

CANARY WHARF FINANCE II PLC

15 APRIL 2013

**PUBLICATION OF THE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED
31 DECEMBER 2012**

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 2012, 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 15 April 2013, does not comprise statutory accounts within the meaning of the Companies Act 2006 and is provided in accordance with section 6.3.5(2)(b) of the Disclosure and Transparency Rules.

In compliance with the Listing Rule 9.6.1, a copy of the 31 December 2012 annual financial report will be submitted to the UK Listing Authority via the National Storage Mechanism and will shortly be available to the public for inspection at www.hemscott.com/nsm.do.

Dated: 15 April 2013

Contact for queries:

J R Garwood
Company Secretary
Canary Wharf Finance II plc

Telephone: 020 7418 2000

BUSINESS REVIEW

The following business review aims to provide shareholders with an overall summary of the business of the company as at 31 December 2012 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 2012, the company had £2,346,992,241 (2011: £2,404,524,881) 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 £262.1 million as cash collateral in respect of this obligation.

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

The ratings of the notes are as follows:

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

As shown in the company's profit and loss account, the company's loss after tax for the year was £2,084,496 (2011: £74,698,580). This included an unrealised fair value loss on derivative financial instruments of £3,189,411 (2011: gain of £75,899,197).

The balance sheet shows the company's financial position at the year end and indicates that net liabilities were £282,270,367 (2011: £276,183,538).

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 2012 was as follows:

	31 December 2012	31 December 2011
	£	£
Net liabilities per statutory balance sheet	(282,270,367)	(276,183,538)
Add back: Effects of FRS26	286,411,840	280,146,796
Adjusted net assets	<u>4,141,473</u>	<u>3,963,258</u>

KEY PERFORMANCE INDICATORS

	31 December 2012	31 December 2011
	£	£
Securitised debt	2,346,992,241	2,404,524,881
Financing cost (before adjustments for FRS26)	142,979,111	146,446,701
Adjusted profit before tax and FRS26	178,215	234,172
Weighted average maturity of debt	15.3 years	15.9 years
Weighted average interest rate	6.2%	6.2%

The adjusted profit before tax comprises the loss on ordinary activities before tax of £2,084,496 (2011: £74,698,580) adjusted for the FRS 26 items listed in Note 3, totalling £2,262,711 (2011: £74,932,752).

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 and uncertainty in the Eurozone 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 supply. The market has also been assisted by the continuing presence of overseas investors attracted by the relative transparency of the real estate market in London which is still viewed as both stable and secure. Changes in financial and property markets are kept under constant review so that the company can react appropriately and tailor its business accordingly. 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.

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 2012 valuations of the properties upon which the company's notes are secured, the LMCTV ratio at the interest payment date in January 2013 would have been 70.2%. 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.

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.

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2012

		Year Ended 31 December 2012 £	Year Ended 31 December 2011 £
Administrative expenses		(17,759)	(16,950)
OPERATING LOSS		(17,759)	(16,950)
Interest receivable and similar income	2	143,175,085	146,697,823
Interest payable and similar charges	3	(145,241,822)	(221,379,453)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(2,084,496)	(74,698,580)
Tax on loss on ordinary activities	4	—	—
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION FOR THE YEAR	9	(2,084,496)	(74,698,580)

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

All amounts relate to continuing activities in the United Kingdom.

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

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 DECEMBER 2012

	Year Ended 31 December 2012 £	Year Ended 31 December 2011 £
Loss for the financial year	(2,084,496)	(74,698,580)
Fair value movement on effective hedging instruments	(17,906,405)	(93,297,336)
Interest paid on effective hedging instruments	14,830,772	15,527,873
Hedge reserve recycling	(926,700)	(966,445)
Total recognised losses relating to the year	<u>(6,086,829)</u>	<u>(153,434,488)</u>

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

BALANCE SHEET AT 31 DECEMBER 2012

		31 December 2012 £	31 December 2011 £
CURRENT ASSETS			
Debtors	5		
Amounts falling due after one year		2,355,209,457	2,417,462,612
Amounts falling due within one year		90,553,799	87,309,045
Cash at bank	6	<u>2,039,303</u>	<u>1,796,036</u>
		2,447,802,559	2,506,567,693
CREDITORS: Amounts falling due within one year	7	<u>(88,451,626)</u>	<u>(85,141,821)</u>
NET CURRENT ASSETS		<u>2,359,350,933</u>	<u>2,421,425,872</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		2,359,350,933	2,421,425,872
CREDITORS: Amounts falling due after more than one year	8	<u>(2,641,621,300)</u>	<u>(2,697,609,410)</u>
NET LIABILITIES		<u>(282,270,367)</u>	<u>(276,183,538)</u>
CAPITAL AND RESERVES			
Called-up share capital		50,000	50,000
Hedging reserve	9	(138,441,022)	(134,438,689)
Profit and loss account	9	<u>(143,879,345)</u>	<u>(141,794,849)</u>
SHAREHOLDER'S DEFICIT	10	<u>(282,270,367)</u>	<u>(276,183,538)</u>

