

SONGBIRD ESTATES PLC

23 MARCH 2006

PRELIMINARY ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31 DECEMBER 2005

The Board of Songbird Estates plc is pleased to announce results for the year ended 31 December 2005.

The information in this announcement which was approved by the board of directors on 22 March 2006, does not comprise statutory accounts within the meaning of the Companies Act 1985.

HIGHLIGHTS AND RESULTS IN BRIEF

Highlights

- For properties held throughout the period, the market value of the portfolio at 31 December 2005 was £5,658.5 million, representing an increase of £493.3 million (or 9.6%) net of additions since 30 June 2005 and £995.2 million (or 21.3%) since 31 December 2004 (Note (i)).
- An interim dividend of 16.61p was declared on 10 November 2005 and paid on 25 November 2005 totalling £102.3 million (Note (ii)). Subsequent to the year end on 22 March 2006 the company declared a dividend of 18.00p per share (Note (xiii)).
- Adjusted net asset value per share attributable to members of the company increased from £1.04 at 31 December 2004 to £1.85 at 31 December 2005 and adjusted triple net asset value ('NNNAV') per share attributable to members of the company increased from £1.09 to £1.62 (Note (iii)).
- Canary Wharf Group plc ('Canary Wharf Group') sold seven investment properties representing 20.1% by area of its investment property portfolio at 31 December 2004, giving rise to an exceptional profit of £204.9 million, an uplift over market value at 31 December 2004 of 20.9% (Note (iv)).
- Active management of liabilities led to the elimination of the liability on Aldersgate Street and the reduction of the liabilities on the other takeover properties and put option space (Notes (v), (vi) and (vii)).
- Lettings were achieved totalling approximately 390,000 sq ft (Note (v)).
- At 31 December 2005 Canary Wharf Group's investment portfolio totalling 7.9 million sq ft was 89.6% let (31 December 2004 – 9.9 million sq ft of which was 86.5% let) (Note (v)).
- Canary Wharf Group completed a comprehensive refinancing which provided increased flexibility by refinancing fixed rate debt with medium term bank debt. The group also refinanced its acquisition debt to reduce costs and enhance flexibility (Note (viii)).
- British Waterways Board ('BWB') selected Canary Wharf Group as its preferred development partner with Ballymore Properties Limited ('Ballymore') for the redevelopment of the Wood Wharf site (Note (v)).
- Planning permission secured for 1.8 million sq ft on Riverside South ('Riverside') (Note (v)).

Results in Brief

	Year ended 31 December 2005	Restated (x) Period ended 31 December 2004
	£m	£m
Rental income (Note (ix))	272.8	168.1
Exceptional items		
- sale of property	12.1	-
Operating profit	240.0	106.7
Operating profit excluding exceptional items (Note (iv))	227.9	106.7
Exceptional items:		
- profit on disposal of investment properties (Note (iv))	204.9	-
- deemed loss on part disposal of investment (Note (iv))	(27.7)	-
- charges on repayment of debt (Note (iv))	(116.1)	-
Profit/(loss) before taxation	3.6	(62.4)
Loss before taxation excluding exceptional items (Note (iv))	(69.6)	(62.4)
Taxation - deferred tax (Note (xi))	57.9	(8.6)
Profit/(loss) after taxation	61.5	(71.0)
Minority interest	(77.7)	8.5
Loss on ordinary activities attributable to members of the company	(16.2)	(62.5)
Basic and diluted loss per share (Note (xii))	(3.8)p	(14.6)p
Dividends per share (Note (ii))	16.61p	-

Notes:

- (i) Refer to 'Business and Financial Review – Valuations' of the accompanying financial information.
- (ii) Refer to Note 8 of the notes to the preliminary announcement.
- (iii) Refer to 'Business and Financial Review – Balance sheet' of the accompanying financial information.
- (iv) Refer to Note 11 of the notes to the preliminary announcement for details of the profit on sale of properties, Note 14 for details of the deemed loss on part disposal of investment and Note 5 for details of the charges relating to repayment of debt.
- (v) Refer to 'Business and Financial Review – Property portfolio' of the accompanying financial information.
- (vi) Refer to 'Business and Financial Review – Lettings and development' of the accompanying financial information.
- (vii) Refer to 'Business and Financial review – Property disposals' of the accompanying financial information
- (viii) Refer to Note 18 of the notes to the preliminary announcement.

- (ix) Refer to 'Business and Financial Review - Operating results' of the accompanying financial information.
- (x) Restated as set out in Note 2(16) of the notes to the preliminary announcement.
- (xi) Refer to Note 6 of the notes to the preliminary announcement.
- (xii) Refer to Note 10 of the notes to the preliminary announcement.
- (xiii) Refer to Note 29 of the notes to the preliminary announcement

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

CONTACTS

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CHAIRMAN'S STATEMENT

2005 has been a busy year for the group with the refinancing of the group's debt and payment of a dividend by the company, together with the disposal of seven properties in excess of book value and further lettings by Canary Wharf Group, each of which have contributed to a successful first full accounting year for the company. Moreover, these events took place against the backdrop of a tightening of yields for prime rack-rented properties which drove a 21.3% increase (25.3% prior to the removal of stamp duty relief on properties in defined 'disadvantaged areas') in the value of the Canary Wharf Group property portfolio on the basis of market value.

Dividends

Reflecting this successful year I am pleased to announce a dividend of 18p per SG Share, A Share and B Share. Coupled with the dividend of 16.61p per share paid to these classes of shareholder on 25 November 2005 this brings the total dividend paid to shareholders to 34.61p per share. The ex-dividend date for this payment will be 29 March 2006 with a record date of 31 March 2006 and a payment date of 19 April 2006.

In November 2005, based on the 30 June 2005 retail valuation, the Board announced its intention to declare an interim dividend of £14.9 million on the D Share. Although still subject to agreement with the D shareholder, an accrual of £28.7 million has now been made to reflect the initial accrual of £14.9 million as at 30 June 2005 and the 31 December 2005 retail valuations. The D share dividends, although accruing on an annual basis, are not payable until 2007.

Financial

Financial Review

Net assets at 31 December 2005 were £1,808.0 million in comparison with £1,023.7 million at 31 December 2004 including the minority interest. The increase in net asset value for the six months ended 31 December 2005 attributable to members of the company was primarily due to the surplus on revaluation of the investment portfolio of £547.2 million offset by the loss attributable to members of the company of £16.2 million and the dividend paid to equity shareholders of £72.0 million. Adjusted net asset value ('NAV') per share, allowing for the revaluation of properties held for development to market value and classifying all classes of shares as equity, was £1.85 per share at 31 December 2005 in comparison with £1.04 per share at 31 December 2004. The NAV per share at 31 December 2005 is stated net of the dividend of 16.6p per share paid in the period.

During the year an exceptional profit of £204.9 million was recorded on the sale of seven investment properties. In addition, a profit of £12.1 million was recorded on the sale of a leasehold property which was acquired in the first half of the year. These exceptional profits were offset by exceptional charges totalling £116.1 million relating to the early repayment of debt. These charges arose principally in connection with a comprehensive refinancing by Canary Wharf Group which provided greater flexibility in pursuing selected asset disposals whilst also serving to reduce the Canary Wharf Group's weighted average cost of debt.

An exceptional loss of £27.7 million was recorded on the deemed part disposal of the investment in Canary Wharf Group following the exercise of warrants which reduced the investment of the company in Canary Wharf Group from 66.32% at 31 December 2004 to 60.8% at 31 December 2005. Excluding exceptional items, the loss after tax attributable to members of the company was £89.4 million in comparison with £62.5 million for the period ended 31 December 2004.

During the year Canary Wharf paid two interim dividends of an aggregate amount of £1.10 per ordinary share. As a result of its majority interest in Canary Wharf, the group received a total of £427.0 million of which £248.0 million was used to part repay loans arranged at the time of the offer for Canary Wharf together with accrued interest.

Financing

In November 2005 the senior and mezzanine facilities (the 'Initial Facilities') which had been arranged at the time of the offer for Canary Wharf were successfully refinanced. This refinancing places the financial structure of the group on a more cost effective and flexible footing. The new facilities provide maximum funding in aggregate of approximately £737.0 million which comprise a term facility of approximately £692.0 million and a revolving interest and working capital facility of approximately £45.0 million. The new facilities were negotiated on more flexible terms than the Initial Facilities and reduced the cost of borrowing for the company from 8.2% to 6.5%.

Further detail on the new facilities can be found in Note 18(1) to the preliminary announcement.

Realisation of Value

Asset disposals

It has been a busy year for the Canary Wharf Group management team which took advantage of a market favourably impacted by the compression of yields and successfully completed the disposal of seven of the older properties on the Canary Wharf estate (the 'Estate'). All seven disposals were in excess of the value carried for each property in the books of the group. Further detail of these disposals can be found in the 'Business and Financial Review – Property disposals'.

In addition, on 5 December 2005 Canary Wharf assigned the long leasehold interests in 200/202 Aldersgate Street and the adjoining 20 Little Britain ('Aldersgate Street') for a net consideration of £110.0 million. The long leasehold interests in Aldersgate Street were carried in the books of the group at 30 June 2005, as a property held for sale, at £97.0 million. More detail on this disposal is set out in Note 11.

Asset Management

Although a total of 1.98 million sq ft (21.3% of the Canary Wharf Group property portfolio) has been disposed of during the year, Canary Wharf Group continues to control the integrity of the Estate through its ownership of completed properties amounting to approximately 7.9 million sq ft, including approximately 600,000 sq ft of retail space. Canary Wharf Group also continues to manage the roads and other common parts of the Estate.

Maintaining control of the Estate, whilst realising value through asset disposals, reflects a significant achievement of a key aspect of the business strategy of the group. Such control also retains the unique character of the Estate, both as a commercial business centre and increasingly popular recreational area.

Retail

Retail on the Estate has had an extremely positive year with increases in both footfall and turnover throughout the main shopping malls and major rent reviews being favourably agreed. In Churchill Place Retail centre, a further 21,700 sq ft of retail space was opened, 19,236 sq ft of which has already been leased or committed.

Leasing

An encouraging number of lettings were achieved on the Estate. Throughout the year total lettings over approximately 390,000 sq ft of office space were concluded to new high class tenants. Both the Canary Wharf management team and the Board are proud to welcome such names as The London Organisation Committee of the Olympic Games Limited ('LOCOG'), Total SA ('Total'), Infosys Limited ('Infosys') and BGC International (the Cantor Fitzgerald global voice brokerage spin-off) ('BGC'). A number of smaller lettings have also been agreed over approximately 22,000 sq ft of office space in 40 Bank Street and One Canada Square. Details of all of the lettings concluded during the year can be obtained from the enclosed Business and Financial Review.

Taking into account the lettings and disposals completed during the year, approximately 10.4% of Canary Wharf Group's property portfolio remained unlet at 31 December 2005 (31 December 2004 – 13.5%).

Subsequent to the year end it was announced that Canary Wharf Group has entered into exclusive negotiations with AON UK regarding a potential new purpose built London office of approximately 255,000 sq ft. The Board looks forward to being able to formally announce the completion of this letting.

Development

During the year Canary Wharf Group obtained planning permission for a net 1.8 million sq ft of development on Riverside and, conditional planning consent, for a net 2.4 million sq ft on North Quay. Development will only commence on these sites once significant pre-lets have been agreed.

As previously disclosed Canary Wharf Group was appointed preferred partner with Ballymore Properties Limited for the development of the British Waterways Wood Wharf development. The envisaged scheme sets a framework for approximately 6.5 million sq ft (gross) of residential, commercial and retail development. Work has commenced in relation to budgeting, planning and technical matters prior to submitting the formal planning application and construction is envisaged to commence in 2008.

In addition to Wood Wharf, within the limits of existing permissions, there remains the potential for a further 6.0 million sq ft (approximately) of development on the Estate in the forthcoming years. In February 2006 the Board was delighted by the announcement that Canary Wharf had concluded agreements for the construction and subsequent sale of a new London headquarters building of approximately 300,000 sq ft for SSB Realty, LLC ('State Street'). The Board is optimistic that with the State Street building, and possibly the Aon building, a new and positive construction cycle is starting on the Estate.

Conclusion

I am pleased to have been able to report, on behalf of my board colleagues, positive results for 2005 and the start of 2006 has indicated a promising year for the group. I am confident that this momentum will be maintained into the second full year of the group's existence.

BUSINESS AND FINANCIAL REVIEW

Property portfolio

The principal asset of the company is its direct and indirect investment in Canary Wharf Group. The activities of Canary Wharf Group are focused on the development of the Estate and, through a joint venture with BWB and Ballymore, land adjacent to the Estate known as Wood Wharf. The group has two principal business streams: property investment and property development. At 31 December 2005, the investment arm comprised 16 completed properties (out of the 30 constructed at Canary Wharf) totalling 7.9 million sq ft of net internal area ('NIA') (31 December 2004 – 23 properties out of 30 constructed totalling 9.9 million sq ft). The properties included in the total at 31 December 2005 are shown in the table below:

Property Address	Approx. NIA (sq ft)	% Leased	External Valuation £m	Principal Tenants
One Churchill Place	1,014,400	87.1	660.0	Barclays Bank plc ('Barclays') LOCOG
10 Cabot Square	639,000	100.0	300.0	Barclays Capital, WPP Group
20 Cabot Square	562,000	100.0	230.0	Morgan Stanley, Barclays Capital
One Canada Square	1,246,600	95.6	822.6	Daily Telegraph, KPMG, Mirror Group Newspapers, State Street Bank, Bear Stearns, Bank of New York
33 Canada Square	562,700	100.0	385.0	Citigroup
20 Bank Street	546,500	100.0	460.0	Morgan Stanley
25-30 Bank Street	1,023,300	82.7	880.0	Lehman Brothers
40 Bank Street	607,400	28.3	285.0	Skadden Arps Slate Meagher & Flom (('Skadden'), Allen & Overy
50 Bank Street	213,800	91.2	155.0	The Northern Trust Company ('Northern Trust'), Goldenberg Hehmeyer
10 Upper Bank Street	1,000,400	100.0	670.0	Clifford Chance LLP ('Clifford Chance')
Cabot Place Retail	98,400	100.0	122.7	Various retail tenants
Canada Place Retail	66,800	100.0	139.7	Various retail tenants
Jubilee Place Retail	89,900	99.4	82.0	Various retail tenants
Churchill Place Retail	21,700	81.1	9.6	Part let to Barclays
16-19 Canada Square	204,500	100.0	42.3	Waitrose Food & Home, Canada Square Health & Fitness, Conran Restaurants
Nash Court	8,900	100.0	9.1	Smollenskys, Carluccios
Car Parks	-	-	48.5	
Total	7,906,300	89.6	5,301.5	

At 31 December 2005 the investment portfolio was 89.6% let (31 December 2004 – 86.5%), net of sub-lets back to Canary Wharf Group.

As well as the rental income generated from completed properties, income is generated from managing the entire Estate which, in addition to the completed properties in the ownership of Canary Wharf Group, includes fourteen properties totalling 6.3 million sq ft in other ownerships.

The properties of Canary Wharf Group are under lease to high quality tenants which provide a diversified income stream. At 31 December 2005 the weighted average unexpired lease term for the investment property portfolio was 21.0 years (or 18.1 years assuming exercise of outstanding break options) (31 December 2004 – 21.0 years (or 18.0 years assuming exercise of outstanding break options)). Of the square footage under lease 73.0% does not expire or cannot be terminated by tenants during the next ten years.

Property disposals

During the year ended 31 December 2005, seven investment properties were sold as summarised below representing 1.98 million sq ft (or 20.1% by area) of the investment portfolio at 31 December 2004:

Address	Date of sale	Market value (Note (ii)) £m	Proceeds £m	UITF 28 movement in year (Note (iv)) £m	Fees £m	Rental support provisions (Note (v)) £m	Profit £m	Realisation of previous revaluation gains £m
20 Canada Square	March 2005	290.0 ⁽ⁱⁱⁱ⁾	337.5	-	2.2	6.0	39.3	14.2
15 Westferry Circus	May 2005 ⁽ⁱ⁾	115.0	134.8	-	1.2	2.2	16.4	1.4
17 Columbus Courtyard	September 2005	100.0	120.5	-	1.3	-	19.2	-
1 Westferry Circus	November 2005	65.0	109.9	-	1.4	7.1	36.4	-
7 Westferry Circus	November 2005	85.0	96.6	0.1	1.4	0.5	9.6	4.4
25 North Colonnade	December 2005	165.0	191.0	-	1.8	0.7	23.5	-
30 South Colonnade	December 2005	117.5	185.4	5.7	1.5	0.2	60.5	2.5
		937.5					204.9	22.5

Notes:

(i) Agreement for sale in March 2005.

