

# SONGBIRD ESTATES PLC

24 MARCH 2005

## PRELIMINARY ANNOUNCEMENT OF RESULTS FOR THE PERIOD ENDED 31 DECEMBER 2004

The board of Songbird Estates plc is pleased to announce results for the period ended 31 December 2004.

### HIGHLIGHTS AND RESULTS IN BRIEF

#### Highlights

- On 21 May 2004, Songbird Estates plc ('Songbird' or the 'company') declared its offer for Canary Wharf Group plc ('CWG' or the 'Canary Wharf Group') wholly unconditional and as a result became the ultimate parent company of CWG.
- The offer closed on 15 July 2004 at which time Songbird had acquired both directly and through its wholly owned subsidiary, Songbird Acquisition Limited ('SAL'), 66.32% of the ordinary share capital of CWG then in issue. Subsequent to the period end, this interest reduced to 61.85% (Note (v)).
- CWG's activities are focused on the Canary Wharf development (including Heron Quays and the adjacent sites at Canary Riverside and North Quay).
- At 31 December 2004 the Canary Wharf Group's investment portfolio totalling 9.9 million sq ft was 86.5% let.
- The Market Value (as defined in Note 10 of these financial statements) of the property portfolio was £5,579.2 million against £5,318.1 million at the date of acquisition of CWG, an increase of 2.9% disregarding additions in the period (Note (i)).
- The surplus on revaluation of two investment properties completed in the period was £47.7 million before adjustment for the minority interest.
- The increase on revaluation of the investment properties held throughout the period was £69.4 million (1.5%) before adjustment for the minority interest.
- Subsequent to the period end the Canary Wharf Group:
  - announced that heads of terms had been agreed on over 200,000 sq ft of lettings (Note (iv)).
  - sold 20 Canada Square for a consideration of £337.5 million and repaid a £225 million loan secured against the building (Note (iv)).
  - completed the refinancing of two finance leases (Note (iv)).
  - announced it had contracted to sell 15 Westferry Circus for a consideration of £134.75 million (Note (iv)).
- Subsequent to the period end it was also announced that British Waterways had named CWG as its preferred development partner for the redevelopment of the Wood Wharf site (Note (iv)).

#### Results in Brief

|                                                                    | Period ended 31<br>December 2004 |
|--------------------------------------------------------------------|----------------------------------|
|                                                                    | -----<br>£m                      |
| Rental income (Note (vi))                                          | 168.1                            |
| Operating profit                                                   | 106.7                            |
| Loss on ordinary activities before taxation                        | (53.8)                           |
| Taxation - deferred tax (Note (ii))                                | (8.6)                            |
| Loss on ordinary activities after taxation                         | (62.4)                           |
| Minority interest                                                  | 8.5                              |
| Loss on ordinary activities attributable to members of the company | (53.9)                           |
| Loss per share (Note (iii))                                        | (14.6)p                          |
| Adjusted loss per share (Note (iii))                               | (8.8)p                           |

#### Notes:

- Refer to 'Operating and Financial Review - Valuations' of the accompanying financial information for a comparison with the carrying value for accounts purposes.
- Refer to 'Operating and Financial Review - Taxation' of the accompanying financial information for details.
- Refer to Note 9 of the notes to these financial statements.
- Refer to Note 28 of the notes to these financial statements.
- Refer to Note 1 of the notes to these financial statements.
- Refer to 'Operating and Financial Review - Operating results' of the accompanying financial information for details.

The information in this announcement, which was approved by the board of directors on 23 March 2005, does not comprise statutory accounts within the meaning of the Companies Act 1985.

#### Change of Directors

Pursuant to Rule 15 of the AIM Rules, the company announces that John Carrafiell, non-executive director, has tendered his resignation as a director of the company effective 24 March 2005 and, in accordance with the articles of association of the company, will be replaced with immediate effect by Robert Morrow Gray, aged 41. Mr Gray has been a director of numerous subsidiaries of the Morgan Stanley Real Estate Funds throughout the previous five years.

Immediately upon his appointment, in accordance with the articles of association, Mr Gray will appoint Tiffanie Marie Fisher (aged 37) as his alternate director. There are no other directorships to be disclosed in respect of Ms Fisher.

There are no details to be disclosed in respect of Mr Gray or Ms Fisher under paragraphs (iii) to (viii) of Schedule 2 (f) of the AIM Rules.

Later today Canary Wharf Group, a subsidiary of Songbird, will be releasing extracts from its Report and Financial Statements on the Canary Wharf Group website ([www.canarywharf.com](http://www.canarywharf.com)).

## **CONTACT**

John Garwood  
Company Secretary

Songbird Estates plc  
Telephone: 020 7418 2000

## **CHAIRMAN'S STATEMENT**

I am pleased to present the first Chairman's Statement for the Company following the successful conclusion of the offer which resulted in the group acquiring a majority interest in Canary Wharf Group plc and its subsidiaries.

### **Financial Review**

Net assets at 31 December 2004 were £1,214.0 million, equivalent to 100 pence per Songbird share. This compares with a net asset value per share of 96 pence per Songbird share at 21 May 2004, the date on which the company's acquisition of CWG was declared unconditional. The increase in net asset value over the period ending 31 December 2004 was attributable to the surplus on revaluation of the investment portfolio of £77.7 million (13 pence per share) offset by the loss on ordinary activities for the period of £53.9 million (9 pence per share).

The net asset value at 31 December 2004 excludes the impact of post balance sheet transactions, including the sale of 20 Canada Square, the sale of 15 Westferry Circus and the refinancing of certain of the group's debt.

The group's operating profit for the period ended 31 December 2004 was £106.7 million. Net interest payable for that period was £160.5 million of which £33.3 was attributable to financing the acquisition of CWG.

The loss for the period after tax was £62.4 million, of which £8.5 million was attributable to the minority interest.

### **Strategic Goals**

These financial results do not, however, fully reflect the activity within the group since the Songbird offer went unconditional on 21 May 2004. Significant steps have been taken in pursuing the strategy for the enlarged Canary Wharf Group which was outlined during the offer process. Some of these steps were initiated prior to the period end but did not reach fruition until 2005 but I thought it would be helpful to measure the progress of the company since May of last year through to March 2005 against the goals which were stated as underlying this strategy.

#### *Asset Disposals and Management*

The first of these goals is the realisation of asset value through sales and/ or refinancing of certain buildings which may have matured and stabilised as investments. In March 2005 contracts were entered into for the disposal of two buildings. Firstly, the sale of 20 Canada Square to a subsidiary of Barclays Bank PLC ('Barclays') was completed for £337.5 million including tax allowances. Brascan Corporation then acquired a controlling interest in the building through joint venture arrangements with Barclays. On 16 March 2005 Canary Wharf Group plc contracted to sell 15 Westferry Circus to a private Irish investor for £134.75 million which is significantly above its valuation as at 31 December 2004. These two disposals are detailed further in the Operating and Financial Review and are an encouraging start to the optimisation of value for shareholders through sales.

Notwithstanding these sales the importance of controlling key aspects of the Estate is also recognised in order to maintain its integrity, including management of the estate and related infrastructure. The retention of all, or a material portion, of the ownership of a core sub-group of buildings is accordingly part of our current strategy. As with 20 Canada Square, it is also likely that the Canary Wharf Group will retain the contract to manage a building even if a building is sold. It is essential that control over the Estate is maintained to ensure that the unique character of the development on the Canary Wharf Estate (the 'Estate') is retained.

#### *Leasing*

Active management of the properties with the aim of enhancing their value is a further underlying goal. There has accordingly been a concerted effort to address vacancy levels within buildings owned directly by the group or as part of the sub-leasing arrangements in certain other properties. I am pleased to report that in the second half of 2004 leases over 62,781 sq ft were completed and in 2005 leases for 26,116 sq ft with FTSE and 25,607 sq ft with Infosys have also been completed. Heads of Terms have been agreed with Total for 26,182 sq ft in the Clifford Chance building at 10 Upper Bank Street; for 109,205 sq ft in the Barclays building at One Churchill Place and with Northern Trust for expansion over 35,953 sq ft in the building at 50 Bank Street which they currently occupy. In total leases or agreed heads of terms have been signed on over 250,000 sq ft in 2005. One of the aims of this leasing campaign is to minimise

the concentration of cash flows from within a single business sector and it is encouraging to note that these recent lettings reflect a broader range of tenants with more diverse space requirements.

#### *Construction and New Development*

Whilst the first phase of construction effectively came to a conclusion with the practical completion in July 2004 of One Churchill Place (the 1,014,400 sq ft Barclays headquarters building) and the Churchill Place retail mall, further steps have been taken on future development. In September planning permission was granted increasing the development potential on the Riverside site to a projected 1.8 million sq ft net, which brings the total permitted development on sites on the estate currently benefiting from planning permission to 3.3 million sq ft. The sites at North Quay and Heron Quays West could, subject to planning permission, provide a further 3.0 million sq ft of additional future development space. In this sphere of activity it is our aim to execute a disciplined approach to pre-leasing and development of the undeveloped land on the Estate. Development on these sites will, therefore, only commence once demand and market conditions permit. It is also our aim to enter joint ventures where they can facilitate participation in development which can benefit from the skills and experience of the Canary Wharf Group development team. In January 2005 British Waterways named the Canary Wharf Group and Ballymore Properties Limited as preferred partners for the redevelopment of the 5 million sq ft gross development of mixed commercial and residential use at Wood Wharf. This is a significant regeneration project on land adjacent to the existing Estate which will be complementary to the existing office and retail offering on the Estate. It has also recently been announced that the Canary Wharf Group will be construction manager for the 40-floor and 48-floor Ballymore residential developments at Mill Harbour. These joint ventures are both linked to residential development and mark a new phase in construction activity for the group which I am confident will lead to further opportunities.

#### *Financing*

Finally the strategy referred to the optimisation of the Songbird Estates plc group cash flow and capital structure. At the group level at 31 December 2004 borrowings amounted to £5,196.7 million of which £624.4 million related to the acquisition of CWG. Cash deposits totalled £1,102.6 million at that date of which £459.6 million was charged as security. Net debt at 31 December 2004 was £4,094.1 million. Consideration is also being given to the structure of the Group indebtedness with a view to maximising flexibility and minimising the cost of debt.

#### **Market Overview**

Whilst I will not make a detailed review of the market, I do believe that the overall market conditions are improving. Total availability levels stabilised in the latter part of 2004 and although developers are now considering development opportunities for delivery in 2007, there is relatively little new space that is likely to come to the market in the next two years reflecting a limited level of current speculative development across Central London. Leasing activity in London generally was higher than in the previous four years with 13.13 million sq ft of space being taken up in 2004. It should be noted, however, that a third of the take-up was pre-let driven and that the take up of built stock was therefore rather less encouraging. Prime headline rental levels have generally held up well in the second half of 2004. At the end of 2004 on the Estate there was approximately 1.3 million sq ft of office space available from the Canary Wharf Group and other occupiers. This is equivalent to a vacancy rate of 12% compared with a vacancy rate for Docklands as a whole of 13.5% and 13.9% for the City. The vacancy rate on property in the Canary Wharf Group's ownership as at 31 December 2004 was approximately 13.8%. This will, however, fall to 11.5% after taking into account the sale of two properties and when leases on the 250,000 sq ft which are currently under offer on the Estate are completed. Rent free periods, however, remain unchanged at circa 36 months for 10-15 year leases. It is not anticipated that there will be much change over the remainder of 2005.

#### **Stamp Duty**

In the 2003 Budget the Chancellor gave stamp duty relief on properties in defined disadvantaged areas which included the Estate. Whilst the status of this concession and its extent was to be reviewed in 2006, subsequent to the year end it was withdrawn with effect from 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%.

#### **Conclusion**

The last ten months have been an eventful period for the company but it is highly encouraging that progress has been made on all fronts towards achieving goals established at the inception of the Songbird group of companies. I am confident that this momentum can be maintained during 2005 and beyond.

