

Minerva plc
Interim report 2004
for the six months to 31 December 2004



Contents

01	Financial highlights
02	Chairman's statement
04	Consolidated profit and loss account
05	Consolidated balance sheet
06	Statement of total recognised gains and losses
06	Note of historical cost profits and losses
07	Reconciliation of movements in equity shareholders' funds
07	Summary consolidated cash flow statement
08	Notes to the accounts
13	Advisers to the Company

Introduction

Minerva is a property investment and development company whose principal strategy is to create shareholder wealth through investment in commercial property.

Financial highlights

Net rental income increased by 7.2 per cent to £27.4 million
(2003: £25.5 million)

Profit before tax of £1.3 million from Minerva's core real estate business
(2003: £0.6 million)

Loss before tax for the period, after discontinued operations and exceptional items, was £20.6 million
(2003: £4.4 million)

Interim dividend increased by 1.9 per cent to 1.09 pence per share
(2003: 1.07 pence)

Cash reserves of £85.2 million
(June 2004: £103.9 million)

Chairman's statement

Sir David Garrard



I wrote to you in September of last year explaining that we had arrived at a watershed in the Group's history and that the months that were to follow would be defining not only for Minerva's shareholders but also its management team.

Before I expand on the events that transpired since the June 2004 year end, I would like to turn to the financial results for the six months to 31 December 2004.

Interim results

Profit before tax of £1.3 million was derived from Minerva's core real estate business (2003: £0.6 million). The Group has also recognised two charges relating to Scarlett Retail Group Limited ("Scarlett Retail"). First, the book value of our net investment in the joint venture of approximately £13.9 million has been written-off. In addition, we recognised a loss of £8.0 million when, following Alders being put into administration, we transferred the rights to a £10.0 million loan advanced to Alders, to Epsilon Investments Limited for £2.0 million. After the inclusion of these non-recurring items totalling £21.9 million, the loss before tax for the Group for the half-year was £20.6 million (2003: £4.4 million).

Notwithstanding the impact of Scarlett Retail upon Minerva's consolidated accounts the Directors have resolved to pay an interim dividend of 1.09 pence per share (2003: 1.07 pence) and this will be paid on 14 April 2005 to those shareholders on the register at the close of business on 11 March 2005.

Potential offer discussions

In July of last year we announced that Minerva had received an approach from a third party with respect to the purchase of the Company's entire issued share capital. As a consequence of this approach and the subsequent expressions of interest that were received from other parties, the Board resolved to enter into discussions with a view to evaluating whether or not an acceptable offer could be achieved.

Over a period of some six months detailed negotiations took place culminating in an announcement on 27 January 2005 of the termination of all discussions with third parties. In this announcement I set out my views on the strength of Minerva's asset base and its major development opportunities. Put simply, the proposals that we received did not fully reflect the Board's view of the value of the Company and, in particular, its potential for future value creation.

At the 30 June 2004 year end, the value of Minerva's property portfolio was £1,205.5 million, consisting of £801.1 million of income producing investment property and £404.4 million being a mixture of investment and development assets including our three major London based development projects: The Walbrook, London EC4, The Minerva Building, London EC3 and Park Place, Croydon.

This portfolio provides Minerva with a broad range of opportunities for its management team to create ongoing value for shareholders through active asset management and the unlocking of development surpluses. Such activity is set against the generally perceived robust economic background and strong property investment market.

Scarlett Retail

I would now like to address the position of our investment in Scarlett Retail, which is the principal holding company of the Alders Group.

In our circular to shareholders relating to the acquisition of Alders plc in December 2002, we set out the background to and reasons for the overall transaction, which were in essence twofold. First, to acquire at the most convenient time Alders' existing Croydon store, redevelop it and simultaneously provide Alders as the anchor tenant in a new department store within the Park Place scheme. The terms of this agreement were provided in the 2002 circular and replaced the original agreement entered into with Alders in February 2000. Second, I explained that under the stewardship of Terry Green and Phil Cox, who both possess significant retailing experience, and had produced detailed business plans and projections, we believed that there was inherent value in the Alders' business which could be realised more readily by taking it private. Unfortunately, the events that unfolded over the ensuing two years proved the second reason to be wide of the mark.

