

CANARY WHARF GROUP PLC

Extracts from the financial statements of the company for the period ended 31 December 2005. The report and financial statements are currently being produced and will be distributed to all shareholders at a later date.

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)).
- Dividends paid during the year ended 31 December 2005 totalled £695.3 million, equivalent to 110p per ordinary share (Note (ii)).
- Fully diluted adjusted net asset value per share increased from £3.35 at 31 December 2004 to £3.88 at 31 December 2005 after dividends paid equivalent to 110p per share. Fully diluted adjusted triple net asset value ('NNNAV') per share increased from £2.99 to £3.37 (Note (iii)).
- During the year ended 31 December 2005 seven properties were sold representing 20.1% by area of the investment property portfolio at 31 December 2004, giving rise to an exceptional profit of £205.3 million, an uplift over market value at 31 December 2004 of 20.9% (Note (iv)).
- Active management of liabilities lead to the elimination of the liability on Aldersgate Street and the reduction of the liabilities on other takeover properties and put option space (Notes (iv), (v) and (vii)).
- At 31 December 2005 the group's investment portfolio totalling 7.9 million sq ft was 89.6% let (31 December 2004 – 9.9 million sq ft of which 86.5% let) (Note (v)).
- Lettings were achieved during 2005 totalling approximately 390,000 sq ft (Note (v)).
- A comprehensive refinancing was completed which provided the group with increased flexibility by refinancing fixed rate debt with medium term bank debt. The weighted average cost of debt reduced from 6.3% to 5.5% (Note (vi)).
- British Waterways Board ('BWB') selected the 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 (vii)).

Notes:

- (i) Refer to 'Business and Financial Review – Valuations' of the accompanying financial information for a comparison with the carrying value for accounts purposes.
- (ii) Refer to Note 7 of the notes to these financial statements.
- (iii) Refer to 'Business and Financial Review – Balance sheet' of the accompanying financial information for further details.
- (iv) Refer to 'Business and Financial Review – Property disposals' of the accompanying financial information for further details.
- (v) Refer to 'Business and Financial Review – Property portfolio' of the accompanying financial information for further details.
- (vi) Refer to 'Business and Financial Review – Borrowings' of the accompanying financial information for further details.
- (vii) Refer to 'Business and Financial Review – Lettings and development' of the accompanying financial information for further details.

RESULTS IN BRIEF

	Year ended 31 December 2005	Unaudited Year ended 31 December 2004 (Note (vii))
	£m	£m
Rental income (Note (i))	229.7	230.8
Exceptional item:		
– sale of long leasehold property (Note (ii))	12.1	–
Business profit	200.4	171.9
Operating profit excluding exceptional item (Note (ii))	188.3	171.9
Exceptional items:		
– profit on disposal of investment properties (Note (ii))	205.3	–
– charges on repayment of debt (Note (ii))	(199.4)	–
– bid costs (Note (vi))	–	(12.9)
– amortisation of investment in own shares (Note (i))	–	(4.4)
Loss before taxation (Note (i))	(1.6)	(43.6)
Loss before taxation excluding exceptional items (Note (ii))	(19.6)	(26.3)
Taxation – deferred tax (Note (iii))	89.2	(38.4)
Dividends per share (Note (iv))	110.0p	–
Basic and diluted earnings/(loss) per share (Note (v))	14.1p	(14.0)p

Notes:

- (i) Refer to 'Business and Financial Review – Operating results' of the accompanying financial information for further details.
- (ii) Refer to Note 10 of the notes to these financial statements for details of the profits on sale of properties and Note 4 of the notes to these financial statements for details of the charges relating to repayment of debt.
- (iii) Refer to Note 5 of the notes to these financial statements.
- (iv) Refer to Note 7 of the notes to these financial statements.
- (v) Refer to Note 9 of the notes to these financial statements.
- (vi) The group incurred £12.9 million of costs in the year ended 31 December 2004 (out of a total of £23.6 million) in respect of the acquisition of the group by Songbird Estates plc ('Songbird').
- (vii) The company changed its accounting reference date from 30 June to 31 December with effect from 30 June 2004. For the basis of the comparatives refer to the 'Business and Financial Review – Operating results' of the accompanying financial information.

CHAIRMAN'S AND CHIEF EXECUTIVE'S STATEMENT

INTRODUCTION

2005 was a highly successful year for the group with overall property valuations up £995.2 million (or 21.3%), net of additions, with retail valuations alone up by 49.0%. Corroborating this increase in the value of the portfolio the group disposed of seven properties on the Canary Wharf Estate (the 'Estate'), representing 20.1% by area of the group's property portfolio, giving rise to an exceptional profit in the year of £205.3 million. New lettings on approximately 390,000 sq ft of office space were also agreed. Progress was made during the year on future development with additional planning permissions being obtained on the Estate for buildings with 1.8 million sq ft (net) at the Riverside site and conditional consent (which is now reaching the final stages) for 2.4 million sq ft (net) of development at the North Quay site. The group was also appointed preferred partner, with Ballymore, on the BWB Wood Wharf project. Canary Wharf Contractors Limited ('CWCL') was appointed to provide management services on two large residential projects at Millharbour and Crossharbour, together totalling approximately 2.3 million sq ft. These achievements, taken together with the continued growth of retail at Canary Wharf, a successful refinancing of the group's finances and the payment of dividends during the year all demonstrate significant progress for the group.

We are also pleased to be able to report that this success has continued into 2006 with the recent announcements regarding a building for SSB Reality LLC ('State Street') at 20 Churchill Place and the commencement of exclusive negotiations with Aon UK ('Aon') for a potential new London office.

Further detail on all of the above can be found later in this statement and in the 'Business and Financial Review'.

FINANCIAL REVIEW

After the sale of seven properties during the year, turnover for the year ended 31 December 2005 was £305.5 million, in comparison with £297.1 million for the year ended 31 December 2004. The increase in turnover was attributable to rent on recently completed properties which served to more than offset the loss of rent on properties sold during the year.

During the year the group completed a comprehensive refinancing exercise which included redeeming its first securitisation and refinancing certain finance leases. This refinancing provides the group with increased flexibility and served to reduce the weighted average cost of debt from 6.3% to 5.5%. Initial net proceeds from the refinancing were approximately £360.0 million, net of prepayment and breakage costs of £187.1 million. Such prepayment and breakage costs form the major part of an exceptional refinancing charge of £199.4 million which has been written-off to the profit and loss account for the year.

Excluding the exceptional profit on disposals and the exceptional charges relating to the prepayment of debt, the group recorded a loss before tax for the year ended 31 December 2005 of £19.6 million in comparison with a loss of £26.3 million for the year ended 31 December 2004. After taking exceptional items into account, the loss before tax was £1.6 million in comparison with £43.6 million for the previous year. The result after tax was a profit of £87.6 million for the year ended 31 December 2005 reflecting the release of a provision for deferred tax. The earnings per share was 14.1p in comparison with a loss per share of 14.0p for the year ended 31 December 2004.

Net assets increased from £1,895.7 million at 31 December 2004 to £2,377.2 million at 31 December 2005, an increase of £481.5 million. The main reason for the increase in net assets was the revaluation of the group's investment property portfolio by £946.6 million, reflecting an increase across the portfolio of 16.8%. Valuations of development sites on the Estate where, subject to planning, a prospective 6.0 million sq ft could be built, increased to £357.0 million (up from £255.0 million at 31 December 2004). The increase in valuation of the portfolio was primarily driven by a tightening of yields for prime rack-rented properties during the course of the year. The increase in net asset value was particularly notable given the dividends paid during the period equivalent to 110p per share.

Whilst the payment of these dividends totalling £695.3 million should not be construed as the commencement of a regular dividend programme, they do reflect the continued confidence of the Board in the future of the company.

LEASING

The Board was pleased to announce an encouraging number of new lettings during the year comprising approximately 390,000 sq ft of office space to a wide range of prestigious new tenants such as BGC International ('BGC'), London Organisation Committee of the Olympic Games Limited ('LOCOG'), Total SA ('Total') and Infosys Limited ('Infosys'). In addition, Northern Trust agreed to take additional space to the existing floors it already occupies in 50 Bank Street.

Subsequent to the year end, the group announced the completion of negotiations with State Street and Prudential Retirement Income Limited to develop a new London headquarters building for State Street comprising approximately 300,000 sq ft of office space above ground plus ancillary space. Construction is currently due to complete by autumn 2008 for full occupation in 2009. In addition, the Board announced the entering into of exclusive negotiations with Aon for the development of a potential new London office comprising approximately 255,000 sq ft of office space. The group is delighted to be able to accommodate the expanding business needs of an already valued tenant, and looks forward to concluding negotiations with Aon in the near future.

ASSET MANAGEMENT

The disposal of seven properties on the Estate during the year at a profit of £205.3 million (20.9% in excess of market value at 31 December 2004) reflected a buoyant property market throughout 2005 and is in line with the corporate objective of realising value whilst maintaining the integrity of the Estate.

In addition, following the acquisition in April 2005 of the long leasehold interests in 200/202 Aldersgate Street and the adjoining 20 Little Britain ('Aldersgate Street'), these properties were subsequently disposed of in December 2005 for a net consideration of £110.0 million realising a profit on disposal of £12.1 million.

The disposal of the long leasehold interests in Aldersgate Street, together with the disposal of one of the Reuters' leasehold properties taken on by the group in May 2005 (Note 17), are examples of the active management of the group's liabilities. In addition the re-letting of space sub-let back to the group has helped to reduce the net present value of the remaining sub-let liabilities by around 46% during the course of the year.

In retail the increases in footfall and turnover were reflected in the significantly improved valuation of retail assets and in the successful conclusion of rent reviews which have increased the base rent roll in Canada Place from £2.6 million to £6.4 million.

Notwithstanding the successful disposal programme, the group continues to control the integrity of the Estate through its ownership of completed properties amounting to approx 7.9 million sq ft, including retail space of approximately 600,000 sq ft, together with the Winter Gardens (40,000 sq ft), public parking (approx 1.5 million sq ft), roads (totalling 6.8km), parks and open spaces on the Estate (totalling 382,900 sq ft), in addition to land held for future development.

DEVELOPMENT

During the year additional planning permissions were obtained for a net 4.2 million sq ft of development on the Estate. In June 2005 the group obtained planning permission for a major new development comprising a net 1.8 million sq ft of development at Riverside South. In addition, conditional planning consent was granted, subject to the conclusion of the s106 Agreement and reaching agreement with Crossrail, for a net 2.4 million sq ft of development at North Quay. Utilisation of the North Quay site is, however, part of the Crossrail petitioning process and the start of development will therefore depend on whether the site will temporarily be required by Crossrail as part of the Crossrail construction process.

As previously announced, the group was delighted to be appointed preferred partner with Ballymore in January 2005 for the development of the approximately 6.5 million sq ft Wood Wharf scheme which will comprise residential, commercial and retail development. Work has progressed on a range of activities, including land assembly, master planning, site investigations and planning requirements. This is an exciting opportunity for the group to work with two key partners, BWB and Ballymore, on a development in such close proximity to the Estate.

Excluding Wood Wharf, there is potential for a further 6.0 million sq ft (approximately) of development on the Estate.

CANARY WHARF CONTRACTORS LIMITED

During the year Canary Wharf Contractors Limited ('CWCL'), a wholly owned subsidiary of the group, continued to pursue project and construction management opportunities outside of the Estate. The appointment of CWCL to provide management services on the Ballymore Millharbour project, a residential development of two towers of 40 and 48 floors, together totalling 800,000 sq ft both due to complete in 2008, is an example of the successful procurement of work outside the Estate. In addition, subsequent to the year end, CWCL has been appointed to manage the construction of the Ballymore Crossharbour project on the London Arena site. The Crossharbour project is a 1.5 million sq ft (net) mixed residential and commercial development with completion scheduled for 2012.

