CANARY WHARF FINANCE II PLC
29 April 2009

PUBLICATION OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2008

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 2008, which will shortly be available from www.canarywharf.com/Investor Relations.

The information contained within this announcement, which was approved by the board of directors on 28 April 2009, does not comprise statutory accounts within the meaning of the Companies Act 1985 and is provided in accordance with section 6.3.5(2)(b) of the Disclosure and Transparency Rules.

Two copies of the 31 December 2008 Annual Financial Report will be submitted to the UK Listing Authority ("UKLA") in accordance with Paragraph 9.6.1 of the Listing Rules. The document will shortly be available for inspection at the UKLA's Document Viewing Facility, which is situated at 25 North Colonnade, Canary Wharf, London E14 5HS.

MANAGEMENT REPORT

BUSINESS REVIEW

The following business review aims to provide shareholders with an overall summary of the business of the company as at 31 December 2008 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 management report.

This business review should be read in conjunction with the remainder of the management report and the financial report.

At 31 December 2008, the company had £2,551,811,921 (2007: £2,558,722,801) 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.

In September 2008, the tenant of one of the properties, Lehman Brothers Limited ('Lehman') was placed into administration in the UK and its ultimate parent, Lehman Brothers Holdings Inc., applied for Chapter 11 insolvency protection in the USA.

Lehman currently leases 1.023m sq ft in 25-30 Bank Street on a tenancy which is due to expire in July 2033. The obligations of the lease are guaranteed by Lehman Brothers Holdings Inc.. Lehman now occupies approximately 525,000 sq ft, having sub-let 350,000 sq ft to Nomura for approximately two years from December 2008 at the passing rent. Approximately 100,000 sq ft of the remaining 148,000 sq ft is sub-let until 2013 and the balance is sub-let for a maximum of 2 years. This space reverts to Lehman on the expiry of the various sub-leases. The administrator remains in occupation of the building and rent for the first two quarters of 2009 was paid on schedule.

As shown in the company's profit and loss account, the company's loss after tax for the year was £83,850,206 (2007: £5,661,160). This included an unrealised fair value loss on derivative financial instruments of £85,353,000 (2007: £945,688).

The balance sheet shows the company's financial position at the year end and indicates that net liabilities were £194,252,290 (2007: £18,201,329).

The financial position of the company as indicated by its balance sheet is impacted by the application of Financial Reporting Standard 26 (Financial Instruments: Recognition and Measurement) ('FRS26') and its impact on other financial reporting standards. Adjusting for the effects of FRS26 the net asset value of the company at 31 December 2008 was as follows:

	31 December 2008 £	31 December 2007 £
Net liabilities per statutory balance sheet	(194,252,290)	(18,201,329)
Add back: Effects of FRS26	197,460,000	20,989,000
Adjusted net assets	3,207,710	2,787,671

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

However, subsequent to the year end, on 2 April 2009, a fellow subsidiary undertaking acquired £119.7m of notes comprising £26.1m of B3 notes, £35.3m of C2 notes and £58.3m of D3 notes. These notes remain in issue and have not been cancelled.

KEY PERFORMANCE INDICATORS

	31 December 2008 £	31 December 2007 £
Securitised debt	2,551,811,921	2,558,722,801
Financing cost (before adjustments for FRS26)	154,263,224	151,516,295
Adjusted profit before tax and FRS26	420,039	359,523
Weighted average maturity of debt	17.9 years	18.8 years
Weighted average interest rate	6.2%	6.2%

The adjusted profit before tax comprises the loss on ordinary activities before tax of £83,850,206 (2007: £5,661,160) adjusted for the FRS 26 items listed in Note 4, totalling £84,270,245 (2007: £6,020,683).

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 property market upheaval, concentration risk and financing risk.

The property market upheaval

The valuation of Canary Wharf Group's assets is subject to many external economic and market factors which are cyclical in nature. The unprecedented turmoil in the financial markets has been reflected in the property market by such factors as the oversupply of available space in the office market, a recent significant decline in tenant demand for space in London and a change in the market perception of property as an investment resulting in a negative impact on property valuations in general. Such issues are kept under constant review so that the company can react appropriately. The impact of the ongoing upheaval in the financial and property markets continues to be closely monitored.