With declining footfall across the stores, a significant fall in annual retail sales and increasingly competitive trading conditions throughout the UK, the shareholders of Scarlett Retail took the decision to sell the business as a going concern in December 2004. It was anticipated that such a sale would have concluded by March 2005.

On 19 January 2005, having received a number of proposals for either the acquisition of Scarlett Retail or its individual assets, Minerva was notified by Lehman Brothers that Mable Commercial Funding Limited (a lending arm of Lehman Brothers) had sold its debt and commitments in the Alders Group to Epsilon Investments Limited, who appointed Hilco as its representative for the acquisition, and on 26 January 2005 Alders Department Stores Ltd and Alders Stores Ltd were placed into administration.

Subsequent to the appointment of the administrator the development agreement between Minerva and Alders relating to the new store in Croydon, which was to have been taken by Alders, was terminated. In addition, we have granted a rent free period commencing on 26 March 2005 and ending on 9 May 2005 over the existing Croydon store. These new arrangements along with our right to determine the Alders' lease on its existing store gives us full flexibility in respect of these aspects of the Park Place development.

I would now like to address the issue of the Alders' pension fund which has been the subject of much debate and speculation in the national press. No one should doubt our concern for the employees and pensioners of Alders. Minerva worked hard to ensure that Alders continued to trade as a going concern. We advanced loans, re-advanced those loans, and offered to extend those loans to the company in order to enable the continuation of the sale process with the intention of avoiding administration.

Having mind to press reports in respect of Minerva's liability to the Alders' pension fund, it was incumbent upon us to make a public statement that we had been advised that Minerva has no liability for the pension fund deficit and that any action which may be taken against it by the new pension regulator is unlikely to succeed. This however should in no way detract from the position that I have expressed in the preceding paragraph.

Clearly, much of the past six months has been taken up navigating a delicate corporate path between two time consuming and important activities both of which have now come to an end. During what has been a turbulent period for Minerva, which inevitably diverted the attention of the Company away from our core activities, we have, notwithstanding, had the benefit of a strong asset base which has, to a very great extent, enabled us to weather the recent storm with relatively little impact upon our balance sheet. Moreover, as we move forward, we do not expect any further adverse impact from the Scarlett Retail joint venture upon our profit and loss account.

Core business

We are a real estate investment and development Group with a portfolio of first class property assets. Included within the portfolio are a range of prime Central London investment properties such as The Criterion development comprising the entire south side of Piccadilly Circus; Sampson House and Ludgate House located adjacent to the Tate Modern on London's Southbank; significant holdings in Wigmore Street, Wimpole Street and Welbeck Street; in addition to the recently developed headquarter office building at 90 High Holborn.

Activity relating to our development properties has continued. Our one million sq.ft. shopping centre development, Park Place, has moved further ahead with the making of the compulsory purchase order by Croydon Council. We have also entered into an agreement with Nestlé which inter alia enables their continued occupation within the Croydon area as part of a land exchange in respect of existing buildings which are situated on the proposed Park Place development site.

With regard to our two major City office development projects, The Minerva Building designed by Grimshaw, and The Walbrook designed by Foster and Partners, we have continued to take the necessary steps that will enable the development of both sites when conditions are right.

The future

This is now a pivotal moment for Minerva and an opportune time to draw a line in the sand so that we can take the Company forward and focus on our core real estate activities.

With this in mind, the Board considers it appropriate to draw from the experiences of the past six months and to take a fresh approach to our corporate framework, the activities of the Group and the method by which such activities are reported, not only to shareholders but also those who follow our stock and the wider investment community. We are now laying the foundations of change during the course of the year in order that the main benefits are clearly visible by the time we report our final figures for the June 2005 year end.

I set out below what the Board regards as its main objectives going forward:

1. We will focus upon unlocking the value from our development assets through a combination of pre-lettings, joint ventures and non-recourse finance.
2. We will consider selective disposals within the investment portfolio in order to facilitate further investment in assets which can create superior returns to shareholders.
3. We will be seeking to add further breadth and depth to our Board with key appointments at both executive and non-executive levels.
4. We will address the issues of reporting in order that a clearer understanding of the key elements of our business can be readily and easily grasped.

Minerva is a company that Andrew Rosenfeld and I created in 1988 and which we brought to the stock market in 1996. I am very proud of our achievements to date. There is a good and appropriate time to hand over the leadership of the Company and I feel that, at the age of 66, this time has arrived. Andrew Rosenfeld will become Executive Chairman and this will take effect from 31 March 2005.

