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02: Highlights and Results in Brief

Highlights

- > In December 2003 two properties were sold giving rise to an exceptional profit of £69.8 million.
- > In January 2004 £876.3 million of securitised debt was repaid.
- > At 30 June 2004, the group's investment portfolio totalling 8.8 million sq ft was 88.2% let, net of sub-lets back to the group.
- > The surplus on revaluation of investment properties in the year was £236.0 million of which £78.8 million arose since 31 December 2003.
- > The Market Value of the property portfolio at 30 June 2004 was £5,318.1 million against £5,811.5 million at 30 June 2003, an increase of £264.9 million or 5.2% excluding additions and disposals in the year (Note (i)). The increase in valuation since 31 December 2003 was £132.1 million excluding additions.
- > Two buildings under construction totalling 1.03 million sq ft achieved base building practical completion in July 2004 and were 66.1% let.
- > The group has achieved a number of lettings totalling 553,531 sq ft (excluding retail) since 30 June 2003 including Reuters (approximately 283,000 sq ft) and BP-IST (210,500 sq ft) (Note (ii)).

Results in Brief

	2004 £m	2003 £m
Rental income (excluding UITF 28 adjustments) (Note (iii))	185.8	182.6
Operating profit	184.4	162.4
Operating profit excluding exceptional items (Note (iv))	212.4	165.2
Loss before tax	(23.7)	(13.2)
Loss before tax excluding exceptional items	(9.0)	(13.3)
Taxation – deferred tax	(28.2)	3.7
Loss after tax	(51.9)	(9.5)
Loss per share:		
– basic	(9.0)p	(1.6)p
– adjusted to exclude exceptional items (Note (v))	(6.4)p	(1.6)p

Notes:

- (i) Refer to 'Operating and Financial Review – Valuations' of the accompanying financial information for a comparison with the carrying value for accounts purposes (page 10).
- (ii) Refer to 'Operating and Financial Review – Property Portfolio' of the accompanying financial information for further details (page 7).
- (iii) Refer to 'Operating and Financial Review – Operating Results' of the accompanying financial information (page 14).
- (iv) Exceptional items for the year ended 30 June 2004 comprised £23.6 million of bid costs (Note 2), £4.4 million amortisation of investment in own shares (Note 2), a gain of £69.8 million on sale of properties (Note 10) and £56.5 million of charges relating to the repayment of securitised debt (Note 4). Exceptional items for the year ended 30 June 2003 comprised £2.8 million amortisation of investment in own shares (Note 2) and £2.9 million deferred consideration on disposal of subsidiary undertaking (Note 12).
- (v) Refer to Note 9.

Chairman's and :03 Chief Executive's Statement

Introduction

The past year was marked by the extended bid process which concluded in the Songbird Acquisition Limited offer of £2.95 per share (the 'Offer') being declared wholly unconditional on 21 May 2004. The Offer closed on 15 July 2004 with Songbird Acquisition Limited ('Songbird'), together with its parent company Songbird Estates plc, acquiring 66.32% of the company's issued share capital.

The bid process demanded a significant amount of time and resource from all levels of the company. However, despite these additional demands, we are pleased to report that good progress was made in all areas of the company's business during the year.

Leasing

During the year lettings with a varied range of tenants were agreed in relation to approximately 505,000 sq ft of office space, the most significant of these tenancies being the letting of the entire building at 30 The South Colonnade (283,000 sq ft) to Reuters and the exchange of formal contracts with BP's Integrated Supply and Trading Division ('BP-IST') to lease 140,500 sq ft of space in 20 Canada Square. During the year BP-IST exercised options to take an additional 50,500 sq ft and subsequent to the year end BP-IST exercised an option over a further 19,500 sq ft. During the period lettings were also agreed with Goldenberg, Hehmeyer & Co and the European Medical Evaluation Agency ('EMEA'). The fully let Jubilee Place Retail Centre opened on 18 September 2003.

Subsequent to the year end 3,331 sq ft was let to Global Sage. In addition, for the first time the company agreed to let space as a managed office and Morgan Stanley will therefore be occupying 25,200 sq ft of space in 25-30 Bank Street on this basis.

Disposal of Properties

During the year the company recorded a net profit of £69.8 million on the disposal of 5 Canada Square and 25 Canada Square to the Royal Bank of Scotland for £1.1 billion. These disposals also enabled the company to pay off £876.3 million of debt during the year which is consistent with our previous statements that we are continuing to look at the opportunities to maximise shareholder value through the selective disposal of buildings on the Canary Wharf estate.

Financing Transactions

In September 2003 the company entered into a finance lease transaction on 1 Churchill Place with a wholly owned subsidiary of Barclays. The proceeds of this transaction (£753.4 million in total) enabled the company to repay the construction facility secured against 1 Churchill Place and to fund the remaining construction costs of the building.

04: Chairman's and Chief Executive's Statement

Completion of Construction

During the year, the group completed construction on 25-30 Bank Street (1,023,300 sq ft) and 10 Upper Bank Street (1,000,400 sq ft). Subsequent to the year end, practical completion has been reached on 1 Churchill Place (1,014,400 sq ft) and Churchill Place Retail Centre (20,500 sq ft). This brings the completed Canary Wharf estate to a total of 14.1 million sq ft of which the group owns 9.9 million sq ft.

Development Activities

On 15 September 2004 planning permission was granted on the Riverside site for development of a projected 1.8 million sq ft net. It is intended that development will be commenced on any development sites subject to market conditions, tenant demand and pre-let opportunities.

The company and our consortium, which includes Ballymore Properties Limited and Manhattan Loft Corporation Limited, are on a shortlist of four contenders to partner British Waterways for the development of the 19.7 acre Wood Wharf site which is immediately to the south east of the original Canary Wharf estate. Development at Wood Wharf could deliver approximately 5 million sq ft gross of commercial, including offices, retail and restaurants, hotels and homes.

Financial Review

Turnover increased from £250.3 million for the year ended 30 June 2003 to £306.6 million for the year ended 30 June 2004, a rise of 22.5%, driven by the rent on recently completed buildings. Net property income (gross profit) increased by £43.6 million to £243.5 million over the same period.

Excluding exceptional items, the group recorded a loss before tax of £9.0 million in comparison with £13.3 million for the previous year, a reduction of £4.3 million, as a result of the increase in turnover more than offsetting an increase in interest payable. After exceptional items the group recorded a loss before tax of £23.7 million. The tax charge for the year of £28.2 million was attributable entirely to an increase in the deferred tax provision recognised in accordance with Financial Reporting Standard 19 (FRS 19). After tax, the loss for the year was £51.9 million.

Net assets increased from £1,507.7 million at 30 June 2003 (as restated – see Operating and Financial Review) to £1,703.5 million at 30 June 2004. The increase of £195.8 million was primarily attributable to the revaluation of the group's completed investment properties by £236 million at 30 June 2004, offset by the loss for the year of £51.9 million.

Capital Structure

At 30 June 2004 net debt stood at £3,168.0 million in comparison with £3,680.9 million at 30 June 2003, a fall of £512.9 million. The reduction in net debt was primarily driven by the finance lease transaction in respect of 1 Churchill Place and the sale of 5 Canada Square and 25 Canada Square. The group had free cash at 30 June 2004 of £670.7 million.

Central London Office Market Overview

Supply and Development

At the mid-point in 2004, according to Knight Frank, total Central London availability plateaued at 28.4 million sq ft, having been climbing for three and a half years. The vacancy rate now stands at 13.1%.

The impact of recent deliveries of new space via the development pipeline across Central London has been mitigated by stronger aggregated take-up levels and the withdrawal of sub-lease space by tenants. At the mid-year point, almost half of all availability was of a grade A nature.

Construction levels are still falling and the development pipeline will continue to contract over the coming months. There is currently 5.84 million sq ft under construction across Central London, just 24% of which is yet to complete on a speculative basis and will do so during the course of 2005 and 2006 (Source: Knight Frank).

At Canary Wharf, following completion of the Barclays headquarters building in July 2004, the current vacancy rate on space that is directly in the control of the group stood at 13.9%.

Demand and Take-up

After a promising start to the year, new demand for accommodation across Central London has slowed; particularly from the Public Sector whose traditional focus of activity has been the West End. At Canary Wharf we are seeing evidence of several occupiers expanding. As widely reported in the property press, Barclays Capital has acquired 100,000 sq ft from Credit Suisse First Boston ('CSFB') in 10 The South Colonnade and CSFB itself has taken off the market the 250,000 sq ft of surplus space they were marketing at 5 Canada Square. Additionally Citigroup have taken off the market 144,000 sq ft in 25 Canada Square. This expansion by existing occupiers, combined with lettings to Reuters and BP-IST, has begun to reduce potential availability across the wider Canary Wharf estate.

06: Chairman's and Chief Executive's Statement

Rental Profile

Given that each of the sub-markets is at a slightly different stage of the cycle, rental growth is occurring at different rates. Headlines are being made on transactions in Mayfair's trophy buildings at circa £80 per sq ft, which are leading the growth profile, despite grade A rents in the rest of the West End generally remaining unchanged at £72.50 per sq ft. A similar situation is maintained in the City with the best space still commanding in between £45 and £46.50 per sq ft compared with typical grade A rents which have fallen to £40-£42.50 per sq ft. However, Knight Frank believe that with the reduction in new demand in the latter half of the year there may be a further slight softening of values.

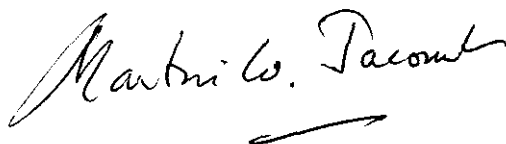
At Canary Wharf we have closed a number of transactions over the last year. On single floor and sub 20,000 sq ft lettings, the headline rents achieved on the EMEA and Goldenberg, Hehmeyer & Co lettings ranged from £37 per sq ft to £40 per sq ft respectively, and £41.50 per sq ft on the Global Sage letting. The Reuters transaction, which was signed on a phase 1 building completed in 1991, achieved a headline rent of £35 per sq ft. The BP-IST transaction in 20 Canada Square, a newly completed building, achieved a headline rent of £38 per sq ft.

Inducement packages have continued to range from 30-36 months on 15 year leases to 24-28 months on 10 year leases. This, we believe, is consistent with the City Market.

We have also concluded a number of key rent reviews in line with expectations over the last year, including that with the Daily Telegraph, KPMG and FSA.

Conclusion

Despite the unsettling effect on staff of an extended bid process their continuing commitment and hard work enabled us to focus on our core business and some notable leasing successes were recorded. Our sincere thanks are due to all staff for the contribution of each of them to the progress of the company over the last year. It is, however, important that the company continues to develop and move forward and we are confident that with the committed and highly skilled team within the company we are well placed to meet the opportunities that lie ahead.



SIR MARTIN JACOMB
Chairman



GEORGE IACOBESCU
Chief Executive Officer

Property Portfolio

The activities of the group are focused on the Canary Wharf development (including Heron Quays and the adjacent sites at Canary Riverside and North Quay). The group has two principal business streams: property investment and property development. The investment arm comprises 21 completed properties (out of the 28 constructed at Canary Wharf) totalling 8.8 million sq ft of net internal area ("NIA"). The properties included in this total are shown in the table below:

Property Address	Approx. NIA (sq ft)	% Leased	External Valuation (Note) £m	Principal Tenants
1 Westferry Circus	219,000	66.6	65.0	ChevronTexaco
7 Westferry Circus	179,300	100.0	80.5	EDS, EMEA, Edward Jones
15 Westferry Circus	171,300	100.0	113.0	Morgan Stanley
17 Columbus Courtyard	199,500	100.0	100.0	CSFB
10 Cabot Square	639,000	100.0	252.0	Barclays Capital, WPP Group
20 Cabot Square	562,000	100.0	220.0	Morgan Stanley, Barclays Capital
One Canada Square	1,246,600	93.8	615.0	Daily Telegraph, KPMG, Mirror Group Newspapers, State Street Bank, Bear Stearns, Bank of New York
20 Canada Square	524,800	86.3	265.0	The McGraw Hill Companies, BP-IST
33 Canada Square	562,700	100.0	333.0	Citigroup
25 North Colonnade	363,200	100.0	165.0	Financial Services Authority
30 South Colonnade	296,100	100.0	115.0	Reuters
20 Bank Street	546,500	100.0	370.0	Morgan Stanley
25-30 Bank Street	1,023,300	80.2	705.0	Lehman Brothers
40 Bank Street	607,400	25.2	264.0	Skadden Arps Slate Meagher & Flom, Allen & Overy
50 Bank Street	213,800	72.4	104.0	The Northern Trust Company, Goldenberg Hehmeyer
10 Upper Bank Street	1,000,400	89.5	560.0	Clifford Chance
Cabot Place Retail	98,400	100.0	80.0	Various retail tenants
Canada Place Retail	66,800	100.0	71.0	Various retail tenants
Jubilee Place Retail Centre	89,900	99.4	58.0	Various retail tenants
16-19 Canada Square	204,500	100.0	35.8	Waitrose Food & Home, Canada Square Health & Fitness, Conran Restaurants
Nash Court	8,900	100.0	6.6	Smolensky's, Carluccio's
Car Parks	—	—	70.3	
Total	8,823,400	88.2	4,648.2	

Note:

Valuations take into account the sub-lets summarised in Note 25 to the financial statements.

08: Operating and Financial Review

As well as the rental income generated from the 21 completed properties, of which 88.2% of NIA has been leased net of sub-lets back to the group, income is generated from managing the entire Canary Wharf estate which, in addition to the completed properties in the ownership of the group, includes 7 properties totalling 4.2 million sq ft which are in other ownerships.

The properties of the group are under lease to high quality tenants which provide a diversified income stream. At 30 June 2004 the weighted average unexpired lease term for the office portfolio (built and under construction) was 21.5 years (or 18.5 years assuming exercise of outstanding break options). Of the square footage under lease 72.4% does not expire or cannot be terminated by tenants during the next ten years.

During the year ended 30 June 2004 the group completed the construction of 3 properties, all of which were retained as investment properties.

- > 25-30 Bank Street is a 1,023,300 sq ft building which was let in its entirety to Lehman Brothers subject to the leaseback of 100,800 sq ft for 5 years and 102,100 sq ft for 10 years.
- > 10 Upper Bank Street is a 1,000,400 sq ft building which was let in its entirety to Clifford Chance subject to the leaseback of 52,500 sq ft for 5 years and 52,100 sq ft for 10 years. As a result of this lease to Clifford Chance, the group acquired a sub-leasehold interest in 200/202 Aldersgate Street (Note 17).
- > Jubilee Place Retail Centre is an 89,900 sq ft building which is 99.4% let to tenants including Marks & Spencer, French Connection and Reiss.