(ii) Valuation at 31 December 2004.

(iii) Building sold with the benefit of EZAs. The market value at 31 December 2004 inclusive of tax allowances was £333.0 million

(iv) Write-off current year increase in Urgent Issue Task Force Abstract 28 – Operating and Lease Incentives ('UITF 28') prepayment.

(v) See Note 20 for explanation of rental support obligations.

In total the disposals resulted in a profit of £204.9 million which has been shown in the profit and loss account as an exceptional item. The disposals also resulted in the realisation of prior period revaluation gains of £22.5 million.

In connection with the sale of the properties Canary Wharf Group agreed to provide rental support in respect of either unexpired rent-free periods or until the next rent review date. The nominal value of such rental support was £18.0 million and at 31 December 2005 the group held provisions of £12.4 million representing the net present value of the rental support remaining to be paid at that date.

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

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

On 5 December 2005, Canary Wharf Group disposed of its interests in Aldersgate Street for a total consideration of £110.0 million. The sale generated a profit of £12.1 million which was classified as a pre-operating profit exceptional item.

Lettings and development

In July 2005 Canary Wharf Group announced the letting of a total of approximately 390,000 sq ft to new and existing tenants. BGC exchanged contracts to lease 100,215 sq ft for a 14 year term on levels 18-20 of One Churchill Place. LOCOG has agreed to lease 98,150 sq ft in the same building for terms ranging between three and six years. This space forms part of the space sub-let back to Canary Wharf Group by Barclays as referred to in Note 27.

Northern Trust has agreed to lease a further 35,953 sq ft at 50 Bank Street, in addition to the 151,400 sq ft it already occupied in that building. The lease on the additional space is for a 17 year term expiring in 2022. At 10 Upper Bank Street, FTSE has agreed to take 26,116 sq ft on level 12 and Total is taking 26,182 sq ft on level 13. Infosys has also leased 25,607 sq ft on level 14 and 27,014 sq ft on level 15. This space forms part of the total sub-let back to Canary Wharf Group by Clifford Chance as referred to in Note 27. All three of the sub-tenants are taking short-term leases, expiring in July 2013 (or July 2008 in the case of Infosys), at which point reversionary leases to Clifford Chance will commence.

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

As well as the space let in One Churchill Place, BGC also leased 19,092 sq ft in 40 Bank Street for a term of 15 years. Subsequent to the year end, Saxobank A.S. entered into an agreement to lease 11,225 sq ft in the same building until March 2013, being space sub-let back from Skadden as summarised in Note 27.

The net present value of the sub-let liabilities has reduced markedly over the year. At 31 December 2004 the net present value was estimated at approximately £293.0 million whereas at 31 December 2005 the estimated net present value had reduced to approximately £149.0 million, discounted at 5.5% being Canary Wharf Group's weighted average cost of debt. This reduction was primarily attributable to the lettings achieved during the year over 327,100 sq ft out of a total of 713,900 sq ft as at 31 December 2005. In addition the disposal of 1 Westferry Circus and 7 Westferry Circus eliminated the liability in respect of 86,800 sq ft. The remaining sub-let liabilities have been taken into account by the valuers in arriving at the market valuations of the property portfolio.

In August 2004 Canary Wharf Group let 25,200 sq ft to Morgan Stanley at 25-30 Bank Street until July 2008 on a managed office basis at an all inclusive rent of £63.50 per sq ft. Morgan Stanley exercised their break option over this space in September 2005.

In September 2005 Bear Stearns served notice to exercise a break option over approximately 47,600 sq ft in One Canada Square on 27 September 2006.

Canary Wharf Group continued substructure works on the remaining sites at Canary Wharf as a preliminary to development. 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. Works have also commenced on sites BP3 and BP4 which are capable of development totalling in excess of 600,000 sq ft.

Subsequent to the year end, on 27 February 2006, Canary Wharf Group announced that it had entered into an agreement for the sale of 20 Churchill Place (BP3) to Prudential Retirement Income Limited for £199.5 million. When completed the building will comprise approximately 300,000 sq ft and will be occupied by State Street which currently occupies approximately 114,700 sq ft in One Canada Square. The new building will enable State Street to consolidate its offices in the West End, City and Canary Wharf into one location. In connection with the sale agreement Canary Wharf Group may take a surrender from State Street of two floors in One Canada Square totalling 57,046 sq ft which have break options in 2013. The remaining space has break options in 2008.

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

	Approx. NIA (million sq ft)
Based on existing planning permissions:	
Canary Wharf (DS3, BP2, BP4)	1.2
Riverside	1.8
North Quay	2.4
	5.4
Subject to planning application:	
Heron Quay's West	0.6
	6.0

In the total above, development sites on the original Estate could accommodate a total of approximately 1.2 million sq ft of new development. In addition, Canary Wharf Group has development sites at North Quay and Riverside. Application was made to increase the permitted density at Riverside to 1.8 million sq ft and in June 2005 the local planning authority resolved to grant consent for the new scheme. Application had also been made to increase the permitted density at North Quay to 2.4 million sq ft and in July 2005 the local planning authority resolved to grant consent for the new scheme subject to certain conditions and agreeing the details of a Section 106 Agreement. There is further development capacity on Heron Quays West. Construction of new buildings on these sites will commence as and when market conditions allow.

In January 2005 BWB named Canary Wharf Group, together with Ballymore, as partners for the redevelopment of the Wood Wharf site which is immediately adjacent to the existing Estate. The master plan for the scheme, in which the group has a 25% interest, sets a framework for approximately 6.5 million sq ft (gross) of mixed commercial, residential and retail development.

Valuations

The net assets of the group, as stated in its consolidated balance sheet as at 31 December 2005, were £1,808.0 million including the minority interest. In arriving at this total:

- (i) properties held as investments were carried at £5,204.7 million, which represents the market value of those properties of £5,301.5 million at that date as determined by the group's external valuers, CB Richard Ellis Limited, Surveyors and Valuers ('CBRE'), Savills Commercial Limited, Chartered Surveyors ('Savills'), or Cushman & Wakefield Healey & Baker, Real Estate Consultants ('CWHB'), less an adjustment of £96.8 million for tenant incentives as required by UITF 28; and
- (ii) properties held for development were carried at £259.1 million, representing their cost to the group.

Allowing for the seven properties disposed of in the year the market value of the investment portfolio increased by £897.4 million (net of additions) in the year and by £455.3 million (net of additions) in the six months. This has reflected the tightening of yields for rack-rented properties on long leases.

The valuers have provided a joint opinion as at 31 December 2005 that the market value of properties held for development was £357.0 million, an increase of £97.8 million since 31 December 2004 allowing for additions in the year. The market value of £357.0 million compares with a carrying value for accounts purposes of £259.1 million. In valuing the properties held for development, the valuers have allowed for estimated costs to complete, including an allowance for fit-out. In addition they have allowed for letting, disposal, marketing and financing costs. The increase in the market value of development land reflected in part the granting of planning consents for the scheme on North Quay and in part an improvement in the outlook for development.

Excluding additions of £21.6 million and disposals of properties with a market value totalling £937.5 million in the year to 31 December 2005, the valuation of the property portfolio increased by £995.2 million or 21.3% (25.3% prior to the removal of stamp duty relief on properties in defined 'disadvantaged areas' (see 'Business and Financial Revenue – Taxation'). Of total additions of £21.6 million, £17.8 million was incurred in the six months ended 31 December 2005.

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 2005		Unaudited At 30 June 2005		At 31 December 2004	
	Carrying value £m	Market value in existing state £m	Carrying value £m	Market value in existing state £m	Carrying value £m	Market value in existing state £m
Investment properties:						
- retained	5,204.7	5,301.5	4,742.6	4,832.4	4,297.4	4,386.7
- sold in the period	-	-	643.6	645.2	934.1	937.5
	5,204.7⁽¹⁾	5,301.5⁽²⁾	5,386.2⁽¹⁾	5,477.6⁽²⁾	5,231.5⁽¹⁾	5,324.2⁽²⁾
Properties held for development	259.1	357.0	255.1	315.0	254.9	255.0
Total	5,463.8	5,658.5	5,641.3	5,792.6	5,486.4	5,579.2

Notes:

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

(2) Stated at market value in existing state before adjustment for UITF 28. The UITF 28 adjustment attributable to investment properties at 31 December 2005 was £96.8 million (30 June 2005 - £91.4 million, 31 December 2004 - £92.7 million).

As detailed in Note 27, there are a number of properties which are subject to lease back to Canary Wharf Group. These sub-lets have been taken into account in the valuations summarised in the table above.

Taxation

Canary Wharf Group has Enterprise Zone Allowances ('EZAs') available to shelter taxable profits and gains arising on the sale of properties and future operating profits. Canary Wharf Group's entitlement to claim EZAs arises when a completed property is transferred to a Canary Wharf Group investment company from a Canary Wharf Group development company. EZAs are available as an initial allowance of up to 100% in the year. The qualifying expenditure is incurred by the investment company, or up to 25.0% p.a. as a writing down allowance if claimed in subsequent accounting periods. The expenditure which qualifies for EZAs is based on the property's market value at the time of its transfer to a Canary Wharf Group property investment company, less a disallowance for the value of the land and other non-qualifying expenditure.

In previous years, Canary Wharf Group has instructed its valuers to assess the market value of the properties inclusive of EZAs. However, as a result of an internal property restructuring connected to Canary Wharf Group's refinancings during the year, the market values of the interests which carry the entitlement to EZAs became negligible. As such, a third party purchaser would only be able to claim EZAs by reference to these negligible values. The uplift in market value of Canary Wharf Group's properties attributable to EZAs at 31 December 2005 is therefore £nil (31 December 2004 - £296.4 million). However, this does not represent the value of the EZAs to Canary Wharf Group for two reasons:

Firstly, as a result of the reduction in the market value of the interests to which the EZAs attach, a disposal of a property will not trigger a clawback of any EZAs previously claimed. As a result, there is no longer any deferred tax liability provided in respect of prior year claims.

Secondly, Canary Wharf Group can continue to claim EZAs to shelter future profits arising even though there is no value of those EZAs to a third party purchaser. In addition, had Canary Wharf Group disposed of all of its property at the balance sheet date, the benefit of the remaining EZAs would have been crystallised as a balancing allowance which would shelter the profits arising.

If Canary Wharf Group were to dispose of its property portfolio at the market value disclosed in this 'Business and Financial Review', a tax liability of £nil (31 December 2004 - £46.2 million) would arise after taking account of all available losses. This amount includes tax on trading profits and net chargeable gains that would arise on the sale of properties under construction and properties held for development, including land interests. The corporation tax liability on chargeable gains of £296.9 million has been reduced to £nil by capital losses brought forward of £163.1 million and revenue losses (including EZA balancing allowances) of £133.8 million. In line with Financial Reporting Standard 19 (Deferred Tax) ('FRS 19') the benefit of these losses has not been recognised through the creation of a deferred tax asset in the balance sheet.

At 31 December 2004, the potential tax liability on the disposal of Canary Wharf Group's properties would have increased by £20.8 million if the properties had been disposed of at the market value inclusive of EZAs. The uplift in value attributable to EZAs at 31 December 2004 was £296.4 million and for reasons disclosed above, there is no uplift in market value attributable to EZAs at 31 December 2005.

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 Canary Wharf Group on the Estate, regardless of value, and consequently the allowance for purchaser's costs in the valuations was reduced from 5.75% at 31 December 2002 to 1.75% at 30 June 2003. This concession was withdrawn with effect from 16 March 2005 and consequently the allowance for purchaser's costs in the valuations at 30 June 2005 and 31 December 2005 has reverted to 5.75%.

Operating results

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

Canary Wharf Group's turnover is generated primarily by the rents and service charges earned from its property interests on the Estate. Turnover for the year ended 31 December 2005 was £348.6 million (period ended 31 December 2004 - £209.5 million) of which rental income was £272.8 million (period ended 31 December 2004 - £168.1 million). The impact of UITF 28 was to increase rental income by £3.4 million in the year ended 31 December 2005 (period ended 31 December 2004 - £35.5 million). Excluding the impact of UITF 28, rental income increased from £132.6 million in the period ended 31 December 2004 to £269.4 million in the year ended 31 December 2005 of which £136.3 million was recognised in the six months ended 30 June 2005 and £133.1 million in the six months ended 31 December 2005. The reduction in the second half of the year ended 31 December 2005 was attributable to rent foregone on buildings sold. Service charge income increased from £29.9 million for the period ended 31 December 2004 to £50.2 million in the year ended 31 December 2005, reflecting the longer period under review. Miscellaneous income which includes insurance rents and the provision of tenant specific services (outside of the standard service charge), increased from £11.5 million in the period ended 31 December 2004 to £25.6 million, reflecting the longer period under review.

Cost of sales includes rents payable, property management costs and the net cost to the group of vacant leasehold properties. For the year ended 31 December 2005, cost of sales totalled £84.7 million compared with £76.2 million for the period ended 31 December 2004. Rents payable and property management costs were £84.0 million for the year ended 31 December 2005 compared with £49.3 million for the period ended 31 December 2004, the increase being attributable to the longer period under review. Commitments in respect of the vacant leasehold properties were provided for by Canary Wharf Group 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 remaining liability. The impact of the acquisition of Aldersgate Street and the release of the provision which resulted from that transaction (Note 11) was a net credit to the group's cost of sales of £0.7 million compared with a net cost of £26.9 million in the period ended 31 December 2004.

Net property income increased from £133.3 million for the period ended 31 December 2004 to £263.9 million for the year ended 31 December 2005. The increase in net property income was attributable to the longer period under review.

Administrative expenses for the year ended 31 December 2005 were £39.5 million (period ended 31 December 2004 - £28.0 million), of which £34.1 million (period ended 31 December 2004 - £24.3 million) related to Canary Wharf Group. Included in the total is amortisation of goodwill of £3.8 million (period ended 31 December 2004 - £2.2 million).

For the year ended 31 December 2005, operating profit was £240.0 million (period ended 31 December 2004 - £106.7 million). Included within the total for the year ended 31 December 2005 was a net profit of £12.1 million on the disposal by Canary Wharf Group of its long leasehold interests in Aldersgate Street (Note 11) which has been recorded as an exceptional item. Before this exceptional item the operating profit for the year ended 31 December 2005 was £227.9 million compared with £106.7 million for the period ended 31 December 2004.

In the year ended 31 December 2005 the group recorded a net profit of £204.9 million on the disposal of seven properties by Canary Wharf Group (Note 11). This has been shown as an exceptional item after operating profit in accordance with Financial Reporting Standard 3 (Reporting Financial Performance).

On 8 March 2005 IPC Advisors Limited exercised a warrant to subscribe for 42,273,251 ordinary shares in Canary Wharf Group generating proceeds of £120.9 million. This resulted in the interest of the company and its subsidiary undertaking, Songbird Acquisition Limited ('SAL'), reducing from 66.32% to 61.95% of the ordinary share capital of Canary Wharf Group. On 28 November 2005 IPC Advisors Limited exercised a further warrant to subscribe for 11,734,369 ordinary shares in Canary Wharf Group generating proceeds of £21.8 million. During the year to 31 December 2005, SAL acquired 553,922 Canary Wharf Group ordinary shares at a total cost of £1.3 million. These transactions resulted in the interest of the company and SAL reducing from 66.32% to 60.80% of the ordinary share capital of Canary Wharf Group. The exercise of warrants has been accounted for as a deemed partial disposal of the interest in Canary Wharf Group resulting in a charge to the group's profit and loss account of £27.7 million. The loss on disposal is calculated as the difference between the respective group share of Canary Wharf Group's net assets before and after the deemed disposal, including goodwill. As a result of the exercise of these warrants the minority interest in Canary Wharf Group increased by £163.0 million.