It has been a privilege and a pleasure to have been Chairman since the inception of the Company, and I would like to take this opportunity of thanking all of my colleagues who have worked incredibly hard and enthusiastically during my tenure as Chairman.

Sir David Garrard Chairman
3 March 2005

04/05

Consolidated profit and loss account

For the six months ended 31 December 2004

	Note	(Unaudited) Six months to 31 December 2004 £000	(Unaudited) Six months to 31 December 2003 £000	(Audited) Year to 30 June 2004 £000
Group and share of joint venture turnover		145,759	161,114	300,324
Less: Share of joint venture turnover		(113,325)	(130,371)	(238,887)
Group turnover		32,434	30,743	61,437
Property outgoings		(5,074)	(5,226)	(8,945)
Net rental income		27,360	25,517	52,492
Administrative expenses	3	(12,181)	(3,627)	(9,721)
Other income		116	142	289
Group operating profit		15,295	22,032	43,060
Loss arising on joint venture	12	(10,112)	(911)	(16,144)
Total operating profit		5,183	21,121	26,916
Profit on sale of investment property		–	–	518
Income from investments		1	–	7
Group net financing costs	4	(21,958)	(21,384)	(42,359)
Share of joint venture net financing costs	12	(3,817)	(4,159)	(7,951)
Loss on ordinary activities before taxation		(20,591)	(4,422)	(22,869)
Taxation	5	(782)	(323)	1,507
Loss on ordinary activities after taxation		(21,373)	(4,745)	(21,362)
Dividends	6	(1,754)	(1,720)	(5,144)
Loss for the period		(23,127)	(6,465)	(26,506)
Loss per share	7	(13.3p)	(3.0p)	(13.3p)

Consolidated balance sheet

As at 31 December 2004

	Note	(Unaudited) As at 31 December 2004 £000	(Unaudited) As at 31 December 2003 £000	(Audited) As at 30 June 2004 £000
Fixed assets				
Investment properties	8	1,208,493	1,065,352	1,202,847
Tangible fixed assets		680	1,034	808
Investments		5,082	5,041	5,082
Investment in joint venture	12	–	–	13,929
		1,214,255	1,071,427	1,222,666
Current assets				
Debtors		11,679	10,051	16,513
Cash at bank and in hand		85,234	129,442	103,898
		96,913	139,493	120,411
Creditors: Amounts falling due within one year		(42,013)	(40,548)	(48,831)
Net current assets		54,900	98,945	71,580
Total assets less current liabilities		1,269,155	1,170,372	1,294,246
Creditors: Amounts falling due after more than one year		(674,981)	(660,555)	(678,077)
Provisions for liabilities and charges	11	(6,898)	(5,546)	(6,116)
Provision for joint venture	12	–	(2,001)	–
Net assets		587,276	502,270	610,053
Capital and reserves				
Called up share capital		40,230	40,161	40,185
Share premium account		198,098	197,634	197,793
Revaluation reserve		344,789	241,413	370,905
Other reserves		41,795	41,795	41,795
Profit and loss account		(37,636)	(18,733)	(40,625)
Equity shareholders' funds		587,276	502,270	610,053
Net asset value per share	13	365.0p	312.7p	379.5p

06/07

Statement of total recognised gains and losses

For the six months ended 31 December 2004

	(Unaudited) Six months to 31 December 2004 £000	(Unaudited) Six months to 31 December 2003 £000	(Audited) Year to 30 June 2004 £000
Loss on ordinary activities after taxation	(21,373)	(4,745)	(21,362)
Unrealised surplus on revaluation of investment properties	–	–	95,086
Share of joint venture unrealised revaluation surplus	–	–	26,116
Unrealised share of joint venture gain	–	–	6,439
Total recognised gains and losses for the period	(21,373)	(4,745)	106,279

Note of historical cost profits and losses

For the six months ended 31 December 2004

	(Unaudited) Six months to 31 December 2004 £000	(Unaudited) Six months to 31 December 2003 £000	(Audited) Year to 30 June 2004 £000
Loss on ordinary activities before taxation	(20,591)	(4,422)	(22,869)
Realisation of revaluation deficit of previous years	–	–	(1,851)
Historical cost loss on ordinary activities before taxation	(20,591)	(4,422)	(24,720)
Historical cost loss for the period retained after taxation and dividends	(23,127)	(6,465)	(28,357)