In December 2003 the group disposed of 5 Canada Square and 25 Canada Square. 5 Canada Square is a 515,100 sq ft building let in its entirety to CSFB and 25 Canada Square is a 1,223,500 sq ft building which has been let in its entirety to Citigroup. The consideration for the disposal was £1,111.9 million in comparison with a Market Value at 30 June 2003 of £1,017.0 million. The sale of the buildings generated a profit on disposal of £69.8 million after allowing for the write-off of unamortised lease incentives accounted for in accordance with Urgent Issues Task Force Abstract 28 (Lease Incentives) ("UITF 28") and expenses of sale. The profit on disposal has been treated as an exceptional item in the profit and loss account for the year ended 30 June 2004.

The group has achieved a number of lettings since 30 June 2003. On 23 September 2003 an agreement with EMEA was entered into to lease an additional 13,500 sq ft at 7 Westferry Circus. This space was previously subject to a sub-lease from CSFB. The new lease, which is subject to a 21 month rent-free period, will run concurrently with EMEA's existing leases, due to expire in December 2014.

On 12 December 2003 an agreement for lease was concluded with Goldenberg Hehmeyer & Co to lease the 18,000 sq ft third floor in 50 Bank Street. The lease is for a 15 year term with a break at year 10.

On 9 February 2004 the group announced that it had signed agreements for lease for the pre-let to Reuters of approximately 283,000 sq ft of space in the building at 30 The South Colonnade, previously let to London Underground Limited ('LUL') until April 2004. Reuters will take the entire building in May 2005 as their headquarters. Reuters will lease 239,000 sq ft on a 15 year lease and an additional 44,000 sq ft on a separate lease with a break exercisable at year 5, upon payment of a 1.5 year rental penalty, and a further break at year 10.

As part of this transaction the group has granted to Reuters a rent-free period of approximately 12 months, equal to the value of the Category 'A' works and in addition agreed to take over three of Reuters' leasehold properties. These properties are expected to represent an exposure equivalent to approximately 2.5 years rent-free at 30 The South Colonnade. The group also acquired the freeholds of Reuters' current headquarters at 85 Fleet Street and St Bride's House for a combined consideration of approximately £32.5 million subject to a short lease back of the headquarters building at a rent of approximately £1.6 million per annum. On 5 March 2004 these two properties were sold for a combined consideration of £30.0 million generating a loss on disposal after stamp duty and other expenses of £2.6 million. The sale of these properties was envisaged as part of the overall inducement package agreed with Reuters and the price was within the level estimated at the time of the initial agreement with Reuters. The loss has been treated as a lease incentive and accounted for in accordance with UITF 28.

On 26 February 2004 the group announced that it had agreed to lease 140,500 sq ft to BP-IST in 20 Canada Square on a 20 year term with a tenant only break at years 10 and 15 at a rent of £38 per sq ft. There is a rent-free period of 24 months and a Category 'A' works allowance of £48.75 per sq ft. On 30 March 2004 BP-IST exercised an option to take an additional 30,800 sq ft and on 1 June 2004 a further option was exercised over 19,700 sq ft, taking the total letting at 30 June 2004 to 191,000 sq ft. Subsequent to the year end, on 1 September 2004 BP-IST exercised an option over 19,500 sq ft and as a result acquired an additional option over 47,000 sq ft exercisable up until 1 November 2004. In respect of the options exercised, BP-IST has acquired break rights over 40,900 sq ft exercisable at the end of year five of the term upon payment of a one year rental penalty.

Subsequent to the year end, on 26 August 2004 the group announced that it had exchanged contracts with the head-hunters Global Sage. The company has taken a lease of 3,331 sq ft on part of the 27th floor at One Canada Square for a term of four years at a rent equating to £41.50 per sq ft. The group has also let 25,200 sq ft to Morgan Stanley at 25-30 Bank Street until July 2008 on a managed office basis at an all inclusive rent of £63.50 per sq ft. This space forms part of the 100,800 sq ft of space sub-let back to the group by Lehman Brothers for a term of 5 years as referred to in Note 25 to the accounts.

There were two properties under construction at 30 June 2004 totalling 1.0 million sq ft net, of which 66.1% is covered by agreements for lease, subject to the sub-let arrangements referred to in the table on page 10. These properties reached practical completion on 23 July 2004 and will be transferred to investment properties in the period to 31 December 2004.

10: Operating and Financial Review

Properties under construction at 30 June 2004 comprised the following:

Property Address	Approx. NIA (sq ft)	Completion Date	Status
1 Churchill Place (BP1)	1,014,400	Base building works completed 23 July 2004	Agreed to be leased to Barclays subject to sub-lease back 66,000 sq ft for 5 years, 130,000 sq ft for 10 years and 130,300 sq ft for 15 years (Note 25)
Churchill Place Retail Centre (RT4)	20,500	Base building works completed 23 July 2004	Unlet
1,034,900			

As well as the properties under construction referred to above, the group is continuing substructure works on the remaining sites on Canary Wharf as a preliminary to development. In connection with this work, buildings DS3 (650,000 sq ft) and BP2 (200,000 sq ft) are being constructed to street level.

Uncommitted development sites on the original Canary Wharf estate could accommodate a total of 1.5 million sq ft. In addition the development sites at North Quay and Riverside allow development of 2.1 million sq ft net based on existing planning applications. Application was made to increase the permitted density at Riverside to 1.8 million sq ft and on 15 September 2004 the planning authority resolved to grant planning consent for the new scheme subject to agreeing the details of a Section 106 agreement. Application has also been made to increase the permitted density at North Quay to 2.4 million sq ft although planning consent for this scheme has yet to be agreed. The Civil Aviation Authority's safeguarding for London City Airport is currently under review. The outcome may impact on the height of development allowable on the North Quay site. Construction of new buildings will commence as and when market conditions allow.

Valuations

The net assets of the group, as stated in its consolidated balance sheet as at 30 June 2004, were £1,703.5 million. In arriving at this total:

- (i) properties held as investments were carried at £4,266.6 million, which represents the Market Value ("MV") of those properties of £4,648.2 million at that date as determined by the group's external valuers, FPD Savills or CB Richard Ellis, less an adjustment of £381.6 million for tenant incentives as required by UITF 28; and
- (ii) properties under construction and properties held for development were carried at £314.2 million and £241.6 million respectively representing their cost to the group.

The surplus arising on the revaluation of investment properties at 30 June 2004 in comparison with the valuation at 30 June 2003 was £236.0 million comprising:

- (i) a surplus of £215.1 million on properties completed during the year, taking into account UITF 28 and additions subsequent to the date of practical completion and transfer to investment properties; and
- (ii) an increase of £20.9 million in respect of investment properties held throughout the period. This represents an uplift in their Market Value of £97.4 million and a reduction of £76.5 million arising from the treatment of rent-free and other incentives (net of additions) which have been deducted from the valuations at 30 June 2004. A deduction for the rent-free incentives was not made at 30 June 2003. The previous application of UITF 28 resulted in potential double counting between the inclusion in the balance sheet of investment properties at Market Value and accrued rental income in respect of rent-free periods. In order to avoid this, the amount accrued as rental income was deducted from the carrying value of investment properties at 31 December 2003 and subsequently at 30 June 2004. The group's auditors concur with this change in approach. Had this approach been adopted at 30 June 2003, the carrying value of investment properties would have been reduced by £39.0 million to £4,143.8 million. Of this £39.0 million, £20.2 million related to 5 Canada Square and 25 Canada Square which has been deducted in calculating the profit on disposal of these buildings of £69.8 million.

Of the increase in the valuation of the investment portfolio of £236.0 million, £78.8 million arose since 31 December 2003.

As well as valuing the investment properties, FPD Savills or CB Richard Ellis have valued all properties under construction, comprising those properties set out in the table on page 10. The Market Value of properties under construction at 30 June 2004 was £424.9 million in comparison with a carrying value for accounts purposes of £314.2 million. In valuing the properties under construction the valuers have allowed for estimated costs to complete, including fit-out. In addition they have allowed for letting, disposal and marketing costs.

As regards properties held for development, the valuers have provided joint opinions as at 30 June 2004 that the Market Value was £245.0 million in comparison with a carrying value for accounts purposes of £241.6 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. The Market Value of £245.0 million was unchanged from that at 30 June 2003.

Excluding additions in the year to 30 June 2004 and allowing for the disposal of 5 Canada Square and 25 Canada Square (and prior to any adjustment for UITF 28), the valuation of the property portfolio on the basis of Market Value increased by £264.9 million to £5,318.1 million (or 5.2%). Of the increase in the year, £132.1 million (or 2.5%) arose in the six months to 30 June 2004.

As summarised in Note 25, 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 12.

12: Operating and Financial Review

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 following table:

	30 June 2004		30 June 2003	
	Carrying Value £m	MV in Existing State £m	Carrying Value £m	MV in Existing State £m
Investment properties	4,266.6 ⁽¹⁾	4,648.2 ⁽²⁾	4,182.8 ⁽¹⁾	4,230.5 ⁽²⁾
Properties under construction	314.2	424.9	909.2	1,336.0 ⁽³⁾
Properties held for development	241.6	245.0	223.8	245.0
Total	4,822.4	5,318.1	5,315.8	5,811.5

Notes:

- (1) The carrying value of investment properties represents MV less an adjustment for UITF 28. This adjustment has not been made to the column headed MV in Existing State.
- (2) Stated at MV in Existing State before adjustment for UITF 28. The UITF 28 adjustment attributable to investment properties at 30 June 2004 was £381.6 million (2003 – £47.7 million).
- (3) Stated at MV in Existing State before adjustment for UITF 28. The UITF 28 adjustment attributable to properties under construction which reached practical completion subsequent to the year ended 30 June 2003 was £179.0 million.

Taxation

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

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

In arriving at a Market Value of the properties in the consolidated balance sheet, the value of all completed properties is included in Investment properties. This Market Value, summarised in the table opposite, ignores any potential value attributable to EZAs. The group instructed its valuers to assess the Market Values of the properties inclusive of EZAs and has been advised that the increase in the Market Value of the group's properties attributable to EZAs is in the region of £356.3 million (30 June 2003 – £525.0 million). The reduced uplift in value at 30 June 2004 in comparison with that at 30 June 2003 is largely attributable to the sale of 5 Canada Square and 25 Canada Square in December 2003 and the completion of a finance lease transaction on 1 Churchill Place in September 2003 (Note 16). This was offset by the benefit of revaluing properties which reached completion in the period.

The uplift in value in comparison with Market Value represents the valuers' assessment of the additional amount that a third party purchaser would pay for the property recognising that a purchaser would pay more for a building that attracts EZAs compared to a building that does not. However, this amount does not reflect the value of the EZAs to the group for two reasons.

Firstly, a disposal of any property may trigger a clawback of any EZAs previously claimed by the group which would generate a tax liability. A deferred tax liability has been provided in respect of this and is disclosed in Note 17.

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

In arriving at the Market Value inclusive of the value of EZAs, the group provided the valuers with details of the quantum of EZAs which it expects to be available on all properties that are completed and held on investment account for tax purposes. The Inland Revenue has not yet agreed the quantum of the allowances in all instances as the EZA claims are still in the process of agreement in the ordinary course of dealing with the group's corporation tax affairs. For completed and partly completed properties held on trading account for tax purposes, the valuers made their own assessment of the quantum of EZAs which would be available thereon after making an appropriate disallowance for the value of land and other non-qualifying expenditure.

In the 2003 Budget the Chancellor gave full stamp duty relief on properties in defined 'disadvantaged areas'. This relief covers all of the properties held by the group, regardless of value, and consequently the allowance for purchaser's costs in the valuations has been reduced from 5.75% to 1.75% to take account of this relief. The valuations, however, allow for the fact that this concession required approval from the European Commission as State Aid and is to be reviewed in 2006 as a result of which it may be removed.

During the year the group reached provisional agreement with the Inland Revenue in respect of all outstanding tax issues for all periods to 30 June 2002 and the treatment of certain items in the period to 30 June 2003 and future periods. This agreement has resulted in a movement in losses brought forward, EZAs claimed and contingent gains that has been fully reflected in Notes 5 and 17 to the financial statements.

14: Operating and Financial Review

Brought forward trading losses were fully utilised in the period, against trading profits arising from property sales in the period, principally the disposal of 5 Canada Square and 25 Canada Square.

If the group were to dispose of its property portfolio at the Market Value disclosed in this Operating and Financial Review, which excludes any value attributable to EZAs, a tax liability of £275.3 million (30 June 2003 – £258.1 million) would arise after taking account of available losses. This amount includes tax on trading profits and net capital gains that would arise on the sale of properties under construction and properties held for development, including land interests. It does not reflect any amount in relation to EZA balancing charges. The maximum reversal of allowances would be £556.6 million. Deferred tax has been properly provided in respect of this liability and is a component of the £142.2 million deferred tax in respect of accelerated capital allowances shown in Note 17 to the financial statements. The potential tax liability comprises corporation tax on chargeable gains of £23.5 million and corporation tax on development surpluses of £251.8 million. Capital losses have reduced the corporation tax on chargeable gains by £169.1 million and revenue losses have reduced tax on development surpluses by £26.7 million. In line with FRS 19, the benefit of these losses has not been recognised through the creation of a deferred tax asset in the balance sheet. The total potential tax liability of £275.3 million differs from that in Note 17 because that note relates solely to buildings that are treated as investment properties for consolidated accounts purposes which have been recognised in the balance sheet at their Market Value.

If the group were to dispose of its properties at a value of £356.3 million above their Market Value, being the Market Value inclusive of EZAs disclosed above, the potential tax liability would increase by £96.6 million (30 June 2003 – £147.7 million). The potential uplift in value attributable to EZAs net of the associated tax liability is therefore £259.7 million (30 June 2003 – £377.3 million).

Operating Results

In the following review of operating results, references to 2004 and 2003 should be read as references to the years ended 30 June 2004 and 30 June 2003 respectively.

The group's turnover is generated primarily by the rents and service charges earned from its property interests at Canary Wharf. Turnover increased from £250.3 million in 2003 to £306.6 million in 2004, an increase of £56.3 million or 22.5%. The impact of UITF 28 was to increase rental income by £59.9 million in 2004 (2003 – £15.8 million). Excluding the impact of UITF 28, rental income increased from £182.6 million to £185.8 million, an increase of 1.8%. This was primarily attributable to the expiry of rent-free or rent reduced periods and the commencement of rent on recently completed properties. Service charge income increased from £38.0 million to £45.1 million, an increase of £7.1 million or 18.7%, due primarily to the increased level of occupancy on the estate. Miscellaneous income, comprising ground rents, insurance recoveries and tenant service income increased from £13.9 million to £15.8 million, reflecting the provision of tenant specific services (outside of the standard service charge) on the estate and the increased recovery of insurance due to the increased level of occupancy.

Rents payable and property management costs increased from £50.4 million to £63.1 million, an increase of £12.7 million or 25.2%, due primarily to the increase in occupancy on the estate.

Net property income (gross profit) increased from £199.9 million in 2003 to £243.5 million in 2004, an increase of £43.6 million or 21.8% over the previous year, attributable to the increase in rental income.

Administrative expenses for 2004 were £32.9 million compared with £36.4 million for the previous year excluding pre-operating profit exceptional costs. During the current year there were also exceptional costs of £23.6 million attributable to the acquisition of the group by Songbird and a charge of £4.4 million (year ended 30 June 2003 – £2.8 million) incurred in writing down the carrying value of the group's investment in own shares (Note 2).

