SONGBIRD ESTATES PLC

29 SEPTEMBER 2005

ANNOUNCEMENT OF RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2005

The board of Songbird Estates plc is pleased to announce results for the six months ended 30 June 2005.

The information in this announcement, which was approved by the board of directors on 28 September 2005, does not comprise statutory accounts within the meaning of the Companies Act 1985.

HIGHLIGHTS AND RESULTS IN BRIEF

Highlights

- Adjusted net asset value per share attributable to members of the company increased from £1.04 to £1.56 and adjusted triple net asset value ('NNNAV') per share attributable to members of the company increased from £1.09 to £1.45 (Note (i)).
- The market value of the property portfolio at 30 June 2005 was £5,792.6 million against £5,579.2 million at 31 December 2004, an increase of 11.9% disregarding additions and disposals in the period (Note (ii)).
- Canary Wharf Group plc ('Canary Wharf Group') sold two properties giving rise to an exceptional profit of £55.7 million representing an uplift over market value at 31 December 2004 of 13.8% (Note (iii)). A further property was sold subsequent to the period end (Note (ix)).
- Lettings were achieved totalling in excess of 250,000 sq ft (Note (iv)).
- At 30 June 2005 the Canary Wharf Group investment portfolio totalling 9.2 million sq ft was 88.6% let (31 December 2004 – 9.9 million sq ft of which was 86.5% let). At 30 June 2005 the weighted average unexpired lease term was 20.4 years (31 December 2004 – 21.0 years) (Note (iii)).
- Canary Wharf Group completed a comprehensive refinancing which provides increased flexibility to pursue its strategy of maximising shareholder value by refinancing fixed rate debt with medium term bank debt. Weighted average cost of debt reduced from 6.5% to 6.1%.
- British Waterways selected Canary Wharf Group as its preferred development partner (with Ballymore Properties Limited) for the redevelopment of the Wood Wharf site (Note (iv)).
- Subsequent to the period end, an interim dividend was declared by Canary Wharf Group of 65p per ordinary share of which £252.2 million was attributable to the company (Note (ix)).

Results in Brief

	Six months ended 30 June 2005 £m	Restated (viii) Period ended 31 December 2004 £m
Rental income (Note (v))	**135.9**	168.1
Operating profit	**116.5**	106.7
Exceptional items:		
- profit on sale of properties (Note (iii))	**55.7**	-
- deemed loss on part disposal of investment (Note (iii))	**(15.7)**	-
- charges relating to repayment of debt (Note (iii))	**(97.8)**	-
Loss on ordinary activities before taxation	**(89.7)**	(62.4)
Loss on ordinary activities before taxation excluding exceptional items (Note (iii))	**(31.9)**	(62.4)
Taxation - deferred tax (Note (vi))	**20.8**	(8.6)
Loss on ordinary activities after taxation	**(68.9)**	(71.0)
Minority interest	**1.5**	8.5
Loss on ordinary activities attributable to members of the company	**(67.4)**	(62.5)
Loss per share (Note (vii))	**(15.6)p**	(14.6)p

Notes:

(i) Refer to "Business Review - Balance Sheet" of the accompanying financial information for details.
(ii) Refer to "Business Review - Valuations" of the accompanying financial information for details.
(iii) Refer to Note 7 of the notes to these financial statements for details of the profit on sale of properties, Note 8 for details of the deemed loss on part disposal of investment and Note 3 for details of the charges relating to repayment of debt.
(iv) Refer to "Business Review – Property Portfolio" of the accompanying financial information for details.
(v) Refer to "Business Review - Operating Results" of the accompanying financial information for details.
(vi) Refer to Note 4 of the notes to these financial statements.
(vii) Refer to Note 6 of the notes to these financial statements.
(viii) Restated as set out in Note 1 of the notes to these financial statements.
(ix) Refer to Note 16 of the notes to these financial statements.

Change of Directors

Pursuant to Rule 17 of the AIM Rules, the company announces that, in accordance with the articles of association, The British Land Company PLC ('British Land') has nominated Eugene Doyle, aged 48, as the British Land Director (as defined in the articles of association). In addition, in accordance with article 86 (D) of the articles of association of the company, the Morgan Stanley Real Estate Funds have nominated Bryan Southergill, aged 29, as an additional MS Director (as defined in the articles of association of the company).

Both nominations have been accepted by the board and the appointments of Eugene Doyle and Bryan Southergill as directors of the company have been approved effective 29 September 2005.

Eugene Doyle has been a director of Pillar Property PLC, and various subsidiaries of that group of companies, during the previous five years. Pillar Property PLC has recently been acquired by British Land. Bryan Southergill has been a director of numerous subsidiaries of the Morgan Stanley Real Estate Funds throughout the previous five years. There are no details to be disclosed in respect of Eugene Doyle or Bryan Southergill under paragraphs (iii) to (viii) of Schedule Two (g) of the AIM Rules.

Later today Canary Wharf Group, the main subsidiary of the company, will be releasing its unaudited Interim Results on the Canary Wharf Group website (www.canarywharf.com).

CONTACT

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Company Secretary

Songbird Estates plc
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CHAIRMAN'S STATEMENT

This interim statement covers the six month period to 30 June 2005 and is the first interim statement produced by the company. As you are already aware Derek Bonham resigned as Chairman of the company due to health reasons earlier this month and on behalf of the Board I would like to thank Derek Bonham for his contribution to the company over the last 16 months.

Since the offer for Canary Wharf Group went unconditional last year British Land has had the right to appoint a director to the board of this company. I am pleased to report that British Land has now nominated Eugene Doyle and he will therefore be joining the board with immediate effect. Eugene Doyle is currently a director of Pillar Property PLC. Morgan Stanley has also exercised the right to appoint an additional director to the board. Bryan Southergill, Vice President, Morgan Stanley will therefore also be joining the board with immediate effect. I am sure that their experience will prove invaluable to the company and I look forward to working with them.

I am delighted to have been given the opportunity to chair the company and can report that progress is continuing to be made in our pursuit of the strategic goals underlying our business strategy.

Financial Review

Net assets at 30 June 2005 were £1,642.4 million in comparison with £1,023.7 million at 31 December 2004 (as adjusted for the introduction of Financial Reporting Standard 25 (Financial Instruments: Disclosure and Presentation) ('FRS 25') which requires certain classes of share to be reclassified as liabilities). The increase in net asset value for the six months ending 30 June 2005 was primarily attributable to the surplus on revaluation of the investment portfolio of £343.4 million offset by the loss attributable to members of the company of £67.4 million.

Adjusted net asset value per share, allowing for the revaluation of properties held for development to market value, adding back the provision for deferred taxation and reclassifying all classes of shares as equity, was £1.56 per share at 30 June 2005 in comparison with £1.04 per share at 31 December 2004.

During the period an exceptional profit of £55.7 million was recorded on the sale of two properties, 20 Canada Square and 15 Westferry Circus. This exceptional profit was, however, offset by exceptional charges totalling £97.8 million relating to the early prepayment of debt in connection with a comprehensive refinancing by the Canary Wharf Group. This refinancing has provided Canary Wharf Group with greater flexibility in pursuing selected asset disposals whilst also serving to reduce the Canary Wharf Group's weighted average cost of debt.

A loss of £15.7 million was recorded on the deemed part disposal of the investment in Canary Wharf Group following the exercise of warrants which reduced the investment of the company in Canary Wharf Group from 66.32% to 61.85%. Excluding the exceptional items, the loss after tax attributable to members of the company was £9.6 million in comparison with £62.5 million for the previous period.

Subsequent to the period end, Canary Wharf Group declared an interim dividend of 65 pence per share which was paid to Canary Wharf Group shareholders on 8 September 2005. The dividend accruing to the company was £252.2 million. Following receipt of this dividend £248.0 million of acquisition loans was repaid with the balance being used to pay interest which had accrued on the mezzanine loan facility.

Strategic Goals

Having considered the financial results I thought it would be helpful to summarise our progress during the course of 2005 towards our strategic goals.

Asset Disposals and Management

In March 2005, in line with the strategy of selling assets selectively whilst continuing to retain a core group of assets and maintain the integrity of the Canary Wharf estate (‘the Estate’), Canary Wharf Group announced the sale of 20 Canada Square for a consideration of £337.5 million. A contract has been entered into with the purchaser to retain management of the building within the Canary Wharf Group for a minimum of five years. In May 2005, Canary Wharf Group also completed the sale of 15 Westferry Circus to private investors for a consideration of £134.75 million. Subsequent to the period end, Canary Wharf Group announced completion of the sale of 17 Columbus Courtyard for a consideration of £120.5 million to the same private investors. All three disposals have been concluded at prices in excess of the value at which the properties were held in the books of the company and show that value can be enhanced through disposals. It is, however, also recognised that it is essential to retain control over the Estate to ensure that the value deriving from its unique character is maintained and this remains a key consideration in any asset disposal.

Retail continues to go from strength to strength with highly encouraging rent review settlements being concluded and increasing turnover and footfall figures which appear to buck the trends elsewhere in London and the UK.

In April 2005, Canary Wharf Group acquired the long leasehold interests in 200/202 Aldersgate Street and 20 Little Britain. This acquisition will provide greater flexibility in dealing with these properties.

All of these transactions and developments are clear indications of the continued efforts being made to achieve the goal of enhancing the value of the properties by active management.

Leasing

The increase in leasing activity during the period has been very encouraging with Canary Wharf Group concluding contracts on over 250,000 sq ft of space. The most significant lettings in the period were to BGC International, the Cantor Fitzgerald global voice brokerage spin-off ('BGC'), which has taken 100,215 sq ft in One Churchill Place and a further 19,092 sq ft at 40 Bank Street, and on over 77,905 sq ft of space in 10 Upper Bank Street to FTSE, Total SA (‘Total’) and Infosys Limited (‘Infosys’). Further detail on these transactions, and others completed in the period, can be found in the Business Review.

Construction and New Development

Further progress continues to be made on future development. During the period announcements were made that Canary Wharf Group had been appointed the preferred partner, together with Ballymore Properties Limited, for the 5.0 million sq ft mixed use redevelopment of the Wood Wharf site which is adjacent to the Estate. It was also announced during the period that planning permission had been obtained for a net 1.8 million sq ft development at Riverside South. Subsequent to the year end conditional planning consent was granted for a 2.4 million sq ft development on North Quay. Further details on these transactions can also be found in the Business Review.

Existing permissions and the recently obtained consents together provide approximately 6 million sq ft of development space for the Canary Wharf Group. In line with the underlying strategy of the group, further development will only commence once demand and market conditions permit.