Net interest payable excluding exceptional items for the year ended 31 December 2005 was £297.5 million (period ended 31 December 2004 - £169.1 million) including the finance cost of non-equity shares of £44.7 million (period ended 31 December 2004 as restated - £8.6 million). In addition, for the year ended 31 December 2005 there were exceptional charges of £116.1 million incurred in respect of the early repayment of debt (refer to 'Business and Financial Review - Borrowings').

The loss on ordinary activities after interest excluding exceptional items for the year ended 31 December 2005 was £69.6 million, compared with £62.4 million for the period ended 31 December 2004 as restated. Including exceptional items the group recorded a profit before taxation of £3.6 million in the year ended 31 December 2005 (period ended 31 December 2004 - loss of £62.4 million).

Taxation for the year ended 31 December 2005 was attributable to a reduction of £57.9 million in the deferred tax provision recognised in accordance with FRS 19. In the period to 31 December 2004 the deferred tax provision increased by £8.6 million. A deferred tax asset at 31 December 2005 of £29.0 million relates primarily to acquisition adjustments recognised on the acquisition of Canary Wharf Group as required by Financial Reporting Standard 6 (Acquisitions and Mergers) ('FRS 6'). The asset will be amortised to the profit and loss account in line with the amortisation of the fair value adjustments from which it arose.

The profit after taxation for the year ended 31 December 2005 was £61.5 million (period ended 31 December 2004 as restated - loss of £71.0 million) of which £77.7 million is attributable to the minority interest (period ended 31 December 2004 - £8.5 million).

During the year, Canary Wharf Group paid dividends totalling 110p per ordinary share of which £427.0 million was attributable to the company.

On 25 November 2005, the company paid an interim dividend of 16.61p per share on the SG, A and B shares, totalling £102.3 million. Of this amount, £30.3 million was attributable to the preference dividend to the SG shareholders which has been treated as a finance cost of non-equity shares.

Balance sheet

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

On the basis of the group's statutory balance sheet, which does not reflect any revaluation of properties held for development, net assets at 31 December 2005 were £1,808.0 million including the minority interest, equivalent to £2.06 per Songbird equity share calculated on the basis of the number of shares in issue excluding the SG Shares and the D share (31 December 2004 - £1,023.7 million as restated, equivalent to £1.00 per company equity share). The increase in net asset value over the year ending 31 December 2005 was primarily attributable to the surplus revaluation of the investment properties attributable to members of the company of £547.2 million (£1.26 per equity share) offset by the retained loss for the period of £88.2 million attributable to members of the company (20p per equity share).

Allowing for the revaluation of properties held for development to market value, adjusting for deferred taxation and reclassifying all classes of shares as equity, the adjusted net asset value per share at 31 December 2005 was as set out in the table below:

	31 December 2005	30 June 2005	31 December 2004
	£m	£m	£m
Net assets per statutory balance sheet	1,808.0	1,642.4	1,023.7 ⁽¹⁾
Add back deferred tax (asset)/provision	(29.0)	8.1	28.9
Net assets prior to deferred tax	1,779.0	1,650.5	1,052.6
Revaluation of property portfolio:			
- properties held for development ⁽²⁾	97.9	59.9	0.1
	1,876.9	1,710.4	1,052.7
Minority interest per statutory balance sheet	(916.0)	(933.6)	(592.7)
Minority interest in adjustments above	(27.0)	(25.9)	(9.8)
Reclassify D Share and SG Shares as equity ⁽³⁾	174.6	181.7	181.7
Add back accrued interest on shares ⁽³⁾	30.1	31.0	8.6
Adjusted net assets attributable to members of the company	1,138.6	963.6	640.5
Further adjustments:			
Fair value adjustment in respect of financial assets and liabilities net of tax relief thereon ⁽⁴⁾	(255.7)	(212.8)	(96.0)
Contingent tax on property disposals ⁽⁵⁾	-	(73.3)	(46.2)
Uplift in market value attributable to EZAs net of contingent tax thereon ⁽⁵⁾	-	217.0	275.6
Undiscounted deferred taxation ⁽⁶⁾	28.7	(41.8)	(86.3)
Minority interest in further adjustments	89.0	42.3	(15.8)
Adjusted NNNAV	1,000.6	895.0	671.8
Dividends paid ⁽⁸⁾	95.2	-	-
Adjusted NNNAV before dividends	1,095.8	895.0	671.8
Adjusted net assets per share⁽⁷⁾	£1.85	£1.56	£1.04
Adjusted net assets per share before dividends ⁽⁷⁾	£2.00	£1.56	£1.04
Adjusted NNNAV per share⁽⁷⁾	£1.62	£1.45	£1.09
Adjusted NNNAV per share before dividends ⁽⁷⁾	£1.78	£1.45	£1.09

Notes:

(1) Restated as set out in Note 2(16).

(2) Stated at market value in existing state.

(3) The reclassifications required by FRS 25 have been reversed in order that net assets per share can be calculated on all shares in issue.

(4) Refer to Note 18(15).

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

(6) Refer to Note 19.

(7) Calculated by reference to the closing number of shares of 616.1 million in issue at 31 December 2005 and 31 December 2004.

(8) Total dividend paid of £102.3 million of which £7.1 million was accounted for as a reduction in the liability recorded in respect of the SG Shares – refer to Note 7.

Net assets per share at 31 December 2005 are stated after dividends paid during the year equivalent to 16.61p per A, B and SG Shares, £1.4 million accrued in respect of the SG Shares and £28.7 million accrued in respect of the D Share.

In arriving at adjusted net asset value per share the deferred tax adjustment recognised in accordance with FRS 19 has been added back. FRS 19 requires, inter alia, recognition of 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. In calculating NNNAV per share, however, the full undiscounted deferred tax adjustment has been taken into account along with the contingent tax payable (if any) on disposal of properties at their revalued amount.

Borrowings

At 31 December 2004 SAL had debt outstanding of £643.6 million, including £521.9 million under a senior facility ('the Senior Facility') and £121.7 million under a mezzanine loan facility ('the Mezzanine Facility'). These facilities were used to fund the acquisition of shares in Canary Wharf Group. The weighted average interest rate under these facilities at 31 December 2004 was 8.0%.

During the year ended 31 December 2005, SAL drew down an additional £30.6 million to fund interest payable under the loans and to fund the working capital requirements of SAL or the company.

In September 2005 the company repaid £248.0 million of the Senior Facility funded by the first dividend received from Canary Wharf Group. On 9 November 2005, the company repaid the remaining balance on both facilities funded by the drawdown under a new loan facility (see below). As a result of prepaying the debt, unamortised financing costs totalling £13.2 million (Note 5) were written-off to the profit and loss account and treated as an exceptional item.

On 9 November 2005 the company entered into a new £736.9 million loan facility which comprises Facility A of £691.9 million and Facility B of £45.0 million.

The purposes of Facility A are to fund:

- (i) the refinancing described above;
- (ii) the payment of transaction costs;
- (iii) the payment of dividends (if any); and
- (iv) the payment of any up-front premium pursuant to a hedging agreement.

The principal purposes of Facility B are to fund:

- (i) the payment of interest and commitment fees accruing in respect of both these facilities;
- (ii) any other working capital purposes of SAL and the company to a maximum of £2.0 million per annum;
- (iii) the payment of certain outstanding fees; and
- (iv) the payment of amounts pursuant to a hedging agreement to the extent not funded from Facility A.

The loan is repayable in full in November 2007 although this may be extended by six months in respect of Facility A at the option of SAL. Both facilities are pre-payable at the option of SAL on any defined repayment date. SAL may not re-borrow any part of Facility A which is repaid but may re-borrow repayments under Facility B.

On 9 November 2005, SAL drewdown £441.9 million under Facility A to repay the debt as referred to above. On 15 November 2005 SAL drewdown an additional £102.3 million under Facility A to fund the payment of a dividend (Note 8). On 21 November 2005 £0.3 million was drawn down under Facility B of the loan facility to fund the corporate working capital requirements of SAL and the company. The undrawn amount under Facility A at 31 December 2005 was £147.7 million and the undrawn amount under Facility B at that date was £44.7 million. Any amount available to be drawn under Facility A must be utilised by 30 April 2006.

Financing costs relating to the inception of the new loans have been deferred and will be amortised to the profit and loss account over the term of the debt at a constant rate based on the carrying amount of the debt in accordance with Financial Reporting Standard 4 (Capital Instruments) ('FRS4').

The weighted average interest rate on the outstanding facilities was 6.49% at 31 December 2005. These facilities are guaranteed by the company and by charges over the assets of the company and SAL. The new facilities contain detailed covenants, representations and warranties and events of default which apply to the company and SAL.

During the year ended 31 December 2005 Canary Wharf Group also completed a comprehensive refinancing exercise, the objective of which was to provide increased flexibility in pursuing its strategy.

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

In May 2005 Canary Wharf Group successfully restructured its securitisation loans. The restructuring involved the redemption of all of the Canary Wharf Group's first securitisation notes issued by Canary Wharf Finance plc ('CWF1') for a consideration of £687.0 million and the restructuring of the Canary Wharf Group's second securitisation issued by Canary Wharf Finance II plc ('CWFII') notes to release certain assets and move One Canada Square from CWF1 to CWFII. As part of the restructuring certain CWFII notes, totalling £135.0 million, were redeemed or cancelled and a total of £360.0 million of new floating rate notes were issued. At the same time as repaying the CWF1 notes, an £85.0 million bank loan facility was also repaid.

Canary Wharf Group entered into a 3 year £750.0 million bridge facility to refinance the assets released from the securitisation restructuring. Interest is payable at 3 month LIBOR plus an initial margin of 100 basis points ('bps'). The loan contains a ratchet mechanism whereby future interest payable is linked to the prevailing loan to value percentage. Following the sale of certain properties, this loan was partly repaid as follows:

Property Sold	Repayment £m
17 Columbus Courtyard	89.2
1 Westferry Circus	84.0
7 Westferry Circus	76.6
25 North Colonnade	141.1
30 South Colonnade	142.8
	533.7

As a result of loan repayments during the year the margin on the loan had fallen to LIBOR plus 85 bps by 31 December 2005. The remainder of the £750.0 million loan was repaid in March 2006 when the group's retail assets were refinanced with a new £300.0 million facility (Note 29).

Fees totalling £5.2 million were incurred when the loan was drawdown and were deferred and amortised over the expected life of the loan. The fees were allocated to the amounts repaid on a pro-rata basis and written-off to the profit and loss account. The total amount written-off of £4.1 million has been included as part of the exceptional charges relating to the repayment of debt in the year.

In May 2005 Canary Wharf Group repaid three finance lease transactions in relation to 20 Cabot Square and 10 Cabot Square, funded from a new credit facility. A total of £369.4 million was drawdown against this new facility. Interest is payable at a rate of 5.82%.

In September 2003 Canary Wharf Group entered into a finance lease transaction in relation to One Churchill Place, a property then under construction. In accordance with the terms of the transaction, following completion of the building in July 2004, Canary Wharf Group subsequently completed the sale of a leasehold interest (with a term of 999 years less 10 days) in the building to a wholly owned subsidiary of Barclays. Canary Wharf Group then subsequently accepted a 999 year (less 15 days) lease of the building with finance rents payable over a 35 year period. The gross amount of the financing was £753.5 million, of which £743.5 million was received on 30 September 2003 and £10.0 million was received on completion in August 2004. In January 2005 Canary Wharf Group drewdown £608.8 million from a separate loan facility (Note 18(6)) which was used in part to provide cash collateral of £545.5 million for the finance lease. The finance rents are calculated by reference to a notional rate of LIBID on the notional amount of principal outstanding under the finance lease.

The finance lease was adjusted in December 2005 to reflect a change in the tax assumptions underlying the finance lease. The adjustment resulted in Canary Wharf Group providing an additional £10.0 million of cash collateral. The carrying value of the finance lease was increased by £5.0 million immediately with the remaining £5.0 million funded by the finance lease provider to be recognised over the remaining life of the finance lease. At 31 December 2005, the finance lease was stated at £648.2 million (31 December 2004 - £646.5 million) representing the adjusted initial net proceeds less subsequent amortisation of £3.3 million.

Subsequent to the year end on 1 February 2006, Canary Wharf Group concluded the acquisition from Barclays of Barclays Capital Leasing (No 165) Limited ('BCL (165)') and Barclays Capital Leasing (No 166) Limited ('BCL (166)') for a consideration of £0.1 million in excess of net assets acquired. In September 1997 BCL (165) entered into an agreement for lease in respect of certain floors in One Canada Square which were immediately leased back to the group from the date of acquisition on finance lease terms. As a result of the acquisition of BCL 165, cash deposits totalling £112.0 million held by Canary Wharf Group as security for the finance lease were released from charge. BCL (165) will be consolidated in the accounts of the group from the date of acquisition, the effect of which will be that finance lease receivables and payables totalling £111.9 million will be offset. The consideration payable on acquisition, together with any adjustment to the carrying value of the finance lease will be treated as a charge required to restructure the finance lease and shown as a component within interest payable (finance lease charges) in the year ending 31 December 2006.

In September 1997 BCL (166) entered into an agreement for lease in respect of certain floors in 33 Canada Square and in September 2003 it entered into an agreement for lease of One Churchill Place. In each case the respective property was immediately leased back to the group from the date of acquisition on finance lease terms. As a result of the acquisition of BCL (166), cash deposits totalling £724.7 million held by the group as security for the finance lease will be released from charge. BCL (166) will be consolidated in the accounts of the group from the date of acquisition, the effect of which will be that finance lease receivables totalling £724.5 million will be offset against finance lease payables totalling £849.2 million which is expected to result in a gain of approximately £124.0 million after fees which will be recorded as an exceptional item. The consideration payable on acquisition, together with any adjustment to the carrying value of the finance lease, will be treated as a charge required to restructure the finance lease and shown as a component within interest payable (finance lease charges) in the year ended 31 December 2006.

In conjunction with the acquisition of Aldersgate Street in April 2005, Canary Wharf Group assumed existing loans totalling £154.1 million comprising a senior tranche of £140.7 million, which carried interest at 6.79%, and a mezzanine tranche of £13.4 million, which carried interest at 9.59%. The fair value of these loans was £157.7 million on the date of acquisition. In September 2005, the mezzanine tranche was repaid. The remaining senior loan was repaid in December 2005 in conjunction with the sale of the long leasehold interests in the property. The repayment gave rise to breakage costs of £7.0 million and resulted in an exceptional charge to interest payable of £3.4 million net of the unamortised fair value adjustment recognised as part of the cost of acquiring Aldersgate Street.

The refinancings completed by Canary Wharf Group in the year ended 31 December 2005 resulted in initial net proceeds of approximately £360.0 million net of prepayment and breakage costs of £194.1 million and other financing expenses. The prepayment and breakage costs, less the release of fair value adjustments, resulted in an exceptional charge to the profit and loss account of £116.1 million. As well as providing the group with increased flexibility in executing its strategy, the refinancings outlined above have resulted in a fall in the group's weighted average cost of debt. At 31 December 2005, the group's weighted average cost of debt (including credit wraps) was 5.6% (or 5.5% excluding credit wraps) in comparison with 6.5% (including credit wraps) at 31 December 2004 (6.4% excluding credit wraps).

At 31 December 2005 the fair value adjustment in respect of the group's financial assets and liabilities (excluding debtors and creditors falling due within one year) calculated in accordance with Financial Reporting Standard 13 (Derivatives and other financial instruments) ('FRS 13') was £365.3 million before tax relief (31 December 2004 - £137.1 million).

An analysis of net debt including the loans used to fund the acquisition of Canary Wharf Group is given below. The increase in total borrowings from £5,196.7 million at 31 December 2004 to £5,328.4 million at 31 December 2005 reflects the refinancing of the acquisition debt, the tap issue on Canary Wharf Group's second securitisation and the drawdown under the new bank facilities, partly offset by the repayments of finance leases and the outstanding CWFI notes. The increase in total borrowings was accompanied by an increase in cash and term deposits from £1,102.6 million to £1,829.9 million, primarily as a result of the net proceeds from the sale of properties and the net cash surplus generated by the increased borrowings described above less the £72.0 million dividend paid and the dividends paid to Canary Wharf Group minority interests of £268.3 million.