For 2004 operating profit was £184.4 million, in comparison with a profit of £162.4 million for 2003. Excluding exceptional items the operating profit for the year of £212.4 million compared with £165.2 million for the previous year, an increase of £47.2 million or 28.6%. The improvement in underlying profit earned by the group is primarily attributable to the increase in turnover.

In the year ended 30 June 2004 the group recorded a net profit of £69.8 million on disposal of two properties (5 Canada Square and 25 Canada Square). This has been shown as an exceptional item after operating profit in accordance with Financial Reporting Standard 3 (Reporting Financial Performance).

Net interest payable increased from £178.5 million in 2003 to £277.9 million in 2004. Included in the year ended 30 June 2004 was an exceptional charge of £56.5 million incurred in respect of the early repayment of securitised debt in January 2004 following the sale of 5 Canada Square and 25 Canada Square (Note 4). Excluding the exceptional charge, the increase in net interest payable of £42.9 million was attributable to a reduction in capitalised interest as the group's current construction programme approaches completion. For the year ended 30 June 2004 capitalised interest totalled £24.6 million in comparison with £77.8 million for 2003. The resulting increase in interest payable charged to the profit and loss account was partially offset by a reduction in interest payable under the group's securitisation loans following the early repayment of securitised debt in January 2004.

The loss on ordinary activities after interest for the year was £23.7 million in comparison with £13.2 million for 2003. The result for 2004 included certain exceptional profits and losses described above. The result for 2003 included £2.9 million of deferred consideration on disposal of certain subsidiary undertakings in 1996 and a further charge of £2.8 million incurred in writing down the carrying value of the group's investment in own shares. Excluding exceptional items, the loss on ordinary activities before tax for the year of £9.0 million compares with £13.3 million for the previous year, a reduction of £4.3 million as a result of the increase in turnover.

The loss on ordinary activities before tax for the six months to 30 June 2004 was £26.5 million. This compares with a profit of £2.8 million for the six months to 31 December 2003. Operating profit excluding exceptional items reduced in the second half of the year from £116.4 million to £96.0 million, a reduction of £20.4 million, whilst net interest payable reduced from £116.2 million to £105.2 million, a reduction of £11.0 million. Excluding exceptional items the loss on ordinary activities before tax for the second half of the year was £9.2 million in comparison with a profit of £0.2 million for the first half of the year. The increased loss for the second half of the year was attributable to the reduction in net operating income following the sale of 5 Canada Square and 25 Canada Square.

16: Operating and Financial Review

The taxation charge for the year ended 30 June 2004 was attributable to an increase of £28.2 million in the deferred tax provision in comparison with a reduction in provision of £3.7 million in 2003. This provision has been recognised in order to comply with Financial Reporting Standard 19 (Deferred Tax) ('FRS 19'). The increase in the deferred tax provision primarily relates to EZAs to be claimed by the group.

The loss on ordinary activities after tax for the year ended 30 June 2004 was £51.9 million in comparison with £9.5 million for the previous year, an increased loss of £42.4 million, of which £14.7 million was attributable to the exceptional items referred to above and £28.2 million to deferred tax.

Balance Sheet

On the basis of the group's statutory balance sheet, which does not reflect any revaluation of properties under construction or held for development, net assets at 30 June 2004 were £1,703.5 million in comparison with £1,507.7 million at 30 June 2003 as restated for UITF 38 (Note 1). The increase in net asset value was largely attributable to the revaluation surplus net of UITF 28 adjustments for the year of £236.0 million, partly offset by the loss for the year of £51.9 million.

Allowing for the revaluation of properties under construction or held for development to Market Value and adjusting for deferred taxation, the adjusted net asset value per share at 30 June 2004 was as set out in the table below:

	Market Value	
	30 June 2004 £m	Restated 30 June 2003 £m
Net assets per statutory balance sheet	1,703.5	1,507.7
Add back deferred tax provision	76.1	47.9
Net assets prior to deferred tax provision	1,779.6	1,555.6
Revaluation of property portfolio:		
Properties under construction ⁽¹⁾	110.7	426.8
Properties held for development ⁽¹⁾	3.4	21.2
	1,893.7	2,003.6
UITF 28 adjustment on properties which completed subsequent to the year end	–	(179.0)
Adjusted net assets	1,893.7	1,824.6
Adjusted net assets per share ⁽²⁾	£3.24	£3.12
Fully diluted adjusted net assets per share ⁽³⁾	£3.24	£3.12

Notes:

- (1) Stated at Market Value in existing state. The comparative at 30 June 2003 excludes adjustment for UITF 28 on properties which reached practical completion subsequent to the year end of £179.0 million – shown separately in the table.
- (2) Adjusted net assets per share has been calculated by reference to the closing number of shares of 585.0 million (30 June 2003 – 585.0 million).
- (3) The fully diluted net assets per share calculation increases adjusted net assets by £186.6 million (restated 30 June 2003 – £187.7 million) and the number of shares by 53.9 million (30 June 2003 – 57.2 million) reflecting the assumed exercise of all outstanding share options and warrants.

In arriving at adjusted net assets 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 in respect of the profits which would be realised unless the related properties were disposed of. In contrast no provision is required for the tax which would become payable if the group were to dispose of its properties at their revalued amount. This inconsistency in the standard has therefore been reversed in calculating the adjusted net asset value per share.

Treasury Objectives

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

The group's financial instruments, other than derivatives, comprise borrowings, cash and liquid resources, and various items such as trade debtors and trade creditors that arise directly from its operations. The group enters into derivatives 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 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 year, 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 30 June 2004 – 99.3% (2003 – 97.3%) of the group's borrowings were fixed after taking account of interest rate hedging and cash deposits held as cash collateral (see Note 16 (15)).

Liquidity Risk

As regards liquidity, 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 the year end the average maturity of the group's debt was 19.4 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, and by using the short term revolving notes of the June 2000 securitisation.

Exchange Rate Risk

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

18: Operating and Financial Review

Borrowings

In September 2003 the group entered into a finance lease transaction in relation to 1 Churchill Place, a property then under construction. In accordance with the terms of the transaction, once the building reached practical completion in July 2004, the group 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 immediately accepted a 999 year (less 15 days) lease of the building with finance rents payable over a 35 year period. The gross amount of the financing was £753.5 million, of which £743.5 million was received on 30 September 2003 and £10 million was received on completion. The finance lease rents will be calculated by reference to a notional rate of LIBOR plus 90 basis points ('bps') on the notional amount of principal outstanding under the finance lease. At 30 June 2004 the finance lease is stated at £646.5 million representing the notional principal amount outstanding at that date. The initial proceeds from the finance lease were used in part to repay the construction funding secured against 1 Churchill Place, totalling £105.3 million, and to fund the remaining construction costs of the building. The group's construction facility was cancelled in November 2003.

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

An analysis of net debt is given on the opposite page. The reduction in total borrowings from £4,710.0 million to £4,406.5 million reflects the part repayment of the group's securitisation loans referred to above, and the repayment of the group's construction loan facility, partly offset by the premium received as a result of the 1 Churchill Place finance lease. This reduction in total borrowings was accompanied by an increase in cash and term deposits from £1,029.1 million to £1,238.5 million, primarily as a result of the proceeds from the sale of 5 Canada Square and 25 Canada Square and the completion of the 1 Churchill Place finance lease, and was partly offset by the repayment of the construction loan facility, part repayment of securitised debt and development expenditure during the period.

At 30 June 2004, the group's weighted average cost of debt (including credit wraps) was 6.3% (or 6.1% excluding credit wraps) in comparison with 6.2% (or 6.0% respectively) at 30 June 2003.

At 30 June 2004 net debt (after allowing for cash in hand and cash collateral) stood at £3,168.0 million, down from £3,680.9 million at the previous year end, comprising:

	At 30 June 2004 £m	At 30 June 2003 £m
Securitised debt	2,838.5	3,741.4
Loans	310.8	385.6
Finance lease obligations	1,257.2	583.0
Total borrowings	4,406.5	4,710.0
Less: cash collateral for borrowings	(558.7)	(751.1)
Less: other cash collateral excluding prepayments	(9.1)	(1.2)
	3,838.7	3,957.7
Less: cash deposits	(670.7)	(276.8)
Net debt	3,168.0	3,680.9

Cash Flow

Net cash flow from operating activities reduced from £189.4 million in 2003 to £89.8 million in 2004, a reduction of £99.6 million, driven in part by the reduction in rental income resulting from the sale of 5 Canada Square and 25 Canada Square but primarily from movements in working capital.

Capital expenditure and financial investment for the year ended 30 June 2004 resulted in a cash inflow of £734.1 million, compared with an outflow of £500.8 million for the year ended 30 June 2003. The result for the year ended 30 June 2004 included proceeds of £1,111.9 million from the disposal of two properties, less development expenditure of £377.5 million. Expenditure in 2003 included development expenditure of £454.1 million and payment for land and density purchases of £49.3 million. In November 2002 a special dividend totalling £372.8 million was paid.

The financing cash outflow for 2004 was £360.4 million in comparison with an inflow of £644.7 million in 2003. In 2004, financing cash flows included repayments of securitised debt totalling £922.1 million and the repayment of the construction loan facility of £105.3 million. This was partly offset by the draw down of a finance lease of £635.5 million and drawings under the construction loan facility of £28.5 million before its repayment. In 2003, financing cash flows reflected the £510 million tap of the group's second securitisation, the £225 million refinancing of 20 Canada Square and construction loan drawings. This was partially offset by repayment of the construction loan facility on 20 Canada Square and share buy-backs of £108.1 million.

20: Corporate Governance

The Board

On 21 May 2004 the offer by Songbird for the company was declared wholly unconditional. Following this announcement, on 28 May 2004 Paul Reichmann, who temporarily stepped aside from his position as executive chairman whilst the offer process was progressing, tendered his resignation. With the exception of Sir Martin Jacomb, all of the non-executive directors who held office at that time resigned their directorships effective 2 June 2004. Four new non-executive directors were then appointed to the board on 2 June 2004. Subsequently, Brian Carr was appointed an alternate director to Stephane Theuriau (non-executive director) effective 29 June 2004 and Robert Falls an alternate director to John Carrafiell effective 10 September 2004.

The directors are mindful of their responsibilities to all shareholders and as such the following principles of corporate governance apply:

- > The board comprises two executive directors and five non-executive directors. As well as being non-executive chairman of the company, Sir Martin Jacomb remains as an independent non-executive director.
- > The board meets at least four times a year and has formally adopted a schedule of powers which are reserved to the board. The board has full and timely access to all relevant information to enable it to discharge its duties effectively.
- > All directors are subject to election by shareholders at the first opportunity following their appointment by the board. Subsequently they must seek re-election at least every three years so that shareholders have a regular opportunity to reassess the composition of the board.
- > All directors have direct access to the advice and services of the company secretary and are able to seek independent professional advice at the expense of the company if required in connection with their duties.

Committees

Audit, Remuneration and Operating Committees have been established with formally delegated duties and responsibilities. Both the Audit and Remuneration Committees comprise non-executive directors only.

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

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

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

Following the announcement that the Offer had been declared wholly unconditional, on 2 June 2004 the Independent Committee of Directors, established to respond to the approaches received by the company, ceased to operate.

This statement should be read in conjunction with the directors' biographies on page 73 which provide background information on the non-executive directors and membership of the committees.

Internal Control

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

The scope and effectiveness of the group's system of internal control is reviewed on a regular basis by the board and the Audit Committee.

22: Directors' Report for the Year Ended 30 June 2004

The directors present their report with the audited financial statements for the year ended 30 June 2004.

Principal Activities and Results

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

During the year the company was the subject of a lengthy takeover process which concluded on 21 May 2004 when the Offer was declared wholly unconditional. As indicated in the Offer documentation, following the Offer being declared wholly unconditional application was made to delist the Canary Wharf Group plc shares from the London Stock Exchange which occurred on 22 June 2004. The Offer closed on 15 July 2004 at which time Songbird, together with its ultimate parent undertaking Songbird Estates plc, held 66.32 per cent of the company's issued share capital.

The results for the year are set out in the consolidated profit and loss account on page 30. The Operating and Financial Review on pages 7 to 19 should be read in conjunction with this report.

Changes in the market value of land and buildings during the year are reviewed in the Operating and Financial Review on pages 10 to 12.

Post Balance Sheet Events

Details of post balance sheet events are shown in Note 27 to the financial statements on page 72.

Dividends and Reserves

No dividend has been paid or declared payable for the year ended 30 June 2004 (year ended 30 June 2003 – £372.8 million). The retained loss of £51.9 million (year ended 30 June 2003 – £382.3 million) is to be transferred to reserves.

Going Concern

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

Share Capital

As at 30 June 2004 there were 585,008,225 ordinary shares of 1p each in issue. There were no changes in the share capital of the company during the year.

Directors

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

A Peter Anderson II	
John Carrafiell	(appointed 2 June 2004)
Brian Carr (alternate to S Theuriau)	(appointed 29 June 2004)
Sir John Carter	(resigned 2 June 2004)
Robert Falls (alternate to J Carrafiell)	(appointed 10 September 2004)
George Iacobescu	
Sir Martin Jacomb	
Christopher Jonas	(resigned 2 June 2004)
Shmuel (Sam) Levinson	(appointed 2 June 2004)
Alexander (Alex) Midgen	(appointed 2 June 2004)
Michael Price	(resigned 2 June 2004)
Paul Reichmann	(resigned 28 May 2004)
Gerald Rothman	(resigned 2 June 2004)
Robert Speirs	(resigned 2 June 2004)
Stephane Theuriau	(appointed 2 June 2004)
Andrew Tisch	(resigned 2 June 2004)

Pursuant to the company's articles of association, John Carrafiell, Sam Levinson, Alex Midgen and Stephane Theuriau will retire at the forthcoming annual general meeting and will offer themselves for re-appointment. Being non-executive directors they do not have service contracts.

In addition, Sir Martin Jacomb will retire by rotation at the annual general meeting in accordance with the company's articles of association and, being eligible, offers himself for re-election. Sir Martin Jacomb as non-executive chairman does not have a service contract.

Directors' Interests

Peter Anderson (5,515 shares), George Iacobescu (805,920 shares) and Sir Martin Jacomb (15,152 shares) are the only current directors who, or whose families, had a beneficial interest in the ordinary shares of the company as at 30 June 2003. All of the directors accepted the Offer in relation to their personal shareholdings in advance of the Offer being declared wholly unconditional on 21 May 2004, therefore, none of the directors, or their families, were beneficially interested in the ordinary shares of the company as at 30 June 2004.

On 11 June 2004, Sir Martin Jacomb became interested in 44,698 Class B Shares in Songbird Estates plc, the ultimate parent undertaking, and remained interested in those shares at 30 June 2004.

Details of the directors' options over the ordinary shares of the company are set out in Note 8. Except as stated in Note 26 no other contract subsisted during the year in relation to the business of the company in which any director was materially interested.