Progress has also been made in developing the construction business outside the Estate. The appointment of Canary Wharf Group to provide management services on certain elements of significant projects such as Millharbour and the Battersea Power Station Project is an encouraging move into a new phase of construction activity.

Financing

The final goal identified in the business strategy of the group was the optimisation of the group’s cash flow and capital structure. The successful completion of the Canary Wharf Group refinancing exercise in May 2005 which involved the redemption of notes issued as part of the Canary Wharf Finance plc securitisation ('CWFI') in full for £687.0 million, the release of certain assets out of the Canary Wharf Finance II plc securitisation ('CWFII') and the moving of One Canada Square into CWF II allows greater flexibility in dealing with the properties originally included in the CWF I securitisation. The early repayment of debt resulted in exceptional repayment and breakage costs of £187.1 million being incurred by the Canary Wharf Group, offset by the release of fair valuation adjustments made on acquisition of £89.3 million.

Conclusion

I am pleased to be able to report that the first six months of 2005 have seen positive progress for the company and for Canary Wharf Group and this has continued in the first few months of the second half of the year. I look forward to working with my colleagues in maintaining this momentum through to the end of the year and beyond.

DAVID PRITCHARD
Chairman

BUSINESS REVIEW

Central London Market Review

Supply and Development
At 30 June 2005 total availability across the Central London office market totalled 24.5 million sq ft, according to Knight Frank, a fall of 6% over the preceding three months. The vacancy rate for Central London at that date stood at 11.2%. Of total availability, 8.0 million sq ft is newly built or refurbished, representing a 9% decrease over the previous three months in response to improved take-up levels.

At the end of the second quarter there was 6.2 million sq ft of office accommodation under construction across Central London, an increase of approximately 15% on the position at the end of the first quarter. Of this total approximately 40% (2.3 million sq ft) is pre-let. This rise in activity is largely due to work beginning at two major City schemes, 51 Lime Street, EC3 and New Street, EC4, both of which have secured significant pre-lets.

Demand and Take-up
During the second quarter, take-up totalled 3.0 million sq ft, up 43% on that recorded during the previous quarter. It also reflects a total broadly in line with the long-term quarterly average and compares with 2.7 million sq ft in the same period last year. All sub-markets – City, West End and Docklands – experienced an increase reflecting improved market confidence. Furthermore, Knight Frank reported an increase in the volume of unsatisfied requirements, notably amongst the financial and professional business sectors.

Rental Profile
According to Knight Frank prime headline rents in the West End currently stand at £75 per sq ft. Continued reduction in available accommodation, allied to a further strengthening of the occupational market, suggest that positive rental growth should feature during the second half of the year. In the City market, prime headline rents remain unchanged at £45 per sq ft. There are, however, signs that tenant incentives are increasingly coming under pressure as availability continues to decline.

Property Portfolio

The principal asset of the company is its direct and indirect investment in the Canary Wharf Group. The activities of the Canary Wharf Group are 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 and Ballymore Properties Limited, land adjacent to the Estate known as Wood Wharf. At 30 June 2005, the investment arm comprised 21 completed properties totalling 9.2 million sq ft of net internal area ('NIA') of which 88.6% 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 completed properties in the ownership of the Canary Wharf Group, includes 9 properties totalling 4.9 million sq ft which are in other ownerships.

On 11 March 2005 the group announced that Canary Wharf Group had completed the sale of 20 Canada Square, a 555,300 sq ft building let to The McGraw-Hill Companies and BP's Integrated Supply and Trading Division ('BP-IST'), for a consideration of £337.5 million. At 31 December 2004 the building was valued at £333.0 million (including tax allowances). Current passing rent at the date of sale was £12.2 million, rising to £20.5 million on the expiry of BP-IST's rent-free period in 2006. In connection with this disposal Canary Wharf Group is providing rental support of up to £1.8 million per annum for a period of three years. At 31 December 2004 the market value of the property for accounts purposes was £290.0 million and the sale generated a profit on disposal of approximately £39.3 million after the write-off of unamortised lease incentives accounted for in accordance with Urgent Issues Task Force Abstract 28 (Lease Incentives) ('UITF 28') and expenses of sale. In conjunction with the disposal Canary Wharf Group repaid a £225.0 million loan secured against the building crystallising net breakage costs of £1.5 million and the write-off of unamortised fair value adjustments of £9.9 million.

On 25 May 2005 Canary Wharf Group completed the sale of 15 Westferry Circus, a 171,300 sq ft building let to Morgan Stanley, for a consideration of £134.75 million. At 31 December 2004 the market value of the building was £115.0 million. Current passing rent at the date of sale was £6.6 million per annum which is contracted to rise to £8.2 million from 31 August 2006 (£48 per sq ft). In connection with the disposal Canary Wharf Group is providing rental support of £1.6 million per annum until 31 August 2006. The sale generated a profit on disposal of approximately £16.4 million after the write-off of unamortised lease incentives accounted for in accordance with UITF 28 and expenses of sale.

In April 2005 Canary Wharf Group acquired the long leasehold interests in 200/202 Aldersgate Street and the adjoining 20 Little Britain (together 'Aldersgate Street'), a 473,000 sq ft development in the City of London, for a consideration of £209.7 million (including fees). Consideration for this acquisition was satisfied in part by the assumption of existing funding of £154.1 million and other net liabilities of £3.0 million with the balance settled in cash. Previously, in 2003, Canary Wharf Group had acquired a short leasehold interest in 200/202 Aldersgate Street in connection with the letting of a property at Canary Wharf to Clifford Chance LLP ('Clifford Chance'). In acquiring the long leasehold interests the objective of the Canary Wharf Group is to provide greater flexibility in managing its disposal of the property. A vacant leasehold provision was recognised in respect of the short leasehold interest and at 31 December 2004 this provision stood at £124.4 million. Following the acquisition of the long leasehold interests in the building the balance on the provision of £117.0 million at 15 April 2005 was released.

At 30 June 2005 the long leasehold interests in Aldersgate Street were carried as a property held for sale at a carrying value of £97.0 million, representing the vacant possession valuation of the building at the date of acquisition. The difference between the acquisition cost of £209.7 million and the vacant possession valuation of £97.0 million has been recognised as a provision for diminution in value, offset by the release of the vacant leasehold provision of £117.0 million. The net release has been taken to the profit and loss account and charged to cost of sales.

In July 2005 Canary Wharf Group announced the letting of a total in excess of 250,000 sq ft to new and existing tenants. BGC exchanged contracts to lease 100,215 sq ft for a 14 year term on levels 18-20 of One Churchill Place. This space forms part of the space sub-let back to the group by Barclays Bank PLC ('Barclays') as referred to in Note 14. BGC has also exchanged contracts to lease 19,092 sq ft in 40 Bank Street.

The Northern Trust Company Limited ('Northern Trust') has agreed to lease a further 35,953 sq ft at 50 Bank Street, in addition to the 151,400 sq ft it already occupied in that building. The lease on the additional space is for a 17 year term expiring in 2022. At 10 Upper Bank Street, FTSE has agreed to take 26,116 sq ft on level 12 and Total is taking 26,182 sq ft on level 13. Infosys has also leased 25,607 sq ft on level 14. This space forms part of the space sub-let back to the group by Clifford Chance as referred to in Note 14. All three of the sub-tenants are taking short-term leases expiring in July 2013 (or July 2008 in the case of Infosys), at which point reversionary leases to Clifford Chance will commence.

The Financial Services Authority ('FSA'), which currently occupies 25 The North Colonnade, has also leased 25,191 sq ft of additional space in 25 Bank Street. On expiry of the lease in 2008 the space will revert to Lehman Brothers, the main occupant of the building.

The properties of the Canary Wharf Group are under lease to high quality tenants which provide a diversified income stream. At 30 June 2005 the weighted average unexpired lease term for the investment property portfolio was 20.4 years (or 17.7 years assuming the exercise of outstanding break options). Of the square footage under lease 70.7% does not expire or cannot be terminated by tenants during the next ten years.

Canary Wharf Group has continued substructure works on the remaining sites at Canary Wharf as a preliminary to development. In connection with this work, buildings DS3 (650,000 sq ft) and BP2 (200,000 sq ft) have been constructed to street level which will reduce the time required to complete development. Infrastructure works have also commenced on sites BP3 and BP4 which have development capacity totalling in excess of 600,000 sq ft.

Uncommitted development sites on the original Estate could accommodate a total of 1.5 million sq ft of new development. In addition, the Canary Wharf Group has development sites at North Quay and Riverside. Application was made to increase the permitted density at Riverside to 1.8 million sq ft and in June 2005 the local planning authority resolved to grant planning consent for the new scheme. Application has also been made to increase the permitted density at North Quay to 2.4 million sq ft and in July 2005 the local planning authority resolved to grant consent for the new scheme subject to certain conditions and agreeing the details of a Section 106 Agreement. There is further development capacity on Heron Quays West. Construction of new buildings on these sites will commence as and when market conditions allow.

The following table summarises the development capacity at each of the above sites:

	NIA (million sq ft)
Based on existing planning permissions:	
Canary Wharf (DS3, BP2, BP3, BP4)	1.5
Riverside South	1.8
North Quay	2.4
	5.7
Subject to planning application:	
Heron Quays West	0.6
	6.3

In January 2005 British Waterways named Canary Wharf Group, together with Ballymore Properties Limited, as joint venture partners for the re-development of the Wood Wharf site which is immediately adjacent to the Estate. The master plan scheme for the development sets a framework for 5.0 million sq ft 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 2005, were £1,642.4 million including the minority interest. In arriving at this total:

(i) properties held as investments were carried at £5,386.2 million, which represents the market value of those properties of £5,477.6 million at that date as determined by the Canary Wharf Group's external valuers, Savills Commercial Limited, Chartered Surveyors, or CB Richard Ellis Limited, Surveyors and Valuers, less an adjustment of £91.4 million for tenant incentives as required by UITF 28; and

(ii) properties held for development were carried at £255.1 million, representing their cost to the group.

As regards properties held for development, the valuers have provided a joint opinion as at 30 June 2005 that the market value was £315.0 million, in comparison with a carrying value for accounts purposes of £255.1 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

£315.0 million represents an increase of 23.4%, excluding additions, from the market value at 31 December 2004 which reflects the benefit of the planning consents agreed on the Riverside South site during the period.

Excluding additions in the six months to 30 June 2005 and allowing for the disposal of 20 Canada Square and 15 Westferry Circus, the valuation of the property portfolio on the basis of market value increased by £614.6 million or 11.9%. The increase primarily reflects a yield shift in the market for properties let on long leases to credit worthy tenants and in part the benefit of new lettings achieved in the period. These factors served to more than outweigh the impact of the removal of stamp duty relief for disadvantaged areas (see "Business Review –Taxation").