**Derek Bonham**  
**CHAIRMAN**

#### **OPERATING AND FINANCIAL REVIEW**

##### **Property portfolio**

The principal asset of the company is its direct and indirect investment in the Canary Wharf Group. The activities of the Canary Wharf Group are focused on the development of the Canary Wharf estate ('the 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<br>(sq ft) | %<br>Leased | External<br>Valuation<br>£m | Principal Tenants                                                                                 |
|------------------------|------------------------|-------------|-----------------------------|---------------------------------------------------------------------------------------------------|
| 1 Westferry Circus     | 219,000                | 6%          | €                           | 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 Bank                                                                                     |
| 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                        |                                                                                                   |
| <b>Total</b>           | <b>9,888,800</b>       | <b>86.5</b> | <b>5,324.2</b>              |                                                                                                   |

At 31 December 2004 the investment portfolio was 86.5% let, net of sub-lets back to the Canary Wharf Group. As well as the rental income generated from completed properties net of sub-lets back to the Canary Wharf Group, income is generated from managing the entire Estate which, in addition to the completed properties in the ownership of the Canary Wharf Group, includes 7 properties totalling 4.2 million sq ft which are in other ownerships.

The properties of the Canary Wharf 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 period ended 31 December 2004 the Canary Wharf Group completed the construction of 2 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 Bank Plc ('Barclays') subject to the lease back of 66,000 sq ft for 5 years, 130,300 sq ft for 10 years and 133,600 sq ft for 15 years or more (Note 26).
- Churchill Place Retail is a 20,500 sq ft building of which 4,600 sq ft has been let to Barclays.

In August 2004 CWG 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 CWG by Lehman Brothers for a term of 5 years as referred to in Note 26. Also in August 2004 The European Federation of Pharmaceutical Industries Association surrendered their lease of 3,331 sq ft on the 27<sup>th</sup> floor of One Canada Square. Subsequently CWG 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.

On 1 September 2004 BP's Integrated Supply and Trading division ('BP-IST') exercised an option over 19,500 sq ft in 20 Canada Square, taking its total space in this building to 209,500 sq ft. Rent is payable at £38 per sq ft subject to a rent-free period of 24 months and a Category A fit-out allowance of £48.75 per sq ft. This lease is for a term of 20 years with tenant only breaks at years 10 and 15. BP-IST have break rights on 40,900 sq ft exercisable at the end of year 5 upon payment of a one year rental penalty.

In September 2004 the Canary Wharf Group leased 7,097 sq ft on the 29<sup>th</sup> floor of One Canada Square to The Hartford Europe Limited for a term of 5 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 Canary Wharf Group agreed to lease 3,624 sq ft on the 6<sup>th</sup> floor of One Canada Square to Clydesdale Bank for a term of 10 years subject to the right to break at the end of 5 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 10<sup>th</sup> floor of One Canada Square.

Subsequent to the period end, on 9 February 2005, the group announced that CWG had 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.

On 11 March 2005 the group announced that CWG had 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 million). Current passing rent is £12.2 million, which rises to £20.5 million on the expiry of BP-IST's rent-free period in 2006. In connection with this disposal CWG 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 on disposal of approximately £39.3 million after the write-off of unamortised lease incentives accounted for in accordance with UITF 28 and expenses of sale. Of this amount £15.0 million is attributable to the minority interest. In conjunction with the disposal CWG repaid a £225.0 million loan secured against the building crystallising net breakage costs of £1.5 million and the write-off of unamortised fair value adjustments of £9.9 million. Of these charges totalling £11.4 million, £4.3 million is attributable to the minority interest.

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, of which £9.5 million is attributable to the minority interest.

On 16 March 2005 CWG 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 the Market Value of the building was £115 million (30 June 2004 - £113 million). Current passing rent is £6.6 million per annum which is contracted to rise to £8.2 million from 31 August 2006 (£48 per sq ft). In connection with the disposal CWG 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. Of the profit on sale, £6.3 million is attributable to the minority interest.

As well as the properties under construction which were completed during the period, the Canary Wharf Group has continued substructure works on the remaining sites at Canary Wharf as a preliminary to development. In connection with this work, buildings DS3 (650,000 sq ft) and BP2 (200,000 sq ft) have been constructed to street level which will reduce the time required to complete development.

Uncommitted sites on the original 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. Construction of new buildings on these sites will commence as and when market conditions allow.

In January 2005 British Waterways named CWG, together with Ballymore Properties Limited, as the preferred partners for the redevelopment of the Wood Wharf site which is immediately adjacent to the 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 £1,214.0 million. In arriving at this total:

- (i) properties held as investments were carried at £5,231.5 million, which represents the Market Value of those properties of £5,324.2 million at that date as determined by the Canary Wharf Group's external valuers, Savills Commercial Limited, Chartered Surveyors, or CB Richard Ellis Limited, Surveyors and Valuers, less an adjustment of £92.7 million for tenant incentives as required by UITF 28; and
- (ii) properties held for development, were carried at £254.9 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 £47.7 million.

For those properties held throughout the period the carrying value increased from £4,648.2 million on acquisition of CWG ('the Acquisition') to £4,736.3 million, an increase of £69.4 million or 1.5%, net of additions. Of the total revaluation surplus of £117.1 million taken to the revaluation reserve, £39.4 million is attributable to the minority interest.

As regards properties held for development, the valuers have provided a joint opinion as at 31 December 2004 that the Market Value was £255.0 million, an increase of £10.0 million since the date of Acquisition, in comparison with a carrying value for accounts purposes of £254.9 million. In valuing the properties held for development, the valuers have allowed for estimated costs to complete, including an allowance for fit-out. In addition they have allowed for letting, disposal, marketing costs and financing costs.

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

As summarised in Note 26, there are a number of properties which are subject to sub-lets back to the Canary Wharf 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 Acquisition                 |
|---------------------------------|------------------------|--------------------------------|--------------------------------|
|                                 | Carrying value         | Market Value in existing state | Market Value in existing state |
|                                 | £m                     | £m                             | £m                             |
| Investment properties           | 5,231.5 <sup>(1)</sup> | 5,324.2 <sup>(2)</sup>         | 4,648.2 <sup>(2)</sup>         |
| Properties under construction   | -                      |                                | 424.9                          |
| Properties held for development | 254.9                  | 255.0                          | 245.0                          |
| <b>Total</b>                    | <b>5,486.4</b>         | <b>5,579.2</b>                 | <b>5,318.1</b>                 |

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 £92.7 million.

**Taxation**

The Market Value, summarised in the table above, ignores any potential value attributable to Enterprise Zone Capital Allowances ('EZAs'). The Canary Wharf Group instructed its valuers to assess the Market Values of its properties inclusive of EZAs and has been advised that the uplift in the Market Value of the group's properties attributable to EZAs is in the region of £296.4 million (at Acquisition - £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.

In arriving at the Market Value inclusive of EZAs, the Canary Wharf Group provided the valuers with details of the quantum of EZAs which it expects to be available on all properties that are completed and held on investment account for tax purposes. The Inland Revenue has not yet agreed the quantum of the allowances in all instances as the EZA claims are still in the process of agreement in the ordinary course of dealing with the group's corporation tax affairs. 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 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 subsequent valuation dates. Subsequent to the period end it was announced that this concession would be withdrawn with effect from 16 March 2005.

If the Canary Wharf 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 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 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 deferred tax provision in respect of accelerated capital allowances shown in Note 18. 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 18 because that note relates solely to buildings that are treated as investment properties for consolidated accounts purposes which have been recognised in the balance sheet at their Market Value. If the Canary Wharf Group 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. The potential uplift in value attributable to EZAs net of the associated tax liability is therefore £275.6 million.

## Operating results

The following review of the group's operating results relates to the period from incorporation to 31 December 2004.

The group's turnover is generated primarily by the rents and service charges earned by the Canary Wharf Group from its property interests on the Estate. Turnover for the period ended 31 December 2004 was £209.5 million of which rental income was £168.1 million. The impact of UITF 28 was to increase rental income by £35.5 million in the period ended 31 December 2004 primarily attributable to the recognition of income during rent-free periods. Turnover also comprised service charge income of £29.9 million and miscellaneous income of £11.5 million, including insurance rents and the provision of tenant specific services (outside of the standard service charge).

Cost of sales, comprising rents payable and property management costs, for the period ended 31 December 2004 were £76.2 million. Of this amount £26.9 million relates to rent payable and other costs incurred on vacant leasehold properties, including the property at 200 Aldersgate Street. Costs under these leases were provided for by CWG prior to the date of Acquisition based on the net present value of the estimated remaining liability. The charge to cost of sales represents the effect of changes in the assumptions used to calculate this provision and the unwind of the discount applied in calculating the present value of the liability.

For the period ended 31 December 2004 net property income was £133.3 million.

Administrative expenses for the period ended 31 December 2004 were £28.0 million, of which £24.3 million related to CWG. For the period ended 31 December 2004 operating profit was £106.7 million.

Net interest payable for the period to 31 December 2004 was £160.5 million, of which £33.3 million related to loans used to finance the Acquisition. Net interest payable is stated after capitalised interest of £2.8 million.

The loss on ordinary activities after interest for the period was £53.8 million. The taxation charge for the period to 31 December 2004 was £8.6 million being wholly attributable to the provision of deferred tax. This provision has been recognised in order to comply with Financial Reporting Standard 19 (Deferred Tax) ('FRS 19'). The increase in deferred tax provision since the Acquisition primarily relates to EZAs to be claimed by CWG to shelter taxable profits.

The loss after taxation for the period to 31 December 2004 was £62.4 million, of which £8.5 million is attributable to the minority interest.

## Balance sheet

On the basis of the group's statutory balance sheet, net assets at 31 December 2004 were £1,214.0 million, equivalent to £1.00 per Songbird share. On 21 May 2004, the date on which the Offer was declared unconditional, net assets per Songbird share were 96 pence. The increase in net asset value over the period ending 31 December 2004 was attributable to the surplus on revaluation of the investment properties attributable to members of the company of £77.7 million (13p per share) offset by the loss for the period of £53.9 million attributable to members of the company before financing costs of non-equity shares (9p per share).

Allowing for the revaluation of properties 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<br>at 31<br>December<br>2004<br>£m |
|-------------------------------------------------------------------------|-------------------------------------------------|
| Net assets per statutory balance sheet                                  | 1,214.0                                         |
| Add back deferred tax provision                                         | 28.9                                            |
|                                                                         | -----                                           |
| Net assets prior to deferred tax provision                              | 1,242.9                                         |
| Revaluation of property portfolio:<br>- properties held for development | 0.1                                             |
|                                                                         | -----                                           |
| Minority interest per statutory balance sheet                           | 1,243.0                                         |
| Minority interest in adjustments above                                  | (592.7)                                         |
|                                                                         | (9.8)                                           |
|                                                                         | -----                                           |
| Adjusted net assets attributable to members of the company              | 640.5                                           |
|                                                                         | -----                                           |
| Adjusted net assets per share <sup>(1)</sup>                            | £1.04                                           |

Notes:

(1) Adjusted net assets per share has been calculated by reference to the closing number of shares of 616.1 million in issue at 31 December 2004.

As noted above, subsequent to the period end the Canary Wharf Group disposed of 20 Canada Square on 11 March 2005 for a consideration of £337.5 million and entered into a contract to sell 15 Westferry Circus on 16 March 2005 for a consideration of £134.75 million. In addition the Canary Wharf Group repaid a loan of £225 million secured on 20 Canada Square and completed the refinancing of two finance leases. These post period end transactions have not been taken into account in calculating net asset value in the table above.

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.

**Borrowings**

At 31 December 2004, the company's subsidiary SAL had debt outstanding of £643.6 including £521.9 million under a senior facility ('the Senior Facility') and £121.7 million under a mezzanine loan facility ('the Mezzanine Facility'). In addition, SAL had aggregate additional committed credit facilities of £188.9 million, reflecting amounts that may be borrowed by the company for working capital purposes, to fund interest payments under the Senior Facility and the Mezzanine Facility in certain circumstances and to fund certain payments that may be made in respect of the CWG warrants. The weighted average interest rate on the outstanding facilities was 8.0% as at 31 December 2004. These facilities are guaranteed by the company and by charges over the assets of the company and SAL.