24: Directors' Report for the Year Ended 30 June 2004

Directors' and Officers' Liability Insurance

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

Environmental and Social Policy

Policy Statement

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

Environmental Responsibility

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

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

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

Employment Policy

The group is committed to providing a working environment where all employees are treated with respect and dignity. One of the group's key aims is to help and encourage employees to develop their work skills and abilities. The group keeps employees informed of events relevant to their employment.

Equal Opportunities

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

Incentive Programmes

Consideration is being given to appropriate incentive programmes following the Offer for the company being declared unconditional.

Training and Development

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

Health and Safety Policy

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

When striving to create the best standards of the built environment the group seeks to promote a safe and healthy working environment for its employees, tenants and visitors. The group is committed to taking all reasonably practicable measures to ensure that persons who are not in its employment and may be affected by its undertakings are not exposed to risks to their safety or health. All legislation relating to health and safety is observed both in letter and in spirit.

Payment of Suppliers

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

The number of days purchases outstanding for the group at 30 June 2004 was 35 (30 June 2003 – 24). The company had 1 day of purchases outstanding at 30 June 2004 (30 June 2003 – 5).

Donations

The group made charitable donations of £362,342 during the year ended 30 June 2004 (year ended 30 June 2003 – £423,637). In addition, political donations (as defined by the Political Parties Referendums Act 2000) of £75,970 (year ended 30 June 2003 – £7,500) were made. These political donations were made in accordance with the resolution passed by shareholders at the 2003 annual general meeting. However, due to the change of control of the company following the Offer being declared wholly unconditional, approval of the members of Songbird Estates plc, the ultimate parent company, to make such donations was also technically required. This situation is being remedied and an appropriate resolution will be proposed at the 2004 annual general meeting.

26: Directors' Report for the Year Ended 30 June 2004

Auditors

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

Annual General Meeting

The annual general meeting will be held at 10.00 am on Thursday 16 December 2004 in the Sebastian Room, Cabot Hall, Cabot Place West, Canary Wharf, London E14 5AB. The Notice of Meeting, together with explanations of the items of special business to be considered at the meeting, are enclosed with this report.

By order of the board



J R GARWOOD
Secretary
22 September 2004

Statement of Directors' :27 Responsibilities in Respect of the Financial Statements

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

- > select suitable accounting policies and then apply them consistently;
- > make judgements and estimates that are reasonable and prudent;
- > state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- > prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors have responsibility for ensuring that each company in the group keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of each company and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The directors have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

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

We have audited the financial statements of Canary Wharf Group plc for the year ended 30 June 2004 which comprise the consolidated profit and loss account, the consolidated statement of recognised gains and losses, the note of historical cost profits and losses, the balance sheets, the consolidated cash flow statement and the Notes numbered 1 to 27. These financial statements have been prepared under the accounting policies set out therein.

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

Respective Responsibilities of Directors and Auditors

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

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

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

Basis of Audit Opinion

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

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

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the company and the group as at 30 June 2004 and of the loss of the group for the year then ended; and
- the financial statements have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP

DELOITTE & TOUCHE LLP
Chartered Accountants and Registered Auditors
London
22 September 2004

30: Consolidated Profit and Loss Account for the Year Ended 30 June 2004

	Notes	Year Ended 30 June 2004 £m	Year Ended 30 June 2003 £m
Turnover – rents and service charges		306.6	250.3
Cost of sales – rents and property management costs		(63.1)	(50.4)
Gross profit		243.5	199.9
Administrative expenses – before exceptional items		(32.9)	(36.4)
Exceptional items:			
– bid costs	2	(23.6)	–
– amortisation of investment in own shares	2	(4.4)	(2.8)
		(60.9)	(39.2)
Other operating income		1.8	1.7
Operating profit	2	184.4	162.4
Exceptional items:			
– net profit on sale of properties	10	69.8	–
– deferred consideration on disposal of subsidiary undertaking	12	–	2.9
Interest receivable	3	50.3	45.0
Interest payable:			
– before exceptional item	4	(271.7)	(223.5)
– exceptional item: charges relating to repayment of securitised debt	4	(56.5)	–
		(328.2)	(223.5)
Loss on ordinary activities before taxation		(23.7)	(13.2)
Taxation	5	(28.2)	3.7
Loss on ordinary activities after taxation	19	(51.9)	(9.5)
Dividend	6	–	(372.8)
Transferred to reserves	19	(51.9)	(382.3)
Basic loss per share	9	(9.0)p	(1.6)p
Diluted loss per share	9	(9.0)p	(1.6)p
Adjusted – before exceptional items:			
Basic loss per share	9	(6.4)p	(1.6)p
Diluted loss per share	9	(6.4)p	(1.6)p

The above results relate to the continuing activities of the group.
Movements in reserves are shown in Note 19 to these financial statements.
The notes numbered 1 to 27 form an integral part of these financial statements.

Consolidated Statement of Total :31 Recognised Gains and Losses for the Year Ended 30 June 2004

	Notes	Year Ended 30 June 2004 £m	Year Ended 30 June 2003 £m
Loss for the financial year		(51.9)	(9.5)
Unrealised surplus on revaluation of investment properties	10	236.0	151.8
Total recognised gains and losses relating to the year		184.1	142.3

Details of the prior year adjustment arising from adoption of UITF 38 are given in Note 1. The prior year adjustment has no cumulative effect on retained profits.

Note of historical cost profits and losses:

	Notes	Year Ended 30 June 2004 £m	Year Ended 30 June 2003 £m
Reported loss on ordinary activities before taxation		(23.7)	(13.2)
Realisation of property revaluation gains of previous years	10	438.8	–
Historical cost profit/(loss) on ordinary activities before taxation		415.1	(13.2)
Historical cost profit/(loss) for the year retained after taxation and dividends		386.9	(382.3)

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

32: Consolidated Balance Sheet at 30 June 2004

	Notes	30 June 2004 £m	*Restated 30 June 2003 £m
Fixed assets			
Investment properties	10	4,266.6	4,182.8
Properties under construction	10	314.2	909.2
Properties held for development	10	241.6	223.8
Other tangible fixed assets	11	3.2	5.1
Investments	12	5.6	1.1
		4,831.2	5,322.0
Current assets			
Debtors: Due in more than one year	13	381.6	265.7
Debtors: Due within one year	13	66.5	141.4
Cash at bank and in hand	14	1,238.5	1,029.1
		1,686.6	1,436.2
Creditors: Amounts falling due within one year	15	(348.1)	(427.7)
Net current assets		1,338.5	1,008.5
Total assets less current liabilities		6,169.7	6,330.5
Creditors: Amounts falling due after more than one year	16	(4,228.0)	(4,624.1)
Provisions for liabilities and charges	17	(238.2)	(198.7)
Net assets		1,703.5	1,507.7
Capital and reserves			
Called up share capital	18	5.9	5.9
Reserves:			
– Share premium	19	4.1	4.1
– Revaluation reserve	19	1,462.9	1,665.7
– Capital redemption reserve	19	0.7	0.7
– Special reserve	19	264.8	264.8
– Own shares	19	–	(11.7)
– Profit and loss account	19	(34.9)	(421.8)
Shareholders' funds – Equity	20	1,703.5	1,507.7

*Restated as set out in Note 1.

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

Approved by the board on 22 September 2004 and signed on its behalf by:


A PETER ANDERSON II
Managing Director, Finance

Company Balance Sheet :33 at 30 June 2004

	Notes	30 June 2004 £m	30 June 2003 £m
Fixed assets			
Investments	12	2,176.1	2,442.1
Current assets			
Debtors: Due within one year	13	33.1	36.7
Cash at bank and in hand		8.4	0.1
Creditors: Amounts falling due within one year	15	41.5 (39.7)	36.8 (3.5)
Net current assets		1.8	33.3
Total assets less current liabilities		2,177.9	2,475.4
Creditors: Amounts falling due after more than one year	16	(423.5)	(401.9)
Net assets		1,754.4	2,073.5
Capital and reserves			
Called up share capital	18	5.9	5.9
Reserves:			
– Share premium	19	4.1	4.1
– Capital redemption reserve	19	0.7	0.7
– Special reserve	19	1,743.7	2,062.8
– Profit and loss account	19	–	–
Shareholders' funds – Equity	20	1,754.4	2,073.5

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

Approved by the board on 22 September 2004 and signed on its behalf by:


A PETER ANDERSON II
Managing Director, Finance

34: Consolidated Cash Flow Statement for the Year Ended 30 June 2004

	Notes	Year Ended 30 June 2004 £m	Year Ended 30 June 2003 £m
Net cash inflow from operating activities	22	89.8	189.4
Returns on investments and servicing of finance	23	(254.1)	(258.6)
Capital expenditure and financial investment*	23	734.1	(500.8)
Equity dividend paid		–	(372.8)
		480.0	(1,132.2)
Cash inflow/(outflow) before management of liquid resources and financing		569.8	(942.8)
Management of liquid resources	23	184.5	153.4
Financing	23	(360.4)	644.7
Increase/(decrease) in cash in the year	24	393.9	(144.7)

*Capital expenditure and financial investment includes £1,111.9 million proceeds from the sale of investment properties.

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

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

1 Principal Accounting Policies

A summary of the principal accounting policies of the group, all of which have been applied consistently throughout this and the preceding year save for the adoption of Urgent Issues Task Force Abstract 38 (Accounting for ESOP trusts) ('UITF 38') as detailed in Note 1(12) is set out below. The comparatives for the year ended 30 June 2003 have been restated to comply with UITF 38.

In previous financial statements disclosure was incorporated concerning the results and net assets of two segments, Canary I and Canary II. Canary I comprised those properties in the group's ownership within the original Canary Wharf estate identified at the time of the group's flotation. Canary II comprised those properties outside of the original estate. The segmental analysis was introduced in December 2001 at a time when consideration was being given to a demerger of the two parts of the business. The group's strategy has since changed and this disclosure is therefore no longer considered appropriate.

(1) Accounting Convention

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

(2) Basis of Consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiary undertakings at 30 June 2004 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.

36: Notes to the Financial Statements for the Year Ended 30 June 2004

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 ('CWEL') of the Canary Wharf Holdings Limited ('CWHL') group in December 1995, together with subsequent additions at cost less subsequent disposals, subject to any provision for impairment.

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

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

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

(5) **Lease Incentives**

Lease incentives include rent-free periods and other incentives given to lessees on entering into lease agreements. Under UITF 28 the aggregate cost of lease incentives is recognised as an adjustment to rental income, allocated evenly over the lease term or the term to the first open market rent review if earlier. The cost of lease incentives is included within debtors due in more than one year and spread on a straight line basis over a similar period. Accordingly the valuation of investment properties is reduced for these incentives.

(6) **Other Tangible Fixed Assets**

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

Computer equipment	33%
Fixtures and equipment	25%

(7) **Debt**

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

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

(8) **Investments**

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

(9) **Finance Leases**

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

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

(10) **Vacant Leasehold Property**

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

(11) **Pensions**

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

(12) **Accounting for Share Options**

Shares held in trust in connection with the group's share option schemes are recorded 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.

Prior to the introduction of UITF 38, the amortised historical cost of shares held in trust was carried as a fixed asset investment. The group's policy for accounting for such shares was changed to comply with UITF 38, which requires that such shares should be presented as a deduction in arriving at shareholders' funds rather than as a fixed asset investment. The prior year comparatives at 30 June 2003 have been restated accordingly.

The Trustee of the Canary Wharf Employee Share Ownership Plan Trust elected to accept the Offer and in doing so made an election to receive Class B shares in Songbird Estates plc ('Class B Shares') in respect of the company's shares held at that time. Because Songbird Estates plc is not a group company the accounting treatment required by UITF 38 therefore no longer applies and the investment in these shares has been reclassified as a fixed asset investment at 30 June 2004. There is no impact on the amortisation of the cost of shares acquired as a result of these changes.

38: Notes to the Financial Statements for the Year Ended 30 June 2004

The effects of the change in policy with respect to the investment in own shares and the restatement of the balance sheet at 30 June 2003 is summarised below:

	At 30 June 2003 £m
Balance sheet:	
Decrease in investments	(11.7)
Capital and reserves:	
Reduction in shareholders' funds	11.7

(13) Deferred Taxation

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

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

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

2 Operating Profit

	Year Ended 30 June 2004 £000	Year Ended 30 June 2003 £000
The operating profit is stated after charging:		
- Depreciation (Note 11)	829	859
- Directors' emoluments (Note 8)	2,825	2,191
- Operating lease rentals:		
Land and buildings	16,714	16,714
- Remuneration of the auditors:		
Audit fees	340	342
Fees for other services:		
- Further assurance	103	163
- Taxation	164	1,359
- Other non-audit	57	384
- Acquisition of group by Songbird	735	-

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

Amortisation of Investment in Own Shares

In 2001 the company acquired 5.2 million of its own shares at a cost of £26.8 million in connection with certain of the group's share option schemes. Such shares are held in an employment trust and were initially recorded at cost prior to being written down to the exercise price over the period to vesting. Following the payment of a special dividend on 29 November 2002 the exercise price for some of the schemes was reduced from £4.00 to £3.3117. The carrying value of the group's investment in own shares was accordingly reduced in order to reflect the reduction in amount recoverable. This resulted in an exceptional charge to operating profit of £2.8 million in the year ended 30 June 2003.

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

These amounts did not give rise to deferred tax.

Bid Costs

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

40: Notes to the Financial Statements for the Year Ended 30 June 2004

Audit Fees

In addition to the fees referred to in the table on page 39 for the year ended 30 June 2003, fees of £75,000 were paid to the auditors in connection with the group's securitisations. These fees are deferred and amortised over the life of the debt in accordance with FRS 4 (Capital Instruments).

During the year ended 30 June 2004, fees of £735,000 were paid to the auditors in connection with the acquisition of the group by Songbird. Such fees have been included within the bid costs referred to on page 39.

Of audit fees of £340,000 incurred in the year ended 30 June 2004, £45,000 was incurred by the company (year ended 30 June 2003 – £37,000 out of £342,000).

Depreciation

For the year ended 30 June 2004, depreciation of £1,300,000 (year ended 30 June 2003 – £2,469,000) relating to fixtures and fittings in offices occupied by the group's construction personnel has been treated as a development expense and capitalised within the cost of properties under construction.

3 Interest Receivable

	Year Ended 30 June 2004 £m	Year Ended 30 June 2003 £m
Bank interest receivable	50.3	45.0

4 Interest Payable

	Year Ended 30 June 2004 £m	Year Ended 30 June 2003 £m
Notes and debentures	233.7	253.0
Bank loans and overdrafts	4.6	10.7
Finance lease charges	58.0	37.6
	296.3	301.3
Less:		
Interest at 5.7% (year ended 30 June 2003 – 6.1%) on development financings transferred to development properties	(24.6)	(77.8)
	271.7	223.5
Exceptional items: charges relating to early repayment of securitised debt:		
– Breakage cost of hedging instruments	44.1	–
– Write-off deferred financing costs	12.4	–
	56.5	–

In January 2004 £876 million of securitised debt was prepaid following the sale of 5 Canada Square and 25 Canada Square in December 2003. Crystallised costs arising from the repayment of debt have been charged to the profit and loss account as an exceptional item. The exceptional charge comprised breakage costs relating to hedging instruments of

£44.1 million and the write-off of deferred financing costs of £12.4 million (see below). The breakage costs included a 3% premium payable on redemption of the B1 notes. There was no deferred tax as a result of this transaction.

