

**CANARY WHARF FINANCE II PLC**  
29 APRIL 2014

**PUBLICATION OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED  
31 DECEMBER 2013**

Pursuant to sections 4.1 and 6.3.5 of the Disclosure and Transparency Rules, the board of Canary Wharf Finance II plc is pleased to announce the publication of its annual financial report for the year ended 31 December 2013, which will shortly be available from [www.canarywharf.com/aboutus/Investor-Relations/Financial-Information](http://www.canarywharf.com/aboutus/Investor-Relations/Financial-Information).

The information contained within this announcement, which was approved by the board of directors on 28 April 2014, does not comprise statutory accounts within the meaning of the Companies Act 2006 and is provided in accordance with section 6.3.5(2)(b) of the Disclosure and Transparency Rules.

In compliance with the Listing Rule 9.6.1, a copy of the 31 December 2013 annual financial report will be submitted to the UK Listing Authority via the National Storage Mechanism and will shortly be available to the public for inspection at [www.hemscott.com/nsm.do](http://www.hemscott.com/nsm.do).

Dated: 29 April 2014

**Contact for queries:**

J R Garwood  
Company Secretary  
Canary Wharf Finance II plc

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## STRATEGIC REPORT

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The following business review aims to provide shareholders with an overall summary of the business of the company as at 31 December 2013 and during the year then ended. The main factors likely to affect the future development, performance and position of the business of the company are set out in the principal risks and uncertainties section of this Report.

This business review should be read in conjunction with the remainder of the Strategic Report, the Directors' Report and the financial statements.

### BUSINESS MODEL

Canary Wharf Finance II plc is a finance vehicle that issues securities which are backed by commercial mortgages over high profile properties within the Canary Wharf estate. The company is engaged in the provision of finance to the Canary Wharf group, comprising Canary Wharf Group plc and its subsidiaries ('the group'). All activities take place within the United Kingdom.

### BUSINESS REVIEW

At 31 December 2013, the company had £2,285,659,081 (2012: £2,346,992,241) of notes listed on the London Stock Exchange and had lent the proceeds to a fellow subsidiary undertaking, CW Lending II Limited. The notes are secured on seven properties at Canary Wharf, owned by fellow subsidiary undertakings, and the rental income therefrom.

The securitisation has the benefit of an agreement with AIG which covers the rent in the event of a default by the tenant of 33 Canada Square over the entire term of its lease. AIG has posted £231.4 million as cash collateral in respect of this obligation.

The company also has the benefit of a £300.0 million liquidity facility provided by Lloyds Bank plc, under which drawings may be made in the event of a cash flow shortage under the securitisation.

The ratings of the notes are as follows:

| <b>Class</b> | <b>Moody's</b> | <b>Fitch</b> | <b>S&amp;P</b> |
|--------------|----------------|--------------|----------------|
| A1           | Aaa            | AAA          | A              |
| A3           | Aaa            | AAA          | A              |
| A7           | Aaa            | AAA          | A              |
| B            | A1             | AA           | A              |
| B3           | A1             | AA           | A              |
| C2           | Baa1           | A            | A              |
| D2           | Ba1            | BB           | BBB            |

As shown in the company's profit and loss account, the company's profit after tax for the year was £47,599,284 (2012: loss of £2,084,496). This included an unrealised fair value gain on derivative financial instruments of £46,480,895 (2012: loss of £3,189,411).

The balance sheet shows the company's financial position at the year end and indicates that net liabilities were £187,070,222 (2012: £282,270,367).

The movement in the financial position of the company is primarily due to the impact of the fair value of financial instruments, derived by reference to the market values provided by the relevant counter parties.

Financial Reporting Standard 26 (Financial Instruments: Recognition and Measurement) ('FRS 26') requires recognition of the mark to market of derivative financial instruments, which hedge the company's exposure to interest rate fluctuations, but the mark to market of the company's debtor loan and securitised debt has not been recognised.