Under the terms of the Senior Facility, SAL is required to procure that members of the Canary Wharf Group have free cash (as defined in the Senior Facility) of not less than £550 million, increasing to £650 million from May 2005, and by £25 million at the end of each three month consecutive period thereafter. This aggregate minimum free cash amount is subject to increase in certain circumstances and from time to time pursuant to the provisions of the Senior Facility and the Mezzanine Facility and to decrease to the extent that repayments or prepayments are made of amounts outstanding under the Senior Facility or the Mezzanine Facility, as applicable.

SAL is due to repay any remaining indebtedness outstanding under the Senior Facility in full no later than September 2006 and any remaining indebtedness outstanding under the Mezzanine Facility in full no later than June 2009. The Mezzanine Facility contains certain detailed requirements that must be complied with before any dividends and certain other payments can be made from SAL. In certain circumstances these require that prepayments are made of amounts outstanding under the Mezzanine Facility.

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

In September 2003 the Canary Wharf 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 Canary Wharf 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 Canary Wharf 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 (Note 17(7)). This loan was used in part to provide cash collateral for the finance lease. Following the cash collateralisation of the finance lease, finance 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 is stated at £646.5 million representing the initial net proceeds.

An analysis of net debt is given below.

|                                      | At 31<br>December<br>2004<br>£m |
|--------------------------------------|---------------------------------|
| Securitised debt                     | 2,972.5                         |
| Acquisition loans                    | 624.4                           |
| Other secured loans                  | 325.9                           |
| Finance lease obligations            | 1,273.9                         |
|                                      | -----                           |
| Total borrowings                     | 5,196.7                         |
| Less: cash collateral for borrowings | (458.0)                         |
|                                      | -----                           |
| Less: other cash collateral          | (1.6)                           |
|                                      | 4,737.1                         |
| Less: cash deposits                  | (643.0)                         |
|                                      | -----                           |
| Net debt                             | 4,094.1                         |
|                                      | -----                           |

At 31 December 2004, the group's weighted average cost of debt (including credit wraps) was 6.5% (or 6.4% excluding credit wraps).

#### Cash flow

Net cash inflow from operating activities for the period ended 31 December 2004 was £123.5 million, including £106.7 million of operating income and £16.8 million of working capital movements and other adjustments.

Capital expenditure for the period ended 31 December 2004 was £101.0 million. Acquisition expenditure in the period of £837.7 million related to the cost of acquiring shares in CWG.

The financing cash inflow for the period ended 31 December 2004 was £880.5 million, including net proceeds from issuing shares of £245.2 million and net proceeds from the draw down of acquisition loan facilities of £643.6 million.

#### CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE PERIOD ENDED 31 DECEMBER 2004

|                                                                    | Notes | Period ended<br>31 December<br>2004<br>£m |
|--------------------------------------------------------------------|-------|-------------------------------------------|
| Turnover – rents and service charges                               |       | 209.5                                     |
| Cost of sales:                                                     |       |                                           |
| - rents and property management costs                              |       | (76.2)                                    |
|                                                                    |       | -----                                     |
| GROSS PROFIT                                                       |       | 133.3                                     |
| Administrative expenses                                            |       | (28.0)                                    |
| Other operating income                                             |       | 1.4                                       |
|                                                                    |       | -----                                     |
| OPERATING PROFIT                                                   | 3     | 106.7                                     |
| Interest receivable                                                | 4     | 32.9                                      |
| Interest payable                                                   | 5     | (193.4)                                   |
|                                                                    |       | -----                                     |
| LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION                        |       | (53.8)                                    |
| Taxation                                                           | 6     | (8.6)                                     |
|                                                                    |       | -----                                     |
| LOSS ON ORDINARY ACTIVITIES AFTER TAXATION                         |       | (62.4)                                    |
| Minority interest                                                  | 20    | 8.5                                       |
| LOSS ON ORDINARY ACTIVITIES ATTRIBUTABLE TO MEMBERS OF THE COMPANY |       | (53.9)                                    |
| Finance costs of non-equity shares                                 | 7     | (8.6)                                     |
|                                                                    |       | -----                                     |
| RETAINED LOSS FOR THE PERIOD                                       | 20    | (62.5)                                    |
| Loss per share:                                                    |       | -----                                     |
| Basic                                                              | 9     | (14.6)p                                   |
| Diluted                                                            | 9     | (14.6)p                                   |
| Adjusted loss per share:                                           |       |                                           |
| Basic                                                              | 9     | (8.8)p                                    |
| Diluted                                                            | 9     | (8.8)p                                    |

#### CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE PERIOD ENDED 31 DECEMBER 2004

|                                                                                                   | Notes | Period ended<br>31 December<br>2004<br>£m |
|---------------------------------------------------------------------------------------------------|-------|-------------------------------------------|
| Loss on ordinary activities after taxation attributable to members of the company                 |       | (53.9)                                    |
| Unrealised surplus on revaluation of investment properties attributable to members of the company | 20    | 77.7                                      |
|                                                                                                   |       | -----                                     |
| TOTAL RECOGNISED GAINS AND LOSSES RELATING TO THE PERIOD                                          |       | 23.8                                      |
|                                                                                                   |       | -----                                     |

#### CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2004

|                                 | Notes | 31 December<br>2004<br>£m |
|---------------------------------|-------|---------------------------|
| FIXED ASSETS                    |       |                           |
| Investment properties           | 10    | 5,231.5                   |
| Properties held for development | 10    | 254.9                     |
| Other tangible fixed assets     | 11    | 2.8                       |
| Investments                     | 12    | 0.4                       |

|                                                         |    |           |
|---------------------------------------------------------|----|-----------|
| Goodwill                                                | 13 | 84.3      |
|                                                         |    | -----     |
|                                                         |    | 5,573.9   |
| CURRENT ASSETS                                          |    | -----     |
| Debtors: due in more than one year                      | 14 | 92.7      |
| Debtors: due within one year                            | 14 | 72.5      |
| Cash at bank and in hand                                | 15 | 1,102.6   |
|                                                         |    | -----     |
|                                                         |    | 1,267.8   |
| CREDITORS: Amounts falling due within one year          | 16 | (374.8)   |
|                                                         |    | -----     |
| NET CURRENT ASSETS                                      |    | 893.0     |
|                                                         |    | -----     |
| TOTAL ASSETS LESS CURRENT LIABILITIES                   |    | 6,466.9   |
|                                                         |    | -----     |
| CREDITORS: Amounts falling due after more than one year | 17 | (5,045.0) |
| Provisions for liabilities and charges                  | 18 | (207.9)   |
|                                                         |    | -----     |
| NET ASSETS                                              |    | 1,214.0   |
|                                                         |    | -----     |
| CAPITAL AND RESERVES                                    |    |           |
| Called up share capital                                 | 19 | 61.6      |
| Reserves:                                               |    |           |
| Share premium                                           | 20 | 538.9     |
| Revaluation reserve                                     | 20 | 77.7      |
| Own shares                                              | 20 | (3.0)     |
| Profit and loss account                                 | 20 | (62.5)    |
| Appropriation of profit                                 | 20 | 8.6       |
|                                                         |    | -----     |
| SHAREHOLDERS' FUNDS                                     |    | 621.3     |
| Minority interest                                       | 20 | 592.7     |
|                                                         |    | -----     |
| TOTAL CAPITAL EMPLOYED                                  |    | 1,214.0   |
|                                                         |    | -----     |
| Shareholders' funds may be analysed as:                 |    |           |
| Equity interests                                        | 21 | 427.5     |
| Non-equity interests                                    | 21 | 193.8     |
|                                                         |    | -----     |
|                                                         |    | 621.3     |
|                                                         |    | -----     |

#### CONSOLIDATED CASH FLOW STATEMENT FOR THE PERIOD ENDED 31 DECEMBER 2004

|                                                                  | Notes | Period ended<br>31 December<br>2004 |
|------------------------------------------------------------------|-------|-------------------------------------|
|                                                                  |       | £m                                  |
| NET CASH INFLOW FROM OPERATING ACTIVITIES                        | 23    | 123.5                               |
|                                                                  |       | -----                               |
| Returns on investments and servicing of finance                  | 24    | (201.2)                             |
| Capital expenditure and financial investment                     | 24    | (101.0)                             |
| Acquisition                                                      | 24    | (837.7)                             |
|                                                                  |       | -----                               |
|                                                                  |       | (1,139.9)                           |
|                                                                  |       | -----                               |
| Cash outflow before management of liquid resources and financing |       | (1,016.4)                           |
| Management of liquid resources                                   | 24    | 108.2                               |
| Financing                                                        | 24    | 880.5                               |
|                                                                  |       | -----                               |
| DECREASE IN CASH IN THE PERIOD                                   | 25    | (27.7)                              |
|                                                                  |       | -----                               |

#### NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2004

##### 1 ACQUISITION OF CANARY WHARF GROUP PLC

On 21 May 2004, the company's subsidiary, SAL, declared the Offer wholly unconditional. As a result of this announcement, the company is now the ultimate parent undertaking of CWG. The offer closed on 15 July 2004, at which time the company directly owned 14.5% of the ordinary share capital of CWG and SAL owned 51.82%. Subsequent to the period end, outstanding warrants over 42,273,251 ordinary shares in CWG were exercised resulting in the interest of the company and SAL in CWG reducing to 61.85%. Further warrants over 11,734,369 ordinary CWG shares remain outstanding and are exercisable until April 2006.

The Acquisition was funded by acquisition loans (Note 17) and the issue of share capital (Note 19). Note 13 sets out the book values of the identifiable assets and liabilities acquired and their fair value to the group.

## **2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES**

The financial information in this announcement, which was approved by the board of directors on 23 March 2005, does not constitute the company's statutory accounts for the period ended 31 December 2004 but is derived from those accounts. Statutory accounts for the period ended 31 December 2004 will be delivered to the Registrar of Companies following the company's annual general meeting. The auditors have reported on these accounts, their reports were unqualified and did not contain statements under S237 (2) or (3) Companies Act 1985.

A summary of the principal accounting policies of the group, all of which have been applied consistently throughout the period, 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 2(6) below, and in accordance with applicable United Kingdom accounting standards.

### **2) Accounting for acquisitions**

Acquisitions have been accounted for in accordance with Financial Reporting Standard 6 (Acquisitions and mergers) ('FRS 6'). The identifiable assets and liabilities of the company acquired are included in the consolidated balance sheet at their fair value at the date of Acquisition, and its results included in the profit and loss account from the date of Acquisition. The difference between the fair value of the consideration given and the fair values of the net assets of the entity acquired is accounted for as goodwill.

### **3) Goodwill**

Goodwill arising from the Acquisition has been calculated as the difference between the cost of Acquisition and the fair value of the net assets of CWG at that date. In accordance with Financial Reporting Standard 10 (Goodwill and intangible assets) the directors have concluded that acquisition goodwill should be recognised as an intangible fixed asset and amortised to the profit and loss account on a straight line basis over a period of 20 years.

### **4) 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.

### **5) 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.

### **6) Property interests**

The group's property interests comprise investment properties, properties under construction and properties held for development.

#### *Investment properties*

Investment properties are revalued at each balance sheet date 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 in May 2004, 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.

#### **7) 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 post acquisition 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 from the later of the date of Acquisition or lease commencement on a straight line basis. The valuation of investment properties is reduced for these incentives.

#### **8) 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.

|                        |     |
|------------------------|-----|
| Computer equipment     | 33% |
| Fixtures and equipment | 25% |

#### **9) 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.

Debt held by CWG is initially stated at the fair value of such debt at the date of Acquisition. The adjustment to fair value arising is written-off to the profit and loss account over the term of the debt.

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

#### **10) Investments**

Fixed asset investments are stated at cost less any provision for impairment.

#### **11) Finance leases**

Sales and leasebacks (where the leaseback is treated as a finance lease, as required by Statement of Standard Accounting Practice 21 (Accounting for leases and hire purchase contracts) and Financial Reporting Standard 5 (Reporting the Substance of Transactions)) 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.