As noted in the Property Portfolio section there are a number of properties which are subject to leases back to the Canary Wharf Group. These sub-lets 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:

	At 30 June 2005		At 31 December 2004	
	Carrying value	**Market value in existing state**	Carrying Value	Market value in existing state
		£m	£m	£m
Investment properties	**5,386.2**[(1)]	**5,477.6**[(2)]	5,231.5[(1)]	5,324.2[(2)]
Properties held for development	**255.1**	**315.0**	254.9	255.0
Total	**5,641.3**	**5,792.6**	5,486.4	5,579.2

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 2005 was £91.4 million (31 December 2004 - £92.7 million).

Taxation

The market value, summarised in the table above, ignores any potential value attributable to Enterprise Zone Capital Allowances ('EZAs'). The Canary Wharf Group instructed its valuers to assess the market value of its properties inclusive of EZAs and has been advised that the uplift in the market value of its properties attributable to EZAs is £237.8 million (at 31 December 2004 - £296.4 million). The reduced uplift in value at 30 June 2005 in comparison with that at 31 December 2004 is largely attributable to the sales of 20 Canada Square and 15 Westferry Circus during the period and an internal property restructuring connected to Canary Wharf Group's refinancing in the period.

The uplift in value in comparison with market value represents the valuers' assessment of the additional amount that a third party purchaser would pay for the property recognising that a purchaser would pay more for a building that attracts EZAs compared to a building which does not. In arriving at the market value inclusive of the value of EZAs, the Canary Wharf Group provided the valuers with details of the quantum of EZAs which it expects to be available on all properties that are completed and held on investment account for tax purposes. The Inland Revenue has not yet agreed the quantum of the allowances in all instances as the EZA claims are still in the process of agreement in the ordinary course of dealing with the group's corporation tax affairs.

In the 2003 Budget the Chancellor gave full stamp duty relief on properties in defined 'disadvantaged areas'. This relief covered all of the properties held by the Canary Wharf Group on the Estate, regardless of value, and consequently the allowance for purchaser's costs in the valuations was reduced from 5.75% at 31 December 2002 to 1.75% at 30 June 2003 to take account of this relief. This concession was withdrawn with effect from 16 March 2005 and consequently the allowance for purchaser's costs in the valuations at 30 June 2005 has reverted to 5.75%.

If the Canary Wharf Group was to dispose of its property portfolio at the market value disclosed in this "Business Review", which excludes any value attributable to EZAs, a tax liability of £73.3 million (31 December 2004 - £46.2 million) would arise after taking account of available losses and provisions. This amount includes tax on trading profits and net capital gains that would arise on the sale of properties held for development, including land interests. It does not reflect any amount in relation to capital allowance balancing charges. The maximum reversal of allowances would be £1,478.0 million (31 December 2004 - £1,784.0 million). Deferred tax has been provided in respect of this liability and is a component of the £72.0 million deferred tax provision in respect of accelerated capital allowances shown in Note 11. The potential tax liability comprises corporation tax on chargeable gains of £90.6 million (31 December 2004 - £51.9 million) and revenue losses of £17.3 million (31 December 2004 - £5.7 million). Capital losses have reduced the corporation tax on chargeable gains by £156.2 million (31 December 2004 - £165.4 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. The total potential tax liability of £73.3 million (31 December 2004 - £46.2 million) differs from that in Note 11 because that note relates solely to buildings that are treated as investment properties for consolidated accounts purposes which have been recognised in the balance sheet at their market value.

If the Canary Wharf Group was to dispose of its properties at a value of £237.8 million (31 December 2004 - £296.4 million) above their market value, being the market value inclusive of EZAs disclosed above, the potential tax liability would increase by £20.8 million (31 December 2004 - £20.8 million). The potential uplift in value attributable to EZAs net of the associated tax liability is therefore £217.0 million (31 December 2004 - £275.6 million).

Operating Results

The following review of the group's operating results relates to the six months to 30 June 2005. The comparatives relate to the period from incorporation to 31 December 2004 which reflected the results of Canary Wharf Group from its acquisition on 21 May 2004.

The Canary Wharf Group's turnover is generated primarily by the rents and service charges earned by the Canary Wharf Group from its property interests on the Estate. Turnover for the six months ended 30 June 2005 was £174.1 million (period ended 31 December 2004 - £209.5 million) of which rental income was £135.9 million (period ended 31 December 2004 - £168.1 million), a reduction of 19.2% reflecting in part a shorter accounting period. The impact of UITF 28 was to reduce rental income by £0.4 million in the six months ended 30 June 2005 (period ended 31 December 2004 - increase of £35.5 million). Excluding the impact of UITF 28, rental income increased from £132.6 million to £136.3 million, attributable to the expiry of rent-free or rent-reduced periods, partially offset by the rent foregone on buildings sold and the shorter period under review. Service charge income reduced to £27.3 million for the six months ended 30 June 2005 from £29.9 million for the period ended 31 December 2004 also reflecting the shorter period under review. Miscellaneous income was £10.9 million (period ended 31 December 2004 - £11.5 million), including insurance rents and the provision of tenant specific services outside of the standard service charge.

Cost of sales includes rents payable, property management costs and the net cost to the group of vacant leasehold properties including Aldersgate Street. For the six months ended 30 June 2005 cost of sales totalled £42.0 million compared with £76.2 million for the period ended 31 December 2004. Rents payable and property management costs were £42.7 million for the six months ended 30 June 2005 compared with £49.3 million for the period ended 31 December 2004, the reduction being attributable to the shorter period under review. Following the acquisition of Aldersgate Street and the release of the provision which resulted from that transaction (Note 11), there was a net credit to the group's cost of sales in respect of vacant leasehold properties of £0.7 million compared with a net cost of £26.9 million in the period ended 31 December 2004.

For the six months ended 30 June 2005 net property income was £132.1 million compared with £133.3 million for the period ended 31 December 2004. The reduction in net property income was attributable to the shorter accounting period.

Administrative expenses for the six months ended 30 June 2005 were £16.3 million (period ended 31 December 2004 - £28.0 million) of which £13.6 million (six months ended 31 December 2004 - £24.3 million) related to Canary Wharf Group.

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 has been shown as an exceptional item after operating profit in accordance with Financial Reporting Standard 3 (Reporting Financial Performance).

On 8 March 2005 IPC Advisors Limited exercised a warrant to subscribe for 42,273,251 ordinary shares in Canary Wharf Group generating proceeds of £120.9 million. This resulted in the interest of the company and its subsidiary undertaking, Songbird Acquisition Limited ('SAL') reducing from 66.32% to 61.85% of the ordinary share capital. This has been 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 £15.7 million. The loss on disposal is calculated as the difference between the respective group share of Canary Wharf Group's net assets before and after the deemed disposal, including goodwill. As a result of the exercise of warrants the minority interest in Canary Wharf Group has increased by £130.6 million.

Net interest payable excluding exceptional items for the six months ended 30 June 2005 was £148.4 million (period ended 31 December 2004 as restated - £169.1 million) including the finance cost of non-equity shares of £22.4 million (period ended 31 December 2004 - £8.6 million). In addition, 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").

The loss on ordinary activities after interest for the six months ended 30 June 2005 was £89.7 million (period ended 31 December 2004 as restated - £62.4 million). The result for the six months ended 30 June 2005 included certain exceptional profits and losses as described above. Excluding exceptional items, the loss on ordinary activities after interest for the six months ended 30 June 2005 was £31.9 million (period ended 31 December 2004 as restated - £62.4 million). There were no exceptional items for the period ended 31 December 2004.

Taxation for the six months ended 30 June 2005, which has been calculated by reference to the anticipated effective tax rate for the year to 31 December 2005, is attributable to a reduction of £20.8 million in the deferred tax provision recognised in accordance with FRS 19. In the period to 31 December 2004 the deferred tax provision increased by £8.6 million. The deferred tax provision at 30 June 2005 of £8.1 million primarily relates to EZAs claimed by Canary Wharf Group to shelter taxable profits.

The loss after taxation for the six months ended 30 June 2005 was £68.9 million (period ended 31 December 2004 as restated - £71.0 million) of which £1.5 million is attributable to the minority interest (period ended 31 December 2004 - £8.5 million).

Subsequent to the period end, Canary Wharf Group declared an interim dividend of 65p per ordinary share which was paid on 8 September 2005. The share in this dividend attributable to the company was £252.2 million.

Balance Sheet

Following the introduction of FRS 25, the group has changed the classification of the class D ordinary share ('D Share') and the class SG shares ('SG Shares') of the company. Previously the D Share was classified as an equity share and the SG Shares were recognised as non-equity shares in accordance with Financial Reporting Standard 4 (Capital Instruments) ('FRS 4'). Under FRS 25, both of these classes of shares are now classified as liabilities and are included in creditors payable in more than one year. In addition the dividend payable to the D Shareholder and the preference dividends payable to the SG Shareholders have been classified as creditors payable in less than one year.

On the basis of the group's statutory balance sheet, which does not reflect any revaluation of properties held for development, net assets at 30 June 2005 were £1,642.4 million including the minority interest (31 December 2004 as restated - £1,023.7 million), equivalent to £1.64 per equity share calculated on the basis of the number of shares in issue excluding the SG Shares and the D Share (31 December 2004 as restated – £1.00 per equity share). The increase in net asset value over the six months ended 30 June 2005 was primarily attributable to the surplus on revaluation of the investment properties attributable to members of the company of £343.4 million (79p per equity share) offset by the loss for the period attributable to members of the company of £67.4 million (16p per equity share).

Allowing for the revaluation of properties held for development to market value, adjusting for deferred taxation and re-classifying all classes of shares as equity, the adjusted net asset value per share at 30 June 2005 was as set out in the table below:

	30 June 2005	31 December 2004
	£m	£m
Net assets per statutory balance sheet	**1,642.4**	1,023.7[1]
Add back deferred tax provision	**8.1**	28.9
Net assets prior to deferred tax provision	**1,650.5**	1,052.6
Revaluation of property portfolio:		
- properties held for development[2]	**59.9**	0.1
	1,710.4	1,052.7
Minority interest per statutory balance sheet	**(933.6)**	(592.7)
Minority interest in adjustments above	**(25.9)**	(9.8)
Reclassify D Share and SG Shares as equity[3]	**181.7**	181.7
Add back accrued interest on shares[3]	**31.0**	8.6
Adjusted net assets attributable to members of the company	**963.6**	640.5
Further adjustments:		
Fair value adjustment in respect of financial assets and liabilities net of tax relief thereon[4]	**(212.8)**	(96.0)
Contingent tax on property disposals[5]	**(73.3)**	(46.2)
Uplift in market value attributable to EZAs net of contingent tax thereon	**217.0**	275.6
Undiscounted deferred taxation[6]	**(41.8)**	(86.3)
Minority interest in further adjustments	**42.3**	(15.8)
Adjusted NNNAV	**895.0**	671.8
Adjusted net assets per share[7]	**£1.56**	£1.04
Adjusted NNNAV per share[7]	**£1.45**	£1.09

Notes:
(1) Restated as set out in Note 1.
(2) Stated at market value in existing state.
(3) The reclassifications required by FRS 25 have been reversed in order that net assets per share can be calculated on all shares in issue.
(4) Refer to Note 10 (9).
(5) Refer to "Business Review – Taxation".
(6) Refer to Note 11.
(7) Calculated by reference to the closing number of shares of 616.1 million in issue at 30 June 2005 and 31 December 2004.

