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CANARY WHARF GROUP PLC

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31 December 2004
Report & Financial Statements

Contents

01 Highlights and Results in Brief
02 Chairman's and Chief Executive's Statement
06 Operating and Financial Review
16 Directors' Report for the Six Months Ended 31 December 2004
21 Independent Auditors' Report to the Members of Canary Wharf Group plc
23 Consolidated Profit and Loss Account for the Six Months Ended 31 December 2004
24 Consolidated Statement of Total Recognised Gains and Losses for the Six Months Ended 31 December 2004
25 Consolidated Balance Sheet at 31 December 2004
26 Company Balance Sheet at 31 December 2004
27 Consolidated Cash Flow Statement for the Six Months Ended 31 December 2004
28 Notes to the Financial Statements for the Six Months Ended 31 December 2004
63 Members' Information

Front cover: Illustration of proposed office development at Riverside South

Highlights and Results in Brief :01

Highlights

> At 31 December 2004 the group's investment portfolio totalling 9.9 million sq ft was 86.5% let.

> The surplus on revaluation of two investment properties completed in the period was £158.4 million.

> The increase on revaluation of the investment properties held throughout the period was £64.2 million (1.4%).

> The Market Value (as defined in Note 9 of the notes to these financial statements) of the property portfolio was £5,579.2 million against £5,318.1 million at 30 June 2004, an increase of 2.9% disregarding additions in the period (Note (i)).

> Subsequent to the period end the group:

- announced that heads of terms had been agreed on over 200,000 sq ft of lettings (Note (viii)).
- sold 20 Canada Square for a consideration of £337.5 million and repaid a £225 million loan secured against the building (Note (viii)).
- completed the refinancing of two finance leases (Note (viii)).
- contracted to sell 15 Westferry Circus for a consideration of £134.75 million (Note (viii)).

> Subsequent to the period end it was also announced that British Waterways had named the group as its preferred development partner for the redevelopment of the Wood Wharf site (Note (viii)).

Results in Brief

	Audited Six Months Ended 31 December 2004(vii) £m	Unaudited Six Months Ended 31 December 2003 £m
Rental income (Note (ii))	**118.9**	133.8
Operating profit	**93.2**	105.7
Operating profit excluding exceptional items (Note (iii))	**93.2**	116.4
(Loss)/profit before taxation	**(17.1)**	2.8
(Loss)/profit before taxation excluding exceptional items (Note (iv))	**(17.1)**	0.2
Taxation – deferred tax (Note (v))	**(13.3)**	(3.1)
Loss per share:		
– basic	**(5.2)p**	(0.1)p
– adjusted to exclude exceptional items (Note (vi))	**(5.2)p**	(0.5)p

Notes:

(i) Refer to 'Operating and Financial Review – Valuations' of the accompanying financial information for a comparison with the carrying value for accounts purposes (page 9).

(ii) Refer to 'Operating and Financial Review – Operating results' of the accompanying financial information for further details (page 11).

(iii) Refer to Note 2 of the notes to these financial statements for details of exceptional items.

(iv) Exceptional items in the six months ended 31 December 2003 comprised £10.7 million of bid costs (Note 2 of the notes to these financial statements), a gain of £69.8 million on sale of properties (Note 9 of the notes to these financial statements) and £56.5 million of charges relating to the repayment of securitised debt (Note 4 of the notes of these financial statements).

(v) Refer to Note 5 of the notes to these financial statements.

(vi) Refer to Note 8 of the notes to these financial statements.

(vii) The company has changed its accounting reference date from 30 June to 31 December.

(viii) Refer to Note 26 of the notes to these financial statements.

02: Chairman's and Chief Executive's Statement

The financial year end has been moved from 30 June to 31 December. This report and financial statements therefore covers the six month period ended on 31 December 2004.

We are pleased to report continued progress since the Songbird Estates plc ('Songbird') group acquired a majority interest in your company. Leasing activity has picked up and, since the end of the period under review, we have successfully made selected asset sales to optimise value for shareholders and establish benchmark Market Values at Canary Wharf. The company was also selected by British Waterways as their preferred partner for Wood Wharf, the 5 million sq ft mixed use development adjacent to Canary Wharf; and our construction subsidiary has been selected as the construction manager for Ballymore's landmark 48 and 40 storey residential towers development at 1 Millharbour.

Leasing

The weak leasing market coupled with the takeover bid activity which continued throughout much of 2004 had an adverse impact on leasing by the company. However, since the acquisition by Songbird, leasing activity has increased significantly. In the second half of 2004 we completed leases of 62,781 sq ft including a 23,524 sq ft expansion by the European Medical Evaluation Agency and a 25,189 sq ft letting to Morgan Stanley under our flexi-lease programme of fully fitted-out space.

Moreover, since the end of the period under review, in the first quarter of 2005 we have signed leases or agreed heads of terms on over 250,000 sq ft. Of this total 26,116 sq ft is with FTSE, 25,607 sq ft is with Infosys and 26,182 sq ft is with Total in the Clifford Chance building at 10 Upper Bank Street. Heads of Terms have also been announced on 109,205 sq ft in the recently completed Barclays Bank PLC ('Barclays') building at 1 Churchill Place and with Northern Trust over 35,953 sq ft for expansion in 50 Bank Street. On existing space rental levels remain in the high £30s per sq ft with inducement packages of 24-36 months for 10-15 year leases.

What is particularly noteworthy is that we are seeing significant interest outside our core financial service sector tenants. We are also successfully leasing individual floors to tenants with smaller space requirements. This increased tenant diversity is a healthy and natural progression in further establishing Canary Wharf as a premier business district. While Canary Wharf has been a location of choice for large financial services occupiers for some time, it is now becoming a desired location for many types of tenants including professional and media firms as well as industrial and technology companies.

Disposal of Properties

The investment market has been, and remains, strong. We have indicated for some time that it is the company's strategy to sell assets selectively to realise value for shareholders, while continuing to retain a core group of assets and maintaining the integrity of the Canary Wharf estate and control over it as a whole.

As part of this programme we announced in March 2005 the sale of 20 Canada Square to a subsidiary of Barclays for £337.5 million (including tax allowances). The subsidiary of Barclays entered into arrangements with Brascan Corporation to acquire a controlling interest in the building. The 555,000 sq ft building is principally let to McGraw-Hill and BP's Integrated Supply and Trading Division. On 16 March 2005 we contracted to sell the 171,300 sq ft building at 15 Westferry Circus let to Morgan Stanley for £134.75 million. Details of these transactions are outlined in the 'Operating and Financial Review'.

Construction and Development

In July 2004 practical completion was reached on 1 Churchill Place, the 1,014,400 sq ft headquarters building for Barclays, and Churchill Place Retail mall (20,500 sq ft). This brings the completed Canary Wharf estate to a total of 14.1 million sq ft.

On 15 September 2004 planning permission was granted on the Riverside site for development of a projected 1.8 million sq ft net which, together with the other sites benefiting from planning permission, total 3.3 million sq ft net of additional space. Other uncommitted development sites at North Quay and Heron Quays West could, subject to planning permission, together accommodate a further 3.0 million sq ft of additional space for future development. Actual development will, however, be led by tenant demand.

We were pleased to announce in January 2005 that, following an extensive selection process, British Waterways had named the company and Ballymore Properties Limited as their preferred partner for the redevelopment of the Wood Wharf site which is adjacent to the existing Canary Wharf estate. It is envisaged that the Wood Wharf scheme will provide some 5 million sq ft gross of residential, commercial and retail development. The Wood Wharf scheme is a very important development for the region in its own right, and it complements the existing Canary Wharf estate. The selection of your company as a partner of British Waterways is a clear recognition of Canary Wharf's development expertise.

The residential element of this development opportunity together with our involvement at 1 Millharbour represents an added dimension to your company's strategy.

Financial Review

Net assets increased from £1,703.5 million at 30 June 2004 to £1,895.7 million at 31 December 2004, an increase of £192.2 million. The increase in net assets was primarily driven by the revaluation of the group's property portfolio by £222.6 million, of which £158.4 million was attributable to properties which reached practical completion during the period.

Turnover for the six months ended 31 December 2004 was £153.6 million, against £163.1 million for the six months ended 31 December 2003. The reduction in turnover was attributable to the sale of 5 Canada Square and 25 Canada Square in December 2003, partially offset by the commencement of rent on recently completed properties. Net property income reduced from £131.8 million to £111.6 million, partly as a result of the reduction in turnover and partly as a result of void costs on vacant and sub-let space in recently completed properties on the Canary Wharf estate.

The group recorded a loss before tax of £17.1 million for the six months ended 31 December 2004 in comparison with a profit (before exceptional items) of £0.2 million for the six months ended 31 December 2003, primarily as a result of the reduction in net property income.

The tax charge for the period was £13.3 million, attributable entirely to an increase in the provision for deferred tax recognised in accordance with Financial Reporting Standard 19 (Deferred Tax) ('FRS19').

Net Debt

At 31 December 2004 net debt stood at £3,268.7 million in comparison with £3,168.0 million at 30 June 2004, an increase of £100.7 million. This increase was primarily attributable to the completion of development properties over the period.

Warrants

Following completion of the bid process an independent expert, appointed in accordance with the warrant instrument, ruled that the subscription price for shares under the 1997 Warrant should be reduced from 275p per share to 251p while the number of shares to which the 1997 Warrant relates should be increased from 10.71 million to 11.73 million. The expert also ruled that the 1999 Warrants subscription price should be reduced from 375p to 286p. The company and the warrant holder, IPC Advisors Limited, agreed that the number of shares to which the 1999 Warrants relate should be adjusted from 32.24 million to 42.27 million, for a limited period until 9 March 2005, and on 8 March 2005 IPC Advisors Limited exercised the 1999 Warrants and acquired 42,273,251 ordinary shares in the company at the adjusted subscription price of 286p per share.

04: Chairman's and Chief Executive's Statement

Central London Market Review

Supply and Development

Continued improvement in levels of leasing activity across Central London during the course of 2004, coupled with a slowdown in the delivery of space to the market through the development pipeline, saw total supply across all core markets falling to 27.28 million sq ft at 31 December 2004. This reflects a vacancy rate of 12.5%, the lowest rate since the second quarter of 2003 and down from a peak during this cycle of 13.1%. Whilst the West End market has seen a steady reduction of availability levels during the course of 2004, ending the year at 10.4%, availability in the City, primarily driven by new space completions, continued an upward trend during most of 2004, to peak at a vacancy rate of 14.9% at the end of the third quarter. However, with few development completions in the latter half of the year and reduced rates of space released by tenants, the City vacancy rate fell to 13.9% at the end of 2004.

Construction levels across the whole of Central London fell to 4.6 million sq ft as a number of schemes were completed during the final quarter. Limited new space will be supplied to the market over the next two years because of the subdued level of current speculative development activity.

Demand and Take-up

Following low levels of take-up and reduced volumes of new demand coming to the market in the first half of 2004, leasing activity in Central London increased by 40% in the fourth quarter to 4.37 million sq ft, the highest quarterly total in four years. This brought the annual total to 13.13 million sq ft, which compares favourably with the long-run average total of 11.96 million sq ft.

The final quarter of 2004 saw the City market recording its highest quarterly take-up in four years of 2.69 million sq ft bringing the annual leasing transaction total to some 6.77 million sq ft. However, whilst encouraging, over a third of take-up was pre-let space and the actual take-up of built space saw a less marked improvement. Nevertheless take-up was buoyed by a number of high profile transactions, including pre-lets to Legal and General, Norton Rose, Lawrence Graham and Willis. However, the leasing of 30 Gresham Street to Dresdner Kleinwort Benson just before the end of 2004 was of vital importance to the market, being the largest transaction on built stock in the City since 2000.

In the Docklands, total take-up for the year reached 1.14 million sq ft which was up from 675,000 sq ft in 2003. Availability, however, increased to 2.65 million sq ft at the end of 2004 resulting in a vacancy rate for the Docklands of 13.5%. Much of this increase is the result of space released by tenants rather than newly constructed space.

Office space available from the group and other occupiers on the Canary Wharf estate, such as Citigroup and Readers Digest, stood at 1.63 million sq ft at the end of 2004 which is a vacancy rate of approximately 12%.

Within the group's ownership, the vacancy rate as at 31 December 2004 was approximately 13.8% which consisted of a total of 1.36 million sq ft of which 250,000 is under offer. On completion of these lettings, and after taking into account the sale of two properties, the vacancy rate will reduce to 11.5%.

Rental Profile

For the second half of 2004 prime headline rental levels in the West End remain unchanged at £75 per sq ft but there was an increase over the year which was in response to improved market activity. Prime headline rental values on a grade A unit of 20,000 sq ft for a fifteen year lease term in the City have also held up well in the second half of 2004 to stand at £45 per sq ft. Rent-free periods, however, remain unchanged at circa 36 months on a fifteen year lease term and circa 24 months on a ten year term.

Crossrail

The deposit of the Crossrail Bill in Parliament on 22 February 2005 was an important milestone in moving this significant piece of transport infrastructure towards reality. Royal Assent of the Bill is expected in 2007 but work is already underway with the Treasury, Department for Transport and Transport for London on project funding. Consultation on one of the Crossrail funding mechanisms is expected this summer.

Stamp Duty

In the 2003 Budget the Chancellor gave full stamp duty relief on properties in defined disadvantaged areas which included the Canary Wharf estate. This concession was at that time stated to be reviewable in 2006. In fact, however, it was withdrawn with immediate effect on 16 March 2005. The effect of this withdrawal will be to increase the allowance for purchaser's costs in future valuations by 4% up to 5.75%.

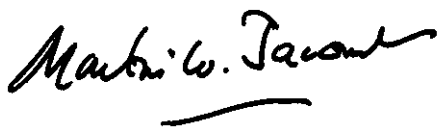
Olympic Bid

The group is supporting the London 2012 Olympic Bid Committee by providing office space on the 50th floor of One Canada Square which gives a magnificent view of the proposed Olympic venue at Stratford. Winning this Olympic bid would be a tremendous achievement and benefit all of London. We would like to wish the London 2012 team the best of luck in July when the selection is announced in Singapore.

Conclusion

Following the bid process the momentum of the group has been more than fully maintained and your company is executing its clearly defined strategy. The group will continue to seek ways in which to optimise shareholder value, as *well as lay the groundwork for future development taking advantage of the greatly increased emphasis on the potential* of this part of London.

None of the achievements of the past year would have been possible without the continued exceptional effort and professionalism exhibited by all of our staff. The board would like to thank the staff for their effort, enthusiasm and commitment to making Canary Wharf a success.



SIR MARTIN JACOMB
Chairman

GEORGE IACOBESCU
Chief Executive Officer

06: Operating and Financial Review

Property Portfolio

The activities of the group are focused on the development of the Canary Wharf estate (including Heron Quays and the adjacent sites at Canary Riverside and North Quay). The group has two principal business streams: property investment and property development. At 31 December 2004 the investment arm comprised 23 completed properties (out of the 30 constructed at Canary Wharf) totalling 9.9 million sq ft of net internal area ('NIA'). The properties included in this total are shown in the table below:

Property Address	Approx. NIA (sq ft)	% Leased	External Valuation £m	Principal Tenants
1 Westferry Circus	219,000	66.6	65.0	ChevronTexaco
7 Westferry Circus	179,300	100.0	85.0	EDS, EMEA, Edward Jones
15 Westferry Circus	171,300	100.0	115.0	Morgan Stanley (contracted to sell on 16 March 2005)
17 Columbus Courtyard	199,500	100.0	100.0	CSFB
1 Churchill Place	1,014,400	67.5	550.0	Barclays
10 Cabot Square	639,000	100.0	265.0	Barclays Capital, WPP Group
20 Cabot Square	562,000	100.0	227.5	Morgan Stanley, Barclays Capital
One Canada Square	1,246,600	94.7	615.0	*Daily Telegraph, KPMG, Mirror Group* Newspapers, State Street Bank, Bear Stearns, Bank of New York
20 Canada Square	555,300	89.8	290.0	The McGraw-Hill Companies, BP-IST (sold on 11 March 2005)
33 Canada Square	562,700	100.0	333.0	Citigroup
25 North Colonnade	363,200	100.0	165.0	Financial Services Authority
30 South Colonnade	296,100	100.0	117.5	Reuters
20 Bank Street	546,500	100.0	378.0	Morgan Stanley
25-30 Bank Street	1,023,300	82.6	750.0	Lehman Brothers
40 Bank Street	607,400	25.2	252.0	Skadden Arps Slate Meagher & Flom, Allen & Overy
50 Bank Street	213,800	72.4	106.0	The Northern Trust Company, Goldenberg Hehmeyer
10 Upper Bank Street	1,000,400	89.5	560.0	Clifford Chance
Cabot Place Retail	98,400	100.0	81.5	Various retail tenants
Canada Place Retail	66,800	100.0	80.0	Various retail tenants
Jubilee Place Retail	89,900	99.4	60.0	Various retail tenants
Churchill Place Retail	20,500	22.3	7.0	Part-let to Barclays Bank
16-19 Canada Square	204,500	100.0	38.0	Waitrose Food & Home, Canada Square Health & Fitness, Conran Restaurants
Nash Court	8,900	100.0	7.0	Smollensky's, Carluccio's
Car Parks	–	–	76.7	
Total	**9,888,800**	**86.5**	**5,324.2**	

At 31 December 2004 the investment portfolio was 86.5% let, net of sub-lets back to the group. As well as the rental income generated from completed properties, income is generated from managing the entire Canary Wharf estate which, in addition to the completed properties in the ownership of the group, included seven properties totalling 4.2 million sq ft in other ownerships.

