

CANARY WHARF FINANCE II PLC
Registered Number: 3929593

DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

CANARY WHARF FINANCE II PLC

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CANARY WHARF FINANCE II PLC

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 2011 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, the Directors' Report and the financial statements.

At 31 December 2011, the company had £2,404,524,881 (2010: £2,462,057,521) of notes listed on the London Stock Exchange and had lent the proceeds to a fellow subsidiary undertaking, CW Lending II Limited. The notes are secured on seven properties at Canary Wharf, owned by fellow subsidiary undertakings, and the rental income therefrom.

The securitisation has the benefit of an agreement with AIG which covers the rent in the event of a default by the tenant of 33 Canada Square over the entire term of its lease. AIG has posted £269.6 million as cash collateral in respect of this obligation.

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

Following publication of its latest criteria for assessing counter party risk in all new and existing structured finance securities and covered bonds, Standard and Poor's Financial Services LLC ('S&P') duly downgraded the notes on 15 July 2011. Following this downgrade, the ratings of the notes were as follows:

Class	Moody's	Fitch	S&P
A1	Aaa	AAA	A+
A3	Aaa	AAA	A+
A7	Aaa	AAA	A+
B	A1	AA	A+
B3	A1	AA	A+
C2	Baa1	A	A
D2	Ba1	BB	BBB

On 31 January 2012, S&P placed the notes on negative credit watch.

As shown in the company's profit and loss account, the company's loss after tax for the year was £74,698,580 (2010: £16,861,190). This included an unrealised fair value loss on derivative financial instruments of £75,899,197 (2010: gain of £18,118,645).

The balance sheet shows the company's financial position at the year end and indicates that net liabilities were £276,183,538 (2010: £122,749,050).

CANARY WHARF FINANCE II PLC

MANAGEMENT REPORT

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 2011 was as follows:

	31 December 2011 £	31 December 2010 £
Net liabilities per statutory balance sheet	(276,183,538)	(122,749,050)
Add back: Effects of FRS26	280,146,796	126,478,135
Adjusted net assets	<u>3,963,258</u>	<u>3,729,085</u>

KEY PERFORMANCE INDICATORS

	31 December 2011 £	31 December 2010 £
Securitised debt	2,404,524,881	2,462,057,521
Financing cost (before adjustments for FRS26)	146,446,701	150,011,694
Adjusted profit before tax and FRS26	234,172	251,619
Weighted average maturity of debt	15.9 years	16.5 years
Weighted average interest rate	6.2%	6.2%

The adjusted profit before tax comprises the loss on ordinary activities before tax of £74,698,580 (2010: £16,861,190) adjusted for the FRS 26 items listed in Note 4, totalling £74,932,752 (2010: £17,112,809).

PRINCIPAL RISKS AND UNCERTAINTIES

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

Cyclical nature of the property market

The valuation of the Canary Wharf Group's assets is subject to many external economic and market factors. The turmoil in the financial markets in recent years has been reflected in the property market by such factors as a significant decline in tenant demand for space in London, the oversupply of available space in the office market and changing market perceptions of property as an investment resulting in fluctuations in property valuations in general. Fears of an oversupply of available space in the market have however been mitigated by the difficulty in securing finance for speculative development and reduced demand. The market has also been assisted by the continuing presence of overseas investors attracted by the relative transparency of the real estate market in London which is viewed as both stable and secure. Changes in financial and property markets are kept under constant review so that the company can react appropriately and tailor its business accordingly. While the company has no direct exposure to the Euro, the ongoing uncertainty reflecting issues in the macroeconomy, particularly relating to the Eurozone, continues to impact the real estate market. The impact of these uncertainties is closely monitored.

CANARY WHARF FINANCE II PLC

MANAGEMENT REPORT

Concentration risk

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

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 or caps to modify exposure to interest rate fluctuations. All of the company's borrowings are fixed after taking account of interest rate hedges. All borrowings are denominated in sterling and the company has no intention to borrow amounts in currencies other than sterling.