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

1. PRINCIPAL ACCOUNTING POLICIES

This announcement does not constitute the company's statutory accounts for the year ended 31 December 2012 but is derived from those accounts. The statutory accounts for the year ended 31 December 2012 will be delivered to the Registrar of Companies following the company's annual general meeting. The auditors have reported on those accounts and their report was unqualified, did not contain a reference to any matters to which the auditors drew attention by way of emphasis without qualifying the report and did not contain statements under sections 498(2) or (3) of the Companies Act 2006.

This announcement has been prepared on the basis of the accounting policies set out in the company's financial statements for the year ended 31 December 2012 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 a cash flow statement, as it is a wholly-owned subsidiary of Canary Wharf Group plc, which has prepared a consolidated cash flow statement.

GOING CONCERN

The directors are required to prepare the financial statements for each financial year on a going concern basis, unless to do so would not be appropriate. Having made requisite enquiries, the directors have a reasonable expectation that the company has adequate resources to continue its operations for the foreseeable future and hence the financial statements have been prepared on that basis.

At 31 December 2012 the company had a deficit of £282,270,367 attributable solely to the adoption of FRS26. Under the requirements of the standard the company recognises the fair value of its derivative financial instruments in the balance sheet. In the event that the company were to realise the fair value of the derivative financial instruments, it would have the right to recoup its losses as a repayment premium on its loans to CW Lending II Limited. The standard does not permit this potential asset to be accounted for in conjunction with the hedges.

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

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

2. INTEREST RECEIVABLE AND SIMILAR INCOME

	Year Ended 31 December 2012 £	Year Ended 31 December 2011 £
Bank interest receivable	21,432	23,563
Interest receivable from group undertakings	143,153,653	146,674,260
	<u>143,175,085</u>	<u>146,697,823</u>

3. INTEREST PAYABLE AND SIMILAR CHARGES

	Year Ended 31 December 2012 £	Year Ended 31 December 2011 £
Interest payable on securitised debt	142,979,111	146,446,701
Fair value adjustments on derivative financial instruments	3,189,411	75,899,197
Hedge reserve recycling (Note 9)	(926,700)	(966,445)
	<u>145,241,822</u>	<u>221,379,453</u>

Included in the interest payable on securitised debt is £1,810,783 (2011: £1,759,529) payable in respect of notes acquired by a fellow subsidiary undertaking (Note 8).

4. TAXATION

	Year Ended 31 December 2012 £	Year Ended 31 December 2011 £
Tax reconciliation:		
Loss on ordinary activities before tax	<u>2,084,496</u>	<u>74,698,580</u>
Tax on loss on ordinary activities at UK corporation tax rate of 24.5% (2011: 26.5%)	(510,702)	(19,795,120)
Effects of:		
Items not chargeable to tax	554,364	19,857,179
Group relief	(43,662)	(62,059)
Current tax charge for the year	<u>—</u>	<u>—</u>

The tax rate of 24.5% has been calculated by reference to the current corporation tax rate of 24% which was in effect for the final three quarters of the year and the previous rate of 26% which was in effect for the first quarter of the year.

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

5. DEBTORS

	31 December 2012 £	31 December 2011 £
Due within one year:		
Loan to fellow subsidiary undertaking	88,406,271	85,163,912
Amounts owed by fellow subsidiary undertakings	2,145,502	2,142,162
Accrued interest receivable	2,026	2,971
	<u>90,553,799</u>	<u>87,309,045</u>
Due after more than one year:		
Loan to fellow subsidiary undertaking	<u>2,355,209,457</u>	<u>2,417,462,612</u>

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

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

The amount of the loan due within one year comprises £27,073,111 (31 December 2011: £27,631,272) of interest and £61,333,160 (31 December 2011: £57,532,640) 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 2012 was £2,881,562,879 (2011: £2,645,798,325), calculated by reference to the fair values of the company's financial liabilities. The carrying value of financial assets represents the company's maximum exposure to credit risk.

6. FINANCIAL ASSETS

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

Cash at bank totalled £2,039,303 at 31 December 2012 (2011: £1,796,036) which was held as cash collateral for the company's borrowings and has a term of one month or less.