The properties of the group are under lease to high quality tenants which provide a diversified income stream. At 31 December 2004 the weighted average unexpired lease term for the investment property portfolio was 21.0 years (or 18.0 years assuming exercise of outstanding break options). Of the square footage under lease, 70.6% does not expire or cannot be terminated by tenants during the next ten years.

During the six months ended 31 December 2004 the group completed the construction of two properties, both of which were retained as investment properties.

> 1 Churchill Place is a 1,014,400 sq ft building which was let in its entirety to Barclays subject to the lease back of 66,000 sq ft for five years, 130,300 sq ft for ten years and 133,600 sq ft for fifteen years or more (Note 24).

> Churchill Place Retail is a 20,500 sq ft building of which 4,600 sq ft has been let to Barclays.

In December 2003 the group disposed of 5 Canada Square and 25 Canada Square 5 Canada Square is a 515,100 sq ft building let in its entirety to CSFB and 25 Canada Square is a 1,223,500 sq ft building which has been let in its entirety to Citigroup. The consideration for the disposals was £1,111.9 million. The sale of the buildings generated a profit on disposal of £69.8 million after allowing for 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. The profit on disposal has been treated as an exceptional item in the profit and loss account for the year ended 30 June 2004 and the six months ended 31 December 2003.

During the year ended 30 June 2004 the group leased a total of 191,000 sq ft to BP's Integrated Supply and Trading division ('BP-IST') in 20 Canada Square on a 20 year term with a tenant only break at years ten and fifteen at a rent of £38 per sq ft. There is a rent-free period of 24 months and a Category A fit-out allowance of £48.75 per sq ft, which was paid during the period ended 31 December 2004. On 1 September 2004 BP-IST exercised an option to lease a further 19,500 sq ft, taking its total space to 210,500 sq ft of which BP-IST have break rights over 40,900 sq ft exercisable at the end of year five of the term upon payment of a one year rental penalty.

In August 2004 the group let 25,200 sq ft to Morgan Stanley at 25-30 Bank Street until July 2008 on a managed office basis at an all inclusive rent of £63.50 per sq ft. This space forms part of the 100,800 sq ft of space sub-let back to the group by Lehman Brothers for a term of five years as referred to in Note 24. Also in August 2004 The European Federation of Pharmaceutical Industries Association surrendered their lease of 3,331 sq ft on the 27th floor of One Canada Square. Subsequently, the group leased this space to the executive search firm Global Sage for a term of four years at a rent of £41.50 per sq ft.

In September 2004 the group leased 7,097 sq ft on the 29th floor of One Canada Square to The Hartford Europe Limited for a term of five years at a rent of £40 per sq ft. The tenant has a break option in September 2007 subject to the payment of a rent penalty equivalent to one quarter.

In November 2004 the group agreed to lease 3,624 sq ft on the 6th floor of One Canada Square to Clydesdale Bank for a term of ten years subject to the right to break at the end of five years. The agreed rent is £37 per sq ft with anticipated rent commencement on 31 August 2005.

On 31 December 2004 KPMG exercised a break option over 27,300 sq ft on the 10th floor of One Canada Square.

08: Operating and Financial Review

Subsequent to the period end, on 9 February 2005 the group agreed heads of terms on over 200,000 sq ft of lettings. These transactions will comprise a range of lease terms to potential tenants spanning a variety of business sectors.

On 11 March 2005 the group completed the sale of 20 Canada Square, a 555,300 sq ft building let to The McGraw-Hill Companies and BP-IST, for a consideration of £337.5 million. At 31 December 2004 the building was valued at £333.0 million (including tax allowances) (30 June 2004 – £305.0 million). Current rent passing is £12.2 million per annum, which rises to £20.5 million on the expiry of BP-IST's rent-free period in 2006 In connection with the sale the 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 is expected to generate a profit of approximately £39.4 million after the write-off of unamortised lease incentives accounted for in accordance with UITF 28 and expenses of sale. In conjunction with the disposal the group repaid a £225 million loan secured against the building crystallising net prepayment and breakage costs of £1.5 million and the write-off of deferred financing costs of £2.0 million.

In March 2005 the group completed the refinancing of two finance lease transactions in relation to 20 Cabot Square. This was achieved by the purchase of the finance lessor companies and the repayment of existing indebtedness in those companies funded from a new credit facility. In cash terms the refinancings were broadly neutral but the unwinding of the finance leases resulted in breakage costs in the order of £25.0 million, primarily as a result of the crystallisation of the mark to market of fixed rate debt.

On 16 March 2005 the group contracted to sell 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 million (30 June 2004 – £113 million). Current rent passing is £6.6 million per annum which is contracted to rise to £8.2 million *from 31 August 2006 (£48 per sq ft). The group is providing rental support of £1.6 million per annum until 31 August 2006.* The sale is expected to generate 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.

The group's principal development sites are summarised in the following table:

	NIA (million sq ft)
Based on existing planning permissions:	
Canary Wharf (DS3, BP2, BP3, BP4)	1.5
Riverside South	1.8
	3.3
Subject to planning application:	
North Quay	2.4
Heron Quays West	0.6
	6.3

The group has continued substructure works on the remaining sites at Canary Wharf as a preliminary to development. As a result 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.

Uncommitted development sites on the original Canary Wharf estate could accommodate a total of 1.5 million sq ft of new development. In addition, the development sites at North Quay and Riverside allow development of 2.1 million sq ft net based on existing planning applications. Application was made to increase the permitted density at Riverside to 1.8 million sq ft and on 15 September 2004 the planning authority resolved to grant planning consent for the new scheme subject to agreeing the details of a Section 106 agreement. Application has been made to increase the permitted density at North Quay to 2.4 million sq ft although planning consent for this scheme has yet to be agreed. There is further development capacity on Heron Quays West. Construction of new buildings on these sites will commence as and when market conditions allow.

In January 2005 British Waterways named the group, together with Ballymore Properties Limited, as the preferred partner for the redevelopment of the Wood Wharf site which is immediately adjacent to the existing Canary Wharf estate. Subject to formal conclusion of the partnership, the master plan scheme for the development sets a framework for 5 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 31 December 2004, were £1,895.7 million. In arriving at this total:

(i) properties held as investments were carried at £4,844.7 million, which represents the Market Value of those properties of £5,324.2 million at that date as determined by the group's external valuers, Savills Commercial Limited, Chartered Surveyors, or CB Richard Ellis Limited, Surveyors and Valuers, less an adjustment of £479.5 million for tenant incentives as required by UITF 28; and

(ii) properties held for development were carried at £251.5 million, representing their cost to the group.

The valuation of the investment portfolio includes those properties which were completed during the period. Such properties were revalued resulting in a revaluation surplus over their cost, taking into account UITF 28, of £158.4 million. For those properties held throughout the period, the carrying value increased from £4,266.6 million to £4,349.5 million, an increase of £64.2 million or 1.4%, net of additions. The total revaluation surplus of £222.6 million has been taken to the revaluation reserve.

The valuers have provided a joint opinion as at 31 December 2004 that the Market Value of properties held for development was £255.0 million, an increase of £10.0 million since 30 June 2004. The Market Value of £255.0 million compares with a carrying value for accounts purposes of £251.5 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.

Excluding additions in the six months to 31 December 2004, the valuation of the property portfolio on the basis of Market Value increased by £152.7 million or 2.9%.

As summarised in Note 24, there are a number of properties which are subject to sub-lets back to the group. These sub-lets have been taken into account in the valuations summarised in the table below.

The carrying value of the group's properties for accounts purposes in comparison with the supplementary valuations provided by the external valuers is summarised in the table below:

	At 31 December 2004		At 30 June 2004	
	Carrying Value £m	**MV in Existing State £m**	Carrying Value £m	MV in Existing State £m
Investment properties	**4,844.7**[1]	**5,324.2**[2]	*4,266.6*[1]	*4,648.2*[2]
Properties under construction	**–**	**–**	314.2	424.9
Properties held for development	**251.5**	**255.0**	241.6	245.0
Total	**5,096.2**	**5,579.2**	4,822.4	5,318.1

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 31 December 2004 was £479.5 million (30 June 2004 – £381.6 million).

10: Operating and Financial Review

Taxation

Property development is carried out by the group's development companies each of which is a trading company for tax purposes. The trading companies realise development profits for tax purposes on the sale of each property either to a group property investment company (which profit is eliminated in the consolidated accounts) or to a third party. This profit is broadly equivalent to the difference between the Market Value of the property on the date of sale and the cost to the group of constructing the building. If the group property development company does not sell the property immediately on completion, until it does so the property is treated as trading stock for the purposes of its own financial statements but will be shown as an investment property in the consolidated balance sheet, unless it is intended to sell the property to a third party when it will be shown as trading stock.

On the transfer of completed properties to a group investment company, the group becomes eligible to claim Enterprise Zone Capital Allowances ('EZAs'). For properties held within the group, the EZAs are available as an initial allowance of up to 100% in the year the qualifying expenditure is incurred by the investment company, or up to 25% as a writing down allowance if claimed in subsequent accounting periods. For group investment companies purchasing properties directly from the group property development companies, the expenditure which qualifies for EZAs is based on the property's Market Value at the time of its transfer to the group property investment company, less a disallowance for the value of land and other non-qualifying expenditure. EZAs can be claimed by the group, when required, to shelter taxable profits as they arise including trading profits in the property development companies on the transfer of completed buildings once the accumulated trading losses have been fully utilised. The group may claim any remaining available EZAs to shelter future operating profits when necessary.

In arriving at a Market Value of the properties in the consolidated balance sheet, the value of all completed properties is included in investment properties. This Market Value, summarised in the table above, ignores any potential value attributable to EZAs. The group also instructed its valuers to assess the Market Values of the properties inclusive of EZAs and has been advised that the uplift in the Market Value of the group's properties attributable to EZAs at 31 December 2004 was in the region of £296.4 million (30 June 2004 – £356.3 million).

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. However, this amount does not reflect the value of the EZAs to the group for two reasons.

Firstly, a disposal of a property may trigger a clawback of any EZAs previously claimed by the group which would generate a tax liability. A deferred tax liability has been provided in respect of this and is disclosed in Note 16.

Secondly, if the group were to utilise the EZAs available by way of internal sales of properties, claims for EZAs would be made to shelter the group's taxable profits and thereby mitigate the payment of corporation tax. The cash value of the EZAs to the group would then be by reference to the net present value of the tax savings. The claiming of EZAs will give rise to a deferred tax liability and so result in no net tax benefit being recognised in the profit and loss account.

In arriving at the Market Value inclusive of the value of EZAs, the 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. For completed and partly completed properties held on trading account for tax purposes, the valuers made their own assessment of the quantum of EZAs which would be available thereon after making an appropriate disallowance for the value of land and other non-qualifying expenditure.

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 group on the Canary Wharf 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 2004 and 31 December 2004 to take account of this relief. Subsequent to the period end the concession was withdrawn with effect from 16 March 2005.

If the group were to dispose of its property portfolio at the Market Value disclosed in this 'Operating and Financial Review', which excludes any value attributable to EZAs, a tax liability of £46.2 million (30 June 2004 – £275.3 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 sale of properties under construction and 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 £1,784 million. Deferred tax has been provided in respect of this liability and is a component of the £158.6 million undiscounted deferred tax provision in respect of accelerated capital allowances shown in Note 16. The potential tax liability comprises corporation tax on chargeable gains of £51.9 million and revenue losses of £5.7 million. Capital losses have reduced the corporation tax on chargeable gains by £165.4 million. In line with 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 £46.2 million differs from that in Note 16 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 group were to dispose of its properties at a value of £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 (30 June 2004 – £96.6 million). The potential uplift in value attributable to EZAs net of the associated tax liability is therefore £275.6 million (30 June 2004 – £259.7 million).

Operating Results

The group's turnover is generated primarily by the rents and service charges earned from its property interests on the Canary Wharf estate. Turnover for the six months ended 31 December 2004 was £153.6 million, against £163.1 million for the six months ended 31 December 2003. Rental income reduced from £133.8 million to £118.9 million, a reduction of 11.1%. The impact of UITF 28 was to increase rental income by £11.7 million in the six months ended 31 December 2004 (six months ended 31 December 2003 – £25.5 million). Excluding the impact of UITF 28, rental income reduced from £108.3 million to £107.2 million. The reduction in rental income was attributable to the disposal of 5 Canada Square and 25 Canada Square in December 2003, offset by the commencement of rent on recently completed properties. Service charge income increased from £22.4 million to £25.5 million, an increase of 13.8%, due to the increased level of occupancy on the Canary Wharf estate. Miscellaneous income increased from £6.9 million to £9.2 million over the period, reflecting increased insurance rents and the increased provision of tenant specific services (outside of the standard service charge) as occupancy on the Canary Wharf estate increased.

Rents payable and property management costs for the six months ended 31 December 2004 were £42.0 million in comparison with £31.3 million for the same period in 2003. The underlying increase in property management costs is the result of the increase in occupancy on the Canary Wharf estate. Taking into account service charge and miscellaneous income, totalling £34.7 million for the six months ended 31 December 2004 (six months ended 31 December 2003 – £29.3 million), void costs were £7.3 million (six months ended 31 December 2003 – £2.0 million). The increase in void costs relates to vacant and sub-let space in recently completed properties on the Canary Wharf estate.

For the six months ended 31 December 2004 net property income was £111.6 million, a decrease of £20.2 million over the equivalent period in 2003 attributable to the reduction in rental income and increase in void costs.

Administrative expenses for the six months ended 31 December 2004 were £19.5 million in comparison with £16.2 million for the six months to 31 December 2003. For the six months ended 31 December 2004 administrative expenses included £1.7 million (six months ended 31 December 2003 – £Nil) of amortisation relating to the investment in Songbird class B

shares held in connection with the group's share option schemes. In the six months ended 31 December 2003 exceptional costs of £10.7 million were also incurred in respect of the acquisition of the group.

For the six months ended 31 December 2004 operating profit was £93.2 million, in comparison with a profit of £105.7 million for the six months ended 31 December 2003. Excluding the exceptional item, operating profit for the prior period was £116.4 million. The reduction in operating profit by £23.2 million is attributable to the factors referred to above.

In the six months ended 31 December 2003 the group recorded a net profit of £69.8 million on disposal of two properties (5 Canada Square and 25 Canada Square). This has been shown as an exceptional item after operating profit in accordance with Financial Reporting Standard 3 (Reporting financial performance).

Net interest payable for the period to 31 December 2004 was £110.3 million, against £172.7 million for the period to 31 December 2003. Included in the six months ended 31 December 2003 was an exceptional charge of £56.5 million incurred in respect of the early repayment of securitised debt in January 2004 (Note 4). Excluding the exceptional charge in the prior period, the reduction in net interest payable of £5.9 million was attributable to a reduction in interest payable on the group's securitisation loans following the early repayment of securitised debt in January 2004. This was partly offset by a reduction in capitalised interest as the group's current construction programme approached completion. For the six months ended 31 December 2004 capitalised interest totalled £1.1 million in comparison with £17.6 million for the equivalent period in 2003.

The loss on ordinary activities after interest for the period was £17.1 million in comparison with a profit of £2.8 million for the equivalent period in 2003. The results for the period ended 31 December 2003 included certain exceptional profits and losses as described above.