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

The company is not subject to externally imposed capital requirements.

The company's securitisation is subject to a maximum loan minus cash to value ('LMCTV') ratio covenant.

The maximum LMCTV ratio is 100.0%. Based on the 31 December 2011 valuations of the properties upon which the company's notes are secured, the LMCTV ratio at the interest payment date in January 2012 would have been 72.5%. The securitisation is not subject to a minimum interest coverage ratio.

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.

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MANAGEMENT REPORT

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.

CANARY WHARF FINANCE II PLC

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2011

The directors present their report with the audited financial statements for the year ended 31 December 2011.

BUSINESS REVIEW AND PRINCIPAL ACTIVITIES

The company is a wholly owned subsidiary of Canary Wharf Group plc and its ultimate parent undertaking is Songbird Estates plc.

Canary Wharf Finance II plc is a finance vehicle that issues securities which are backed by commercial mortgages over high profile properties within the Canary Wharf estate. The company is engaged in the provision of finance to the Canary Wharf group, comprising Canary Wharf Group plc and its subsidiaries ('the group'). All activities take place within the United Kingdom. The directors are not aware, at the date of this report, of any likely major changes in the company's activities in the coming year.

A review of the business of the company during the year and its position at 31 December 2011, together with key performance indicators, can be found in the Management Report - Business Review. The principal risks and uncertainties facing the company can be found in the Management Report - Principal Risks and Uncertainties. The Management Report is to be treated as being part of this Directors' Report.

The company has no contractual or other arrangement with persons which is essential to the business of the company.

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

DIVIDENDS AND RESERVES

The profit and loss account for the year ended 31 December 2011 is set out on page 11. No dividends have been paid or proposed (2010: £Nil) and the retained loss of £74,698,580 (2010: £16,861,190) has been transferred from reserves.

GOING CONCERN

The directors are required to prepare the financial statements for each financial year on a going concern basis, unless to do so would not be appropriate. Having made requisite enquiries, the directors have a reasonable expectation that the company 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 2011 the company had a deficit of £276,183,538 attributable solely to the adoption of FRS26. Under the requirements of the standard the company recognises the fair value of its derivative financial instruments in the balance sheet. In the event that the company were to realise the fair value of the derivative financial instruments, it would have the right to recoup its losses as a repayment premium on its loans to CW Lending II Limited. The standard does not permit this potential asset to be accounted for in conjunction with the hedges.

CANARY WHARF FINANCE II PLC

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2011

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

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

DIRECTORS

The directors of the company throughout the year ended 31 December 2011 were:

A P Anderson II

Sir George Iacobescu CBE

P Harned

J R Garwood

(alternate director to Sir George Iacobescu CBE)

R J J Lyons

(alternate director to A P Anderson II)

The directors are fully aware of their statutory duties under the Companies Act 2006, and in particular the core duty to act in good faith and in a way most likely to promote the success of the company for the benefit of its members as whole.

The company provides an indemnity to all directors (to the extent permitted by law) in respect of liabilities incurred as a result of their office. The company also has in place liability insurance covering the directors and officers of the company. Both the indemnity and insurance were in force during the year ended 31 December 2011 and at the time of the approval of this Directors' Report. Neither the indemnity nor the insurance provide cover in the event that the director is proven to have acted dishonestly or fraudulently.

POLICIES

Payment of creditors

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

There were no outstanding trade creditors at 31 December 2011 or at 31 December 2010.

Employment

As the company has no employees an employment policy has not been adopted by the company.

Corporate Responsibility

Canary Wharf Group plc has adopted a formal corporate responsibility policy including environmental and social issues which extends to all of its wholly owned subsidiary undertakings, including the company. Full details of this policy together with a copy of the latest Canary Wharf Group plc Corporate Responsibility Report can be obtained from www.canarywharf.com.

CANARY WHARF FINANCE II PLC

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2011

STATEMENT AS TO DISCLOSURE OF INFORMATION TO THE AUDITOR

Each director holding office at the date of this report has taken all the steps that he ought to have taken as a director in order to make himself aware of relevant audit information and to establish that the company's auditor is aware of that information. As far as the directors are aware, there is no relevant audit information of which the company's auditor is unaware.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418(2) of the Companies Act 2006.