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 the 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

During the six months ended 30 June 2005 Canary Wharf Group completed a comprehensive refinancing exercise, the objective of which was to provide increased flexibility in pursuing its strategy.

In March 2005, the Canary Wharf Group repaid a £225.0 million loan secured against 20 Canada Square following the sale of that property. As a result of the repayment, net prepayment and breakage costs of £1.5 million were crystallised and deferred financing costs of £2.0 million were written-off.

In September 2003 the Canary Wharf Group entered into a finance lease transaction in relation to One Churchill Place, a property then under construction. In accordance with the terms of the transaction, following completion of the building in July 2004, the Canary Wharf Group subsequently completed the sale of a leasehold interest (with a term of 999 years less 10 days) in the building to a wholly owned subsidiary of Barclays. The Canary Wharf Group then subsequently accepted a 999 year (less 15 days) lease of the building with finance rents payable over a 35 year period. The gross amount of the financing was £753.5 million, of which £743.5 million was received on 30 September 2003 and £10.0 million was received on completion in August 2004. In January 2005 the Canary Wharf Group drew down £608.8 million from a separate loan facility (Note 10) which was used in part to provide cash collateral of £545.5 million for the finance lease. The finance rents are calculated by reference to a notional rate of LIBID on the notional amount of principal outstanding under the finance lease. At 30 June 2005 the finance lease is stated at £646.5 million (31 December 2004 - £646.5 million) representing the initial net proceeds.

In conjunction with the acquisition of Aldersgate Street in April 2005, the Canary Wharf Group assumed existing loans totalling £154.1 million comprising a senior tranche of £140.7 million, which carries interest at 6.79%, and a mezzanine tranche of £13.4 million, which carried interest at 9.59%. The fair value of these loans was £157.7 million on the date of acquisition. Subsequent to the period end, in September 2005, the mezzanine tranche was repaid. The remaining senior loan is repayable in 2011.

In May 2005 the Canary Wharf Group successfully restructured its securitisation loans. The restructuring involved the redemption of all of the Canary Wharf Group's first securitisation ('CWFI') notes for a consideration of £687.0 million and the restructuring of the Canary Wharf Group's second securitisation ('CWFII') notes to release certain assets and move One Canada Square from CWFI to CWFII. As part of the restructuring certain CWFII notes, totalling £135.0 million, were redeemed or cancelled and a total of £360.0 million of new floating rate notes were issued. At the same time as repaying the CWFI notes, an £85.0 million bank loan facility was also repaid.

Canary Wharf Group has entered into a £750.0 million bridge facility with a term of three years to refinance the assets released from the securitisation restructuring. Interest is payable at 3 month LIBOR plus an initial margin of 100 basis points. The loan contains a ratchet mechanism whereby future interest payable is linked to the prevailing loan to value percentage.

During the six months ended 30 June 2005 Canary Wharf Group repaid three finance leases relating to 20 Cabot Square and 10 Cabot Square, funded from a new credit facility. A total of £369.4 million was drawndown against this new facility. Interest is payable at a rate of 5.82%.

An analysis of net debt including the loans used to fund the acquisition of Canary Wharf Group is given below. The increase in total borrowings from £5,196.7 million at 31 December 2004 to £6,228.4 million at 30 June 2005 reflects the tap issue on the Canary Wharf Group's second securitisation and the drawdown under the new bank facilities partly offset by the repayments of finance leases and the outstanding notes under the Canary Wharf Group's first securitisation. The increase in total borrowings was accompanied by an increase in cash and term deposits from £1,102.6 million to £2,372.7 million, primarily as a result of the proceeds from the sale of 20 Canada Square and 15 Westferry Circus and net cash surplus generated by the increased borrowings described above.

At 30 June 2005, net debt (after cash in hand and cash collateral) stood at £3,855.7 million, down from £4,094.1 million at 31 December 2004 comprising:

	At 30 June 2005	At 31 December 2004
	£m	£m
Securitised debt	**2,662.2**	2,972.5
Acquisition loans	**652.1**	624.4
Other secured loans	**1,907.0**	325.9
Finance lease obligations	**1,007.1**	1,273.9
Total borrowings	**6,228.4**	5,196.7
Less: cash collateral for borrowings	**(1,102.7)**	(458.0)
Less: other cash collateral	**(1.4)**	(1.6)
	5,124.3	4,737.1
Less: cash deposits	**(1,268.6)**	(643.0)
Net debt	**3,855.7**	4,094.1

The refinancings completed by the Canary Wharf Group in the period resulted in initial net proceeds of approximately £360.0 million net of prepayment and breakage costs of £187.1 million and other financing expenses. The prepayment and breakage costs, less the release of fair value adjustments, resulted in an exceptional charge to the profit and loss account of £97.8 million. As well as providing the group with increased flexibility in executing its strategy, the refinancings outlined above have resulted in a fall in the group’s weighted average cost of debt. At 30 June 2005, the group's weighted average cost of debt (including credit wraps) was 6.1% (or 6.0% excluding credit wraps) in comparison with 6.5% (including credit wraps) at 31 December 2004 (or 6.4% excluding credit wraps).

Subsequent to the period end, on 26 September 2005, £248.0 million of the acquisition loans was repaid.

Cash Flow

Net cash inflow from operating activities for the six months ended 30 June 2005 was £119.1 million, in comparison with £123.5 million for the period ended 31 December 2004. The reduction in net cash inflow was due to an increase in operating income being offset by working capital movements.

Capital expenditure and financial investment for the six months ended 30 June 2005 resulted in a cash inflow of £384.5 million compared with an outflow of £101.0 million for the period ended 31 December 2004. 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 the acquisition of Aldersgate Street for a cash consideration of £52.8 million. The outflow of £101.0 million for the period ended 31 December 2004 comprised development expenditure. In the six months ended 30 June 2005 a cash inflow of £120.9 million arose from the exercise of a warrant over Canary Wharf Group shares by IPC Advisors Limited which resulted in the deemed disposal of part of the group’s interest in Canary Wharf Group (Note 8). Acquisition expenditure in the period ended 31 December 2004 of £837.7 million related to the cost of acquiring shares in the Canary Wharf Group.

The financing cash inflow for the six months ended 30 June 2005 was £1,002.5 million compared with £880.5 million for the period ended 31 December 2004. The six months ended 30 June 2005 included drawdowns under the new bank facilities totalling £1,728.2 million and the drawdown under the 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 the Canary Wharf Group's second securitisation, and the repayment of certain finance leases and other loans totalling £1,110.5 million. The financing cash inflow for the period ended 31 December 2004 included the net proceeds from issuing shares of £245.2 million and net proceeds from the drawdown of acquisition loan facilities of £643.6 million.

UNAUDITED CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE SIX MONTHS ENDED 30 JUNE 2005

	Notes	Unaudited Six months ended 30 June 2005 £m	Restated[1] Audited Period ended[2] 31 December 2004
Turnover – rents and service charges		**174.1**	209.5
Cost of sales:			
- rents and property management costs		**(42.0)**	(76.2)
GROSS PROFIT		**132.1**	133.3
Administrative expenses		**(16.3)**	(28.0)
Other operating income		**0.7**	1.4
OPERATING PROFIT		**116.5**	106.7
Exceptional items:			
- net profit on sale of properties	7	**55.7**	-
- loss on deemed part disposal of investment	8	**(15.7)**	-
Interest receivable	3	**44.5**	32.9
Interest payable:			
- before exceptional item	3	**(192.9)**	(202.0)
- exceptional item: charges relating to repayment of debt		**(97.8)**	-
		(290.7)	(202.0)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		**(89.7)**	(62.4)
Taxation	4	**20.8**	(8.6)
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION		**(68.9)**	(71.0)
Minority interest	12	**1.5**	8.5
LOSS ON ORDINARY ACTIVITIES ATTRIBUTABLE TO MEMBERS OF THE COMPANY		**(67.4)**	(62.5)
RETAINED LOSS FOR THE PERIOD	13	**(67.4)**	(62.5)
Loss per share:			
basic	6	**(15.6)p**	(14.6)p
diluted	6	**(15.6)p**	(14.6)p

The above results relate to the continuing activities of the group.

The notes numbered 1 to 16 form an integral part of this Interim Statement.

The interim results for the six months ended 30 June 2005 were approved by the Board of Directors on 28 September 2005.

Notes:
(1) Restated as set out in Note 1.
(2) Period from incorporation on 13 February 2004 to 31 December 2004.

UNAUDITED CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE SIX MONTHS ENDED 30 JUNE 2005

	Notes	**Unaudited Six months ended 30 June 2005**	Restated [1] Audited Period ended 31 [2] December 2004
		£m	£m
Loss on ordinary activities after taxation attributable to members of the company		**(67.4)**	(62.5)
Unrealised surplus on revaluation of investment properties attributable to members of the company	7	**343.4**	77.7
TOTAL RECOGNISED GAINS AND LOSSES RELATING TO THE PERIOD		**276.0**	15.2

NOTE OF HISTORICAL COST PROFITS AND LOSSES

		Unaudited Six months ended 30 June 2005	Restated [1] Audited Period ended 31 [2] December 2004
		£m	£m
Reported loss on ordinary activities before taxation		**(89.7)**	(62.4)
Realisation of property revaluation gains of the previous period	7	**15.6**	-
HISTORICAL COST LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		**(74.1)**	(62.4)
HISTORICAL COST LOSS FOR THE YEAR RETAINED AFTER TAXATION AND MINORITY INTERESTS		**(57.7)**	(62.5)

The notes numbered 1 to 16 form an integral part of these financial statements.

Notes:
(1) Restated as set out in Note 1.
(2) Period from incorporation on 13 February 2004 to 31 December 2004.

