

The Atlantic Philanthropies

Combined Financial Statements
December 31, 2005 and 2004

May 29, 2006

Report of Independent Auditors

To the Trustees and Directors of The Atlantic Philanthropies (Note 1):

In our opinion, the accompanying combined statements of financial position and the related combined statements of revenue and expenses, of changes in net assets and of cash flows present fairly, in all material respects, the combined financial position of **The Atlantic Philanthropies** (Note 1) at December 31, 2005 and 2004, and the results of their combined operations, changes in their combined net assets and their combined cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of The Atlantic Philanthropies' management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As explained in note 2(e) to these combined financial statements, other portfolio investments include investments whose values have been estimated by management in the absence of readily ascertainable market values. Those estimated values may differ significantly from the values that would have been used had a ready market for the securities existed, and the differences could be material.

PricewaterhouseCoopers

Chartered Accountants

The Atlantic Philanthropies

Combined Balance Sheets

As at December 31, 2005 and 2004

(expressed in thousands of U.S. dollars)

	2005 \$	2004 \$
Assets		
Investments, at fair value		
Marketable securities (notes 2(c) and 3)	374,369	150,516
Marketable securities sold under reverse repurchase agreements (notes 2(c), (m) and 3)	520,132	293,827
Investment funds (notes 2(d) and 4)	1,609,950	1,925,445
Other portfolio investments (notes 2(e) and 5)	1,008,953	981,947
	<u>3,513,404</u>	<u>3,351,735</u>
Cash and cash equivalents (notes 2(g), (h) and 7)	552,534	607,099
Other current assets (note 9)	50,780	36,383
Property and equipment (notes 2(i) and 10)	175,568	185,366
Loans receivable (notes 2(j) and 11)	-	1,532
Other assets (note 12)	33,055	35,264
Investment in associated companies (note 2(a))	23,144	7,594
	<u>4,348,485</u>	<u>4,224,973</u>
Liabilities		
Donations payable (notes 2(l) and 13)	484,997	546,040
Borrowings under reverse repurchase agreements (notes 2(m) and 3)	516,831	295,000
Derivative contracts, net (notes 2(f) and 6)	2,671	(15,732)
Other current liabilities (note 14)	45,138	44,590
Debt obligations (note 15)	33,750	32,751
Other liabilities	22,927	19,845
Minority interest	49	-
	<u>1,106,363</u>	<u>922,494</u>
Total liabilities	1,106,363	922,494
Net assets (unrestricted)	<u>3,242,122</u>	<u>3,302,479</u>
	<u>4,348,485</u>	<u>4,236,272</u>
Supplemental disclosure of conditional donation information		
Net assets (unrestricted)	3,242,122	3,302,479
Conditional donations (notes 2(l) and 13)	(95,390)	(123,913)
Net assets (after conditional donations)	<u>3,146,732</u>	<u>3,178,566</u>

Approved by the Board of Directors and signed on their behalf by Michael I. Sovern and John R. Healy

The accompanying notes are an integral part of these combined financial statements.

The Atlantic Philanthropies

Combined Statements of Revenue and Expenses

For the years ended December 31, 2005 and 2004

(expressed in thousands of U.S. dollars)

	2005 \$	2004 \$
Investment transactions		
Net investment income	33,502	23,941
Net realized gains (note 16)	179,523	279,351
Net change in unrealized gains (note 16)	88,354	145,053
Net foreign exchange translation gains	629	1,634
Investment management fees and other direct expenses	(27,255)	(29,745)
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Gain from investment transactions	274,753	420,234
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Operating businesses		
Sales (net of cost of goods sold of \$14,383; 2004 - \$12,895)	132,073	122,875
Rental and other income	6,829	6,533
Selling and administrative expenses	(138,323)	(132,276)
Equity in earnings of associated companies	2,241	1,283
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Gain (loss) from operating businesses	2,820	(1,585)
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Donations and charitable expenses		
Donations expense (notes 2(l) and 13)	(287,038)	(315,340)
Administrative expenses	(37,741)	(34,112)
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Total donations and charitable expenses	(324,779)	(349,452)
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(Decrease) increase in net assets from operations before taxes	(47,206)	69,197
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Tax provision (note 17)	(4,134)	(5,045)
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Increase in net assets from operations	(51,340)	64,152
Gain on sale of building	3,508	-
Minority interest	1,365	-
Foreign currency translation (loss) gain, net	(13,890)	8,332
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(Decrease) increase in net assets	(60,357)	72,484
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The accompanying notes are an integral part of these combined financial statements.

The Atlantic Philanthropies

Combined Statements of Changes in Net Assets For the years ended December 31, 2005 and 2004

(expressed in thousands of U.S. dollars)

	2005	2004
	\$	\$
Net assets (unrestricted) - Beginning of year	3,302,479	3,229,995
Investment transactions		
Net investment income	33,502	23,941
Net realized gains	179,523	279,351
Net change in unrealized gains	88,354	145,053
Net foreign exchange translation gains	629	1,634
Investment management fees and other direct expenses	(27,255)	(29,745)
Increase in net assets from investment transactions before taxes	274,753	420,234
Gain (loss) from operating businesses	2,820	(1,585)
Donations and charitable expenses	(324,779)	(349,452)
Tax provision	(4,134)	(5,045)
	(326,093)	(356,082)
(Decrease) increase in net assets from operations	(51,340)	64,152
Gain from sale of building	3,508	-
Minority interest	1,365	-
Foreign currency translation (loss) gain, net	(13,890)	8,332
(Decrease) increase in net assets	(60,357)	72,484
Net assets (unrestricted) - End of year	3,242,122	3,302,479

The accompanying notes are an integral part of these combined financial statements.