AUDITORS

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

BY ORDER OF THE BOARD



.....Company Secretary 23 April 2012

J R Garwood

Registered office:
30th Floor
One Canada Square
Canary Wharf
London
E14 5AB

Registered Number: 3929593

CANARY WHARF FINANCE II PLC

STATEMENT OF THE DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

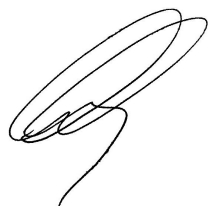
- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate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

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The board of directors, comprising A P Anderson II, Sir George Iacobescu CBE, P Harned, J R Garwood and R J J Lyons, 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 Transparency 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.

Signed on behalf of the board by:



A P ANDERSON II
23 April 2012

CANARY WHARF FINANCE II PLC

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CANARY WHARF FINANCE II PLC

We have audited the financial statements of Canary Wharf Finance II plc for the year ended 31 December 2011 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet and the related Notes 1 to 16. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2011 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

CANARY WHARF FINANCE II PLC

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CANARY WHARF FINANCE II PLC

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Mark Beddy (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, UK

23 April 2012

CANARY WHARF FINANCE II PLC

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2011

		Year Ended 31 December 2011 £	Year Ended 31 December 2010 £
Administrative expenses		(16,950)	(14,100)
OPERATING LOSS	2	(16,950)	(14,100)
Interest receivable and similar income	3	146,697,823	150,277,413
Interest payable and similar charges	4	(221,379,453)	(167,124,503)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(74,698,580)	(16,861,190)
Tax on loss on ordinary activities	5	–	–
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION FOR THE YEAR	13	(74,698,580)	(16,861,190)

Movements in reserves are shown in Note 13 of these financial statements.

All amounts relate to continuing activities in the United Kingdom.

The Notes on pages 14 to 27 form an integral part of these financial statements.

CANARY WHARF FINANCE II PLC

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 DECEMBER 2011

	Year Ended 31 December 2011 £	Year Ended 31 December 2010 £
Loss for the financial year	(74,698,580)	(16,861,190)
Fair value movement on effective hedging instruments	(93,297,336)	(38,123,761)
Interest paid on effective hedging instruments	15,527,873	16,144,271
Hedge reserve recycling	(966,445)	(1,005,836)
Total recognised losses relating to the year	<u>(153,434,488)</u>	<u>(39,846,516)</u>

The Notes on pages 14 to 27 form an integral part of these financial statements.

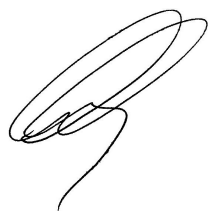
CANARY WHARF FINANCE II PLC

BALANCE SHEET AS AT 31 DECEMBER 2011

	Note	31 December 2011 £	31 December 2010 £
CURRENT ASSETS			
Debtors	6		
Amounts falling due after one year		2,417,462,612	2,476,097,668
Amounts falling due within one year		87,309,045	88,243,855
Cash at bank	7	1,796,036	1,554,889
		<u>2,506,567,693</u>	<u>2,565,896,412</u>
CREDITORS: Amounts falling due within one year	8	<u>(85,141,821)</u>	<u>(86,069,657)</u>
NET CURRENT ASSETS		<u>2,421,425,872</u>	<u>2,479,826,755</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>2,421,425,872</u>	<u>2,479,826,755</u>
CREDITORS: Amounts falling due after more than one year			
	9	<u>(2,697,609,410)</u>	<u>(2,602,575,805)</u>
NET LIABILITIES		<u>(276,183,538)</u>	<u>(122,749,050)</u>
CAPITAL AND RESERVES			
Called-up share capital	12	50,000	50,000
Hedging reserve	13	(134,438,689)	(55,702,781)
Profit and loss account	13	(141,794,849)	(67,096,269)
SHAREHOLDER'S DEFICIT	14	<u>(276,183,538)</u>	<u>(122,749,050)</u>

The Notes on pages 14 to 27 form an integral part of these financial statements.