UNAUDITED CONSOLIDATED BALANCE SHEET AT 30 JUNE 2005

	Notes	**Unaudited 30 June 2005**	*Restated Audited 31 December 2004
FIXED ASSETS		**£m**	£m
Investment properties	7	**5,386.2**	5,231.5
Properties held for development	7	**255.1**	254.9
Other tangible fixed assets		**2.5**	2.8
Investments		**2.0**	0.4
Goodwill	8	**76.6**	84.3
		5,722.4	5,573.9
CURRENT ASSETS			
Property held for sale	7	**97.0**	-
Debtors: due in more than one year	9	**91.4**	92.7
Debtors: due in within one year		**42.4**	72.5
Cash at bank and in hand	10	**2,372.7**	1,102.6
		2,603.5	1,267.8
CREDITORS: Amounts falling due within one year		**(847.9)**	(383.4)
NET CURRENT ASSETS		**1,755.6**	884.4
TOTAL ASSETS LESS CURRENT LIABILITIES		**7,478.0**	6,458.3
CREDITORS: Amounts falling due after more than one year	10	**(5,766.4)**	(5,226.7)
Provisions for liabilities and charges	11	**(69.2)**	(207.9)
NET ASSETS		**1,642.4**	1,023.7
CAPITAL AND RESERVES			
Called up share capital		**43.3**	43.3
Reserves:			
-Share premium	12	**375.5**	375.5
-Revaluation reserve	12	**406.2**	77.7
-Own shares	12	**(1.2)**	(3.0)
-Profit and loss account	12	**(115.0)**	(62.5)
SHAREHOLDERS' FUNDS		**708.8**	431.0
Minority interest	12	**933.6**	592.7
TOTAL CAPITAL EMPLOYED		**1,642.4**	1,023.7

The notes numbered 1 to 16 form an integral part of these financial statements.

*Restated as set out in Note 1.

UNAUDITED CONSOLIDATED CASH FLOW STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2005

	Notes	**Unaudited Six months ended 30 June 2005**	Audited Period ended 31 December 2004 *
		£m	£m
NET CASH INFLOW FROM OPERATING ACTIVITIES		**119.1**	123.5
Returns on investments and servicing of finance		**(356.9)**	(201.2)
Capital expenditure and financial investment		**384.5**	(101.0)
Exercise of warrant		**120.9**	
Acquisition		**-**	(837.7)
		148.5	(1,139.9)
Cash outflow before management of liquid resources and financing		**267.6**	(1,016.4)
Management of liquid resources		**(644.5)**	108.2
Financing		**1,002.5**	880.5
INCREASE/(DECREASE) IN CASH IN THE PERIOD	10	**625.6**	(27.7)

*Period from incorporation on 13 February 2004 to 31 December 2004.

Reconciliation of operating profit to operating cash flows	**Unaudited Six months ended 30 June 2005**	Audited Period ended 31 December 2004
	£m	£m
Operating profit	**116.5**	106.7
Depreciation charges	**0.5**	0.4
Provision against investment	**0.1**	0.2
Amortisation of share option costs	**1.5**	1.7
Decrease/(increase) in debtors	**33.4**	(15.1)
(Decrease)/increase in creditors	**(23.0)**	46.1
Amortisation of goodwill	**1.7**	2.2
Utilisation of provisions	**(12.7)**	(10.2)
Recognition of income during rent-free periods	**(0.4)**	(35.5)
Increase in provisions for vacant and other leasehold commitments	**1.5**	27.0
Net cash inflow from operating activities	**119.1**	123.5

Returns on investments and servicing of finance		**Unaudited Six months ended 30 June 2005**	Audited Period ended 31 December 2004
		£m	£m
Interest received		**33.9**	32.9
Interest paid		**(148.6)**	(154.3)
Interest element of finance lease rentals		**(29.4)**	(52.1)
Financing expenses on loans drawndown		**(25.7)**	(27.7)
Financing expenses and breakage costs on loans repaid	3	**(187.1)**	-
Net cash outflow		**(356.9)**	(201.2)

		Unaudited Six months ended 30 June 2005	Audited Period ended 31 December 2004
Capital expenditure and financial investment		**£m**	£m
Acquisition of leasehold interests		**(52.8)**	-
Additions to properties		**(33.0)**	(101.0)
Purchase of tangible fixed assets		**(0.2)**	-
Sale of investment properties	7	**472.3**	-
Investment in associated undertakings		**(1.8)**	-

Net cash outflow	**384.5**	(101.0)

Financing	Notes	**Unaudited Six months ended 30 June 2005**	Audited Period ended 31 December 2004
		£m	£m
Repayment of secured loans	10	**(311.8)**	-
Issue of securitised debt		**360.4**	-
Repayment of securitised debt	10	**(553.4)**	(18.3)
Net proceeds of issue of shares		**-**	245.2
Drawdown of acquisition loans		**24.4**	643.6
Drawdown of secured loans		**1,728.2**	-
Finance lease premium		**-**	10.0
Repayment of finance leases	10	**(245.3)**	-
Net cash inflow		**1,002.5**	880.5

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2005

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 period ended 31 December 2004, save for adoption of Financial Reporting Standard 21 (Events After the Balance Sheet Date) and Financial Report Standard 22 (Earnings per Share) and the presentation requirements of FRS 25 which now have effect.

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

The financial information for the period ended 31 December 2004 has been extracted from the group's financial statements to that date. These financial statements received an unqualified auditors' report and have been filed with the Registrar of Companies. The above financial information does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985. The comparatives for the period ended 31 December 2004 have been restated to comply with the presentation requirements of FRS 25.

In accordance with FRS 25, the group has changed the classification of the D Share and the SG Shares. Previously the D Share was classified as an equity share and the SG Shares were recognised as non-equity shares in accordance with FRS 4. Under FRS 25, both of these classes of shares are now classified as liabilities and are included in creditors payable in more than one year.

The group has also changed its accounting policy with regard to the recognition of amounts payable to these shareholders as required by FRS 25. As regards the dividends payable to the D shareholder, the group's policy prior to the adoption of FRS 25 was to recognise any amounts payable as an appropriation of profit in the period in which such a dividend was declared. In accordance with the articles of association of the company, no dividend could be declared in respect of the D Share in either the period ended 31 December 2004 or the six months ended 30 June 2005. In accordance with FRS 25, dividends potentially payable to the D Shareholder are recognised as they fall due and classified as interest payable. The amount potentially payable was calculated to be £14.9 million at 30 June 2005 and is included in creditors falling due within one year.

Prior to the adoption of FRS 25, the finance cost of the SG Shares was recognised in the group's profit and loss account as an appropriation of profit and a corresponding reserve was created. Under FRS 25 the finance cost has been reclassified as interest payable and the amount previously shown in reserves has been reclassified and included in creditors falling due within one year.

The effects of the change in policy are summarised below:

	Six months ended 30 June 2005	Period ended 31 December 2004
	£m	£m
Profit and loss:		
Increase in interest payable	**(22.4)**	(8.6)
Reduction in appropriation of profit	**7.5**	8.6
Net increase in retained loss	**(14.9)**	-
Balance sheet:		
Increase in creditors due in less than one year	**(31.0)**	(8.6)
Increase in creditors due in more than one year	**(181.7)**	(181.7)
	(212.7)	(190.3)
Decrease in called up share capital	**(18.3)**	(18.3)
Decrease in share premium reserve	**(163.4)**	(163.4)
Decrease in appropriation of profit reserve	**(16.1)**	(8.6)
Increase in retained losses	**(14.9)**	-
	(212.7)	(190.3)

2 RESTATEMENT

The effects of adopting FRS 25 for the six months ended 30 June 2005 and the period ended 31 December 2004 are as follows:

	Interest payable [1]	Appropriation of profit	Retained loss	Shareholders' funds[2]
	£m	£m	£m	£m
Period ended 31 December 2004:				
As previously reported	(193.4)	(8.6)	(62.5)	621.3
Effect of FRS 25	(8.6)	8.6	-	(190.3)
As restated	(202.0)	-	(62.5)	431.0
Six months ended 30 June 2005:				
Results without adopting FRS 25	(170.5)	(7.5)	(52.5)	921.5
Effect of FRS 25	(22.4)	7.5	(14.9)	(212.7)
As reported	(192.9)	-	(67.4)	708.8

Notes:
(1) Interest payable excluding exceptional items of £97.8 million in the six months ended 30 June 2005.
(2) Excluding minority interest.

3 INTEREST

	Unaudited Six months ended 30 June 2005	Audited Period ended 31 December 2004
	£m	£m
Receivable:		
Bank interest receivable	**44.5**	32.9
Payable:		
Notes and debentures	**84.1**	117.7
Acquisition loans	**28.5**	33.3
Bank loans and overdrafts	**29.7**	-
Finance lease charges	**28.2**	45.2
Finance costs of non equity shares (Note 5)	**22.4**	8.6
	192.9	204.8
Less:		
Interest at 4.9% on development financings transferred to development properties	**-**	(2.8)
	192.9	202.0
Charges relating to early repayment of debt:		
- prepayment and breakage costs	**187.1**	-
- write-off of deferred financing costs, fair value adjustments and other accounting adjustments	**(89.3)**	-
	97.8	-

For the period ended 31 December 2004, interest payable of £2.8 million was transferred to development properties (Note 7). This amount was attributable to the cost of funds forming part of Canary Wharf Group's general borrowings which were utilised in financing construction. No such transfer was made for the six months ended 30 June 2005.

During the six months ended 30 June 2005 Canary Wharf Group incurred prepayment and breakage costs totalling £187.1 million in relation to the prepayment and refinancing of certain loans as detailed in Note 10. These costs have been charged to the profit and loss account as an exceptional item.

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 FRS4. As a result of prepaying certain of Canary Wharf Group's borrowings early, the unamortised portion of the financing costs relating to the debt prepaid was written-off to the profit and loss account in the six months ended 30 June 2005. The repayment of debt by Canary Wharf Group in the six months ended 30 June 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 £97.8 million has been taken to the profit and loss account and shown as an exceptional item.

There was no deferred tax as a result of these transactions.

4. TAXATION

	Unaudited Six months ended 30 June 2005	Audited Period ended 31 December 2004
	£m	£m
Current tax:		
UK corporation tax (see below)	**-**	-
Deferred tax:		
Origination and reversal of timing differences in the current period	**21.3**	(4.7)
Net effect of discount	**(0.5)**	(3.9)
Total deferred tax (Note 11)	**20.8**	(8.6)
Total tax on profit on ordinary activities	**20.8**	(8.6)

Taxation for the six months ended 30 June 2005 and the period ended 31 December 2004 relates solely to deferred tax.