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

Interest payable of £24.6 million (year ended 30 June 2003 – £77.8 million) has been transferred to development properties (Note 10). The amount transferred in respect of the year ended 30 June 2004 included £4.4 million (year ended 30 June 2003 – £23.4 million) attributable to funds borrowed and expenses incurred specifically for the purpose of financing the construction of development properties. In addition, the amount transferred includes £20.2 million (year ended 30 June 2003 – £54.4 million) attributable to the cost of funds forming part of the group's general borrowings which were utilised in financing construction.

5 Taxation

	Year Ended 30 June 2004 £m	Year Ended 30 June 2003 £m
Current tax:		
UK corporation tax (see below)	–	–
Deferred tax:		
Origination and reversal of timing differences:		
– Current year	(11.6)	8.1
– Prior years	(17.1)	–
Net effect of discount	0.5	(4.4)
Total deferred tax (Note 17)	(28.2)	3.7
Total tax on profit on ordinary activities	(28.2)	3.7
Tax reconciliation:		
Group loss on ordinary activities before tax	(23.7)	(13.2)
Tax on loss on ordinary activities at UK corporation tax rate of 30%	(7.1)	(4.0)
Effects of:		
Tax losses and other timing differences	–	3.4
Expenses not deductible for tax purposes	7.1	0.6
Current tax charge for the year	–	–

42: Notes to the Financial Statements for the Year Ended 30 June 2004

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

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

6 Dividends

	Year Ended 30 June 2004 £m	Year Ended 30 June 2003 £m
Dividend at 64.27p per share	-	372.8

On 22 October 2002 the company declared the return of £375 million of capital to shareholders by way of a special dividend which was paid on 29 November 2002. Payment of dividends totalling £2.2 million was waived by the Trustee for 3.4 million shares held on behalf of the group's various share option plans.

7 Loss for the Financial Year

For the year ended 30 June 2004, of the consolidated loss transferred to reserves of £51.9 million (year ended 30 June 2003 – £382.3 million after the special dividend), a loss of £319.1 million (year ended 30 June 2003 – £434.9 million) is dealt with in the company's financial statements. For the year ended 30 June 2004, the loss was after £Nil million (year ended 30 June 2003 – £139.5 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.

8 Directors and Employees

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

	Year Ended 30 June 2004 £m	Year Ended 30 June 2003 £m
Wages and salaries	50.4	52.2
Social security costs	5.8	5.0
Other pension costs (Note 21)	2.7	3.1
	58.9	60.3

The average monthly number of employees, including directors, of the group during the year to 30 June 2004 was 1,026 (year ended 30 June 2003 – 1,180) as set out below.

	Year Ended 30 June 2004	Year Ended 30 June 2003
Construction	305	499
Property management	554	506
Administration	167	175
	1,026	1,180

- (2) **Directors' Remuneration**

	Year Ended 30 June 2004 £000	Year Ended 30 June 2003 £000
Emoluments (including bonuses and deferred bonuses)	2,825	2,191
Gains made on the exercise of share options	1,970	4,177

The above emoluments include additional fees paid to certain non-executive directors to reflect the additional responsibilities assumed, or services provided, throughout the Offer process.

None of the executive directors were members of the company's money purchase pension schemes at 30 June 2004 (2003 – Nil).

- (3) **Highest Paid Director**

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

	Year Ended 30 June 2004 £000	Year Ended 30 June 2003 £000
Emoluments (including bonus and deferred bonus)	1,000	748
Gains made on the exercise of share options	1,970	4,177

- (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

44: Notes to the Financial Statements for the Year Ended 30 June 2004

undertaking, Songbird Estates plc, during the year. The table below provides details of the executive directors' share options under the 1997 Canary Wharf Group plc Executive Share Option Plan and the Canary Wharf Company Share Option Plan both during the year and as at 30 June 2004.

		Approved/ Unapproved	1 July 2003	Exercised	30 June 2004	Price Per Option (p)	Market Value on Exercise £	Gain on Exercise £	Earliest Exercise Date	Expiry Date
A P Anderson II	1	Unapproved	797,940	–	797,940	331.17	–	–	01.04.02	21.05.05
	2	Unapproved	398,969	–	398,969	331.17	–	–	01.04.02	21.05.05
	1	Approved	6,033	–	6,033	400.00	–	–	01.04.02	21.05.05
	2	Approved	3,016	–	3,016	400.00	–	–	01.04.02	21.05.05
	2	Unapproved	905,879	–	905,879	331.17	–	–	01.01.06	21.05.05
			2,111,837	–	2,111,837					
G Iacobescu		Unapproved	881,722	881,722	–	65.85	2,550,381	1,970,032	03.03.98	21.05.05
	1	Unapproved	1,522,643	–	1,522,643	331.17	–	–	01.04.02	21.05.05
	2	Unapproved	761,322	–	761,322	331.17	–	–	01.04.02	21.05.05
	1	Approved	6,033	–	6,033	400.00	–	–	01.04.02	21.05.05
	2	Approved	3,016	–	3,016	400.00	–	–	01.04.02	21.05.05
	2	Unapproved	1,811,758	–	1,811,758	331.17	–	–	01.01.06	21.05.05
			4,986,494	881,722	4,104,772					

Notes:

1 Options which have vested and, as a result of the Offer being declared wholly unconditional, will lapse on 21 May 2005.

2 Options which have not yet vested but, as a result of the Offer being declared wholly unconditional, will lapse on 21 May 2005.

(5) Fees Paid to Third Parties

Payment of £30,582 was made to Speirs Associates Limited during the year ended 30 June 2004 (year ended 30 June 2003 – £30,000) for making available the services of Robert Speirs as a non-executive director of the company.

9 Loss Per Share

The basic and diluted loss per share is calculated by reference to the loss attributable to ordinary shareholders of £51.9 million (June 2003 – £9.5 million) and on the diluted weighted average of 585.0 million shares in issue (June 2003 – 585.5 million).

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

The calculation of the number of shares which are dilutive is based on the number of each instrument outstanding (Note 18) as adjusted for the difference between the exercise price and the weighted average share price for the relevant year.

The basic loss per share excluding exceptional items and diluted earnings per share before exceptional items for the year ended 30 June 2004 have been calculated on the loss for the year of £37.2 million (year ended 30 June 2003 – £9.6 million), excluding exceptional items totalling a loss of £14.7 million (year ended 30 June 2003 – profit of £0.1 million).

10 Investment Properties and Properties Under Construction and Held for Development

Freehold properties held as tangible fixed assets:

	Investment Properties £m	Properties Under Construction £m	Properties Held for Development £m
1 July 2003 pre-adjustment for UITF 28	4,230.5	909.2	223.8
Adjustment for UITF 28	(47.7)	–	–
As at 1 July 2003	4,182.8	909.2	223.8
Additions including interest (net of adjustment for UITF 28)	12.6	228.3	17.8
Transfer of completed properties	823.3	(823.3)	–
Disposal of property	(988.1)	–	–
Revaluation	236.0	–	–
As at 30 June 2004	4,266.6	314.2	241.6
Adjustment for UITF 28 (Note 13)	381.6		
Market value at 30 June 2004	4,648.2		
Of which, subject to lease and finance leaseback arrangements	1,011.1		
Historical cost	2,778.4		

Additions to properties for the year ended 30 June 2004 totalled £258.7 million, including £24.6 million of capitalised interest. In the above table additions are stated net of £74.0 million of tenant works which have been classified as other tenant incentives for the purposes of UITF 28 and included as part of debtors falling due in more than one year (Note 13).

Investment properties are recorded at valuation less the cost of unamortised tenant incentives incurred at the balance sheet date in accordance with UITF 28. The remaining unamortised tenant incentives are held within debtors falling due in more than one year in the balance sheet (Note 13).

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

During the period ended 31 December 2003 the group completed construction of three buildings at Canary Wharf that were retained as investment properties, 25-30 Bank Street, 10 Upper Bank Street and the Jubilee Place Retail Centre. These properties were revalued externally at 31 December 2003 on the basis of market value in accordance with the Appraisal and Valuation Manual published by the Royal Institution of Chartered Surveyors ('Market Value') resulting in a revaluation surplus of £176.5 million. These properties have

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been revalued again at 30 June 2004, along with the group's other investment properties. Valuations were undertaken by either FPD Savills Commercial Limited or CB Richard Ellis Limited. Each property has been valued individually on a free and clear basis and not as part of a portfolio and no account has been taken of any intragroup leases or arrangements. Whilst allowance has been made for any purchaser's expenses, no allowance has been made for any seller's expenses of realisation nor for any taxation which might arise in the event of disposal. The allowance for purchaser's expenses was 1.75% at both 30 June 2003 and 30 June 2004 taking account of the stamp duty relief for properties in disadvantaged areas announced in the 2003 Budget. The valuations allow for the fact that this concession required approval from the European Commission as State Aid and is to be reviewed in 2006 as a result of which it may be removed.

The surplus arising on the valuations in the period ended 30 June 2004 of £236.0 million comprises the following:

- (i) a surplus of £215.1 million on properties completed during the year, taking into account UITF 28 and additions subsequent to the date of practical completion and transfer to investment properties; and
- (ii) a surplus of £20.9 million in respect of investment properties held throughout the period. This represents an uplift in their Market Value of £97.4 million and a reduction of £76.5 million arising from the treatment of rent-free and other incentives (net of additions) which have been deducted from the valuations at 30 June 2004. A deduction for the rent-free incentives was not made at 30 June 2003. The previous application of UITF 28 resulted in potential double counting between the inclusion in the balance sheet of investment properties at Market Value and accrued rental income in respect of rent-free periods. In order to avoid this, the amount accrued as rental income was deducted from the carrying value of investment properties at 31 December 2003 and subsequently at 30 June 2004. The group's auditors concur with this change in approach. Had this approach been adopted at 30 June 2003, the carrying value of investment properties would have been reduced by £39.0 million to £4,143.8 million. Of the £39.0 million, £20.2 million related to 5 Canada Square and 25 Canada Square which has been deducted in calculating the profit on disposal of these buildings of £69.8 million.

Properties under construction and properties held for development at 30 June 2004, which are to be retained as investment properties, are carried at their fair value at the time of acquisition of the CWHL group in December 1995, less subsequent disposals plus additions at cost, subject to any provision for impairment.

At 30 June 2004 properties under construction held as fixed assets included £19.3 million (30 June 2003 – £87.6 million) in respect of financing costs.

11 Other Tangible Fixed Assets

	Fixtures and Equipment £m	Computer Equipment £m	Total £m
Cost:			
At 1 July 2003	13.7	0.6	14.3
Additions	0.1	0.2	0.3
At 30 June 2004	13.8	0.8	14.6
Depreciation:			
At 1 July 2003	(8.7)	(0.5)	(9.2)
Charge for the year (Note 2)	(2.0)	(0.2)	(2.2)
At 30 June 2004	(10.7)	(0.7)	(11.4)
Net book amount:			
At 30 June 2004	3.1	0.1	3.2
At 30 June 2003	5.0	0.1	5.1

12 Investments

	At 30 June 2004		At 30 June 2003	
	Group £m	Company £m	Group £m	Company £m
Subsidiary undertakings	–	2,176.1	–	2,442.1
Shares	5.0	–	–	–
Other investments	0.6	–	1.1	–
	5.6	2,176.1	1.1	2,442.1

The investment in shares represents shares in Songbird Estates plc held in trust in connection with the group's share option schemes (Notes 1 and 18). The group's investment in own shares was shown (after restatement) as a deduction in arriving at shareholders' funds at 30 June 2003 in accordance with UITF 38. In accepting the Offer the Trustee elected to receive Class B Shares for all of the company's shares remaining in trust at that time. Consequently the requirements of UITF 38 no longer apply and the holding in Songbird Estates plc has been shown as an investment at 30 June 2004.

The company holds the entire issued share capital of CWEL comprising 651,778,264 ordinary shares of 1p each. The directors have considered the value of the company's investment in CWEL at 30 June 2004 and have consequently written down this investment to its recoverable amount resulting in a provision of £809 million, of which £266 million was recognised in the company's profit and loss account in the year ended 30 June 2004.

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At 30 June 2004 the company's principal subsidiary undertakings, all of which were incorporated and registered in the UK and wholly owned, were as follows:

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

Those held directly by the parent company are marked with an asterisk (*).

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

In October 1996 the group sold its interest in the limited partner companies of the First Tower Limited Partnership subject to payment of deferred consideration contingent on the satisfaction of certain conditions. During the year to 30 June 2002 these conditions were confirmed as having been satisfied and the group received £13.4 million net of expenses. In the year to 30 June 2003 the group became entitled to receive an additional £2.9 million net of expenses. These amounts, which did not give rise to deferred tax, were recognised in the profit and loss account as exceptional items.

In March 2001, the group acquired 52,079 £1 ordinary shares and 2,604 convertible shares in HighSpeed Office Limited ('HSO'), an unlisted company registered in England and Wales, being approximately 13% of its nominal share capital. The principal activity of HSO is the provision of broadband telecommunications services. The consideration paid was £2.1 million representing the historical cost to the group including fees. During the year ended 30 June 2004 the carrying value of the investment was written down by £0.5 million to £0.6 million, representing the net asset value of HSO at that date.

13 Debtors

	At 30 June 2004		At 30 June 2003	
	Group £m	Company £m	Group £m	Company £m
Due within one year:				
Trade debtors	14.5	–	16.1	–
Other debtors	9.6	1.8	83.9	0.1
Amounts owed by subsidiary undertakings	–	30.2	–	36.5
Prepayments and accrued income	42.4	1.1	41.4	0.1
	66.5	33.1	141.4	36.7
		Rent-free Periods £m	Other Tenant Incentives £m	Total £m
Due in more than one year:				
At 1 July 2003		39.0	226.7 ⁽¹⁾	265.7
Transfer from properties held as fixed assets (Note 10)		–	74.0 ⁽²⁾	74.0
Recognition of rent during rent-free periods		84.0	–	84.0
Amortisation of lease incentives		(0.8)	(23.3)	(24.1)
Write-off relating to sale of properties		(20.2)	(28.8)	(49.0) ⁽³⁾
Vacant leasehold and other lease provisions (Note 17)		–	28.6	28.6
Loss on acquisition and disposal of freehold properties		–	2.6	2.6 ⁽⁴⁾
Other changes in provisions and accruals		–	(0.2)	(0.2)
At 30 June 2004		102.0	279.6	381.6

Notes:

- (1) At 30 June 2003 the UITF 28 adjustment comprised £47.7 million in respect of completed investment properties and £179.0 million in respect of properties under construction which reached practical completion subsequent to the year end.
- (2) The transfer relating to newly completed properties relates to fitting-out costs in respect of 25-30 Bank Street and 10 Upper Bank Street which both reached practical completion during the year ended 30 June 2004.
- (3) In December 2003 5 Canada Square and 25 Canada Square were sold. The cumulative UITF 28 adjustment in respect of these properties was £49.0 million. This has been written-off to the profit and loss account and taken into account in computing the net profit on sale of £69.8 million.
- (4) In connection with the letting of 30 The South Colonnade to Reuters, the group acquired the freeholds of Reuters' current headquarters at 85 Fleet Street and St Bride's House for a combined consideration of approximately £32.5 million subject to a short lease back of the headquarters building at a rent of approximately £1.6 million per annum. On 5 March 2004 the two properties were sold for a combined consideration of £30.0 million generating a loss on disposal after stamp duty and other expenses of £2.6 million. The sale of these properties was envisaged as part of the overall inducement package agreed with Reuters and the loss has been accounted for in accordance with UITF 28.