The Atlantic Philanthropies

Combined Statements of Cash Flows

For the years ended December 31, 2005 and 2004

(expressed in thousands of U.S. dollars)

	2005 \$	2004 \$
Cash flows from operating activities		
(Decrease) increase in net assets	(60,357)	72,484
Adjustments to reconcile net cash used for operating activities		
Amortization of premium on debt securities	5,070	-
Net realized gains	(179,523)	(279,351)
Net change in unrealized gains	(88,354)	(145,053)
Net foreign exchange translation gains	(629)	(1,634)
Equity in earnings of associated companies	(2,241)	(1,283)
Depreciation, amortization and other expenses	(5,818)	11,825
	(331,852)	(343,012)
Change in operating assets and liabilities	(70,278)	63,703
Net cash used for operating activities	(402,130)	(279,309)
Cash flows from investing activities		
Expenditure for marketable securities, net	(432,512)	(142,885)
Proceeds from (expenditure for) investment funds, net	478,383	(335,315)
Proceeds from other portfolio investments, net	110,572	30,236
(Expenditure for) proceeds from derivative contracts, net	(36,273)	66,493
Disposal (purchase) of property and equipment	15,616	(3,882)
Proceeds from other assets	2,209	147,504
Investments in associated companies	(13,260)	1,996
Net cash provided by (used for) investing activities	124,735	(235,853)
Cash flows from financing activities		
Borrowings under reverse repurchase agreements	221,831	160,607
Proceeds from (repayments of) debt obligations	999	(4,345)
Net cash provided by financing activities	222,830	156,262
Decrease in cash and cash equivalents	(54,565)	(358,900)
Cash and cash equivalents - Beginning of year	607,099	965,999
Cash and cash equivalents - End of year	552,534	607,099
Supplemental disclosure of cash flow information		
Cash paid during the year for:		
Interest	1,896	3,248
Income and other taxes, net	5,006	5,234

The accompanying notes are an integral part of these combined financial statements.

The Atlantic Philanthropies

Notes to Combined Financial Statements

December 31, 2005 and 2004

1. **Combined entities**

These combined financial statements include The Atlantic Foundation (“The Foundation”), The Atlantic Trust (“The Trust”), The Atlantic Foundation of New York (“AFNY”), The Atlantic Charitable Trust (“ACT”), The Mangrove Foundation (“Mangrove”), Atlantic Charitable Holdings (“ACH”) and Bridge Charitable Trust (“Bridge”). Collectively the group is referred to as “The Atlantic Philanthropies” or “Atlantic”.

All of the combined entities have similar charitable objectives and their managements are interrelated. These combined financial statements have been prepared to provide an overview of the activities of the seven entities.

The Atlantic Philanthropies seek to bring about lasting changes that will improve the lives of disadvantaged and vulnerable people. Atlantic concentrates its investments in four fields: ageing; disadvantaged children and youth; the health of populations in developing countries; and reconciliation and human rights. In addition to its philanthropic interests, Atlantic owns 100% of General Atlantic Group Limited, a Bermuda corporation (“GAGL”), through its wholly-owned subsidiary, Exeter Associates Limited, a Bermuda corporation (“Exeter”). Through operating subsidiaries, GAGL is engaged in resort hotel and recreational facility operation and management, retailing, real estate development and biotech research to develop breakthrough therapies for life threatening diseases.

2. **Significant accounting policies**

These combined financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America.

(a) **Basis of accounting**

These combined financial statements include the consolidated financial statements of The Trust and The Foundation and the financial statements of AFNY, ACT, Mangrove, ACH and Bridge. All significant intercompany accounts and transactions are eliminated. GAGL’s financial statements are prepared for January 31, 2006 and 2005. The results of this entity have been adjusted for inclusion in the financial statements to reflect significant items of income and expenditure during the months of January 2006 and 2005. GAGL accounts for its 20% to 50% interests in associated companies under the equity method of accounting and consolidates its majority-owned and controlled subsidiaries.

(b) **Net assets**

There were no temporarily or permanently restricted net assets for charitable purposes as of December 31, 2005 or 2004.

(c) **Marketable securities**

Marketable securities are carried at fair value. Quoted securities are stated at market value, which is based on quoted prices on a recognized stock exchange on the last day of trading of the fiscal year. Other marketable securities, for which the primary market is “over-the-counter” are valued by management based upon information provided by investment advisors. Investment advisors determine the fair value using the most recent available “bid” quotations provided by one or more principal market makers for the security.

Investment transactions are recorded on the trade date and investment income is recognized on the accrual basis when receivable. Discounts and premiums on debt securities are accreted and amortized over the term of the securities. Gains and losses associated with the revaluation of marketable securities are recorded in the combined statements of revenue and expenses as unrealized gains and losses. Realized gains and losses are calculated on a first-in-first-out basis.

The Atlantic Philanthropies

Notes to Combined Financial Statements

December 31, 2005 and 2004

(d) **Investment funds**

Investment funds are carried at estimated fair market values, which are principally derived from the net asset values provided by third party administrators, fiduciary agents or in certain cases, investment managers and prime brokers, acting for each respective underlying investment.

The management agreements of the underlying funds provide for compensation to the respective managers in the form of fees determined as a percentage of net assets and in many cases, performance incentive fees based on net profits earned, subject to other limiting factors such as high water marks. The fees are deducted from the assets of the underlying funds and are reflected in the net asset values reported to management.

Gains and losses associated with the revaluation of investment funds are recorded in the combined statements of revenue and expenses as unrealized gains and losses. Redemption proceeds from investment funds in excess or below cost are recorded in the combined statement of revenue and expenses as realized gains and losses, respectively. Occasionally, the subscription agreements require a holdback of redemption proceeds for a specified time period or until the underlying fund has been audited. Such holdbacks are reported as receivables for securities sold, a component of other assets in the combined statements of financial position.