SOCIAL AND ENVIRONMENTAL

The group has been mindful of its social and environmental responsibilities from the inception of the Estate in 1988 and during the year, achieved the highest ranking in its sector for the Business in the Environment 2004 Index. The group has also always been committed to supporting the local community and maintains this commitment by its long term support of local schools, colleges and sports clubs. Over the last year we have been instrumental in founding the UK Careers Academy Foundation as a registered charity and supporting charities such as Teach First and Mediciens du Monde. We have also established the Canary Wharf Recruitment and Training Centre in partnership with Tower Hamlets College and Tower Hamlets Council Skillsmatch which will facilitate direct access for recruitment and training between employers on the Estate and local job seekers. The group has also supported and hosted environmental and social events including sponsoring the Sports Personality of the Year Award for athletes in the London Borough of Tower Hamlets and the Thames Gateway. The group continues to maintain its long term commitment to local charities and during the year made donations to the Richard House Trust, Docklands Outreach, Splash, the Isle of Dogs Community Foundation, to name but a few.

We were also pleased to welcome one of Tower Hamlet's latest internationally renowned learning centres, the Idea Store, to the Estate, which opened last week in the new Churchill Place retail centre. The new Idea Store is the first of its kind to be situated in a shopping mall and the group is delighted to have been able to donate the space to such a beneficial service.

Further detail on the group's commitment to the environment and local community can be found in the separately published group Environmental and Social Report.

TRANSPORT

The Crossrail Bill was deposited with Parliament in February 2005 and petitions were lodged by local stakeholders, including the company, in September 2005. A House of Commons Select Committee started reviewing these petitions in January 2006. We have already been working directly with Crossrail in relation to the new station design at Canary Wharf. The group continues to remain committed to the development of Crossrail which is critical to the future prosperity of London.

2005 was also a positive year for the Estate in relation to general transport facilities with the implementation of improvements which increased capacity on all Jubilee Line trains at the end of 2005. These works were completed ahead of schedule and have resulted in a 17.0% increase in capacity. Following the opening of the new DLR line to City Airport and the start of the new extension to Woolwich Arsenal, consent was also obtained to initiate an upgrade from two to three cars on the DLR.

CONCLUSION

The achievements of 2005 would not have been possible without the continuing hard work and commitment of all staff. The Board is grateful to them all and we think shareholders will agree. Following the success of 2005 and the positive start to 2006, we are pleased to look confidently to the future with the recommencement of construction on the Estate and the development of further sites at Canary Wharf and the Wood Wharf development. Together with our Board colleagues, we are delighted to be involved in this challenging, but yet exciting, time for the group.

Sir Martin Jacomb
Chairman

George Iacobescu CBE
Chief Executive Officer

BUSINESS AND FINANCIAL REVIEW

Central London office leasing market overview

Supply and Development

Over the course of 2005, supply continued to tighten across all markets due to strong levels of take-up combined with limited speculative development activity. Availability in Central London fell by 8.0 million sq ft to 19.24 million sq ft, reflecting a vacancy rate of 8.8%, the lowest rate since the first quarter of 2002. The volume of new or refurbished space in the West End fell by 47.0% from its 2004 level to just 1.42 million sq ft, a level last seen in 2000. In contrast, the City market saw a greater reduction in second-hand grade A space as tenants withdrew space from the market for reoccupation. With just 0.5 million sq ft of speculative development completions during 2005, the volume of new or refurbished space also fell significantly by 26.0% to 3.38 million sq ft.

Overall construction levels across Central London rose to 6.24 million sq ft by the end of 2005, largely attributable to construction activity involving pre-committed schemes. Speculative development activity remained stable at 3.5 million sq ft, however, only 3.0 million sq ft of space was completed in 2005, the lowest level since 1996.

Demand and Take-up

Take-up levels remained robust in 2005 with 11.44 million sq ft of space transacted, close to the long-run average. Four of the five largest deals to transact during 2005 were pre-let commitments, reflecting not only stock availability and occupier preference but also the financial advantages of pre-letting at this stage in the market cycle.

Demand in Central London remains dominated by the professional and financial sectors, which account for 54.0% of total requirements, compared to 71.0% at the end of 2004. Significant new requirements have emerged from government sector occupiers. Additionally, there has been an increase across all other business sectors suggesting increased occupier confidence. Encouragingly for 2006, new requirements coming to the market in addition to relatively strong take-up levels have already seen demand rise by 7.7% year-on-year.

Rental Profile

Prime rental levels in both the City and West End showed positive growth in the final quarter of 2005. In the West End, prime rents rose to £80.00 per sq ft, a 7.0% increase over the course of the year. In the City, prime rents rose above £45.00 per sq ft for the first time since 2003 and now stand at £46.50 per sq ft, an increase of 3.0% from 2004 levels.

Improved demand, occupier confidence, tightening supply and eroding incentive packages are likely to support further headline rental growth over the coming year.

Property portfolio

The activities of the group are focused on the development of the Estate (including Heron Quays and the adjacent sites at Canary Riverside and North Quay) and, through a joint venture with 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, BGC, 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, BGC
50 Bank Street	213,800	91.2	155.0	Northern Trust, Goldenberg Hehmeyer
10 Upper Bank Street	1,000,400	100.0	670.0	Clifford Chance LLP (‘Clifford Chance’), Infosys, FTSE, Total
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	Barclays Bank PLC (‘Barclays’) and various retailers
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	

BUSINESS AND FINANCIAL REVIEW (Continued)

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

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

The properties of the group are under lease to high quality tenants which provide a diversified income stream. At 31 December 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 property portfolio at 31 December 2005:

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	109.6
15 Westferry Circus	May 2005 ⁽ⁱ⁾	115.0	134.8	–	1.2	2.2	16.4	46.3
17 Columbus Courtyard	September 2005	100.0	120.5	–	1.3	–	19.2	42.5
1 Westferry Circus	November 2005	65.0	109.9	–	1.4	7.1	36.4	(22.9)
7 Westferry Circus	November 2005	85.0	96.6	0.1	1.4	0.5	9.6	53.5
25 North Colonnade	December 2005	165.0	191.0	–	1.8	0.7	23.5	128.7
30 South Colonnade	December 2005	117.5	185.4	5.3	1.5	0.2	60.9	32.6
		937.5					205.3	390.3

Notes:

(i) Agreement for sale in March 2005.

(ii) Valuation at 31 December 2004.

(iii) Building sold with the benefit of EZAs (refer to 'Business and Financial Review – Taxation'). The market value at 31 December 2004 inclusive of tax allowances was £333.0 million.

(iv) Write-off of current year increase in UITF 28 prepayment.

(v) See Note 17 of the notes to these financial statements for explanation of rental support provision.

In total the disposals resulted in a profit of £205.3 million which has been shown in the profit and loss account as an exceptional item. The disposals also resulted in the realisation of prior year revaluation gains of £390.3 million.

In connection with the sale of the properties the 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 2004 the group held a provision of £12.4 million representing the net present value of the rental support remaining to be paid at that date.

In April 2005 the group acquired the long leasehold interests in 200/202 Aldersgate Street and the adjoining 20 Little Britain ('Aldersgate Street'), a 473,000 sq ft development in the City of London. Consideration for this acquisition, totalling £209.7 million (including fees), was satisfied in part by the assumption of existing funding of £154.1 million and other net liabilities of £3.0 million with the balance settled in cash. Previously, in 2003, the group acquired a short leasehold interest in 200/202 Aldersgate Street in connection with the letting of a property at Canary Wharf to Clifford Chance. In acquiring the long leasehold interest the objective of the group was to provide greater flexibility in managing the group's 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 £126.0 million. Following the acquisition of the long leasehold interests in the building the balance remaining on the provision at 15 April 2005 of £118.6 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 £118.6 million. The net release was treated as an adjustment to tenant incentives relating to the letting to Clifford Chance and accounted for in accordance with UITF 28. The remaining cost of tenant incentives will be amortised to the profit and loss account on a straight-line basis over the period to the first open market rent review on the Clifford Chance lease. On 5 December 2005 the group disposed of its interests in Aldersgate Street for £110.0 million. The sale generated a profit of £12.1 million after expenses of sale which has been taken to the profit and loss account as a pre-operating profit exceptional item.

BUSINESS AND FINANCIAL REVIEW (Continued)**Lettings and development**

In July 2005 the 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 the group by Barclays as referred to in Note 25.

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 the group by Clifford Chance as referred to in Note 25. 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 in respect of space sub-let back from Skadden as summarised in Note 25.

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 net present value had reduced to approximately £149.0 million, discounting at 5.5% being the group's weighted average cost of debt at that date. This reduction was primarily attributable to the lettings achieved during the year over 329,100 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 the group let 25,200 sq ft to Morgan Stanley at 25-30 Bank Street until July 2008 on a managed office basis at an all inclusive rent of £63.50 per sq ft. 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.

The group has continued substructure works on the remaining sites at Canary Wharf as a preliminary to development. As a result buildings DS3 (650,000 sq ft) and BP2 (200,000 sq ft) have been constructed to street level which will reduce the time required to complete development. Infrastructure works have also commenced on sites BP3 and BP4 which are capable of development totalling in excess of 600,000 sq ft.

On 27 February 2006 the 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 in 2008 the building will comprise approximately 300,000 sq ft excluding ancillary space 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 the group may take a surrender from State Street of two floors in One Canada Square totalling 57,046 sq ft which have break options in 2013. The remaining space occupied by State Street has break options in 2008.

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 Quays West	0.6
	6.0

BUSINESS AND FINANCIAL REVIEW (Continued)

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, the 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 was 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 subject to planning consent. Construction of new buildings on these sites will commence as and when market conditions allow.

In January 2005 BWB named the 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 25.0% interest, sets a framework for approximately 6.5 million sq ft (gross) of mixed commercial, residential and retail development.

Valuations

The net assets of the group, as stated in its consolidated balance sheet as at 31 December 2005, were £2,377.2 million. In arriving at this total:

- (i) properties held as investments were carried at £4,919.6 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 £381.9 million for tenant incentives as required by UITF 28; and
- (ii) properties held for development were carried at £255.7 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 ended 31 December 2005. These increases have reflected the tightening of yields for rack-rented properties let 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 £255.7 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 and marketing costs and financing costs. The increase in market value of development land reflected in part the granting of planning consent 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 Review – Taxation')). Of the 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	4,919.6	5,301.5	4,434.3	4,832.4	3,956.6	4,386.7
- sold in the period	-	-	611.5	645.2	879.1	937.5
	<u>4,916.6⁽¹⁾</u>	<u>5,301.5⁽²⁾</u>	<u>5,045.8⁽¹⁾</u>	<u>5,477.6⁽²⁾</u>	<u>4,844.7⁽¹⁾</u>	<u>5,324.2⁽²⁾</u>
Properties held for development	255.7	357.0	251.7	315.0	251.5	255.0
Total	<u>5,175.3</u>	<u>5,658.5</u>	<u>5,297.5</u>	<u>5,792.6</u>	<u>5,096.2</u>	<u>5,579.2</u>

BUSINESS AND FINANCIAL REVIEW (Continued)

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 £381.9 million (30 June 2005 – £431.8 million, 31 December 2004 – £479.5 million).

As detailed in Note 25 to these financial statements, there are a number of properties which are subject to sub-lets back to the group. These sub-lets have been taken into account in the valuations summarised in the table on page 9.