	At 31 December 2005	At 31 December 2004
	£m	£m
Securitised debt	2,582.9	2,972.5
SAL loans	542.4	624.4
Other secured loans	1,201.1	325.9
Finance lease obligations	1,002.0	1,273.9
Total borrowings	5,328.4	5,196.7
Less: cash collateral for borrowings	(985.6)	(458.0)
Less: other cash collateral	(2.3)	(1.6)
	4,340.5	4,737.1
Less: cash deposits	(842.0)	(643.0)
Net debt excluding non-equity share capital and financing	3,498.5	4,094.1
Non equity share capital and financing	204.7	190.3
Net debt	3,703.2	4,284.4

Cash flow

Net cash inflow from operating activities for the year ended 31 December 2005 was £178.1 million, in comparison with £123.5 million for the period ended 31 December 2004. The increase in net cash inflow was due to an increase in operating income resulting from the longer accounting period.

Capital expenditure and financial investment for the year ended 31 December 2005 resulted in a cash inflow of £1,161.6 million compared with an outflow of £101.0 million for the period ended 31 December 2004. The year ended 31 December 2005 included proceeds of £1,175.6 million on the disposal of seven properties, development expenditure of £68.5 million and the acquisition of Aldersgate Street for a cash consideration of £52.8 million and its subsequent disposal for £110.0 million. The outflow of £101.0 million for the year ended 31 December 2004 comprised development expenditure. Acquisition expenditure in the period ended 31 December 2004 of £837.7 million related to the cost of acquiring shares in Canary Wharf Group. In the year ended 31 December 2005, acquisition expenditure included the purchase by SAL of an additional 553,922 shares in Canary Wharf Group for £1.3 million.

The financing cash inflow for the year ended 31 December 2005 was £246.1 million compared with £880.5 million for the period ended 31 December 2004. The year ended 31 December 2005 included drawdowns under Canary Wharf Group's new bank facilities totalling £1,728.2 million, drawdowns under SAL's loan facilities of £549.4 million and the drawdown under Canary Wharf Group's second securitisation of £360.4 million. These were partially offset by the repayment of Canary Wharf Group's first securitisation, the redemption of certain notes from Canary Wharf Group's second securitisation, the repayment of the acquisition loans and the repayment of certain finance leases and other loans totalling £2,563.1 million. In addition the financing cash inflow included proceeds from the exercise of warrants in Canary Wharf Group (Note 14) of £142.7 million. The financing cash inflow for the period ended 31 December 2004 included the net proceeds from issuing shares of £245.2 million and net proceeds from the drawdown of acquisition loan facilities of £643.6 million.

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2005

	Notes	Year ended 31 December 2005 £m	Restated ⁽¹⁾ Period ended 31 December 2004 ⁽²⁾ £m
Turnover – rents and service charges		348.6	209.5
Cost of sales:			
- rents and property management costs		(84.7)	(76.2)
GROSS PROFIT		263.9	133.3
Administrative expenses		(39.5)	(28.0)
Other operating income:			
- before exceptional item		3.5	1.4
- exceptional item: net profit on sale of long leasehold property		12.1	-
OPERATING PROFIT	3	240.0	106.7
Exceptional items:			
- net profit on sale of properties	11	204.9	-
- loss on deemed part disposal of investment	14	(27.7)	-
Interest receivable	4	91.1	32.9
Interest payable:			
- before exceptional item	5	(388.6)	(202.0)
- exceptional item: charges relating to repayment of debt	5	(116.1)	-
		(504.7)	(202.0)
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION		3.6	(62.4)
Taxation	6	57.9	(8.6)
PROFIT/(LOSS) ON ORDINARY ACTIVITIES AFTER TAXATION		61.5	(71.0)
Minority interest	21	(77.7)	8.5
LOSS ON ORDINARY ACTIVITIES ATTRIBUTABLE TO MEMBERS OF THE COMPANY		(16.2)	(62.5)
Dividends	8	(72.0)	-
RETAINED LOSS FOR THE PERIOD	21	(88.2)	(62.5)
Loss per share:			
- basic and diluted	10	(3.8)p	(14.6)p

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

Notes:

(1) Restated as set out in Note 2(16).

(2) Period from incorporation on 13 February 2004 to 31 December 2004.

**CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED
31 DECEMBER 2005**

	Notes	Year ended 31 December 2005 £m	Restated ⁽¹⁾ Period ended 31 December 2004 ⁽²⁾ £m
Loss on ordinary activities after taxation attributable to members of the company		(16.2)	(62.5)
Unrealised surplus on revaluation of investment properties attributable to members of the company	11	547.2	77.7
TOTAL RECOGNISED GAINS AND LOSSES RELATING TO THE PERIOD		531.0	15.2
Prior year adjustment	2(16)	(8.6)	
TOTAL RECOGNISED GAINS AND LOSSES SINCE THE LAST ANNUAL REPORT		522.4	

NOTE OF HISTORICAL COST PROFITS AND LOSSES

	Notes	Year ended 31 December 2005 £m	Restated ⁽¹⁾ Period ended 31 December 2004 ⁽²⁾ £m
Reported profit/(loss) on ordinary activities before taxation		3.6	(62.4)
Realisation of property revaluation gains of the previous period	11	22.5	-
HISTORICAL COST PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION		26.1	(62.4)
HISTORICAL COST LOSS FOR THE YEAR RETAINED AFTER TAXATION AND MINORITY INTERESTS		(74.5)	(62.5)

Notes:

(1) Restated as set out in Note 2(16).

(2) Period from incorporation on 13 February 2004 to 31 December 2004.

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2005

	Notes	31 December 2005 £m	Restated ⁽¹⁾ 31 December 2004 £m
FIXED ASSETS			
Investment properties	11	5,204.7	5,231.5
Properties held for development	11	259.1	254.9
Other tangible fixed assets	12	2.4	2.8
Investments	13	2.8	0.4
Goodwill	14	72.6	84.3
		5,541.6	5,573.9
CURRENT ASSETS			
Debtors: due in more than one year	15	96.8	92.7
Debtors: due within one year	15	104.0	72.5
Cash at bank and in hand	16	1,829.9	1,102.6
		2,030.7	1,267.8
CREDITORS: Amounts falling due within one year	17	(245.5)	(383.4)
NET CURRENT ASSETS		1,785.2	884.4
TOTAL ASSETS LESS CURRENT LIABILITIES			
		7,326.8	6,458.3
CREDITORS: Amounts falling due after more than one year	18	(5,462.4)	(5,226.7)
Provisions for liabilities and charges	19	(56.4)	(207.9)
NET ASSETS		1,808.0	1,023.7
CAPITAL AND RESERVES			
Called up share capital	20	43.3	43.3
Reserves:			
- Share premium	21	375.5	375.5
- Revaluation reserve	21	604.5	77.7
- Own shares	21	(1.0)	(3.0)
- Profit and loss account	21	(130.3)	(62.5)
		892.0	431.0
SHAREHOLDERS' FUNDS		916.0	592.7
Minority interest	21		
TOTAL CAPITAL EMPLOYED		1,808.0	1,023.7

(1) Restated as set out in Note 2(16).

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2005

	Notes	Year ended 31 December 2005 £m	Period ended 31 December 2004 £m
NET CASH INFLOW FROM OPERATING ACTIVITIES	24	178.1	123.5
Returns on investments and servicing of finance	25	(785.2)	(201.2)
Capital expenditure and financial investment*	25	1,161.6	(101.0)
Dividends		(72.0)	-
Acquisitions	25	(1.3)	(837.7)
		303.1	(1,139.9)
Cash inflow/(outflow) before management of liquid resources and financing		481.2	(1,016.4)
Management of liquid resources	25	(528.3)	108.2
Financing	25	246.1	880.5
INCREASE/(DECREASE) IN CASH IN THE PERIOD	26	199.0	(27.7)

* Capital expenditure and financial investment for the year ended 31 December 2005 includes £1,175.6 million proceeds from the sale of investment properties

NOTES TO THE PRELIMINARY ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2005

1 ACQUISITION OF CANARY WHARF GROUP

On 21 May 2004, the company's subsidiary, SAL, declared the offer for Canary Wharf Group wholly unconditional (the 'Acquisition'). As a result of this announcement, the company is now the ultimate parent undertaking of Canary Wharf Group. The offer closed on 15 July 2004, at which time the company directly owned 14.5% of the ordinary share capital of Canary Wharf Group and SAL owned 51.82%. On 8 March 2005 warrants over 42,273,251 ordinary shares in Canary Wharf Group were exercised. On 28 November 2005 further warrants over 11,734,369 ordinary Canary Wharf Group shares were also exercised. During the year, SAL acquired a further 553,922 ordinary shares in Canary Wharf Group. As a result of these transactions, the interest of the company and SAL in Canary Wharf Group reduced from 66.32% at 31 December 2004 to 60.80%.

The Acquisition was funded by acquisition loans (Note 18(1)) and the issue of share capital (Note 20). Note 14 sets out the movements in goodwill during the year ended 31 December 2005.

2 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The financial information in this announcement, which was approved by the board of directors on 22 March 2006, does not constitute the company's statutory accounts for the year ended 31 December 2005. Statutory accounts for the year ended 31 December 2005 will be delivered to the Registrar of Companies following the company's annual general meeting.

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 preliminary announcement has 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 law and 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 Canary Wharf Group 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 2005 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

Canary Wharf 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, 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 Canary Wharf Group has entered into an agreement for sale are categorised as current assets and stated at the lower of cost (namely fair value at the date of Acquisition plus subsequent additions at cost) and net realisable value. Profits on sale of such properties are recognised when earned in accordance with Financial Reporting Standard 5 (Reporting the Substance of Transactions) ('FRS5').

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 drawdown to finance the development.

Disposals of properties

Properties acquired with the intention of resale are categorised as current assets and stated at the lower of cost and net realisable value. Profits or losses arising on sale are included in the profit and loss account as an exceptional item.

Profits or losses arising from the sale of investment properties are calculated by reference to the carrying value at the end of the previous year, adjusted for UITF28 and subsequent capital expenditure, and included in the profit and loss account as an exceptional item.

(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 held at cost less depreciation and any provision for impairment. These 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 Canary Wharf Group 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.

Investments in associates are included in the preliminary announcement using the equity method. In the consolidated balance sheet, investments in associates are stated at the group's share of net assets. The group's share of the associates' profits or losses after tax is included in the consolidated profit and loss account.

(11) **Finance leases**

Sales and leasebacks (where the leaseback is treated as a finance lease, as defined by Statement of Standard Accounting Practice 21 (Accounting for leases and hire purchase contracts) and FRS 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**

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') B Shares held on behalf of Canary Wharf Group 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 preliminary announcement 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 preliminary announcement.

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.

(16) **Accounting for share capital classified as non-equity**

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

The group has also changed its accounting policy with regard to the recognition of amounts payable to these shareholders as required by FRS 25. As regards the dividends payable to the D Shareholder, the group's policy prior to the adoption of FRS 25 was to recognise any amounts payable as an appropriation of profit in the period in which such a dividend was declared. No dividend could be declared in respect of the D Share in either the period ended 31 December 2004 or the year ended 31 December 2005 under the articles of association of the company. In accordance with FRS 25, dividends potentially payable to the D Shareholder are recognised as they fall due and classified as interest payable. The cumulative amount potentially payable was calculated to be £28.7 million at 31 December 2005 and this is included in creditors falling due within one year.

Prior to the adoption of FRS 25, the finance cost of the SG Shares was recognised in the group's profit and loss account as an appropriation of profit and a corresponding reserve was created. Under FRS 25 the finance cost has been reclassified as interest payable and the amount previously shown in reserves has been reclassified and included in creditors falling due within one year. The excess of amounts paid over interest accrued in accordance with the shareholders' rights (Note 20) serve to reduce the carrying value of the liability included in creditors payable in more than one year.

The effects of the change in policy are summarised below:

	Year ended 31 December 2005 £m	Period ended 31 December 2004 £m
Profit and loss:		
Increase in interest payable	(44.7)	(8.6)
Reduction in appropriation of profit	16.0	8.6
Reduction in dividend paid	7.1	-
	(21.6)	-
Net increase in retained loss		
	(21.6)	-
Balance sheet:		
Increase in creditors due in less than one year	(30.1)	(8.6)
Increase in creditors due in more than one year	(174.6)	(181.7)
	(204.7)	(190.3)
Decrease in called up share capital		
	(18.3)	(18.3)
Decrease in share premium reserve		
	(163.4)	(163.4)
Decrease in appropriation of profit reserve		
	(1.4)	(8.6)
Increase in retained losses		
	(21.6)	-
	(204.7)	(190.3)

The effects of adopting FRS 25 for the year ended 31 December 2005 and the period ended 31 December 2004 are as follows:

	Interest payable ⁽¹⁾ £m	Appropriation of profit £m	Retained loss £m	Shareholders' funds ⁽²⁾ £m
Period ended 31 December 2004:				
As previously reported	(193.4)	(8.6)	(62.5)	621.3
Effect of FRS 25	(8.6)	8.6	-	(190.3)
As restated	(202.0)	-	(62.5)	431.0
Year ended 31 December 2005:				
Results without adopting FRS 25	(343.9)	(16.0)	5.4	1,096.7
Effect of FRS 25	(44.7)	16.0	(21.6)	(204.7)
As reported	(388.6)	-	(16.2)	892.0

Notes:

(1) Interest payable excludes exceptional items totalling £116.1 million in the year ended 31 December 2005.

(2) Excluding minority interest.

3 OPERATING PROFIT

	Year ended 31 December 2005	Period ended 31 December 2004
	£'000	£'000
The operating profit is stated after charging:		
- Depreciation (Note 12)	613	377
- Amortisation of goodwill (Note 14)	3,771	2,200
- Directors' emoluments (Note 9)	120	105
- Amortisation of investment in own shares	1,708	1,691
- Operating lease rentals:		
land and buildings	9,061	10,168
- Remuneration of the auditors:		
Audit fees	385	385
Fees for other services:		
further assurance services	91	76
taxation	483	56
other non-audit	110	81

The operating lease rentals relate to the vacant leasehold properties referred to in Note 19.

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 £1.00 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. In May 2005, 2,199,887 shares were exercised and a further 283,002 shares were sold to fund national insurance payments. The remaining 2,562,631 shares continued to be held in the Trust at 31 December 2005.

Total amortisation for the year ended 31 December 2005 was £2.0 million (period ended 31 December 2004 - £2.0 million), of which £0.3 million (period ended 31 December 2004 - £0.3 million) related to employees of the group's contracting subsidiary and was charged as a development expense. The remaining £1.7 million (period ended 31 December 2004 - £1.7 million) was charged to operating profit.

Audit fees

Audit fees of £385,000 were incurred in the year ended 31 December 2005 (period ended 31 December 2004 £385,000). In addition, fees totalling £143,000 were paid to the auditors in connection with the refinancings undertaken by Canary Wharf Group in the year ended 31 December 2005. The previous auditors, KPMG Audit PLC, received fees totalling £2,854,000 in connection with the Acquisition during the period ended 31 December 2004.

During the period ended 31 December 2004, fees of £339,000 were paid to the auditors 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 Canary Wharf Group's construction personnel was treated as a development expense and capitalised within the cost of properties under construction. During the year these offices were vacated by the group's construction personnel and accordingly no such depreciation has been capitalised in the year ended 31 December 2005.

4 INTEREST RECEIVABLE

	Year ended 31 December 2005	Period ended 31 December 2004
	£m	£m
Bank interest receivable	<u>91.1</u>	<u>32.9</u>

5 INTEREST PAYABLE

	Year ended 31 December 2005	Period ended 31 December 2004
	£m	£m
Notes and debentures	164.4	117.7
SAL loans	55.0	33.3
Bank loans and overdrafts	79.3	-
Finance lease charges	45.2	45.2
Finance costs of non-equity shares (Note 7)	44.7	8.6
	388.6	204.8
Less:		
Interest at 4.9% on development financings transferred to development properties	-	(2.8)
Interest payable before exceptional items	388.6	202.0
Exceptional items: Charges relating to early repayment of debt:		
- prepayment and breakage costs	194.1	-
- write-off of deferred financing costs, fair value adjustments and other accounting adjustments	(78.0)	-
	116.1	-

During the year ended 31 December 2005 Canary Wharf Group incurred prepayment and breakage costs totalling £194.1 million in relation to the prepayment and refinancing of certain loans as detailed in Note 18. These costs have been charged to the profit and loss account as an exceptional item. There was no deferred tax arising as a result of these transactions.