(e) **Other portfolio investments**

Other portfolio investments comprise investments in private equity opportunities, made primarily through investment funds and limited partnerships ("L.P.'s"). Such investments are made in anticipation of market value appreciation and ultimate realization of capital gains upon sale.

Other portfolio investments are carried at fair value, as determined in good faith by Atlantic's management. Management determines the fair value of these investments principally on the basis of net asset values and limited partner interest provided by the investment managers.

Investment managers consider all pertinent information including available market prices, types of securities, subsequent purchases of the same or similar securities by other investors, pending mergers or acquisitions, current financial position, operating results and other appropriate information. A conservative basis is sought by generally requiring adjustments to be based on values established in meaningful third party transactions or based on other market information such as fair market valuations of comparable companies, or changed conditions within the investees. The values assigned to these securities are based upon available information and do not necessarily represent amounts which might ultimately be realized, since such amounts depend on future circumstances and cannot be reasonably determined until the individual positions are liquidated. Due to the absence of readily ascertainable market values and the inherent uncertainty of valuations, the estimated values may differ significantly from values that would have been used had a ready market for the securities existed, and the differences could be material.

Gains and losses associated with the revaluation of other portfolio investments are recorded in the combined statements of revenues and expenses as unrealized gains and losses. On receipt of distributions from other portfolio investments, a realized gain or loss is recognized equal to the proceeds less the identified cost basis of the liquidated investment.

(f) **Derivative contracts**

Derivative contracts include futures, forwards and swaps which are held for trading purposes. These instruments are recorded on the trade date and are carried at fair value. Notional values indicate the overall market exposure of the derivative contracts and are used by management to assess risk.

The Atlantic Philanthropies

Notes to Combined Financial Statements

December 31, 2005 and 2004

(i) **Futures and forward contracts**

Futures and forward contracts are agreements to purchase or sell commodities or financial instruments at a specified future date. Futures contracts are traded on a regulated exchange and are agreements to buy or sell a standardized amount of a commodity, currency or other financial instrument at a future date or, in the case of index futures, to make or receive cash payments based on changes in the value of an underlying index. Upon entering into a futures contract, there is a requirement to deposit collateral equal to a certain percentage of the nominal value of the contract ("initial margin"). Futures contracts are subsequently marked-to-market daily based on quoted settlement prices established by the board of trade or exchange on which they are traded. Fluctuation in the value of the contract is settled each day in cash. Such receipts and payments are known as "variation margin". The initial margin on futures contracts is reported as a component of other assets in the combined statements of financial position (note 12). Variation margin is recorded in the combined statements of revenue and expense as a realized gain or loss.

As forward contracts are not traded on an exchange, the agreements between counterparties are not standardized. There is generally no requirement to provide collateral, and changes in the value of forward contracts are settled only on termination of the contract rather than on a daily basis. Open forward contracts are revalued to fair value in the combined statements of financial position, based on the difference between the contract rate and the applicable forward rate to close out the contract. Gains and losses associated with the revaluation of open forward contracts are recorded in the combined statements of revenue and expenses as unrealized gains or losses. Upon contract expiration, or when an offsetting contract is entered into, the cumulative change in value is recognized as a realized gain or loss.

(ii) **Interest rate swaps**

Interest rate swap agreements are entered into as hedges against increasing rates on variable rate debt. Net amounts received or paid under these swap agreements are recorded as interest expense over the term of the swap contract.

(g) **Cash and cash equivalents**

Cash and cash equivalents include marketable securities, repurchase agreements receivable and highly liquid debt instruments which have maturities of ninety days or less at date of purchase. Such instruments are valued at cost which, when combined with accrued interest, approximates market and fair value.

(h) **Repurchase agreements receivable**

A repurchase agreement involves acquiring securities for cash and obtaining a simultaneous commitment from the seller to repurchase the securities at an agreed upon price and date. Atlantic takes possession of the securities collateralizing the repurchase agreement. The collateral is marked to market daily to ensure that the market value of the underlying assets remains sufficient to protect Atlantic in the event of default by the seller. Atlantic records the repurchase agreements receivable in cash and cash equivalents in the combined statements of financial position.

(i) **Property and equipment**

Substantially all of the property and equipment is owned by GAGL. Property and equipment is stated at the lower of the estimated fair value at the date of impairment or historical cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives or lease terms of the assets which range from 3 to 40 years.

The Atlantic Philanthropies

Notes to Combined Financial Statements

December 31, 2005 and 2004

The costs of maintenance, repairs and minor renewals are charged to expense; the costs of major improvements are capitalized. Start-up costs of projects under development are expensed as incurred. When assets are retired or otherwise disposed of, the cost of the assets and the related accumulated depreciation are removed from the accounts and any gain or loss on retirement is reflected in income for the current period.

Management considers all of the property and equipment to be held for long-term use. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. In performing the review for recoverability, if the sum of the expected future undiscounted cash flows generated by the asset is less than the carrying amount of the asset, an impairment loss is recognized. The impairment loss, if any, is calculated by comparing the asset carrying value to the respective fair value. Long-lived assets and identifiable intangibles consist of property and equipment, lease premiums and related goodwill. The evaluation of fair value and future cash flows from individual properties requires significant judgement; it is reasonably possible that a change in estimate could occur.

(j) **Loans receivable**

Program-related investments ("PRI's") are made in the form of loans or other investments to charities and other institutions as part of their charitable giving program. The repayment and interest terms of PRI's vary dependent on the project being supported by the loan or investment. Cash advanced less repayments received under PRI loan agreements is recorded as an asset in the combined statements of financial position. Total PRI commitments falling due in future fiscal periods are described in note 11.