#### **12) 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.

#### **13) Pensions**

The Canary Wharf Group operates two defined contribution pension schemes. Pension contributions in respect of both these schemes are accrued for as they fall due.

#### **14) Accounting for share options**

In accordance with Urgent Issues Task Force Abstract 38 (Accounting for Share Option Costs) ('UITF 38') class B ordinary shares ('B Shares') held on behalf of CWG in connection with the Canary Wharf 2004 Deferred Share Plan are presented as a deduction in arriving at shareholders' funds and are written down to the exercise price on a straight line basis over the period to vesting. Amortisation is charged to the same expense category as the employment cost of the relevant employees.

#### **15) 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.

A deferred tax asset has been recognised as a result of the fair value accounting applied to the Acquisition. This asset will be amortised to the profit and loss account over the expected life of the liabilities that gave rise to the asset.

### 3 OPERATING PROFIT

|                                                | Period ended<br>31 December<br>2004 |
|------------------------------------------------|-------------------------------------|
|                                                | -----<br>£'000                      |
| The operating profit is stated after charging: |                                     |
| - Depreciation (Note 11)                       | 377                                 |
| - Amortisation of goodwill (Note 13)           | 2,200                               |
| - Directors' emoluments (Note 8)               | 105                                 |
| - Amortisation of investment in own shares     | 1,691                               |
| - Operating lease rentals:                     |                                     |
| land and buildings                             | 10,168                              |
| - Remuneration of the auditors:                |                                     |
| Audit fees                                     | 385                                 |
| Fees for other services:                       |                                     |
| further assurance                              | 76                                  |
| taxation                                       | 56                                  |
| other non-audit                                | 81                                  |

The operating lease rentals relate to the vacant leasehold property referred to in Note 18.

#### Amortisation of investment in own shares

As at 31 December 2004, 5,045,520 B Shares were held in a trust for the beneficiaries of the Canary Wharf Group Employee Share Ownership Trust (the 'Trust'). These shares were acquired at £1 each as part of the Acquisition. In accordance with UITF 38 the cost of these shares is being written-down to the exercise price on a straight line basis over the period to vesting. Of the total amortisation for the period of £2.0 million, £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 to operating profit.

#### Audit fees

During the period ended 31 December 2004, fees of £339,000 were paid to the auditors in connection with the Acquisition.

Of audit fees of £385,000 incurred in the period ended 31 December 2004, £35,000 was incurred by the company. The previous auditors, KPMG Audit plc, received fees totalling £2,854,000 in connection with the Acquisition.

#### Depreciation

For the period ended 31 December 2004, depreciation of £96,000 relating to fixtures and fittings in offices occupied by the Canary Wharf Group's construction personnel has been treated as a development expense and capitalised within the cost of properties under construction.

### 4 INTEREST RECEIVABLE

|                          | Period<br>ended 31<br>December<br>2004<br>£m |
|--------------------------|----------------------------------------------|
|                          | -----                                        |
| Bank interest receivable | 32.9                                         |
|                          | -----                                        |

### 5 INTEREST PAYABLE

Period

|                                                                                     |                                    |
|-------------------------------------------------------------------------------------|------------------------------------|
|                                                                                     | ended 31<br>December<br>2004<br>£m |
| Notes and debentures                                                                | (117.7)                            |
| Acquisition loans                                                                   | (33.3)                             |
| Finance lease charges                                                               | (45.2)                             |
|                                                                                     | -----<br>(196.2)                   |
| Less:                                                                               | -----                              |
| Interest at 4.9% on development financings transferred to<br>development properties | 2.8                                |
|                                                                                     | -----<br>(193.4)                   |

Financing costs relating to the inception of 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 FRS4.

For the period ended 31 December 2004, interest payable of £2.8 million has been transferred to development properties (Note 10). This amount was attributable to the cost of funds forming part of the Canary Wharf Group's general borrowings which were utilised in financing construction.

## 6 TAXATION

|                                                                      |                                              |
|----------------------------------------------------------------------|----------------------------------------------|
|                                                                      | Period<br>ended 31<br>December<br>2004<br>£m |
| Current tax:                                                         |                                              |
| UK corporation tax (see below)                                       | -                                            |
| Deferred tax:                                                        |                                              |
| Origination and reversal of timing differences in the current period | (4.7)                                        |
| Net effect of discount                                               | (3.9)                                        |
| Total deferred tax (Note 18)                                         | (8.6)                                        |
|                                                                      | -----                                        |
| Total tax on profit on ordinary activities                           | (8.6)                                        |
|                                                                      | -----                                        |
| Tax reconciliation:                                                  |                                              |
| Group loss on ordinary activities before tax                         | (53.8)                                       |
| Tax on loss on ordinary activities at UK corporation tax rate of 30% | 16.1                                         |
| Effects of:                                                          |                                              |
| Tax losses and other timing differences                              | (16.2)                                       |
| Expenses not deductible for tax purposes                             | 0.1                                          |
|                                                                      | -----                                        |
| Current tax charge for the year                                      | -                                            |
|                                                                      | -----                                        |

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

The tax charge for the period ended 31 December 2004 relates solely to deferred tax.

## 7 FINANCE COSTS OF NON-EQUITY SHARES

As a result of the redemption rights attaching to the SG shares ('SG Shares') (Note 19) and in accordance with FRS 4, the SG shares have been treated as non-equity. As a result, the profit and loss account includes the recognition of an appropriation of profit accumulated at 8% per annum from the date of issue to 31 December 2004 on this class of shares.

As the Companies Act 1985 does not permit the company to show dividends payable if the company has insufficient distributable reserves to support a dividend, the appropriation of profit has been classified as a finance cost in respect of non-equity shares.

No such appropriation of profit is required to be recognised in respect of the other classes of shares because the absence of redemption rights means that the other classes are designated as equity shares under FRS4. The amount of appropriation of profit accruing for the period ended 31 December 2004, but not recognised in these financial statements, was £12.4 million on the class A ordinary shares ('A Shares') and £8.2 million on the B Shares.

## 8 DIRECTORS AND EMPLOYEES

With the exception of fees paid to the independent non-executive chairman, all other staff costs relate to employees of the Canary Wharf Group.

|                                                                           |                                  |
|---------------------------------------------------------------------------|----------------------------------|
| (1) <b>Staff costs</b> - all employees of the group, including directors: | Period ended 31<br>December 2004 |
|                                                                           | £m                               |
| Wages and salaries                                                        | 29.3                             |
| Social security costs                                                     | 3.3                              |
| Other pension costs (Note 22)                                             | 1.5                              |
|                                                                           | 34.1                             |

The average monthly number of employees, including directors, of the group during the period to 31 December 2004 was 946.

|                                                              |                                  |
|--------------------------------------------------------------|----------------------------------|
| (2) <b>Directors' Remuneration and Highest Paid Director</b> | Period ended 31<br>December 2004 |
|                                                              | £'000                            |
| Emoluments (including bonuses)                               | 92                               |

None of the directors were members of the Canary Wharf Group's money purchase pension schemes at 31 December 2004. The company has not adopted a pension scheme.

### (3) **Directors' Share Options**

No executive share option plan has been adopted by the company and none of the directors of the company participate in the CWG share option plans.

## 9 **BASIC AND DILUTED LOSS PER SHARE**

The basic and diluted loss per share is calculated by reference to the loss attributable to ordinary shareholders for the period ended 31 December 2004 of £62.5 million after appropriations of profit in respect of non-equity shares and on the weighted average of 428.5 million ordinary shares in issue excluding non-equity shares and the shares owned by the Trust in respect of the Canary Wharf 2004 Deferred Share Plan.

The adjusted basic and diluted loss per share is calculated by reference to the loss attributable to members for the period ended 31 December 2004 of £53.9 million before the appropriations of profit in respect of non-equity shares and on the weighted average of 611.1 million shares in issue excluding the shares owned by the Trust in respect of the Canary Wharf 2004 Deferred Share Plan.

## 10 **INVESTMENT PROPERTIES AND PROPERTIES UNDER CONSTRUCTION AND HELD FOR DEVELOPMENT**

Freehold properties held as tangible fixed assets:

|                                                                  | Investment<br>properties<br>£m | Properties under<br>construction<br>£m | Properties held<br>for development<br>£m |
|------------------------------------------------------------------|--------------------------------|----------------------------------------|------------------------------------------|
| On Acquisition                                                   | 4,648.2                        | 424.9                                  | 245.0                                    |
| Additions including interest (net of<br>adjustment for UITF 28)  | 18.7                           | 22.6                                   | 9.9                                      |
| Transfer of completed properties                                 | 447.5                          | (447.5)                                | -                                        |
| Revaluation                                                      | 117.1                          |                                        | -                                        |
| As at 31 December 2004                                           | 5,231.5                        |                                        | 254.9                                    |
| Adjustment for UITF 28 (Note 14)                                 | 92.7                           |                                        |                                          |
| Market Value at 31 December 2004                                 | 5,324.2                        |                                        |                                          |
| Of which, subject to lease and finance<br>leaseback arrangements | 1,574.2                        |                                        |                                          |
| Historical cost                                                  | 5,114.4                        |                                        |                                          |

Additions to properties for the period ended 31 December 2004 totalled £108.4 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.

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 14).

During the period ended 31 December 2004 CWG completed construction of two buildings on the 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 31 December 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 £117.1 million comprises the following:

- (i) a surplus of £47.7 million on properties completed during the period, taking into account UITF 28.
- (ii) a surplus of £69.4 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 £31.0 million arising from the treatment of incentives which have been deducted from the valuations at 31 December 2004.

Of the total revaluation surplus of £117.1 million, £39.4 million is attributable to the minority interest, and £77.7 million to the members of the company.

Properties held for development at 31 December 2004, which are to be retained as investment properties, are carried at their historic cost, being fair value at the time of the Acquisition in May 2004, plus subsequent additions at cost, subject to any provision for impairment.

At 31 December 2004 there were no properties under construction.

#### 11 OTHER TANGIBLE FIXED ASSET

|                                        | Fixtures and<br>equipment | Computer<br>equipment | Total |
|----------------------------------------|---------------------------|-----------------------|-------|
|                                        | £m                        | £m                    | £m    |
| Cost:                                  |                           |                       |       |
| On Acquisition and at 31 December 2004 | 3.1                       | 0.1                   | 3.2   |
| Depreciation:                          |                           |                       |       |
| Charge for the period (Note 3)         | (0.3)                     | (0.1)                 | (0.4) |
| At 31 December 2004                    | (0.3)                     | (0.1)                 | (0.4) |
| Net book amount:                       |                           |                       |       |
| At 31 December 2004                    | 2.8                       | -                     | 2.8   |

#### 12 INVESTMENTS

|                   | At 31<br>December 2004<br>£m |
|-------------------|------------------------------|
| Other investments | 0.4                          |
|                   | 0.4                          |

The Canary Wharf Group owns 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 fair value on Acquisition of this investment was £0.6 million. 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.