No provision for corporation tax has been made in the consolidated results of the group for the six months ended 30 June 2005 or the period to 31 December 2004 due to tax losses arising in the period, the availability of tax losses brought forward from previous periods and other tax reliefs available. It is anticipated that remaining capital losses and other tax reliefs, including EZAs, will reduce future tax charges.

5. FINANCE COSTS OF SHARES

As a result of the redemption rights attaching to the SG Shares, and in accordance with FRS 4, these shares were treated as non-equity prior to the introduction of FRS 25 (Note 1). The profit and loss account included the recognition of an appropriation of profit in respect of the SG Shares accumulated at 8% per annum from the date of issue to 31 December 2004 resulting in an accrual of £8.6 million.

Following the introduction of FRS 25 the appropriation of profit is shown as interest payable accumulated at 8% per annum from the date of issue of the SG Shares to 30 June 2005. This resulted in an accrual of £7.5 million for the six months ended 30 June 2005 (period ended 31 December 2004 - £8.6 million).

Following the introduction of FRS 25, the terms of the dividends payable on the D Share require the reclassification of this share to creditors falling due in more than one year and the recognition of dividends payable as interest payable. This resulted in an accrual in respect of the D Share dividend of £14.9 million at 30 June 2005 (period ended 31 December 2004 - £Nil).

No such appropriation of profit is required to be recognised in respect of the other classes of shares under FRS 4 or FRS 25. The appropriation of profit, accumulated at 8% accruing for the period ended 30 June 2005, but not recognised in these financial statements, in respect of the class A ordinary shares was £10.8 million (period ended 31 December 2004 - £12.4 million) and on the class B ordinary shares was £7.1 million (period ended 31 December 2004 - £8.2 million).

6 BASIC AND DILUTED LOSS PER SHARE

The basic and diluted loss per share is calculated by reference to the loss attributable to ordinary shareholders for the six months ended 30 June 2005 of £67.4 million (period ended 31 December 2004 as restated - £62.5 million) and on the weighted average of 431.0 million (31 December 2004 - 428.5 million) ordinary shares in issue excluding the SG Shares and the D Share and the shares owned by The Canary Wharf Employee Share Ownership Plan Trust (the ‘Trust’) in respect of the Canary Wharf 2004 Deferred Share Plan.

7 INVESTMENT PROPERTIES, PROPERTIES HELD FOR DEVELOPMENT AND PROPERTY HELD FOR SALE

Freehold properties held as tangible fixed assets:

	Investment properties	Properties held for development	Property held for sale
	£m	£m	£m
At 1 January 2005 pre-adjustment for UITF 28	5,324.2	254.9	
Adjustment for UITF 28	(92.7)	-	
As at 1 January 2005	5,231.5	254.9	
Additions (net of adjustment for UITF 28)	1.3	0.2	
Disposal of property	(401.8)	-	
Revaluation	555.2	-	
As at 31 December 2004	**5,386.2**	**255.1**	
Adjustment for UITF 28 (Note 9)	91.4		
Market Value at 30 June 2005	**5,477.6**		
Of which, subject to lease and finance leaseback arrangements	1,241.1		
Historical cost	4,713.9		
Long leasehold property held as a current asset: Valuation at date of acquisition			**97.0**

Additions to properties for the six months ended 30 June 2005 totalled £3.8 million. In the above table additions are stated net of £2.3 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 9).

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 in the balance sheet (Note 9).

In the six months ended 30 June 2005 Canary Wharf Group disposed of buildings located at 20 Canada Square and 15 Westferry Circus. The sale of 20 Canada Square for a consideration of £337.5 million generated a profit of £39.3 million after the write-off of unamortised lease incentives accounted for in accordance with UITF 28 and expenses of sale. The sale of 15 Westferry Circus for a consideration of £134.75 million resulted in a profit of £16.4 million after the write-off of unamortised lease incentives and expenses of sale. The total profit of £55.7 million relating to property disposals has been shown as an exceptional item in the profit and loss account for the period. The disposals also resulted in a transfer to the profit and loss reserve from the revaluation reserve of £15.6 million representing the realisation of prior year revaluation gains, of which £5.9 million is attributable to the minority interest and £9.7 million to the members of the company. There is no deferred tax charge as a result of these transactions.

The Canary Wharf Group's investment properties have been revalued externally as at 30 June 2005 on the basis of market value. These valuations were undertaken by either Savills Commercial Limited or CB Richard Ellis Limited. 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 allowance for purchaser's expenses was increased from 1.75% at 31 December 2004 to 5.75% at 30 June 2005 as a result of the removal of stamp duty relief for properties in disadvantaged areas announced in the 2005 Budget. The surplus arising on the valuations at 30 June 2005 of £555.2 million has been transferred to the revaluation reserve. Of the total revaluation surplus of £555.2 million, £211.8 million is attributable to the minority interest, and £343.4 million to the members of the company.

Properties held for development at 30 June 2005, which are to be retained as investment properties, are carried at their fair value at the time of the acquisition of the Canary Wharf Group in May 2004 (Note 8), plus additions at cost, subject to any provision for impairment.

Property held for sale comprises the long leasehold interests in Aldersgate Street which were acquired by the Canary Wharf Group in April 2005 for a consideration of £209.7 million (including fees). The property is held at the lower of cost and net realisable value. In determining the net realisable value the directors consulted with Jones Lang LaSalle who were instructed to provide a vacant possession valuation of Aldersgate Street, ignoring intragroup leases. The valuation at the date of acquisition on this basis was £97.0 million resulting in a provision against cost of £112.7 million. This has been offset by the release of a vacant leasehold provision of £117.0 million as referred to in Note 11. The net release has been taken to the profit and loss account and credited to cost of sales.

8 INVESTMENT IN CANARY WHARF GROUP

On 21 May 2004 the company's subsidiary, SAL, declared its offer for Canary Wharf Group wholly unconditional. The offer closed on 15 July 2004 at which time the company and SAL together owned 66.32% of the ordinary share capital of Canary Wharf Group (the 'Acquisition'). On 8 March 2005 outstanding warrants over 42,273,251 ordinary shares in Canary Wharf Group were exercised resulting in the interest of the company and SAL reducing to 61.85%. The exercise of the warrants has been accounted for as a deemed disposal by the company and SAL of part of their interest in Canary Wharf Group, as a result of which their share of the net assets of Canary Wharf Group has reduced by £15.7 million. This has been taken to the profit and loss account and shown as an exceptional item.

The movements in goodwill over the period comprise:

	£m
Goodwill:	
At 1 January 2005	84.3
Write-down arising from exercise of warrants	(6.0)
Amortisation in the six months ended 30 June 2005	(1.7)
At 30 June 2005	**76.6**

9 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 since the Acquisition. 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. As the cost of lease incentives is included within the balance sheet as debtors due after one year, the external valuation of investment properties has accordingly been reduced for these incentives.

During the six months ended 30 June 2005, 20 Canada Square and 15 Westferry Circus were sold by Canary Wharf Group. The cumulative UITF 28 adjustment in respect of these properties was £3.2 million. This has been written-off to the profit and loss account and taken into account in computing the net profit on sale of £55.7 million (Note 7).

	Rent-free periods	Other tenant incentives	Total
	£m	£m	£m
At 1 January 2005	40.5	52.2	92.7
Transfer from properties held as fixed assets (Note 7)	-	2.3	2.3
Recognition of rent during rent-free periods	6.8	-	6.8
Amortisation of lease incentives	(1.3)	(5.9)	(7.2)
Written-off on sale of buildings	(3.0)	(0.2)	(3.2)
At 30 June 2005	**43.0**	**48.4**	**91.4**

10 NET DEBT

In accordance with FRS 25, the D Share and SG Shares have been re-classified as creditors falling due in more than one year, and the dividends accrued (but not declared or paid) in respect of these shares are included in creditors due in less than one year (Note 1). At 30 June 2005 £14.9 million has been accrued in respect of the D Share (31 December 2004 - £Nil), although this amount has yet to be agreed with the D Shareholder, and £16.1 million in respect of the SG Shares (31 December 2004 – £8.6 million).

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

	Securitised debt	Acquisition loans	Secured loans	Finance lease obligations	Total borrow-ings	Share capital	Total
	£m	£m	£m	£m	£m	£m	£m
At 1 January 2005 – as previously stated:							
Payable within one year or on demand	63.1	-	87.9	0.7	151.7	-	151.7
Payable in more than one year	2,909.4	624.4	238.0	1,273.2	5,045.0	-	5,045.0
	2,972.5	624.4	325.9	1,273.9	5,196.7	-	5,196.7
Prior period adjustments (as explained in Note 1)							
Payable within one year or on demand	-	-	-	-	-	8.6	8.6
Payable in more than one year	-	-	-	-	-	181.7	181.7
	-	-	-	-	-	190.3	190.3
Restated amounts:							
Payable within one year or on demand	63.1	-	87.9	0.7	151.7	8.6	160.3
Payable in more than one year	2,909.4	624.4	238.0	1,273.2	5,045.0	181.7	5,226.7
As at 1 January 2005 – as restated	2,972.5	624.4	325.9	1,273.9	5,196.7	190.3	5,387.0
Drawndown in period	360.4	24.4	1,885.9	-	2,270.7	-	2,270.7
Deferred financing expenses	(102.0)	3.3	(5.6)	(26.6)	(130.9)	-	(130.9)
Accrued finance charges	(15.3)	-	12.6	5.1	2.4	22.4	24.8
Repaid in period	(553.4)	-	(311.8)	(245.3)	(1,110.5)	-	(1,110.5)
At 30 June 2005	**2,662.2**	**652.1**	**1,907.0**	**1,007.1**	**6,228.4**	**212.7**	**6,441.1**
Payable within one year or on demand	93.0	515.6	28.0	7.1	643.7	31.0	674.7
Payable in more than one year	2,569.2	136.5	1,879.0	1,000.0	5,584.7	181.7	5,766.4
	2,662.2	652.1	1907.0	1,007.1	6,228.4	212.7	6,441.1

(1) At 30 June 2005 SAL had debt outstanding of £668.0 million comprising £524.8 million (including accrued interest) under a senior facility ('the Senior Facility') and £143.2 million (including accrued interest) under a mezzanine loan facility ('the Mezzanine Facility'). In addition, SAL had in aggregate additional committed credit facilities of £38.5 million, reflecting amounts that may be borrowed by the company for working capital purposes and to fund interest payments under the Senior Facility and the Mezzanine Facility in certain circumstances. The weighted average interest rate on the outstanding facilities was 8.2% as at 30 June 2005. These facilities are guaranteed by the company and by charges over the assets of the company and SAL.