Adjusting for the effects of FRS 26 the underlying net asset value of the company at 31 December 2013 was as follows:

|                                   | 31 December<br>2013<br>£ | 31 December<br>2012<br>£ |
|-----------------------------------|--------------------------|--------------------------|
| Net liabilities per balance sheet | (187,070,222)            | (282,270,367)            |
| Add back: Effects of FRS 26       | 191,443,661              | 286,411,840              |
| Adjusted net assets               | <u>4,373,439</u>         | <u>4,141,473</u>         |

## KEY PERFORMANCE INDICATORS

|   | 31 December<br>2013<br>£ | 31 December<br>2012<br>£ |
|---|--------------------------|--------------------------|
| Securitized debt                              | 2,285,659,081            | 2,346,992,241            |
| Financing cost (before adjustments for FRS26) | 139,259,568              | 142,979,111              |
| Adjusted profit before tax and FRS26          | 231,966                  | 178,215                  |
| Weighted average maturity of debt             | 14.7 years               | 15.3 years               |
| Weighted average interest rate                | 6.2%                     | 6.2%                     |

The adjusted profit before tax comprises the profit on ordinary activities before tax of £47,599,284 (2012: loss of £2,084,496) adjusted for the FRS 26 items listed in Note 3, totalling £47,367,318 (2012: £2,262,711).

## FUTURE DEVELOPMENTS

There have been no significant events since the balance sheet date.

## **STRATEGY & OBJECTIVES**

### **Exposure Management**

The mark-to-market positions of all the company's derivatives are reported to the Group Treasurer on a monthly basis and to the directors on a quarterly basis. The Group Treasurer monitors hedging activity on an ongoing basis, in order to notify the directors of any overhedging that may potentially occur and proposals to deal with such events.

### **Hedging Instruments and Transaction Authorisation**

Instruments that may be used for hedging interest rate exposure include:

- Interest rate swaps
- Interest rate caps, collars and floors
- Gilt locks

Instruments that may be used for managing foreign exchange exposure include:

- Cross currency swaps
- Spot and forward foreign exchange contracts

No hedging activity is undertaken without explicit authority of the board.

### **Transaction Accounting**

Under FRS26, all derivatives are required to be measured on balance sheet at fair value (mark-to-market).

Certain derivatives may be designated as part of a hedge relationship, whereby the derivative and the underlying hedged item (financial instrument) are accounted for in a manner in order to reduce profit and loss account volatility ("hedge accounting").

In order to apply hedge accounting, the company must comply with the following procedures:

- All hedge relationships proposed must be in line with the company's risk management policy stated above.
- All hedge relationships must be documented in advance, stating the purpose, including the nature of the risk being hedged, the type of hedge being undertaken, the item being hedged and the related hedging instrument and the methodology to be adopted to assess and measure the hedge effectiveness.
- Provide supporting documentation to include excerpts from loan or debenture issuance documentation, detailing principal and amortisation schedules and relevant excerpts from hedging derivative documentation.
- Both prospective and retrospective effectiveness testing are undertaken and approved by the Group Financial Controller.

### **Credit Risk**

The group's policies restrict the counterparties with which derivative transactions can be contracted and cash balances deposited. This ensures that exposure is spread across a number of approved financial institutions with high credit ratings.

All other debtors are receivable from other group undertakings.

## **PRINCIPAL RISKS AND UNCERTAINTIES**

The risks and uncertainties facing the business are monitored through continuous assessment, regular formal quarterly reviews and discussion at Canary Wharf Group plc audit committee and board level. Such discussion focuses on the risks identified as part of the system of internal control which highlights key risks faced by the company and allocates specific day to day monitoring and control responsibilities to management. As a member of Canary Wharf Group, the current key risks of the company include the cyclical nature of the property market, concentration risk and financing risk.

### **Cyclical nature of the property market**

The valuation of the Canary Wharf Group's assets is subject to many external economic and market factors. Turmoil in the financial markets and uncertainty in the Eurozone in recent years was initially reflected in the property market by such factors as a decline in tenant demand for space in London, the oversupply of available space in the office market and changing market perceptions of property as an investment resulting in fluctuations in property valuations in general. However, fears of an oversupply of available space in the market have been mitigated by the difficulty in securing finance for speculative development leading to reduced supply. The market has also been assisted by the continuing presence of overseas investors attracted by the relative transparency of the real estate market in London which is still viewed as both stable and secure. Changes in financial and property markets are kept under constant review so that the company can react appropriately and tailor its business accordingly.

### **Concentration risk**

The majority of the group's real estate assets are currently located on or adjacent to the Canary Wharf Estate with tenants that are mainly linked to the financial services industry. Wherever possible steps are taken to mitigate or avoid material consequences arising from this concentration and to diversify the tenant base.

### **Financing risk**

The broader economic cycle inevitably leads to movement in inflation, interest rates and bond yields.