#### 13 GOODWILL

The fair value of the consideration for the Acquisition totalled £1,193.0 million including directly attributable fees. The consideration was settled by way of a combination of cash and shares. The excess of the fair value of the consideration paid over the fair value of the net assets acquired was £86.5 million and has been accounted for as an intangible fixed asset. The directors have concluded that acquisition goodwill should be amortised to the profit and loss account over 20 years on a straight line basis. The following table sets out the book values of the identifiable assets and liabilities acquired and their fair value to the group.

|                                                                                           | Book value<br>at date of<br>Acquisition<br>£m | Fair value<br>adjustments<br>£m |       | Fair value to<br>group<br>£m |
|-------------------------------------------------------------------------------------------|-----------------------------------------------|---------------------------------|-------|------------------------------|
| Property portfolio                                                                        | 4,822.4                                       | 495.7                           | (i)   | 5,318.1                      |
| Debtors: due in more than one year                                                        | 381.6                                         | (381.6)                         | (i)   | -                            |
| Cash at bank and in hand                                                                  | 1,238.5                                       | -                               |       | 1,238.5                      |
| Creditors: amounts falling due after more than<br>one year                                | (4,228.0)                                     | (207.5)                         | (ii)  | (4,435.5)                    |
| Other net liabilities                                                                     | (270.4)                                       | -                               |       | (270.4)                      |
| Provisions                                                                                | (238.2)                                       | 55.9                            | (iii) | (182.3)                      |
|                                                                                           | 1,705.9                                       | (37.5)                          |       | 1,668.4                      |
| Fair value of CWG net assets acquired<br>(66.32% of CWG shares in issue were<br>acquired) |                                               |                                 |       | 1,106.5                      |
| Purchase consideration paid (including fees)<br>(iv)                                      |                                               |                                 |       | 1,193.0                      |
| Goodwill at date of Acquisition                                                           |                                               |                                 |       | 86.5                         |
| Amortisation in period ended 31 December 2004                                             |                                               |                                 |       | (2.2)                        |
| Goodwill at 31 December 2004                                                              |                                               |                                 |       | 84.3                         |

Notes:

- (i) The fair value of the acquired property portfolio equates to the Market Value of the CWG property portfolio at 30 June 2004 excluding any adjustment for UITF 28. The directors consider the Market Value of the portfolio at 30 June 2004 to be materially the same as at the date of the Acquisition. The fair value adjustment comprises;
- (a) the reversal of the UITF 28 adjustment required in the accounts of CWG to the Market Value of investment properties (£381.6 million);
- (b) the revaluation to Market Value of properties under construction of £110.7 million; and
- (c) the revaluation to Market Value of properties held for development of £3.4 million.
- The UITF 28 adjustment to the carrying value of investment properties required in the books of CWG has not been recognised in the financial statements of the company as the UITF 28 adjustment in CWG relates to transactions which occurred prior to the Acquisition.
- (ii) The borrowings of CWG have been adjusted to recognise the Market Value of such debt at the date of Acquisition.
- (iii) The deferred tax asset that results from the mark to market of debt (see (ii)) and other adjustments relating to CWG's tax position at the date of the Acquisition.
- (iv) The purchase consideration comprised shares of £355.3 million and cash of £837.7 million.

**14 DEBTORS**

|                                                            | At 31 December 2004        |                                  |             |
|------------------------------------------------------------|----------------------------|----------------------------------|-------------|
|                                                            | £m                         |                                  |             |
| Due within one year:                                       |                            |                                  |             |
| Trade debtors                                              |                            | 26.9                             |             |
| Other debtors                                              |                            | 9.9                              |             |
| Prepayments and accrued income                             |                            | 35.7                             |             |
|                                                            |                            | 72.5                             |             |
|                                                            | Rent-free<br>periods<br>£m | Other tenant<br>incentives<br>£m | Total<br>£m |
| Due in more than one year:                                 |                            |                                  |             |
| Transfer from properties held as fixed assets<br>(Note 10) |                            | 57.2                             | 57.2        |
| Recognition of rent during rent-free periods               | 40.5                       | -                                | 40.5        |
| Amortisation of lease incentives                           |                            | (5.0)                            | (5.0)       |

At 31 December 2004 40.5 52.2 92.7

T he 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 period ended 31 December 2004.

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

## 15 FINANCIAL ASSETS

The group's financial assets comprise short term trade debtors (Note 14) and cash deposits. Cash deposits totalled £1,102.6 million at 31 December 2004, comprising deposits placed on money market at call and term rates. Total cash deposits included £458.0 million held by third parties as cash collateral for the group's borrowings and a further £1.6 million charged to third parties as security for the group's obligations.

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

## 16 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

|                                    | At 31 December<br>2004<br>£m |
|------------------------------------|------------------------------|
| Borrowings (Note 17)               | 151.7                        |
| Trade creditors                    | 30.0                         |
| Taxation and social security costs | 4.3                          |
| Other creditors                    | 5.1                          |
| Accruals                           | 112.1                        |
| Deferred income                    | 71.6                         |
|                                    | 374.8                        |

## 17 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

Creditors due after more than one year comprise:

|                           | At 31 December 2004<br>£m |
|---------------------------|---------------------------|
| Securitised debt          | 2,909.4                   |
| Acquisition loans         | 624.4                     |
| Secured loans             | 238.0                     |
| Finance lease obligations | 1,273.2                   |
|                           | 5,045.0                   |

The amounts at which borrowings are stated comprise:

|                                      | Securitised<br>debt<br>£m | Acquisition<br>loans<br>£m | Secured<br>loans<br>£m | Finance<br>lease<br>obligations<br>£m | Total<br>£m |
|--------------------------------------|---------------------------|----------------------------|------------------------|---------------------------------------|-------------|
| On Acquisition                       | 3,001.2                   | -                          | 325.6                  | 1,287.2                               | 4,614.0     |
| Drawn down in period                 | -                         | 616.8                      | -                      | 5.1                                   | 621.9       |
| Deferred financing expenses          | (7.3)                     | (19.2)                     | 0.3                    | (0.7)                                 | (26.9)      |
| Accrued finance charges              | (3.1)                     | 26.8                       | -                      | (17.7)                                | 6.0         |
| Repaid in period                     | (18.3)                    | -                          | -                      | -                                     | (18.3)      |
| At 31 December 2004                  | 2,972.5                   | 624.4                      | 325.9                  | 1,273.9                               | 5,196.7     |
| Payable within one year or on demand | 63.1                      | -                          | 87.9                   | 0.7                                   | 151.7       |
| Payable in more than one year        | 2,909.4                   | 624.4                      | 238.0                  | 1,273.2                               | 5,045.0     |
|                                      | 2,972.5                   | 624.4                      | 325.9                  | 1,273.9                               | 5,196.7     |

The disclosures in this note should be read in conjunction with the 'Borrowings' section of the 'Operating and Financial Review'.

(1) At 31 December 2004, SAL had debt outstanding of £643.6 including £521.9 under a senior facility ('the Senior Facility') and £121.7 million under a mezzanine loan facility ('the Mezzanine Facility'). In addition, SAL had aggregate additional committed credit facilities of £188.9 million, reflecting amounts

that may be borrowed by the company for working capital purposes, to fund interest payments under the Senior Facility and the Mezzanine Facility in certain circumstances and to fund certain payments that may be made in respect of the CWG warrants. The weighted average interest rate on the outstanding facilities was 8.0% as at 31 December 2004. These facilities are guaranteed by the company and by charges over the assets of the company and SAL.

Under the terms of the Senior Facility, SAL is required to procure that members of the Canary Wharf Group have free cash (as defined in the Senior Facility) of not less than £550 million, increasing to £650 million from May 2005, and by £25 million at the end of each three month consecutive period thereafter. This aggregate minimum free cash amount is subject to increase in certain circumstances and from time to time pursuant to the provisions of the Senior Facility and the Mezzanine Facility and to decrease to the extent that repayments or prepayments are made of amounts outstanding under the Senior Facility or the Mezzanine Facility, as applicable.

SAL is due to repay any remaining indebtedness outstanding under the Senior Facility in full no later than September 2006 and any remaining indebtedness outstanding under the Mezzanine Facility in full no later than June 2009. The Mezzanine Facility contains certain detailed requirements that must be complied with before any dividends and certain other payments can be made from SAL. In certain circumstances these require that prepayments are made of amounts outstanding under the Mezzanine Facility.

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

- (2) At 31 December 2004 the following notes issued by Canary Wharf Finance plc ('CWF'), a subsidiary of CWG, were outstanding:

| Tranche | £m    | Interest | Repayment                  |
|---------|-------|----------|----------------------------|
| Issued: |       |          |                            |
| A       | 341.7 | 7.230%   | By instalment 2004 to 2027 |
| B       | 91.8  | 7.425%   | By instalment 2004 to 2027 |
| C       | 120.0 | Stepped  | By instalment 2006 to 2027 |
|         | 553.5 |          |                            |

The carrying value of the notes at 31 December 2004 was £634.6 million.

The notes are secured on certain property interests of the Canary Wharf Group and the rental income stream therefrom.

Interest on the C notes is payable at 7.75% until October 2006 when it will increase to 9.535%.

Amortisation of the A notes and B notes commenced in January 2004. 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.

- (3) At 31 December 2004 the following notes issued by Canary Wharf Finance II plc ('CWFII'), a subsidiary of CWG, were outstanding:

| Tranche     | £m      | Interest           | Repayment                  |
|-------------|---------|--------------------|----------------------------|
| A1          | 1,215.0 | 6.455 <sup>1</sup> | By instalment 2009 to 2033 |
| A3          | 400.0   | 5.952 <sup>1</sup> | By instalment 2032 to 2037 |
| A5          | 291.5   | Floating           | By instalment 2012 to 2033 |
| B           | 235.0   | 6.800 <sup>1</sup> | By instalment 2005 to 2033 |
|             | 2,141.5 |                    |                            |
| Re-acquired |         |                    |                            |
| C           | 45.0    | 6.966%             | By instalment 2011 to 2033 |
| D           | 20.0    | Floating           | By instalment 2011 to 2033 |
|             | 65.0    |                    |                            |

The carrying value of the outstanding notes at 31 December 2004 was £2,310.4 million.

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

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 by means of an interest rate collar, with a cap of 9% and a floor of 5%.

The A5 notes are in a principal amount of US\$414.7 million with interest payable at three month US\$ LIBOR plus a margin of 0.39% to July 2010 and thereafter 0.975%. These notes are hedged via currency swaps, whereby principal and interest liabilities are swapped into sterling providing an initial principal of £291.5 million. Interest payable is fixed at 6.002% to July 2010 and 6.218% thereafter. The weighted average interest rate payable under the A5 notes is 5.979% to July 2010 and 6.265% thereafter. The margin step up to 0.975% is not hedged.

In addition to the notes outstanding, the securitisation allows for up to £500 million of 'AAA' and 'AA' rated fully revolving short term notes, of which £250 million was underwritten by a banking syndicate for 5 years until July 2005. The commitment fee on underwritten notes is 0.25%. Hedging is only required when the notes are drawn down.

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.

- (4) At 31 December 2004 the Canary Wharf Group was a party to an investment loan in a principal amount of £225 million secured on 20 Canada Square, Canary Wharf. The carrying value of the loan at that date was £215.2 million. 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.
- (5) CWF is a party to a further £85.0 million bank facility. The original term of the facility was eighteen months to July 2004 but the facility has subsequently been rolled over until July 2005. The loan carries interest of LIBOR plus 2.1% which was subject to an interest rate collar arrangement which served 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 (Note 17 (2)) and by an interest guarantee from Canary Wharf Limited.
- (6) In December 2002, a Canary Wharf Group company 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 year 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 17 (7) below. The balance of the loan was retained for general corporate purposes of the Canary Wharf Group. The loan carries a hedged interest rate of 5.82%.
- (7) In September 2003 a Canary Wharf Group company 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 Canary Wharf 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 on completion. In January 2005, the group drew down £608.8 million (Note 17 (6)). This loan was used in part to provide cash collateral for the finance lease. Following cash collateralisation of the finance lease, finance 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.
- (8) The Canary Wharf 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 26). The weighted average rate of interest implicit in the group's finance leases is 5.6% at 31 December 2004.
- (9) In accordance with FRS 7, a fair value adjustment has been made to the carrying value of the Canary Wharf Group's debt on Acquisition which gave rise to an increased liability of £207.5 million. This amount is amortised to the profit and loss account over the life of the relevant debt instrument and at 31 December 2004, £202.8 million remained unamortised. This fair value adjustment gave rise to a deferred tax asset of £55.9 million (Note 18) of which £54.5 million remained unamortised at 31 December 2004.
- (10) Loans and finance lease obligations (excluding accrued interest payable):

|                                               | At 31 December 2004 |                         |
|-----------------------------------------------|---------------------|-------------------------|
|                                               | Loans<br>£m         | Finance<br>leases<br>£m |
| In less than one year or on demand            | 120.6               | -                       |
| In more than one year but less than two years | 542.3               | -                       |

|                                                     |         |         |
|-----------------------------------------------------|---------|---------|
| In more than two years but not more than five years | 246.5   | -       |
| In more than five years                             | 2,983.0 | 1,273.2 |
|                                                     | 3,892.4 | 1,273.2 |