Taxation

The group has Enterprise Zone Allowances ('EZAs') available to shelter taxable profits and gains arising on the sale of properties and future operating profits. The group's entitlement to claim EZAs arises when a completed property is transferred to a group investment company from a group property 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 the group property investment company, less a disallowance for the value of the land and other non-qualifying expenditure.

In previous years, the 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 the 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 the 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 the 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, the 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 the 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 the 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. A 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, if the group had disposed of its properties at £296.4 million above their market value, being the market value inclusive of EZAs, the potential tax liability would have increased by £20.8 million. For the 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 the group on the Estate, regardless of value, and consequently the allowance for purchaser's costs in the valuations was reduced from 5.75% at 31 December 2002 to 1.75% at 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 reverted to 5.75%.

Operating results

The following review of the group's operating results relates to the year ended 31 December 2005. The comparatives relate to the six months ended 31 December 2004 unless otherwise specified. The comparatives for the year ended 31 December 2004 have been calculated by reference to the audited financial statements for the six months ended 31 December 2004 and the year ended 30 June 2004, and the unaudited interim statement for the six months ended 31 December 2003.

The 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 £305.5 million, against £153.6 million for the six months ended 31 December 2004 and £297.1 million for the year then ended. Rental income reduced from £230.8 million for the year ended 31 December 2004 to £229.7 million for the year ended 31 December 2005. Rental income excluding the impact of UITF 28 for the year ended 31 December 2005 was £269.4 million compared with £184.7 million for the year ended 31 December 2004, an increase of £84.7 million or 45.9%. The increase was primarily attributable to the expiry of rent-free periods and the completion of new buildings, partly offset by the rent foregone on buildings sold. The impact of UITF 28 was to reduce rental income by £39.7 million in the year ended 31 December 2005 (year ended 31 December 2004 – increase of £46.1 million).

BUSINESS AND FINANCIAL REVIEW (Continued)

Service charge income increased from £25.6 million for the six months ended 31 December 2004, or £48.2 million for the year ended 31 December 2004, to £50.2 million for the year ended 31 December 2005, an increase of £2.0 million or 4.1%. The increase over the year ended 31 December 2004 was attributable to increasing occupancy on the Estate and the completion of new buildings. Miscellaneous income increased from £9.2 million for the six months ended 31 December 2004 or £18.1 million for the year ended 31 December 2004, to £25.6 million for the year ended 31 December 2005, reflecting increased insurance rents and the increased provision of tenant specific services (outside of the standard service charge) as occupancy on the Estate increased.

Rents payable and property management costs for the year ended 31 December 2005 were £86.4 million in comparison with £42.0 million for the six months ended 31 December 2004 and £73.8 million for the year ended 31 December 2004. The underlying increase in property management costs was the result of the increase in occupancy on the Estate. Taking into account service charge and miscellaneous income totalling £75.8 million for the year ended 31 December 2005 (six months ended 31 December 2004 - £34.7 million, year ended 31 December 2004 - £66.3 million), void costs were £10.6 million (six months ended 31 December 2004 - £7.3 million, year ended 31 December 2004 - £7.5 million). The increase in void costs relates to vacant and sub-let space in recently completed properties on the Estate.

For the year ended 31 December 2005 net property income was £219.1 million, of which £108.8 million arose in the six months ended 31 December 2005. This compares with income of £111.6 million for the six months ended 31 December 2004.

Administrative expenses for the year ended 31 December 2005 were £34.1 million, (£19.5 million for the six months to 31 December 2004 or £36.2 million excluding exceptional items for the year ended 31 December 2004). For the year ended 31 December 2005 administrative expenses included £1.7 million (six months ended 31 December 2004 - £1.7 million, year ended 31 December 2004 - £1.7 million) of amortisation relating to the investment in Songbird class B shares ('B Shares') held in connection with the group's share option schemes. In the year ended 31 December 2004, the group incurred exceptional administrative expenses comprising £12.9 million of bid costs associated with the acquisition of the group by Songbird and £4.4 million of amortisation in respect of share option schemes.

In the year ended 31 December 2005 the group recorded a net profit of £12.1 million on the disposal of its long leasehold interests in Aldersgate Street (referred to in the 'Business and Financial Review - Property portfolio'. This was recorded as a pre-operating exceptional profit on sale of property.

For the year ended 31 December 2005 operating profit was £188.3 million, excluding exceptional items, in comparison with £93.2 million for the six months ended 31 December 2004 and £189.2 million for the year ended 31 December 2004.

In the year ended 31 December 2005, the group recorded a net profit of £205.3 million on the disposal of seven investment properties as disclosed in the Property portfolio section of this Business and Financial Review. 20 Canada Square and 15 Westferry Circus were sold in the six months ended 30 June 2005 and the group recorded a profit on disposal of £55.7 million on these properties representing an excess over the market value of the properties at 31 December 2004 of 13.8%. A further five investment properties were sold in the six months ended 31 December 2005. The group recorded a profit on disposal of these properties of £149.6 million representing an excess over their market value at 31 December 2004 of 28.1%, or an increase of 7.5% over their market value at 30 June 2005. Further detail is provided in the 'Business and Financial Review - Property portfolio'. The profit on disposal has been shown as an exceptional item after operating profit in accordance with Financial Reporting Standard 3 (Reporting financial performance).

Net interest payable for the year to 31 December 2005 was £407.3 million, against £110.3 million for the six months ended 31 December 2004 and £215.5 million for the year then ended. No interest was capitalised for the year ended 31 December 2005 whereas capitalised interest totalled £1.1 million for the six months ended 31 December 2004. In addition, for the year ended 31 December 2005, there were exceptional charges totalling £199.4 million incurred in respect of the early payment of debt in the period (Note 4). Excluding the exceptional charge, net interest payable for the year ended 31 December 2005 was £207.9 million compared with £110.3 million for the six months ended 31 December 2004 and £215.5 million for the year then ended. The reduction in net interest payable was primarily attributable to a lower cost of finance resulting from refinancings during the year.

The loss on ordinary activities after interest excluding exceptional items for the year ended 31 December 2005 was £19.6 million in comparison with £17.1 million for the six months ended 31 December 2004 and £26.3 million for the year then ended. Including exceptional items the group recorded a loss before taxation of £1.6 million in the year ended 31 December 2005 (six months ended 31 December 2004 - £17.1 million, year ended 31 December 2004 - £43.6 million).

Taxation for the year ended 31 December 2005 was attributable to a reduction of £89.2 million in the deferred tax provision recognised in respect of EZAs claimed. In the six months ended 31 December 2004 the deferred tax provision recognised in accordance with FRS 19 increased by £13.3 million.

The profit after tax arising during the year ended 31 December 2005 was £87.6 million in comparison with a loss of £30.4 million for the six months ended 31 December 2004. Of the increase in profit of £118.0 million, £18.0 million was attributable to the exceptional items referred to above and £102.5 million to deferred tax.

BUSINESS AND FINANCIAL REVIEW (Continued)

The basic and diluted loss per share for the year ended 31 December 2005 was 14.1p (six months ended 31 December 2004 – 5.2p) (Note 9).

Adjusted basic and diluted earnings per share excluding exceptional items for the year ended 31 December 2005 were 11.2p (six months ended 31 December 2004 – loss of 5.2p). Adjusted earnings per share, for the year ended 31 December 2005, has been calculated on the profit after taxation excluding exceptional items of £69.6 million and on the weighted average of 620.5 million shares in issue (31 December 2004 – 585.0 million). In the year ended 31 December 2005, exceptional items comprised the profit on sale of Aldersgate Street of £12.1 million, the profit on sale of investment properties of £205.3 million and the charges relating to repayment of debt of £199.4 million. There were no exceptional items in the six months ended 31 December 2004 and there were no instruments which gave rise to a dilution of earnings as defined by Financial Reporting Standard 14 (Earnings per share) ('FRS 14') at either 31 December 2005 or 31 December 2004.

During the year the company declared an interim dividend of 65p per ordinary share (£407.7 million) which was paid on 8 September 2005 and a further interim dividend of 45p per ordinary share (£287.6 million) which was paid on 30 December 2005.

Balance sheet

On the basis of the group's statutory balance sheet, which does not reflect any revaluation of properties held for development, net assets at 31 December 2005 were £2,377.2 million in comparison with £1,895.7 million at 31 December 2004. The increase in net asset value was largely attributable to the revaluation surplus of £946.6 million and the subscription for 42,273,251 ordinary shares at 286p each and 11,734,369 ordinary shares at 186p each totalling £142.6 million which resulted from the exercise of warrants by IPC Advisors Limited. The profit for the year was £87.6 million. The increase in net assets resulting from the above factors was partly offset by dividends paid totalling £695.3 million.

Allowing for the revaluation of properties held for development to market value and adjusting for deferred taxation, the adjusted net asset value per share at 31 December 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	2,377.2	2,502.4	1,895.7
Add back deferred tax provision	0.2	38.0	89.4
Net assets prior to deferred tax provision	2,377.4	2,540.4	1,985.1
Revaluation of property portfolio:			
– properties held for development ⁽¹⁾	101.3	63.3	3.5
Adjusted net assets	2,478.7	2,603.7	1,988.6
Fair value adjustments in respect of financial assets and liabilities less tax relief at 30% thereon ⁽²⁾	(323.7)	(282.8)	(300.0)
Contingent tax on property disposals ⁽³⁾	–	(73.3)	(46.2)
Uplift in market value attributable to EZAs net of contingent tax thereon ⁽³⁾	–	217.0	275.6
Undiscounted deferred tax ⁽⁴⁾	(0.5)	(71.7)	(157.4)
Adjusted NNNAV	2,154.5	2,392.9	1,760.6
Dividends paid	695.3	–	–
Adjusted NNNAV before dividends	2,849.8	2,392.9	1,760.6
Adjusted net assets per share⁽⁵⁾	£3.88	£4.15	£3.40
Adjusted net assets per share before dividends	£4.97	£4.15	£3.40
Fully diluted adjusted net assets per share⁽⁶⁾	£3.88	£4.12	£3.35
Fully diluted adjusted net assets per share before dividends	£4.97	£4.12	£3.35
Adjusted NNNAV per share⁽⁵⁾	£3.37	£3.81	£3.01
Adjusted NNNAV per share before dividends	£4.46	£3.81	£3.01
Fully diluted adjusted NNNAV per share⁽⁶⁾	£3.37	£3.79	£2.99
Fully diluted adjusted NNNAV per share before dividends	£4.46	£3.39	£2.99

BUSINESS AND FINANCIAL REVIEW (Continued)

Notes:

- (1) Stated at market value in existing state.
- (2) Refer to Note 13 of the financial statements.
- (3) Refer to 'Business and Financial Review – Taxation'.
- (4) Refer to Note 17 of the financial statements.
- (5) Calculated by reference to the closing number of shares of 639.0 million (31 December 2004 – 585.0 million).
- (6) At 31 December 2004 the calculation increased adjusted net assets by £150.4 million and the number of shares by 54.0 million reflecting the assumed exercise of outstanding warrants. There were no dilutive instruments outstanding at 31 December 2005.

Net assets per share at 31 December 2005 are stated after dividends paid during the year equivalent to 110p per share.

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

Treasury objectives

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

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

Interest rate risk

The group finances its operations through a mixture of surplus cash, bank borrowings and debentures. The group borrows principally in sterling at both fixed and floating rates of interest and then uses interest rate swaps, caps or collars to generate the desired interest profile and to manage the group's exposure to interest rate fluctuations. The group's policy is to keep the majority of its borrowings at fixed rates and at 31 December 2005 – 90.8% (31 December 2004 - 82.9%) of the group's borrowings were fixed after taking account of interest rate hedging and cash deposits held as cash collateral (see Note 16(12)).