The taxation charge for the period to 31 December 2004 was £13.3 million in comparison with £3.1 million for the six months ended 31 December 2003. This provision has been recognised in order to comply with FRS 19. The increase in deferred tax provision primarily relates to EZAs claimed by the group to shelter taxable profits.

The loss arising during the six months ended 31 December 2004 was £30.4 million in comparison with £0.3 million for the equivalent period in 2003.

Balance Sheet

On the basis of the group's statutory balance sheet, which does not reflect any revaluation of properties held for development, net assets at 31 December 2004 were £1,895.7 million in comparison with £1,703.5 million at 30 June 2004. The increase in net asset value was largely attributable to the revaluation surplus of £222.6 million on existing and newly completed buildings, partly offset by the loss for the period of £30.4 million.

Allowing for the revaluation of properties under construction or held for development to Market Value and adjusting for deferred taxation, the adjusted net asset value per share at 31 December 2004 was as set out in the table below:

	Market Value	
	31 December 2004 £m	30 June 2003 £m
Net assets per statutory balance sheet	**1,895.7**	1,703.5
Add back deferred tax provision	**89.4**	76.1
Net assets prior to deferred tax provision	**1,985.1**	1,779.6
Revaluation of property portfolio to Market Value:		
Properties under construction[1]	**–**	110.7
Properties held for development[1]	**3.5**	3.4
Adjusted net assets	**1,988.6**	1,893.7
Adjusted net assets per share[2]	**£3.40**	£3.24
Fully diluted adjusted net assets per share[3]	**£3.35**	£3.24

Notes:

(1) Stated at Market Value in existing state.

(2) Adjusted net assets per share has been calculated by reference to the closing number of shares of 585.0 million (30 June 2004 – 585.0 million).

(3) The fully diluted net assets per share calculation increases adjusted net assets by £150.4 million (30 June 2004 – £186.6 million) and the number of *shares by 54.0 million (30 June 2004 – 53.9 million) reflecting the assumed exercise of all outstanding share options and warrants.*

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, provision for deferred tax on capital allowances claimed notwithstanding that no tax would become payable unless the related properties were disposed of. In contrast no provision is required for the tax which would become payable if the group were 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.

Treasury Objectives

The principal objectives of the group's treasury function are to ensure the availability of finance to meet the group's current and anticipated requirements and to minimise the group's cost of capital. The treasury function operates as a cost centre rather than a profit centre and does not engage in the trading of financial instruments.

The group's financial instruments, other than derivatives, comprise borrowings, cash and liquid resources, and various items such as trade debtors and trade creditors that arise directly from its operations. The group enters into derivative transactions (principally interest rate swaps, caps and collars) only in order to manage the interest rate risk arising from the group's variable rate borrowings. The operating committee of the board reviews and agrees policies for managing the risks associated with the group's financial instruments and these policies, which have been applied consistently throughout the period, are summarised below.

Interest Rate Risk

The group finances its operations through a mixture of surplus cash, bank borrowings and debentures. The group borrows principally in sterling at both fixed and floating rates of interest and then uses interest rate swaps, caps or collars to generate the desired interest profile and to manage the group's exposure to interest rate fluctuations. The group's

policy is to keep the majority of its borrowings at fixed rates and at 31 December 2004 – 82.9% (30 June 2004 – 99.3%) of the group's borrowings were fixed after taking account of interest rate hedging and cash deposits held as cash collateral (see Note 15 (14)).

Liquidity Risk
The group's policy is to ensure continuity of funding and to have the majority of its borrowings mature in 10 years or more. At 31 December 2004 the average maturity of the group's debt was 18.9 years. Shorter term flexibility is achieved by holding cash on deposit, through construction facilities with a term of typically three to five years arranged to fund the development of new properties, and by using the short term revolving notes of the June 2000 securitisation.

Exchange Rate Risk
Although the group's policy is to maximise all financing in sterling, it currently has some borrowings in US dollars. Such borrowings are fully hedged with all principal and interest liabilities swapped into sterling at fixed rates.

Borrowings

In September 2003 the group entered into a finance lease transaction in relation to 1 Churchill Place, a property then under construction. In accordance with the terms of the transaction, following completion of the building in July 2004, the group subsequently completed (in August 2004) 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 group then immediately 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 million was received on completion. In January 2005 the group drew down £608.8 million from a separate loan facility (Note (15 (10)) which was used in part to provide cash collateral for the finance lease. Following this cash collateralisation, the finance lease rents are calculated by reference to a notional rate of LIBID on the notional amount of the principal outstanding under the finance lease. At 31 December 2004 the finance lease is stated at £646.5 million (30 June 2004 – £646.5 million) representing the initial net proceeds.

In January 2004 the group repaid £901.3 million of notes from its second securitisation, including £25 million of notes held by the group itself, funded by the proceeds from the sale of 5 Canada Square and 25 Canada Square in December 2003. As a result of the repayment of the notes in January 2004 crystallised breakage costs totalling £56.5 million relating to hedging instruments associated with the notes repaid were charged to the profit and loss account as an exceptional item.

An analysis of net debt is given below. The reduction in total borrowings from £4,406.5 million to £4,370.5 million reflects the scheduled amortisation of certain securitisation notes. This reduction in total borrowings was accompanied by a reduction in cash and term deposits from £1,238.5 million to £1,101.8 million as a result of development expenditure during the period.

Net debt increased in the six months to 31 December 2004 due to the combined impact of additions to work in progress in the period and other working capital requirements.

At 30 June and 31 December 2004, the group's weighted average cost of debt (including credit wraps) was 6.3% (or 6.1% excluding credit wraps).

At 31 December 2004, net debt (after cash in hand and cash collateral) stood at £3,268.7 million, up from £3,168.0 million at 30 June 2004, comprising:

	At 31 December 2004 £m	At 30 June 2004 £m
Securitised debt	**2,814.9**	2,838.5
Loans	**310.9**	310.8
Finance lease obligations	**1,244.7**	1,257.2
Total borrowings	**4,370.5**	4,406.5
Less: cash collateral for borrowings	**(458.0)**	(558.7)
Less: other cash collateral	**(1.6)**	(9.1)
	3,910.9	3,838.7
Less: cash deposits	**(642.2)**	(670.7)
Net debt	**3,268.7**	3,168.0

Cash Flow

Net cash inflow from operating activities for the six months ended 31 December 2004 was £98.6 million in comparison with £71.9 million for the six months to 31 December 2003. The reduction in operating profit in the period was offset by working capital movements.

Capital expenditure and financial investment for the six months ended 31 December 2004 resulted in a cash outflow of £101.0 million, compared with an inflow of £837.8 million for the six months to 31 December 2003. The period ended 31 December 2003 included proceeds of £1,111.9 million on the disposal of two properties, less development expenditure of £274.0 million, in comparison with development expenditure of £101.0 million for the six months ended 31 December 2004.

The financing cash outflow for the six months ended 31 December 2004 was £8.3 million compared with a cash inflow of £549.5 million for the six months ended 31 December 2003. The period to 31 December 2004 included a further draw down under a finance lease of £10.0 million offset by scheduled amortisation payments on securitised debt of £18.3 million. The cash inflow for the six months ended 31 December 2003 included a finance lease transaction of £635.5 million and drawings under the construction loan facility of £28.5 million before its subsequent repayment (£105.3 million).

16: Directors' Report for the Six Months Ended 31 December 2004

The company has changed its accounting reference date from 30 June to 31 December. Accordingly, the directors present their report with the audited financial statements for the six months ended 31 December 2004.

Principal Activities and Results

The principal activity of the company is to act as a holding company for a group which is involved in integrated property development, investment and management. The group is currently focused exclusively on Grade A office space and high quality retail facilities on, or adjacent to, the Canary Wharf estate, a major development which is part of the Central London property market.

The Songbird Acquisition Limited offer for the company ('the Offer') closed on 15 July 2004 at which time Songbird Acquisition Limited, together with its ultimate parent undertaking, Songbird, held 66.32% of the company's issued share capital. Subsequent to the period end, IPC Advisors Limited exercised warrants to subscribe for 42,273,251 ordinary shares of the company (Note 17) resulting in the combined interest of Songbird and Songbird Acquisition Limited reducing to 61.85% of the issued share capital of the company.

The results for the period are set out in the consolidated profit and loss account on page 23. The 'Operating and Financial Review' on pages 6 to 15 should be read in conjunction with this report.

Changes in the Market Value of land and buildings during the six months ended 31 December 2004 are reviewed in the 'Operating and Financial Review' on page 9.

Post Balance Sheet Events

Details of post balance sheet events are shown in Note 26 to the financial statements on pages 61 to 62.

Dividends and Reserves

No dividend has been paid or declared payable for the period ended 31 December 2004. The retained loss of £30.4 million (year ended 30 June 2004 – £51.9 million) is to be transferred from reserves.

Going Concern

The directors are required to prepare the financial statements for each financial period on a going concern basis unless to do so would not be appropriate. Having made requisite enquiries, the directors have a reasonable expectation that the company and the group have adequate resources to continue their operations for the foreseeable future and hence the financial statements have been prepared on that basis.

Share Capital

As at 31 December 2004 there were 585,008,225 ordinary shares of 1p each in issue. There were no changes in the share capital of the company during the six months ended 31 December 2004. Subsequent to the period end, following the exercise of warrants to subscribe for ordinary shares in the company, as referred to above, the number of ordinary shares of 1p each in issue increased to 627,281,476 ordinary shares.

Directors

During the period the following directors served on the board of the company:

A. Peter Anderson, II	
John Carrafiell	
Brian Carr	(appointed 17 November 2004)
George Iacobescu	
Sir Martin Jacomb	
Shmuel (Sam) Levinson	
Alexander (Alex) Midgen	
Stephane Theuriau	(resigned 17 November 2004)

In addition, Robert Falls was appointed alternate director to John Carrafiell and Brian Carr on 10 September and 17 November 2004 respectively.

Pursuant to the company's articles of association, Peter Anderson, John Carrafiell and George Iacobescu will retire by rotation at the annual general meeting and, being eligible, will offer themselves for re-election. Peter Anderson and George Iacobescu are executive directors and have service contracts with the company which require the company to give not less than 24 months' notice in writing if such notice is given before 21 May 2005, otherwise not less than 12 months' notice in writing. The executive directors are required to give 12 months' notice in writing. John Carrafiell is a non-executive director and as such does not have a service contract.

Directors' Interests

None of the directors, or their families, were beneficially interested in the ordinary shares of the company as at 30 June 2004 or 31 December 2004. Sir Martin Jacomb was interested in 44,698 class B shares in Songbird ('B shares'), the ultimate parent undertaking, at both 30 June 2004 and 31 December 2004.

Details of the directors' options over the ordinary shares of the company, and of Songbird, are set out in Note 7. Except as stated in Note 25 no other contract subsisted during the period in relation to the business of the company in which any director was materially interested.

Corporate Governance

As an unlisted public company the company is not required to comply with the principles of the July 2003 FRC Combined Code on Corporate Governance. The directors are, however, mindful of their responsibilities to all shareholders and as such the following principles of corporate governance continue to apply:

- The Board comprises two executive directors and five non-executive directors. As well as being non-executive chairman of the company, Sir Martin Jacomb remains as an independent non-executive director.
- There is a clear division of responsibilities between the chairman and the chief executive. As non-executive chairman, Sir Martin Jacomb is primarily responsible for the strategic direction of the group and as chief executive, George Iacobescu is responsible for operational control including implementation of all development, construction and maintenance projects.
- The board meets at least four times a year and has formally adopted a schedule of powers which are reserved to the board. The board has full and timely access to all relevant information to enable it to discharge its duties effectively.
- All directors are subject to election by shareholders at the first opportunity following their appointment by the board. Subsequently they must seek re-election at least every three years so that shareholders have a regular opportunity to reassess the composition of the board.

18: Directors' Report for the Six Months Ended 31 December 2004

> All directors have direct access to the advice and services of the company secretary and are able to seek independent professional advice at the expense of the company if required in connection with their duties.

> The board retains responsibility for the maintenance by the group of a sound system of internal control and for reviewing its effectiveness. The system of internal control is designed to ensure effective and efficient operations and compliance with applicable laws and regulations.

Committees

Audit, Remuneration and Operating Committees have been established with formally delegated duties and responsibilities (see page 63 for committee membership). Both the Remuneration and Audit Committees comprise non-executive directors only.

The Audit Committee meets at least three times a year and is chaired by John Carrafiell. All meetings are attended by the company's external auditors who have direct access to the chairman.

The Remuneration Committee, chaired by Sir Martin Jacomb, is responsible for reviewing the performance of the executive directors and management team, setting their remuneration packages and agreeing compensation policies for the group.

Powers not reserved to the board are delegated to the Operating Committee which was established on 10 September 2004. The Operating Committee comprises Peter Anderson, Brian Carr, John Carrafiell, Robert Falls, George Iacobescu and Sam Levinson

Directors' and Officers' Liability Insurance

The group has in place liability insurance covering the directors and officers of group companies.

Environmental and Social Policy

Policy Statement

The company is committed to applying environmental best practice wherever practical in the design, construction and management of buildings and their surroundings for the benefit of tenants, employees, the local community, shareholders and the environment. Recommendation for ISO14001 accreditation was granted in January 2005.

Environmental Responsibility

Whilst the board retains overall responsibility for the monitoring and implementation of the group's environmental policy, it is assisted by the company's Environmental Management Review Group ('EMRG') which comprises senior executives of the group. As part of identifying, managing, implementing and reviewing the environmental and social risks and opportunities that form the group's programme a clear governance process has been developed and implemented.

The EMRG is responsible for the development and establishment of the group-wide Environmental Management System ('EMS') which has been developed gradually to ensure that all procedures and processes within the EMS are totally appropriate to the work undertaken as well as achieving the group's environmental goals. The Environmental System Managers have responsibility for the implementation of the EMS throughout their respective companies.

The group publishes a separate Environmental and Social Report which can be downloaded from the company's website, www.canarywharf.com.

Employment Policy

The group is committed to providing a working environment where all employees are treated with respect and dignity. One of the group's key aims is to help and encourage employees to develop their work skills and abilities. The group keeps employees informed of events relevant to their employment. The group's employment policy is constantly reviewed to incorporate changes to legislation and ensure best practise is maintained.

Equal Opportunities

The group is committed to equality of opportunity and it is the policy of the group to make all employment decisions based on the applicant's ability, experience and qualification without regard to age, sex, race, colour, sexual orientation, ethnic origin, disability or marital status. Due consideration is given to the recruitment, promotion, training and working conditions of all employees including those with disabilities. In the event of an employee becoming disabled the group uses its best endeavours to ensure continuity of employment.

Training and Development

All employees are appraised on an annual basis to assess individual performance, progress and career prospects within the company. The importance of training and development is key to business success and is recognised at all levels. The group provides training programmes both internally and externally to support the development of the business and to improve business efficiency and safety.

Health and Safety Policy

It is the group's policy that the working conditions of its employees should incorporate the best standards of health, safety and welfare which can be reasonably achieved and that all group premises are maintained as safe environments. Accordingly, adequate resources are made available for these purposes and procedures exist to enable all staff to be informed and consulted on health and safety matters and to make known their views.

When striving to create the best standards of the built environment the group seeks to promote a safe and healthy working environment for its employees, tenants and visitors. The group's continuing commitment to ensuring the health and safety of its employees and all other persons who could be affected by the group's undertakings is embodied into the group health, safety and welfare policy. All legislation relating to health and safety is observed both in letter and in spirit.

Directors' Responsibilities

The Companies Act 1985 requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company and the group as at the end of the financial period and of the results of the group for the period then ended. In preparing those financial statements, the directors are required to:

> select suitable accounting policies and then apply them consistently;

> make judgements and estimates that are reasonable and prudent;

> state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and

> prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

20: Directors' Report for the Six Months Ended 31 December 2004

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of each company in the group and which enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Payment of Suppliers

In respect of the group's suppliers it is the policy to settle the terms of payment with those suppliers when agreeing the terms of each transaction, to ensure that those suppliers are made aware of the terms of payment and to abide by the terms of payment.

The number of days purchases outstanding for the group at 31 December 2004 was 31 (30 June 2004 – 35). The company had one day of purchases outstanding at 31 December 2004 (30 June 2004 – 1).