The company holds debenture finance in sterling at both fixed and floating rates and uses interest rate swaps to modify its exposure to interest rate fluctuations. All of the company's borrowings are fixed after taking account of interest rate hedges. All borrowings are denominated in sterling and the company has no intention to borrow amounts in currencies other than sterling.

The company enters into derivative financial instruments solely for the purposes of hedging its financial liabilities. No derivatives are entered into for speculative purposes.

The company is not subject to externally imposed capital requirements. The company's securitisation is subject to a maximum loan minus cash to value ('LMCTV') ratio covenant.

The maximum LMCTV ratio is 100.0%. Based on the 31 December 2013 valuations of the properties upon which the company's notes are secured, the LMCTV ratio at the interest payment date in January 2014 would have been 63.4%. The securitisation is not subject to a minimum interest coverage ratio. A breach of covenant can be remedied by depositing eligible investments (including cash).

## PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2013

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|   |          | Year Ended<br>31 December<br>2013<br>£ | Year Ended<br>31 December<br>2012<br>£ |
|---|----------|--|--|
| Administrative expenses   |          | (17,760)                               | (17,759)                               |
| <b>OPERATING LOSS</b>   |          | <u>(17,760)</u>                        | <u>(17,759)</u>                        |
| Interest receivable and similar income                                  | <b>2</b> | 139,509,294                            | 143,175,085                            |
| Interest payable and similar charges                                    | <b>3</b> | (91,892,250)                           | (145,241,822)                          |
| <b>PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION</b>             |          | <u>47,599,284</u>                      | <u>(2,084,496)</u>                     |
| Tax on profit/(loss) on ordinary activities                             | <b>4</b> | —                                      | —                                      |
| <b>PROFIT/(LOSS) ON ORDINARY ACTIVITIES AFTER TAXATION FOR THE YEAR</b> | <b>9</b> | <u><u>47,599,284</u></u>               | <u><u>(2,084,496)</u></u>              |

Movements in reserves are shown in Note 9 of these financial statements.

All amounts relate to continuing activities in the United Kingdom.

The Notes numbered 1 to 12 form an integral part of these financial statements.

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 DECEMBER 2013**

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|  | Year Ended<br>31 December<br>2013<br>£ | Year Ended<br>31 December<br>2012<br>£ |
|--|--|--|
| Profit/(loss) for the financial year                 | 47,599,284                             | (2,084,496)                            |
| Fair value movement on effective hedging instruments | 31,905,094                             | (17,906,405)                           |
| Interest paid on effective hedging instruments       | 16,582,190                             | 14,830,772                             |
| Hedge reserve recycling                              | (886,423)                              | (926,700)                              |
| Total recognised gains/(losses) relating to the year | <u>95,200,145</u>                      | <u>(6,086,829)</u>                     |

The Notes numbered 1 to 12 form an integral part of these financial statements.

## BALANCE SHEET AT 31 DECEMBER 2013

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|  |           | 31 December<br>2013<br>£ | 31 December<br>2012<br>£ |
|--|-----------|--------------------------|--------------------------|
| <b>CURRENT ASSETS</b>  |           |                          |                          |
| Debtors  | <b>5</b>  |                          |                          |
| Amounts falling due after one year                             |           | 2,289,333,739            | 2,355,209,457            |
| Amounts falling due within one year                            |           | 93,598,310               | 90,553,799               |
| Cash at bank   | <b>6</b>  | 2,269,537                | 2,039,303                |
|  |           | <u>2,385,201,586</u>     | <u>2,447,802,559</u>     |
| <b>CREDITORS: Amounts falling due within one year</b>          | <b>7</b>  | (91,494,406)             | (88,451,626)             |
| <b>NET CURRENT ASSETS</b>                                      |           | <u>2,293,707,180</u>     | <u>2,359,350,933</u>     |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>                   |           | <u>2,293,707,180</u>     | <u>2,359,350,933</u>     |
| <b>CREDITORS: Amounts falling due after more than one year</b> | <b>8</b>  | (2,480,777,402)          | (2,641,621,300)          |
| <b>NET LIABILITIES</b>   |           | <u>(187,070,222)</u>     | <u>(282,270,367)</u>     |
| <b>CAPITAL AND RESERVES</b>                                    |           |                          |                          |
| Called-up share capital  | <b>14</b> | 50,000                   | 50,000                   |
| Hedging reserve  | <b>9</b>  | (90,840,161)             | (138,441,022)            |
| Profit and loss account  | <b>9</b>  | (96,280,061)             | (143,879,345)            |
| <b>SHAREHOLDER'S DEFICIT</b>                                   | <b>10</b> | <u>(187,070,222)</u>     | <u>(282,270,367)</u>     |

The Notes numbered 1 to 12 form an integral part of these financial statements.