Liquidity risk

The group's policy is to ensure continuity of funding and to have the majority of its borrowings mature in 10 years or more. At 31 December 2005 the average maturity of the group's debt was 18.2 years. Shorter term flexibility is achieved by holding cash on deposit, through construction facilities with a term of typically 3 to 5 years arranged to fund the development of new properties.

Exchange rate risk

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

Borrowings

During the year ended 31 December 2005 the group completed a comprehensive refinancing, the objective of which was to provide increased flexibility in pursuing the group's strategy of maximising shareholder value by refinancing fixed rate debt with medium term bank debt.

In March 2005, the 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 the group successfully restructured its securitisation loans. The restructuring involved the redemption of all of the group's first securitisation notes issued by Canary Wharf Finance plc ('CWF1') for a consideration of £687.0 million and the restructuring of the group's second securitisation notes issued by Canary Wharf Finance II plc ('CWFII') 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.

The 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. 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:-

BUSINESS AND FINANCIAL REVIEW (Continued)

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 basis points ('bps') by 31 December 2005. Subsequent to the year end, 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 27).

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 amount repaid on a pro-rata basis and written-off to the profit and loss account. The total 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 the 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 the group entered into a finance lease transaction in relation to One Churchill Place, a property then under construction. In accordance with the terms of the transaction, following completion of the building in July 2004, the group subsequently completed the sale of a leasehold interest (with a term of 999 years less 10 days) in the building to a wholly owned subsidiary of Barclays. The group then subsequently accepted a 999 year (less 15 days) lease of the building with finance rents payable over a 35 year period. The gross amount of the financing was £753.5 million, of which £743.5 million was received on 30 September 2003 and £10.0 million was received on completion in August 2004. In January 2005 the group drewdown £608.8 million from a separate loan facility (Note 16(5)) which was used in part to provide cash collateral of £545.5 million for the finance lease rents. 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 on One Churchill Place was adjusted in December 2005 to reflect a change in the tax assumptions underlying the finance lease. The adjustment resulted in the 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, the 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 the 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. In addition, in September 2003, BCL (166) 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 resulting in an expected 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, the 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 group's 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.

BUSINESS AND FINANCIAL REVIEW (Continued)

An analysis of net debt is given on page 13. The increase in total borrowings from £4,370.5 million to £4,688.7 million reflects the tap issue on the group's second securitisation and the drawdown under new bank facilities, partly offset by the repayment of finance leases and outstanding notes under the group's securitisations. The increase in total borrowings was accompanied by an increase in cash and term deposits from £1,101.8 million to £1,654.1 million, primarily as a result of the proceeds from the sale of investment properties and the net cash surplus generated by the refinancings referred to above, partly offset by the payment of dividends totalling £695.3 million.

The refinancings completed in the year ended 31 December 2005 resulted in initial net proceeds of approximately £360.0 million net of prepayment and breakage costs of £190.6 million and other financing expenses. The prepayment and breakage costs, together with the write-off of deferred financing costs, resulted in an exceptional charge to the profit and loss account of £199.4 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 (including credit wraps) was 5.5% (or 5.4% excluding credit wraps) in comparison with 6.3% (including credit wraps) at 31 December 2004 (6.1% 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 £462.4 million before tax relief (31 December 2004 – £428.0 million).

At 31 December 2005, net debt (after cash in hand and cash collateral) stood at £3,034.6 million, down from £3,268.7 million at 31 December 2004 comprising:

	At 31 December 2005	At 31 December 2004
	£m	£m
Securitised debt	2,507.8	2,814.9
Loans	1,178.9	310.9
Finance lease obligations	1,002.0	1,244.7
Total borrowings	4,688.7	4,370.5
Less: cash collateral for borrowings	(985.6)	(458.0)
Less: other cash collateral	(2.3)	(1.6)
	3,700.8	3,910.9
Less: cash deposits	(666.2)	(642.2)
Net debt	3,034.6	3,268.7

Cash flow

Net cash inflow from operating activities for year ended 31 December 2005 was £178.5 million in comparison with £98.6 million for the six months to 31 December 2004. The increase is a result of the longer period under review.

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 six months to 31 December 2004. The year ended 31 December 2005 included proceeds of £1,175.6 million on the disposal of seven investment properties, and £110.0 million of proceeds on the sale of Aldersgate Street, less £52.8 million cash expenditure on the acquisition of Aldersgate Street and £68.5 million of development expenditure. The six months ended 31 December 2004 comprised development expenditure of £101.0 million.

The financing cash inflow for the year ended 31 December 2005 was £347.4 million compared with a cash outflow of £8.3 million for the six months ended 31 December 2004. The financing cash inflow for the year ended 31 December 2005 included a net inflow of £142.6 million in respect of the exercise of warrants and £2,093.7 million resulting from loans drawdown in the year, partly offset by £1,888.9 million expended on loan repayments. The six months to 31 December 2004 included a further drawdown under a finance lease of £10.0 million offset by scheduled amortisation payments on securitised debt of £18.3 million.

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

	Notes	Year ended 31 December 2005 £m	Six months ended 31 December 2004 £m
Turnover – rents and service charges		305.5	153.6
Cost of sales:			
- rents and property management costs		(86.4)	(42.0)
GROSS PROFIT		219.1	111.6
Administrative expenses		(34.1)	(19.5)
Other operating income;			
- before exceptional items:		3.3	1.1
- exceptional item: net profit on sale of long leasehold property	10	12.1	–
OPERATING PROFIT	2	200.4	93.2
Exceptional item:			
- net profit on sale of investment properties	10	205.3	–
Interest receivable	3	90.5	26.8
Interest payable:			
- before exceptional item	4	(298.4)	(137.1)
- exceptional item: charges relating to repayment of debt	4	(199.4)	–
		(497.8)	(137.1)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(1.6)	(17.1)
Taxation	5	89.2	(13.3)
PROFIT/(LOSS) ON ORDINARY ACTIVITIES AFTER TAXATION FOR THE FINANCIAL PERIOD	19	87.6	(30.4)
DIVIDENDS	7	(695.3)	–
TRANSFERRED FROM RESERVES		(607.7)	(30.4)
Basic and diluted earnings/(loss) per share	9	14.1p	(5.2)p

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

The notes numbered 1 to 27 form an integral part of these financial statements.

Movements in reserves are shown in Note 19 to these financial statements.

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

	Notes	Year ended 31 December 2005 £m	Six months ended 31 December 2004 £m
Profit/(loss) for the financial period after taxation		87.6	(30.4)
Unrealised surplus on revaluation of investment properties	10	946.6	222.6
TOTAL RECOGNISED GAINS AND LOSSES RELATING TO THE PERIOD		1,034.2	192.2

NOTE OF HISTORICAL COST PROFITS AND LOSSES

	Notes	Year ended 31 December 2005 £m	Six months ended 31 December 2004 £m
Reported loss on ordinary activities before taxation		(1.6)	(17.1)
Realisation of property revaluation gains of previous years	10	390.3	–
HISTORICAL COST PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION		388.7	(17.1)
HISTORICAL COST LOSS FOR THE YEAR RETAINED AFTER TAXATION AND DIVIDENDS		(217.4)	(30.4)

The notes numbered 1 to 27 form an integral part of these financial statements.

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2005

	Notes	31 December 2005 £m	31 December 2004 £m
FIXED ASSETS			
Investment properties	10	4,919.6	4,844.7
Properties held for development	10	255.7	251.5
Other tangible fixed assets	11	2.4	2.8
Investments	12	3.8	3.4
		5,181.5	5,102.4
CURRENT ASSETS			
Debtors: due in more than one year	13	381.9	479.5
Debtors: due within one year	13	75.1	70.8
Cash at bank and in hand	14	1,654.1	1,101.8
		2,111.1	1,652.1
CREDITORS: Amounts falling due within one year	15	(210.4)	(369.5)
NET CURRENT ASSETS		1,900.7	1,282.6
TOTAL ASSETS LESS CURRENT LIABILITIES		7,082.2	6,385.0
CREDITORS: Amounts falling due after more than one year	16	(4,648.1)	(4,218.8)
Provisions for liabilities and charges	17	(56.9)	(270.5)
NET ASSETS		2,377.2	1,895.7
CAPITAL AND RESERVES			
Called up share capital	18	6.4	5.9
Reserves:			
Share premium	19	146.2	4.1
Revaluation reserve	19	2,241.8	1,685.5
Capital redemption reserve	19	0.7	0.7
Special reserve	19	264.8	264.8
Profit and loss account	19	(282.7)	(65.3)
SHAREHOLDERS' FUNDS - EQUITY	20	2,377.2	1,895.7

The notes numbered 1 to 27 form an integral part of these financial statements.

Approved by the board on 21 March 2006 and signed on its behalf by:

A. Peter Anderson, II
Managing Director, Finance.

COMPANY BALANCE SHEET AT 31 DECEMBER 2005

	Notes	31 December 2005 £m	31 December 2004 £m
FIXED ASSETS			
Investments	12	<u>1,861.1</u>	<u>2,183.1</u>
CURRENT ASSETS			
Debtors	13	873.2	98.1
Cash at bank and in hand		0.1	0.1
		<u>873.3</u>	<u>98.2</u>
CREDITORS: Amounts falling due within one year	15	(8.0)	(32.5)
NET CURRENT ASSETS		<u>865.3</u>	<u>65.7</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>2,726.4</u>	<u>2,248.8</u>
CREDITORS: Amounts falling due after one year	16	(455.7)	(434.3)
NET ASSETS		<u>2,270.7</u>	<u>1,814.5</u>
CAPITAL AND RESERVES			
Called up share capital	18	6.4	5.9
Reserves:			
- Share premium	19	146.2	4.1
- Capital redemption reserve	19	0.7	0.7
- Special reserve	19	1,481.8	1,803.8
- Profit and loss account	19	635.6	-
SHAREHOLDERS' FUNDS – EQUITY	20	<u>2,270.7</u>	<u>1,814.5</u>

The notes numbered 1 to 27 form an integral part of these financial statements.

Approved by the board on 21 March 2006 and signed on its behalf by:

A. Peter Anderson, II
Managing Director, Finance

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2005

	Notes	Year ended 31 December 2005 £m	Six months ended 31 December 2004 £m
NET CASH INFLOW FROM OPERATING ACTIVITIES	22	178.5	98.6
Returns on investments and servicing of finance	23	(439.9)	(126.0)
Capital expenditure and financial investment*	23	1,161.6	(101.0)
Equity dividend paid		(695.3)	-
		26.4	(227.0)
Cash inflow/(outflow) before management of liquid resources and financing		204.9	(128.4)
Management of liquid resources	23	(528.3)	108.2
Financing	23	347.4	(8.3)
INCREASE/(DECREASE) IN CASH IN THE PERIOD	24	24.0	(28.5)

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

Notes 22 to 24 form an integral part of this cash flow statement.

*Capital expenditure and financial investment includes £1,175.6 million proceeds from the sale of investment properties.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

During 2004 the group changed its accounting reference date from 30 June to 31 December. Accordingly, financial statements are presented for the year ended 31 December 2005 with comparatives for the six months ended 31 December 2004, being the previous statutory period.

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

- (1) **Accounting convention**
The financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties in accordance with Note 1(4) below, and in accordance with applicable United Kingdom law and accounting standards.
- (2) **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 year then ended.
- (3) **Profit and loss account**
Turnover, which is stated net of VAT, comprises rental income and service charges. Marketing and administrative costs which are not development expenses are charged to the profit and loss account when incurred.
- (4) **Property interests**
The group's property interests comprise investment properties, properties under construction and properties held for development.