(k) **Operating business revenue recognition**

GAGL recognizes revenues on rooms and rental spaces, real estate, retail and fitness operations when full accrual method criteria have been met and upon receipt of non-refundable initiation fees for operating fitness clubs. Initiation fees relating to fitness club facilities under development are deferred until the club is opened.

GAGL has assets that have been sold but do not qualify for sales recognition and therefore have been reflected as deferred real estate sales in other assets (note 12). These assets are stated at the lower of cost or estimated fair value. Recognition of profits on real estate sales is deferred when cost recovery is not reasonably assured (note 18(c)). Amounts received at settlement for deferred sales are recorded as deposits. If GAGL incurs a loss on a settled real estate sale, the loss is recognized when the contract is signed.

(l) **Donations**

Unconditional donations are expensed in the period in which the commitment is made. Conditional donations are expensed in the period in which the conditions under which they are granted are substantially met. Conditional donations whose conditions have not been met are disclosed in note 13.

Unconditional donations payable over a period greater than one year are discounted using the appropriate risk-free rate of return for investments of a similar duration. The discount rate used for the unconditional donations made during the year ended December 31, 2005 was 4.28% (2004 – 2.62%). The discount is amortized and included as part of donations expense over the term of the obligation. Management has included supplemental disclosure on the combined statement of financial position to demonstrate the effect of including conditional donations payable as a liability on Atlantic's net assets. For the purpose of supplemental disclosure, conditional donations have not been discounted as the payment terms can change frequently in relation to the conditions being met.

The Atlantic Philanthropies

Notes to Combined Financial Statements

December 31, 2005 and 2004

(m) **Reverse repurchase agreements**

A reverse repurchase agreement involves the transfer of securities to a buyer in return for cash, under the agreement that Atlantic will later pay the cash plus interest in exchange for the return (repurchase) of the same securities. A sale is not recorded in respect of securities transferred to a buyer on the inception of a reverse repurchase agreement, and such instruments continue to be recorded as a component of marketable securities. Obligations to repay cash received under reverse repurchase agreements, plus accrued interest, are recorded as a liability in the combined statements of financial position.

(n) **Fair values of financial instruments**

Fair values of financial instruments are the amounts at which the instruments could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The estimated fair values of the financial instruments approximate their carrying values.

(o) **Foreign currency translation**

Monetary assets and liabilities denominated in foreign currencies are translated into U.S. dollars at year end exchange rates. Non-monetary assets and liabilities are translated at historical exchange rates. Revenue and expenses are translated at average rates for the year. Gains and losses arising on the translation of foreign currency denominated investments are recorded as a component of realized and unrealized gains and losses. Gains and losses arising on the translation of donations denominated in foreign currencies are included as a component of donations expense (note 13). Other exchange gains and losses that arise from exchange rate changes on transactions denominated in a currency other than the local currency are reflected in income as incurred. Gains and losses arising from translation of other assets and liabilities denominated in foreign currencies are recorded in the combined statement of revenue and expenses.

(p) **Income taxes**

The Atlantic Philanthropies record income taxes in accordance with the liability method of accounting. Deferred taxes are recognized for the estimated taxes ultimately payable or recoverable based on enacted tax law. Changes in enacted tax rates are reflected in the tax provisions as they occur.

(q) **Use of estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from these estimates.

The Atlantic Philanthropies

Notes to Combined Financial Statements

December 31, 2005 and 2004

3. Marketable securities

	2005			2004	
	Amortized Cost \$'000	Unrealized gain (loss) \$'000	Market value \$'000	Amortized Cost \$'000	Market value \$'000
Fixed income					
Short-term investments	6,542	(151)	6,391	10,701	10,469
Corporate debt securities	227,920	(286)	227,634	66,425	66,422
Mortgage and asset-backed securities	5,278	(5,277)	1	8,420	3,189
Sovereign debt	48,750	1,138	49,888	-	-
	288,490	(4,576)	283,914	85,546	80,080
Equities					
U.S. equities	5,818	269	6,087	5,124	5,127
Inflation protection					
U.S. Inflation protection debt securities	5,539	(115)	5,424	64,930	65,309
Non-U.S. inflation protection debt securities	80,085	(1,141)	78,944	-	-
	85,624	(1,256)	84,368	64,930	65,309
	379,932	(5,563)	374,369	155,600	150,516
Marketable securities sold under reverse repurchase agreements					
Sovereign debt	156,788	5,982	162,770	-	-
U.S. inflation protection debt securities	226,519	(4,746)	221,773	293,320	293,827
Non-U.S. inflation protection debt securities	139,121	(3,532)	135,589	-	-
	522,428	(2,296)	520,132	293,320	293,827
Total	902,360	(7,859)	894,501	448,920	444,343

The contractual maturities of fixed income and inflation protection securities, excluding short-term investments, at market value are as follows:

	2005 \$'000	2004 \$'000
Due in one year or less	186,376	49,568
Due after one year through five years	48,985	375,990
Due after five years through ten years	409,047	-
Due after ten years	237,614	-
	882,022	425,558
Mortgage and asset-backed securities	1	3,189
	882,023	428,747

Certain equities are associated with deferred compensation balances, and accordingly unrealized gains and losses are reported as increases or decreases to the deferred compensation liability. At December 31, 2005 the market value of these equities amounted to \$6,084,000 (2004 - \$5,115,000) with a change in unrealized gain of \$275,000.

The Atlantic Philanthropies

Notes to Combined Financial Statements

December 31, 2005 and 2004

4. Investment funds

Investment funds are categorized by strategy as determined by management. These categories are used internally by management as a breakdown of asset classes in order to evaluate sources of potential risk and return. Management's classification of individual investments within these strategies is based on variable and subjective considerations. Similarities in the terminology used by management and that are used elsewhere in the investment industry do not imply any set definitions for such terminology.