Concentration risk

The majority of Canary Wharf 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 consequence arising from this concentration.

Financing risk

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

The company holds debenture finance, at both fixed and floating rates, and uses interest rate swaps, caps or collars to modify exposure to interest rate fluctuations. All of the company's borrowings are fixed after taking account of interest rate hedges. When the company borrows in currencies other than sterling, the company engages in cross currency swaps to swap its foreign currency exposure into sterling, thereby matching the currency of its finance revenues. The company's remaining US$ denominated bonds were repaid during the previous year. All remaining borrowings are denominated in sterling and the company has no current intention to borrow further 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 2008 valuations of the properties upon which the company's notes are secured, the LMCTV ratio was 86.2%, excluding the £224.0m of cash collateral posted by American International Group, Inc. ('AIG') in respect of 25 Bank Street (Note 8), and 78.6% including such cash collateral. The securitisation is not subject to a minimum interest coverage ratio.

The unprecedented turmoil in the financial markets has resulted in an unusually pronounced negative impact on the real estate market. In the current difficult economic environment there is an increased risk that further softening of yields could put pressure on the LMCTV ratio covenant.

A breach of covenant can be remedied by depositing eligible investments (including cash).

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.

RESPONSIBILITY STATEMENTS

The board of directors, comprising A P Anderson II, G Iacobescu and B P Niles, confirms to the best of its knowledge that:

- the financial statements, prepared in accordance with the applicable set of accounting standards give a true and fair view of the assets, liabilities, financial position and loss of the company as required by Rule 4.1.12 (3a) of the Disclosure and Transparancy Rules of the United Kingdom's Financial Services Authority (the 'DTRs'); and

- the management report includes a fair review of the development and performance of the business and position of the company and the principal risks and uncertainties faced.

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2008

	Note	Year Ended 31 December 2008 £	Year Ended 31 December 2007 £
Administrative expenses		(13,950)	(7,050)
OPERATING LOSS		(13,950)	(7,050)
Interest receivable and similar income	**2**	154,697,213	151,882,868
Interest payable and similar charges	**3**	(238,533,469)	(157,536,978)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(83,850,206)	(5,661,160)
Tax on loss on ordinary activities	**4**	–	–
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION FOR THE YEAR	**9**	(83,850,206)	(5,661,160)

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

All amounts relate to continuing activities in the United Kingdom.

The Notes numbered 1 to 11 form an integral part of the financial statements.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 DECEMBER 2008

	Year Ended 31 December 2008 £	Year Ended 31 December 2007 £
Loss for the financial year	(83,850,206)	(5,661,160)
Fair value adjustment on effective hedging instruments	(87,373,784)	(4,553,178)
Interest received on effective hedging instruments	(3,744,216)	2,967,178
Termination of hedge reserve recycling	–	9,152,705
Hedge reserve recycling	(1,082,755)	(646,657)
Total recognised (losses)/gains relating to the year	(176,050,961)	1,258,888

The Notes numbered 1 to 11 form an integral part of the financial statements.

BALANCE SHEET AS AT 31 DECEMBER 2008

	Note	31 December 2008 £	31 December 2007 £
CURRENT ASSETS			
Debtors	**5**		
Amounts falling due after one year		2,593,864,979	2,625,079,707
Amounts falling due within one year		63,939,148	41,254,638
Cash at bank	**6**	1,031,711	617,394
		2,658,835,838	2,666,951,739
CREDITORS: Amounts falling due within one year	**7**	(61,763,148)	(39,084,360)
NET CURRENT ASSETS		2,597,072,690	2,627,867,379
TOTAL ASSETS LESS CURRENT LIABILITIES		2,597,072,690	2,627,867,379
CREDITORS: Amounts falling due after more than one year	**8**	(2,791,324,980)	(2,646,068,708)
NET LIABILITIES		(194,252,290)	(18,201,329)
CAPITAL AND RESERVES			
Called-up share capital		50,000	50,000
Hedging reserve	**9**	(88,900,434)	(3,300,321)
Profit and loss account	**9**	(105,401,856)	(21,551,650)
SHAREHOLDER'S DEFICIT	**10**	(194,252,290)	(18,201,329)

The Notes numbered 1 to 11 form an integral part of the financial statements.