Financing costs relating to the inception of the group's borrowings are deferred and amortised to the profit and loss account over the term of the debt at a constant rate based on the carrying amount of the debt in accordance with FRS 4. As a result of prepaying certain of Canary Wharf Group's borrowings early, the unamortised portion of the financing costs relating to the debt prepaid was written-off to the profit and loss account in the year ended 31 December 2005. The repayment of debt by Canary Wharf Group in the year ended 31 December 2005 also resulted in the release of certain fair value adjustments together with the related deferred tax provision which was recognised at the time of the Acquisition. The net amount written-off totalling £116.1 million has been taken to the profit and loss account and shown as an exceptional item. There was no deferred tax as a result of these transactions.

For the period ended 31 December 2004, interest payable of £2.8 million was transferred to development properties (Note 11). This amount was attributable to the cost of funds forming part of Canary Wharf Group's general borrowings which were utilised in financing construction. At 31 December 2005 there were no properties under construction and no such transfer was made in the year ended 31 December 2005.

6 TAXATION

	Year ended 31 December 2005	Period ended 31 December 2004
	£m	£m
Current tax:		
UK corporation tax (see below)	-	-
Deferred tax:		
Origination and reversal of timing differences in the current period	58.0	(4.7)
Net effect of discount	(0.1)	(3.9)
Total deferred tax (Note 19)	57.9	(8.6)
Total tax on profit/(loss) on ordinary activities	57.9	(8.6)
Tax reconciliation:		
Group profit/(loss) on ordinary activities before tax	3.6	(62.4)
Tax on loss on ordinary activities at UK corporation tax rate of 30%	1.1	(18.8)
Effects of:		
- Tax losses and other timing differences	(14.7)	18.9
- Expenses not deductible for tax purposes	13.6	(0.1)
Current tax charge for the period	-	-

As a result of the internal property restructuring referred to in Note 19, provisions for deferred tax in relation to EZAs totalling £158.4 million net of a discount of £68.7 million, have been released to the profit and loss account.

No provision for corporation tax has been made in the consolidated results of the group for the year ended 31 December 2005 or the period ended 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 credit/(charge) for the year ended 31 December 2005 and period ended 31 December 2004 relates solely to deferred tax.

7 FINANCE COSTS OF SHARES

As a result of the redemption rights attaching to the SG Shares (Note 20) and in accordance with FRS 4, the SG Shares were treated as non-equity prior to the introduction of FRS 25 (Note 2(16)). The profit and loss account included the recognition of an appropriation of profit in respect of the SG Shares accumulated at 8.0% per annum from the date of issue to 31 December 2004 on this class of shares resulting in an accrual of £8.6 million.

Following the introduction of FRS 25 the appropriation of profit is shown as interest payable accumulated at 8.0% per annum from the date of issue of the SG Shares to 31 December 2005. On 25 November 2005, a dividend of 16.61p per SG Share, totalling £30.3 million, was paid to the SG shareholders which has been accounted for as £23.2 million of interest payable with the remaining £7.1 million serving to reduce the liability recorded in respect of this class of shares. At 31 December 2005, £1.4 million was accrued in respect of interest accumulated on the SG Shares since the dividend paid on 25 November 2005.

Under FRS 25, the terms of the dividends payable on the D Share require the reclassification of this share to creditors falling due in more than one year and the recognition of dividends payable as interest payable. This resulted in an accrual in respect of the D Share dividend of £28.7 million at 31 December 2005 (31 December 2004 - £nil).

No such appropriation of profit is required to be recognised in respect of the other classes of shares under FRS 4 or FRS 25. Net of the dividend paid on 25 November 2005 (Note 8), the appropriation of profit accruing for the year ended 31 December 2005, but not recognised in these financial statements, was £2.0 million on the A Shares (period ended 31 December 2004 - £12.4 million) and £1.3 million on the B Shares (period ended 31 December 2004 - £8.2 million).

8 DIVIDENDS

	Year ended 31 December 2005	Period ended 31 December 2004
	£m	£m
Dividend paid at 16.61p per ordinary share	<u>72.0</u>	<u>-</u>
The amount recognised as dividends paid comprised:		
Payment on A Shares	43.3	-
Payment on B Shares	28.7	-
	<u>72.0</u>	<u>-</u>

On 25 November 2005 the company paid an interim dividend of 16.61p per share totalling £102.3 million, of which £30.3 million was paid to the SG shareholders and has been accounted for as described in Note 7. An interim dividend of 18.00p per share was declared on 22 March 2006 (Note 29).

9 DIRECTORS AND EMPLOYEES

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

(1) **Staff costs** - all employees of the group, including directors:

	Year ended 31 December 2005	Period ended 31 December 2004
	£m	£m
Wages and salaries	38.7	29.3
Social security costs	4.3	3.3
Other pension costs (Note 23)	2.1	1.5
	<u>45.1</u>	<u>34.1</u>

The average monthly number of employees, including Canary Wharf Group during the year ended 31 December 2005 was 752 (period ended 31 December 2004 – 946).

	Year ended 31 December 2005	Period ended 31 December 2004
Construction	103	271
Property management	511	529
Administration	138	146
	<u>752</u>	<u>946</u>

(2) **Directors' Remuneration**

	Year ended 31 December 2005	Period ended 31 December 2004
	<u>£'000</u>	<u>£'000</u>
Emoluments (including bonuses)	120	92

None of the directors were members of Canary Wharf Group's money purchase pension schemes at either 31 December 2005 or 31 December 2004.

(3) **Highest Paid Director**

	Year ended 31 December 2005	Period ended 31 December 2004
	<u>£'000</u>	<u>£'000</u>
Emoluments (including bonuses)	100	92

(4) **Directors' Share Options**

No executive share option plan has been adopted by the company and none of the directors of the company participate in Canary Wharf Group's share option plan.

10 BASIC AND DILUTED LOSS PER SHARE

The basic and diluted loss per share are calculated by reference to the loss attributable to ordinary shareholders for the year ended 31 December 2005 of £16.2 million (period ended 31 December 2004 - £62.5 million) and on the weighted average of 430.7 million ordinary shares in issue (31 December 2004 - 428.5 million ordinary shares in issue) excluding the SG Shares, the D Share and the B Shares owned by the Trust in respect of the Canary Wharf 2004 Deferred Share Plan.

11 INVESTMENT PROPERTIES AND PROPERTIES UNDER CONSTRUCTION AND HELD FOR DEVELOPMENT

	Investment properties	Properties held for development	Property held for sale
	<u>£m</u>	<u>£m</u>	<u>£m</u>
At 1 January 2005 pre-adjustment for UITF 28	5,324.2	254.9	
Adjustment for UITF 28	(92.7)	-	
As at 1 January 2005	<u>5,231.5</u>	<u>254.9</u>	
Additions (net of adjustment for UITF 28)	7.4	4.2	
Disposal of property	(934.1)	-	
Revaluation	899.9	-	
As at 31 December 2005	<u>5,204.7</u>	<u>259.1</u>	
Adjustment for UITF 28 (Note 15)	96.8		
Market value at 31 December 2005	<u>5,301.5</u>		
Of which, subject to lease and finance leaseback arrangements	1,416.8		
Historical cost	4,210.1		
Long leasehold property held as a current asset:			
Valuation at date of acquisition			97.0
Disposal of property			(97.0)
			<u>-</u>

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 15).

Additions to properties for the year ended 31 December 2005 totalled £21.6 million. In the above table additions are stated net of £10.0 million of tenant works which have been classified as other tenant incentives for the purposes of UITF 28 and included as part of debtors falling due after one year (Note 15).

In the year ended 31 December 2005 Canary Wharf Group disposed of seven investment properties as summarised in the table in 'Business and Financial Review – Property disposals'. These sales which resulted in a profit of £204.9 million relating to property disposals, have been shown as an exceptional item in the profit and loss account for the year. The disposals also resulted in a transfer to the profit and loss reserve from the revaluation reserve of £22.5 million representing the realisation of prior year revaluation gains, of which £8.6 million was attributable to the minority interest and £13.9 million to the members of the company. There is no deferred tax charge as a result of these transactions.

Canary Wharf Group's investment properties have been revalued externally as at 31 December 2005 on the basis of market value. The valuation of office investment properties was undertaken by either CBRE or Savills. The valuation of retail investment properties was undertaken by CWHB. Each property has been valued individually on a free and clear basis and not as part of a portfolio and no account has been taken of any intragroup leases or arrangements. Whilst allowance has been made for any purchaser's expenses, no allowance has been made for any seller's expenses of realisation nor for any taxation which might arise in the event of disposal. The allowance for purchaser's expenses was increased from 1.75% at 31 December 2004 to 5.75% at 31 December 2005 as a result of the removal of stamp duty relief for properties in disadvantaged areas announced in the 2005 Budget. The surplus arising on the valuations at 31 December 2005 of £899.9 million has been transferred to the revaluation reserve. Of the total revaluation surplus £352.7 million is attributable to the minority interest and £547.2 million to the members of the company.

Properties held for development at 31 December 2005, which are to be retained as investment properties, are carried at their fair value at the time of the Acquisition plus additions at cost, subject to any provision for impairment.

Properties held for sale during the year comprised the long leasehold interests in Aldersgate Street which were acquired by Canary Wharf Group in April 2005 for a consideration of £209.7 million (including fees). The property was initially recorded at the lower of cost and net realisable value. In determining the net realisable value the directors consulted with Jones Lang LaSalle who were instructed to provide a vacant possession valuation of Aldersgate Street, ignoring intragroup leases. The valuation at the date of acquisition on this basis was £97.0 million resulting in a provision against cost of £112.7 million. This was offset by the release of a vacant leasehold provision of £117.0 million as referred to in Note 19. The net release was taken to the profit and loss account and credited to cost of sales. On 2 December 2005, Canary Wharf Group disposed of its long leasehold interests in Aldersgate Street for a consideration of £110.0 million and recognised a profit of £12.1 million after expenses attributable to the sale which has been shown in the profit and loss account as an exceptional item. There was no deferred tax charge as a result of this transaction.

12 OTHER TANGIBLE FIXED ASSETS

	Fixtures and equipment	Computer equipment	Total
	£m	£m	£m
Cost:			
At 1 January 2005	3.1	0.1	3.2
Additions	-	0.2	0.2
At 31 December 2005	3.1	0.3	3.4
Depreciation:			
At 1 January 2005	(0.3)	(0.1)	(0.4)
Charge for the year (Note 3)	(0.5)	(0.1)	(0.6)
At 31 December 2005	(0.8)	(0.2)	(1.0)
Net book amount:			
At 31 December 2005	2.3	0.1	2.4
At 31 December 2004	2.8	-	2.8

13 INVESTMENTS

	At 31 December 2005 Group £m	At 31 December 2004 Group £m
Associated undertakings	2.5	-
Other investments	0.3	0.4
	<u>2.8</u>	<u>0.4</u>

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 year ended 31 December 2005 the carrying value of the investment was written-down by a further £0.1 million to £0.3 million (after a total provision of £0.3 million) based on the net asset value of HSO at that date.

In April 2005, BWB appointed Canary Wharf Group, together with Ballymore, as its partner for the development of Wood Wharf, a site adjacent to the Estate. The Wood Wharf Limited Partnership ('WWLP') has been established to oversee the development of an approximately 6.5 million sq ft (gross) mixed use scheme in which the group has a 25% effective interest. Canary Wharf Group has subscribed £1,000 of equity share capital in the partners of WWLP which in turn have invested £500 in WWLP. Canary Wharf Group has provided interest free long-term loans to fund the working capital requirements of the partnership, which are repayable out of development profits.

14 GOODWILL

On 8 March 2005 outstanding warrants over 42,273,251 ordinary shares in Canary Wharf Group were exercised at a subscription price of £2.86 per share resulting in the combined interest of the company and SAL reducing to 61.85%. On 29 November 2005 further outstanding warrants at a subscription price of £1.86 per share were exercised over 11,734,369 ordinary shares in Canary Wharf Group further reducing the combined interest of the company and SAL to 60.72%. The combined exercise of warrants has been accounted for as a deemed disposal by the company and SAL of part of their interest in Canary Wharf Group, as a result of which their share of the net assets of Canary Wharf Group has reduced by £27.7 million. This has been taken to the profit and loss account and shown as an exceptional item.

During the year ended 31 December 2005, SAL acquired an additional 553,922 shares in Canary Wharf Group from certain of that company's minority shareholders who had contacted either the company or SAL, at a cost of £1.3 million. As a result of all these transactions the combined interest of the company and SAL in Canary Wharf Group reduced from 66.32% at 31 December 2004 to 60.80% at 31 December 2005.

The shares acquired in Canary Wharf Group have been accounted for as an increase in SAL's investment in Canary Wharf Group. The purchase price of £2.30 per share represented a discount to the net asset value of Canary Wharf Group at the dates of acquisition and goodwill has been reduced accordingly.

The movements in goodwill during the year ended 31 December 2005 comprise:

	£m
At 1 January 2005	84.3
Write-down arising from the exercise of warrants	(7.4)
Discount on acquisition of Canary Wharf Group shares	(0.5)
Amortisation in the year	(3.8)
At 31 December 2005	<u><u>72.6</u></u>

15 DEBTORS

	At 31 December 2005	At 31 December 2004
	£m	£m
Due within one year:		
Trade debtors	5.7	26.9
Deferred taxation (Note 19)	29.0	-
Other debtors	43.2	9.9
Amounts owned by subsidiary undertakings	-	-
Prepayments and accrued income	26.1	35.7
	104.0	72.5

Deferred taxation:

	£m
Deferred tax asset arising on acquisition adjustments	29.2
Accelerated capital allowances claimed	(0.9)
Other timing differences	0.4
Undiscounted deferred tax asset	28.7
Discount	0.3
Discounted deferred tax asset	29.0

In accordance with FRS 7, a deferred tax asset has been recognised on the mark to market of debt and other adjustments relating to Canary Wharf's tax position at the date of the Acquisition. The deferred tax asset will be amortised to the profit and loss account in line with the amortisation of the fair value adjustments that gave rise to this asset.

At 31 December 2005, there was an unprovided deferred tax asset of £30.7 million relating to tax losses (31 December 2004 - £10.4 million).

	Rent- free periods	Other tenant incentives	Total
	£m	£m	£m
Due in more than one year:			
At 1 January 2005	40.5	52.2	92.7
Transfer from properties held as fixed assets (Note 11)	-	10.0	10.0
Recognition of rent during rent-free periods	18.8	-	18.8
Amortisation of lease incentives	(2.6)	(12.8)	(15.4)
Written-off on sale of buildings	(9.1)	(0.2)	(9.3)
At 31 December 2005	47.6	49.2	96.8

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

During the year ended 31 December 2005, seven investment properties were sold by Canary Wharf Group. The cumulative UITF 28 adjustments in respect of these properties was £9.3 million. This has been written-off to the profit and loss account and taken into account in computing the net profit on sale of £204.9 million (Note 11).

16 FINANCIAL ASSETS

The group's financial assets comprise short term trade debtors (Note 15) and cash deposits. Cash deposits totalled £1,829.9 million at 31 December 2005 (31 December 2004 - £1,102.6 million), comprising deposits placed on money market at call and term rates. Total cash deposits included £985.6 million (31 December 2004 - £458.0 million) held by third parties as cash collateral for the group's borrowings and a further £2.3 million (31 December 2004 - £1.6 million) charged to third parties as security for the group's obligations.

At 31 December 2004 a cash deposit of £4.4 million was invested at a fixed rate of 7.8%. As a result of the repayment of finance leases referred to in Note 18(10) the fixed rate cash deposit was released and transferred to unrestricted cash. All other cash deposits were invested at floating rates.