Investment properties

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

Properties under construction and properties held for development

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

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

Properties under construction or held for development where the group has entered into an agreement for sale are categorised as current assets and stated at the lower of cost (namely fair value at date of acquisition plus subsequent additions at cost) and net realisable value. Profits on sale of such properties are recognised when earned in accordance with Financial Reporting Standard 5 (Reporting the Substance of Transactions) ('FRS 5').

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

Disposal of properties

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 UITF 28 and subsequent capital expenditure and are included in the profit and loss account as an exceptional item.

Properties acquired with the intention of re-sale 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (Continued)

- (5) **Lease incentives**
Lease incentives include rent-free periods and other incentives given to lessees on entering into lease agreements. Under UITF 28 the aggregate cost of lease incentives is recognised as an adjustment to rental income, allocated evenly over the lease term or the term to the first open market rent review if earlier. The cost of lease incentives is included within debtors due in more than one year and spread on a straight line basis over a similar period. Accordingly the valuation of investment properties is reduced for these incentives.
- (6) **Other tangible fixed assets**
Other tangible fixed assets are stated at cost net of depreciation and any provision for impairment. They are depreciated so as to write-off the cost in equal annual instalments over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:
- | | |
|------------------------|-----|
| Computer equipment | 33% |
| Fixtures and equipment | 25% |
- (7) **Debt**
Debt instruments are stated initially at the amount of net proceeds. The finance costs of such debt instruments are allocated to periods over the term of the debt at a constant rate on the carrying amount. The carrying amount is increased by the finance cost in respect of the reporting period and reduced by payments made in respect of the debt in that period. Finance costs are charged to the profit and loss account, except in the case of development financings where interest and related financing costs are capitalised as part of the cost of development.
- Amounts receivable and payable, arising from derivatives which hedge interest rate exposures, are treated as part of financing costs.
- (8) **Investments**
Fixed asset investments are stated at cost less any provision for impairment.
- Investments in associates are included in the financial statements 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.
- (9) **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) are recorded in the balance sheet as assets and as obligations to pay future rentals. Rentals payable are apportioned between the finance charge and a reduction in the outstanding obligation for future amounts payable.
- The total finance charge, which includes the amortisation of deferred expenses relating to finance leases, is allocated to accounting periods over the lease terms so as to produce a constant periodic charge on the remaining balance of the obligation for each accounting period.
- (10) **Vacant leasehold property**
Provision is made for the present value of the anticipated net commitments in relation to leasehold properties where there is a shortfall in rental income receivable against the rent and other costs payable.
- (11) **Pensions**
The group operates two defined contribution pension schemes. Pension contributions in respect of these schemes are accrued as they fall due.
- (12) **Accounting for share options**
The B Shares held in trust in connection with the group's share option schemes are recorded as a fixed asset investment at amortised cost. Amortisation is charged to the same expense category as the employment cost of the relevant employee, spread on a straight line basis over the relevant performance criteria period.
- (13) **Deferred taxation**
Deferred tax assets and liabilities arise from timing differences between the recognition of gains and losses in the financial statements and their recognition in the corporation tax return. Under FRS 19 deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (Continued)

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

Deferred tax is measured on a discounted basis to reflect the time value of money over the period between the balance sheet date and the dates on which it is estimated that the underlying timing differences will reverse or, where the timing differences are not expected to reverse, a period not exceeding 50 years. Discount rates of 2.8% to 3.0% have been adopted reflecting the post tax yield to maturity that can be obtained on government bonds with similar maturity dates and currencies to those of the deferred tax assets or liabilities.

2 OPERATING PROFIT

	Year ended 31 December 2005	Six months ended 31 December 2004
	£'000	£'000
The operating profit is stated after charging:		
- Depreciation (Note 11)	613	377
- Amortisation of investment in B Shares (Note 12)	1,708	1,690
- Directors' emoluments (Note 8)	2,227	1,994
- Operating lease rentals: land and buildings	9,061	8,357
- Remuneration of the auditors: audit fees	350	350
fees for other services:		
- Further assurance	67	76
- Taxation	283	56
- Other non-audit	110	81

The operating lease rentals relate to the vacant leasehold properties referred to in Note 17.

Audit fees

Audit fees of £350,000 were incurred in the year ended 31 December 2005, of which £45,000 were incurred by the company (six months ended 31 December 2004 - £45,000 out of £350,000). In addition, fees totalling £143,000 were paid to the auditors in connection with the refinancings undertaken by the group in the year ended 31 December 2005 (Note 16).

Depreciation

For the six months ended 31 December 2004, depreciation of £96,000 relating to fixtures and fittings in offices occupied by the 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.

3 INTEREST RECEIVABLE

	Year ended 31 December 2005	Six months ended 31 December 2004
	£m	£m
Bank interest receivable	90.5	26.8

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (Continued)

4 INTEREST PAYABLE

	Year ended 31 December 2005 £m	Six months ended 31 December 2004 £m
Notes and debentures	169.7	100.2
Bank loans and overdrafts	83.5	–
Finance lease charges	45.2	38.0
	298.4	138.2
Less:		
Interest at 4.9% on development financings transferred to development properties	–	(1.1)
Interest payable before exceptional items	298.4	137.1
	Year ended 31 December 2005 £m	Six months ended 31 December 2004 £m
Exceptional items: charges relating to early repayment of debt:		
- Prepayment and breakage costs	194.1	–
- Write-off of deferred financing costs and other accounting adjustments	5.3	–
	199.4	–

During the year ended 31 December 2005 the group incurred prepayment and breakage costs totalling £194.1 million in relation to the prepayment and refinancing of certain loans as detailed in Note 16. 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 debt are deferred and amortised to the profit and loss account over the term of the debt at a constant rate based on the carrying amount of the debt in accordance with Financial Reporting Standard 4 (Capital Instruments) ('FRS 4'). In addition any premium on issue of debt is deferred and amortised over the term of that debt. As a result of prepaying certain of the group's borrowings, the unamortised portion of the financing costs relating to the debt prepaid, totalling £5.3 million, was written-off to the profit and loss account in the year ended 31 December 2005 and shown as an exceptional item. There was no deferred tax arising as a result of this transaction.

For the six months ended 31 December 2004, interest payable of £1.1 million was transferred to properties under construction (Note 10). The amount transferred was attributable to the cost of funds forming part of the group's general borrowings which were utilised in financing construction. None of the amount transferred in respect of the six months ended 31 December 2004 was attributable to funds borrowed and expenses incurred specifically for the purpose of financing the construction of development properties. No interest payable was transferred to development properties in the year ended 31 December 2005.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (Continued)

5 TAXATION

	Year ended 31 December 2005 £m	Six months ended 31 December 2004 £m
Current tax:		
UK corporation tax (see below)	–	–
Deferred tax:		
Origination and reversal of timing differences:		
- current period	89.3	(3.0)
- prior periods	–	(6.3)
Net effect of discount	(0.1)	(4.0)
Total deferred tax (Note 17)	<u>89.2</u>	<u>(13.3)</u>
Total tax on profit on ordinary activities	<u>89.2</u>	<u>(13.3)</u>
Tax reconciliation:		
Group loss on ordinary activities before tax	(1.6)	(17.1)
Tax on loss on ordinary activities at UK corporation tax rate of 30%	<u>(0.5)</u>	<u>(5.1)</u>
Effects of:		
Tax losses and other timing differences	0.6	5.2
Expenses not deductible for tax purposes	(0.1)	(0.1)
Current tax charge for the period	<u>–</u>	<u>–</u>

As a result of the internal property restructuring referred to in Note 17, 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 to 31 December 2005 or the six months ended 31 December 2004 due to the availability of tax losses and other tax reliefs arising in those periods. It is anticipated that remaining capital losses and other tax reliefs, including EZAs, will reduce future tax charges.

The tax charges and credits for the six months ended 31 December 2004 and the year ended 31 December 2005 relate solely to deferred tax.

6 LOSS FOR THE FINANCIAL YEAR

For the year ended 31 December 2005, of the consolidated loss transferred from reserves of £607.7 million (six months ended 31 December 2004 – £30.4 million) a profit of £313.6 million (six months ended 31 December 2004 – profit of £60.1 million), is dealt with in the company's financial statements. For the year ended 31 December 2005, the company's profit included £1,361.0 million (six months ended 31 December 2004 – £70.0 million) attributable to subsidiary dividends receivable. As permitted by Section 230(3) of the Companies Act 1985, no profit and loss account is presented for the company in respect of the year ended 31 December 2005.

7 DIVIDENDS

	Year ended 31 December 2005 £m	Six months ended 31 December 2004 £m
Dividend at 65p per ordinary share	407.7	–
Dividend at 45p per ordinary share	287.6	–
	<u>695.3</u>	<u>–</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (Continued)

On 23 August 2005, the company declared an interim dividend of 65p per ordinary share totalling £407.7 million which was paid on 8 September 2005. On 20 December 2005 a further interim dividend was declared of 45p per ordinary share totalling £287.6 million, which was paid on 30 December 2005.

8 DIRECTORS AND EMPLOYEES

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

	Year ended 31 December 2005 £m	Six months ended 31 December 2004 £m
Wages and salaries	38.5	24.6
Social security costs	4.3	2.5
Other pension costs (Note 21)	2.1	1.3
	44.9	28.4

The average monthly number of employees, including directors, of the group during the year ended 31 December 2005 was 751 (six months ended 31 December 2004 – 863) as set out below.

	Year ended 31 December 2005	Six months ended 31 December 2004
Construction	103	189
Property management	511	529
Administration	137	145
	751	863

(2) **Directors' Remuneration**

	Year ended 31 December 2005 £'000	Six months ended 31 December 2004 £'000
Emoluments (including bonuses)	2,227	1,994

Benefits are accruing under the company's money purchase pension plan on behalf of the executive directors. During the year ended 31 December 2005 no contributions were made to the company's money purchase pension plans (six months ended 31 December 2004 – £312,000).

(3) **Highest Paid Director**

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

	Year ended 31 December 2005 £'000	Six months ended 31 December 2004 £'000
Emoluments (including bonuses)	1,048	1,107

No payments were made during the year or the prior period to the company's money purchase pension plan in respect of the highest paid director. The highest paid director exercised options under the Canary Wharf 2004 Deferred Share Plan as indicated below.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (Continued)

(4) Directors' Share Options

The aggregate emoluments disclosed above do not include any amounts for the value of options to subscribe for ordinary shares in the company, or its ultimate parent undertaking, Songbird, during the year. The following table provides details of the executive directors' share options under the Canary Wharf 2004 Deferred Share Plan both during the year and as at 31 December 2005.

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

Detail on the Deferred Plan, under which options have been granted over B Shares in Songbird, the company's ultimate parent undertaking, can be obtained from Note 18.

	1 January 2005	Granted	Exercised	31 December 2005	Earliest Exercise Date (Note 1)	Expiry Date
A. P Anderson, II	759,950	42,219	(422,191)	379,978	21.05.06	23.09.07
G Iacobescu CBE	879,940	48,885	(488,855)	439,970	21.05.06	23.09.07

Notes:

- Options were exercised in respect of 50% of the B Shares to which they related on 21 May 2005 and the remaining 50% may be exercised on or after 21 May 2006 upon payment to the company of £1 for each exercise.
- These options are unapproved by the Inland Revenue.

9 EARNINGS PER SHARE

The basic and diluted earnings per share has been calculated by reference to the profit attributable to ordinary shareholders after taxation for the year ended 31 December 2005 of £87.6 million (six months ended 31 December 2004 – a loss of £30.4 million); and on the weighted average of 620.5 million shares in issue (six months ended 31 December 2004 – 585.0 million).