Under the terms of the Senior Facility, SAL is required to procure that members of the group have free cash (as defined in the Senior Facility) of not less than £650.0 million from May 2005, increasing by £25.0 million at the end of each three month consecutive period thereafter. This aggregate minimum free cash amount is subject to increase in certain circumstances and from time to time pursuant to the provisions of the Senior Facility and the Mezzanine Facility and to decrease to the extent that repayments and prepayments are made of amounts outstanding under the Senior Facility or the Mezzanine Facility, as applicable.

SAL is due to repay any remaining indebtedness under the Senior Facility in full no later than September 2006 and any remaining indebtedness outstanding under the Mezzanine facility in full no later than June 2009. Subsequent to the period end notice was given to repay £248.0 million of the Senior Facility on 26 September 2005. The Mezzanine Facility contains certain detailed requirements that must be complied with before any dividends and certain other payments can be made by SAL. In certain circumstances these require that prepayments are made of amounts outstanding under the Mezzanine Facility.

The Senior Facility and Mezzanine Facility contain detailed covenants, representations and warranties and events of default which relate to the company, SAL and the Canary Wharf Group.

(2) In January 2005 the Canary Wharf Group drewdown £608.8 million on a loan facility secured against One Churchill Place. The loan is fully amortising with a final maturity in July 2034. The loan was used in part to provide £545.5 million as cash collateral for a finance lease secured against the same building. The balance of the loan proceeds was retained for the general corporate purposes of the group. The loan carries a hedged interest rate of 5.82%. In the six months ended 30 June 2005, £1.8 million of the loan was amortised in accordance with the loan agreement.

(3) In March 2005, the Canary Wharf Group repaid a £225.0 million loan secured against 20 Canada Square, following the sale of that building, crystallising net prepayment and breakage costs of £1.5 million and the write-off of unamortised fair value adjustments of £9.9 million.

(4) During the six months ended 30 June 2005 the 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 of 5.82% and is repayable in 2008. The loan is secured against the Canary Wharf Group's property interests in 10 Cabot Square and 20 Cabot Square. The refinancing of the finance leases resulted in breakage costs of £47.8 million, primarily as a result of the mark to market of fixed rate debt, offset by the write-off of unamortised fair value adjustments of £25.9 million. As part of the restructuring of the finance leases, certain cash collateral was released to the group totalling £36.1 million and the contingent requirement to make a further cash deposit of up to £25.0 million was eliminated.

(5) In connection with the acquisition of Aldersgate Street in April 2005, the Canary Wharf Group assumed existing loans totalling £154.1 million comprising a senior tranche of £140.7 million, which carries interest at 6.79%, and a mezzanine tranche of £13.4 million, which carried interest at 9.59%. The fair value of these loans was £157.7 million on the date of acquisition and the mark to market of £3.6 million has been taken into account in calculating the net cost of acquisition of the building. Subsequent to the period end, on 16 September 2005, the mezzanine tranche was repaid with breakage costs of £0.4 million. The remaining senior loan is repayable in 2011.

(6) In May 2005, the 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 new bank loan facility of £750.0 million and a tap issue of £360.0 million on the Canary Wharf Group's second securitisation.

The repayment of the first securitisation gave rise to prepayment and breakage costs of £150.2 million partly offset by unamortised fair value adjustments of £85.6 million. The partial repayment of the second securitisation included the remaining £45.0 million of C notes and £20.0 million of D notes which were held by the Canary Wharf Group and repaid in May 2005. Subsequent to the period end, in July, the equivalent of £70.0 million of the A5 (US$ denominated) notes were repaid.

The Canary Wharf Group also issued £360.0 million of new notes under the second securitisation which comprised:

Tranche	£m	Interest	Repayment
B2	110	Floating	By instalment from issue to 2027
C1	225	Floating	By instalment from 2006 to 2027
D1	25	Floating	By instalment from 2011 to 2030

Interest on the B2 notes is payable at three month LIBOR plus 0.35% and hedged at 5.032%. There is a step up in the margin on the B2 notes to 0.875% in July 2012. Interest on the C1 notes is payable at three month LIBOR plus 0.6% and hedged at 5.278%. There is a step up in the margin to 1.5% in July 2012. Interest on the D1 notes is payable at three month LIBOR plus 0.90%. There is a step up in the margin to 2.25% in July 2012. An interest rate collar on the D notes with a notional principal of £20.0 million, a floor of 5% and a cap of 9% was increased to match the new principal amount of £25.0 million for the D1 notes. This resulted in a payment of £0.4 million from the cap provider.

The new £750.0 million facility carries interest at a rate of LIBOR plus 1% and is repayable in 2008.

(7) At 30 June 2005 the group held sterling cash deposits totalling £2,372.7 million (31 December 2004 - £1,102.6 million) comprising deposits placed on money market at call and term rates. Total cash deposits included £1,102.7 million (31 December 2004 - £458.0 million) held by third parties as cash collateral for the group's borrowings and £1.4 million (31 December 2004 - £1.6 million) charged to third parties as security for the group's obligations. Unsecured cash deposits totalled £1,268.6 million at 30 June 2005 (31 December 2004 - £642.2 million).

(8) The movement in net debt for the six months ended 30 June 2005 was as follows:

	1 January 2005	Cash flow	Assumed debt*	Other non-cash changes	**30 June 2005**
	£m	£m	£m	£m	**£m**
Cash at bank	1,102.6	1,270.1	-	-	**2,372.7**
Amounts on deposit not available on demand	(459.6)	(644.5)	-	-	**(1,104.1)**
	643.0	625.6	-	-	**1,268.6**
Debt due after 1 year	(3,771.8)	(1,340.5)	(154.1)	681.7	**(4,584.7)**
Debt due within 1 year	(151.7)	117.2	-	(609.2)	**(643.7)**
Finance leases due after 1 year	(1,273.2)	260.1	-	13.1	**(1,000.0)**
	(5,196.7)	(963.2)	(154.1)	85.6	**(6,228.4)**
Amounts on deposit not available on demand	459.6	644.5	-	-	**1,104.1**
Net debt	(4,094.1)	306.9	(154.1)	85.6	**(3,855.7)**

*Part of the consideration for the acquisition of the long leasehold interests in Aldersgate Street was the assumption by Canary Wharf Group of £154.1 million of debt (Note 10 (5)).

	Six months ended 30 June 2005
	£m
Increase in cash in the six months	**1,270.1**
Increase in debt and lease financing	**(963.2)**
Change in net debt resulting from cash flows	**306.9**
Loans assumed on acquisition of property interests	**(154.1)**
Non-cash movement in net debt	**85.6**
Movement in net debt in the six months	**238.4**
Net debt at 1 January 2005	**(4,094.1)**
Net debt at 30 June 2005	**(3,855.7)**

(9) At 30 June 2005 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 £304.0 million before tax relief (31 December 2004 - £137.1 million).

11 PROVISIONS FOR LIABILITIES AND CHARGES

	Vacant leasehold properties	Other lease commitments	Deferred taxation	Total
	£m	£m	£m	£m
At 1 January 2005	153.3	25.7	28.9	207.9
Utilisation of provision	(8.7)	(0.4)	-	(9.1)
Unwind of discount	3.1	0.8	-	3.9
Release of provision	(119.1)	(1.8)	(20.8)	(141.7)
Increase in provision	-	8.2	-	8.2
At 30 June 2005	**28.6**	**32.5**	**8.1**	**69.2**

Vacant leasehold properties:

On 6 November 2000, the Canary Wharf Group entered into an Agreement for Lease with Clifford Chance for the lease of 10 Upper Bank Street, which reached practical completion on 31 July 2003. The Canary Wharf Group also acquired the sub-leasehold interest (with approximately 12 years now unexpired) in 200/202 Aldersgate Street, a 440,000 sq ft office building in the City of London occupied by Clifford Chance until 29 September 2003.

At 31 December 2004 the group held a provision of £124.4 million against the estimated net liability under the lease of 200/202 Aldersgate Street. The provision was stated at present value calculated on the basis of a discount rate of 6.4%, being the group's weighted average cost of debt at that date. In the period from 1 January 2005 to 15 April 2005, £7.4 million of expenditure was charged to the provision.

On 15 April 2005 the Canary Wharf Group acquired from a third party long leasehold interests expiring in 2141 in 200/202 Aldersgate Street and the adjoining 20 Little Britain comprising 473,000 sq ft. The consideration for the acquisition was £209.7 million including fees. As a result of acquiring the reversionary interest in the building the remaining provision of £117.0 million after charging expenditure of £7.4 million in respect of the period to 15 April 2005 was released, offsetting the provision against cost referred to in Note 7. The net release has been taken to the profit and loss account.

Reuters' leasehold properties

On 9 February 2004 the 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 The South Colonnade, previously let to London Underground Limited. As part of this transaction the Canary Wharf Group agreed to take over three of Reuters' leasehold properties from commencement of the lease on 30 The South Colonnade in May 2005. The terms of the leases to expiration or first break are between three and four years.

At 30 June 2005 the provision for the estimated net liability, discounted at 6.1% being the group's weighted average cost of debt at that date, was stated at £28.6 million reflecting expenditure in the period, offset by the unwind of the discount.

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 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 2005.

(2) a rent support commitment with Lehman Brothers under which the Canary Wharf Group may contribute a maximum of £10 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, 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 per sq ft is payable by the 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 per sq ft and £52 per sq ft but on the majority of space it is in the range of £44-£45 per sq ft. The terms of the Lehman Brothers leases prevent it from sub-letting space below market levels and no amount is payable on space which Lehman Brothers does not sub-let.

To date Lehman Brothers have sub-let approximately 100,303 sq ft in 1 and 2 Broadgate at a rent higher than the passing rent and therefore it will not be necessary to make any contribution as a result of this sub-lease. The maximum amount payable in respect of the remaining space leased by Lehman Brothers at Broadgate at 30 June 2005 was £32.4 million (nominal) with a present value of £24.7 million calculated on the basis of a discount rate of 6.1%. This amount has been provided for in full at 30 June 2005 and will be subject to review at each subsequent balance sheet date.

In connection with the sale of 20 Canada Square the Canary Wharf Group has agreed to provide rental support of up to £1.8 million per annum for a period of three years. Rental support at the rate of £1.6 million per annum until 31 August 2006 is being provided in connection with the sale of 15 Westferry Circus. A provision of £8.2 million in respect of these commitments was recognised at the dates of disposal and taken into account in calculating the profit on disposal. The remaining provision at 30 June 2005 was £7.8 million calculated on the basis of a discount rate of 6.1%.