17 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	<u>At</u> <u>31 December 2005</u> £m	<u>At</u> <u>31 December 2004*</u> £m
Borrowings (Note 18)	40.6	151.7
Trade creditors	18.3	30.0
Amounts due to subsidiary undertakings	-	-
Taxation and social security costs	4.5	4.3
Other creditors	15.9	5.1
Accruals	92.8	112.1
Deferred income	43.3	71.6
Financing costs of non-equity share capital	30.1	8.6
	<u>245.5</u>	<u>383.4</u>

*As restated (see Note 2 (16)).

18 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

Creditors due after more than one year comprise:

	<u>At</u> <u>31 December 2005</u> £m	<u>At</u> <u>31 December 2004*</u> £m
SAL Loans	542.4	624.4
Securitised debt	2,561.9	2,909.4
Secured loans	1,181.5	238.0
Finance lease obligations	1,002.0	1,273.2
Non-equity share capital	174.6	181.7
	<u>5,462.4</u>	<u>5,226.7</u>

*As restated (see Note 2 (16)).

In accordance with FRS 25, the D Share and SG Shares have been re-classified as creditors falling due in more than one year, and the dividends accrued (but not declared or paid) in respect of these shares are included in creditors due in less than one year (Note 17). At 31 December 2005 £28.7 million has been accrued in respect of the D Share (31 December 2004 - £nil), and £1.4 million in respect of the SG Shares (31 December 2004 - £8.6 million).

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

	Securitised debt	SAL loans	Secured loans	Finance lease obligations	Total borrowings	Non-equity share capital	Total
	£m	£m	£m	£m	£m	£m	£m
At 1 January 2005 – as previously stated:							
Payable within one year or on demand	63.1	-	87.9	0.7	151.7	-	151.7
Payable in more than one year	2,909.4	624.4	238.0	1,273.2	5,045.0	-	5,045.0
	<u>2,972.5</u>	<u>624.4</u>	<u>325.9</u>	<u>1,273.9</u>	<u>5,196.7</u>	<u>-</u>	<u>5,196.7</u>
Prior period adjustments (as explained in Note 2(16))							
Payable within one year or on demand	-	-	-	-	-	8.6	8.6
Payable in more than one year	-	-	-	-	-	181.7	181.7
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>190.3</u>	<u>190.3</u>
Restated amounts:							
Payable within one year or on demand	63.1	-	87.9	0.7	151.7	8.6	160.3
Payable in more than one year	2,909.4	624.4	238.0	1,273.2	5,045.0	181.7	5,226.7
As at 1 January 2005 – as restated	<u>2,972.5</u>	<u>624.4</u>	<u>325.9</u>	<u>1,273.9</u>	<u>5,196.7</u>	<u>190.3</u>	<u>5,387.0</u>
Drawdown in year	360.4	601.0	1,885.9	5.0	2,852.3	-	2,852.3
Deferred financing expenses	(101.7)	(13.6)	(9.3)	(26.6)	(151.2)	-	(151.2)
Accrued finance charges	(4.7)	4.8	20.4	(4.3)	16.2	21.5	37.7
Repaid in period	(643.6)	(674.2)	(1,021.8)	(246.0)	(2,585.6)	(7.1)	(2,592.7)
At 31 December 2005	<u>2,582.9</u>	<u>542.4</u>	<u>1,201.1</u>	<u>1,002.0</u>	<u>5,328.4</u>	<u>204.7</u>	<u>5,533.1</u>
Payable within one year or on demand	21.0	-	19.6	-	40.6	30.1	70.7
Payable in more than one year	2,561.9	542.4	1,181.5	1,002.0	5,287.8	174.6	5,462.4
	<u>2,582.9</u>	<u>542.4</u>	<u>1,201.1</u>	<u>1,002.0</u>	<u>5,328.4</u>	<u>204.7</u>	<u>5,533.1</u>

The disclosures in this note should be read in conjunction with the 'Business and Financial Review – Borrowings'.

- (1) At 31 December 2004 SAL had debt outstanding of £643.6 million, including £521.9 million under a senior facility ('the Senior Facility') and £121.7 million under a mezzanine loan facility ('the Mezzanine Facility'). These facilities were used to fund the acquisition of shares in Canary Wharf Group. The weighted average interest rate under these facilities at 31 December 2004 was 8.0%.

During the year ended 31 December 2005, SAL drew down an additional £30.6 million, to fund interest payable under the loans and to fund the working capital requirements of SAL or the company.

In September 2005 the company repaid £248.0 million of the Senior Facility funded by the first dividend received from Canary Wharf Group. On 9 November 2005, the company repaid the remaining balance on both facilities funded by the drawdown under a new loan facility (see below). As a result of prepaying the debt, unamortised financing costs totalling £11.7 million (Note 5) were written-off to the profit and loss account and treated as an exceptional item.

On 9 November 2005 the company entered into a new £736.9 million loan facility which comprises Facility A of £691.9 million and Facility B of £45.0 million.

The purpose of Facility A is to fund:

1. the refinancing described above;
2. the payment of transaction costs;
3. the payment of dividends (if any); and
4. the payment of any up-front premium pursuant to a hedging agreement.

The principal purpose of Facility B is to fund:

1. the payment of interest and commitment fees accruing in respect of both these facilities;
2. any other working capital purposes of SAL and the company to a maximum of £2.0 million per annum;
3. the payment of certain outstanding fees; and
4. the payment of amounts pursuant to a hedging agreement to the extent not funded from Facility A.

The loan is repayable in full in November 2007 although this may be extended by six months in respect of Facility A at the option of the company. Both facilities are pre-payable at the option of SAL on any defined repayment date. SAL may not re-borrow any part of Facility A which is repaid but may re-borrow repayments under Facility B.

On 9 November 2005, the company drewdown £441.9 million under Facility A to repay the debt as referred to above. On 15 November 2005 the company drewdown an additional £102.3 million under Facility A to fund the payment of a dividend (Note 8). On 21 November 2005 £0.3 million was drawn down under Facility B of the loan facility to fund the corporate working capital requirements of SAL and the company. The undrawn amount under Facility A at 31 December 2005 was £147.7 million and the undrawn amount under Facility B at the date was £44.7 million. Any amount available to be drawn under Facility A must be utilised by 30 April 2006.

Financing costs relating to the inception of the new loans were 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.

The weighted average interest rate on the outstanding facilities was 6.49% at 31 December 2005. These facilities are guaranteed by the company and by charges over the assets of the company and SAL. The new facilities contain detailed covenants, representations and warranties and events of default which apply to the company and SAL.

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

Tranche	£m	Interest	Repayment
Issued:			
A	341.7	7.230%	Repaid May 2005
B	91.8	7.425%	Repaid May 2005
C	120.0	Stepped	Repaid May 2005
	<u>553.5</u>		

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

In May 2005 Canary Wharf Group completed a refinancing of its securitised properties which involved the repayment of all notes issued by CWF. The repayment was funded by a new loan facility as referred to in Note 18(9).

The repayment of this securitisation gave rise to prepayment and breakage costs and other fees of £150.2 million partly offset by unamortised fair value adjustments of £85.6 million.

No deferred tax arose as a result of this transaction.

- (3) At 31 December 2005 the following notes issued by CWFII, a subsidiary of Canary Wharf Group, were outstanding:

Tranche	£m	Interest	Repayment
A1	1,215.0	6.455%	By instalment 2009 to 2033
A3	400.0	5.952%	By instalment 2032 to 2037
A5	221.5	Floating	By instalment 2012 to 2033
B	231.5	6.800%	By instalment 2005 to 2033
B2	108.0	Floating	By instalment from issue to 2027
C1	225.0	Floating	By instalment from 2006 to 2027
D1	25.0	Floating	By instalment from 2011 to 2030
	<u>2,426.0</u>		

The carrying value of the outstanding notes at 31 December 2005 was £2,574.2 million. The notes are secured on certain property interests of Canary Wharf Group and the rental income stream therefrom.

The refinancing completed in May 2005 involved the repayment of £135.0 million of notes issued by CWF II and the issue of £360.0 million of new notes. The notes repaid comprised £45.0 million of C notes and £20.0 million of D notes which were previously held by Canary Wharf Group. In addition the equivalent of £70.0 million of the A5 (US\$ denominated) notes were repaid in July 2005. The notes issued comprised B2, C1 and D1 floating rate notes.

Interest on the B2 notes is payable at three month LIBOR plus 0.35% and hedged at 5.032%. There is a step up in the margin on the B2 notes to 0.875% in July 2012. Interest on the C1 notes is payable at three month LIBOR plus 0.6% and hedged at 5.278%. There is a step up in the margin to 1.5% in July 2012. Interest on the D1 notes is payable at three month LIBOR plus 0.9% and there is a step up in the margin to 2.25% in July 2012. An interest rate collar on the D notes with a notional principal of £20.0 million, a floor of 5% and a cap of 9% was increased to match the new principal amount of £25.0 million for the D1 notes. This resulted in a payment to the group of £0.4 million from the cap provider.

The remaining A5 notes are in a principal amount of US\$315.1 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.

The weighted average maturity of the debentures at 31 December 2005 was 16.8 years. The debentures may be redeemed at the option of the issuer in an aggregate amount of not less than £1.0 million (except the A5 notes which may not be less than \$1.0 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 Canary Wharf Group was a party to an investment loan in a principal amount of £225.0 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, crystallising net prepayment costs of £1.5 million and the write-off of unamortised fair value adjustments of £9.9 million.
- (5) CWF was 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 had subsequently been rolled over until July 2005. The loan carried 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 loan was repaid as part of the refinancing referred to in Note 18(2) as a result of which the interest collar arrangement was terminated at a £nil cost.
- (6) In December 2002, a Canary Wharf Group company entered into a facility to borrow up to £608.8 million secured against One Churchill Place which was drawdown 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 18(7) below. The balance of the loan was retained for the general corporate purposes of Canary Wharf Group. The loan carries a hedged interest rate of 5.82%. In the year ended 31 December 2005, £4.8 million of the loan was amortised in accordance with the loan agreement.
- (7) In September 2003 a Canary Wharf Group company entered into a finance lease transaction in relation to One 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 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. 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 18(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.

The finance lease was adjusted in December 2005 to reflect a change in the tax assumptions underlying the finance lease. The adjustment resulted in the Canary Wharf Group providing an additional £10.0 million of cash collateral. The carrying value of the finance lease was increased by £5.0 million immediately with the remaining £5.0 million funded by the finance lease provider to be recognised over the remaining life of the finance lease. At 31 December 2005, the finance lease was stated at £648.2 million (31 December 2004 - £646.5 million) representing the adjusted initial net proceeds less subsequent amortisation of £3.3 million.

Subsequent to the year end on 1 February 2006, Canary Wharf Group concluded the acquisition from Barclays of Barclays Capital Leasing (No 165) Limited ('BCL (165)') and Barclays Capital Leasing (No 166) Limited ('BCL (166)') for a consideration of £0.1 million in excess of net assets acquired. In September 1997 BCL (165') entered into an agreement for lease in respect of certain floors in One Canada Square which were immediately leased back to Canary Wharf Group from the date of acquisition on finance lease terms. As a result of the acquisition of BCL (165), cash deposits totalling £112.0 million held by the group as security for the finance lease were released from charge. BCL (165) will be consolidated in the accounts of Canary Wharf Group from the date of acquisition, the effect of which will be that finance lease receivables and payables totalling £111.9 million will be offset. The consideration payable on acquisition, together with any adjustment to the carrying value of the finance lease will be treated as a charge required to restructure the finance lease and shown as a component within interest payable (finance lease charges) in the year ended 31 December 2006.

In September 1997 BCL (166) entered into an agreement for lease in respect of certain floors in 33 Canada Square and in September 2003 it entered into an agreement for lease of One Churchill Place. In each case the respective property was immediately leased back to Canary Wharf Group from the date of acquisition on finance lease terms. As a result of the acquisition of BCL (166), cash deposits totalling £724.7 million held by Canary Wharf Group as security for the finance lease will be released from charge. BCL (166) will be consolidated in the accounts of Canary Wharf Group from the date of acquisition, the effect of which will be that finance lease receivables totalling £724.5 million will be offset against finance lease payables totalling £849.2 million which is expected to result in a gain of approximately £124.0 million which will be recorded as an exceptional item after fees. The consideration payable on acquisition, together with any adjustment to the carrying value of the finance lease will be treated as a charge required to restructure the finance lease and shown as a component within interest payable (finance lease charges) in the year ended 31 December 2006.

- (8) 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 27). The weighted average rate of interest implicit in the group's finance leases is 4.3% at 31 December 2005 (31 December 2004 – 5.6%).
- (9) The repayment of Canary Wharf Group's first securitisation in May 2005 (Note 18(2)) was funded in part by a new 3 year bank loan facility of £750.0 million. The facility was drawn in full and carried an interest rate of 3 month LIBOR plus an initial margin of 100 bps. During the course of 2005 £533.7 million of the facility was repaid as a result of the disposal of four investment properties and a further £12.7 million was repaid via quarterly cash sweeps of funds in excess of the amounts required to service the debt. At 31 December 2005, £203.6 million was outstanding under the facility, after other repayments during the year.

As a result of the loan repayments during the year, the margin on the loan had fallen to LIBOR plus 85 bps by 31 December 2005. Subsequent to the year end the remainder of the loan was refinanced with a new £300.0 million facility.

- (10) During the year ended 31 December 2005 Canary Wharf Group drewdown £369.4 million under a new bank loan facility to fund the refinancing of three finance leases which had been secured against 10 Cabot Square and 20 Cabot Square. The loan carries interest at a rate of 5.82% and is repayable in 2008. The loan is secured against the Canary Wharf Group's property interests in 10 Cabot Square and 20 Cabot Square. The refinancing of the finance leases resulted in breakage costs of £47.8 million, primarily as a result of the mark to market of fixed rate debt, offset by the write-off of unamortised fair value adjustments of £25.9 million and other costs of £0.8 million. As part of the restructuring of the finance leases, certain cash collateral was released to Canary Wharf Group totalling £36.1 million and the contingent requirement to make a further cash deposit of up to £25.0 million was eliminated.

- (11) In connection with the acquisition of Aldersgate Street in April 2005, Canary Wharf Group assumed existing loans totalling £154.1 million comprising a senior tranche of £140.7 million, which carried interest at 6.79%, and a mezzanine tranche of £13.4 million, which carried interest of 9.59%. The fair value of these loans was £157.7 million on the date of acquisition and the mark to market of £3.6 million was taken into account in calculating the net cost of acquisition of the building (Note 11). On 16 September 2005, the mezzanine tranche was repaid with breakage costs of £0.4 million. On 2 December 2005 the remaining senior tranche was repaid crystallising costs of £6.6 million and the release of the fair value adjustment of £3.6 million.
- (12) In accordance with FRS 7, a fair value adjustment was made to the carrying value of 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 2005, £97.3 million (31 December 2004 - £202.8 million) remained unamortised. In the year ended 31 December 2005, £25.9 million of the fair value adjustment was released as a result of the finance lease restructuring referred to in (Note 18(10)), £85.6 million was released as a result of the repayment of securitised debt (Note 18(2)) and a charge of £9.9 million was crystallised as a result of the repayment of the loan secured on 20 Canada Square (Note 18(4)). The fair value adjustment gave rise to a deferred tax asset of £55.9 million of which £29.2 million (Note 15) (31 December 2004 - £54.5 million) remained unamortised at 31 December 2005.
- (13) Loans and finance lease obligations (excluding accrued interest payable):

	At 31 December 2005		At 31 December 2004	
	Loans £m	Finance leases £m	Loans £m	Finance leases £m
In less than one year or on demand	18.3	-	120.6	-
In more than one year but less than two years	564.0	-	542.3	-
In more than two years but not more than five years	728.3	-	246.5	-
In more than five years	2,952.9	1,002.0	2,983.0	1,273.2
	4,263.5	1,002.0	3,892.4	1,273.2

- (14) After taking into account interest rate hedging and currency swaps entered into by Canary Wharf Group, the interest rate profile of the group's borrowings at 31 December 2005 (including accrued interest payable) was:

	At 31 December 2005			At 31 December 2004		
	Floating rate borrowings £m	Fixed rate borrowings £m	Total £m	Floating rate borrowings £m	Fixed rate borrowings £m	Total £m
Securitised debt	25.3	2,557.6	2,582.9	-	2,972.5	2,972.5
SAL loans	542.4	-	542.4	624.4	-	624.4
Secured loans	204.1	997.0	1,201.1	85.0	240.9	325.9
Finance leases	1,002.0	-	1,002.0	1,001.9	272.0	1,273.9
	1,773.8	3,554.6	5,328.4	1,711.3	3,485.4	5,196.7
Less: Cash collateral for borrowings (Note (16))	(890.2)	(95.4)	(985.6)	(333.0)	(125.0)	(458.0)
	883.6	3,459.2	4,342.8	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.