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

14 Financial Assets

The group's financial assets comprise short term trade debtors (Note 13) and cash deposits. Cash deposits totalled £1,238.5 million at 30 June 2004 (30 June 2003 – £1,029.1 million), comprising deposits placed on money market at call and term rates. Total cash deposits included £558.7 million (30 June 2003 – £751.1 million) held by third parties as cash collateral for the group's borrowings and a further £9.1 million (30 June 2003 – £1.2 million) charged to third parties as security for the group's obligations.

Of the total cash deposits, £3.9 million (30 June 2003 – £2.9 million) was invested at fixed rates and the remainder was at floating rates. The rate of interest on the fixed rate deposit at 30 June 2004 was 7.8% (30 June 2003 – 7.8%). The weighted average period remaining on fixed deposits was 5.8 years at 30 June 2004 (30 June 2003 – 6.7 years).

15 Creditors: Amounts Falling Due Within One Year

	At 30 June 2004		At 30 June 2003	
	Group £m	Company £m	Group £m	Company £m
Borrowings (Note 16)	178.5	–	85.9	–
Trade creditors	42.9	0.1	56.1	0.1
Amounts due to subsidiary undertakings	–	38.6	–	0.6
Taxation and social security costs	5.6	–	1.3	–
Other creditors	3.8	0.1	53.0	0.1
Accruals	82.7	0.9	172.6	2.7
Deferred income	34.6	–	58.8	–
	348.1	39.7	427.7	3.5

16 Creditors: Amounts Falling Due After More Than One Year

Creditors due after more than one year comprise:

	At 30 June 2004		At 30 June 2003	
	Group £m	Company £m	Group £m	Company £m
Securitised debt	2,768.5	–	3,658.3	–
Secured loans	223.0	–	382.8	–
Finance lease obligations	1,236.5	–	583.0	–
Amounts due from subsidiary undertakings	–	423.5	–	401.9
	4,228.0	423.5	4,624.1	401.9

The amounts at which borrowings are stated comprise:

	Securitised Debt £m	Secured Loans £m	Construction Loans £m	Finance Lease Obligations £m	Total £m
At 30 June 2003	3,741.4	309.8	75.8	583.0	4,710.0
Drawn down in year	–	–	28.5	648.5	677.0
Deferred financing expenses	13.9	1.0	1.0	0.8	16.7
Accrued finance charges	5.3	–	–	24.9	30.2
Repaid in year	(922.1)	–	(105.3)	–	(1,027.4)
At 30 June 2004	2,838.5	310.8	–	1,257.2	4,406.5
Payable within one year or on demand	70.0	87.8	–	20.7	178.5
Payable in more than one year	2,768.5	223.0	–	1,236.5	4,228.0
	2,838.5	310.8	–	1,257.2	4,406.5

52: Notes to the Financial Statements for the Year Ended 30 June 2004

The disclosures in this note should be read in conjunction with the 'Treasury Objectives' and 'Borrowings' sections of the 'Operating and Financial Review' on pages 17 to 19.

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

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

The D notes were redeemed in January 2003. The remaining debentures are secured on certain property interests of the group and the rental income stream therefrom. Redemption of the D notes was funded from a bank loan facility secured by way of a second charge over this group of property interests (Note 16 (10)). Unamortised fees totalling £2.3 million were charged to interest payable as a result of the redemption of the D notes.

Interest on the C notes increases in steps from 5% payable until October 1999, to 9.535% payable from October 2006. Interest on the D notes was payable at LIBOR plus 1.1% until January 2003 when it stepped up to LIBOR plus 3.10%. It was subject to an interest rate cap arrangement so as to cap the portion of interest linked to LIBOR at 8.5%.

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

The premium on issue of debentures is amortised to the profit and loss account on a straight line basis over the life of the relevant note. At 30 June 2004, £11.6 million remained unamortised.

Including the original notes still in issue, the weighted average maturity of the debentures at 30 June 2004 was 11.9 years. The debentures may be redeemed at the option of the issuer in an aggregate amount of not less than £1 million on any interest payment date, subject to the current ratings of the debentures not being adversely affected and certain other conditions affecting the amount to be redeemed.

In January 2004, amortisation commenced on the A notes and B notes. As at 30 June 2004, £358.3 million of A notes and £93.4 million of B notes remain outstanding.

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

(a) £475 million term notes

The term notes consist of five tranches, two of which totalling £90 million, were immediately re-purchased and are held by a group company. The principal terms of the tranches were:

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

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

The A2 notes were issued in a principal amount of €100 million, with interest payable at three month EURIBOR plus a margin of 0.3%. The A2 notes were fully hedged via a currency swap, whereby all principal and interest liabilities were swapped into sterling providing an initial principal of £60 million and interest payable fixed at 6.995%. In the period to January 2004 when the remaining notes were repaid in full (Note 16 (7)), £9.2 million of the notes were repaid in accordance with the amortisation schedule attached to the notes.

Interest on the D notes is payable at a rate of three month LIBOR plus a margin of 1.75% until July 2005, and thereafter 4.375%. The D notes are fully hedged using an interest rate collar, with a cap of 9% and a floor of 5%. In January 2004, £25 million of the D notes were repaid (Note 16 (7)).

(b) £500 million revolving notes

The securitisation allows for £500 million of 'AAA' and 'AA' rated fully revolving short term notes, of which £250 million was underwritten for 5 years from June 2000 by a banking syndicate. There were no immediate proceeds from the revolving notes as they were repurchased by the issuer. In October 2002, £125.0 million of the 'AAA' rated and £60.0 million of the 'AA' rated notes were re-issued (Note 16 (6)). The commitment fee on the remaining £65 million of underwritten notes is 0.25%. Hedging is only required when the notes are drawdown, which occurred in October 2002 (Note 16 (6)). In January 2004 £185.0 million of reissued notes were repaid in full (Note 16 (7)).

54: Notes to the Financial Statements for the Year Ended 30 June 2004

- (4) In June 2001, CWFII raised an additional £875 million of first mortgage debentures at a premium of £19.8 million. The notes comprised further issues of A1 and A2 notes together with three new tranches. The principal terms of the notes issued were:

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

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

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

The A2 notes were issued in a principal amount of €83 million, with interest payable at three month EURIBOR plus a margin of 0.3%. These notes were fully hedged via a currency swap, whereby all principal and interest liabilities were swapped into sterling providing an initial principal of £50.0 million plus a premium of £0.2 million and interest payable fixed at 6.078%. In January 2004 these notes were repaid in full (Note 16 (7)).

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

Interest on the A4 notes was payable at three month LIBOR plus 0.375% stepping up to LIBOR plus 0.95% in July 2011. These notes were fully hedged at a fixed rate of 6.155% to July 2011 and 6.73% thereafter. In January 2004 these notes were repaid in full (Note 16 (7)).

The B1 notes were issued in a principal amount of €100 million with interest payable at three month EURIBOR plus a margin of 0.45%. These notes were fully hedged via a currency swap, whereby all principal and interest liabilities were swapped into sterling providing an initial principal of £60 million less a discount of £0.6 million and interest payable fixed at 6.265%. In January 2004 these notes were repaid in full (Note 16 (7)).

- (5) In February 2002, CWFII raised an additional £1,257 million of first mortgage debentures at a premium of £83.1 million. The notes comprised further issues of A1, A3, and B notes together with a new US Dollar denominated tranche. The principal terms of the notes issued were:

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

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

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

The A5 notes were issued in a principal amount of US\$579.0 million with interest payable at three month US\$ LIBOR plus a margin of 0.39% to July 2010 and thereafter 0.975%. These notes were hedged via currency swaps, whereby principal and interest liabilities were swapped into sterling providing an initial principal of £407.0 million and interest payable fixed at 6.002% to July 2010 and 6.218% thereafter. The margin step up to 0.975% is not hedged. In January 2004, £115.5 million of these notes were repaid (Note 16 (7)).

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

- (6) In October 2002 a further tap issue was completed by CWFII raising £510.0 million. The notes issued comprised a new A6 tranche in a principal amount of £325 million. The company also reissued £125.0 million of 'AAA' rated and £60.0 million 'AA' rated fully revolving short-term notes (Note 16 3(b)).

The principal terms of the notes issued were:

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

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

Interest on the A6 notes was payable at three month LIBOR plus 0.45% stepping up to LIBOR plus 1.125% in October 2005. These notes were fully hedged at 5.499% to October 2005 and 6.174% thereafter. Interest on the revolving short-term notes was payable at three month LIBOR with a margin of 0.4% for the 'AAA' notes and 0.5% for the 'AA' notes. These notes were fully hedged at 5.424% for the 'AAA' notes and 5.459% for the 'AA' notes. In January 2004 all three classes of notes were repaid in full (Note 16 (7)).

56: Notes to the Financial Statements for the Year Ended 30 June 2004

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

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

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

The premium on issue of debentures is amortised to the profit and loss account on a straight line basis over the life of the relevant note. At 30 June 2004, £91.0 million remained unamortised.

Following the repayments described above, the weighted average maturity of the debentures at 30 June 2004 was 19.0 years. The debentures may be redeemed at the option of the issuer in an aggregate amount of not less than £1 million (except A5 notes which may not be less than \$1 million) on any interest payment date subject to the current rating of the debentures not being adversely affected and certain other conditions affecting the amount to be redeemed.

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

- (8) On 3 November 2000 the group concluded a seven year, £1 billion revolving construction loan facility. On 30 May 2003, notice to reduce the facility by £250 million to £750 million became effective. This loan facility was used to fund the construction of 1 Churchill Place until September 2003 when the loan was repaid. Drawings under the facility were secured by first-ranking fixed and floating charges over the properties which were subject to the financing and by the guarantee of the parent company. Drawings carried interest at a margin of 1% over LIBOR. The construction facility was cancelled in November 2003.

- (9) In March 2003 a group company entered into an investment loan in a principal amount of £225 million secured on 20 Canada Square. The proceeds of this loan were used in part to repay the balance on a £125.0 million construction facility drawdown in connection with the construction of the property with the balance retained for general corporate purposes. Interest is charged at LIBOR plus 1.125%. The loan has been fully hedged at 6.056% and is repayable by instalments from April 2008 with a final maturity in 2025. The loan is secured by first ranking fixed and floating charges over 20 Canada Square. In addition a group company has entered into a rental guarantee of a minimum of £2.8 million and a maximum of £3.4 million per quarter. The rental guarantee may be reduced in the event of further lettings in the building.
- (10) In January 2003 a group company drew down £85.0 million on a bank facility to fund the redemption of the D notes of the December 1997 securitisation (Note 16 (1)). The original term of the facility was eighteen months to July 2004 but has subsequently been rolled over until January 2005. The loan carries interest of LIBOR plus 2.1% subject to an interest rate collar arrangement which serves to cap the portion linked to LIBOR to 5.5%. The loan is secured by way of a second charge over the property interests included in the CWF securitisation and by an interest guarantee from CWL.
- (11) In December 2002, the group entered into a facility to borrow up to £608 million secured against 1 Churchill Place, a property that reached practical completion on 23 July 2004. The facility may be drawdown after the repayment or defeasance of any other financing secured against the property. The amount which may be drawn is dependent on the amortisation period chosen and the hedged interest rate. A minimum of £529 million may be drawn on the basis of paying interest only for the first ten years of the facility whereas drawings can be increased to £608 million on a fully amortising basis. The loan is currently hedged at an interest rate of 5.82% which results in a £529 million minimum drawing with a final maturity in July 2034. If an accelerated amortisation period is chosen, the increased borrowings will require additional hedging which will determine the amount which may be borrowed.
- (12) In September 2003 the group entered into a finance lease transaction in relation to 1 Churchill Place, a property then under construction. In accordance with the terms of this transaction, once the building reached practical completion in July 2004, the group 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 immediately accepted a 999 year (less 15 days) lease of the building with finance rents payable over a 35 year period. The gross amount of the financing was £753.5 million of which £743.5 million was received on 30 September 2003 and £10 million on completion. The finance lease rents will be calculated by reference to a notional rate of LIBOR plus 90 bps on the notional amount of principal outstanding under the finance lease. At 30 June 2004 the finance lease was stated at £646.5 million representing the notional principal amount outstanding at that date. The initial proceeds from the finance lease were used in part to repay the construction funding secured against 1 Churchill Place, totalling £105.3 million and to fund the remaining construction costs of the building.
- (13) The group's obligations under certain finance leases are secured by first-ranking fixed and floating charges over the property which is the subject of those finance leases and over certain cash deposits (Note 25). The weighted average rate of interest implicit in the group's finance leases is 5.9%.

58: Notes to the Financial Statements for the Year Ended 30 June 2004

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

	At 30 June 2004		At 30 June 2003	
	Loans £m	Finance Leases £m	Loans £m	Finance Leases £m
In less than one year or on demand	121.6	–	36.6	–
In more than one year but less than two years	30.2	–	141.4	–
In more than two years but not more than five years	95.4	–	283.7	–
In more than five years	2,865.9	1,236.5	3,616.0	583.0
	3,113.1	1,236.5	4,077.7	583.0

(15) After taking into account interest rate hedging entered into by the group, the interest rate profile of the group's financial liabilities at 30 June 2004 (including accrued interest payable) was:

	At 30 June 2004			At 30 June 2003		
	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	–	2,838.5	2,838.5	–	3,741.4	3,741.4
Secured loans	–	310.8	310.8	–	309.8	309.8
Construction loans	–	–	–	75.8	–	75.8
Finance leases	349.4	907.8	1,257.2	346.1	236.9	583.0
	349.4	4,057.1	4,406.5	421.9	4,288.1	4,710.0
Less: Cash collateral for borrowings (Note 14)	(321.0)	(237.7)	(558.7)	(316.3)	(434.8)	(751.1)
	28.4	3,819.4	3,847.8	105.6	3,853.3	3,958.9

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

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

	At 30 June 2004		At 30 June 2003	
	Weighted Average Interest Rate %	Weighted Average Period Fixed Years	Weighted Average Interest Rate %	Weighted Average Period Fixed Years
Securitised debt	6.5	17.5	5.9	17.5
Finance leases	6.5	26.6	10.0	13.1

- (16) In accordance with FRS 13 (Derivatives and Other Financial Instruments: Disclosures) the group is required to disclose the fair values of its financial assets and liabilities (excluding debtors and creditors falling due within one year) and at 30 June 2004 these were as follows:

	At 30 June 2004		At 30 June 2003	
	Book Value £m	Fair Value £m	Book Value £m	Fair Value £m
Primary financial instruments held or issued to finance the group's operations:				
Cash on deposit earning				
– floating rates of interest	1,234.6	1,234.6	1,026.2	1,026.2
– fixed rates of interest	3.9	5.3	2.9	5.1
Short term financial liabilities and current portion of long term borrowings	(178.5)	(178.5)	(85.9)	(85.9)
Long term borrowings	(2,991.5)	(3,076.6)	(4,041.1)	(4,266.7)
Finance leases	(1,236.5)	(1,267.7)	(583.0)	(639.4)
Derivative financial instruments held to manage interest rate and exchange rate profile:				
– interest rate swaps	–	(21.0)	–	(106.9)
– interest rate caps/collars	(0.5)	(1.5)	(1.0)	(11.4)
– currency swaps	–	(76.3)	–	(98.1)

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

In January 2003, upon redemption of the D notes issued by CWF (Note 16 (1)), the associated interest cap was closed out realising a gain of £785,000. This was offset against the write-off of unamortised fees allocated to the D notes of £2.3 million giving rise to a net write-off associated with the redemption of the D notes of £1.5 million.