APPROVED BY THE BOARD ON 23 APRIL 2012 AND SIGNED ON ITS BEHALF BY:



A P ANDERSON II

CANARY WHARF FINANCE II PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

1. PRINCIPAL ACCOUNTING POLICIES

A summary of the principal accounting policies of the company, all of which have been applied consistently throughout the year and the preceding year, is set out below.

Accounting convention

The financial statements have been prepared under the historical cost convention, with the exception of certain financial instruments and in accordance with applicable United Kingdom accounting standards. The financial statements have been prepared on the going concern basis as described in the Directors' Report.

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

Interest receivable and interest payable

Interest receivable and payable are recognised on an accruals basis in the period in which they fall due.

Trade and other debtors

Debtors are recognised initially at fair value. A provision for impairment is established where there is objective evidence that the company will not be able to collect all amounts due according to the original terms of the debtor concerned.

Interest bearing loans and borrowings

All loans and borrowings are initially recognised at fair value less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses arising on the repurchase, settlement or otherwise cancellation of liabilities are recognised respectively as a component of finance revenues and finance costs.

Derivative instruments

The company uses interest rate derivatives to help manage its risks of changes in interest rates. In accordance with its treasury policy, the company does not hold or issue derivatives for trading purposes.

In order for a derivative to qualify for hedge accounting, the company is required to document the relationship between the item being hedged and the hedging instrument. The company is also required to demonstrate an assessment of the relationship between the hedged item and the hedging instrument which shows that the hedge will be effective on an ongoing basis. The effectiveness testing is re-performed at each balance sheet date to ensure that the hedge remains highly effective.

CANARY WHARF FINANCE II PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity and the ineffective portion is recognised immediately in the profit and loss account. If the cash flow hedge of a firm commitment or forecasted transaction results in the recognition of a non-financial asset or liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in equity are included in the initial measurement of the asset or liability. For hedges that do not result in the recognition of a non-financial asset or liability, amounts deferred in equity are recognised in the profit and loss account in the same period in which the hedged item affects net profit or loss.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the profit and loss account as they arise.

Hedge accounting is discontinued when the hedge instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs. If the hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the profit and loss account.

Taxation

Current tax is provided at amounts expected to be paid or recovered using the tax rates and laws that have been enacted or substantively enacted at the balance sheet date. The company is part of a UK group for group relief purposes and accordingly may take advantage of the group relief provisions whereby current taxable profits can be offset by current tax losses arising in other companies in that group. The group's policy is that no payment will be made for tax losses surrendered under the group relief provisions.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, are not held for trading and have not been designated as either fair value through profit or loss or available for sale. Such assets are carried at amortised cost using the effective interest method if the time value of money is significant. Gains and losses are recognised in income when loans and receivables are derecognised or impaired, as well as through the effective interest method.

CANARY WHARF FINANCE II PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

2. OPERATING LOSS

Operating loss is stated after charging:

	Year Ended 31 December 2011 £	Year Ended 31 December 2010 £
Remuneration of the auditor:		
Audit fees for the audit of the company	8,000	6,000
Fees to the auditor for other services	6,000	6,000

None of the directors received any emoluments in respect of their services to the company during the year or the prior year.

No staff were employed by the company during the year or the prior year.

3. INTEREST RECEIVABLE AND SIMILAR INCOME

	Year Ended 31 December 2011 £	Year Ended 31 December 2010 £
Bank interest receivable	23,563	16,892
Interest receivable from group undertakings	146,674,260	150,260,521
	<u>146,697,823</u>	<u>150,277,413</u>

4. INTEREST PAYABLE AND SIMILAR CHARGES

	Year Ended 31 December 2011 £	Year Ended 31 December 2010 £
Interest payable on securitised debt (Note 10)	146,446,701	150,011,694
Fair value adjustments on derivative financial instruments	75,899,197	18,118,645
Hedge reserve recycling (Note 13)	(966,445)	(1,005,836)
	<u>221,379,453</u>	<u>167,124,503</u>

Included in the interest payable on securitised debt is £1,759,529 (2010: £1,571,467) payable in respect of notes acquired by a fellow subsidiary undertaking (Note 10).