For the six months ended 31 December 2004, the weighted average number of ordinary shares for the purposes of calculating the diluted loss per share was identical to that used for the basic loss per ordinary share. This is because the exercise of the remaining share options and warrants would have had the effect of reducing the loss per ordinary share and is therefore not treated as dilutive under the terms of FRS 14. At December 2005 there were no remaining dilutive instruments.

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

Properties held as tangible fixed assets:

	Investment properties £m	Properties held for development £m	Property held for sale £m
At 1 January 2005 pre-adjustment for UITF 28	5,324.2	251.5	
Adjustment for UITF 28	(479.5)	–	
As at 1 January 2005	4,844.7	251.5	
Additions (net of adjustment for UITF 28)	7.4	4.2	
Disposal of property	(879.1)	–	
Revaluation	946.6	–	
As at 31 December 2005	4,919.6	255.7	
Adjustment for UITF 28 (Note 13)	381.9		
Market value at 31 December 2005	5,301.5		
Of which, subject to lease and finance leaseback arrangements	1,416.8		
Historical cost	2,545.4		
Long leasehold property held as a current asset:			
Valuation at acquisition			97.0
Disposal of property			(97.0)
			–

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (Continued)

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 prepayments in the balance sheet (Note 13).

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 (Note 13).

During the year ended 31 December, the group completed the sale of seven investment properties as summarised in the table on page 7. These sales resulted in a total profit on disposal of £205.3 million which has been shown in the profit and loss account as an exceptional item. The disposals also resulted in the realisation of prior year revaluation gains of £390.3 million. There was no deferred tax as a result of these transactions.

The 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 made by the valuers 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 £946.6 million has been transferred to the revaluation reserve.

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 acquisition of the CWHB group in December 1995, less subsequent disposals plus additions at cost, subject to any provision for impairment.

Properties held for sale acquired during the year comprised the long leasehold interests in Aldersgate Street which were acquired 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 £118.6 million as referred to in Note 17. The net release was treated as an adjustment to tenant incentives accounted for in accordance with UITF 28 and accordingly transferred to debtors: amounts falling due after one year (Note 13). On 2 December 2005, the group disposed of its long leasehold interests in Aldersgate Street for a total consideration of £110.0 million and recognised a profit of £12.1 million after expenses attributable to the sale which 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.

11 OTHER TANGIBLE FIXED ASSETS

	Fixtures and equipment	Computer equipment	Total
	£m	£m	£m
Cost:			
At 1 January 2005	13.8	0.8	14.6
Additions	–	0.2	0.2
At 31 December 2005	13.8	1.0	14.8
Depreciation:			
At 1 January 2005	(11.0)	(0.8)	(11.8)
Charge for the period (Note 2)	(0.5)	(0.1)	(0.6)
At 31 December 2005	11.5	(0.9)	(12.4)
Net book amount:			
At 31 December 2005	2.3	0.1	2.4
At 31 December 2004	2.8	–	2.8

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (Continued)

12 INVESTMENTS

	At 31 December 2005		At 31 December 2004	
	Group	Company	Group	Company
	£m	£m	£m	£m
Subsidiary undertakings	–	1,861.1	–	2,183.1
Associated undertakings	2.5	–	–	–
Shares	1.0	–	3.0	–
Other investments	0.3	–	0.4	–
	<u>3.8</u>	<u>1,861.1</u>	<u>3.4</u>	<u>2,183.1</u>

In April 2005, BWB appointed the 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 25.0% effective interest. The group has subscribed £1,000 of equity share capital in the partners of WWLP which in turn have invested £500 in WWLP. The group has provided interest free long-term loans to fund the working capital requirements of the partnership, which are repayable out of development profits.

The investment in shares represents the B Shares held in trust in connection with the group's share option schemes (Note 18).

Cost:	£m
At 1 January 2005 and 31 December 2005	<u>8.3</u>
Amounts amortised:	
At 1 January 2005	(5.3)
Amortised in the year	(2.0)
At 31 December 2005	<u>(7.3)</u>
Net book amount:	
At 31 December 2005	<u>1.0</u>
At 31 December 2004	<u>3.0</u>

At 31 December 2004 5,045,520 B Shares were held in trust for the beneficiaries of the Canary Wharf Employee Share Ownership Plan Trust ('the Trust'). In May 2005 options over 2,199,887 shares were exercised in accordance with the Deferred Plan 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. In accordance with UITF 38 the cost of these shares is being written-down to the exercise price on a straight line basis over the period to vesting. Of the total amortisation for the year ended 31 December 2005 of £2.0 million (year ended 31 December 2004 – £2.0 million), £0.3 million related to employees of the group's contracting subsidiary (year ended 31 December 2004 – £0.3 million) and was charged as a development expense. The remaining £1.7 million (year ended 31 December 2004 – £1.7 million) was charged to operating profit.

In March 2001, the group acquired 52,079 £1 ordinary shares and 2,604 convertible shares in HighSpeed Office Limited ('HSO'), an unlisted company registered in England and Wales, being approximately 13.0% of its nominal share capital. The principal activity of HSO is the provision of broadband telecommunications services. The consideration paid was £2.1 million representing the historical cost to the group including fees. During the 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 £1.8 million), based on the net asset value of HSO at that date.

The company holds the entire issued share capital of Canary Wharf Estate Limited ('CWEL') comprising 651,778,264 ordinary shares of 1p each. The directors have considered the value of the company's investment in CWEL at 31 December 2005, which resulted in an increased provision of £322.0 million. At 31 December 2005 the investment was stated at £1,861.1 million, net of a provision of £1,124.0 million.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (Continued)

At 31 December 2005 the company's principal subsidiary undertakings, all of which were incorporated in Great Britain and registered in England and Wales and wholly owned, were as follows:

Name	Description of shares	Principal activities
CWCB Investments (DS7) Limited ^{(1), (2)}	£1 Ordinary	Holding company
Canary Wharf Estate Limited ⁽¹⁾	£1 Ordinary	Holding company
Canary Wharf Holdings Limited	£1 Ordinary	Holding company
	£1 Preferred Redeemable	
Canary Wharf Limited	£1 Ordinary	Property development
	£1 Preferred Redeemable	
Canary Wharf Investments Limited	£1 Ordinary	Property investment
	£1 Deferred	
Canary Wharf Contractors Limited	£1 Ordinary	Property construction
Canary Wharf Management Limited	£1 Ordinary	Property management
Heron Quays Properties Limited	£1 Ordinary	Property development
Norquill Limited	£1 Ordinary	Property investment
CWFII	£1 Ordinary	Investment company
CW Lending II Limited	£1 Ordinary	Investment company

Notes:

(1) Held directly by the parent company.

(2) Changed its name from Canary Wharf (Two) Limited on 1 March 2005.

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

13 DEBTORS

	At 31 December 2005		At 31 December 2004	
	Group	Company	Group	Company
	£m	£m	£m	£m
Due within one year:				
Trade debtors	5.7	–	26.9	–
Other debtors	43.4	0.6	8.4	0.3
Amounts owed by subsidiary undertakings	–	338.2	–	96.7
Loans to subsidiary undertakings	–	533.2	–	–
Prepayments and accrued income	26.0	1.2	35.5	1.1
	75.1	873.2	70.8	98.1

Loans to subsidiary undertakings carry interest at a rate linked to LIBOR and are repayable on demand.

	Rent-free periods	Other tenant incentives	Total
	£m	£m	£m
Due in more than one year:			
At 1 January 2005	134.7	344.8	479.5
Transferred from properties held as fixed assets (Note 10)	–	10.0	10.0
Recognition of rent during rent-free periods	12.7	–	12.7
Amortisation of lease incentives	(7.8)	(44.6)	(52.4)
Write-off relating to sale of properties in the year	(26.6)	(37.3)	(63.9)
Unwind of discount/release of vacant leasehold and other lease provisions	–	(120.3)	(120.3)
Net cost of acquisition of long leasehold property	–	116.3	116.3
At 31 December 2005	113.0	268.9	381.9

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

The cost of other lease incentives is included within debtors due in more than one year and spread on a straight line basis over a similar period. Accordingly the external valuation of investment properties is reduced for these incentives.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (Continued)

The net cost of acquisition of the long leasehold property comprises the provision of £112.7 million referred to in Note 10 plus the mark to market of debt of £3.6 million referred to in Note 16(10).

During the year ended 31 December 2005, the group sold seven investment properties. The cumulative UITF28 adjustment in respect of these properties was £63.9 million. This has been written-off to the profit and loss account and taken into account in computing the net profit on sale of £205.3 million (Note 10).

14 FINANCIAL ASSETS

The group's financial assets comprise short term trade debtors (Note 13) and cash deposits. Cash deposits totalled £1,654.1 million at 31 December 2005 (31 December 2004 – £1,101.8 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. The rate of interest on the fixed rate deposit at 31 December 2004 was 7.8%. As a result of the repayment of finance leases referred to in Note 16(9), the fixed rate cash deposit was released and transferred to unrestricted cash. All other cash deposits are invested at floating rates.

15 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	At 31 December 2005		At 31 December 2004	
	Group £m	Company £m	Group £m	Company £m
Borrowings (Note 16)	40.6	–	151.7	–
Trade creditors	18.3	1.4	30.0	0.1
Amounts due to subsidiary undertakings	–	2.0	–	30.0
Taxation and social security costs	4.5	–	4.3	–
Other creditors	15.7	1.3	5.0	1.0
Accruals	88.0	3.3	106.9	1.4
Deferred income	43.3	–	71.6	–
	<u>210.4</u>	<u>8.0</u>	<u>369.5</u>	<u>32.5</u>

16 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

Creditors due after more than one year comprise:

	At 31 December 2005		At 31 December 2004	
	Group £m	Company £m	Group £m	Company £m
Securitised debt	2,486.8	–	2,751.8	–
Secured loans	1,159.3	–	223.0	–
Finance lease obligations	1,002.0	–	1,244.0	–
Amounts due from subsidiary undertakings	–	455.7	–	434.3
	<u>4,648.1</u>	<u>455.7</u>	<u>4,218.8</u>	<u>434.3</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (Continued)

The amounts at which borrowings are stated comprise:

	Securitised debt	Secured loans	Finance lease obligations	Total
	£m	£m	£m	£m
At 1 January 2005	2,814.9	310.9	1,244.7	4,370.5
Drawdown in period	360.4	1,885.9	5.0	2,251.3
Deferred financing expenses	(19.2)	(9.3)	2.5	(26.0)
Accrued finance charges	(4.7)	13.2	(4.2)	4.3
Repaid in period	(643.6)	(1,021.8)	(246.0)	(1,911.4)
At 31 December 2005	2,507.8	1,178.9	1,002.0	4,688.7
Payable within one year or on demand	21.0	19.6	–	40.6
Payable in more than one year	2,486.8	1,159.3	1,002.0	4,648.1
	2,507.8	1,178.9	1,002.0	4,688.7

(1) At 31 December 2004 the following notes issued by CWF, 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 the group and the rental income stream therefrom.

In May 2005 the 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 16(8).

The repayment of this securitisation gave rise to prepayment and breakage costs and other fees of £150.2 million partly offset by the release of deferred premia on issue of £10.8 million. In addition deferred financing costs of £8.3 million were written-off, offset by the release of accruals made in accordance with FRS 4 of £9.5 million.

No deferred tax arose as a result of this transaction.