	2005			2004	
	Cost \$'000	Unrealized gain (loss) \$'000	Fair value \$'000	Cost \$'000	Fair value \$'000
Stock specific					
Directional	452,459	198,290	650,749	481,581	631,759
Sector specialists	81,000	18,440	99,440	81,000	94,682
Low net	24,333	30,597	54,930	89,336	124,749
Market neutral	160,000	16,177	176,177	160,000	163,823
	717,792	263,504	981,296	811,917	1,015,013
Credit related	43,081	26,218	69,299	63,082	82,024
Fixed income	60,000	5,248	65,248	40,000	41,933
Event driven	107,213	70,507	177,720	97,213	146,077
Currency	52,000	(1,607)	50,393	78,000	81,841
Convertible arbitrage	-	-	-	5,890	6,061
Multi-manager	53,000	9,436	62,436	100,000	107,926
Macro	96,184	46,077	142,261	146,420	205,305
Other	53,460	7,837	61,297	214,306	239,265
	1,182,730	427,220	1,609,950	1,556,828	1,925,445

Certain investment funds restrict openings for investors to redeem shares. Certain limited partnerships have a finite life and may not allow investors to liquidate partnership interests prior to the partnership termination date. At December 31, 2005, the earliest dates that Atlantic could withdraw from investments with less than annual liquidity were as follows:

	2005 \$'000	2004 \$'000
Within one to two years	29,993	48,628
Within two to three years	42,333	31,115
Within three to four years	28,128	27,290
Within four to five years	43,522	28,730
	143,976	135,763

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Certain investment funds designate special investments which are held at cost and cannot be redeemed. At December 31, 2005 Atlantic held \$8,093,944 in designated special investments.

5. Other portfolio investments

	2005			2004	
	Cost \$'000	Unrealized gain (loss) \$'000	Fair value \$'000	Cost \$'000	Fair value \$'000
Information technology	749,798	31,147	780,945	738,913	750,741
Other	173,889	54,119	228,008	209,479	231,206
	923,687	85,266	1,008,953	948,392	981,947

Other portfolio investments may be exposed to risk associated with concentration of investments in one geographic region and in certain industries. In addition, certain partnerships in the information technology sector hold large positions in publicly quoted securities. The value of investments in those partnerships can, therefore, vary significantly depending upon stock market movements. At December 31, 2005, the value of the partnership interests attributable to the five largest quoted security positions held within the underlying partnership investment portfolios was \$285,926,000 (2004 - \$269,125,000).

Certain funds in the other portfolio category restrict openings for investors to withdraw invested capital and certain limited partnerships have a finite life of up to twenty years. The ability to liquidate other portfolio investments may, therefore, be limited, although management expects to receive distributions from the funds and partnerships on a regular basis. Additionally, the investment funds and limited partnerships may be subject to other restrictions which affect their ability to realize certain investments within their portfolios at any point in time.

During the year, GAGL determined that an investment held in other portfolio investments should be consolidated and included as an operating subsidiary as a result of increased ownership. Concurrent with this change in accounting treatment, an impairment loss of \$19,684,000 was recognized as the excess of carrying value over the share of net equity and additional funding during the year in excess of net equity acquired. The loss is reported in net realized gains in the combined statement of revenue and expenses.

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6. Derivative contracts

The carrying value and notional value of derivative contracts held at the years ended were as follows:

	2005			2004		
	Unrealized gain (loss) \$'000	Carrying value \$'000	Notional amount \$'000	Unrealized gain (loss) \$'000	Carrying value \$'000	Notional amount \$'000
Fixed income						
Long U.S. treasury futures	-	-	98,560	-	-	-
Short U.S. treasury futures	-	-	(5,423)	-	-	-
Long non-U.S. treasury futures	-	-	404,579	-	-	-
Interest rate swaps	(60)	(60)	13,354	(492)	(492)	15,354
	(60)	(60)	511,070	(492)	(492)	15,354
Equities						
Long U.S. equity index futures	-	-	30,742	-	-	49,762
Long non-U.S. equity index futures	-	-	160,206	-	-	179,899
	-	-	190,948	-	-	229,661
Commodities						
Long commodity futures	-	-	85,924	-	-	-
Total futures and swaps	(60)	(60)	787,942	(492)	(492)	245,015
Forward currency contracts	(2,611)	(2,611)	1,195,557	16,224	16,224	812,522
Total	(2,671)	(2,671)	1,983,499	15,732	15,732	1,057,537

Futures contracts

Equity index, fixed income and commodity futures contracts provide exposure to global financial markets. Open futures contracts at December 31, 2005 settle between January and December 2006 (2004 - January and March 2005).

Interest rate swaps

GAGL used interest rate swaps as hedges against increasing rates on variable rate debt. Open swaps at December 31, 2005 are reset to correspond with the terms of the debt obligations and/or the related offsetting swap (note 15).

Forward currency contracts

Forward currency contracts manage exposure to foreign currency gains and losses arising from investments in financial instruments and charitable obligations denominated in foreign currencies. The contracts are presented and executed on a net basis. Open forward contracts at December 31, 2005 expire between January and December 2006 (2004 – February and December 2005).

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7. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	2005	2004
	\$'000	\$'000
Cash	366,949	353,412
Repurchase agreements receivable	145,168	226,336
Short-term debt securities	34,973	16,600
Discount notes	5,444	10,501
Certificates of deposit	-	250
	<hr/>	<hr/>
	552,534	607,099
	<hr/>	<hr/>

8. Financial instrument risks

Atlantic's investment activities, either directly or indirectly, expose it to various types and degrees of risk including market, credit and leverage risk.