Reconciliation of movements in equity shareholders' funds

For the six months ended 31 December 2004

	(Unaudited) Six months to 31 December 2004 £000	(Unaudited) Six months to 31 December 2003 £000	(Audited) Year to 30 June 2004 £000
Loss on ordinary activities after taxation	(21,373)	(4,745)	(21,362)
Dividends	(1,754)	(1,720)	(5,144)
	(23,127)	(6,465)	(26,506)
Unrealised surplus on revaluation of investment properties	–	–	95,086
Share of joint venture unrealised revaluation surplus	–	–	26,116
Unrealised share of joint venture gain	–	–	6,439
New share capital issued	350	646	829
Net movement in equity shareholders' funds	(22,777)	(5,819)	101,964
Opening equity shareholders' funds	610,053	508,089	508,089
Closing equity shareholders' funds	587,276	502,270	610,053

Summary consolidated cash flow statement

For the six months ended 31 December 2004

	Note	(Unaudited) Six months to 31 December 2004 £000	(Unaudited) Six months to 31 December 2003 £000	(Audited) Year to 30 June 2004 £000
Net cash inflow from operating activities	14a	20,958	20,468	44,029
Dividend received from joint venture		–	1,750	1,750
Returns on investments and servicing of finance		(20,773)	(20,186)	(40,504)
Taxation		–	–	–
		185	2,032	5,275
Capital expenditure and financial investment		(11,126)	(11,268)	(56,803)
Acquisitions		–	(107)	(107)
Equity dividends paid		(3,290)	(3,302)	(5,121)
Cash outflow before use of liquid resources and financing		(14,231)	(12,645)	(56,756)
Movements in liquid resources		8,461	14,248	48,342
Financing		(4,433)	919	19,486
(Decrease)/increase in cash	14b	(10,203)	2,522	11,072

1. Accounting policies

The financial information included in the Interim Report comprises the consolidated profit and loss account and balance sheet, statement of total recognised gains and losses, note of historical cost profits and losses, reconciliation of movements in equity shareholders' funds, summary consolidated cash flow statement and summary notes. This has been prepared in accordance with the normal accounting policies of the Group, except for that disclosed in note 8 regarding valuation of investment properties.

2. Companies Act 1985

The financial information for the year to 30 June 2004 does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985. It is extracted from the statutory accounts for that period, on which the auditors, PricewaterhouseCoopers LLP, gave an unqualified report under Section 236 of the Companies Act 1985 which did not contain a statement under Section 237(2) or Section 237(4) of the Companies Act 1985. Statutory accounts for the year to 30 June 2004 have been delivered to the Registrar of Companies.

The financial information for the six months to 31 December 2004 has neither been audited nor reviewed by the Group's auditors.

3. Financial information

	(Unaudited) Six months to 31 December 2004			
	Core real estate business £000	Discontinued operations £000	Exceptional items £000	Total £000
Group and share of joint venture turnover	32,434	113,325	–	145,759
Less: Share of joint venture turnover	–	(113,325)	–	(113,325)
Group turnover	32,434	–	–	32,434
Property outgoings	(5,074)	–	–	(5,074)
Net rental income	27,360	–	–	27,360
Administrative expenses	(4,181)	–	(8,000)	(12,181)
Other income	116	–	–	116
Group operating profit/(loss)	23,295	–	(8,000)	15,295
Loss arising on joint venture	–	(10,112)	–	(10,112)
Total operating profit/(loss)	23,295	(10,112)	(8,000)	5,183
Income from investments	1	–	–	1
Group net financing costs	(21,958)	–	–	(21,958)
Share of joint venture net financing costs	–	(3,817)	–	(3,817)
Profit/(loss) on ordinary activities before taxation	1,338	(13,929)	(8,000)	(20,591)
Taxation	(782)	–	–	(782)
Profit/(loss) on ordinary activities after taxation	556	(13,929)	(8,000)	(21,373)

Discontinued operations relates to the Group's share in Scarlett Retail Group Limited ("Scarlett Retail"), which was placed into administration after the period end. The overall charge to the profit and loss account comprises the loss arising on joint venture, share of joint venture net financing costs and taxation, and is equivalent to the Group's net investment in joint venture included in the consolidated balance sheet of the Group as at 30 June 2004.