CANARY WHARF FINANCE II PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

5. TAXATION

	Year Ended 31 December 2011 £	Year Ended 31 December 2010 £
Current tax:		
UK corporation tax	—	—
Tax reconciliation:		
Loss on ordinary activities before tax	(74,698,580)	(16,861,190)
Tax on loss on ordinary activities at UK Corporation tax rate of 26.5% (2010: 28.0%)	(19,795,124)	(4,721,133)
Effects of:		
FRS26 adjustments	19,857,179	4,791,587
Group relief	(62,056)	(70,453)
Total tax charge on loss on ordinary activities	—	—

The tax rate of 26.5% has been calculated by reference to the current corporation tax rate of 26% which was in effect for the final three quarters of the year and the previous rate of 28% which was in effect for the first quarter of the year.

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

CANARY WHARF FINANCE II PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

6. DEBTORS

	31 December 2011 £	31 December 2010 £
Due within one year:		
Loan to fellow subsidiary undertaking	85,163,912	86,109,563
Amounts owed by fellow subsidiary undertakings	2,142,162	2,132,406
Accrued interest receivable	2,971	1,886
	<u>87,309,045</u>	<u>88,243,855</u>
Due after more than one year:		
Loan to fellow subsidiary undertaking	<u>2,417,462,612</u>	<u>2,476,097,668</u>

Amounts owed by group undertakings are non-interest bearing.

The amount of the loan due within one year comprises £27,631,272 (2010: £28,576,923) of interest and £57,532,640 (2010: £57,532,640) of capital.

The amounts at which financial assets are stated comprise:

	31 December 2011 £	31 December 2010 £
At 1 January	2,533,630,308	2,592,442,293
Amortisation of issue premium	(4,668,591)	(4,847,330)
Accrued financing expenses	3,566,175	3,567,985
Repaid in year	(57,532,640)	(57,532,640)
At 31 December	<u>2,474,995,252</u>	<u>2,533,630,308</u>
Due within one year	57,532,640	57,532,640
Due after more than one year	<u>2,417,462,612</u>	<u>2,476,097,668</u>
	<u>2,474,995,252</u>	<u>2,533,630,308</u>

CANARY WHARF FINANCE II PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

The loan to the company's fellow subsidiary undertaking was made in tranches, the principal terms of which are:

	Interest	Effective Interest	Repayment	31 December 2011	31 December 2010
				£m	£m
A1	6.465%	6.161%	By instalment 2009-2033	1,088.4	1,139.1
A3	5.962%	5.826%	By instalment 2032-2037	400.0	400.0
A7	5.308%	5.308%	January 2035	222.0	222.0
B	6.810%	6.425%	By instalment 2005-2033	190.1	197.0
B3	5.445%	5.445%	January 2035	104.0	104.0
C2	6.069%	6.069%	January 2035	275.0	275.0
D2	6.753%	6.753%	January 2035	125.0	125.0
				2,404.5	2,462.1
Unamortised premium				53.7	58.4
Accrued financing costs				16.7	13.2
				2,474.9	2,533.7

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 2011 was £2,645,798,000 (2010: £2,564,980,000), 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.

The maturity profile of the company's contracted undiscounted cash flows is as follows:

	31 December 2011	31 December 2010
	£	£
Within one year	202,084,732	206,254,968
In one to two years	202,324,373	202,084,732
In two to five years	603,315,128	607,814,593
In five to ten years	927,867,574	948,440,081
In ten to twenty years	1,533,855,381	1,643,337,939
In twenty to thirty years	1,310,569,817	1,378,339,662
	4,780,017,005	4,986,271,975
Comprising:		
Principal repayments	2,404,524,880	2,462,057,520
Interest repayments	2,375,492,125	2,524,214,455
	4,780,017,005	4,986,271,975

The above table contains undiscounted cash flows (including interest) and therefore results in a higher balance than the carrying values or fair values of the intercompany debt.