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

	At 31 December 2005		At 31 December 2004	
	Weighted average interest rate	Weighted average period fixed	Weighted average interest rate	Weighted average period fixed
	%	Years	%	Years
Securitised debt	6.2	17.1	6.5	17.1
Secured loans	5.9	16.4	6.1	13.2
Finance leases	-	-	10.0	11.9

- (15) The fair values of the group's financial assets and liabilities (excluding debtors and creditors falling due within one year other than amounts relating to loans) at 31 December 2005 was £365.3 million before tax relief (31 December 2004 - £137.1 million) comprised the following:

	At 31 December 2005		At 31 December 2004	
	Book value	Fair value	Book value	Fair value
	£m	£m	£m	£m
Primary financial instruments held or issued to finance the group's operations:				
Cash on deposit earning				
- floating rates of interest	1,829.9	1,829.9	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	(40.6)	(40.6)	(151.7)	(151.7)
Long term borrowings	(4,186.9)	(4,447.5)	(3,771.8)	(3,818.8)
Finance leases	(1,002.0)	(1,002.0)	(1,273.2)	(1,278.2)
Derivative financial instruments held to manage interest rate and exchange rate profile:				
- interest rate swaps	(22.3)	(121.4)	(12.8)	(67.8)
- interest rate caps/collars	(1.2)	(3.3)	(0.9)	(1.9)
- currency swaps	(75.3)	(78.8)	(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.

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

	December 2005			December 2004		
	Gains	(Losses)	Total net gains/ (losses)	Gains	(Losses)	Total net gains/ (losses)
	£m	£m	£m	£m	£m	£m
Unrecognised gains and losses on hedges at 1 January	-	(86.9)	(86.9)	-	-	-
Gains and losses arising in previous years that were recognised in the year	-	12.4	12.4	-	-	-
Gains and losses arising before 1 January that were not recognised in the year	-	(74.5)	(74.5)	-	-	-
Gains and losses arising in the year that were not recognised in the year	-	(30.2)	(30.2)	-	(86.9)	(86.9)
Unrecognised gains and losses on hedges at 31 December 2005	-	(104.7)	(104.7)	-	(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	-	(104.7)	(104.7)	-	(73.8)	(73.8)

In the year ended 31 December 2005, a loss on an interest swap of £12.4 million was crystallised as part of the repayment of the loan referred to in Note 18(4). No other recognised gains or losses on instruments used for hedging were recognised in the year ended 31 December 2005.

- (16) 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.

19 PROVISIONS FOR LIABILITIES AND CHARGES

	Vacant leasehold properties	Other lease commitments	Deferred taxation	Total
	£m	£m	£m	£m
At 1 January 2005	153.3	25.7	28.9	207.9
Utilisation of provision	(16.5)	(2.8)	-	(19.3)
Unwind of discount	4.2	0.8	-	5.0
Release of provision	(119.1)	(5.9)	(28.9)	(153.9)
Increase in provision	-	16.7	-	16.7
	<u>21.9</u>	<u>34.5</u>	<u>-</u>	<u>56.4</u>

Vacant leasehold properties:

On 6 November 2000, 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. Canary Wharf Group also acquired the sub-leasehold interest running to 2017 in Aldersgate Street, a 440,000 sq ft office building in the City of London occupied by Clifford Chance until 29 September 2003.

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

On 15 April 2005 Canary Wharf Group acquired from a third party long leasehold interests expiring in 2141 in Aldersgate Street comprising in total 473,000 sq ft. The consideration for the acquisition was £209.7 million including fees. As a result of acquiring the reversionary interest in the building the remaining provision of £117.0 million, after charging expenditure of £7.4 million in respect of the period to 15 April 2005, was released offsetting the provision against cost referred to in Note 11. The net release has been taken to the profit and loss account. Subsequently the long leasehold interest and sub-leasehold interests in Aldersgate Street were sold to a third party on 2 December 2005 (Note 11).

Reuters' leasehold properties

On 9 February 2004 Canary Wharf Group announced that it had signed agreements for lease relating to the pre-let to Reuters of approximately 283,000 sq ft of space in the building at 30 South Colonnade. As part of this transaction Canary Wharf Group agreed to take over three of Reuters' leasehold properties from commencement of the lease on 30 The South Colonnade in May 2005. The terms of the leases to expiration or first break are between three and four years.

In September 2005, Canary Wharf Group paid a £3.1 million surrender premium in respect of one of these properties. At 31 December 2004, the group had recognised a provision of £6.8 million in respect of this property. The net release of £2.4 million after allowing for costs incurred to the date of surrender has been treated as an adjustment to cost of sales.

At 31 December 2005 the provision for the estimated net liability, discounted at 5.6% being the group's weighted average cost of debt at that date, was stated at £21.9 million. In January 2006, £24.0 million was placed in cash collateral to fund these liabilities by Canary Wharf Group as a result of the sale of 30 South Colonnade.

Other lease commitments:

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

- (1) a contribution of £30.00 per sq ft towards the cost of refitting the 408,728 sq ft occupied by Lehman Brothers at Broadgate, capped at £12.0 million. This has been accrued for at 31 December 2005.
- (2) a rent support commitment with Lehman Brothers under which Canary Wharf Group may contribute a maximum of £10.00 per sq ft per annum towards the difference between the passing rent payable by Lehman Brothers on its leases at Broadgate and the rent achievable on any sub-lease. For 1 and 2 Broadgate, comprising 311,077 sq ft and where the leases expire in January 2017 and the passing rent is £46.86, rent support is only payable for the life of the first sub-lease; for the remaining space in 6 Broadgate, comprising 97,651 sq ft where the leases expire in September 2013, rent support of up to £5.00 per sq ft is payable by Canary Wharf Group on any second sub-letting, but no further amount is payable thereafter. The passing rent on the space in 6 Broadgate varies between £44.00 per sq ft and £52.00 per sq ft but on the majority of space it is in the range of £44.00 - £45.00 per sq ft. The terms of the Lehman Brothers leases prevent it from sub-letting space below market levels and no amount is payable on space which Lehman Brothers does not sub-let.

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

In connection with the sale of certain properties during the year Canary Wharf Group has agreed to provide rental support in respect of either unexpired rent - free periods or until the next rent review date. The quantum of rental support granted in respect of each disposal is summarised below. A provision of £16.7 million in respect of these commitments was recognised at the date of disposal and taken into account in calculating the total profit on disposal of the properties of £204.9 million. The remaining provision at 31 December 2005 was £12.4 million calculated on the basis of a discount rate of 5.6%.

Address:	Nominal value of rental support at inception £m	Provision on disposal of property £m	Remaining provision at 31 December 2005 £m	Expiry
20 Canada Square	6.6	6.0	3.0	April 2008
15 Westferry Circus	2.3	2.2	1.1	August 2006
1 Westferry Circus	7.6	7.1	6.9	October 2008
7 Westferry Circus	0.6	0.5	0.5	July 2006
25 North Colonnade	0.7	0.7	0.7	November 2007
35 South Colonnade	0.2	0.2	0.2	June 2006
	<u>18.0</u>	<u>16.7</u>	<u>12.4</u>	

	At 31 December 2005 £m	At 31 December 2004 £m
Deferred taxation:		
Accelerated capital allowances claimed	(0.9)	(158.6)
Other timing differences	29.6	72.3
	<u>28.7</u>	<u>(86.3)</u>
Undiscounted deferred tax liability	28.7	(86.3)
Discount	0.3	57.4
	<u>(29.0)</u>	<u>-</u>
Transferred to debtors due in more than one year	(29.0)	-
	<u>-</u>	<u>(28.9)</u>
Discounted deferred tax liability	-	(28.9)
	<u>(28.9)</u>	<u>(20.3)</u>
At start of period	(28.9)	(20.3)
Released to the profit and loss account	57.9	(8.6)
Transferred to debtors (Note 15)	(29.0)	-
	<u>-</u>	<u>(28.9)</u>
At end of period	-	(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 values. If Canary Wharf Group's investment properties had been sold at the balance sheet date at the amounts stated in Note 11, no tax would have been payable by Canary Wharf Group after taking into account available tax losses (31 December 2004 - £63.8 million). Corporation tax on chargeable gains in relation to the sale of completed properties held by Canary Wharf Group investment companies of £133.7 million (31 December 2004 - £52.0 million) has been reduced to £nil by EZA balancing allowances. There is no corporation tax (31 December 2004 - £11.8 million) on development surpluses in relation to the completed properties that are held by Canary Wharf Group property development companies. Capital losses have reduced the tax on chargeable gains by £128.9 million (31 December 2004 - £148.1 million).

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

In accordance with FRS 19 Canary Wharf Group provided for the potential clawback of EZAs claimed in the event of the sale of the property interests to which those claims relate. As a result of internal property restructuring connected to Canary Wharf Group's refinancings during the year, the market values of the interests which carry the entitlement to EZAs became negligible. A disposal of a property would not trigger a clawback of EZAs previously claimed and as a result no provision for deferred tax has been made for these EZAs at 31 December 2005.

At 31 December 2005 there was an unprovided deferred tax asset of £30.7 million relating to tax losses (31 December 2004 - £10.4 million).

20 SHARE CAPITAL

	Authorised		Issued, allotted and fully paid	
	At 31 December 2005 £'000	At 31 December 2004 £'000	At 31 December 2005 £'000	*Restated at 31 December 2004 £'000
Equity Shares:				
A Ordinary Shares of 10p each	88,664	88,664	26,085	26,085
B Ordinary Shares of 10p each	71,259	71,259	17,270	17,270
C Ordinary Shares of 10p each	15,000	15,000	-	-
	<u>174,923</u>	<u>174,923</u>	<u>43,355</u>	<u>43,355</u>
Non Equity Shares:				
D Ordinary Share of 10p each	-	-	-	-
SG Shares of 10p each	25,076	25,076	18,257	18,257
	<u>199,999</u>	<u>199,999</u>	<u>61,612</u>	<u>61,612</u>

*Restated as set out in Note 2(16)).

As at 31 December 2005 a total of 616,117,548 shares were in issue. There were no changes to the share capital during the year.

The rights attaching each class of shares and can be summarised as follows:

(1) A Shares

- Eight 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 the 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 MS shareholder group, 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 and the Liquidation Preference Amount 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) receives 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 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

- One 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 and the Liquidation Preference Amount 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) receives 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.
- Entitlement to a D dividend for each year in the five year period commencing on 1 July 2004 calculated on a proportion of the increase in the market value of retail assets 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

- Eight 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) at a rate of 8% per annum payable quarterly in arrears.
- 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 of 21 May 2004, or earlier if the class 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 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 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 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.

21 RESERVES

	Share premium account £m	Revaluation reserve £m	Profit & loss account £m	Own shares £m	Appropriation of profit £m	Total £m	Minority interest £m
At 1 January 2005 – as previously stated	538.9	77.7	(62.5)	(3.0)	8.6	559.7	592.7
Prior period adjustment (as explained in Note 2(16))	(163.4)	-	-	-	(8.6)	(172.0)	-
At 1 January 2005 as restated	375.5	77.7	(62.5)	(3.0)	-	387.7	592.7
Revaluation of investment properties	-	899.9	-	-	-	899.9	-
Transfer of realised revaluation surplus	-	(13.9)	13.9	-	-	-	-
Exercise of warrants in Canary Wharf Group	-	(6.5)	6.5	-	-	-	163.0
Acquisition of shares in Canary Wharf Group	-	-	-	-	-	-	(1.8)
Reserve movements in respect of share option schemes	-	-	-	2.0	-	2.0	-
Transfer to minority interest	-	(352.7)	(77.7)	-	-	(430.4)	430.4
Profit for the financial period	-	-	61.5	-	-	61.5	-
Canary Wharf Group dividend paid to minority share	-	-	-	-	-	-	(268.3)
Dividend	-	-	(72.0)	-	-	(72.0)	-
At 31 December 2005	375.5	604.5	(130.3)	(1.0)	-	848.7	916.0

The transfer of £13.9 million to the profit and loss account from the revaluation reserve represents the realised revaluation surplus in respect of the properties sold in the year.

22 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	£m
Shareholders' funds at 1 January 2005 as previously stated	621.3
Prior year adjustment (as explained in Note 2(16))	(190.3)
Shareholders' funds at 1 January 2005 as restated	431.0
Revaluation surplus	547.2
Movement in respect of share option schemes	2.0
Dividend paid	(72.0)
Loss for the financial year	(16.2)
Shareholders' funds at 31 December 2005	892.0

23 PENSION SCHEMES

Canary Wharf Group operates two defined contribution pension schemes. The assets of these schemes are held in independently administered funds. The pension cost charge, which amounted to £2.1 million in the year (period ended 31 December 2004 - £1.5 million) represents contributions payable by Canary Wharf Group to the schemes. The company does not operate a pension plan.

24 RECONCILIATION OF OPERATING PROFIT TO OPERATING CASH FLOWS

	Year ended 31 December 2005	Period ended 31 December 2004
	£m	£m
Operating profit	240.0	106.7
Depreciation charges	0.6	0.4
Provision against investment	0.1	0.2
Amortisation of share option costs	1.7	1.7
Profit on disposal of Aldersgate Street ⁽¹⁾	(12.1)	-
Increase in debtors	(8.4)	(15.1)
(Decrease)/increase in creditors	(22.7)	46.1
Amortisation of goodwill	3.8	2.2
Utilisation of provisions	(23.0)	(10.2)
Recognition of income during rent-free periods	(3.4)	(35.5)
Increase in provisions for vacant and other leasehold commitments	1.5	27.0
Net cash inflow from operating activities	178.1	123.5

Notes:

- (1) For the year ended 31 December 2005, operating profit includes an exceptional profit of £12.1 million in respect of the profit on sale of Canary Wharf Group's long leasehold interests in Aldersgate Street. There were no pre-operating profit exceptional items in the six months ended 31 December 2004.

25 ANALYSIS OF CASH FLOWS

	Year ended 31 December 2005	Period ended 31 December 2004
	£m	£m
Returns on investments and servicing of finance		
Interest received	91.1	32.9
Interest paid	(333.9)	(154.3)
Interest element of finance lease rentals	(46.7)	(52.1)
Financing expenses	(33.3)	(27.7)
Financing expenses and breakage costs on loans repaid ⁽¹⁾	(194.1)	-
Dividends paid to minority shareholders	(268.3)	-
Net cash outflow	(785.2)	(201.2)

Note:

- (1) For the year ended 31 December 2005 financing expenses of £194.1 million relate to the breakage costs referred to in Note 5.

	Year ended 31 December 2005	Period ended 31 December 2004
	£m	£m
Capital expenditure and financial investment		
Additions to properties	(68.5)	(101.0)
Acquisition of property interest	(52.8)	-
Purchase of tangible fixed assets	(0.2)	-
Sale of leasehold property interest	110.0	-
Sale of investment properties ⁽¹⁾	1,175.6	-
Loans to associated undertaking	(2.5)	-
Net cash inflow/(outflow)	1,161.6	(101.0)

Note:

- (1) The cash inflow on sale of investment properties was in respect of the disposal of properties referred to in Note 11.