Donations

The group made charitable donations of £96,783 during the six months ended 31 December 2004 (year ended 30 June 2004 – £362,342). No political donations (as defined by the Political Parties Referendums Act 2000) were made during the period (year ended 30 June 2004 – £75,970).

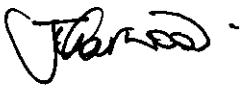
Auditors

A resolution to re-appoint Deloitte & Touche LLP as the company's auditors will be proposed at the annual general meeting.

Annual General Meeting

The annual general meeting will be held at 10.30 am on 19 July 2005 and the Notice of Meeting, together with explanations of the items of special business to be considered at the meeting, are enclosed with this report.

By order of the board



J R GARWOOD
Secretary
23 March 2005

Independent Auditors' Report to the Members of Canary Wharf Group plc

We have audited the financial statements of Canary Wharf Group plc for the period ended 31 December 2004 which comprise the consolidated profit and loss account, the consolidated statement of recognised gains and losses, the note of historical cost profits and losses, the balance sheets, the consolidated cash flow statement and the notes numbered 1 to 26. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. They are also responsible for the preparation of the other information contained in the annual report. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company and other members of the group is not disclosed.

We read the directors' report and the other information contained in the annual report for the above year as described in the contents section and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of Audit Opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the company and the group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

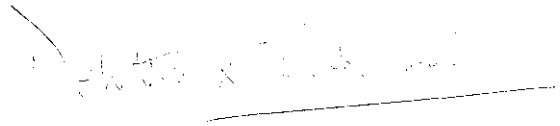
22: Independent Auditors' Report to the Members of Canary Wharf Group plc

Opinion

In our opinion:

> the financial statements give a true and fair view of the state of affairs of the company and the group as at 31 December 2004 and of the loss of the group for the period then ended; and

> *the financial statements have been properly prepared in accordance with the Companies Act 1985.*



DELOITTE & TOUCHE LLP
Chartered Accountants and Registered Auditors
London
23 March 2005

Consolidated Profit and Loss Account :23
for the Six Months Ended 31 December 2004

Audited Year Ended 30 June 2004 £m		Notes	**Audited Six Months Ended 31 December 2004 £m**	Unaudited Six Months Ended 31 December 2003 £m
306.6	*Turnover – rents and service charges*		**153.6**	163.1
(63.1)	Cost of sales – rents and property management costs		**(42.0)**	(31.3)
243.5	**Gross profit**		**111.6**	131.8
	Administrative expenses:			
(32.9)	– before exceptional items		**(19.5)**	(16.2)
	Exceptional items:			
(23.6)	– bid costs	2	**–**	(10.7)
(4.4)	– amortisation of investment in own shares	2	**–**	–
(60.9)			**(19.5)**	(26.9)
1.8	Other operating income		**1.1**	0.8
184.4	**Operating profit**	2	**93.2**	105.7
	Exceptional items:			
69.8	– net profit on sale of properties	9	**–**	69.8
50.3	Interest receivable	3	**26.8**	23.2
	Interest payable:	4		
(271.7)	– before exceptional item		**(137.1)**	(139.4)
(56.5)	– exceptional item: charges relating to repayment of securitised debt	4	**–**	(56.5)
(328.2)			**(137.1)**	(195.9)
(23.7)	**(Loss)/profit on ordinary activities before taxation**		**(17.1)**	2.8
(28.2)	Taxation	5	**(13.3)**	(3.1)
(51.9)	**Loss on ordinary activities after taxation for the financial period**	18	**(30.4)**	(0.3)
	Loss per share:			
(9.0)p	basic	8	**(5.2)p**	(0.1)p
(9.0)p	*diluted*	8	**(5.2)p**	(0.1)p
	Adjusted loss per share – before exceptional items:			
(6.4)p	basic	8	**(5.2)p**	(0.5)p
(6.4)p	diluted	8	**(5.2)p**	(0.5)p

The above results relate to the continuing activities of the group.
The notes numbered 1 to 26 form an integral part of these financial statements.
Movements in reserves are shown in Note 18 to these financial statements.

24: Consolidated Statement of Total Recognised Gains and Losses for the Six Months Ended 31 December 2004

Audited Year Ended 30 June 2004 £m		Notes	**Audited Six Months Ended 31 December 2004 £m**	Unaudited Six Months Ended 31 December 2003 £m
(51.9)	*Loss for the financial period after taxation*		**(30.4)**	(0.3)
236.0	Unrealised surplus on revaluation of investment properties	9	**222.6**	157.2
184.1	**Total recognised gains and losses relating to the period**		**192.2**	156.9

Note of historical cost profits and losses

Audited Year Ended 30 June 2004 £m		Notes	**Audited Six Months Ended 31 December 2004 £m**	Unaudited Six Months Ended 31 December 2003 £m
(23.7)	Reported (loss)/profit on ordinary activities before taxation		**(17.1)**	2.8
438.8	Realisation of property revaluation gains of previous years	9	**–**	438.8
415.1	**Historical cost (loss)/profit on ordinary activities before taxation**		**(17.1)**	441.6
386.9	**Historical cost (loss)/profit for the period retained *after taxation and dividends***		**(30.4)**	438.5

The notes numbered 1 to 26 form an integral part of these financial statements.

Consolidated Balance Sheet :25
at 31 December 2004

Audited 30 June 2004 £m		Notes	**Audited 31 December 2004 £m**	Unaudited 31 December 2003 £m
	Fixed assets			
4,266.6	Investment properties	9	**4,844.7**	4,175.4
314.2	Properties under construction	9	**–**	250.6
241.6	Properties held for development	9	**251.5**	236.4
3.2	Other tangible fixed assets	10	**2.8**	4.1
5.6	Investments	11	**3.4**	0.8
4,831.2			**5,102.4**	4,667.3
	Current assets			
381.6	Debtors: due in more than one year	12	**479.5**	314.9
66.5	Debtors: due within one year	12	**70.8**	81.5
1,238.5	*Cash at bank and in hand*	13	**1,101.8**	2,357.9
1,686.6			**1,652.1**	2,754.3
(348.1)	**Creditors: Amounts falling due within one year**	14	**(369.5)**	(1,318.7)
1,338.5	**Net current assets**		**1,282.6**	1,435.6
6,169.7	**Total assets less current liabilities**		**6,385.0**	6,102.9
(4,228.0)	**Creditors: Amounts falling due after more than one year**	15	**(4,218.8)**	(4,240.1)
(238.2)	**Provisions for liabilities and charges**	16	**(270.5)**	(197.5)
1,703.5	**Net assets**		**1,895.7**	1,665.3
	Capital and reserves			
5.9	Called up share capital	17	**5.9**	5.9
	Reserves:			
4.1	– Share premium	18	**4.1**	4.1
1,462.9	– Revaluation reserve	18	**1,685.5**	1,384.1
0.7	– Capital redemption reserve	18	**0.7**	0.7
264.8	– Special reserve	18	**264.8**	264.8
–	– *Own shares*	18	**–**	(11.0)
(34.9)	– Profit and loss account	18	**(65.3)**	16.7
1,703.5	**Shareholders' funds – Equity**	19	**1,895.7**	1,665.3

The notes numbered 1 to 26 form an integral part of these financial statements.

Approved by the board on 23 March 2004 and signed on its behalf by:

A. PETER ANDERSON, II
Managing Director, Finance.

26: Company Balance Sheet at 31 December 2004

	Notes	**Audited 31 December 2004 £m**	Audited 30 June 2004 £m
Fixed assets			
Investments	11	**2,183.1**	2,176.1
Current assets			
Debtors	12	**98.1**	33.1
Cash at bank and in hand		**0.1**	8.4
		98.2	41.5
Creditors: Amounts falling due within one year	14	**(32.5)**	(39.7)
Net current assets		**65.7**	1.8
Total assets less current liabilities		**2,248.8**	2,177.9
Creditors: Amounts falling due after one year	15	**(434.3)**	(423.5)
Net assets		**1,814.5**	1,754.4
Capital and reserves			
Called up share capital	17	**5.9**	5.9
Reserves:			
– Share premium	18	**4.1**	4.1
– Capital redemption reserve	18	**0.7**	0.7
– Special reserve	18	**1,803.8**	1,743.7
– Profit and loss account	18	**–**	–
Shareholders' funds – Equity	19	**1,814.5**	1,754.4

The notes numbered 1 to 26 form an integral part of these financial statements.

Approved by the board on 23 March 2005 and signed on its behalf by:

A. PETER ANDERSON, II
Managing Director, Finance

Consolidated Cash Flow Statement for the Six Months Ended 31 December 2004

Audited Year Ended 30 June 2004 £m		Notes	**Audited Six Months Ended 31 December 2004 £m**	Unaudited Six Months Ended 31 December 2003 £m
89.8	**Net cash inflow from operating activities**	21	**98.6**	71.9
(254.1)	Returns on investments and servicing of finance	22	**(126.0)**	(130.4)
734.1	Capital expenditure and financial investment	22	**(101.0)**	837.8
480.0			**(227.0)**	707.4
569.8	**Cash (outflow)/inflow before management of liquid resources and financing**		**(128.4)**	779.3
184.5	Management of liquid resources	22	**108.2**	(940.1)
(360.4)	Financing	22	**(8.3)**	549.5
393.9	**(Decrease)/increase in cash in the period**	23	**(28.5)**	388.7

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

Notes 21 to 23 form an integral part of this cash flow statement.

28: Notes to the Financial Statements for the Six Months Ended 31 December 2004

1 Basis of Preparation and Principal Accounting Policies

The group has changed its accounting reference date from 30 June to 31 December. Financial statements are presented for the six months ended 31 December 2004 with comparatives for both the year ended 30 June 2004 being the previous statutory accounting period and, for information, the six months ended 31 December 2003. The financial information for the six months ended 31 December 2003 has been extracted from the group's unaudited interim financial statements to that date.

A summary of the principal accounting policies of the group, all of which have been applied consistently throughout the period and the preceding year is set out below.

(1) **Accounting Convention**
The financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties in accordance with Note 1(4) below, and in accordance with applicable accounting standards.

(2) **Basis of Consolidation**
The consolidated financial statements incorporate the assets and liabilities of all subsidiary undertakings at 31 December 2004 and their results for the period then ended.

(3) **Profit and Loss Account**
Turnover, which is stated net of VAT, comprises rental income and service charges. Marketing and administrative costs which are not development expenses are charged to the profit and loss account when incurred.

(4) **Property Interests**
The group's property interests comprise investment properties, properties under construction and properties held for development.

Investment properties
Investment properties are revalued annually and in accordance with SSAP 19 (Accounting for Investment Properties) no provision is made for depreciation. This departure from the requirements of the statutory accounting rules, which require all properties to be depreciated is, in the opinion of the directors, necessary for the financial statements to show a true and fair view. Depreciation is only one of the factors reflected in the annual valuation and the amount attributable to this factor is not capable of being separately identified or quantified. Surpluses or deficits on investment properties are transferred to the revaluation reserve, unless a deficit is expected to be permanent and exceeds previous surpluses recognised on the same property, in which case the excess is charged to the profit and loss account.

Properties under construction and properties held for development
Properties held for development and properties under construction which are to be retained are categorised as fixed assets and included in the consolidated balance sheet at their fair value at the date of acquisition by Canary Wharf Estate Limited of the Canary Wharf Holdings Limited ('CWHL') group in December 1995, together with subsequent additions at cost, less subsequent disposals, subject to any provision for impairment.

Properties under construction which are to be retained are transferred to investment properties on an individual building basis when construction is complete and the properties are substantially let.

Properties under construction or held for development where the group has entered into an agreement for sale are categorised as current assets and stated at the lower of cost (namely fair value at date of acquisition plus subsequent additions at cost) and net realisable value. Profits on sale of such properties are taken into account on completion of the sale contract.

Additions to properties under construction or held for development include all expenses of development, including attributable interest where appropriate. Interest capitalised is calculated by reference to the rate of interest payable on the borrowings drawn down to finance the development.

(5) **Lease Incentives**
Lease incentives include rent-free periods and other incentives given to lessees on entering into lease agreements. 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 open market rent review if earlier. The cost of lease incentives is included within debtors due in more than one year and spread on a straight line basis over a similar period. Accordingly the valuation of investment properties is reduced for these incentives.

(6) **Other Tangible Fixed Assets**
Other tangible fixed assets are depreciated so as to write-off the cost in equal annual instalments over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

Computer equipment	33%
Fixtures and equipment	25%

(7) **Debt**
Debt instruments are stated initially at the amount of net proceeds. The finance costs of such debt instruments are allocated to periods over the term of the debt at a constant rate on the carrying amount. The carrying amount is increased by the finance cost in respect of the reporting period and reduced by payments made in respect of the debt in that period. Finance costs are charged to the profit and loss account, except in the case of development financings where interest and related financing costs are capitalised as part of the cost of development.

Amounts receivable and payable, arising from derivatives which hedge interest rate exposures, are treated as part of financing costs.

(8) **Investments**
Fixed asset investments are stated at cost less any provision for impairment.

(9) **Finance Leases**
Sales and leasebacks (where the leaseback is treated as a finance lease, as required by SSAP 21 and FRS 5) are recorded in the balance sheet as assets and as obligations to pay future rentals. Rentals payable are apportioned between the finance charge and a reduction in the outstanding obligation for future amounts payable.

The total finance charge, which includes the amortisation of deferred expenses relating to finance leases, is allocated to accounting periods over the lease terms so as to produce a constant periodic charge on the remaining balance of the obligation for each accounting period.

(10) **Vacant Leasehold Property**
Provision is made for the present value of the anticipated net commitments in relation to leasehold properties where there is a shortfall in rental income receivable against the rent and other costs payable.

(11) **Pensions**
The group operates two defined contribution pension schemes. Pension contributions in respect of these schemes are accrued as they fall due.

30: Notes to the Financial Statements for the Six Months Ended 31 December 2004

(12) **Accounting for Share Options**

The B Shares held in trust in connection with the group's share option schemes are recorded as a fixed asset investment at amortised cost. Amortisation is charged to the same expense category as the employment cost of the relevant employee, spread on a straight line basis over the relevant performance criteria period.

(13) **Deferred Taxation**

Deferred tax assets and liabilities arise from timing differences between the recognition of gains and losses in the financial statements and their recognition in the corporation tax return. Under FRS 19 deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is not recognised when fixed assets are revalued unless by the balance sheet date there is a binding agreement to sell the revalued assets and the gain or loss expected to arise on sale has been recognised in the financial statements.

Deferred tax is measured on a discounted basis to reflect the time value of money over the period between the balance sheet date and the dates on which it is estimated that the underlying timing differences will reverse or, where the timing differences are not expected to reverse, a period not exceeding 50 years. Discount rates of 3.3% to 3.5% have been adopted reflecting the post tax yield to maturity that can be obtained on government bonds with similar maturity dates and currencies to those of the deferred tax assets or liabilities.

2 Operating Profit

	Six Months Ended 31 December 2004 £'000	Year Ended 30 June 2004 £'000
The operating profit is stated after charging:		
– Depreciation (Note 10)	**377**	829
– Directors' emoluments (Note 7)	**1,994**	2,825
– Operating lease rentals:		
land and buildings	**8,357**	16,714
– Remuneration of the auditors:		
Audit fees	**350**	340
Fees for other services:		
– further assurance	**76**	103
– taxation	**56**	164
– other non-audit	**81**	57
– acquisition of group by Songbird	**–**	735

The operating lease rentals relate to the vacant leasehold property referred to in Note 16.

Amortisation of Investment in Own Shares

In 2001 the company acquired 5.2 million of its own shares at a cost of £26.8 million in connection with certain of the group's share option schemes. Such shares are held in an employment trust and were initially recorded at cost prior to being written-down to the exercise price over the period to vesting.

During the year ended 30 June 2004 share options with an exercise price of 65.82p per share were exercised by certain of the group's directors and employees which were satisfied from the shares held in trust. As it was not originally envisaged that options with an exercise price below £3.3117 would be satisfied from the shares held in trust, the exercise of 65.82p options gave rise to a charge of £2.6535 per share resulting in a write-down in the carrying value of £4.2 million. Of this total, £0.5 million related to employees of the group's contracting subsidiary and was charged to properties under development. The remaining £3.7 million was charged to operating profit. Following the exercise of these options 1.7 million shares remained in trust and in connection with the Offer those remaining shares were exchanged for B Shares valued at £2.95 per share. This gave rise to an additional write-down of £0.7 million, which was charged to operating profit. The total amount charged to the profit and loss account of £4.4 million was treated as an exceptional item. These amounts did not give rise to deferred tax.