(2) At 31 December 2005 the following notes issued by CWFII, 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 2030
C1	225.0	Floating	By instalment from 2006 to 2030
D1	25.0	Floating	By instalment from 2011 to 2033
	<u>2,426.0</u>		

The carrying value of the outstanding notes at 31 December 2005 was £2,499.1 million. Certain of the A1, A3 and B notes were issued at a premium which is being amortised to the profit and loss account on a straight-line basis over the life of the relevant notes. At 31 December 2005 £83.8 million remained unamortised.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (Continued)

The refinancing completed in May 2005 involved the repayment of £135.0 million of notes issued by Canary Wharf Finance II plc 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 the 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 5.0% and a cap of 9.0% 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 £221.5 million. The weighted average interest rate payable under the A5 notes is 6.289% to July 2010 and 6.556% 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.

- (3) At 31 December 2004 the group was a party to an investment loan in a principal amount of £225.0 million secured on 20 Canada Square. 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 and breakage costs of £1.5 million and the write-off of deferred financing costs of £2.0 million.
- (4) 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 was subsequently 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 16(1) as a result of which the interest collar arrangement was terminated at a cost of £nil.
- (5) In December 2002, the group entered into a £608.8 million loan facility 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 16(6) below. The balance of the loan was retained for general corporate purposes of the 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.
- (6) In September 2003 the group entered into a finance lease transaction in relation to One Churchill Place, a property then under construction. In accordance with the terms of the transaction, following completion of the building in July 2004, the group subsequently completed the sale of a leasehold interest (with a term of 999 years less 10 days) in the building to a wholly owned subsidiary of Barclays. The group then subsequently accepted a 999 year (less 15 days) lease of the building with finance rents payable over a 35 year period. The gross amount of the financing was £753.5 million, of which £743.5 million was received on 30 September 2003 and £10.0 million was received on completion in August 2004. In January 2005 the group drewdown £608.8 million from a separate loan facility (Note 16(5)) which was used in part to provide cash collateral of £545.5 million for the finance lease rents. 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 the 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (Continued)

Subsequent to the year end, on 31 January 2006, the group concluded the acquisition from Barclays of BCL (165) and BCL (166) for a consideration of £0.1 million. 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 the 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 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 in respect 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 were 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 resulting in an expected gain of approximately £124.7 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.

- (7) The group's obligations under certain of its finance leases are secured by first ranking fixed and floating charges over the property which is the subject of the finance leases and over certain cash deposits (Note 25). The weighted average rate of interest implicit in the group's finance leases was 4.3% at 31 December 2005 (31 December 2004 – 5.6%).

- (8) The repayment of CWF1 in May 2005 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 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 a quarterly cash sweep of funds received in excess of the amount 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.

- (9) During the year ended 31 December 2005 the group drewdown £369.4 million under a new bank loan facility to fund the refinancing of three finance leases which had been secured against 10 Cabot Square and 20 Cabot Square. The loan carries interest at a rate of 5.82% and is repayable in 2008. The loan is secured against the group's property interests in the same properties. 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, the write-off of deferred financing costs of £2.5 million and other costs of £0.8 million. As part of the restructuring of the finance leases, certain cash collateral was released to the group totalling £36.1 million and the contingent requirement to make a further cash deposit of up to £25.0 million was eliminated.

- (10) In connection with the acquisition of Aldersgate Street in April 2005, the 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 10). 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (Continued)

(11) 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	21.6	–	26.5	–
In more than two years but not more than five years	728.3	–	125.7	–
In more than five years	2,896.2	1,002.0	2,822.6	1,244.0
	3,664.4	1,002.0	3,095.4	1,244.0

(12) After taking into account interest rate hedging entered into by the group, the interest rate profile of the group's financial liabilities at 31 December 2005 (including accrued interest payable) was:

	At 31 December 2005			At 31 December 2004		
	Floating rate financial liabilities £m	Fixed rate financial liabilities £m	Total £m	Floating rate financial liabilities £m	Fixed rate financial liabilities £m	Total £m
Securitised debt	25.3	2,482.5	2,507.8	–	2,814.9	2,814.9
Secured loans	204.1	974.8	1,178.9	85.0	225.9	310.9
Finance leases	1,002.0	–	1,002.0	1,001.9	242.8	1,244.7
	1,231.4	3,457.3	4,688.7	1,086.9	3,283.6	4,370.5
Less: Cash collateral for borrowings (Note 14)	(890.2)	(95.4)	(985.6)	(333.0)	(125.0)	(458.0)
	341.2	3,361.9	3,703.1	753.9	3,158.6	3,912.5

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 Years	Weighted average interest rate %	Weighted average period fixed 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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (Continued)

- (13) The fair values in respect 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 £462.4 million before tax relief (31 December 2004 - £428.0 million) comprising 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	1,654.1	1,654.1	1,097.4	1,097.4
- 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	(3,646.1)	(3,905.3)	(2,974.8)	(3,194.4)
Finance leases	(1,002.0)	(1,002.0)	(1,244.0)	(1,278.2)
Derivative financial instruments held to manage interest rate and exchange rate profile:				
- interest rate swaps	-	(121.4)	-	(67.8)
- interest rate caps/collars	(0.3)	(3.3)	(0.4)	(1.9)
- currency swaps	-	(78.8)	-	(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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (Continued)

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

	31 December 2005			31 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	–	(176.0)	(176.0)	8.5	(106.8)	(98.3)
Gains and losses arising in previous years that were recognised in the period	–	2.6	2.6	–	–	–
Gains and losses arising before 1 January that were not recognised in the period	–	(173.4)	(173.4)	8.5	(106.8)	(98.3)
Gains and losses arising in the year that were not recognised in the period	–	(29.8)	(29.8)	(8.5)	(69.2)	(77.7)
Unrecognised gains and losses on hedges at 31 December	–	(203.2)	(203.2)	–	(176.0)	(176.0)
Of which:						
Gains and losses expected to be recognised in the following year	–	–	–	–	(24.4)	(24.4)
Gains and losses expected to be recognised after the following year	–	(203.2)	(203.2)	–	(151.6)	(151.6)

In the year ended 31 December 2005, a loss on an interest swap of £2.6 million was crystallised as part of the repayment of the loan referred to in Note 16(3). No other unrecognised gains or losses on instruments used for hedging were recognised in the year ended 31 December 2005.

- (15) 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (Continued)

17 PROVISIONS FOR LIABILITIES AND CHARGES

	Vacant leasehold properties	Other lease commitments	Deferred taxation	Total
	£m	£m	£m	£m
At 1 January 2005	155.4	25.7	89.4	270.5
Utilisation of provision	(16.5)	(2.8)	–	(19.3)
Unwind of discount	2.2	0.6	0.1	2.9
Release of provision	(120.8)	(5.5)	(89.3)	(215.6)
Increase in provision	1.7	16.7	–	18.4
At 31 December 2005	22.0	34.7	0.2	56.9

Vacant leasehold properties:

On 6 November 2000, the group entered into an Agreement for Lease with Clifford Chance for the lease of 10 Upper Bank Street, which reached practical completion on 31 July 2003. The group also acquired the sub-leasehold interest 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 £126.0 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 6.3%, being the group's weighted average cost of debt. The amount provided was treated as part of the incentive package agreed with Clifford Chance and included within the UITF 28 adjustment in respect of 10 Upper Bank Street. Accordingly the provision was being amortised to the profit and loss account over the period to the first open market rent review on 10 Upper Bank Street in 2013. In the period from 1 January 2005 to 15 April 2005 £7.4 million of expenditure was charged to the provision.

On 15 April 2005 the 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 this acquisition was £209.7 million including fees. As a result of acquiring the reversionary interests in the building the remaining provision of £118.6 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 10. The net release has been treated as an adjustment to tenant incentives accounted for in accordance with UITF 28 (Note 13). Subsequently the long leasehold interest and sub-leasehold interests in Aldersgate Street were sold to a third party on 2 December 2005 (Note 10).

Reuters' leasehold properties:

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

In September 2005, the 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 tenant incentives and accounted for in accordance with UITF 28.

At 31 December 2005 the provision for the estimated net liability under the remaining two leases, discounted at 5.5%, being the group's weighted average cost of debt at that date, was stated at £22.0 million. In January 2006 £24.0 million was placed in cash collateral to fund these liabilities as a result of the sale of 30 South Colonnade.

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (Continued)

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

Absent any sub-lettings the maximum potential liability in respect of rental support would have been £51.0 million (nominal) with a present value of £37.0 million discounting at 6.3%, being the group's weighted average cost of debt at that date. 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 have 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 £22.3 million calculated on the basis of a discount rate of 5.5%. 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 the 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 £205.3 million. The remaining provision at 31 December 2005 was £12.4 million calculated on the basis of a discount rate of 5.5%.

	Nominal value of rental support at inception	Provision on disposal of property	Remaining provision at 31 December 2005	Expiry
	£m	£m	£m	
Address:				
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>	
			Year ended 31 December 2005	Six months ended 31 December 2004
			£m	£m
Deferred taxation:				
Accelerated capital allowances claimed			(0.9)	(158.6)
Other timing differences			0.4	1.2
			<u>(0.5)</u>	<u>(157.4)</u>
Undiscounted deferred tax liability			0.3	68.0
Discount			<u>(0.2)</u>	<u>(89.4)</u>
Discounted deferred tax liability			<u>(0.2)</u>	<u>(89.4)</u>
			31 December 2005	31 December 2004
			£m	£m
At start of period			(89.4)	(76.1)
Deferred tax charge in the profit and loss account for the period			89.2	(13.3)
			<u>(0.2)</u>	<u>(89.4)</u>
At end of period			<u>(0.2)</u>	<u>(89.4)</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (Continued)

In accordance with FRS 19, no provision has been made for deferred tax on gains relating to properties which are revalued in the balance sheet to their market values. If the group's investment properties had been sold at the balance sheet date at the amounts stated in Note 10, no tax would have been payable by the group (31 December 2004 – £63.8 million) after taking into account available tax losses and provisions. Corporation tax on chargeable gains in relation to the sale of completed properties held by group investment companies of £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 completed properties that are held by group property development companies. Capital losses have reduced the tax on chargeable gains by £128.9 million (31 December 2004 – £148.1 million) from £262.6 million to £133.7 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 the group provides 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 an internal property restructuring connected to the 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.

18 SHARE CAPITAL

	Authorised		Issued, allotted and fully paid	
	At 31 December 2005 £m	At 31 December 2004 £m	At 31 December 2005 £m	At 31 December 2004 £m
Ordinary shares of 1p each	<u>10.0</u>	<u>10.0</u>	<u>6.4</u>	<u>5.9</u>

At 31 December 2005 639,015,845 ordinary shares of the company were in issue compared with 585,008,225 at 31 December 2004. The authorised share capital comprised 1,000,000,000 ordinary 1p shares at both 31 December 2005 and 31 December 2004.

During the year IPC Advisors Limited exercised warrants to subscribe for ordinary shares of the company (see (1) below for detail on the warrants) resulting in an increase in the issued share capital.

(1) Warrants

Agreement was reached between the company and IPC Advisors Limited that, until 9 March 2005, the number of shares over which the 1999 Warrants related should be adjusted from 32.24 million to 42.27 million at an adjusted subscription price of 286p per share. On 8 March 2005 the 1999 warrants were exercised in full resulting in the issue and allotment of 42,273,251 ordinary shares of the company on 11 March 2005 at a subscription price of 286p per share.

On 8 August 2005, further agreement was reached between the company and IPC Advisors Limited to the extent that, in the event of a dividend payment by the company, the subscription price for the 1997 Warrants would be adjusted. As a result of this agreement, the exercise date for the 1997 Warrants was brought forward to 30 November 2005, previously 1 April 2006. Following the payment of the dividend on 8 September 2005, the subscription price for the 1997 Warrants was accordingly reduced from 251p per share (as previously adjusted) to 186p per share with no corresponding adjustment to the number of shares. On 29 November 2005 the 1997 Warrants were exercised. As a result, on 30 November 2005, 11,734,369 ordinary shares of the company were issued and allotted at a subscription price of 186p.