	Year ended 31 December 2005	Period ended 31 December 2004
	£m	£m
Acquisitions		
Acquisition of subsidiary undertaking	-	(837.7)
Purchase of minority interests in subsidiary undertaking	(1.3)	-
Net cash outflow	<u>(1.3)</u>	<u>(837.7)</u>
	Year ended 31 December 2005	Period ended 31 December 2004
	£m	£m
Management of liquid resources		
Cash placed on deposit not available on demand	(634.3)	(17.5)
Cash withdrawn from deposit accounts	106.0	125.7
Net cash (outflow)/ inflow	<u>(528.3)</u>	<u>108.2</u>
	Year ended 31 December 2005	Period ended 31 December 2004
	£m	£m
Financing		
Repayment of securitised debt	(628.3)	(18.3)
Net proceeds of issue of shares	-	245.2
Repayment of SG Shares	(7.1)	-
Drawdown of acquisition loans	30.6	643.6
Repayment of acquisition loans	(674.2)	-
Drawdown of SAL loans	549.4	-
Proceeds from exercise of Canary Wharf Group warrants	142.7	-
Repayment of secured loans	(1,015.3)	-
Repayment of finance lease	(245.3)	-
Drawdown of secured loans	1,728.2	-
Drawdown of securitised debt	360.4	-
Finance lease premiums	5.0	10.0
Net cash inflow	<u>246.1</u>	<u>880.5</u>

26 ANALYSIS AND RECONCILIATION OF NET DEBT

	Restated at 1 January 2005*	Cash flow	Assumed debt	Other non- cash changes	At 31 December 2005
	£m	£m	£m	£m	£m
Cash at bank	1,102.6	727.3	-	-	1,829.9
Amounts on deposit not available on demand	(459.6)	(528.3)	-	-	(987.9)
	<u>643.0</u>	<u>199.0</u>	<u>-</u>	<u>-</u>	<u>842.0</u>
Debt due after 1 year	(3,771.8)	(507.6)	(154.1)	147.7	(4,285.8)
Debt due within 1 year	(151.7)	151.7	-	(40.6)	(40.6)
Finance leases	(1,273.2)	282.0	-	(10.8)	(1,002.0)
	<u>(5,196.7)</u>	<u>(73.9)</u>	<u>(154.1)</u>	<u>96.3</u>	<u>(5,328.4)</u>
Non-equity share capital	(181.7)	7.1	-	-	(174.6)
Financing costs of non- equity shares	(8.6)	23.2	-	(44.7)	(30.1)
	<u>(5,387.0)</u>	<u>(43.6)</u>	<u>(154.1)</u>	<u>51.6</u>	<u>(5,533.1)</u>
Amounts on deposit not available on demand	459.6	528.3	-	-	987.9
Net debt	<u>(4,284.4)</u>	<u>683.7</u>	<u>(154.1)</u>	<u>51.6</u>	<u>(3,703.2)</u>

Part of the consideration for the acquisition of long leasehold interests in Aldersgate Street during the year ended 31 December 2005 was the assumption by Canary Wharf Group of £154.1 million of debt (Note 18(11)).

	Year ended 31 December 2005 £m
Increase in cash at bank in the year	727.3
Decrease in debt, non-equity shares and lease financing	(43.6)
Change in net debt resulting from cash flows	<u>683.7</u>
Non-cash movement in net debt	51.6
Loans assumed on acquisition of property interests	(154.1)
	<u>581.2</u>
Net debt at 1 January 2005*	<u>(4,284.4)</u>
Net debt at 31 December 2005	<u>(3,703.2)</u>

*Restated as set out in Note 2(16)

27 CONTINGENT LIABILITIES AND FINANCIAL COMMITMENTS

As at 31 December 2005 certain members of the group had given fixed and floating charges over substantially all of their assets as security for certain of the group's borrowings as referred to in Note 18. In particular, various members of the group had, at 31 December 2005, given fixed first ranking charges over cash deposits totalling £985.6 million.

As security for the issue of up to £2,426.0 million of securitised debt (Note 18(3)) Canary Wharf Group has granted a first fixed charge over the shares of CWFII and a first floating charge has been given over all of the assets of CWFII.

Commitments of Canary Wharf Group for future expenditure:

	At 31 December 2005	At 31 December 2004
	£m	£m
Under contract	16.0	18.0

The commitments for future expenditure relate to the completion of development projects where construction was committed at 31 December 2005. Any costs accrued or provided for in the balance sheet at 31 December 2005 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 2005	Land and buildings 31 December 2004
	£m	£m
Annual commitment for which the leases expire:		
within one year	-	-
between two and five years	4.8	4.2
after five years	-	16.7
	4.8	20.9

Canary Wharf Group has, in the normal course of its business, granted limited warranties or indemnities to its tenants in respect of building defects (and defects on the 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 Canary Wharf Group has received the benefit of warranties from the trade contractors and suppliers who worked on such buildings.

Sub-let commitments:

Under the terms of certain agreements for lease Canary Wharf Group has committed to take back certain space on the basis of short-term sub-leases at the end of which the space reverts to the relevant tenants. This space has been securitised but insofar as the securitisations are concerned the tenants are contracted to pay rent on the entire amount of space leased, whilst taking the covenant of Canary Wharf Group'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 2005.

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

SONGBIRD ESTATES PLC

Property	Leaseholder	Sub-let sq ft	Re-let sq ft	Passing rent £m	Rent review date	Rent review basis	Term commence- ment	Expiry or first break
50 Bank Street	Northern Trust	18,000	–	0.57	Apr 2007	OMR up only	Apr 2002	Oct 2006 ⁽¹⁾
10 Upper Bank Street	Clifford Chance	52,500	52,500	1.40	Jul 2008	Fixed at £49/sf	Jul 2003	Jul 2008 ⁽²⁾
10 Upper Bank Street	Clifford Chance	52,100	52,100	2.40	Jul 2008	Fixed at £49/sf	Jul 2003	Jul 2013 ⁽²⁾
25–30 Bank Street	Lehman Brothers	100,800	25,200	3.44	Jul 2008	Fixed at £53/sf	Jul 2003	Jul 2008 ⁽³⁾
25–30 Bank Street	Lehman Brothers	102,100	–	4.18	Jul 2008	Fixed at £53/sf in 2002 ⁽⁴⁾	Jul 2003	Jul 2013 ⁽³⁾
One Churchill Place	Barclays	133,600	100,200	5.30	Jul 2009	OMR up only	Jul 2004	Jul 2019 ⁽⁵⁾
One Churchill Place	Barclays	130,300	33,100	5.47	Jul 2009	OMR up only	Jul 2004	Jul 2014 ⁽⁵⁾
One Churchill Place	Barclays	66,000	66,000	2.44	Jul 2009	OMR up only	Jul 2004	Jul 2009 ⁽⁵⁾
40 Bank Street	Skadden	19,500	–	0.86	Apr 2008	OMR up only	Mar 2003	Mar 2008 ⁽⁶⁾
40 Bank Street	Skadden	19,500	–	0.86	Apr 2008	OMR up only	Mar 2003	Sep 2010 ⁽⁶⁾
40 Bank Street	Skadden	19,500	–	0.86	Apr 2008	OMR up only	Mar 2003	Mar 2013 ⁽⁶⁾
Total		713,900	329,100	27.78				

- (1) Assumes break exercised. Subsequent to the year end, on 27 February 2006, Northern Trust exercised their call option over this space. The group will continue to be liable to pay rents until 1 October 2006.
- (2) During the year ended 31 December 2005 Canary Wharf Group sub-let 26,116 sq ft to FTSE for a 10 year term, with rent starting on 24 January 2007, 25,607 sq ft to Infosys for 5 years with rent starting on 6 March 2006, a further 27,000 sq ft to Infosys for 3 years with rent starting on 17 December 2005 and 26,182 sq ft to Total for 10 years with rent starting on 11 February 2008. All sub-leases run for the remaining term of the leases from Clifford Chance.
- (3) On 29 September 2003 Lehman Brothers exercised options to sub-let part of 25-30 Bank Street back to Canary Wharf Group: 4 floors (102,100 sq ft) for 10 years and an additional 4 floors (100,800 sq ft) for 5 years. This space has to be handed back to Lehman Brothers at the end of the sub-let term fitted out to Category A standard. On 17 August 2004 Canary Wharf Group sub-let 25,200 sq ft of the 5 year space to Morgan Stanley on a managed office basis. On 14 August 2005 Morgan Stanley's lease was terminated in accordance with a break option exercised by the tenant. On 1 April 2005 the group sub-let a further 25,191 sq ft of the 5 year space to the FSA for a term of 3 years with rent starting on 1 October 2005.
- (4) Followed by annual increases to £59.65 per sq ft in 2012.
- (5) On 31 October 2003 Barclays opted to sub-let 329,900 sq ft of space in One Churchill Place back to Canary Wharf Group. Of the total sub-let, 66,000 sq ft is for 5 years, 130,300 sq ft is for 10 years and 133,600 sq ft is for 15 years or more. On 1 July 2005 the group sub-let 100,215 sq ft to BGC for a term of 14 years with rent commencing on 1 December 2005. On 1 November 2005 LOCOG agreed to lease 98,150 sq ft for terms ranging between 3 and 6 years.
- (6) Skadden have opted to lease back floor 24 (19,500 sq ft) for 5 years, floor 25 (19,500 sq ft) for 7.5 years and floor 26 (19,500 sq ft) for 10 years at 40 Bank Street. Subsequent to the year end, on 31 January 2006, Saxobank agreed to lease 11,225 sq ft to March 2013.

28 RELATED PARTY TRANSACTIONS

On 29 December 2004 the company entered into a provision of services agreement with Canary Wharf and SAL (the 'Provision of Services Agreement'). Under the Provision of Services Agreement Canary Wharf agreed 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 months notice. No such notice has been served to date. At 31 December 2005, £332,818 was accrued as chargeable to Songbird under the Provision of Services Agreement.

On 4 November 2005 the company entered into an agreement with SAL, Morgan Stanley Bank International Limited ('MSBI'), Morgan Stanley Mortgage Servicing Limited ('MSMS') and other non-related financial institutions in relation to the provision of loan facilities to an aggregate maximum funding of approximately £736.9 million (Note 18(1)). Under this agreement MSBI, together with Hypo Real Estate Bank International ('Hypo'), were appointed Arrangers and MSMS was appointed Agent and Security Trustee. Under this facility agreement an original arrangement fee of £3,500,275 was payable to MSBI on the last date on which the relevant loan was made with a similar amount due to Hypo. A further arrangement fee of 0.05% per annum is due on the principal amount of each loan outstanding under the facilities, to be divided equally between MSBI and Hypo. Such arrangement fee is payable on the last day of each interest period and will accrue from day to day. Various supporting agreements between the company, SAL, MSBI and MSMS were entered into in relation to the facilities with no additional financial implications to those referred to above.

During the year Canary Wharf Group purchased IT and telecommunications services totalling £198,712 from HSO, a company in which Canary Wharf Group holds an equity investment equivalent to approximately 13% of the issued share capital. £99,594 was owed to HSO at 31 December 2005. In addition, during the year ended 31 December 2005, Canary Wharf Group billed HSO £15,190 for access to the Canary Wharf telecommunications infrastructure. £122,190 was owned by HSO at 31 December 2005, part of which related to the prior period.

During the year Canary Wharf Group billed £24,106 to Canary Wharf Ballymore Limited, a company in which Canary Wharf Group holds 50% of the issued share capital. Canary Wharf Group also billed £99,263 to Wood Wharf Limited Partnership in which it holds a 25% effective interest. These amounts remained outstanding at 31 December 2005.

In addition, Canary Wharf Group entered into the following related party agreements during the year:

- (i) a letter of appointment dated 6 January 2005 with Morgan Stanley & Co. Limited ('Morgan Stanley') whereby Canary Wharf Group appointed Morgan Stanley as its exclusive financial adviser in connection with the disposal of 20 Canada Square, London E14 ('DS4') for a base fee of 0.4% of the aggregate value of DS4 subject to a maximum aggregate value of £322.0 million (the 'Base Value'). In addition to the base fee, an additional incentive fee of 2% of the incremental aggregate value above the Base Value was charged for any consideration received in excess of the Base Value. Total fees were capped at a maximum of 0.5% on the aggregate value;
- (ii) a letter of appointment dated 24 January 2005 between Canary Wharf Group and Morgan Stanley whereby Canary Wharf Group appointed Morgan Stanley as its exclusive financial adviser in connection with the disposal of 15 Westferry Circus, London E14 ('WF9') for a base fee of 0.35% of the aggregate value of WF9 subject to a maximum aggregate value of £118.0 million (the 'Base Value'). In addition to the base fee, an additional incentive fee of 2% of the incremental aggregate value above the Base Value was charged for any consideration received in excess of the Base Value. All fees were capped at a maximum of 0.5% of the aggregate value;
- (iii) an agreement dated 11 March 2005 with a subsidiary of Barclays to dispose of its 999 year leasehold interest in a property situated at 20 Canada Square (the 'Property'). Subsequently, the subsidiary of Barclays entered into arrangements with Brascan Corporation, a significant minority shareholder of Canary Wharf Group, to dispose of the controlling interest in the Property;
- (iv) a consultancy services agreement dated 28 April 2005 between Canary Wharf Group and MSREF IV International – GP LLC and Morgan Stanley European Real Estate Special Situations II Offshore INC (together 'MS') under which Canary Wharf Group appointed MS to provide consultancy services in respect of the management of the Estate and the provision of strategic advice in relation to all areas of the group's business. The fees chargeable under this agreement are calculated on a time spent basis in accordance with daily rates notified to Canary Wharf Group subject to a maximum limit of £1.0 million in aggregate, exclusive of VAT, in any 12 month period. At 31 December 2005 Canary Wharf Group accrued for fees payable under this agreement and £277,378 was invoiced subsequent to the year end;
- (v) a letter of appointment dated 25 May 2005 between Canary Wharf Group and Morgan Stanley whereby the group appointed Morgan Stanley as its exclusive financial adviser in connection with the disposal of 17 Columbus Courtyard, London E14 ('B4') for a base fee of 0.4% of the aggregate value of B4 subject to a maximum of 0.425% of the aggregate value;

- (vi) a letter of appointment dated 22 August 2005 between Canary Wharf Group and Morgan Stanley whereby Canary Wharf Group appointed Morgan Stanley as its exclusive financial adviser in connection with the disposal of 1 and 7 Westferry Circus, London E14 (together 'B1 and B2') for a transaction fee of 0.40% of the aggregate value subject to a maximum of 0.425% of aggregate value;
- (vii) a letter of appointment dated 21 November 2005 between Canary Wharf Group and Morgan Stanley whereby Canary Wharf Group appointed Morgan Stanley as its exclusive financial adviser in connection with the disposal of 25 North Colonnade, London E14 ('FC3') for a base fee of 0.35% of the aggregate value of FC3 subject to a maximum aggregate value of £180.0 million (the 'Base Value'). In addition to the base fee, an additional incentive fee of 0.40% of the aggregate value was charged for any consideration received in excess of the Base Value; and
- (viii) a letter of appointment dated 28 November 2005 between Canary Wharf Group and Morgan Stanley whereby Canary Wharf Group appointed Morgan Stanley as its exclusive financial adviser in connection with the disposal of 30 South Colonnade, London E14 ('FC6') for a transaction fee of 0.35% of the aggregate value subject to a maximum of 0.41% of the aggregate value.

29 POST BALANCE SHEET EVENTS

On 31 January 2006, Canary Wharf Group acquired the finance lessor companies BCL (165) and BCL (166) from Barclays for a consideration of £0.1 million (Note 18(7)).

On 27 February 2006 Canary Wharf Group announced that it had entered into an agreement for the sale of 20 Churchill Place ('BP3') to Prudential Retirement Income Limited for £199.5 million, subject to an occupational lease to State Street.

On 22 February 2006, Canary Wharf Group announced it had entered into exclusive negotiations with Aon UK regarding a potential new London office of approximately 225,000 sq ft.

On 8 March 2006 Canary Wharf Group repaid the remaining balance of the loan referred to in (Note 18(9)) and on 14 March 2006 refinanced its main retail properties with a new £300.00 million loan facility.

On 22 March 2006, the company declared an interim dividend of 18p per A, B and SG Share to be paid on 19 April 2006. As a result of the payment of an additional dividend beyond the accrued fixed entitlement the dividend rate on the A, B and SG Shares will, from 19 April 2006, be based on 80.60p (previously 96.14p) per share as provided in the Articles of Association of the company.