CANARY WHARF FINANCE II PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

7. FINANCIAL ASSETS

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

Cash at bank totalled £1,796,036 at 31 December 2011 (2010: £1,554,889), comprising £1,786,927 in Sterling (2010: £1,545,701), £2,027 (€2,432) in Euros (2010: £2,094/€2,432) and £7,082 (US\$11,012) in US Dollars (2010: £7,094/\$11,012), 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.

8. CREDITORS: Amounts falling due within one year

	31 December 2011 £	31 December 2010 £
Securitised debt (Note 10)	85,132,221	86,062,607
Accruals and deferred income	9,600	7,050
	<u>85,141,821</u>	<u>86,069,657</u>

The amount of the securitised debt due within one year comprises £27,599,581 (2010: £28,529,967) of interest and £57,532,640 (2010: £57,532,640) of capital.

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

	31 December 2011 £	31 December 2010 £
Securitised debt (Note 10)	2,417,462,614	2,476,097,670
Derivative financial instruments (Note 11)	280,146,796	126,478,135
	<u>2,697,609,410</u>	<u>2,602,575,805</u>

CANARY WHARF FINANCE II PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

10. SECURITISED DEBT

The amounts at which borrowings are stated comprise:

	31 December 2011 £	31 December 2010 £
Brought forward	2,533,630,310	2,592,442,295
Repaid in year	(57,532,640)	(57,532,640)
Amortisation of issue premium	(4,668,591)	(4,847,330)
Accrued financing expenses	3,566,175	3,567,985
Carried forward	<u>2,474,995,254</u>	<u>2,533,630,310</u>
Payable within one year or on demand	57,532,640	57,532,640
Payable after more than one year	<u>2,417,462,614</u>	<u>2,476,097,670</u>
	<u>2,474,995,254</u>	<u>2,533,630,310</u>

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 2011 £53,736,887 (2010: £58,405,478) remained unamortised.

At 31 December 2011 there were accrued financing costs of £16,733,486 (2010: £13,167,311) relating to future increases in margins as described below.

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

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

During the prior year, two of the seven properties on which the notes are secured, 25 Bank Street and 50 Bank Street, were withdrawn from the securitisation and substituted with 10 Cabot Square and 20 Cabot Square. In conjunction with this substitution £65.7m was added to cash collateral held by CW Lending II Limited to cover any shortfall in debt service.

Prior to withdrawing 25 Bank Street, the securitisation had the benefit of a loan facility agreement with AIG which provided for any shortfall in contracted rents under the Lehman lease in the event of a default by Lehman, the tenant of 25 Bank Street. In November 2010, terms were agreed with AIG for the termination of this facility.

Separately, the securitisation continues to have the benefit of an arrangement with AIG which covers the rent in the event of a default by the tenant of 33 Canada Square, over the entire term of its lease. AIG has posted £269.6m as cash collateral in respect of this obligation.

CANARY WHARF FINANCE II PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

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 annual fees payable in respect of the above arrangement currently totals £3.7m.

At 31 December 2011 the securitised debt comprised the following:

Tranche	Principal	Market value	Interest	Effective interest	Repayment
	£m	£m			
A1	1,088.4	1,229.9	6.455%	6.151%	By instalment 2009-2033
A3	400.0	460.0	5.952%	5.816%	By instalment 2032-2037
A7	222.0	166.5	Floating	5.298%	January 2035
B	190.1	211.0	6.800%	6.415%	By instalment 2005-2033
B3	104.0	70.7	Floating	5.435%	January 2035
C2	275.0	165.0	Floating	6.059%	January 2035
D2	125.0	62.5	Floating	6.743%	January 2035
	<u>2,404.5</u>	<u>2,365.6</u>			