Exceptional items represents the irrecoverable part of a £10,000,000 loan made by the Group to Alders Department Stores Limited, a subsidiary of Scarlett Retail.

4. Group net financing costs

	(Unaudited) Six months to 31 December 2004 £000	(Unaudited) Six months to 31 December 2003 £000	(Audited) Year to 30 June 2004 £000
Bank interest and charges	24,347	23,609	47,372
Capitalised during the period	–	–	(513)
	24,347	23,609	46,859
Interest receivable	(2,389)	(2,225)	(4,500)
	21,958	21,384	42,359

5. Taxation

	(Unaudited) Six months to 31 December 2004 £000	(Unaudited) Six months to 31 December 2003 £000	(Audited) Year to 30 June 2004 £000
UK corporation tax	–	–	–
Deferred tax	782	323	893
Group corporation tax charge	782	323	893
Share of tax credit of joint venture	–	–	(2,400)
Total taxation charge/(credit)	782	323	(1,507)

6. Dividends

The interim dividend of 1.09 pence (2003: 1.07 pence) per ordinary share is payable on 14 April 2005 to members on the register at the close of business on 11 March 2005. The interim dividend has been calculated based on 160,918,640 (31 December 2003: 160,738,453) ordinary shares currently in issue.

7. Loss per share

Loss per share is calculated on a weighted average of 160,775,107 ordinary shares of 25 pence each in issue throughout the period (year to 30 June 2004: 160,536,342 ordinary shares; six months to 31 December 2003: 160,373,550 ordinary shares), and is based on losses attributable to ordinary shareholders of £21,373,000 (year to 30 June 2004: £21,362,000; six months to 31 December 2003: £4,745,000).

Due to the loss in the periods the exercise of share options does not have a dilutive effect.

8. Investment properties

Investment properties owned at 30 June 2004 are included in the balance sheet at 31 December 2004 at the independent valuation at 30 June 2004, as adjusted for UITF 28, plus costs incurred on the properties since that date, less disposals at valuation.

9. Maturity of financial liabilities

The debt maturity profile of the Group's bank and building society borrowings at 31 December 2004 is as follows:

	(Unaudited) Six months to 31 December 2004 £000	(Unaudited) Six months to 31 December 2003 £000	(Audited) Year to 30 June 2004 £000
Less than one year	8,421	6,937	8,809
Between one and two years	17,551	7,203	17,291
Between two and five years	198,303	214,047	198,976
Over five years	462,725	443,186	465,668
	687,000	671,373	690,744
Unamortised loan issue costs	(3,598)	(3,881)	(3,858)
	683,402	667,492	686,886

10. Fair value of financial instruments

A valuation was carried out as at 31 December 2004 by J C Rathbone Associates Limited to calculate the fair value of the Group's financial instruments used to protect its current and future interest rate costs. The fair value adjustment represents the cost of replacing the existing financial instruments on 31 December 2004 at rates prevailing on that date. The fair value at 31 December 2004 was £37,197,000 (30 June 2004: £15,139,000; 31 December 2003: £34,702,000) greater than the book value, which if taken to reserves after tax relief at 30 per cent, would reduce the Group's net asset value by £26,038,000 (30 June 2004: £10,597,000; 31 December 2003: £24,291,000) or 16.2 pence per share (30 June 2004: 6.6 pence; 31 December 2003: 15.1 pence).

11. Provisions for liabilities and charges

	(Unaudited) Six months to 31 December 2004 £000	(Unaudited) Six months to 31 December 2003 £000	(Audited) Year to 30 June 2004 £000
At beginning of period	6,116	5,223	5,223
Charge for the period	782	323	893
At end of period	6,898	5,546	6,116

The provision is entirely for deferred taxation, primarily relating to accelerated capital allowances and other timing differences.

12. Joint venture

Throughout the period the Group had an investment in Scarlett Retail, a joint venture with Lehman Brothers and Scarlett Retail's management team. Scarlett Retail was placed into administration after the period end.