Included in this balance at 31 December 2011 was £2,027 (€2,432) in Euros and £7,082 (US\$11,012) in US Dollars. Both foreign currency accounts were closed during the year.

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

7. CREDITORS: Amounts falling due within one year

	31 December 2012 £	31 December 2011 £
Securitised debt	88,441,426	85,132,221
Accruals and deferred income	10,200	9,600
	<u>88,451,626</u>	<u>85,141,821</u>

The amount of the securitised debt due within one year comprises £27,108,266 (2011: £27,599,581) of interest and £61,333,160 (2011: £57,532,640) of capital.

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

	31 December 2012 £	31 December 2011 £
Securitised debt	2,355,209,460	2,417,462,614
Derivative financial instruments	286,411,840	280,146,796
	<u>2,641,621,300</u>	<u>2,697,609,410</u>

The securitised debt has a face value of £2,347.0m (2011: £2,404.5m) of which £1,621.0m (£2011: £1,678.5m) carries fixed rates of interest between 5.95% and 6.80%. The other £726.0m (2011: £726.0m) carries floating rates of interest at LIBOR plus a margin. The company uses interest rate swaps to hedge exposure to the variability in cash flows on floating rate debt caused by movements in market rates of interest. The hedged rates of the floating rate notes, including margins, are between 5.30% and 6.74%.

The amounts at which borrowings are stated comprise:

	31 December 2012 £	31 December 2011 £
Brought forward	2,474,995,254	2,533,630,310
Repaid in year	(57,532,640)	(57,532,640)
Amortisation of issue premium	(4,489,851)	(4,668,591)
Accrued financing expenses	3,569,857	3,566,175
Carried forward	<u>2,416,542,620</u>	<u>2,474,995,254</u>
Payable within one year or on demand	61,333,160	57,532,640
Payable after more than one year	2,355,209,460	2,417,462,614
	<u>2,416,542,620</u>	<u>2,474,995,254</u>

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

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

Certain of the A1, A3 and B notes were issued at a premium which is being amortised to the profit and loss account on a straight-line basis over the life of the relevant notes. At 31 December 2012 £49,247,036 (2011: £53,736,887) remained unamortised.

At 31 December 2012 there were accrued financing costs of £20,303,343 (2011: £16,733,486) relating to future increases in margins.

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

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

The securitisation has the benefit of an arrangement with AIG which covers the rent in the event of a default by the tenant of 33 Canada Square, over the entire term of its lease. AIG has posted £262.1m as cash collateral in respect of this obligation. The annual fees payable in respect of the above arrangement currently totals £2.1m.

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

The market value of the securitised debt at 31 December 2012 was £2,595.2m (2011: £2,365.6m).

The weighted average maturity of the debentures at 31 December 2012 was 15.3 years (2011: 15.9 years).

After taking into account the interest rate hedging arrangements, the weighted average interest rate of the company at 31 December 2012 was 6.2% (2011: 6.2%).

At 31 December 2012 the fair value of the interest rate derivatives resulted in the recognition of a net liability of £286,411,840 (2011: £280,146,796). Of this net liability £147,325,587 (2011: £144,249,954) was in respect of interest rate swaps which qualify for hedge accounting and £139,086,253 (2011: £135,896,842) was in respect of interest rate swaps and collars which do not qualify for hedge accounting.

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

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

9. RESERVES

	Hedging Profit and loss		
	reserve	account	Total
	£	£	£
At 1 January 2012	(134,438,689)	(141,794,849)	(276,233,538)
Loss for the year	–	(2,084,496)	(2,084,496)
Fair value movement on effective hedging instruments	(17,906,405)	–	(17,906,405)
Interest paid on effective hedging instruments	14,830,772	–	14,830,772
Hedge reserve recycling	(926,700)	–	(926,700)
At 31 December 2012	<u>(138,441,022)</u>	<u>(143,879,345)</u>	<u>(282,320,367)</u>

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

10. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' DEFICIT

	31 December 2012 £	31 December 2011 £
Opening shareholders' deficit	(276,183,538)	(122,749,050)
Loss for the year	(2,084,496)	(74,698,580)
Fair value movement on effective hedging instruments	(17,906,405)	(93,297,336)
Interest paid on effective hedging instruments	14,830,772	15,527,873
Hedge reserve recycling	(926,700)	(966,445)
Closing shareholders' deficit	<u>(282,270,367)</u>	<u>(276,183,538)</u>

11. CONTINGENT LIABILITIES AND FINANCIAL COMMITMENTS

As at 31 December 2012 and 31 December 2011 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.