subsequent to the period end Canary Wharf Group completed approximately 390,000 sq ft of lettings including a pre-let to Bear Stearns of 206,000 sq ft in a new 300,000 sq ft building to be constructed at 5 Churchill Place.

Independent Review Report
to Songbird Estates plc

Introduction
We have been instructed by the company to review the financial information for the six months ended 30 June 2006 which comprises the consolidated profit and loss account, the consolidated statement of total recognised gains and losses, the note of historical cost profits and losses, the consolidated balance sheet, the consolidated cash flow statement and related notes 1 to 18. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the company in accordance with Bulletin 1999/4 issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the company those matters we are required to state to them in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities
The Interim Report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are also responsible for ensuring that the accounting polices and presentation applied to the interim figures are consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review work performed
We conducted our review in accordance with the guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with International Standards on Auditing (UK and Ireland) and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

Review conclusion
On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2006.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants
London

28 September 2006

Members' Information

DIRECTORS

Non-Executive Directors
David Pritchard *+#
Brian Carr
Eugene Doyle
Robert Gray *+ #
Gabriela Gryger
Philip Lader
Shmuel (Sam) Levinson
Gavin MacDonald *
Alexander (Alex) Midgen *+#
Richard Powers #

** Audit Committee*

+ Announcements Committee

 # Executive Committee

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

Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU
Telephone: 0870 162 3100
Facsimile: 020 8639 2342
E-mail: ssd@capitaregistrars.com
Website: www.capitaregistrars.com

Other Enquiries
If you would like more information about Songbird Estates plc please contact John Garwood, Company Secretary.

Registered Office and Registered Number
One Canada Square, Canary Wharf, London E14 5AB
Telephone: 020 7477 1000
Facsimile: 020 7477 1001
Registered Number: 5043352
Website: www.songbirdestates.com

ADVISERS

Auditors
Deloitte & Touche LLP
Hill House
1 Little New Street
London EC4A 3TR

Bankers
The Royal Bank of Scotland Plc
London Corporate SC
PO Box 39952
21/2 Devonshire Square
London EC2M 4XJ

Broker
Hoare Govett Limited
250 Bishopsgate
London EC2M 4AA

Nominated Adviser
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8 Salisbury Square
London EC4Y 8BB

Solicitors
Weil, Gotshal & Manges
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