APPROVED BY THE BOARD ON 28 APRIL 2014 AND SIGNED ON ITS BEHALF BY:

A P ANDERSON II

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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## 1. PRINCIPAL ACCOUNTING POLICIES

This announcement does not constitute the company's statutory accounts for the year ended 31 December 2013 but is derived from those accounts. The statutory accounts for the year ended 31 December 2013 will be delivered to the Registrar of Companies following the company's annual general meeting. The auditors have reported on those accounts and their report was unqualified, did not contain a reference to any matters to which the auditors drew attention by way of emphasis without qualifying the report and did not contain statements under sections 498(2) or (3) of the Companies Act 2006.

This announcement has been prepared on the basis of the accounting policies set out in the company's financial statements for the year ended 31 December 2013 which are prepared in accordance with UK generally accepted accounting principles. Such accounting policies have been applied consistently in all material respects throughout the current and previous years.

In accordance with the provisions of FRS 1 (Revised) the company is exempt from the requirements to prepare a cash flow statement, as it is a wholly-owned subsidiary of Canary Wharf Group plc, which has prepared a consolidated cash flow statement.

### 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 has adequate resources to continue its operations for the foreseeable future and hence the financial statements have been prepared on that basis.

At 31 December 2013 the company had a deficit of £187,070,222 attributable solely to the adoption of FRS26. Under the requirements of the standard the company recognises the fair value of its derivative financial instruments in the balance sheet. In the event that the company were to realise the fair value of the derivative financial instruments, it would have the right to recoup its losses as a repayment premium on its loans to CW Lending II Limited. The standard does not permit this potential asset to be accounted for in conjunction with the hedges.

Notwithstanding the deficit in net assets resulting from the treatment of derivative financial instruments required by FRS26, the directors have prepared the financial statements on a going concern basis on the grounds that the company will be able to meet its obligations as they fall due for a period of not less than 12 months from the date of the financial statements.

The directors have also reached the view that the value of the company's assets at the balance sheet date was not less than the amount of its liabilities for the purposes of Section 123(2) of the Insolvency Act 1986.

## 2. INTEREST RECEIVABLE AND SIMILAR INCOME

|   | Year Ended<br>31 December<br>2013<br>£ | Year Ended<br>31 December<br>2012<br>£ |
|---|--|--|
| Bank interest receivable                    | 18,901                                 | 21,432                                 |
| Interest receivable from group undertakings | 139,490,393                            | 143,153,653                            |
|   | <u>139,509,294</u>                     | <u>143,175,085</u>                     |

### 3. INTEREST PAYABLE AND SIMILAR CHARGES

|  | Year Ended<br>31 December<br>2013<br>£ | Year Ended<br>31 December<br>2012<br>£ |
|--|--|--|
| Interest payable on securitised debt                       | 139,259,568                            | 142,979,111                            |
| Fair value adjustments on derivative financial instruments | (46,480,895)                           | 3,189,411                              |
| Hedge reserve recycling (Note 9)                           | (886,423)                              | (926,700)                              |
|  | <u>91,892,250</u>                      | <u>145,241,822</u>                     |

Included in the interest payable on securitised debt is £1,370,123 (2012: £1,810,783) payable in respect of notes acquired by a fellow subsidiary undertaking (Note 8).

### 4. TAXATION

|  | Year Ended<br>31 December<br>2013<br>£ | Year Ended<br>31 December<br>2012<br>£ |
|--|--|--|
| Tax reconciliation:  |  |  |
| Profit/(loss) on ordinary activities before tax  | <u>47,599,284</u>                      | <u>2,084,496</u>                       |
| Tax on profit/(loss) on ordinary activities at UK corporation tax rate of 23.25% (2012: 24.5%) | 11,066,833                             | (510,702)                              |
| Effects of:  |  |  |
| Items not chargeable to tax  | (11,012,901)                           | 554,364                                |
| Group relief   | (53,932)                               | (43,662)                               |
| Current tax charge for the year  | <u>—</u>                               | <u>—</u>                               |

The tax rate of 23.25% has been calculated by reference to the current corporation tax rate of 23% which was in effect for the final three quarters of the year and the previous rate of 24% which was in effect for the first quarter of the year.