At 31 December 2010 the securitised debt comprised the following:

Tranche	Principal	Market value	Interest	Effective interest	Repayment
	£m	£m			
A1	1,139.1	1,316.8	6.455%	6.153%	By instalment 2009-2033
A3	400.0	421.0	5.952%	5.816%	By instalment 2032-2037
A7	222.0	173.2	Floating	5.298%	January 2035
B	197.0	206.8	6.800%	6.419%	By instalment 2005-2033
B3	104.0	71.8	Floating	5.435%	January 2035
C2	275.0	173.3	Floating	6.059%	January 2035
D2	125.0	78.8	Floating	6.743%	January 2035
	<u>2,462.1</u>	<u>2,441.7</u>			

Interest on the A1 notes, A3 notes and B notes is fixed until maturity. Interest on the floating notes is repriced every three months.

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

CANARY WHARF FINANCE II PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

All of the notes are hedged by means of interest rate swaps and the hedged rates plus the margin are: A7 notes - 5.1135%; B3 notes - 5.1625%; C2 notes - 5.4416%; and D2 notes - 5.8005%.

The effective interest rates include adjustments for the hedges, the issue premium and the step up in rates in 2014 and 2017.

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 maturity profile of the company's contracted undiscounted cash flows is as follows:

	31 December 2011 £	31 December 2010 £
Within one year	177,653,238	179,189,917
In one to two years	174,518,548	178,062,702
In two to five years	531,386,658	571,718,117
In five to ten years	860,198,813	937,438,714
In ten to twenty years	1,437,417,111	1,618,650,194
In twenty to thirty years	1,280,379,230	1,349,388,698
	<u>4,461,553,598</u>	<u>4,834,448,342</u>
Comprising:		
Principal repayments	2,404,524,880	2,462,057,520
Interest repayments	2,057,028,717	2,372,390,822
	<u>4,461,553,597</u>	<u>4,834,448,342</u>

The above table contains undiscounted cash flows (including interest) and therefore results in a higher balance than the carrying values or fair values of the borrowings.

The weighted average maturity of the debentures at 31 December 2011 was 15.9 years (2010: 16.5 years). The debentures may be redeemed at the option of the company in an aggregate amount of not less than £1,000,000 on any interest payment date subject to the current rating of the debentures not being adversely affected and certain other conditions affecting the amount to be redeemed.

After taking into account the interest rate hedging arrangements, the weighted average interest rate of the company at 31 December 2011 was 6.2% (2010: 6.2%).

Details of the derivative financial instruments are set out in Note 11.

Details of the company's risk management policy is set out in the Management Report.

CANARY WHARF FINANCE II PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

11. DERIVATIVE FINANCIAL INSTRUMENTS

The company uses interest rate swaps and interest rate caps to hedge exposure to the variability in cash flows on floating rate debt caused by movements in market rates of interest. At 31 December 2011 the fair value of these derivatives resulted in the recognition of a net liability of £280,146,796 (2010: £126,478,135). Of this net liability £144,249,954 (2010: £66,480,490) was in respect of interest rate swaps which qualify for hedge accounting and £135,896,842 (2010: £59,997,645) was in respect of interest rate swaps and collars which do not qualify for hedge accounting.

At 31 December 2011, there were hedges on certain of the notes as follows:

Hedge type	Swap rate	Fair Value	
		31 December 2011	31 December 2010
	£	£	
Highly effective hedges:			
B3 interest rate swap	4.883%	(39,460,607)	(18,131,258)
C2 interest rate swap	4.892%	(104,789,347)	(48,349,232)
		<u>(144,249,954)</u>	<u>(66,480,490)</u>
Hedges not designated highly effective:			
A7 interest rate swap	4.924%	(86,414,346)	(37,907,681)
D2 interest rate swap	4.960%	(49,482,496)	(22,089,964)
		<u>(135,896,842)</u>	<u>(59,997,645)</u>

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

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

CANARY WHARF FINANCE II PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

The following table shows the undiscounted cash (inflows) and outflows in relation to the company's derivative financial instruments based on the company's prediction of future movements in interest rates.