There are no remaining warrants outstanding over the shares of the company.

(2) Share Options

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

On 21 May 2005 7,038 outstanding options with an exercise price of £4.00 per ordinary share and 176,029 options with an exercise price of £3.31170 per ordinary share lapsed. No further options have been granted, or remain outstanding, under the Plans as at 31 December 2005.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (Continued)

The Deferred Plan

During the year options over a total of 2,199,887 B Shares were exercised under the Deferred Plan and a total of 241,985 options lapsed.

On 23 May 2005, 219,982 options over B Shares with an immediate exercise date, were granted to existing participants of the Deferred Plan. In addition to the grant made on 23 May 2005, a further grant of options over 602,000 B Shares was made on 20 December 2005. The 20 December 2005 grant extended the Deferred Plan to additional employees of the group. Pursuant to the rules of the Deferred Plan no payment was required on the grant of the options which may be exercised on payment of an aggregate subscription price of £1.00 per award. The options were granted over the B Shares held by the Trust (see below for detail).

The options granted on 20 December 2005 may be exercised in respect of 50 per cent of the B Shares to which they relate on or after 20 December 2006 and may be further exercised in respect of the remaining B Shares to which they relate on or after 20 December 2007. A cash alternative to a sale of shares on vesting has been made available by the company in respect of the options granted on 20 December 2005. All other terms of the Deferred Plan apply.

Details of the number of B Shares which are the subject of options held by the executive directors can be found in Note 8 to the financial statements.

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

In December 2000 a loan facility agreement was executed between the company and the trustee of the Trust whereby shares in the company were purchased by the trustee to cover the prospective exercise of options by employees. After December 2000 the trustee acquired a total of 5,173,505 ordinary shares of the company of which 3,463,159 were transferred to satisfy the exercise of options and awards under the previous share incentive plans (including the Plans) operated by the company.

The trustee accepted the offer for the company over the 1,710,346 ordinary shares of the company remaining in the Trust at the date of acquisition by Songbird and in doing so elected to receive 5,045,520 B Shares to be held by the Trust for the beneficiaries of the Trust. Taking into account the B Shares used from the Trust to satisfy the exercises which occurred during the year and the national insurance due on exercise, 2,562,631 B Shares remain in the Trust and will be used to satisfy the exercise of the remaining awards outstanding under the Deferred Plan.

19 RESERVES

Group:	Share premium account £m	Revaluation reserve £m	Capital redemption reserve £m	Special reserve £m	Profit & loss account £m	Total £m
At 1 January 2005	4.1	1,685.5	0.7	264.8	(65.3)	1,889.8
Revaluation of investment properties	–	946.6	–	–	–	946.6
Issue of share capital (Note 18)	142.1	–	–	–	–	142.1
Transfer of revaluation surplus	–	(390.3)	–	–	390.3	–
Dividend	–	–	–	–	(695.3)	(695.3)
Profit for the financial period	–	–	–	–	87.6	87.6
At 31 December 2005	146.2	2,241.8	0.7	264.8	(282.7)	2,370.8

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (Continued)

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

Company:	Share premium account	Capital redemption reserve	Special reserve	Profit & loss	Total
	£m	£m	£m	£m	£m
At 1 January 2005	4.1	0.7	1,803.8	–	1,808.6
Issue of share capital (Note 18)	142.1	–	–	–	142.1
Transfer from profit & loss account	–	–	(322.0)	322.0	–
Profit for the financial period	–	–	–	1,008.9	1,008.9
Dividend	–	–	–	(695.3)	(695.3)
At 31 December 2005	146.2	0.7	1,481.8	635.6	2,264.3

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

20 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Group £m	Company £m
Shareholders' funds at 1 January 2005	1,895.7	1,814.5
Issue of shares	142.6	142.6
Revaluation surplus	946.6	–
Dividend	(695.3)	(695.3)
Profit for the financial year	87.6	1,008.9
Shareholders' funds at 31 December 2005	2,377.2	2,270.7

21 PENSION SCHEMES

The group operates two defined contribution pension schemes. The assets of these schemes are held in independently administered funds. The pension cost, which amounted to £2.1 million in the year (six months ended 31 December 2004 – £1.3 million), represents contributions payable by the group to both schemes.

22 RECONCILIATION OF OPERATING PROFIT TO OPERATING CASH FLOWS

	Year ended 31 December 2005 £m	Six months ended 31 December 2004 £m
Operating profit ⁽¹⁾	200.4	93.2
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	(10.1)	(15.8)
(Decrease)/increase in creditors	(18.8)	40.8
Expenditure charged to provisions	(23.0)	(10.2)
Amortisation of lease incentives	39.7	(11.7)
Net cash inflow from operating activities	178.5	98.6

Note:

- (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 the group's long leasehold interests in Aldersgate Street. There were no pre - operating profit exceptional items in the six months ended 31 December 2004.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (Continued)

23 ANALYSIS OF CASH FLOWS

	Year ended 31 December 2005	Six months ended 31 December 2004
	£m	£m
Returns on investments and servicing of finance		
Interest received	90.5	26.9
Interest paid	(263.8)	(97.9)
Interest element of finance lease rentals	(46.7)	(52.1)
Financing expenses on loans drawdown	(25.8)	(2.9)
Financing expenses and breakage costs on loans repaid ⁽¹⁾	(194.1)	-
Net cash outflow	<u>(439.9)</u>	<u>(126.0)</u>

Note:

- (1) For the year ended 31 December 2005 financing expenses of £194.1 million relate to the breakage costs referred to in Note 4.

	Year ended 31 December 2005	Six months 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	-
Investment in associated undertaking	(2.5)	-
Net cash inflow/(outflow)	<u>1,161.6</u>	<u>(101.0)</u>

Note:

- (1) The cash inflow on sale of investment properties was in respect of the disposal of properties referred to in Note 10.

	Year ended 31 December 2005	Six months 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	Six months ended 31 December 2004
	£m	£m
Financing		
Issue of ordinary shares	142.6	-
Repayment of secured loans	16 (1,015.3)	-
Repayment of securitised debt	16 (628.3)	(18.3)
Repayment of finance leases	16 (245.3)	-
Drawdown of securitised debt	360.4	-
Drawdown of secured loans and finance lease premiums	1,733.3	10.0
Net cash inflow/(outflow)	<u>347.4</u>	<u>(8.3)</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (Continued)

24 ANALYSIS AND RECONCILIATION OF NET DEBT

	At 1 January 2005	Cash flow	Assumed debt	Other non-cash changes	At 31 December 2005
	£m	£m	£m	£m	£m
Cash at bank	1,101.8	552.3	–	–	1,654.1
Amounts on deposit not available on demand	(459.6)	(528.3)	–	–	(987.9)
	642.2	24.0	–	–	666.2
Debt due after 1 year	(2,974.8)	(601.8)	(154.1)	84.6	(3,646.1)
Debt due within 1 year	(151.7)	151.7	–	(40.6)	(40.6)
Finance leases	(1,244.0)	282.0	–	(40.0)	(1,002.0)
	(4,370.5)	(168.1)	(154.1)	4.0	(4,688.7)
Amounts on deposit not available on demand	459.6	528.3	–	–	987.9
Net debt	(3,268.7)	384.2	(154.1)	4.0	(3,034.6)

Part of the consideration for the acquisition of the long leasehold interests in Aldersgate Street for the year ended 31 December 2005 was the assumption by the group of £154.1 million of debt (Note 16(10)).

	Year ended 31 December 2005
	£m
Increase in cash in the year	552.3
Increase in debt and lease financing	(168.1)
Change in net debt resulting from cash flows	384.2
Non-cash movement in net debt	4.0
Loans assumed on acquisition of property interests	(154.1)
Movement in net debt in year	234.1
Net debt at 1 January 2005	(3,268.7)
Net debt at 31 December 2005	(3,034.6)

25 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 and finance lease obligations as referred to in Note 16. 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 £2,426.0 million of securitised debt (see Note 16(2)) the company's indirect subsidiary, Canary Wharf Finance Holdings Limited, has granted a first fixed charge over the shares of Canary Wharf Finance II plc and a first floating charge has been given over all of the assets of Canary Wharf Finance II plc.

Commitments of the 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 construction works 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (Continued)

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

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

Sub-let commitments:

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

The existence of the sub-let commitments has been taken into account in the market valuation of the group's properties at 31 December 2005.

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

Property	Leaseholder	Original 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				

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (Continued)

- (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 the 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 the group: 4 floors (102,100 sq ft) for 10 years and an additional 4 floors (100,800 sq ft) for 5 years. This space has to be handed back to Lehman Brothers at the end of the sub-let term fitted out to Category A standard. On 17 August 2004 the 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 the 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.

26 ULTIMATE PARENT UNDERTAKING AND RELATED PARTY TRANSACTIONS

As at 31 December 2005, the smallest group of which the company is a member and for which group financial statements are drawn up is the consolidated financial statements of the company. The largest group of which the company is a member for which group financial statements are drawn up are the consolidated financial statements of Songbird, the ultimate parent undertaking. Copies of the financial statements of both companies may be obtained from the Company Secretary, One Canada Square, Canary Wharf, London E14 5AB.

During the year the group purchased IT and telecommunications services totalling £198,712 from HSO, a company in which it holds an equity investment equivalent to approximately 13.0% of the issued share capital. £99,594 was owed to HSO at 31 December 2005. In addition, during the year ended 31 December 2005, the group billed HSO £15,190 for access to the Canary Wharf telecommunications infrastructure. £122,190 was owed by HSO at 31 December 2005, part of which related to the prior period.

During the year ended 31 December 2005 a group company billed £99,263 to WWLP in which the group holds a 25.0% effective interest. These amounts remained outstanding at 31 December 2005. In addition a group company billed £24,105 to Canary Wharf Ballymore Limited in which the group holds a 50% interest.

On 29 December 2004 the company entered into a provision of services agreement with Songbird and SAL (the 'Provision of Services Agreement'). Under the Provision of Services Agreement the company agreed to provide certain business and corporate administration services for a time based fee to SAL for an initial period of twelve 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, the group had accrued £332,818 as chargeable to Songbird under the Provision of Services Agreement which was invoiced subsequent to the year end. During the year the group entered into the following related party agreements:

- (i) a letter of appointment dated 6 January 2005 with Morgan Stanley & Co. Limited ('Morgan Stanley') whereby the 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 2.0% 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 the group and Morgan Stanley whereby the 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 2.0% 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 the group, to dispose of the controlling interest in the Property.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (Continued)

- (iv) a consultancy services agreement dated 28 April 2005 between the company and MSREF IV International – GP LLC and Morgan Stanley European Real Estate Special Situations II Offshore INC (together “MS”) under which the company 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 the company subject to a maximum limit of £1.0 million in aggregate, exclusive of VAT, in any twelve month period. At 31 December 2005 the 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 the 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 the group and Morgan Stanley whereby the 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.
- (vii) a letter of appointment dated 21 November 2005 between the group and Morgan Stanley whereby the 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.
- (viii) a letter of appointment dated 28 November 2005 between the group and Morgan Stanley whereby the 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.

27 POST BALANCE SHEET EVENTS

On 1 February 2006, the group acquired the finance lessor companies BCL (165) and BCL (166) from Barclays for a consideration of £0.1 million (Note 16(6)).

On 22 February 2006 the group announced that it had entered into exclusive negotiations with Aon regarding a potential new London office of approximately 225,000 sq ft.

On 27 February 2006 the 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 8 March 2006 the group repaid the remaining balance of the loan referred to in Note 16(8) and on 14 March 2006 refinanced its main retail properties with a new £300.0 million bank facility.