No provision for corporation tax has been made since the taxable profit for the year will be covered by the group relief expected to be made available to the company by other companies in the group. No charge will be made by other group companies for the surrender of group relief. There is no unprovided deferred taxation.

## 5. DEBTORS

|  | 31 December<br>2013<br>£ | 31 December<br>2012<br>£ |
|--|--------------------------|--------------------------|
| Due within one year:                           |                          |                          |
| Loan to fellow subsidiary undertaking          | 91,448,009               | 88,406,271               |
| Amounts owed by fellow subsidiary undertakings | 2,148,242                | 2,145,502                |
| Accrued interest receivable                    | 2,059                    | 2,026                    |
|  | <u>93,598,310</u>        | <u>90,553,799</u>        |
| Due after more than one year:                  |                          |                          |
| Loan to fellow subsidiary undertaking          | <u>2,289,333,739</u>     | <u>2,355,209,457</u>     |

The loans to a fellow subsidiary undertaking bear fixed rates of interest between 5.31% and 6.81% and are repayable in instalments between 2005 and 2035.

Other amounts owed by group companies are non-interest bearing.

The amount of the loan due within one year comprises £26,314,329 (31 December 2012: £27,073,111) of interest and £65,133,680 (31 December 2012: £61,333,160) of capital.

The carrying values of debtors due within one year also represent their fair values. The fair value of the loans to group undertakings at 31 December 2013 was £2,646,933,428 (31 December 2012: £2,881,562,879), calculated by reference to the fair values of the company's financial liabilities. The carrying value of financial assets represents the company's maximum exposure to credit risk.

## 6. FINANCIAL ASSETS

The company's financial assets comprise loans to fellow group undertakings, cash at bank and derivative financial instruments.

Cash at bank totalled £2,269,537 at 31 December 2013 (2012: £2,039,303) which was held as cash collateral for the company's borrowings and has a term of one month or less.

Cash at bank earns interest at floating rates linked to bank deposit rates.

## 7. CREDITORS: Amounts falling due within one year

|                              | 31 December<br>2013<br>£ | 31 December<br>2012<br>£ |
|------------------------------|--------------------------|--------------------------|
| Securitised debt             | 91,484,206               | 88,441,426               |
| Accruals and deferred income | 10,200                   | 10,200                   |
|                              | <u>91,494,406</u>        | <u>88,451,626</u>        |

The amount of the securitised debt due within one year comprises £26,350,526 (2012: £27,108,266) of interest and £65,133,680 (2012: £61,333,160) of capital.

## 8. CREDITORS: Amounts falling due after more than one year

|                                  | 31 December<br>2013<br>£ | 31 December<br>2012<br>£ |
|----------------------------------|--------------------------|--------------------------|
| Securitised debt                 | 2,289,333,741            | 2,355,209,460            |
| Derivative financial instruments | 191,443,661              | 286,411,840              |
|                                  | <u>2,480,777,402</u>     | <u>2,641,621,300</u>     |

The securitised debt has a face value of £2,285.7m (2012: £2,347.0m) of which £1,559.7m (2012: £1,621.0m) carries fixed rates of interest between 5.95% and 6.80%. The other £726.0m (2012: £726.0m) carries floating rates of interest at LIBOR plus a margin. The company uses interest rate swaps to hedge exposure to the variability in cash flows on floating rate debt caused by movements in market rates of interest. The hedged rates of the floating rate notes, including margins, are between 5.30% and 6.74%.

The amounts at which borrowings are stated comprise:

|                                      | 31 December<br>2013<br>£ | 31 December<br>2012<br>£ |
|--------------------------------------|--------------------------|--------------------------|
| Brought forward                      | 2,416,542,620            | 2,474,995,254            |
| Repaid in year                       | (61,333,160)             | (57,532,640)             |
| Amortisation of issue premium        | (4,310,026)              | (4,489,851)              |
| Accrued financing expenses           | 3,567,987                | 3,569,857                |
| Carried forward                      | <u>2,354,467,421</u>     | <u>2,416,542,620</u>     |
| Payable within one year or on demand | 65,133,680               | 61,333,160               |
| Payable after more than one year     | 2,289,333,741            | 2,355,209,460            |
|                                      | <u>2,354,467,421</u>     | <u>2,416,542,620</u>     |

The company's securitised debt was issued in tranches, comprising classes A1, A3, A7, B, B3, C2 and D2.