- (11) After taking into account interest rate hedging and currency swaps entered into by the Canary Wharf Group, the interest rate profile of the group's financial liabilities at 31 December 2004 (including accrued interest payable) was:

|                                                   | At 31 December 2004                             |                                              | Total<br>£m |
|---------------------------------------------------|-------------------------------------------------|----------------------------------------------|-------------|
|                                                   | Floating rate<br>financial<br>liabilities<br>£m | Fixed rate<br>financial<br>liabilities<br>£m |             |
| Securitised debt                                  | -                                               | 2,972.5                                      | 2,972.5     |
| Acquisition loans                                 | 624.4                                           | -                                            | 624.4       |
| Secured loans                                     | 85.0                                            | 240.9                                        | 325.9       |
| Finance leases                                    | 1,001.9                                         | 272.0                                        | 1,273.9     |
|                                                   | 1,711.3                                         | 3,485.4                                      | 5,196.7     |
| Less: Cash collateral for borrowings<br>(Note 16) | (333.0)                                         | (125.0)                                      | (458.0)     |
|                                                   | 1,378.3                                         | 3,360.4                                      | 4,738.7     |

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

|                                                             | At 31 December 2004                       |                                              |
|-------------------------------------------------------------|-------------------------------------------|----------------------------------------------|
|                                                             | Weighted<br>average<br>interest rate<br>% | Weighted<br>average<br>period fixed<br>Years |
| In respect of the group's fixed rate financial liabilities: |                                           |                                              |
| Securitised debt                                            | 6.5                                       | 17.1                                         |
| Finance leases                                              | 10.0                                      | 11.9                                         |

- (12) In accordance with FRS 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 |                     |
|------------------------------------------------------------------------------------------|---------------------|---------------------|
|                                                                                          | Book<br>value<br>£m | Fair<br>value<br>£m |
| Primary financial instruments held or issued to finance the group's operations:          |                     |                     |
| Cash on deposit earning                                                                  |                     |                     |
| - floating rates of interest                                                             | 1,098.2             | 1,098.2             |
| - fixed rates of interest                                                                | 4.4                 | 6.2                 |
| Short term financial liabilities and current portion of long term borrowings             | (151.7)             | (151.7)             |
| Long term borrowings                                                                     | (3,771.8)           | (3,818.8)           |
| Finance leases                                                                           | (1,273.2)           | (1,278.2)           |
| Derivative financial instruments held to manage interest rate and exchange rate profile: |                     |                     |
| - interest rate swaps                                                                    | (12.8)              | (67.8)              |
| - interest rate caps/collars                                                             | (0.9)               | (1.9)               |
| - currency swaps                                                                         | (75.8)              | (106.7)             |

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.

No gains or losses on derivative financial instruments have been recognised in the period.

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

|  | December 2004 |          | Total net<br>gains/<br>(losses) |
|--|---------------|----------|---------------------------------|
|  | Gains         | (Losses) |                                 |
|  |               |          |                                 |

|                                                                                                                                                                                     | £m | £m     | £m     |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----|--------|--------|
| Gains and losses arising in the period that were not recognised in the period                                                                                                       | -  | (86.9) | (86.9) |
| Unrecognised gains and losses on hedges at 31 December 2004                                                                                                                         | -  | (86.9) | (86.9) |
| Of which:                                                                                                                                                                           |    |        |        |
| Gains and losses expected to be recognised in the following year                                                                                                                    | -  | (13.1) | (13.1) |
| Gains and losses expected to be recognised after the following year                                                                                                                 | -  | (73.8) | (73.8) |
| (13) 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. |    |        |        |

## 18 PROVISIONS FOR LIABILITIES AND CHARGES

|                                    | Vacant leasehold properties<br>£m | Other lease commitments<br>£m | Deferred taxation<br>£m | Total<br>£m |
|------------------------------------|-----------------------------------|-------------------------------|-------------------------|-------------|
| On Acquisition                     | 135.6                             | 26.5                          | 20.3                    | 182.4       |
| Utilisation of provision           | (10.0)                            | -                             | -                       | (10.0)      |
| Charge to profit and loss account: |                                   |                               |                         |             |
| Unwind of discount                 | 2.2                               | 0.8                           | -                       | 3.0         |
| Release of provision               | -                                 | (1.6)                         | -                       | (1.6)       |
| Increase in provision              | 25.5                              | -                             | 8.6                     | 34.1        |
|                                    | 153.3                             | 25.7                          | 28.9                    | 207.9       |

### Vacant leasehold properties:

#### 200/202 Aldersgate Street

On 6 November 2000, the Canary Wharf Group entered into an Agreement for Lease with Clifford Chance for the lease of 10 Upper Bank Street, which reached practical completion on 31 July 2003. The Canary Wharf Group also acquired the sub-leasehold interest (with approximately 13 years now unexpired) in 200/202 Aldersgate Street, a 440,000 sq ft office building in the City of London. Clifford Chance vacated the building on 29 September 2003. CWG is now seeking to sub-let the premises.

In June 2003, CWG recognised a provision for the estimated net liability under the lease of 200/202 Aldersgate Street. This provision is subject to review at each subsequent balance sheet date and at the date of Acquisition the provision was stated at £110.3 million. The quantum of the provision has been arrived at after consulting with Savills Commercial Limited, one of the Canary Wharf 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 £24.1 million to £124.4 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             | - | £50 per sq ft                 |

This provision is stated at present value calculated on the basis of a discount rate of 6.4%, being the group's weighted average cost of debt.

#### Reuters' leasehold properties

On 9 February 2004 the Canary Wharf Group announced that it had signed agreements for lease relating to the pre-let to Reuters of approximately 283,000 sq ft of space in the building at 30 The South Colonnade, previously let to London Underground Limited. As part of this transaction the group agreed to take over three of Reuters' leasehold properties from commencement of the lease on 30 The South Colonnade in May 2005.

At the date of Acquisition a provision of £25.3 million was recognised for the estimated net liability under these leases. The terms of the leases to expiration or first break are between 4 and 5 years. At 31 December 2004 the provision was increased by £3.6 to £28.9 million stated at present value calculated on the basis of a discount rate of 6.4%.

#### Other lease commitments

In March 2001 Canary Wharf Group signed an agreement for lease with Lehman Brothers in respect of 25-30 Bank Street (HQ2), comprising 1,023,300 sq ft. The incentive package agreed with Lehman Brothers included the following components:

- (1) payments to Lehman Brothers of approximately £16 million on draw down of the HQ2 lease, equivalent to £16 per sq ft; and
- (2) 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 million, equivalent to £12 per sq ft of space in HQ2.

These amounts, totalling approximately £28 million, have been accrued for at 31 December 2004.

The Canary Wharf Group has also entered into a rent support commitment with Lehman Brothers under which it 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 6 Broadgate, comprising 97,651 sq ft where the leases expire in September 2013, rent support of up to £5 per sq ft is payable by CWG 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 CWG on space which Lehman Brothers do not sub-let.

To date Lehman Brothers have sub-let approximately 100,303 sq ft in 1 and 2 Broadgate at a rent higher than the passing rent and therefore it will not be necessary to make any contribution as a result of this sub-lease. The maximum amount payable in respect of the remaining space leased by Lehman Brothers at Broadgate at 31 December 2004 was £34.0 million (nominal) with a present value of £25.7 million calculated on the basis of a discount rate of 6.4%. This amount has been provided in full and will be subject to review at each subsequent balance sheet date.

#### Deferred taxation:

|                                                                   | Period ended<br>31 December 2004<br>£m |
|-------------------------------------------------------------------|----------------------------------------|
| Accelerated capital allowances claimed                            | (158.6)                                |
| Other timing differences                                          | 72.3                                   |
| Undiscounted deferred tax liability                               | (86.3)                                 |
| Discount                                                          | 57.4                                   |
| Discounted deferred tax liability                                 | (28.9)                                 |
| At Acquisition                                                    | (20.3)                                 |
| Deferred tax charge in the profit and loss account for the period | (8.6)                                  |
| At 31 December 2004                                               | (28.9)                                 |

In accordance with FRS 19, no provision has been made for deferred tax on gains relating to properties which are revalued in the balance sheet to their Market Value. If the group's investment properties had been sold at the balance sheet date at the amounts stated in Note 10 pre adjustment for UITF 28, the amount of tax payable by the group would have been in the region of £63.8 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 and corporation tax on development surpluses in relation to the completed properties that are held by group property development companies of £11.8 million. The benefit of the capital losses has been recognised by reducing the contingent capital gains tax liability disclosed above by £148.1 million. In line with FRS 19, the benefit of these losses has not been recognised in the deferred tax provided in the balance sheet.

## 19 SHARE CAPITAL

| Authorised                         |                              | Issued, allotted and fully paid    |                              |
|------------------------------------|------------------------------|------------------------------------|------------------------------|
| At 31<br>December<br>2004<br>£'000 | On<br>incorporation<br>£'000 | At 31<br>December<br>2004<br>£'000 | On<br>incorporation<br>£'000 |

|                                           |         |     |        |   |
|-------------------------------------------|---------|-----|--------|---|
| Ordinary shares of £1 each (notes 1,2&3)  | -       | 100 | -      | - |
| Ordinary shares of 10p each (note 3)      | -       | -   | -      | - |
| A Shares of 10p each (notes 3&5)          | 88,664  | -   | 26,085 | - |
| B Shares of 10p each (notes 3&6)          | 71,259  | -   | 17,270 | - |
| C ordinary shares of 10p each (notes 3&8) | 15,000  | -   | -      | - |
| D ordinary shares of 10p each (notes 3&4) | -       | -   | -      | - |
| SG Shares of 10p each (notes 3&7)         | 25,076  | -   | 18,257 | - |
|                                           | 199,999 | 100 | 61,612 | - |

The following share capital changes occurred during the period from incorporation to 31 December 2004:

- (1) The company was incorporated on 13 February 2004 with an authorised share capital of £100,000 divided into 100,000 ordinary shares of £1 each of which 2 subscriber shares were issued.
- (2) On 7 April 2004 a further 49,998 ordinary shares of £1 each were issued.
- (3) In anticipation of the Offer being declared wholly unconditional, the ordinary shares of £1 each were converted into 1,000,000 ordinary shares of 10p each on 20 May 2004 and the authorised share capital increased to £200,000,000 by the creation of a further 1,999,000,000 ordinary shares of 10p each. On the same day, the share capital of the company was further converted into:
  - 886,642,391 A Shares
  - 712,593,848 B Shares
  - 150,000,000 C ordinary shares ('C Shares')
  - 1 D ordinary share of 10p each ('D Share')
  - 250,763,760 SG Shares

All shares have a nominal value of 10p each.

- (4) On 11 June 2004 one D Share was issued and allotted to British Land (Joint Ventures) Limited, a wholly owned subsidiary of The British Land Company PLC in accordance with the terms of the Songbird consortium shareholders agreement dated 16 April 2004 as amended on 3 June 2004 ('the Shareholders' Agreement'). The Songbird consortium comprised British Land (Joint Ventures) Limited, the Glick Entities (being investment vehicles and trusts connected with Simon Glick and his family) (the 'Glick Entities'), the Morgan Stanley related funds (comprises the MSREF Funds, Princes Gate Investors, MSQ (a Morgan Stanley related entity comprising State of Qatar 99.5% MSREF 0.5%)) and the Whitehall 2001 Funds, a series of real estate funds sponsored and managed by the Goldman Sachs Group and/or its affiliates (together the 'Songbird Consortium').
- (5) Between 21 May and 23 July 2004 a total of 172,699,919 B Shares were allotted and issued at a subscription price of £1.00 per share to various of the Songbird Consortium members, underwriters and existing CWG shareholders.