Market risk

Market risk is the risk that future changes in market prices may render financial instruments less valuable or increase the liability associated with such instruments. Exposure to market risk is determined by a number of factors, including the size, duration, composition and diversification of positions held, the absolute and relative levels of interest rates and foreign exchange rates, as well as market volatility and liquidity. Management seeks to diversify the investment portfolios so as to manage exposure to market risk.

Exposure to market risk associated with marketable securities, investment funds and other portfolio investments is equal to the carrying value of the instruments as recorded in the combined statements of financial position. Other portfolio investments may include less diversified, concentrated positions as discussed in note 5. Market risk exposure in respect of derivative contracts may exceed their carrying value. Derivative contract market risk depends on changes in the value of underlying markets or financial instruments relative to the notional value of the contracts.

Investment funds are generally investments in limited liability companies and in some cases limited partnerships, both of which are typically non-U.S. and are selected to provide positive risk adjusted returns within the context of a diversified portfolio. Atlantic is exposed to the investment activities of the underlying investment portfolios which may not be transparent to investors and could be affected by the actions of other investors. The underlying funds employ multiple investment strategies which may include the use of derivative instruments, leverage and investment in illiquid securities that could expose the funds to market risk in excess of the amounts recorded in their financial statements. Some investment funds place restrictions on redemptions as disclosed in note 4. Atlantic's exposure to market risk in respect of investment funds is limited to the on-balance sheet carrying value of the funds and partnerships. Management engages in initial and on-going assessments of all sources of risk presented to the portfolio by the underlying managers.

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A component of market risk is currency risk, which arises from the possibility that fluctuations in foreign currency exchange rates will affect the value of financial instruments and/or obligations of Atlantic denominated in currencies other than U.S. dollars. The foreign currency exposure related to financial instruments in management's opinion is either a) a desirable component of the portfolio or b) not sufficient to require hedging, however Atlantic hedges foreign currency obligations as described in note 6.

Credit risk

Credit risk represents the maximum accounting loss that would be recognized if counterparties failed completely to perform as contracted, reduced by the value of any collateral and any other available assets. Management, by policy, ensures that agreements are entered into with counterparties that have high quality credit ratings and, in addition, monitors its credit exposure to any one financial institution. At December 31, 2005 and 2004 substantially all of the cash and cash equivalents and marketable securities were held with Mellon Bank.

Exposure to credit risk associated with cash and cash equivalents, marketable securities, derivative contracts collateral and other receivables is represented by the carrying value of these financial instruments recorded in the combined statements of financial position. Credit risk in respect of derivative contracts is limited to the value of outstanding contracts at the time of non-performance. Futures contracts are only entered into on exchanges or boards of trade where the exchange or board of trade acts as counterparty to the transaction. The credit risk in respect of such transactions is, therefore, limited to the failure of the exchange or board of trade.

A concentration of credit risk exists when there are significant contracts with individual counterparties or when groups of issuers or counterparties have similar business characteristics that would cause their ability to meet contractual commitments to be adversely affected, in a similar manner, by changes in the economy or other market conditions. Atlantic conducts business with financial institutions believed to be well established and monitors credit risk on both an individual and group counterparty basis.

Leverage risk

Atlantic utilizes leverage in its investments program by entering into reverse repurchase agreements and some derivative instruments. The concept of leveraging is based on the premise that Atlantic's cost of borrowing will be at rates that normally will be lower than the rate of return anticipated on additional longer term investments that it makes. While the use of leverage may increase the returns on equity capital invested in Atlantic, the use of leverage also increases its risk of loss.

9. Other current assets

	2005	2004
	\$'000	\$'000
Trade accounts receivable	8,595	9,665
Receivables for securities sold	6,500	8,667
Other	19,349	6,525
Interest and dividends receivable	8,386	6,198
Inventories	3,541	1,916
Deferred tax asset (note 17)	2,314	2,143
Income tax receivable	2,067	1,265
Receivable for daily variation margin	28	4
	50,780	36,383

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10. Property and equipment

	Estimated useful lives (years)	2005 \$'000	2004 \$'000
Land		25,809	30,502
Buildings and improvements	20-40	80,919	77,838
Leasehold improvements	10-20	126,147	132,976
Furniture, fixtures and equipment	3-10	39,606	50,157
Construction-in-progress		3,427	51
		275,908	291,524
Less: Accumulated depreciation		(100,340)	(106,158)
		175,568	185,366

Depreciation expense for the year ended December 31, 2005 was \$12,271,000 (2004 - \$11,825,000).

11. Loans receivable

Loans receivable consist of program-related investments in the form of unsecured non-interest bearing loans, repayable by June 30, 2010. There were no loans receivable at December 31, 2005 (2004 - \$1,532,000).

12. Other assets

	2005 \$'000	2004 \$'000
Collateral	21,266	18,857
Intangible assets	5,560	3,909
Cost of deferred real estate sales (note 18(c))	5,554	5,677
Other	667	4,503
Deferred tax asset (note 17)	8	2,318
	33,055	35,264

Collateral provided in respect of investments in certain financial instruments generally comprises U.S. Treasury bills and short-term deposits, which are carried at fair value.

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13. Charitable giving

Unconditional donations reported as donations payable on the statement of financial position amounted to \$484,997,000 at December 31, 2005 (2004 - \$546,040,000). Unfulfilled conditional donations at December 31, 2005 amounted to \$95,390,000 (2004 - \$123,913,000). If the conditions under which these donations were granted are complied with, these donations will become payable. The total amounts payable for both unconditional and conditional donations is as follows:

	2005			2004		
	Donations payable \$'000	Conditional donations \$'000	Total \$'000	Donations payable \$'000	Conditional donations \$'000	Total \$'000
Due within one year	264,005	40,197	304,202	293,080	53,509	346,589
Due within one to two years	133,104	26,170	159,274	152,867	37,456	190,323
Due within two to three years	46,270	18,041	64,311	53,226	19,092	72,318
Due within three to four years	19,451	7,212	26,663	20,209	9,274	29,483
Due within four to five years	12,928	2,735	15,663	11,817	4,110	15,927
Due thereafter	30,255	1,035	31,290	36,926	472	37,398
	506,013	95,390	601,403	568,125	123,913	692,038
Less: Unamortized discount	(21,016)	-	(21,016)	(22,085)	-	(22,085)
	484,997	95,390	580,387	546,040	123,913	669,953

Donations expense in the combined statements of revenues and expenses for the year ended December 31, 2005 of \$287,038,000 (2004 - \$315,340,000) includes donations made by The Foundation's wholly-owned subsidiary of \$1,158,000 (2004 - \$2,164,000).