Interest on the floating rate notes is at three month LIBOR plus a margin. The margins on the notes are: A7 notes - 0.19% increasing to 0.475% in January 2017; B3 notes - 0.28% per annum, increasing to 0.7% per annum in January 2017; C2 notes - 0.55% per annum, increasing to 1.375% in April 2014; and D2 notes - 0.84% per annum, increasing to 2.1% in April 2014.

Certain of the A1, A3 and B notes were issued at a premium which is being amortised to the profit and loss account on a straight-line basis over the life of the relevant notes. At 31 December 2013 £44,937,010 (2012: £49,247,036) remained unamortised.

At 31 December 2013 there were accrued financing costs of £23,871,330 (2012: £20,303,343) relating to future increases in margins.

£119,778,000 of the notes, comprising £26,101,000 of B3 notes, £35,338,000 of C2 notes and £58,339,000 of D2 notes, were acquired by a fellow subsidiary undertaking in 2009. These notes remain in issue and have not been cancelled.

The notes are secured on seven properties at Canary Wharf, owned by fellow subsidiary undertakings, and the rental income stream therefrom.

The securitisation has the benefit of an arrangement with AIG which covers the rent in the event of a default by the tenant of 33 Canada Square, over the entire term of its lease. AIG has posted £231.4m as cash collateral in respect of this obligation. The annual fee payable in respect of the above arrangement currently totals £2.1m.

The company also has the benefit of a £300.0m liquidity facility provided by Lloyds, under which drawings may be made in the event of a cash flow shortage under the securitisation. This facility is renewable annually.

The market value of the securitised debt at 31 December 2013 was £2,455.5m (2012: £2,595.2m).

The weighted average maturity of the debentures at 31 December 2013 was 14.7 years (2012: 15.3 years).

After taking into account the interest rate hedging arrangements, the weighted average interest rate of the company at 31 December 2013 was 6.2% (2012: 6.2%).

At 31 December 2013 the fair value of the interest rate derivatives resulted in the recognition of a net liability of £191,443,661 (2012: £286,411,840). Of this net liability £98,838,303 (2012: £147,325,587) was in respect of interest rate swaps which qualify for hedge accounting and £92,605,358 (2012: £139,086,253) was in respect of interest rate swaps and collars which do not qualify for hedge accounting.

The fair values of the derivative financial instruments have been determined by reference to market values provided by the relevant counter party and have been classified as level 2, as defined in accordance with FRS 29 Financial Instruments: Disclosures.

The terms of the derivative financial instruments correlate with the terms of the financial instruments to which they relate. Consequently the cash flows and effect on profit or loss are expected to arise over the term of the financial instrument set out above.

## 9. RESERVES

|  | <b>Hedging<br/>reserve</b> | <b>Profit and loss<br/>account</b> | <b>Total</b>         |
|--|----------------------------|------------------------------------|----------------------|
|  | £                          | £                                  | £                    |
| At 1 January 2013                                    | (138,441,022)              | (143,879,345)                      | (282,320,367)        |
| Profit for the year                                  | –                          | 47,599,284                         | 47,599,284           |
| Fair value movement on effective hedging instruments | 31,905,094                 | –                                  | 31,905,094           |
| Interest paid on effective hedging instruments       | 16,582,190                 | –                                  | 16,582,190           |
| Hedge reserve recycling                              | (886,423)                  | –                                  | (886,423)            |
| At 31 December 2013                                  | <u>(90,840,161)</u>        | <u>(96,280,061)</u>                | <u>(187,120,222)</u> |

The hedge reserve recycling relates to the B2 and C1 interest rate swaps, for which the hedging instruments have been novated but the forecast transactions to which they relate are still expected to occur.

## 10. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' DEFICIT

|  | 31 December<br>2013<br>£ | 31 December<br>2012<br>£ |
|--|--------------------------|--------------------------|
| Opening shareholders' deficit                        | (282,270,367)            | (276,183,538)            |
| Profit/(loss) for the year                           | 47,599,284               | (2,084,496)              |
| Fair value movement on effective hedging instruments | 31,905,094               | (17,906,405)             |
| Interest paid on effective hedging instruments       | 16,582,190               | 14,830,772               |
| Hedge reserve recycling                              | (886,423)                | (926,700)                |
| Closing shareholders' deficit                        | <u>(187,070,222)</u>     | <u>(282,270,367)</u>     |

## 11. CONTINGENT LIABILITIES AND FINANCIAL COMMITMENTS

As at 31 December 2013 and 31 December 2012 the company had given a fixed charge over all its assets, including first fixed charges over its bank accounts, to secure the notes referred to in Note 8.