NOTES TO THE FINANCIAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2008

1. PRINCIPAL ACCOUNTING POLICIES

This financial report does not constitute the company's statutory accounts for the year ended 31 December 2008 but is derived from those accounts. The statutory accounts for the year ended 31 December 2008 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 section 237(2) or (3) of the Companies Act 1985.

The financial report has been prepared on the basis of the accounting policies set out in the company's financial statements for the year ended 31 December 2008, which are prepared in accordance with UK generally accepted accounting principals. 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 cash flow statements, 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 2008 the company had a deficit of £194,252,290 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 was 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 is 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 31 December 2008 £	Year Ended 31 December 2007 £
Bank interest receivable	164,282	101,667
Interest receivable from group undertakings	154,532,931	151,781,201
	154,697,213	151,882,868

3. INTEREST PAYABLE AND SIMILAR CHARGES

	Year Ended 31 December 2008 £	Year Ended 31 December 2007 £
Interest payable on securitised debt (Note 8)	154,263,224	151,516,295
Fair value adjustments on derivative financial instruments	85,353,000	945,688
Foreign exchange movements	–	(3,431,053)
Hedge reserve recycling	(1,082,755)	(646,657)
Termination of hedge reserve recycling	–	9,152,705
	238,533,469	157,536,978

4. TAXATION

	Year Ended 31 December 2008 £	Year Ended 31 December 2007 £
Current tax:		
UK Corporation tax (see below)	–	–
Tax reconciliation:		
Loss on ordinary activities before tax	(83,850,206)	(5,661,160)
Tax on loss on ordinary activities at UK corporation tax rate of 28.5% (2007: 30.0%)	(23,897,309)	(1,698,348)
Effects of:		
Expenses not deductible for tax purposes	24,017,020	1,806,204
Tax losses and other timing differences	(119,711)	(107,856)
Current tax charge for the year	–	–

The tax rate of 28.5% is calculated by reference to the current corporation tax rate of 28.0% which was in effect for the final three quarters of the year and the previous rate of 30.0% which was in effect for the first quarter of the year.

No provision for corporation tax has been made since the 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 2008 £	31 December 2007 £
Due within one year:		
Loan to fellow subsidiary undertaking	61,804,637	39,131,220
Amount owed by fellow subsidiary undertaking	2,122,931	2,116,306
Accrued interest receivable	11,580	7,112
	63,939,148	41,254,638
Due in more than one year:		
Loan to fellow subsidiary undertaking	2,593,864,979	2,625,079,707

The loans to a fellow subsidiary undertaking bear fixed rates of interest between 5.31% and 6.81% and are repayable in instalments between 2009 and 2035.

Amounts owed by group undertakings are non-interest bearing.

The amount of the loan due within one year comprises £29,582,877 (2007: £32,220,340) of interest and £32,221,760 (2007: £6,910,880) 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 2008 was £2,132,110,000 (2007: £2,606,215,000), 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 £1,031,711 at 31 December 2008 (2007: £617,394), all of 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 2008 £	31 December 2007 £
Securitised debt (Note 8)	61,756,248	39,077,310
Accruals and deferred income	6,900	7,050
	61,763,148	39,084,360

The amount of the securitised debt due within one year comprises £29,534,488 (2007: £32,166,430) of interest and £32,221,760 (2007: £6,910,880) of capital.

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

	31 December 2008 £	31 December 2007 £
Securitised debt	2,593,864,980	2,625,079,708
Derivative financial instruments	197,460,000	20,989,000
	2,791,324,980	2,646,068,708

The securitised debt has a face value of £2,551.8m (2007: £2,558.7m) of which £1,858.8m (2007: £1,829.3m) carries fixed rates of interest between 5.95% and 6.8%. The other £726.0m (2007: £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 5.11% and 5.80%.