Deferred taxation:	**Unaudited Six months ended 30 June 2005**	Audited Period ended 31 December 2004
	£m	£m
Accelerated capital allowances claimed	**(72.0)**	(158.6)
Other timing differences	**30.2**	72.3
Undiscounted deferred tax liability	**(41.8)**	(86.3)
Discount	**33.7**	57.4
Discounted deferred tax liability	**(8.1)**	(28.9)
At start of period	**(28.9)**	(20.3)
Deferred tax charge in the profit and loss account for the period	**20.8**	(8.6)
At end of period	**(8.1)**	(28.9)

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 value. If the Canary Wharf 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 Canary Wharf Group would have been in the region of £90.6 million after taking into account available tax losses (31 December 2004 - £63.8 million). This amount comprises corporation tax on chargeable gains in relation to the sale of completed properties held by Canary Wharf Group investment companies of £90.6 million (31 December 2004 - £52.0 million plus corporation tax on development surpluses in relation to the completed properties that are held by Canary Wharf Group property development companies - £11.8 million). Capital losses have reduced tax on chargeable gains by £130.9 million (31 December 2004 - £148.1 million). In line with FRS 19, the benefit of these losses has not been recognised in the deferred tax provided in the balance sheet.

12 RESERVES

	Share premium account	Revaluation reserve	Profit & loss account	Own shares	Appropria-tion of profit	Total	Minority interest
	£m	£m	£m	£m	£m	£m	£m
At 1 January 2005 – as previously stated	538.9	77.7	(62.5)	(3.0)	8.6	559.7	592.7
Prior period adjustment (as explained in Note 1)	(163.4)	-	-	-	(8.6)	(172.0)	-
	375.5	77.7	(62.5)	(3.0)	-	387.7	592.7
Revaluation of investment properties	-	555.2	-	-	-	555.2	-
Transfer of realised revaluation surplus	-	(9.7)	9.7	-	-	-	-
Reserve movement in respect of share option scheme	-	-	-	1.8	-	1.8	-
Exercise of warrant in Canary Wharf Group	-	(5.2)	5.2	-	-	-	130.6
Transfer to minority interest	-	(211.8)	1.5	-	-	(210.3)	210.3
Loss for the financial period	-	-	(68.9)	-	-	(68.9)	-
At 30 June 2005	**375.5**	**406.2**	**(115.0)**	**(1.2)**	**-**	**665.5**	**933.6**

The transfer to the profit and loss account from the revaluation reserve represents the realised revaluation surplus in respect of the disposal of 20 Cabot Square and 15 Westferry Circus which were sold in the period.

13 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	£m
Revaluation surplus	**343.4**
Movement in respect of share option schemes	**1.8**
Loss for the financial period	**(67.4)**
Net movement in shareholders' funds	**277.8**
Shareholders' funds at 1 January 2005 as previously stated	621.3
Prior year adjustment (as explained in Note 1)	(190.3)
Shareholders' funds at 1 January 2005 as restated	431.0
Closing shareholders' funds	**708.8**

14 CONTINGENT LIABILITIES AND FINANCIAL COMMITMENTS

As at 30 June 2005 certain members of the group had given fixed and floating charges over substantially all of their assets as security for certain of the group's borrowings as referred to in Note 10. In particular, various members of the group had, at 30 June 2005, given fixed first ranking charges over cash deposits totalling £1,104.1 million.

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 securitisations are 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.

The existence of the sub-let commitments has been taken into account in the market valuation of the group's properties at 30 June 2005. The table following summarises these sub-lets, including the rent payable (net of any sub-letting income) for the next financial year.

Property	Leaseholder	Sub-let sq ft	Passing rent £m	Rent review date	Rent review basis	Term commence-ment	Expiry or first break
Options exercised:							
1 Westferry Circus	CSFB	73,300	2.64	Mar 2005	OMR up only	Feb 2003	Feb 2015
One Canada Square	Skadden	27,400	0.52	Jun 2003	OMR up only	Sep 2003	Dec 2005
50 Bank Street	Northern Trust	18,000	0.76	Apr 2007	OMR up only	Apr 2002	Oct 2006 (1)
10 Upper Bank Street	Clifford Chance	52,500	2.23	Jul 2008	Fixed at £49/sf	Jul 2003	Jul 2008 (2)
10 Upper Bank Street	Clifford Chance	52,100	2.40	Jul 2008	Fixed at £49/sf	Jul 2003	Jul 2013 (2)
25-30 Bank Street	Lehman Brothers	100,800	3.31	Jul 2008	Fixed at £53/sf	Jul 2003	Jul 2008 (3)
25-30 Bank Street	Lehman Brothers	102,100	4.18	Jul 2008	Fixed at £53/sf in 2002 (4)	Jul 2003	Jul 2013 (3)
One Churchill Place	Barclays	133,600	5.63	Jul 2009	OMR up only	Jul 2004	Jul 2019 (5)
One Churchill Place	Barclays	130,300	5.47	Jul 2009	OMR up only	Jul 2004	Jul 2014 (5)
One Churchill Place	Barclays	66,000	2.75	Jul 2009	OMR up only	Jul 2004	Jul 2009 (5)
40 Bank Street	Skadden	19,500	0.86	Mar 2008	OMR up only	Mar 2003	Mar 2008 (6)
40 Bank Street	Skadden	19,500	0.86	Mar 2008	OMR up only	Mar 2003	Sep 2010 (6)
40 Bank Street	Skadden	19,500	0.86	Mar 2008	OMR up only	Mar 2003	Mar 2013 (6)
Total		814,600	32.46				

Notes:
(1) Assumes break exercised.
(2) During the six months ended 30 June 2005 the Canary Wharf Group sub-let 26,116 sq ft to FTSE for a 10 year term, with rent starting 24 January 2007, 25,607 sq ft to Infosys for 5 years with rent starting 6 March 2006 and 25,943 sq ft to Total for 10 years with rent starting 11 February 2008. All sub-leases run for the remaining term of the leases from Clifford Chance.
(3) On 29 September 2003 Lehman Brothers exercised options to sub-let part of 25-30 Bank Street back to the Canary Wharf Group: 4 floors (102,100 sq ft) for 10 years and an additional 4 floors (100,800 sq ft) for 5 years. This space has to be handed back to Lehman Brothers at the end of the sub-let term fitted out to Category A standard. On 17 August 2004 the Canary Wharf Group sub-let 25,200 sq ft of the five year space to Morgan Stanley on a managed office basis. On 14 August 2005 Morgan Stanley's lease was terminated in accordance with a break option exercised by the tenant. On 1 April 2005 the Canary Wharf Group sub-let a further 25,200 sq ft of the five year space to the FSA for a term of 3 years with rent starting 1 October 2005.
(4) Followed by annual increases to £59.65 per sq ft in 2012.
(5) On 31 October 2003 Barclays opted to sub-let 329,900 sq ft of space in One Churchill Place back to the Canary Wharf Group. Of the total sub-let, 66,000 sq ft is for 5 years, 130,300 sq ft is for 10 years and 133,600 sq ft is for 15 years or more. Subsequent to the period end, on 1 July 2005 the Canary Wharf Group sub-let 100,200 sq ft to BGC for a term of 14 years with rent commencing 1 December 2005.
(6) Skadden have opted to lease back floor 24 (19,500 sq ft) for 5 years, floor 25 (19,500 sq ft) for 7.5 years and floor 26 (19,500 sq ft) for 10 years at 40 Bank Street.

15 RELATED PARTY TRANSACTIONS

During the period, the Canary Wharf Group entered into the following related party agreements:

(i) a letter of appointment dated 6 January 2005 with Morgan Stanley & Co. Limited ('Morgan Stanley') whereby the Canary Wharf Group appointed Morgan Stanley as its exclusive financial adviser in connection with the disposal of 20 Canada Square, London E14 ('DS4') for a base fee of 0.4% of the aggregate value of DS4 subject to a maximum aggregate value of £322.0 million (the 'Base Value'). In addition to the base fee, an additional incentive fee of 2% of the incremental aggregate value above the Base Value will be charged for any consideration received in excess of the Base Value. All fees will be capped at a maximum of 0.5% of the aggregate value.

(ii) a letter of appointment dated 24 January 2005 between the Canary Wharf Group and Morgan Stanley whereby the Canary Wharf Group appointed Morgan Stanley as its exclusive financial adviser in connection with the disposal of 15 Westferry Circus, London E14 ('WF9') for a base fee of 0.35% of the aggregate value of WF9 subject to a maximum aggregate value of £118.0 million (the 'Base Value'). In addition to the base fee, an additional incentive fee of 2% of the incremental aggregate value above the Base Value will be charged for any consideration received in excess of the Base Value. All fees will be capped at a maximum of 0.5% of the aggregate value.

(iii) an agreement dated 11 March 2005 with a subsidiary of Barclays to dispose of its 999 year leasehold interest in a property situated at 20 Canada Square (the 'Property'). Subsequently, the subsidiary of Barclays entered into arrangements with Brascan Corporation, a significant minority shareholder of Canary Wharf Group, to dispose of the controlling interest in the Property.

(iv) a letter of appointment dated 25 May 2005 between Canary Wharf Group and Morgan Stanley whereby the Canary Wharf Group appointed Morgan Stanley as its exclusive financial adviser in connection with the disposal of 17 Columbus Courtyard, London E14 ('B4') for a base fee of 0.4% of the aggregate value of B4 subject to a maximum of 0.425% of the aggregate value.

16 POST BALANCE SHEET EVENTS

On 23 August 2005 the Canary Wharf Group declared an interim dividend of 65p per share payable to all ordinary shareholders on the register as at 24 August 2005. The dividend totalling £407.7 million was paid on 8 September 2005.

On 8 August 2005 agreement was reached between the Canary Wharf Group and IPC Advisors Limited in relation to the remaining outstanding Warrants over the ordinary shares of Canary Wharf Group (the '1997 Warrants'). The effect of such agreement is that, as a result of the recent dividend announcement by Canary Wharf Group, the subscription price for the 1997 Warrants has been adjusted to 186p per share with no corresponding adjustment to the number of shares to which the 1997 Warrants relate. The number of shares therefore remains at 11,734,369. The amended 1997 Warrants are exercisable until 30 November 2005, previously 1 April 2006.

On 23 September 2005 the Canary Wharf Group completed the sale of 17 Columbus Courtyard, a 199,500 sq ft building let to CSFB, for a consideration of £120.5 million. At 30 June 2005 the building was valued at £116.7 million. Current rent passing is £6.4 million per annum. In conjunction with the sale the Canary Wharf Group repaid £89.2 million of the £750.0 million loan drawndown in May 2005, crystallising the write-off of deferred financing costs of £0.6 million.