For the six months ended 31 December 2004, amortisation totalled £2.0 million (six months ended 31 December 2003 – £Nil) of which £0.3 million related to employees of the group's contracting subsidiary and was charged as a development expense. The remaining £1.7 million was charged as an operting expense.

Bid Costs

During the year ended 30 June 2004, the group incurred £23.6 million of costs in respect of the Offer.

Audit Fees

During the year ended 30 June 2004, fees of £735,000 were paid to the auditors in connection with the Offer. Such fees were included within the bid costs referred to above.

Of audit fees of £350,000 incurred in the six months ended 31 December 2004, £45,000 were incurred by the company (year ended 30 June 2004 – £45,000 out of £340,000).

Depreciation

For the six months ended 31 December 2004, depreciation of £96,000 (year ended 30 June 2004 – £1,300,000) relating to fixtures and fittings in offices occupied by the group's construction personnel has been treated as a development expense and capitalised within the cost of properties under construction.

3 Interest Receivable

	Six Months Ended 31 December 2004 £m	Year Ended 30 June 2004 £m
Bank interest receivable	**26.8**	50.3

Bank interest receivable of £23.2 million was earned in the six months ended 31 December 2003.

32: Notes to the Financial Statements for the Six Months Ended 31 December 2004

4 Interest Payable

	Six Months Ended 31 December 2004 £m	Year Ended 30 June 2004 £m
Notes and debentures	**100.2**	233.7
Bank loans and overdrafts	**–**	4.6
Finance lease charges	**38.0**	58.0
	138.2	296.3
Less:		
Interest at 4.9% (year ended 30 June 2004 – 5.7%) on development financings transferred to development properties	**(1.1)**	(24.6)
	137.1	271.7
Exceptional items: charges relating to early repayment of securitised debt:		
– breakage costs of hedging instruments	**–**	44.1
– write-off of deferred financing costs	**–**	12.4
	–	56.5

In January 2004 £876.0 million of securitised debt was prepaid following the sale of 5 Canada Square and 25 Canada Square in December 2003. Crystallised costs arising from the repayment of debt were charged to the profit and loss account for the year ended 30 June 2004 as an exceptional item. The exceptional charge comprised breakage costs relating to hedging instruments of £44.1 million and the write-off of deferred financing costs of £12.4 million (see below). The breakage costs included a 3% premium payable on redemption of the B1 notes. There was no deferred tax arising as a result of this transaction.

Financing costs relating to the inception of the group's securitised debt are deferred and amortised to the profit and loss account over the term of the debt at a constant rate based on the carrying amount of the debt in accordance with Financial Reporting Standard 4 (Capital Instruments). As a result of prepaying certain of the debt early, the unamortised portion of the financing costs relating to the debt prepaid, totalling £12.4 million, was written-off to the profit and loss account in the year ended 30 June 2004. There was no deferred tax arising as a result of this transaction.

For the six months ended 31 December 2004, interest payable of £1.1 million (year ended 30 June 2004 – £24.6 million; six months ended 31 December 2003 – £17.6 million) has been to transferred properties under construction (Note 9). The amount transferred included £1.1 million (year ended 30 June 2004 – £20.2 million; six months ended 31 December 2003 – £13.4 million) attributable to the cost of funds forming part of the group's general borrowings which were utilised in financing construction. None of the amount transferred in respect of the six months ended 31 December 2004 (year ended 30 June 2004 – £4.4 million; six months ended 31 December 2003 – £4.2 million) was attributable to funds borrowed and expenses incurred specifically for the purpose of financing the construction of development properties.

For the six months ended 31 December 2003 interest payable comprised £127.6 million in respect of notes and debentures, £4.4 million of bank loans and overdrafts and £25.0 million of finance lease charges. Interest payable of £17.6 million was transferred to development properties, including £13.4 million attributable to the cost of funds forming part of the group's general borrowings which were utilised in financing construction.

5 Taxation

	Six Months Ended 31 December 2004 £m	Year Ended 30 June 2004 £m
Current tax:		
UK corporation tax (see below)	**–**	–
Deferred tax:		
Origination and reversal of timing differences:		
– current period	**(3.0)**	(11.6)
– prior periods	**(6.3)**	(17.1)
Net effect of discount	**(4.0)**	0.5
Total deferred tax (Note 16)	**(13.3)**	(28.2)
Total tax on profit on ordinary activities	**(13.3)**	(28.2)
Tax reconciliation:		
Group loss on ordinary activities before tax	**(17.1)**	(23.7)
Tax on loss on ordinary activities at UK corporation tax rate of 30%	**(5.1)**	(7.1)
Effects of:		
Tax losses and other timing differences	**(5.2)**	–
Expenses not deductible for tax purposes	**0.1**	7.1
Current tax charge for the period	**–**	–

No provision for corporation tax has been made in the consolidated results of the group for the six months to 31 December 2004 or the previous year due to tax losses arising in those periods, 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.

The tax charges for the six months ended 31 December 2004 and the year ended 30 June 2004 relate solely to deferred tax. For the year ended 30 June 2004, part of the deferred tax charge related to prior accounting periods up to 30 June 2003 due to the provisional agreement with the Inland Revenue that the tax treatment of Canary Wharf Limited ('CWL') and Canary Wharf Contractors Limited in relation to the advance payment under the Brackendown contract (the design and construct contract in relation to the later phases of the Canary Wharf development) should follow the accounting treatment. This agreement resulted in a number of changes to the brought forward tax position of the group; in particular, losses brought forward were reduced and additional EZAs claimed. These adjustments were balanced by a reduction in the taxable profits that may arise in CWL on the disposal of its trading properties. However, as no deferred tax had been recognised in respect of such contingent gains, the increased deferred tax liability required as a result of the additional EZA claim was not reduced to reflect this deferred benefit of £59.0 million. The benefit of the reduction in taxable profit in CWL for the year ended 30 June 2004 by £112.3 million was not reflected in the group tax charge.

The tax charge for the six months ended 31 December 2003 was £3.1 million and related entirely to deferred tax.

34: Notes to the Financial Statements for the Six Months Ended 31 December 2004

6 Loss for the Financial Period

For the six months ended 31 December 2004, of the consolidated loss transferred from reserves of £30.4 million (year ended 30 June 2004 – £51.9 million), a profit of £60.1 million (year ended 30 June 2004 – loss of £319.1 million) is dealt with in the company's financial statements. For the six months ended 31 December 2004, the profit included £70.0 million (year ended 30 June 2004 – £Nil) attributable to subsidiary dividends receivable. As permitted by Section 230(3) of the Companies Act 1985, no profit and loss account is presented for the company in respect of the six months ended 31 December 2004.

7 Directors and Employees

(1) **Staff Costs** – all employees of the group, including directors:

	Six Months Ended 31 December 2004 £m	Year Ended 30 June 2004 £m
Wages and salaries	**24.6**	50.4
Social security costs	**2.5**	5.8
Other pension costs (Note 20)	**1.3**	2.7
	28.4	58.9

The average monthly number of employees, including directors, of the group during the six months to 31 December 2004 was 863 (year ended 30 June 2004 – 1,026) as set out below.

	Six Months Ended 31 December 2004	Year Ended 30 June 2004
Construction	**189**	305
Property management	**529**	554
Administration	**145**	167
	863	1,026

(2) **Directors' Remuneration**

	Six Months Ended 31 December 2004 £'000	Year Ended 30 June 2004 £'000
Emoluments (including bonuses)	**1,994**	2,825
Gains made on the exercise of share options	**–**	1,970

Benefits are accruing under the company's money purchase pension plan on behalf of the executive directors. In addition to the emoluments referred to above, during the six months a contribution of £312,000 in lieu of bonus was made to the company's money purchase pension plan (year ended 30 June 2004 – £Nil).

(3) **Highest Paid Director**

The amounts set out above include remuneration in respect of the highest paid director as follows:

	Six Months Ended 31 December 2004 £'000	Year Ended 30 June 2004 £'000
Emoluments (including bonuses)	1,107	1,000
Gains made on the exercise of share options	–	1,970

No payments were made during the period to the company's money purchase pension plan (year ended 30 June 2004 – £Nil) in respect of the highest paid director.

(4) **Directors' Share Options**

The aggregate emoluments disclosed above do not include any amounts for the value of options to subscribe for ordinary shares in the company, or its ultimate parent undertaking, Songbird, during the period. The following table provides details of the executive directors' share options under the company's share option plans both during the period and as at 31 December 2004.

The 1997 Canary Wharf Group plc Executive Share Option Plan and the Canary Wharf Company Share Option Plan

	Approved/ Unapproved	1 July 2004	Exercised/ Waived[1]	31 December 2004	Price per option (p)	Market value on exercise £	Gain on Exercise £
A P Anderson II	Unapproved	797,940	797,940	–	331.17	–	–
	Unapproved	398,969	398,969	–	331.17	–	–
	Approved	6,033	6,033	–	400.00	–	–
	Approved	3,016	3,016	–	400.00	–	–
	Unapproved	905,879	905,879	–	331.17	–	–
		2,111,837	**–**				
G Iacobescu	Unapproved	1,522,643	1,522,643	–	331.17	–	–
	Unapproved	761,322	761,322	–	331.17	–	–
	Approved	6,033	6,033	–	400.00	–	–
	Approved	3,016	3,016	–	400.00	–	–
	Unapproved	1,811,758	1,811,758	–	331.17	–	–
		4,104,772	**–**				

Note:

(1) Waived in consideration of a grant of options under The Canary Wharf 2004 Deferred Share Plan (Note 17).

The Canary Wharf 2004 Deferred Share Plan (the 'Deferred Plan')

Detail on the Deferred Plan, under which options have been granted over B Shares can be obtained from Note 17.

	1 July 2004	Granted	Exercised	31 December 2004	Earliest Exercise Date[1]	Expiry Date
A P Anderson II	–	759,950	–	759,950	21.05.05	23.09.07
		759,950		**759,950**		
G Iacobescu	–	879,940	–	879,940	21.05.05	23.09.07
		879,940		**879,940**		

Notes:

(1) An option may be exercised in respect of 50% of the B Shares to which it relates on or after 21 May 2005 and the remaining 50% on or after 21 May 2006 upon payment to the company of £1 for each exercise.

(2) These options are unapproved by the Inland Revenue.

8 Loss Per Share

The basic and diluted loss per share has been calculated by reference to the loss attributable to ordinary shareholders for the six months ended 31 December 2004 of £30.4 million (year ended June 2004 – £51.9 million; six months ended 31 December 2003 – £0.3 million) and on the weighted average of 585.0 million shares in issue (year ended June 2004 – 585.0 million; six months ended 31 December 2003 – 585.0 million).

For the six months ended 31 December 2004, the year ended 30 June 2004 and the six months ended 31 December 2003, the weighted average number of ordinary shares for the purposes of calculating the diluted loss per share is identical to that used for the basic loss per ordinary share. This is because the exercise of the remaining share options and warrants would have the effect of reducing the loss per ordinary share and is therefore not treated as dilutive under the terms of Financial Reporting Standard 14 (Earnings per share).

The basic loss per share excluding exceptional items and the diluted earnings per share excluding exceptional items for the six months ended 31 December 2004 have been calculated on the loss for that period of £30.4 million (year ended 30 June 2004 – £37.2 million; six months ended 31 December 2003 – £2.9 million). There were no exceptional items in the six months ended 31 December 2004 (year ended 30 June 2004 – loss of £14.7 million; six months ended 31 December 2003 – profit of £2.6 million).

9 Investment Properties and Properties Under Construction and Held for Development

Freehold properties held as tangible fixed assets:

	Investment Properties £m	Properties Under Construction £m	Properties Held for Development £m
1 July 2004 pre-adjustment for UITF 28	4,648.2	314.2	241.6
Adjustment for UITF 28	(381.6)	–	–
As at 1 July 2004	4,266.6	314.2	241.6
Additions including interest (net of adjustment for UITF 28)	18.7	22.6	9.9
Transfer of completed properties	336.8	(336.8)	–
Revaluation	222.6	–	–
As at 31 December 2004	**4,844.7**	**–**	**251.5**
Adjustment for UITF 28 (Note 12)	479.5		
Market Value at 31 December 2004	**5,324.2**		
Of which, subject to lease and finance leaseback arrangements	1,574.2		
Historical cost	3,133.9		

Additions to properties for the six months ended 31 December 2004 totalled £51.2 million. In the above table additions are stated net of £57.2 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 in more than one year (Note 12).

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 12).

During the six months ended 31 December 2004 the group completed construction of two buildings on the Canary Wharf estate that were retained as investment properties, 1 Churchill Place and Churchill Place Retail. These properties, along with the group's other investment properties, were revalued externally at 31 December 2004 on the basis of Market Value in accordance with the Appraisal and Valuation Manual published by the Royal Institution of Chartered Surveyors ('Market Value'). 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 1.75% at both 31 December 2004 and 30 June 2004 taking account of the stamp duty relief for properties in disadvantaged areas announced in the 2003 Budget. Subsequent to the period end it was announced that this concession would be withdrawn with effect from 16 March 2005.

The surplus arising on the valuations in the period ended 31 December 2004 of £222.6 million comprises the following:

(i) a surplus of £158.4 million on properties completed during the period, taking into account UITF 28 and transferred to investment properties; and

(ii) a surplus of £64.2 million in respect of investment properties held throughout the period. This represents an uplift in their Market Value of £119.1 million, of which £18.7 million is accounted for by additions in the period, and a reduction of £36.2 million arising from the treatment of incentives which have been deducted from the valuations at 31 December 2004.

Properties held for development at 31 December 2004, which are to be retained as investment properties, are carried at their fair value at the time of acquisition of the CWHL group in December 1995, less subsequent disposals plus additions at cost, subject to any provision for impairment.

In December 2003, the group disposed of two buildings located at 5 Canada Square and 25 Canada Square. The sale of these properties resulted in a profit on disposal of £69.8 million which has been shown as an excepional item in the profit and loss account for the period. The disposal also resulted in a transfer to the profit and loss reseve from the revaluation reserve of £438.8 million representing the realisation of prior year revaluation gains. This transaction did not give rise to current tax or deferred tax in the year.

10 Other Tangible Fixed Assets

	Fixtures and Equipment £m	Computer Equipment £m	Total £m
Cost:			
At 1 July 2004	13.8	0.8	14.6
Additions	–	–	–
At 31 December 2004	13.8	0.8	14.6
Depreciation:			
At 1 July 2004	(10.7)	(0.7)	(11.4)
Charge for the period (Note 2)	(0.3)	(0.1)	(0.4)
At 31 December 2004	(11.0)	(0.8)	(11.8)
Net book amount:			
At 31 December 2004	**2.8**	**–**	**2.8**
At 30 June 2004	3.1	0.1	3.2

11 Investments

	At 31 December 2004		At 30 June 2004	
	Group £m	**Company £m**	Group £m	Company £m
Subsidiary undertakings	**–**	**2,183.1**	–	2,176.1
Shares	**3.0**	**–**	5.0	–
Other investments	**0.4**	**–**	0.6	–
	3.4	**2,183.1**	5.6	2,176.1

The investment in shares represents B Shares held in trust in connection with the group's share option schemes (Note 17).

	£m
Cost:	
At 30 June 2004 and 31 December 2004	8.3
Amounts written-off:	
At 1 July 2004	(3.3)
Written-off	(2.0)
At 31 December 2004	*(5.3)*
Net book amount:	
At 31 December 2004	**3.0**
At 30 June 2004	5.0

The company holds the entire issued share capital of Canary Wharf Estate Limited ('CWEL') comprising 651,778,264 ordinary shares of 1p each. The directors have considered the value of the company's investment in CWEL at 31 December 2004, which resulted in a release of provision of £7.0 million. At 31 December 2004 the investment was stated at £2,183.1 million, net of a remaining provision of £802.0 million.