The amounts at which borrowings are stated comprise:

	31 December 2008 £	31 December 2007 £
Brought forward	2,631,990,588	2,431,843,021
Repaid in year	(6,910,880)	(581,447,372)
Drawn down in year	–	726,000,000
Deferred financing expenses	1,007,032	(5,050,696)
Cross currency translation	–	60,645,635
Carried forward	2,626,086,740	2,631,990,588
Payable within one year or on demand	32,221,760	6,910,880
Payable after more than one year	2,593,864,980	2,625,079,708
	2,626,086,740	2,631,990,588

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 2008 £74,274,819 (2007: £73,267,787) remained unamortised.

The notes are secured on seven properties at Canary Wharf, owned by fellow subsidiary undertakings, and the rental income stream therefrom. These properties include 25 Bank Street, leased to Lehman, which was placed into administration in September 2008.

The securitisation has the benefit of an agreement with AIG which provides for the payment of the contracted rent under the lease following a default from Lehman, either in its entirety or to cover any shortfall. The agreement is for a period of 4 years from the date of any drawdown of this arrangement following such a payment default by Lehman. The amounts would be repayable if subsequent recoveries made in respect of amounts claimed or subsequent rentals in the properties exceed the rents that would have been received from Lehman. Under this agreement, AIG are obliged to maintain a certain credit rating. Following the fall in its credit rating, AIG posted cash collateral of approximately £224.0m. This collateral is held in AIG bank accounts with the Bank of New York Mellon, London branch and AIG has granted security over the deposits as collateral for its obligations. The amount initially posted in respect of AIG's obligations is subject to periodic adjustment to reflect movements in interest rates.

Separately, 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 the lease. AIG has posted a further £276.3m as cash collateral in respect of this obligation.

The annual fees payable in respect of the above arrangements currently total £7.5m.

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 2008 was £1,934.6m (2007: £2,585.2m). The fair values of the sterling denominated notes have been determined by reference to prices available on the markets on which they are traded.

The weighted average maturity of the debentures at 31 December 2008 was 17.9 years (2007: 18.8 years).

After taking into account the interest rate hedging arrangements, the weighted average interest rate of the company at 31 December 2008 was 6.2% (2007: 6.2%).

At 31 December 2008 the fair value of interest rate derivatives resulted in the recognition of a net liability of £197,460,000 (2007: £20,989,000). Of this net liability £101,729,000 (2007: £10,611,000) was in respect of interest rate swaps which qualify for hedge accounting and £95,731,000 (2007: £10,378,000) 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.

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 instruments.

9. RESERVES

	Hedging reserve	Profit and loss account	Total
	£	£	£
At 1 January 2008	3,300,321	(21,551,650)	(18,251,329)
Loss for the year	–	(83,850,206)	(83,850,206)
Fair value adjustment on effective hedging instruments	(87,373,784)	–	(87,373,784)
Interest received on effective hedging instruments	(3,744,216)	–	(3,744,216)
Transferred to the profit and loss account:			
Movements on discontinued hedge accounting	(1,082,755)	–	(1,082,755)
At 31 December 2008	(88,900,434)	(105,401,856)	(194,302,290)

10. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' DEFICIT

	31 December 2008 £	31 December 2007 £
Opening shareholders' deficit	(18,201,329)	(19,460,217)
Loss for the year	(83,850,206)	(5,661,160)
Fair value adjustment on effective hedging instruments	(87,373,784)	(4,553,178)
Interest received on effective hedging instruments	(3,744,216)	2,967,178
Transferred to the profit and loss account:		
Movements on discontinued hedge accounting	(1,082,755)	(646,657)
Termination of hedge accounting for the A5 notes	–	9,152,705
Closing shareholders' deficit	(194,252,290)	(18,201,329)

11. CONTINGENT LIABILITIES AND FINANCIAL COMMITMENTS

As at 31 December 2008 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.

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