The B Shares were admitted to AIM on 21 May 2004, and immediately temporarily suspended from trading at the request of the company, to be re-admitted on 11 June 2004. The temporary suspension of the B Shares was pending further allotments under the mix and match election facility available under the Offer.
- (6) On 21 May and 22 July 2004 a total of 182,567,878 SG Shares (comprising 171,635,086 and 10,932,792 SG Shares respectively) at a subscription price of £1 per share were allotted and issued fully paid up to the Glick Entities.
- (7) Between 11 June and 23 July 2004 a total of 260,349,750 A Shares were allotted and issued fully paid up to the members of the Songbird Consortium.
- (8) Insufficient elections for C Shares were received under the offer for CWG and therefore, as noted in the Offer documentation, the facility to elect for C Shares was withdrawn from the Offer on 18 June 2004. No C Shares have been issued, or are envisaged to be issued, in the near future.

As at 31 December 2004 a total of 616,117,548 shares were in issue.

Various rights attach to the different classes of shares and can be summarised as follows:

- (1) A Shares
  - 8 votes per share.
  - Fixed cumulative dividend entitlement at a rate of 8% per annum to be paid quarterly in arrears and accruing from day to day commencing on the date of issue. The A Shares rank equally with B Shares in respect of dividend rights.
  - At least two thirds of the aggregate voting rights of the A shareholders, including the consent of the Morgan Stanley Related Funds, is required to vary the rights attaching to the A Shares.

- In the event of a liquidation event, which includes any liquidation, dissolution or winding up of the company, after payment of the D Share Liquidation Amount (see below) and the Liquidation Preference Amount (see below) the surplus assets shall be distributed to A shareholders ranking equally with the B shareholders, in an amount on each share equal to the sum of (1) the aggregate amount (including premium) from time to time paid up on that share less the aggregate of any additional amounts authorised by the board for distribution in respect of that share (2) all accrued and unpaid fixed cumulative 8% dividends and (3) such additional amount (if any) as is necessary in order that the A shareholders (ranking equally with the B shareholders) receive at least an 8% annual internal rate of return in respect of each of their shares (the "Liquidation Ordinary Amount").

In the event of the availability of further surplus assets following the above payment, a further distribution would be made to A shareholders, ranking equally with the B and SG shareholders, up to a maximum amount of £100,000 per £1 paid per share.

(2) B Shares

- 1 vote per share.
- Fixed cumulative dividend entitlement at a rate of 8% per annum to be paid quarterly in arrears and accruing from day to day commencing on the date of issue. The B Shares rank equally with the A Shares in respect of dividend rights.
- At least two thirds of the aggregate voting rights of the B shareholders is required to vary the rights attaching to the B Shares.
- In the event of a liquidation event, which includes any liquidation, dissolution or winding up of the company, after payment of the D Share Liquidation Amount (see below) and the Liquidation Preference Amount (see below) the surplus assets shall be distributed to B shareholders, ranking equally with the A shareholders, in an amount on each share equal to the sum of (1) the aggregate amount (including premium) from time to time paid up on that share less the aggregate of any additional amounts authorised by the board for distribution in respect of that share (2) all accrued and unpaid fixed cumulative 8% dividends and (3) such additional amount (if any) as is necessary in order that the B shareholders (ranking equally with the A shareholders) receive at least an 8% annual internal rate of return in respect of each of their shares (the "Liquidation Ordinary Amount").

In the event of availability of further surplus assets following the above payment, a further distribution would be made to B shareholders, ranking equally with the A and SG shareholders, up to a maximum amount of £100,000 per £1 paid per share.

(3) D Share

- No voting rights.
- In the event the retail joint venture arrangements set out in the AIM Admission document of the company do not transpire, entitlement to a D dividend for each year in the five year period commencing on 1 July 2004 shall be calculated on a proportion of the increase in the Market Value of retail assets of the Estate as identified in the AIM Admission document of the company.
- The rights attaching to the D Share can only be varied with the consent in writing of the holder of the D Share.
- In the event of a liquidation event, which includes any liquidation, dissolution or winding up of the company, the surplus assets shall be distributed firstly to the D shareholder in an amount up to the aggregate of all D Dividends which have been declared but not paid ("D Share Liquidation Amount").

(4) SG Shares

- 8 votes per share.
- Entitlement to a fixed cumulative preferential dividend (in priority to the payment of any other dividend/distribution with the exception of the D dividend) accruing at a rate of 8% per annum payable quarterly in arrears (but not to be declared or paid prior to the second anniversary of the original issue date in the absence of specific action by the board).
- Conversion right into A Shares on a one-for-one basis at any time.
- Conversion right into B Shares on a one-for-one basis up to a maximum aggregate paid up value of £150 million, subject to certain restrictions.
- Redemption right in whole or in part within 90 days of the sixth anniversary following the first closing date of the Offer (21 May 2004), or earlier if the A Shares are listed or are the subject of a similar exit transaction.
- The rights attaching to the SG Shares can only be varied with the unanimous consent of the SG shareholders.
- In addition, unanimous consent of the SG shareholders is also required for the following:
  - (i) the company issuing any share capital that ranks senior to or on a par with the SG Shares;
  - (ii) altering the dividend rights of the SG Shares or any other shares in a manner that is adverse to the holders of the SG Shares;

- (iii) altering the memorandum and/or articles of association of the company or, provided that consent is not unreasonably withheld, the constitutional documents of any subsidiary of the company;
  - (iv) the company redeeming or repurchasing any share capital that ranks on par or junior to the SG Shares (if not in accordance with the terms of issue of any such class of share capital);
  - (v) the company or any of its subsidiaries entering into any transaction not contemplated by the board approved budget and operating plan that results in adverse tax consequences to the SG shareholders;
  - (vi) making or permitting any material alteration to the fundamental nature of the business of the company and its subsidiaries;
  - (vii) the sale of all or substantially all of the assets of the company except as contemplated by the approved budget and operating plan;
  - (viii) any sale of assets of the company or any of its subsidiaries for consideration other than cash; and
  - (ix) the issue, except to the company or a wholly owned subsidiary, of any share capital of any subsidiary of the company, provided that the SG shareholders consent is given to any such transaction to a third party made in good faith and on an arm's length basis.
- In the event of a liquidation event, which includes any liquidation, dissolution or winding up of the company, after the payment of the D Share Liquidation Amount (see above) the surplus assets shall be distributed to an SG shareholder in an amount on each SG Share equal to the sum of (1) the aggregate amount (including premium) from time to time paid up on that share less the aggregate of any additional amounts authorised by the board for distribution in respect of that share (2) all accrued and unpaid fixed cumulative preferential 8% dividends (see above) and (3) such additional amount (if any) as is necessary in order that the SG shareholders receive at least an 8% annual rate of return in respect of each of their shares (the "Liquidation Preference Amount").

In the event of availability of further surplus assets following payment of the D Share Liquidation Amount, the Liquidation Preference Amount and the Liquidation Ordinary Amount, a further distribution would be made to SG shareholders, ranking equally with the A and B shareholders, up to a maximum amount of £100,000 per £1 paid per share.

## 20 RESERVES

|                                                      | Share premium account<br>£m | Revaluation reserve<br>£m | Profit & loss account<br>£m | Own shares<br>£m | Appropriation of profit<br>£m | Total<br>£m | Minority interest<br>£m |
|------------------------------------------------------|-----------------------------|---------------------------|-----------------------------|------------------|-------------------------------|-------------|-------------------------|
| Issue of share capital On Acquisition                | 538.9                       | -                         | -                           | -                | -                             | 538.9       | -                       |
| Reserve movements in respect of share option schemes | -                           | -                         | -                           | (5.0)            | -                             | (5.0)       | 561.8                   |
| Revaluation of investment properties                 | -                           | -                         | -                           | 2.0              | -                             | 2.0         | -                       |
| Transfer to minority interest                        | -                           | 117.1                     | -                           | -                | -                             | 117.1       | -                       |
| Finance costs of non-equity shares                   | -                           | (39.4)                    | 8.5                         | -                | -                             | (30.9)      | 30.9                    |
| Loss for the financial period                        | -                           | -                         | (8.6)                       | -                | 8.6                           | -           | -                       |
|                                                      | -                           | -                         | (62.4)                      | -                | -                             | (62.4)      | -                       |
| At 31 December 2004                                  | 538.9                       | 77.7                      | (62.5)                      | (3.0)            | 8.6                           | 559.7       | 592.7                   |
| Analysed as:                                         |                             |                           |                             |                  |                               |             |                         |
| Equity                                               | 375.5                       | 54.7                      | (44.0)                      | (2.1)            | -                             | 384.1       | 592.7                   |
| Non-Equity                                           | 163.4                       | 23.0                      | (18.5)                      | (0.9)            | 8.6                           | 175.6       | -                       |
|                                                      | 538.9                       | 77.7                      | (62.5)                      | (3.0)            | 8.6                           | 559.7       | 592.7                   |

## 21 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

|                        | Group<br>£m |
|------------------------|-------------|
| Issue of share capital | 600.5       |
| Revaluation surplus    | 77.7        |

|                                             |        |
|---------------------------------------------|--------|
| Investment in own shares                    | (5.0)  |
| Movement in respect of share option schemes | 2.0    |
| Appropriation of profit                     | 8.6    |
| Loss for the financial period               | (62.5) |
| Shareholders' funds at 31 December 2004     | 621.3  |

Analysed as:

|                       |       |
|-----------------------|-------|
| Equity Interests:     |       |
| share capital         | 43.4  |
| reserves              | 384.1 |
|                       | 427.5 |
| Non-Equity Interests: |       |
| share capital         | 18.2  |
| ..reserves            | 175.6 |
|                       | 193.8 |

## 22 PENSION SCHEMES

CWG operates two defined contribution pension schemes. The assets of these schemes are held in independently administered funds. The pension cost charge, which amounted to £1,536,217 in the period represents contributions payable by the Canary Wharf Group to the schemes. The company does not operate a pension plan.

## 23 RECONCILIATION OF OPERATING PROFIT TO OPERATING CASH FLOWS

|                                                                   | Period ended<br>31 December<br>2004<br>£m |
|-------------------------------------------------------------------|-------------------------------------------|
| Operating profit                                                  | 106.7                                     |
| Depreciation charges                                              | 0.4                                       |
| Provision against investment                                      | 0.2                                       |
| Amortisation of share option costs                                | 1.7                                       |
| Increase in debtors                                               | (15.1)                                    |
| Decrease in creditors                                             | 46.1                                      |
| Amortisation of goodwill                                          | 2.2                                       |
| Utilisation of provisions                                         | (10.2)                                    |
| Recognition of income during rent-free periods                    | (35.5)                                    |
| Increase in provisions for vacant and other leasehold commitments | 27.0                                      |
| Net cash inflow from operating activities                         | 123.5                                     |

## 24 ANALYSIS OF CASH FLOWS

|                                                 | Period ended 31<br>December 2004<br>£m    |
|-------------------------------------------------|-------------------------------------------|
| Returns on investments and servicing of finance |                                           |
| Interest received                               | 32.9                                      |
| Interest paid                                   | (154.3)                                   |
| Interest element of finance lease rentals       | (52.1)                                    |
| Financing expenses                              | (27.7)                                    |
| Net cash outflow                                | (201.2)                                   |
|                                                 | Period ended 31<br>December 2004<br>£m    |
| Capital expenditure and financial investment    |                                           |
| Additions to properties                         | (101.0)                                   |
| Net cash outflow                                | (101.0)                                   |
|                                                 | Period ended<br>31 December<br>2004<br>£m |
| Acquisition                                     |                                           |
| Acquisition of subsidiary undertaking           | (837.7)                                   |
|                                                 | (837.7)                                   |
|                                                 | Period ended 31<br>December 2004<br>£m    |
| Management of liquid resources                  |                                           |
| Cash placed on deposit not available on demand  | (17.5)                                    |
| Cash withdrawn from deposit accounts            | 125.7                                     |

|                                 |                                  |
|---------------------------------|----------------------------------|
| Net cash inflow                 | 108.2                            |
|                                 | Period ended 31<br>December 2004 |
| Financing                       | £m                               |
| Repayment of secured loans      | (18.3)                           |
| Net proceeds of issue of shares | 245.2                            |
| Draw down of Acquisition loans  | 643.6                            |
| Finance lease premium           | 10.0                             |
| Net cash inflow                 | 880.5                            |