	(Unaudited) Six months to 31 December 2004 £000	(Unaudited) Six months to 31 December 2003 £000	(Audited) Year to 30 June 2004 £000
At beginning of period	13,929	3,069	3,069
Loss arising on joint venture	(10,112)	(911)	(16,144)
Share of joint venture net financing costs	(3,817)	(4,159)	(7,951)
Share of joint venture taxation	–	–	2,400
Share of unrealised revaluation gain	–	–	26,116
Unrealised share of joint venture gain	–	–	6,439
At end of period	–	(2,001)	13,929

13. Net asset value per share

Net asset value per share is calculated on 160,918,640 ordinary shares of 25 pence each in issue at 31 December 2004 (30 June 2004: 160,738,453; 31 December 2003: 160,645,671) and is based on net assets attributable to shareholders of £587,276,000 (30 June 2004: £610,053,000; 31 December 2003: £502,270,000).

14. Cash flow statement

a. Reconciliation of operating profit to net cash movement from operating activities

	(Unaudited) Six months to 31 December 2004 £000	(Unaudited) Six months to 31 December 2003 £000	(Audited) Year to 30 June 2004 £000
Group operating profit	15,295	22,032	43,060
Irrecoverable part of loan to joint venture	8,000	–	–
Depreciation charge	291	316	616
Profit on sale of tangible fixed assets	(24)	(11)	(12)
Movement in debtors	1,324	(1,762)	(2,724)
Movement in creditors	(3,928)	(107)	3,089
Net cash movement from operating activities	20,958	20,468	44,029

14. Cash flow statement continued
b. Reconciliation of net cash flow to net debt

	(Unaudited) Six months to 31 December 2004 £000	(Unaudited) Six months to 31 December 2003 £000	(Audited) Year to 30 June 2004 £000
(Decrease)/increase in cash during the period	(10,203)	2,522	11,072
Cash inflow from movement in liquid resources	(8,461)	(14,248)	(48,342)
Cash outflow/(inflow) from movement in debt financing	4,871	(248)	(18,263)
Other movements	(1,387)	(1,267)	(2,646)
Movement in net debt during the period	(15,180)	(13,241)	(58,179)
Opening net debt	(582,988)	(524,809)	(524,809)
Closing net debt	(598,168)	(538,050)	(582,988)

	(Unaudited) As at 31 December 2004 £000	(Unaudited) As at 31 December 2003 £000	(Audited) As at 30 June 2004 £000
Net debt			
Debt due within one year	(8,421)	(6,937)	(8,809)
Debt due after one year	(674,981)	(660,555)	(678,077)
	(683,402)	(667,492)	(686,886)
Cash at bank and in hand	85,234	129,442	103,898
	(598,168)	(538,050)	(582,988)

15. Copies of the Interim report

Copies of the Interim report are available from the Company Secretary at 42 Wigmore Street, London W1U 2RY.

Advisers to the Company

Registrars

Capita IRG Plc
The Registry
34 Beckenham Road
Kent BR3 4TU

Stockbroker

Schroder Salomon Smith Barney
Citigroup Centre
33 Canada Square
Canary Wharf
London E14 5LB

Financial advisers

NM Rothschild & Sons Ltd
New Court
St Swithin's Lane
London EC4P 4DU

HSBC Bank plc
8 Canada Square
Canary Wharf
London E14 5HQ

Solicitors

Olswang
90 High Holborn
London WC1V 6XX

Auditors

PricewaterhouseCoopers LLP
1 Embankment Place
London WC2N 6RH

Valuers

Atis Real Weatheralls Ltd
Norfolk House
31 St James's Square
London SW1Y 4JR

Principal bankers

Barclays Bank PLC
PO Box 544
54 Lombard Street
London EC3V 9EX

Bradford & Bingley PLC
PO Box 88
Crossflats, Bingley
West Yorkshire BD16 2UA

Deutsche Postbank AG
London Branch
61 Queen Street
London EC4R 1AE

Lloyds TSB Bank plc
25 Gresham Street
London EC2V 7HN

Nationwide Building Society
Kings Park Road
Moulton Park
Northampton NN3 6NW

The Royal Bank of Scotland PLC
135 Bishopsgate
London EC2M 3UR

Registered office

25 Harley Street
London W1G 9BR

Registered in England
2649607

Website

www.minervapl.com

Design: Radley Yeldar
Photography: George Brooks