In January 2004 £876 million of securitised debt was prepaid following the sale of 5 Canada Square and 25 Canada Square in December 2003. Crystallised costs arising from the repayment of debt have been charged to the profit and loss account as an exceptional item. The exceptional charge comprised breakage costs relating to hedging instruments of £44.1 million and the write-off of deferred financing costs of £12.4 million. The breakage cost included a 3% premium payable on redemption of the B1 notes.

Other than the above no gains or losses on derivative financial instruments have been recognised in the year.

60: Notes to the Financial Statements for the Year Ended 30 June 2004

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

	2004			2003		
	Gains £m	(Losses) £m	Total Net Gains/ (Losses) £m	Gains £m	(Losses) £m	Total Net Gains/ (Losses) £m
Unrecognised gains and losses on hedges at 1 July	12.3	(227.7)	(215.4)	6.7	(58.4)	(51.7)
Gains and losses arising in previous years that were recognised in the year	(12.3)	75.5	63.2	(0.8)	–	(0.8)
Gains and losses arising before 1 July that were not recognised in the year	–	(152.2)	(152.2)	5.9	(58.4)	(52.5)
Gains and losses arising in the year that were not recognised in the year	8.5	45.4	53.9	6.4	(169.3)	(162.9)
Unrecognised gains and losses on hedges at 30 June	8.5	(106.8)	(98.3)	12.3	(227.7)	(215.4)
Of which:						
Gains and losses expected to be recognised in more than one year	8.5	(106.8)	(98.3)	12.3	(227.7)	(215.4)

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.

17 Provision for Liabilities and Charges

	Vacant Leasehold Properties £m	Other Lease Commitments £m	Deferred Taxation £m	Total £m
At 1 July 2003	123.5	27.3	47.9	198.7
Utilisation of provision	(17.3)	–	–	(17.3)
Unwind of discount	4.1	1.5	–	5.6
Release of provision	–	(2.3)	–	(2.3)
Increase in provision	25.3	–	–	25.3
Charged to profit and loss account	–	–	28.2	28.2
At 30 June 2004	135.6	26.5	76.1	238.2

Vacant Leasehold Properties:

200/202 Aldersgate Street

On 6 November 2000, the group entered into an Agreement for Lease with Clifford Chance for the lease of 10 Upper Bank Street, which reached practical completion on 31 July 2003. The group also acquired the sub-leasehold interest (with approximately 13 years now unexpired) in 200/202 Aldersgate Street, a 440,000 sq ft office building in the City of London, and let the premises to Clifford Chance for a term of approximately 5 years at the same rent as that under the sub-lease. Clifford Chance gave notice to terminate the lease on 29 September 2003. The group is now seeking to sub-let the premises or dispose of its interest on the open market.

At 30 June 2003 the group recognised a provision for the estimated net liability under the lease of 200/202 Aldersgate Street. In arriving at the quantum of the provision the directors have consulted with FPD Savills, the group's valuers, to determine the assumptions on which the provision should be computed, including such matters as the void period, the rent achievable on re-letting and the incentive package payable. Based on the valuers' assessment of the market a provision of £123.5 million was recognised at 30 June 2003 which included an allowance for refurbishment of the building prior to re-letting. This provision is based on the following key assumptions which will be reviewed at each subsequent balance sheet date:

Passing rent	–	£16.7 million (£38 per sq ft)
Average void period	–	2 years
Rent-free period on re-letting	–	2 years
Headline rent on re-letting	–	£35 per sq ft
Refurbishment cost	–	£50 per sq ft (net of expenditure to date)

This provision is stated at present value calculated on the basis of a discount rate of 6.0%, being the group's weighted average cost of debt. At 30 June 2004 the provision was stated at £110.3 million reflecting expenditure charged during the period and the unwind of the discount.

Reuters' Leasehold Properties

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

In accordance with UK GAAP the group has recognised a provision of £25.3 million for the estimated net liability under these leases. The terms of the leases to expiration or first break are between 4 and 5 years. Limited re-letting income has been assumed during the remaining unexpired lease terms. The provision is stated at present value calculated on the basis of a discount rate of 6%.

Other Lease Commitments:

In March 2001 Lehman Brothers signed an agreement for lease in respect of 25-30 Bank Street (HQ2), comprising 1,023,300 sq ft. The agreement for lease requires that HQ2 be delivered in a fitted out condition and provides for payment of a fit-out contribution which covers, inter alia, the cost of fitting-out the space to Category 'A' (Minimum Standard Developer's Finish budgeted at a cost of £35 per sq ft) which for accounting purposes is

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

- (1) a contribution to the tenant's final fitting-out costs, equivalent to £30 per sq ft. Any fitting-out expenditure in excess of this amount is at Lehman Brothers' cost;
- (2) payments to Lehman Brothers of approximately £16 million on drawdown of the HQ2 lease, equivalent to £16 per sq ft; and
- (3) a contribution of £30 per sq ft towards the cost of refitting the 408,728 sq ft occupied by Lehman Brothers at Broadgate, capped at £12 million, equivalent to £12 per sq ft of space in HQ2.

In total, these committed payments to Lehman Brothers, excluding the Category 'A' element of the fit-out which is part of the cost of the building, amount to approximately £58 million, or £58 per sq ft. Component (1) of the incentive package is taken into account in determining the Market Value of the building at 30 June 2004. Components (2) and (3), totalling approximately £28 million, have been accrued for at 30 June 2004 reflecting the fact that HQ2 reached practical completion during the period removing any conditionality to these payments.

Lehman Brothers was granted options to sub-let back to the group up to 202,900 sq ft (100,800 sq ft for 5 years and 102,100 sq ft for 10 years). These options were exercised during the period and incentives totalling £65 per sq ft were repaid to the group in respect of the space sub-let (Note 25).

The group has also entered into a rent support commitment with Lehman Brothers under which the group may contribute a maximum of £10 per sq ft per annum towards the difference between the passing rent payable by Lehman Brothers on its leases at Broadgate and the rent achievable on any sub-lease. For 1 and 2 Broadgate, comprising 311,077 sq ft where the leases expire in January 2017 and the passing rent is £46.86, rent support is only payable for the life of the first sub-lease; for the remaining space in 6 Broadgate, comprising 97,651 sq ft where the leases expire in September 2013, rent support of up to £5 per sq ft is payable by the group on any second sub-letting, but no further amount is payable thereafter. The passing rent on the space in 6 Broadgate, varies between £44 per sq ft and £52 per sq ft but on the majority of space it is in the range of £44-£45 per sq ft. The terms of the Lehman Brothers leases prevent it from sub-letting space below market levels and no amount is payable by the group on space which Lehman Brothers does not sub-let.

Absent any sub-lettings the maximum potential liability would have been £51 million (nominal) with a present value of £37 million discounting at 6%, being the group's weighted average cost of debt. To date Lehman Brothers have sub-let approximately 100,303 sq ft in 1 and 2 Broadgate at a rent higher than the passing rent and therefore it will not be necessary to make any contribution as a result of this sub-lease. Accordingly, the maximum amount payable in respect of the remaining space leased by Lehman Brothers at Broadgate has reduced to £35.5 million (nominal) with a present value of £26.5 million. This amount has been provided in full at 30 June 2004 and will be subject to review at each subsequent balance sheet date.

Deferred Taxation:

	Year Ended 30 June 2004 £m	Year Ended 30 June 2003 £m
Accelerated capital allowances claimed	(142.2)	(85.4)
Other timing differences	0.6	0.5
Undiscounted deferred tax liability	(141.6)	(84.9)
Discount	65.5	37.0
Discounted deferred tax liability	(76.1)	(47.9)
At 1 July	(47.9)	(51.6)
Deferred tax (charge)/credit in profit and loss account for the period	(28.2)	3.7
At 30 June	(76.1)	(47.9)

In accordance with FRS 19, no provision has been made for deferred tax on gains relating to properties which are revalued in the balance sheet to their Market Value. If the group's investment properties had been sold at the balance sheet date at the amounts stated in Note 10 before adjustment for UITF 28, the amount of tax payable by the group would have been in the region of £256.1 million (30 June 2003 – £125.8 million) after taking into account available tax losses. This amount comprises corporation tax on chargeable gains in relation to the sale of completed properties held by group investment companies of £23.5 million (30 June 2003 – £45.5 million) and corporation tax on development surpluses in relation to the completed properties that are held by group property development companies of £232.6 million (30 June 2003 – £80.3 million). Capital losses have reduced tax on chargeable gains by £152.5 million (30 June 2003 – £128.0 million) and revenue losses have reduced tax on development surpluses by £Nil (30 June 2003 – £200.0 million). In line with FRS 19, the benefit of these losses has not been recognised in deferred tax provided in the balance sheet.

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

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

18 Share Capital

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

There were no changes in the share capital of the company during the year.

64: Notes to the Financial Statements for the Year Ended 30 June 2004

(1) Warrants

Warrants over 32,240,400 and 10,710,279 ordinary shares (adjusted to reflect the payment of the special dividend in November 2002) are held by IPC Advisors Limited, a company owned by a trust for the benefit of (amongst others) the Paul Reichmann family. These warrants are exercisable until 31 December 2005 at a price of 375 pence per share and 1 April 2006 at a price of 275 pence per share respectively (also adjusted to reflect the payment of the special dividend in November 2002).

The subscription price and the number of shares of both issues of warrants are subject to adjustment in certain circumstances, such as capitalisation, rights issues or takeover. Discussions are currently being held with the warrant holder as to the basis of any adjustment which might be appropriate following the Offer being declared wholly unconditional on 21 May 2004.

(2) Share Options

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

A total of 1,584,684 options over ordinary shares were exercised during the year under the 1997 Canary Wharf Group plc Executive Share Option Plan. As a result of the Offer being declared wholly unconditional on 21 May 2004 all remaining options outstanding under the Plans at that date will lapse on 21 May 2005.

As at 30 June 2004 115,626 options with an exercise price of £4.00 per ordinary share and 10,824,834 options with an exercise price of £3.3117 per ordinary share remained outstanding under the Plans. Details of the number of ordinary shares which are the subject of options held by the executive directors can be found in Note 8.

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

On 31 October 2003 external confirmation was obtained from an independent advisor that the performance criteria specified for the October 2000 grant had been achieved. As at 30 June 2004 awards over a total of 1,676,312 ordinary shares had been exercised under the LTIP with all remaining outstanding awards having lapsed.

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

On 20 September 2004 the company adopted the Deferred Plan as an unapproved executive incentive plan. The Deferred Plan is a discretionary plan and is designed to retain and incentivise the executive management team following the Offer being declared wholly unconditional. No payment is required on the grant of an option and the options, which will be granted over the Class B Shares held by the Canary Wharf Employee Share Ownership Plan Trust (see page 65 for detail), may be exercised on payment of an aggregate subscription price of £1.00 per award. In consideration of a grant of such options all options outstanding under the Plans will be relinquished. An option may be exercised in respect of 50 per cent of the Class B Shares to which it relates on or after 21 May 2005 and may be further exercised in respect of the remaining Class B Shares on or after 21 May 2006. No options have been granted to date under the Deferred Plan.

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

In December 2000 a loan facility agreement was executed between the company and the Trustee of the Trust whereby shares in the company were purchased by the Trustee to cover the prospective exercise of options by employees. Since December 2000 the Trustee acquired a total of 5,173,505 ordinary shares of which 3,463,159 have been transferred to satisfy the exercise of options and awards.

It was believed to be in the best interests of participants of the Trust for the Trustee to accept the Offer over the ordinary shares of the company remaining in the Trust at that time and in doing so elected to receive consideration in relation to 1,710,346 ordinary shares in the form of Class B Shares. As at 30 June 2004 a total of 5,045,520 Class B Shares were being held by the Trust for the beneficiaries of the Trust.

19 Reserves

Group:	Share Premium Account £m	Revaluation Reserve £m	Capital Redemption Reserve £m	Special Reserve £m	Own Shares £m	Profit & Loss Account £m	Total £m
Equity reserves:							
At 1 July 2003 – as previously stated	4.1	1,665.7	0.7	264.8	–	(421.8)	1,513.5
Prior year adjustment (Note 1)	–	–	–	–	(11.7)	–	(11.7)
	4.1	1,665.7	0.7	264.8	(11.7)	(421.8)	1,501.8
Reserve movements in respect							
of share option schemes	–	–	–	–	6.7	–	6.7
Transferred to investments	–	–	–	–	5.0	–	5.0
Revaluation of investment properties	–	236.0	–	–	–	–	236.0
Transfer of revaluation surplus	–	(438.8)	–	–	–	438.8	–
Loss for the financial year	–	–	–	–	–	(51.9)	(51.9)
At 30 June 2004	4.1	1,462.9	0.7	264.8	–	(34.9)	1,697.6

The transfer to the profit and loss account from the revaluation reserve represents the realised revaluation surplus in respect of 5 Canada Square and 25 Canada Square which were sold in the period.

The capital redemption reserve arises from the cancellation of own shares acquired in connection with the group's share re-purchase programme.

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.