Exchange losses for the year ended December 31, 2005 in the net aggregate amount of \$31,297,593 (2004 - loss of \$21,194,614) arising on the translation of donations denominated in foreign currencies are included in donations expense.

Amortization of the discount of \$2,928,000 (2004 - \$350,000) on unconditional donations payable is included in donations expense.

14. Other current liabilities

	2005 \$'000	2004 \$'000
Accounts payable and accrued liabilities	41,981	44,590
Payable for securities purchased	3,157	-
	45,138	44,590

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15. Debt obligations

	2005	2004
	\$'000	\$'000
Short-term bank borrowings	610	1,061
Term loans, repayable through 2015	33,114	31,331
	33,724	32,392
Capital lease obligations	26	359
	<u>33,750</u>	<u>32,751</u>

The current portion of debt obligations at December 31, 2005 amounted to \$7,642,000 (2004 - \$4,190,000).

Certain term loans and all capital lease obligations totaling \$29,274,000 (2004 - \$31,318,000) are secured by assets with a net book value of \$61,255,000 (2004 - \$61,255,000). Interest rates on term loans are both fixed and variable ranging from 5.5% to 8.4% and LIBOR or the bank's prime rate plus 0.9% to 2.0%, respectively.

Subsequent to year end, a subsidiary of GAGL refinanced its debt obligations by repaying the remaining balance on a \$7,242,000 loan and entered into a credit agreement for \$7,196,000. The new credit agreement requires interest at LIBOR plus 0.9% payable monthly and the principal due March 2009.

Atlantic has a \$100,000,000 364-day revolving credit facility with its custodian, Mellon Bank, N.A. All borrowings under the facility are unsecured and bear interest at Atlantic's option, at a rate equal to 1, 2, or 3-month LIBOR plus 75 basis points or Fed Funds plus 80 basis points floating daily. The facility has a \$10,000,000 sub limit for the issuance of standby letters of credit of which Atlantic has used \$831,188. The remaining \$99,168,812 of the facility was undrawn at year end. The facility will expire on November 29, 2006.

Debt maturities are as follows:

	\$'000
Due within one year	7,642
Due within one to two years	15,664
Due within two to three years	433
Due within three to four years	7,548
Due within four to five years	2,463
	<u>33,750</u>

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16. Net realized gains (losses) and change in unrealized gains (losses)

Investments are categorized by asset classes. Because of the integrated nature of financial markets, each asset class trades cash instruments and securities, as well as related derivative products (i.e., futures, forwards and other contracts related to the underlying instrument).

	2005		2004	
	Realized gains (losses) \$'000	Net change in unrealized gains (losses) \$'000	Realized gains (losses) \$'000	Net change in unrealized gains (losses) \$'000
Fixed income	23,317	6,872	7,826	(79)
Equities	12,993	(9)	35,576	(5,457)
Emerging markets	-	-	(3)	-
Inflation protection	(10,188)	(10,420)	16,036	(13,704)
Investment funds	104,285	58,603	88,290	82,437
Other portfolio investments	85,881	51,711	67,062	84,161
Forward currency contracts	(36,765)	(18,835)	63,861	(3,880)
Other derivatives contracts	-	432	703	1,575
	179,523	88,354	279,351	145,053

17. Income taxes

The seven entities comprising The Atlantic Philanthropies are not subject to tax in Bermuda. However, certain subsidiaries operate in countries that impose income tax, which is provided for at the relevant countries' rates and tax is withheld at appropriate rates on dividend income from sources outside Bermuda.

	2005 \$'000	2004 \$'000
Income tax (provision) benefit		
U.S. Federal provision	(1,520)	(3,691)
Other	(678)	(682)
Current tax provision	(2,198)	(4,373)
Deferred tax provision	(1,936)	(672)
Income tax provision	(4,134)	(5,045)

The Atlantic Philanthropies have deferred tax assets and deferred tax liabilities consisting primarily of net operating loss carry forwards, charitable contribution carry forwards and the differences between the tax basis and the book basis of investments.

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	2005	2004
	\$'000	\$'000
Gross deferred tax assets	67,016	70,340
Valuation allowance	(52,489)	(49,045)
Deferred tax assets after valuation allowance	14,527	21,295
Gross deferred tax liabilities	(12,205)	(16,834)
Net deferred tax assets	2,322	4,461

The valuation allowance is provided for certain deferred tax assets based upon management's estimate that tax paying entities will not generate sufficient taxable income in future years to realize the related benefit. Although the future realization of the benefits of the remaining net deferred tax assets is not assured, management believes that it is more likely than not that the net benefits will be realized. Management will continue to review the recoverability of the combined entities deferred tax assets in future years and will make adjustments to the valuation allowance as needed. The valuation allowance increased \$3,444,000 in 2005 (2004- increased \$17,915,000) based on management's estimate that Atlantic will not be able to realize a benefit for certain assets, primary net operating losses from a biotech subsidiary, offset by the expiration of charitable contribution carry forwards which previously had a valuation allowance attached to them. In the prior year, the valuation allowance increased based on management's estimate that Atlantic would not be able to realize a benefit for certain assets, primarily Australian net operating losses.