40: Notes to the Financial Statements for the Six Months Ended 31 December 2004

At 31 December 2004 the company's principal subsidiary undertakings, all of which were incorporated in Great Britain and registered in England and Wales and wholly owned, were as follows:

Name	Description of shares	Principal activities
Canary Wharf (Two) Limited [1], [2]	£1 Ordinary	Holding company
Canary Wharf Estate Limited [1]	£1 Ordinary	Holding company
Canary Wharf Holdings Limited	£1 Ordinary £1 Preferred Redeemable	Holding company
Canary Wharf Limited	£1 Ordinary £1 Preferred Redeemable	Property development
Canary Wharf Investments Limited	£1 Ordinary £1 Deferred	Property investment
Canary Wharf Contractors Limited	£1 Ordinary	Property construction
Canary Wharf Management Limited	£1 Ordinary	Property management
Heron Quays Properties Limited	*£1 Ordinary*	*Property development*
Norquil Limited	£1 Ordinary	Property investment
Canary Wharf Finance II plc ('CWFII')	£1 Ordinary	Investment company
CW Lending II Limited	£1 Ordinary	Investment company
Canary Wharf Finance plc ('CWF')	£1 Ordinary	Investment company
CW Lending Limited	£1 Ordinary	Investment company

Notes:

(1) Held directly by the parent company.

(2) Changed its name to CWCB Investments (DS7) Limited on 1 March 2005.

A complete list of the company's subsidiary undertakings will be attached to the company's annual return when it is submitted to Companies House.

In March 2001, the group acquired 52,079 £1 ordinary shares and 2,604 convertible shares in HighSpeed Office Limited ('HSO'), an unlisted company registered in England and Wales, being approximately 13% of its nominal share capital. The principal activity of HSO is the provision of broadband telecommunications services. The consideration paid was £2.1 million representing the historical cost to the group including fees. During the period ended 31 December 2004 the carrying value of the investment was written-down by £0.2 million to £0.4 million, based on the net asset value of HSO at that date.

12 Debtors

	At 31 December 2004		At 30 June 2004	
	Group £m	**Company £m**	Group £m	Company £m
Due within one year:				
Trade debtors	**26.9**	**–**	14.5	–
Other debtors	**8.4**	**0.3**	9.6	1.8
Amounts owed by subsidiary undertakings	**–**	**96.7**	–	30.2
Prepayments and accrued income	**35.5**	**1.1**	42.4	1.1
	70.8	**98.1**	66.5	33.1

	Rent-free Periods £m	Other Tenant Incentives £m	Total £m
Due in more than one year:			
At 1 July 2004	102.0	279.6	381.6
Transfer from properties held as fixed assets (Note 9)	–	57.2	57.2
Recognition of rent during rent-free periods	33.8	–	33.8
Amortisation of lease incentives	(1.1)	(21.0)	(22.1)
Vacant leasehold and other lease provisions (Note 16)	–	29.0	29.0
At 31 December 2004	**134.7**	**344.8**	**479.5**

Debtors due in more than one year comprise the cumulative adjustment in respect of lease incentives required by UITF 28. Lease incentives include rent-free periods and other incentives given to lessees on entering into lease arrangements. Under UITF 28, the aggregate cost of lease incentives is recognised as an adjustment to rental income, allocated evenly over the lease term or the term to the first market rent review if earlier. 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.

The transfer from properties held as fixed assets in respect of newly completed properties primarily relates to tenant incentives in respect of 1 Churchill Place which reached practical completion during the six months ended 31 December 2004.

13 Financial Assets

The group's financial assets comprise short term trade debtors (Note 12) and cash deposits. Cash deposits totalled £1,101.8 million at 31 December 2004 (30 June 2004 – £1,238.5 million), comprising deposits placed on money market at call and term rates. Total cash deposits included £458.0 million (30 June 2004 – £558.7 million) held by third parties as cash collateral for the group's borrowings and a further £1.6 million (30 June 2004 – £9.1 million) charged to third parties as security for the group's obligations.

42: Notes to the Financial Statements for the Six Months Ended 31 December 2004

Of the total cash deposits, £4.4 million (30 June 2004 – £3.9 million) was invested at fixed rates and the remainder at floating rates. The rate of interest on the fixed rate deposit at 31 December 2004 was 7.8% (30 June 2004 – 7.8%). The weighted average period remaining on fixed deposits was 5.5 years at 31 December 2004 (30 June 2004 – 5.8 years).

14 Creditors: Amounts Falling Due Within One Year

	At 31 December 2004		At 30 June 2004	
	Group £m	**Company £m**	Group £m	Company £m
Borrowings (Note 15)	**151.7**	**–**	178.5	–
Trade creditors	**30.0**	**0.1**	42.9	0.1
Amounts due to subsidiary undertakings	**–**	**30.0**	–	38.6
Taxation and social security costs	**4.3**	**–**	5.6	–
Other creditors	**5.0**	**1.0**	3.8	0.1
Accruals	**106.9**	**1.4**	82.7	0.9
Deferred income	**71.6**	**–**	34.6	–
	369.5	**32.5**	348.1	39.7

15 Creditors: Amounts Falling Due After More Than One Year

Creditors due after more than one year comprise:

	At 31 December 2004		At 30 June 2004	
	Group £m	**Company £m**	Group £m	Company £m
Securitised debt	**2,751.8**	**–**	2,768.5	–
Secured loans	**223.0**	**–**	223.0	–
Finance lease obligations	**1,244.0**	**–**	1,236.5	–
Amounts due from subsidiary undertakings	**–**	**434.3**	–	423.5
	4,218.8	**434.3**	4,228.0	423.5

The amounts at which borrowings are stated comprise:

Securitised Debt	Secured Loans £m	Finance Lease Obligations £m	Total £m	£m
At 1 July 2004	2,838.5	310.8	1,257.2	4,406.5
Drawn down in period	–	–	5.1	5.1
Deferred financing expenses	0.7	0.1	0.2	1.0
Accrued finance charges	(3.1)	–	(17.8)	(20.9)
Repaid in period	(21.2)	–	–	(21.2)
At 31 December 2004	**2,814.9**	**310.9**	**1,244.7**	**4,370.5**
Payable within one year or on demand	63.1	87.9	0.7	151.7
Payable in more than one year	2,751.8	223.0	1,244.0	4,218.8
	2,814.9	310.9	1,244.7	4,370.5

The disclosures in this note should be read in conjunction with the 'Treasury Objectives' and 'Borrowings' sections of the 'Operating and Financial Review' on pages 13 to 15.

(1) In December 1997 the company's subsidiary, CWF, issued £555 million of first mortgage debentures, the principal terms of which were:

Tranche	£m	Interest	Repayment
Issued:			
A	270	7.230%	By instalment 2004 to 2027
B	80	7.425%	By instalment 2004 to 2027
C	120	Stepped	By instalment 2006 to 2027
D	85	Floating	Repaid 2003
	555		

The D notes were redeemed in January 2003. The remaining debentures are secured on certain property interests of the group and the rental income stream therefrom. Redemption of the D notes was funded from a bank loan facility secured by way of a second charge over certain property interests (Note 15 (9) below).

Interest on the C notes increases in steps from 5% payable until October 1999 to 9.535% payable from October 2006.

(2) In February 2001, CWF issued an additional £120 million of first mortgage debentures at a premium of £14.7 million. The tap issue comprised a further issue of £105 million of A notes and £15 million of B notes which are subject to the same conditions as the original notes issued in December 1997.

The premium on issue of debentures is amortised to the profit and loss account on a straight line basis over the life of the relevant note. At 31 December 2004, £11.2 million remained unamortised.

Including the original notes still in issue, the weighted average maturity of the debentures at 31 December 2004 was 11.4 years. The debentures may be redeemed at the option of the issuer in an aggregate amount of not less than £1 million on any interest payment date, subject to the current ratings of the debentures not being adversely affected and certain other conditions affecting the amount to be redeemed.

In January 2004, amortisation commenced on the A notes and B notes. As at 31 December 2004, £341.7 million of A notes and £91.8 million of B notes remained outstanding.

44: Notes to the Financial Statements for the Six Months Ended 31 December 2004

(3) In June 2000 a group company, CWFII, issued £975 million of first mortgage debentures. The notes comprised:

(a) £475 million term notes

The term notes consist of five tranches, two of which, totalling £90 million, were immediately repurchased. The principal terms of the tranches are:

Tranche	£m	Interest	Repayment
Issued:			
A1	240	6.455%	By instalment 2009 to 2033
A2	60	Floating	Repaid January 2004
B	85	6.800%	By instalment 2005 to 2033
	385		
Re-acquired:			
C	45	6.966%	By instalment 2011 to 2033
D	45	Floating	Part repaid January 2004, remainder by instalment 2011 to 2033.
	475		

The notes were secured on certain property interests of the group and the rental income stream therefrom.

The A2 notes were issued in a principal amount of €100 million, with interest payable at three month EURIBOR plus a margin of 0.3%. The A2 notes were fully hedged via a currency swap, whereby all principal and interest liabilities were swapped into sterling providing an initial principal of £60 million and interest payable fixed at 6.995%. In January 2004 the remaining notes were repaid in full (Note 15 (7)).

Interest on the D notes is payable at a rate of three month LIBOR plus a margin of 1.75% until July 2005 and thereafter 4.375%. The D notes are fully hedged using an interest rate collar, with a cap of 9% and a floor of 5%. In January 2004, £25 million of the D notes were repaid (Note 15 (7)).

(b) £500 million revolving notes

The securitisation allows for up to £500 million of 'AAA' and 'AA' rated fully revolving short term notes, of which £250 million was underwritten for five years from June 2000 by a banking syndicate. There were no immediate proceeds from the revolving notes as they were repurchased by the issuer. In October 2002, £125.0 million of the 'AAA' rated and £60.0 million of the 'AA' rated notes were reissued (Note 15(6)). The commitment fee on the remaining £65 million of underwritten notes is 0.25%. Hedging is only required when the notes are drawn down. In January 2004 the £185.0 million of reissued notes were repaid in full (Note 15 (7)).

(4) In June 2001, CWFII raised an additional £875.0 million of first mortgage debentures at a premium of £19.8 million. The notes comprise further issues of A1 and A2 notes together with three new tranches. The principal terms of the notes issued were:

Tranche	£m	Interest	Repayment
A1	475	6.455%	By instalment 2009 to 2033
A2	50	Floating	Repaid January 2004
A3	200	5.952%	By instalment 2032 to 2037
A4	90	Floating	Repaid January 2004
B1	60	Floating	Repaid January 2004
	875		

The notes were secured on certain property interests of the group and the rental income stream therefrom.

The A1 notes were issued at a premium of £20.2 million on a principal amount of £475 million.

The A2 notes were issued in a principal amount of €83 million, with interest payable at three month EURIBOR plus a margin of 0.3%. These notes were fully hedged via a currency swap, whereby all principal and interest liabilities were swapped into sterling providing an initial principal of £50.0 million plus a premium of £0.2 million and interest payable fixed at 6.078%. In January 2004 these notes were repaid in full (Note 15 (7)).

The A3 notes were issued at par in a principal amount of £200 million.

Interest on the A4 notes was payable at three month LIBOR plus 0.375% stepping up to LIBOR plus 0.95% in July 2011. These notes were fully hedged at a fixed rate of 6.155% to July 2011 and 6.73% thereafter. In January 2004 these notes were repaid in full (Note 15 (7)).

The B1 notes were issued in a principal amount of €100.0 million with interest payable at three month EURIBOR plus a margin of 0.45%. These notes were fully hedged via a currency swap, whereby all principal and interest liabilities were swapped into sterling providing an initial principal of £60.0 million less a discount of £0.6 million and interest payable fixed at 6.265%. In January 2004 these notes were repaid in full (Note 15 (7)).

(5) In February 2002, CWFII raised an additional £1,257.0 million of first mortgage debentures at a premium of £83.1 million. The notes comprised further issues of A1, A3, and B notes together with a new US dollar denominated tranche. The principal terms of the notes issued were:

Tranche	£m	Interest	Repayment
A1	500	6.455%	By instalment 2009 to 2033
A3	200	5.952%	By instalment 2032 to 2037
A5	407	Floating	Part repaid January 2004, remainder by instalment 2012–2033
B	150	6.800%	By instalment 2005 to 2033
	1,257		

The notes were secured on certain property interests of the group and the rental income stream therefrom.

The A1 notes were issued at a premium of £48.6 million on a principal amount of £500.0 million and the A3 notes were issued at a premium of £17.3 million on a principal amount of £200.0 million.

The A5 notes were issued in a principal amount of US$579.0 million with interest payable at three month US$ LIBOR plus a margin of 0.39% to July 2010 and thereafter 0.975%. These notes were hedged via currency swaps, whereby principal and interest liabilities were swapped into sterling providing an initial principal of

£407.0 million and interest payable fixed at 6.002% to July 2010 and 6.218% thereafter. The margin step up to 0.975% is not hedged. In January 2004, £115.5 million of these notes were repaid (Note 15 (7)).

The B notes were issued at a premium of £17.2 million on a principal amount of £150.0 million.

(6) In October 2002 a further tap issue was completed by CWFII raising £510.0 million. The notes issued comprised a new A6 tranche in a principal amount of £325 million. The company also reissued £125.0 million of 'AAA' rated and £60.0 million of 'AA' rated fully revolving short-term notes (see Note 15 3 (b)).

The principal terms of the notes issued were:

Tranche	£m	Interest	Repayment
Issued:			
A6	325	Floating	Repaid January 2004
Re-issued:			
R1	125	Floating	Repaid January 2004
R2	60	Floating	Repaid January 2004
	510		

The notes were secured on certain property interests of the group and the rental income stream therefrom.

Interest on the A6 notes was payable at three month LIBOR plus 0.45% stepping up to LIBOR plus 1.125% in October 2005. These notes were fully hedged at 5.499% to October 2005 and 6.174% thereafter. Interest on the revolving short-term notes was payable at three month LIBOR with a margin of 0.4% for the 'AAA' notes and 0.5% for the 'AA' notes. These latter notes were fully hedged at 5.424% for the 'AAA' notes and 5.459% for the 'AA' notes. In January 2004 all three classes of notes were repaid in full (Note 15 (7)).

(7) In January 2004, the group repaid £901.3 million of notes from its second securitisation, including £25.0 million of notes held by the group itself, funded by the proceeds from the sale of 5 Canada Square and 25 Canada Square in December 2003. The repayment comprised the following notes:

Tranche	Principal £m	Repaid £m
A2	100.8	100.8
A4	90.0	90.0
A5	407.0	115.5
A6	325.0	325.0
R1	125.0	125.0
R2	60.0	60.0
B1	60.0	60.0
		876.3
D (held by the group)	45.0	25.0
		901.3

As a result of the repayment of the notes in January 2004 certain crystallised breakage costs relating to hedging instruments associated with the notes repaid were charged to the profit and loss account as an exceptional item (Note 4).

Following the partial cancellation of the A5 swaps, the weighted average interest rate now payable under the A5 notes is 5.979% to July 2010 and 6.265% thereafter. The margin step up to 0.975% remains unhedged.

The premium on issue of debentures is amortised to the profit and loss account on a straight line basis over the life of the relevant note. At 31 December 2004, £89.9 million remained unamortised.

Following the repayments described above, the weighted average maturity of the debentures at 31 December was 18.5 years. The debentures may be redeemed at the option of the issuer in an aggregate amount of not less than £1 million (except the A5 notes which may not be less than $1 million) on any interest payment date subject to the current rating of the debentures not being adversely affected and certain other conditions affecting the amount to be redeemed.

(8) In March 2003 a group company entered into an investment loan in a principal amount of £225.0 million secured on 20 Canada Square. Interest was charged at LIBOR plus 1.125%. The loan was fully hedged at 6.056% and was secured by first ranking fixed and floating charges over 20 Canada Square. The loan was repaid in March 2005 following the sale of the property.

(9) In January 2003 a group company drew down £85.0 million on a bank facility to fund the redemption of the D notes of the December 1997 securitisation (Note 15 (1)). The original term of the facility was 18 months to July 2004 but has subsequently been rolled over until July 2005. The loan carries interest of LIBOR plus 2.1% subject to an interest rate collar arrangement which serves to cap the portion linked to LIBOR to 5.5% until July 2004. The facility is now unhedged. The loan is secured by way of a second charge over the property interests included in the CWF securitisation and by an interest guarantee from CWL.

(10) In December 2002, the group entered into a facility to borrow up to £608.8 million secured against 1 Churchill Place, a property that reached practical completion on 23 July 2004. The facility was drawn down subsequent to the period end in January 2005. The loan is fully amortising with a final maturity in July 2034. The loan was used in part to provide £545.0 million as cash collateral for the finance lease referred to in Note 15 (11) below. The balance of the loan was retained for the general corporate purposes of the group. The loan carries a hedged interest rate of 5.82%.