Following the introduction of UITF 38, shares held by the Trust in connection with the group's share option schemes were shown as a deduction in arriving at shareholders' funds at 1 July 2003 (as restated). In accepting the Offer the Trustee elected to receive Class B Shares for all the company's shares remaining in the Trust at that time. Consequently the requirements of UITF 38 no longer apply and the holding in Songbird Estates plc has been shown as a

66: Notes to the Financial Statements for the Year Ended 30 June 2004

fixed asset investment at 30 June 2004. The movement in carrying value of shares held by the Trust during the year ended 30 June 2004 was as follows:

	£m
At 1 July 2003	26.1
Transferred to participants	(16.8)
Received from participants	(1.0)
At 30 June 2004	8.3
Amounts written-off:	
At 1 July 2003	(14.4)
Written-off	(5.7)
Transferred to participants	16.8
At 30 June 2004	(3.3)
Net book amount:	
At 30 June 2004	5.0
At 30 June 2003	11.7

Company:	Share Premium Account £m	Capital Redemption Reserve £m	Special Reserve £m	Company Profit & Loss £m	Total £m
At 30 June 2003	4.1	0.7	2,062.8	–	2,067.6
Transfer to profit & loss account	–	–	(319.1)	319.1	–
Loss for the financial year	–	–	–	(319.1)	(319.1)
At 30 June 2004	4.1	0.7	1,743.7	–	1,748.5

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

The transfer to the profit and loss account is equivalent to the loss in the year.

20 Reconciliation of Movements in Shareholders' Funds

	Group £m	Company £m
Shareholders' funds at 1 July 2003 – as previously stated	1,519.4	2,073.5
Prior year adjustment (Note 1)	(11.7)	–
	1,507.7	2,073.5
Revaluation surplus	236.0	–
Loss for the financial year	(51.9)	(319.1)
Movement in respect of share option schemes	6.7	–
Transfer of shares held in trust to investments	5.0	–
Shareholders' funds at 30 June 2004	1,703.5	1,754.4

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 charge, which amounted to £2,701,800 in the year (year ended 30 June 2003 – £3,060,679) represents contributions payable by the group to the schemes.

22 Reconciliation of Operating Profit to Operating Cash Flows

	Year Ended 30 June 2004 £m	Year Ended 30 June 2003 £m
Operating profit ⁽¹⁾	184.4	162.4
Depreciation charges	0.8	0.9
Provision against investment	0.5	0.5
Amortisation of share option costs ⁽²⁾	5.6	5.1
Decrease/(increase) in debtors	46.9	(18.3)
(Decrease)/increase in creditors	(71.2)	54.6
Utilisation of provisions	(17.3)	–
Amortisation of lease incentives	(59.9)	(15.8)
Net cash inflow from operating activities	89.8	189.4

Notes:

(1) Operating profit is stated net of an exceptional charge of £23.6 million in respect of bid costs (Note 2).

(2) Amortisation of share option costs includes £4.4 million (year ended 30 June 2003 – £2.8 million) exceptional charge in respect of amortisation of investment in own shares (Note 2).

23 Analysis of Cash Flows

	Year Ended 30 June 2004 £m	Year Ended 30 June 2003 £m
Returns on Investments and Servicing of Finance		
Interest received	51.8	43.6
Interest paid	(220.9)	(262.4)
Interest element of finance lease rentals	(31.4)	(31.6)
Financing expenses ⁽¹⁾	(53.6)	(8.2)
Net cash outflow	(254.1)	(258.6)

Note:

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

68: Notes to the Financial Statements for the Year Ended 30 June 2004

	Year Ended 30 June 2004 £m	Year Ended 30 June 2003 £m
Capital Expenditure and Financial Investment		
Additions to properties	(377.5)	(454.1)
Purchase of tangible fixed assets	(0.3)	(0.3)
Acquisition of development properties	–	(49.3)
Deferred consideration on disposal of subsidiary undertaking	–	2.9
Sale of investment properties ⁽¹⁾	1,111.9	–
Net cash inflow/(outflow)	734.1	(500.8)

Note:

(1) The cash inflow on sale of investment properties was in respect of the disposal of two buildings at 5 Canada Square and 25 Canada Square (Note 10).

	Year Ended 30 June 2004 £m	Year Ended 30 June 2003 £m
Management of Liquid Resources		
Cash placed on deposit not available on demand	(157.0)	(41.2)
Cash withdrawn from deposit accounts	341.5	194.6
Net cash inflow	184.5	153.4

	Year Ended 30 June 2004 £m	Year Ended 30 June 2003 £m
Financing		
Issue of shares	–	1.5
Purchase of own shares for cancellation	–	(108.1)
Repayment of secured loans	(105.3)	(167.3)
(Repayment)/issue of securitised debt	(922.1)	510.0
Drawdown of secured loans and finance lease premiums	667.0	408.6
Net cash (outflow)/inflow	(360.4)	644.7

24 Analysis and Reconciliation of Net Debt

	1 July 2003 £m	Cash Flow £m	Other Non-cash Changes £m	30 June 2004 £m
Cash at bank	1,029.1	209.4	–	1,238.5
Amounts on deposit not available on demand	(752.3)	184.5	–	(567.8)
	276.8	393.9	–	670.7
Debt due after 1 year	(4,041.1)	962.3	87.3	(2,991.5)
Debt due within 1 year	(85.9)	36.6	(129.2)	(178.5)
Finance leases	(583.0)	(607.1)	(46.4)	(1,236.5)
	(4,710.0)	391.8	(88.3)	(4,406.5)
Amounts on deposit not available on demand	752.3	(184.5)	–	567.8
Net debt	(3,680.9)	601.2	(88.3)	(3,168.0)

	Year Ended 30 June 2004 £m
Increase in cash in the year	209.4
Increase in debt and lease financing	391.8
Change in net debt resulting from cash flows	601.2
Non-cash movement in net debt	(88.3)
Movement in net debt in year	512.9
Net debt at 1 July 2003	(3,680.9)
Net debt at 30 June 2004	(3,168.0)

25 Contingent Liabilities and Financial Commitments

As at 30 June 2004 certain members of the group had given fixed and floating charges over substantially all of their assets as security for certain of the group's borrowings and finance lease obligations as referred to in Note 16. In particular, various members of the group had, at 30 June 2004, given fixed first ranking charges over cash deposits totalling £558.7 million and may be called upon to make a further cash deposit of up to £25.0 million.

As security for the issue of £590 million of securitised debt (see Note 16) the company has granted a first fixed charge over the shares of CWF and a first floating charge has been given over all of the assets of CWF. In addition, as security for an £85 million loan the group has granted a second ranking charge over the property interests included in the CWF securitisation and CWL has provided an interest guarantee.

As security for the issue of up to £2,531 million of securitised debt (see Note 16) the company's indirect subsidiary, Canary Wharf Finance Holdings Limited, has granted a first fixed charge over the shares of CWFIL and a first floating charge has been given over all of the assets of CWFIL.

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As security for a £225 million loan the group has granted first ranking fixed and floating charges over 20 Canada Square. In addition a group company entered into a rental guarantee of a minimum of £2.8 million and a maximum of £3.4 million per quarter. The rental guarantee has now been reduced to £2.8 million and may be reduced further in the event of additional lettings in the building.

Commitments of the group for future expenditure:

	30 June 2004 £m	30 June 2003 £m
Under contract	108.0	380.0

The commitments for future expenditure relate to the completion of development properties where construction was committed at 30 June 2004. Any costs accrued or provided for in the balance sheet at 30 June 2004 have been excluded.

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

	Land and Buildings 30 June 2004 £m	Land and Buildings 30 June 2003 £m
Annual commitment for which the leases expire:		
Within one year	–	–
Between two and five years	0.6	–
After five years	16.8	16.7
	17.4	16.7

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 securitisations are concerned the tenants are contracted to pay rent on the entire amount of space leased, whilst taking the covenant of the group on the sub-let space.

The table below summarises these sub-lets.

Property	Leaseholder	Sub-let sq ft	Passing Rent £m	Rent Review Date	Rent Review Basis	Term Commence-ment	Expiry or First Break
Options exercised:							
1 Westferry Circus	CSFB	73,300	2.64	Mar 2005	OMR up only	Feb 2003	Feb 2015
7 Westferry Circus	CSFB	13,500	0.28	Jan 2003	OMR up only	Feb 2003	Jul 2005 ⁽⁶⁾
One Canada Square	Skadden	27,400	1.24	Jun 2003	OMR up only	Sep 2003	Dec 2005
50 Bank Street	Northern Trust	18,000	0.77	Apr 2007	OMR up only	Apr 2002	Oct 2006 ⁽⁵⁾
10 Upper Bank Street	Clifford Chance	52,500	2.42	Jul 2008	Fixed at £49/sf	Jul 2003	Jul 2008
10 Upper Bank Street	Clifford Chance	52,100	2.40	Jul 2008	Fixed at £49/sf	Jul 2003	Jul 2013
25-30 Bank Street	Lehman Brothers	100,800	4.11	Jul 2008	Fixed at £53/sf	Jul 2003	Jul 2008 ⁽¹⁾
25-30 Bank Street	Lehman Brothers	102,100	4.18	Jul 2008	Fixed at £53/sf in 2002 ⁽²⁾	Jul 2003	Jul 2013 ⁽¹⁾
1 Churchill Place	Barclays	133,600	5.63	Jul 2009	OMR up only	Jul 2004	Jul 2019 ⁽³⁾
1 Churchill Place	Barclays	130,300	5.47	Jul 2009	OMR up only	Jul 2004	Jul 2014 ⁽³⁾
1 Churchill Place	Barclays	66,000	2.75	Jul 2009	OMR up only	Jul 2004	Jul 2009 ⁽³⁾
40 Bank Street	Skadden	19,500	0.86	Mar 2008	OMR up only	Mar 2003	Mar 2008 ⁽⁴⁾
40 Bank Street	Skadden	19,500	0.86	Mar 2008	OMR up only	Mar 2003	Sep 2010 ⁽⁴⁾
40 Bank Street	Skadden	19,500	0.86	Mar 2008	OMR up only	Mar 2003	Mar 2013 ⁽⁴⁾
Total		828,100	34.47				

Notes:

- (1) On 29 September 2003 Lehman Brothers exercised options to sub-let part of HQ2 back to the group: 4 floors (102,100 sq ft) for 10 years and an additional 4 floors (100,800 sq ft) for 5 years. As a result of the exercise of these options a fit-out contribution of £65 per sq ft was paid back to the group in respect of all space sub-let to the group. This space, which is currently built to shell and core, has to be handed back to Lehman Brothers at the end of the sub-let term fitted out to Category A standard. The existence of the above sub-let options has been taken into account in the market valuation of 25-30 Bank Street at 30 June 2004. On 17 August 2004 the group sub-let 25,200 sq ft of the 5 year space to Morgan Stanley for the remaining term of the sub-let on a managed office basis at an all inclusive rent of £63.50 per sq ft (Note 27).
- (2) Followed by annual increases to £59.65 per sq ft in 2012.
- (3) On 31 October 2003 Barclays opted to sub-let 329,900 sq ft of space in 1 Churchill Place back to the group. Of the total sub-let, 66,000 sq ft is for 5 years, 130,300 sq ft is for 10 years and 133,600 sq ft is for 15 years or more. The existence of these sub-let options has been taken into account in the market valuation of 1 Churchill Place at 30 June 2004.
- (4) Skadden have opted to lease back floor 24 (19,500 sq ft) for 5 years, floor 25 (19,500 sq ft) for 7.5 years and floor 26 (19,500 sq ft) for 10 years. The existence of the above sub-let options has been taken into account in the market valuation of 40 Bank Street at 30 June 2004.
- (5) Assumes break exercised.
- (6) On 23 September 2003 an agreement with EMEA was entered into to lease 13,500 sq ft at 7 Westferry Circus. The space was previously subject to a sub-lease with CSFB expiring in December 2007. The lease to EMEA, which is subject to a 21 month rent-free period with rent commencing in July 2005, will run concurrently with EMEA's existing leases due to expire in December 2014.

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26 Ultimate Parent Undertaking and Related Party Transactions

On 21 May 2004, Songbird Acquisition Limited declared its offer for the company wholly unconditional. As a result of this announcement, Songbird Estates plc is now the ultimate parent company and will have its first financial statements drawn up to the period ending 31 December 2004.

As at 30 June 2004, the largest and smallest group of which the company is a member and for which group financial statements are drawn up are the company's consolidated financial statements embodied herein. Copies of the financial statements of Canary Wharf Group plc may be obtained from the Company Secretary, 30th Floor, One Canada Square, Canary Wharf, London E14 5AB.

Robert Speirs is a director of Speirs Associates Limited which entered into an agreement with the company by which Speirs Associates Limited provided the services of Robert Speirs as a non-executive director of the company until his resignation in June 2004.

During the year the group purchased IT and telecommunications services totalling £396,000 from HighSpeed Office Limited, a company in which it holds an equity investment equivalent to approximately 13% of the issued share capital. There were no outstanding commitments to HighSpeed Office Limited at 30 June 2004.

27 Post Balance Sheet Events

On 23 July 2004, practical completion was achieved on 1 Churchill Place, a 1,014,400 sq ft building leased to Barclays subject to the sub-lease back of 66,000 sq ft for 5 years, 130,300 sq ft for 10 years and 133,600 sq ft for 15 years (Note 25).

Also on 23 July 2004, practical completion was achieved on the Churchill Place Retail Centre, a 20,500 sq ft retail mall which is currently unlet.

Subsequent to the year end, on 26 August 2004 the group announced that it had exchanged contracts with Global Sage. This company has taken a lease of 3,331 sq ft on part of the 27th floor at One Canada Square for a term of four years at a rent equating to £41.50 per sq ft. The group has also let 25,200 sq ft to Morgan Stanley at 25-30 Bank Street on a managed office basis at an all inclusive rent of £63.50 per sq ft. This space forms part of the 100,800 sq ft of space sub-let back to the group by Lehman Brothers for a term of 5 years as referred to in Note 25 to the accounts.

On 1 September 2004 BP-IST exercised an option over a further 19,500 sq ft in 20 Canada Square and as a result acquired an additional option over 47,000 sq ft exercisable up to 1 November 2004.

Executive Directors

George Iacobescu (58) **Chief Executive Officer** has day to day authority over the operations of the group and has a central role in the development and implementation of strategy. #

Peter Anderson (51) **Managing Director, Finance** has responsibility for the group's capital raising activities, accounting, strategic planning and analysis, taxation and information technology. #

Non-Executive Directors

Sir Martin Jacomb (74) **Non-Executive Chairman and Independent Non-Executive Director** acted as chairman of the company's Independent Committee of Directors throughout the takeover process.

John Carrafiell (39) head of Morgan Stanley's European Real Estate Group and a managing director of Morgan Stanley. *†#

Sam Levinson (30) managing director of Levinson Capital Management L.L.C. and advisor to the Glick entities. *†#

Alex Midgen (35) managing director and head of the real estate advisory business in Europe for Rothschild's Investment Banking Division.

Stephane Theuriau (39) managing director of Morgan Stanley based in London and head of the real estate investing business in Europe. *†

Brian Carr (38) alternate director to Stephane Theuriau. #

Robert Falls (39) alternate director to John Carrafiell. #

* Audit Committee

† Remuneration Committee

Operating Committee

74: Members' Information

Shareholder Enquiries

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

Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU
Telephone 0870 162 3100
Facsimile 020 8639 2342
E-mail ssd@capitaregistrars.com
Website www.capitaregistrars.com

Other Enquiries

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

Registered Office and Registered Number

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