## 25 ANALYSIS AND RECONCILIATION OF NET DEBT

|                                               | Fair value at<br>Acquisition<br>£m | Cash flow<br>£m                        | Other non-<br>cash<br>changes<br>£m | At 31<br>December<br>2004<br>£m |
|-----------------------------------------------|------------------------------------|----------------------------------------|-------------------------------------|---------------------------------|
| Cash at bank                                  | 1,238.5                            | (135.9)                                | -                                   | 1,102.6                         |
| Amounts on deposit not available on<br>demand | (567.8)                            | 108.2                                  | -                                   | (459.6)                         |
|                                               | 670.7                              | (27.7)                                 | -                                   | 643.0                           |
| Debt due after 1 year                         | (3,169.0)                          | (625.3)                                | 22.5                                | (3,771.8)                       |
| Debt due within 1 year                        | (178.5)                            | 20.7                                   | 6.1                                 | (151.7)                         |
| Finance leases                                | (1,266.5)                          | 7.3                                    | (14.0)                              | (1,273.2)                       |
|                                               | (4,614.0)                          | (597.3)                                | 14.6                                | (5,196.7)                       |
| Amounts on deposit not available on<br>demand | 567.8                              | (108.2)                                | -                                   | 459.6                           |
| Net debt                                      | (3,375.5)                          | (733.2)                                | 14.6                                | (4,094.1)                       |
|                                               |                                    | Period ended 31<br>December 2004<br>£m |                                     |                                 |
| Decrease in cash at bank in the period        |                                    | (135.9)                                |                                     |                                 |
| Increase in debt and lease financing          |                                    | (597.3)                                |                                     |                                 |
| Change in net debt resulting from cash flows  |                                    | (733.2)                                |                                     |                                 |
| Non-cash movement in net debt                 |                                    | 14.6                                   |                                     |                                 |
| Net debt at fair value at Acquisition         |                                    | (3,375.5)                              |                                     |                                 |
| Net debt at 31 December 2004                  |                                    | (4,094.1)                              |                                     |                                 |

## 26 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 17. In particular, various members of the group had, at 31 December 2004, given fixed first ranking charges over cash deposits totalling £459.6 million and may be called upon to make a further cash deposit of up to £25.0 million.

As security for the issue of £453.5 million of securitised debt (Note 17) CWG 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 million loan the Canary Wharf Group has granted a second ranking charge over the property interests included in the CWF securitisation and Canary Wharf Limited has provided an interest guarantee.

As security for the issue of up to £2,206.5 million of securitised debt (Note 17) CWG 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.

As security for a £225 million loan CWG had granted first ranking fixed and floating charges over 20 Canada Square. This loan was repaid on 11 March 2005 (Note 28).

Commitments of the Canary Wharf Group for future expenditure:

|                |                              |
|----------------|------------------------------|
|                | At 31 December<br>2004<br>£m |
| Under contract | 18.0                         |

The commitments for future expenditure relate to the completion of development projects 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

|                                                |      |
|------------------------------------------------|------|
| Annual commitment for which the leases expire: |      |
| within one year                                | -    |
| between two and five years                     | 4.2  |
| after five years                               | 16.7 |
|                                                | 20.9 |

CWG 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 Estate or in the car parks) caused through breach of its obligations as developer contained in any pre-let or other agreement. Off-setting this potential liability CWG 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 CWG 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 CWG's subsidiaries on the sub-let space.

The existence of the sub-let commitments has been taken into account in the market valuation of the group's properties at 31 December 2004.

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

| Property             | Leaseholder     | Sub-let sq ft  | Passing rent £m | Rent review date | Rent review basis                      | Term commencement | 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         | 0.14            | Jan 2003         | OMR up only                            | Feb 2003          | Jul 2005 <sup>(6)</sup> |
| 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 <sup>(5)</sup> |
| 10 Upper Bank Street | Clifford Chance | 52,500         | 2.42            | Jul 2008         | Fixed at £49/sf                        | Jul 2003          | Jul 2008                |
| 10 Upper Bank Street | Clifford Chance | 52,100         | 2.40            | Jul 2008         | Fixed at £49/sf                        | Jul 2003          | Jul 2013                |
| 25-30 Bank Street    | Lehman Brothers | 76,600         | 3.08            | Jul 2008         | Fixed at £53/sf                        | Jul 2003          | Jul 2008 <sup>(1)</sup> |
| 25-30 Bank Street    | Lehman Brothers | 102,100        | 4.18            | Jul 2008         | Fixed at £53/sf in 2002 <sup>(2)</sup> | Jul 2003          | Jul 2013 <sup>(1)</sup> |
| 1 Churchill Place    | Barclays        | 133,600        | 5.63            | Jul 2009         | OMR up only                            | Jul 2004          | Jul 2019 <sup>(3)</sup> |
| 1 Churchill Place    | Barclays        | 130,300        | 5.47            | Jul 2009         | OMR up only                            | Jul 2004          | Jul 2014 <sup>(3)</sup> |
| 1 Churchill Place    | Barclays        | 66,000         | 2.75            | Jul 2009         | OMR up only                            | Jul 2004          | Jul 2009 <sup>(3)</sup> |
| 40 Bank Street       | Skadden         | 19,500         | 0.86            | Mar 2008         | OMR up only                            | Mar 2003          | Mar 2008 <sup>(4)</sup> |
| 40 Bank Street       | Skadden         | 19,500         | 0.86            | Mar 2008         | OMR up only                            | Mar 2003          | Sep 2010 <sup>(4)</sup> |
| 40 Bank Street       | Skadden         | 19,500         | 0.86            | Mar 2008         | OMR up only                            | Mar 2003          | Mar 2013 <sup>(4)</sup> |
| <b>Total</b>         |                 | <b>803,900</b> | <b>33.30</b>    |                  |                                        |                   |                         |

**Notes:**

- (1) On 29 September 2003 Lehman Brothers exercised options to sub-let part of 25-30 Bank Street back to CWG: 4 floors (102,100 sq ft) for 10 years and an additional 4 floors (100,800 sq ft) for 5 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 5 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 CWG. Of the total sub-let, 66,000 sq ft is for 5 years, 130,300 sq ft is for 10 years and 133,600 sq ft is for 15 years or more.
- (4) Skadden have opted to lease back floor 24 (19,500 sq ft) for 5 years, floor 25 (19,500 sq ft) for 7.5 years and floor 26 (19,500sq ft) for 10 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.

## 27 RELATED PARTY TRANSACTIONS

During the period the Canary Wharf 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 commitments to HSO at 31 December 2004. In addition, during the period ended 31 December 2004, the company billed HSO £107,000 for access to the Canary Wharf telecommunications infrastructure. This amount remained outstanding at 31 December 2004.

As at 23 April 2004, being the date of publication of the company's AIM Admission Document (the 'AIM Document') the group had entered into the following related party transactions with members of the Songbird Consortium:

- (a) A share exchange agreement dated 16 April 2004 between the Glick Entities, the company and Simon Glick;
- (b) The shareholders agreement dated 16 April 2004 and amended on 3 June 2004, between the company, the MS Funds, the Glick Entities, the Whitehall 2001 Funds and British Land (Joint Ventures) Limited;
- (c) A cost sharing agreement dated 23 April 2004 between the MS Funds, the Glick Entities, the Whitehall 2001 Funds, Silvestor Holdings plc and the company;
- (d) A senior facility agreement dated 16 April 2004, as amended from time to time, between SAL, the company and The Royal Bank of Scotland plc (the 'Senior Facility Agreement');
- (e) A mezzanine facility agreement dated 16 April 2004, as amended from time to time, between SAL, the company, The Royal Bank of Scotland plc and Goldman Sachs Credit Partners, L.P (the 'Mezzanine Facility Agreement');
- (f) An intercreditor agreement dated 16 April 2004 between, amongst others, SAL, the company, the lenders under the Senior Facility Agreement, the lender under the Mezzanine Facility Agreement, The Royal Bank of Scotland plc, the agent under the Senior Facility Agreement and the agent under the Mezzanine Facility Agreement;
- (g) A mezzanine hedging strategy letter dated 16 April 2004 from SAL to the agent (Goldman Sachs Credit Partners L.P.) and security trustee (the Royal Bank of Scotland plc);
- (h) A cash underpinning agreement dated 16 April 2004 between the company and Morgan Stanley Securities Limited; and
- (i) A letter agreement dated 16 April 2004 between the company and The British Land Company PLC.

All of the parties mentioned above have been defined in the AIM Document within which a summary of the detail of the agreements can be found.

In addition to the above agreements, the company also entered into the following agreements during the period:

- (i) an engagement letter dated 16 April 2004 (the 'Engagement Letter') between the company, SAL, Morgan Stanley & Co. Limited ('Morgan Stanley') and N M Rothschild & Sons Limited ('Rothschild') whereby Morgan Stanley and Rothschild (the 'Banks') agreed to provide financial advice and assistance to the company and SAL in relation to the Offer. In addition to the services provided in relation to the Offer, the Engagement Letter anticipated that the company would engage the Banks in further advisory work within a certain period of time following the Offer being declared unconditional. Morgan Stanley would be engaged within 24 months and Rothschild within 18 months of the Offer being declared unconditional (the 'Advisory Periods') for fees of at least \$4.3 million and £1.5 million respectively which, in the event such engagements do not transpire, would become due on expiry of the Advisory Periods. The above fees have been treated as part of the cost of the Acquisition.
- (ii) a provision of services agreement dated 29 December 2004 between CWG, the company and SAL (the 'Provision of Services Agreement'). Under the Provision of Services Agreement CWG agrees to provide certain business and corporate administration services for a time based fee, to the company and SAL for an initial period of 12 months and to continue thereafter until terminated by either party on three month's notice. No amounts have been invoiced under the Provision of Services Agreement as at 31 December 2004.

Subsequent to the period end, the Canary Wharf Group 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 Canary Wharf Group appointed Morgan Stanley as its exclusive financial adviser in connection with the possible 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 Canary Wharf Group and Morgan Stanley (as identified above) whereby the Canary Wharf Group appointed Morgan Stanley as its exclusive financial adviser in connection with the disposal of 15 Westferry Circus, London E14 ('WF9') for a base fee of 0.35% of the aggregate value of WF9 subject to a maximum aggregate value of £118 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 its 999 year leasehold interest in a property situated at 20 Canada Square (the 'Property'). Subsequently, the subsidiary of Barclays entered into arrangements with Brascan Corporation, a significant minority shareholder of CWG, to dispose of the controlling interest in the Property. Further details of this transaction are disclosed in Note 28.

## **28 POST BALANCE SHEET EVENTS**

On 9 February 2005 the group announced that CWG had 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 Canary Wharf 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 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.

On 8 March 2005 IPC Advisors Limited exercised a warrant to subscribe for 42,273,251 ordinary shares in CWG resulting in the interest of the company and SAL in CWG reducing from 66.32% to 61.85%.

On 11 March 2005 the group announced that CWG had 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 million). Current passing rent is £12.2 million, which rises to £20.5 million on the expiry of BP-IST's rent-free period in 2006. In connection with this disposal CWG 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 on disposal of approximately £39.3 million after the write-off of unamortised lease incentives accounted for in accordance with UITF 28 and expenses of sale. Of this amount £15.0 million is attributable to the minority interest. In conjunction with the disposal CWG repaid a £225.0 million loan secured against the building crystallising net breakage costs of £1.5 million and the write-off of unamortised fair value adjustments of £9.9 million. Of these charges totalling £11.4 million, £4.3 million is attributable to the minority interest.

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. Of this amount £9.5 million is attributable to the minority interest.

On 16 March 2005 CWG 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 the Market Value of the building was £115 million (30 June 2004 - £113 million). Current passing rent is £6.6 million per annum which is contracted to rise to £8.2 million from 31 August 2006 (£48 per sq ft). In connection with the disposal, CWG 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. Of the profit on sale, £6.3 million is attributable to the minority interest.