(11) In September 2003 the group entered into a finance lease transaction in relation to 1 Churchill Place, a property then under construction. In accordance with the terms of this transaction, following practical completion of the building in July 2004, the group subsequently completed in August 2004 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 group then immediately 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 on completion. Subsequent to the draw down referred to in Note 15 (10) above, the finance lease rents are calculated by reference to a notional rate of LIBID on the notional amount of principal outstanding under the finance lease. At 31 December 2004 the finance lease was stated at £646.5 million representing the initial net proceeds. The initial proceeds from the finance lease were used in part to repay the construction funding secured against 1 Churchill Place, totalling £105.3 million, and also to fund the remaining construction costs of the building.

(12) The group's obligations under certain other finance leases are secured by first-ranking fixed and floating charges over the property which is the subject of those finance leases and over certain cash deposits (Note 24). The weighted average rate of interest implicit in the group's finance leases is 5.6% at 31 December 2004.

48: Notes to the Financial Statements for the Six Months Ended 31 December 2004

(13) Loans and finance lease obligations (excluding accrued interest payable):

	At 31 December 2004		At 30 June 2004	
	Loans £m	**Finance Leases £m**	Loans £m	Finance Leases £m
In less than one year or on demand	**120.6**	**–**	121.6	–
In more than one year but less than two years	**26.5**	**–**	30.2	–
In more than two years but not more than five years	**125.7**	**–**	95.4	–
In more than five years	**2,822.6**	**1,244.0**	2,865.9	1,236.5
	3,095.4	**1,244.0**	3,113.1	1,236.5

(14) After taking into account interest rate hedging entered into by the group, the interest rate profile of the group's financial liabilities at 31 December 2004 (including accrued interest payable) was:

	At 31 December 2004			At 30 June 2004		
	Financial Liabilities £m	**Floating Rate Financial Liabilities £m**	**Fixed Rate Total £m**	Financial Liabilities £m	Floating Rate Financial Liabilities £m	Fixed Rate Total £m
Securitised debt	**–**	**2,814.9**	**2,814.9**	–	2,838.5	2,838.5
Secured loans	**85.0**	**225.9**	**310.9**	–	310.8	310.8
Finance leases	**1,001.9**	**242.8**	**1,244.7**	349.4	907.8	1,257.2
	1,086.9	**3,283.6**	**4,370.5**	349.4	4,057.1	4,406.5
Less: Cash collateral for borrowings (Note 13)	**(333.0)**	**(125.0)**	**(458.0)**	(321.0)	(237.7)	(558.7)
	753.9	**3,158.6**	**3,912.5**	28.4	3,819.4	3,847.8

The group's floating rate liabilities comprise sterling denominated bank borrowings and finance leases which bear interest at rates linked to LIBOR.

In respect of the group's fixed rate financial liabilities:

	At 31 December 2004		At 30 June 2004	
	Weighted Average Interest Rate %	**Weighted Average Interest Rate Years**	Weighted Average Interest Rate %	Weighted Average Interest Rate Years
Securitised debt	**6.5**	**17.1**	6.5	17.5
Finance leases	**10.0**	**11.9**	6.5	26.6

(15) In accordance with Financial Reporting Standard 13 (Derivatives and Other Financial Instruments: Disclosures) *the group is required to disclose the fair values of its financial assets and liabilities (excluding debtors and* creditors falling due within one year) and at 31 December 2004 these were as follows:

	At 31 December 2004		At 30 June 2004	
	Book Value £m	**Fair Value £m**	Book Value £m	Fair Value £m
Primary financial instruments held or issued to finance the group's operations:				
Cash on deposit earning				
– floating rates of interest	**1,097.4**	**1,097.4**	1,234.6	1,234.6
– fixed rates of interest	**4.4**	**6.2**	3.9	5.3
Short term financial liabilities and current *portion of long term borrowings*	**(151.7)**	**(151.7)**	(178.5)	(178.5)
Long term borrowings	**(2,974.8)**	**(3,194.4)**	(2,991.5)	(3,076.6)
Finance leases	**(1,244.0)**	**(1,278.2)**	(1,236.5)	(1,267.7)
Derivative financial instruments held to *manage interest rate and exchange* rate profile:				
– interest rate swaps	**–**	**(67.8)**	–	(21.0)
– interest rate caps/collars	**(0.4)**	**(1.9)**	(0.5)	(1.5)
– *currency swaps*	**–**	**(106.7)**	–	(76.3)

The fair value of the interest rate swaps and sterling denominated fixed rate debt and deposits have been determined by reference to prices available on the markets on which they are traded. All other fair values shown have been calculated by discounting cash flows at the relevant zero coupon LIBOR interest rates prevailing at the balance sheet date.

In January 2004 £876.0 million of securitised debt was prepaid following the sale of 5 Canada Square and 25 Canada Square in December 2003. Crystallised costs arising from the repayment of debt were charged to the profit and loss account as an exceptional item. The exceptional charge comprised breakage costs relating to hedging instruments of £44.1 million and the write-off of deferred financing costs of £12.4 million. The breakage costs included a 3% premium payable on redemption of the B1 notes.

No gains or losses on derivative financial instruments have been recognised in the six months, and, other than the above, no gains or losses on derivative financial instruments were recognised in the year ended 30 June 2004 or the six months ended 31 December 2003.

(16) Unrecognised gains and losses on instruments used for hedging, and the movements therein, are as follows:

	At 31 December 2004			At 30 June 2004		
	Gains £m	**(Losses) £m**	**Total Net Gains/ (Losses) £m**	Gains £m	(Losses) £m	Total Net Gains/ (Losses) £m
Unrecognised gains and losses on hedges at 1 July	**8.5**	**(106.8)**	**(98.3)**	12.3	(227.7)	(215.4)
Gains and losses arising in previous years that were recognised in the period	**–**	**–**	**–**	(12.3)	75.5	63.2
Gains and losses arising before 1 July that were not recognised in the period	**8.5**	**(106.8)**	**(98.3)**	–	(152.2)	(152.2)
Gains and losses arising in the year that were not recognised in the period	**(8.5)**	**(69.2)**	**(77.7)**	8.5	45.4	53.9
Unrecognised gains and losses on hedges at 31 December/30 June	**–**	**(176.0)**	**(176.0)**	8.5	(106.8)	(98.3)
Of which: *Gains and losses expected to be* recognised in the following year	**–**	**(24.4)**	**(24.4)**	–	–	–
Gains and losses expected to be recognised after the following year	**–**	**(151.6)**	**(151.6)**	8.5	(106.8)	(98.3)

(17) Other than certain tranches of notes which have been swapped into sterling, the group has no material monetary assets or liabilities in currencies other than pounds sterling.

16 Provisions for Liabilities and Charges

	Vacant Leasehold Properties £m	Other Lease Commitments £m	Deferred Taxation £m	Total £m
At 1 July 2004	135.6	26.5	76.1	238.2
Utilisation of provision	(10.0)	–	–	(10.0)
Unwind of discount	4.0	0.8	–	4.8
Release of provision	–	(1.6)	–	(1.6)
Increase in provision	25.8	–	–	25.8
Charge to profit and loss account	–	–	13.3	13.3
At 31 December 2004	**155.4**	**25.7**	**89.4**	**270.5**

Vacant Leasehold Properties:

200/202 Aldersgate Street

On 6 November 2000, the 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 group also acquired the sub-leasehold interest (with approximately 13 years now unexpired) in 200/202 Aldersgate Street, a 440,000 sq ft office building in the City of London, and let the premises to Clifford Chance for a term of approximately five years at the same rent as that under the sub–lease. Clifford Chance gave notice to terminate the lease on 29 September 2003. The group is now seeking to sub-let the premises.

At 31 December 2004 the group held a provision for the estimated net liability under the lease of 200/202 Aldersgate Street. In arriving at the quantum of the provision the directors have consulted with Savills Commercial Limited, the group's valuers, to determine the assumptions on which the provision should be computed, including such matters as the void period, the rent achievable on re-letting and the incentive package payable. Based on the valuers' assessment of the market the provision has been increased by £22.4 million to £126.0 million at 31 December 2004 which includes an allowance for refurbishment of the building prior to re-letting. This provision is based on the following key assumptions which will be reviewed at each subsequent balance sheet date:

Passing rent	–	£16.7 million (£38 per sq ft)
Average void period	–	2.5 years
Rent-free period on re-letting	–	2.0 years
Headline rent on re-letting	–	£35 per sq ft
Refurbishment cost	–	£55 per sq ft

This provision is stated at present value calculated on the basis of a discount rate of 6.3%, being the group's weighted average cost of debt.

Reuters' Leasehold Properties

On 9 February 2004 the 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 group agreed to take over three of Reuters' leasehold properties from commencement of the lease on 30 The South Colonnade in May 2005.

At 30 June 2004 the group recognised a provision of £25.3 million for the estimated net liability, discounted at 6.3%, under these leases. The terms of the leases to expiration or first break are between four and five years. At 31 December 2004 the provision was stated at £29.4 million reflecting an increase in the provision of £3.4 million and 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 ('HQ2'), comprising 1,023,300 sq ft. The agreement for lease requires that HQ2 be delivered in a fitted-out condition and provides for payment of a fit-out contribution which covers, inter alia, the cost of fitting-out the space to Category A (Minimum Standard Developer's Finish budgeted at a cost of £35 per sq ft) which for accounting purposes is treated as part

of the cost of the building. The incentive package agreed with Lehman Brothers also includes the following additional elements:

(1) a contribution to the tenant's final fitting-out costs, equivalent to £30 per sq ft. Any fitting-out expenditure in excess of this amount is at Lehman Brothers' cost;

(2) payments to Lehman Brothers of approximately £16.0 million on draw down of the HQ2 lease, equivalent to £16 per sq ft; and

(3) a contribution of £30 per sq ft towards the cost of re-fitting the 408,728 sq ft occupied by Lehman Brothers at Broadgate, capped at £12.0 million, equivalent to £12 per sq ft of space in HQ2.

In total, these committed payments to Lehman Brothers, excluding the Category A element of the fit-out which is part of the cost of the building, amount to approximately £58.0 million, or £58 per sq ft. Component (1) of the incentive package is taken into account in determining the Market Value of the building at 31 December 2004. Components (2) and (3), totalling approximately £28.0 million, have been accrued for at 31 December 2004.

Lehman Brothers was granted options to sub-let back to the group up to 202,900 sq ft (100,800 sq ft for five years and 102,100 sq ft for 10 years). These options were exercised during the year ended 30 June 2004 and incentives totalling £65 per sq ft were repaid to the group in respect of the space sub-let (Note 24).

The group has also entered into a rent support commitment with Lehman Brothers under which the 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 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 six 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 by the group on space which Lehman does not sub-let.

Absent any sub-lettings the maximum potential liability would have been £51.0 million (nominal) with a present value of £37.0 million discounting at 6.3%, being the group's weighted average cost of debt. 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. Accordingly, the maximum amount payable in respect of the remaining space leased by Lehman Brothers at Broadgate has reduced to £34.0 million (nominal) with a present value of £25.7 million. This amount has been provided in full at 31 December 2004 and will be subject to review at each subsequent balance sheet date.

Deferred taxation:

	Six Months Ended 31 December 2004 £m	Year Ended 30 June 2003 £m
Accelerated capital allowances claimed	**(158.6)**	(142.2)
Other timing differences	**1.2**	0.6
Undiscounted deferred tax liability	**(157.4)**	(141.6)
Discount	**68.0**	65.5
Discounted deferred tax liability	**(89.4)**	(76.1)
At start of period	**(76.1)**	(47.9)
Deferred tax charge in the profit and loss account for the period	**(13.3)**	(28.2)
At end of period	**(89.4)**	(76.1)

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 group's investment properties had been sold at the balance sheet date at the amounts stated in Note 9 before adjustment for UITF 28, the amount of tax payable by the group would have been in the region of £63.8 million (30 June 2004 – £256.1 million) after taking into account available tax losses. This amount comprises corporation tax on chargeable gains in relation to the sale of completed properties held by group investment companies of £52.0 million (30 June 2004 – £23.5 million) and corporation tax on development surpluses in relation to the completed properties that are held by group property development companies of £11.8 million (30 June 2004 – £232.6 million). Capital losses have reduced tax on chargeable gains by £148.1 million (30 June 2004 – £152.5 million). In line with FRS 19, the benefit of these losses has not been recognised in the deferred tax provided in the balance sheet.

No deferred tax asset was provided in prior periods in respect of brought forward trading losses utilised in the period.

The group has received legal advice and is of the opinion that capital losses brought forward are available to set off against capital gains arising. The benefit of the capital losses has been recognised by reducing the contingent capital gains tax liability as disclosed above.

17 Share Capital

	Authorised		Issued, Allotted and Fully Paid	
	At 31 December 2004 £m	At 30 June 2004 £m	**At 31 December 2004 £m**	At 30 June 2003 £m
Ordinary shares of 1p each	**10.0**	10.0	**5.9**	5.9

There were no changes in the share capital of the company during the six months ended 31 December 2004.

54: Notes to the Financial Statements for the Six Months Ended 31 December 2004

Subsequent to the period end and following an exercise of warrants over ordinary shares, a total of 42,273,251 ordinary shares of the company were issued and allotted at a subscription price of £2.86 per share to IPC Advisors Limited (see Warrants below).

(1) **Warrants**

Following completion of the bid process an independent expert, appointed in accordance with the warrant instrument, ruled that the subscription price for shares under the 1997 Warrant should be reduced from 275p per share to 251p and that the number of shares to which the 1999 Warrant relates should be increased from 10.71 million to 11.73 million. The expert also ruled that the 1999 Warrants subscription price should be reduced from 375p to 286p. The company and the warrant holder, IPC Advisors Limited, agreed that the number of shares to which the 1999 Warrants relate should be adjusted from 32.24 million to 42.27 million, for a limited period until 9 March 2005, and on 8 March 2005 IPC Advisors Limited exercised the 1999 Warrants and acquired 42,273,251 ordinary shares in the company at the adjusted subscription price of 286p per share. The 1997 Warrant is exercisable until 1 April 2006.

(2) **Share Options**

1997 Canary Wharf Group plc Executive Share Option Plan and the Canary Wharf Company Share Option Plan (the 'Plans')

A total of 10,757,393 options over ordinary shares in the company were waived during the six months ended 31 December 2004 in exchange for options granted under the Deferred Plan (see below).

As at 31 December 2004 7,038 options with an exercise price of £4.00 per ordinary share and 176,029 options with an exercise price of £3.31170 per ordinary share remained outstanding under the Plans. As a result of the Offer being declared wholly unconditional on 21 May 2004 all remaining options outstanding under the Plans will lapse on 21 May 2005.

Canary Wharf Group plc Long Term Incentive Plan (the 'LTIP')

There were no Awards outstanding under the LTIP as at 30 June or 31 December 2004. It is not the intention of the company to make further awards under the LTIP in the foreseeable future.

The Canary Wharf 2004 Deferred Share Plan (the 'Deferred Plan')

On 20 September 2004 the Company adopted the Deferred Plan as an unapproved executive incentive plan. The Deferred Plan is a discretionary plan and is designed to compensate executives for waiving options over ordinary shares of the company (see above for detail) and to retain and incentivise the executive management team following the Offer being declared wholly unconditional. No payment is required on the grant of an option and the options, which will be granted over B Shares held by the Trust (see below for detail), may be exercised on payment of an aggregate subscription price of £1.00 per award. An option may be exercised in respect of 50 per cent of the B Shares to which it relates on or after 21 May 2005 and may be further exercised in respect of the remaining B Shares on or after 21 May 2006.

On 23 September 2004 options over 3,839,810, B Shares were granted to members of the senior management team. Further allocations, as appropriate, are allowed under the rules of the Deferred Plan.

Details of the number of B Shares which are the subject of options held by the executive directors can be found in Note 7 to the financial statements.

(3) ***Canary Wharf Employee Share Ownership Plan Trust (the 'Trust')***

In December 2000 a loan facility agreement was executed between the company and the trustee of the Trust whereby shares in the company were purchased by the trustee to cover the prospective exercise of options by

employees. Since December 2000 the trustee acquired a total of 5,173,505 ordinary shares of the company of which 3,463,159 have been transferred to satisfy the exercise of options and awards under the Plans and the LTIP.