The net deferred tax assets are reported separately on the combined statements of financial position as follows:

	2005	2004
	\$'000	\$'000
Other current assets (note 9)	2,314	2,143
Other assets (note 12)	8	2,318
Net deferred tax assets	2,322	4,461

At December 31, 2005 Atlantic had available, for income tax purposes in various jurisdictions, net operating loss carry forwards of \$29,086,000 expiring 2007 through 2025 and net operating loss carry forwards of \$119,600,000 with an expiration of indefinite duration.

18. Commitments and contingencies

(a) **Investment commitments**

Under the terms of its investments in certain limited partnerships and investment funds (notes 4 and 5), Atlantic is committed to investing a further \$102,855,116 (2004 - \$223,965,660).

(b) **Rental and lease commitments**

Certain GAGL subsidiaries occupy premises under non-cancellable operating leases expiring through 2073 for land and 2009 for other premises. Certain leases provide for renegotiations of minimum rentals, escalation charges and additional rentals based on 3% of sales in excess of stipulated amounts. In addition, most leases provide that the lessee pay taxes, insurance and other expenses related to the leased premises.

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Certain Atlantic subsidiaries lease properties in Ithaca, New York, New York City, and Seattle under leases which include maintenance charges and escalation clauses. The Ithaca and Seattle leases expire on January 31, 2006 and December 31, 2006, respectively. There are two leases in New York City expiring on October 10, 2014 and March 31, 2009.

Rental expense is summarized as follows:

	2005	2004
	\$'000	\$'000
Minimum rentals	7,819	7,691
Contingent rentals	554	515
Sub-lease rentals	(5,465)	(5,225)
Net rental expense under operating leases	<u>2,908</u>	<u>2,981</u>

Future minimum rental commitments under capital and operating leases, exclusive of the foregoing contingent rentals, are as follows:

	Capital	Operating
	leases	leases
	\$'000	\$'000
Due within one year	26	6,263
Due within one to two years	-	6,183
Due within two to three years	-	5,952
Due within three to four years	-	5,296
Due within four to five years	-	5,294
Due thereafter	-	81,604
	<u>26</u>	<u>110,592</u>
Future minimum sub-lease rental income	-	(33)
Net future minimum lease commitments	<u>26</u>	<u>110,559</u>

These future minimum lease commitments exclude \$8,648,000 of lease obligations for which GAGL is negotiating termination.

(c) **Cost of deferred real estate sales**

Cost of deferred real estate sales occurring within GAGL consist of the cost basis of sales of accommodations at a resort hotel in Australia that do not meet revenue recognition criteria (note 2(k)). The sales price has been reduced for certain accommodations in exchange for receiving future rental income from the rental units for 8-10 years. The gross amount of deferred real estate sales is \$6,352,000 (2004 - \$6,493,000) and related cost basis totals \$5,554,000 (2004 - \$5,677,000). These amounts will be recognized when the cost is recovered from these revenue collections. Cost of deferred real estate sales are recorded in other assets (note 12).

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(d) **Other commitments**

Certain debt obligations of portfolio entities have been guaranteed by GAGL. These obligations amounted to \$4,500,000 at December 31, 2005 (2004 - \$4,500,000) but were subsequently released when the underlying portfolio entities' assets were sold after year end and the debt obligations were repaid.

A biotech subsidiary of GAGL has entered into a number of licenses and research and development agreement with third parties under which GAGL is obligated to make customary up-front payments as well as milestone and royalty payments.

19. Employee benefits and other compensation

Some subsidiaries of entities included within The Atlantic Philanthropies maintain defined contribution plans for their employees. These plans comply with the required regulations pertaining to the employees' location of employment. Contributions to the plans range from 2% to 20% of the employee's salary with some subsidiaries matching between 50% to 100% of the contributions made by the employees. In some jurisdictions, the subsidiaries also make additional contributions of 5% of the employee's salary in certain circumstances and cover the employees' portion of medical and or life insurance premium contributions.

Some subsidiaries provide certain key employees who meet specific requirements with deferred compensation. The obligations arising from such commitments have been accounted for under Accounting Principles Board Opinion No. 12. The total deferred compensation for December 31, 2005 was \$18,973,078 (2004 - \$17,796,897) of which GAGL represented \$14,375,000 (2004 - \$12,875,000).

Atlantic requires some of its employees to relocate as part of his or her employment with Atlantic and provides them with relocation loans.

Atlantic operated an office in Ithaca, New York which it closed during 2005 due to the decrease in higher education funding by Atlantic. As of July 1, 2002, Atlantic adopted a severance plan in order to provide for an orderly wind-up of the office's workload and to provide for the four employees that are covered by the plan. The cost of the severance plan and related benefits on a present value basis was recognized over thirty months from July 1, 2002 to December 2004. The current year expense related to the plan was \$32,014 (2004 - \$61,000), payments were \$35,653 (2004 - \$222,000) and the value of the severance plan reserve at December 31, 2005 was \$271,591 (2004 - \$275,000).

20. Related parties

Two outside members of Atlantic's investment committee, including its former Chief Investment Officer, have relationships with funds in which Atlantic invests. The former Chief Investment Officer invests in five of the funds. The other investment committee member is an executive officer of the sponsors of three other funds. Atlantic valued its investments in the eight funds at approximately \$298,597,000 at December 31, 2005 and Atlantic has committed to invest an additional \$28,100,000 in these funds.

A Director of Atlantic who serves on the investment committee joined the board of directors of a subsidiary of the custodian. The subsidiary manages investments on behalf of Atlantic with a value of approximately \$338,754,000 at December 31, 2005.

21. Comparative balances

Certain prior period balances have been restated to conform to the current year's presentation.