	31 December 2011 £	31 December 2010 £
Within one year	24,257,997	26,822,254
In one to two years	27,574,021	23,847,476
In two to five years	71,326,087	35,417,637
In five to ten years	66,728,912	10,010,802
In ten to twenty years	95,031,912	23,168,472
In twenty to thirty years	29,908,678	28,549,937
	<u>314,827,607</u>	<u>147,816,578</u>

Changes in interest rates would primarily affect the market value of derivative financial instruments. These changes would impact on the profit and loss account for those derivatives which are not designated as being in effective hedging relationships and would impact the reserves for those derivatives which are highly effective. A 0.5% parallel shift in the interest rate curve used to value the derivatives, with all other variables held constant, would have the following impact:

	31 December 2011 £	31 December 2010 £
0.5% increase in interest rates		
Impact on profit and loss account	33,946,635	27,855,573
Impact on hedging reserve	36,920,544	30,285,356
Impact on net assets	<u>70,867,179</u>	<u>58,140,929</u>
0.5% decrease in interest rates		
Impact on profit and loss account	(37,603,076)	(30,860,835)
Impact on hedging reserve	(40,901,613)	(33,556,594)
Impact on net assets	<u>(78,504,689)</u>	<u>(64,417,429)</u>

The 0.5% sensitivity has been selected based on the directors' view of a reasonable interest rate curve movement assumption.

The impact on the net assets of the company arises because all of the company's borrowings are subject to interest rate swaps, which are carried at valuation in the balance sheet and all of its loans to fellow subsidiary undertakings are at fixed rate, and carried at amortised cost.

CANARY WHARF FINANCE II PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

12. CALLED-UP SHARE CAPITAL

Allotted, called up and fully paid:

	31 December 2011	31 December 2010
	£	£
50,000 ordinary shares of £1 each	<u>50,000</u>	<u>50,000</u>

13. RESERVES

	Hedging reserve	Profit and loss account	Total
	£	£	£
At 1 January 2011	(55,702,781)	(67,096,269)	(122,799,050)
Loss for the year	–	(74,698,580)	(74,698,580)
Fair value movement on effective hedging instruments	(93,297,336)	–	(93,297,336)
Interest paid on effective hedging instruments	15,527,873	–	15,527,873
Hedge reserve recycling	(966,445)	–	(966,445)
At 31 December 2011	<u>(134,438,689)</u>	<u>(141,794,849)</u>	<u>(276,233,538)</u>

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

14. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' DEFICIT

	31 December 2011	31 December 2010
	£	£
Opening shareholders' deficit	(122,749,050)	(82,902,534)
Loss for the year	(74,698,580)	(16,861,190)
Fair value movement on effective hedging instruments	(93,297,336)	(38,123,761)
Interest paid on effective hedging instruments	15,527,873	16,144,271
Hedge reserve recycling	(966,445)	(1,005,836)
Closing shareholders' deficit	<u>(276,183,538)</u>	<u>(122,749,050)</u>

15. CONTINGENT LIABILITIES AND FINANCIAL COMMITMENTS

As at 31 December 2011 and 31 December 2010 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 10.

CANARY WHARF FINANCE II PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

16. ULTIMATE PARENT UNDERTAKING AND RELATED PARTY TRANSACTIONS

The company's immediate parent undertaking is Canary Wharf Finance Holdings Limited.

As at 31 December 2011, the smallest group of which the company is a member and for which group financial statements are drawn up is the consolidated financial statements of Canary Wharf Group plc. The largest group of which the company is a member for which group financial statements are drawn up is the consolidated financial statements of Songbird Estates plc, the ultimate parent undertaking and controlling party. Copies of the financial statements of both companies may be obtained from the Company Secretary, One Canada Square, Canary Wharf, London E14 5AB.

The directors have taken advantage of the exemption in paragraph 3(c) of FRS 8 allowing the company not to disclose related party transactions with respect to other wholly-owned group companies.