The trustee accepted the Offer over the 1,710,346 ordinary shares of the company remaining in the Trust at the date of acquisition by Songbird and in doing so elected to receive 5,045,520 B Shares which are being held by the Trust for the beneficiaries of the Trust. The B Shares held by the Trust will be used to satisfy the exercise of awards under the Deferred Plan as described on page 54.

18 Reserves

Group:	Share Premium Account £m	Revaluation Reserve £m	Capital Redemption Reserve £m	Special Reserve £m	Profit & Loss Account £m	Total £m
Equity reserves:						
At 1 July 2004	4.1	1,462.9	0.7	264.8	(34.9)	1,697.6
Revaluation of investment properties	–	222.6	–	–	–	222.6
Loss for the financial period	–	–	–	–	(30.4)	(30.4)
At 31 December 2004	**4.1**	**1,685.5**	**0.7**	**264.8**	**(65.3)**	**1,889.8**

The capital redemption reserve arises from the purchase and cancellation of own shares.

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

Company:	Share Premium Account £m	Capital Redemption Reserve £m	Special Reserve £m	Company Profit & Loss Account £m	Total £m
At 1 July 2004	4.1	0.7	1,743.7	–	1,748.5
Transfer from profit & loss account	–	–	60.1	(60.1)	–
Profit for the financial period	–	–	–	60.1	60.1
At 31 December 2004	**4.1**	**0.7**	**1,803.8**	**–**	**1,808.6**

The directors consider that positive balances on the company's profit and loss account and special reserve are distributable.

19 Reconciliation of Movements in Shareholders' Funds

	Group £m	Company £m
Shareholders' funds at 1 July 2004	1,703.5	1,754.4
Revaluation surplus	222.6	–
(Loss)/profit for the financial period	(30.4)	60.1
Shareholders' funds at 31 December 2004	**1,895.7**	**1,814.5**

56: Notes to the Financial Statements for the Six Months Ended 31 December 2004

20 Pension Schemes

The group operates two defined contribution pension schemes. The assets of these schemes are held in independently administered funds. The pension cost, which amounted to £1,262,445 in the period (year ended 30 June 2004 – £2,701,800), represents contributions payable by the group to both schemes.

21 Reconciliation of Operating Profit to Operating Cash Flows

Year Ended 30 June 2004 £m		**Six Months Ended 31 December 2004 £m**	Six Months Ended 31 December 2003 £m
184.4	Operating profit[1]	**93.2**	105.7
0.8	Depreciation charges	**0.4**	0.4
0.5	Provision against investment	**0.2**	0.2
5.6	Amortisation of share option costs[2]	**1.7**	0.7
46.9	(Increase)/decrease in debtors	**(15.8)**	40.6
(71.2)	Increase/(decrease) in creditors	**40.8**	(44.9)
(17.3)	Expenditure charged to provisions	**(10.2)**	(5.3)
(59.9)	Amortisation of lease incentives	**(11.7)**	(25.5)
89.8	Net cash inflow from operating activities	**98.6**	71.9

Notes:

(1) For the year ended 30 June 2004, operating profit is stated net of an exceptional charge of £23.6 million in respect of bid costs (Note 2) (six months ended 31 December 2003 – £10.7 million). There were no exceptional costs in respect of bid costs for the six months ended 31 December 2004.

(2) For the year ended 30 June 2004 amortisation of share option costs included a £4.4 million exceptional charge in respect of amortisation of the investment in own shares (Note 2). There were no exceptional costs in respect of amortisation of share options in either the six months ended 31 December 2004 or the six months ended 31 December 2003.

22 Analysis of Cash Flows

Year Ended 30 June 2004 £m		**Six Months Ended 31 December 2004 £m**	Six Months Ended 31 December 2003 £m
	Returns on investments and servicing of finance		
51.8	Interest received	**26.9**	22.3
(220.9)	Interest paid	**(97.9)**	(137.4)
(31.4)	Interest element of finance lease rentals	**(52.1)**	(15.3)
(53.6)	Financing expenses[1]	**(2.9)**	–
(254.1)	Net cash outflow	**(126.0)**	(130.4)

Note:

(1) For the year ended 30 June 2004 financing expenses relate to breakage costs referred to in Note 4 and is stated net of the remaining unpaid amount.

Year Ended 30 June 2004 £m		**Six Months Ended 31 December 2004 £m**	Six Months Ended 31 December 2003 £m
	Capital expenditure and financial investment		
(377.5)	Additions to properties	**(101.0)**	(274.0)
(0.3)	Purchase of tangible fixed assets	**–**	(0.1)
1,111.9	Sale of investment properties	**–**	1,111.9
734.1	Net cash (outflow)/inflow	**(101.0)**	837.8

Year Ended 30 June 2004 £m		**Six Months Ended 31 December 2004 £m**	Six Months Ended 31 December 2003 £m
	Management of liquid resources		
(157.0)	Cash placed on deposit not available on demand	**(17.5)**	(1,159.0)
341.5	Cash withdrawn from deposit accounts	**125.7**	218.9
184.5	Net cash inflow/(outflow)	**108.2**	(940.1)

Year Ended 30 June 2004 £m		**Six Months Ended 31 December 2004 £m**	Six Months Ended 31 December 2003 £m
	Financing		
(105.3)	Repayment of secured loans	**–**	(105.3)
(922.1)	Repayment of securitised debt	**(18.3)**	(9.2)
667.0	Draw down of secured loans and finance lease premiums	**10.0**	664.0
(360.4)	Net cash outflow	**(8.3)**	549.5

23 Analysis and Reconciliation of Net Debt

	At 1 July 2004 £m	Cash Flow £m	Other Non-Cash Changes £m	**At 31 December 2004 £m**
Cash at bank	1,238.5	(136.7)	–	**1,101.8**
Amounts on deposit not available on demand	(567.8)	108.2	–	**(459.6)**
	670.7	(28.5)	–	**642.2**
Debt due after 1 year	(2,991.5)	21.2	(4.5)	**(2,974.8)**
Debt due within 1 year	(178.5)	20.7	6.1	**(151.7)**
Finance leases	(1,236.5)	7.3	(14.8)	**(1,244.0)**
	(4,406.5)	49.2	(13.2)	**(4,370.5)**
Amounts on deposit not available on demand	567.8	(108.2)	–	**459.6**
Net debt	(3,168.0)	(114.6)	13.9	**(3,268.7)**

	Six Months Ended 31 December 2004 £m
Decrease in cash in the year	**(136.7)**
Decrease in debt and leasing financing	**49.2**
Change in net debt resulting from cash flows	**(87.5)**
Non-cash movement in net debt	**(13.2)**
Movement in net debt in year	**(100.7)**
Net debt at 1 July 2004	**(3,168.0)**
Net debt at 31 December 2004	**(3,268.7)**

24 Contingent Liabilities and Financial Commitments

As at 31 December 2004 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 and finance lease obligations as referred to in Note 15. In particular, various members of the group had, at 31 December 2004, given fixed first ranking charges over cash deposits totalling £458.0 million and may be called upon to make a further cash deposit of up to £25.0 million.

As security for the issue of £553.4 million of securitised debt (Note 15) the company has granted a first fixed charge over the shares of CWF and a first floating charge has been given over all of the assets of CWF. In addition, as security for an £85.0 million loan the group has granted a second ranking charge over the property interests included in the CWF securitisation and CWL has provided an interest guarantee.

As security for the issue of up to £2,206.5 million of securitised debt (see Note 15) the company's indirect subsidiary, *Canary Wharf Finance Holdings Limited, has granted a first fixed charge over the shares of CWFII and a first floating* charge has been given over all of the assets of CWFII.

Commitments of the group for future expenditure:

	At 31 December 2004 £m	At 30 June 2004 £m
Under contract	**18.0**	108.0

The commitments for future expenditure relate to the completion of construction works where construction was committed at 31 December 2004. Any costs accrued or provided for in the balance sheet at 31 December 2004 have been excluded.

Commitments of the group for the next financial year in respect of other operating leases are analysed as follows:

	Land and Buildings 31 December 2004 £m	Land and Buildings 30 June 2004 £m
Annual commitment for which the leases expire:		
Within one year	**–**	–
Between two and five years	**4.2**	0.6
After five years	**16.7**	16.8
	20.9	17.4

The group has, in the normal course of its business, granted limited warranties or indemnities to its tenants in respect of building defects (and defects on the Canary Wharf estate or in the car parks) caused through breach of its obligations as developer contained in any pre-let or other agreement. Offsetting this potential liability the group has received the benefit of warranties from the trade contractors and suppliers who worked on such buildings.

Sub-let commitments:
Under the terms of certain agreements for lease the 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 the group 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 31 December 2004.

The table below summarises these sub-lets, including the rent payable for the next financial year.

Property	Lease-holder	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
7 Westferry Circus	CSFB	13,500[1]	0.14	Jan 2003	OMR up only	Feb 2003	Jul 2005[6]
One Canada Square	Skadden	27,400	1.24	Jun 2003	OMR up only	Sep 2003	Dec 2005
50 Bank Street	Northern Trust	18,000	0.77	Apr 2007	OMR up only	Apr 2002	Oct 2006[5]
10 Upper Bank Street	Clifford Chance	52,500[2]	2.42	Jul 2008	Fixed at £49/sf	Jul 2003	Jul 2008
10 Upper Bank Street	Clifford Chance	52,100[2]	2.40	Jul 2008	Fixed at £49/sf	Jul 2003	Jul 2013
25-30 Bank Street	Lehman Brothers	75,600[1]	3.08	Jul 2008	Fixed at £53/sf	Jul 2003	Jul 2008[1]
25-30 Bank Street	Lehman Brothers	102,100	4.18	Jul 2008	Fixed at £53/sf in 2002[2]	Jul 2003	Jul 2013[1]
1 Churchill Place	Barclays	133,600	5.63	Jul 2009	OMR up only	Jul 2004	Jul 2019[3]
1 Churchill Place	Barclays	130,300	5.47	Jul 2009	OMR up only	Jul 2004	Jul 2014[3]
1 Churchill Place	Barclays	66,000	2.75	Jul 2009	OMR up only	Jul 2004	Jul 2009[3]
40 Bank Street	Skadden	19,500	0.86	Mar 2008	OMR up only	Mar 2003	Mar 2008[4]
40 Bank Street	Skadden	19,500	0.86	Mar 2008	OMR up only	Mar 2003	Sep 2010[4]
40 Bank Street	Skadden	19,500	0.86	Mar 2008	OMR up only	Mar 2003	Mar 2013[4]
Total		802,900	33.30				

Notes:

(1) On 29 September 2003 Lehman Brothers exercised options to sub-let part of HQ2 back to the group: 4 floors (102,100 sq ft) for ten years and an additional 4 floors (100,800 sq ft) for five years. This space, which is currently built to shell and core, 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 group sub-let 25,200 sq ft of the five year space to Morgan Stanley for the remaining term of the sub-let on a managed office basis at an all inclusive rent of £63.50 per sq ft.

(2) Followed by annual increases to £59.65 per sq ft in 2012.

(3) On 31 October 2003 Barclays opted to sub-let 329,900 sq ft of space in 1 Churchill Place back to the group. Of the total sub-let, 66,000 sq ft is for five years, 130,300 sq ft is for ten years and 133,600 sq ft is for fifteen years or more.

(4) Skadden have opted to lease back floor 24 (19,500 sq ft) for five years, floor 25 (19,500 sq ft) for seven and a half years and floor 26 (19,500 sq ft) for ten years.

(5) Assumes break exercised.

(6) On 23 September 2003 an agreement with the EMEA was entered into to lease 13,500 sq ft at 7 Westferry Circus. The space was previously subject to a sub-lease with CSFB expiring in December 2007. The lease to EMEA, which is subject to a 21 month rent-free period with rent commencing in July 2005, will run concurrently with EMEA's existing leases due to expire in December 2014.

25 Ultimate Parent Undertaking and Related Party Transactions

As at 31 December 2004, the smallest group of which the company is a member and for which group financial statements are drawn up is the consolidated financial statements of the company. The largest group of which the company is a member and for which group financial statements are drawn up are the consolidated financial statements of Songbird, the ultimate parent undertaking. Copies of the financial statements of both companies may be obtained from the Company Secretary, 30th Floor, One Canada Square, Canary Wharf, London E14 5AB.

During the period the group purchased IT and telecommunications services totalling £89,446 from HSO, a company in which it holds an equity investment equivalent to approximately 13% of the issued share capital. There were no outstanding amounts owed to HSO at 31 December 2004. In addition, during the period ended 31 December 2004, the group billed HSO £107,000 for access to the Canary Wharf telecommunications infrastructure. This amount remained outstanding at 31 December 2004.

On 29 December 2004 the company entered into a provision of services agreement with Songbird and Songbird Acquisition Limited (the 'Provision of Services Agreement'). Under the Provision of Services Agreement the company agreed to provide certain business and corporate administration services for a time based fee to Songbird and Songbird Acquisition Limited for an initial period of 12 months and to continue thereafter until terminated by either party on three months notice. No amounts had been invoiced under the Provision of Services Agreement as at 31 December 2004.

Subsequent to the period end, the company has entered into the following related party agreements;

a) a letter of appointment dated 6 January 2005 with Morgan Stanley & Co. Limited ('Morgan Stanley') whereby the company 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 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.

b) a letter of appointment dated 24 January 2005 between the company and Morgan Stanley (as identified above) whereby the company 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 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.

c) an agreement dated 11 March 2005 with a subsidiary of Barclays to dispose of a 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 the company, to dispose of the controlling interest in the Property. Further details of this transaction are disclosed in Note 26.

26 Post Balance Sheet Events

On 9 February 2005 the group agreed heads of terms on over 200,000 sq ft of space. These transactions will comprise a range of lease terms to potential tenants spanning a variety of business sectors.

In January 2005 British Waterways named the group, together with Ballymore Properties Limited, as their preferred partner for the redevelopment of the Wood Wharf site which is immediately adjacent to the existing Canary Wharf estate. Subject to formal conclusion of the partnership, the master plan scheme for the development sets a framework for 5.0 million sq ft of mixed commercial, residential and retail development.

On 8 March 2005 IPC Advisors Limited exercised a warrant to subscribe for 42,273,251 ordinary shares in the company (Note 17).

On 11 March 2005 the group completed the sale of 20 Canada Square, a 555,300 sq ft building let to The McGraw-Hill Companies and BP-IST, for a consideration of £337.5 million. At 31 December 2004 the building was valued at £333.0 million (including tax allowances) (30 June 2004 – £305.0 million). Current rent passing is £12.2 million per annum, which rises to £20.5 million on the expiry of BP-IST's rent-free period in 2006. In connection with the sale the 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 is expected to generate a profit of approximately £39.4 million after the write-off of unamortised lease incentives accounted for in accordance with UITF 28 and expenses of sale. In conjunction with the disposal the group repaid a £225.0 million loan secured against the building crystallising net prepayment and breakage costs of £1.5 million and the write-off of deferred financing costs of £2.0 million.

On 15 March 2005 the group completed the refinancing of two finance lease transactions in relation to 20 Cabot Square. This was achieved by the purchase of the finance lessor companies and the repayment of the existing indebtedness in those companies funded from a new credit facility. In cash terms the refinancings were broadly neutral but the unwinding of the finance leases resulted in breakage costs in the order of £25.0 million, primarily as a result of the crystallisation of the mark to market of fixed rate debt.

On 16 March 2005 the group contracted to sell 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 (30 June 2004 – £113 million). Current rent passing is £6.6 million per annum which is contracted to rise to £8.2 million from 31 August 2006 (£48 per sq ft). The group is providing rental support of £1.6 million per annum until 31 August 2006. The sale is expected to generate 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.

Directors

Executive Directors

George Iacobescu (59) Chief Executive Officer #

Peter Anderson (51) Managing Director, Finance #

Non-Executive Directors

Sir Martin Jacomb (75) Non-Executive Chairman and Independent Non-Executive Director +

John Carrafiell (40) *#+

Shmuel (Sam) Levinson (31) *#

Alexander (Alex) Midgen (36) +

Brian Carr (39) *#

Robert Falls (40) alternate director to John Carrafiell and Brian Carr #

* *Audit Committee*
\# *Operating Committee*
\+ *Remuneration Committee*

Shareholder Enquiries

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

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Other Enquiries

If you would like more information about Canary Wharf Group plc please contact John Garwood, Group Company Secretary.

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64: Members' information

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