CANARY WHARF FINANCE II PLC
Registered Number: 3929593

30 JUNE 2010 HALF YEARLY FINANCIAL REPORT

CANARY WHARF FINANCE II PLC

HALF YEARLY FINANCIAL REPORT

CONTENTS

CANARY WHARF FINANCE II PLC

INTERIM MANAGEMENT STATEMENT

This interim management statement relates to the six months ended 30 June 2010 and contains information that covers the period from 1 January 2010 to 25 August 2010, the date of publication of this interim management statement.

BUSINESS REVIEW

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

At 30 June 2010, the company had £2,490,823,840 (31 December 2009: £2,519,590,161) 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.

No significant non-routine events or transactions occurred during the period from 1 January 2010 to 26 August 2010.

On 15 September 2008 Lehman Brothers Limited entered into administration in the UK and its ultimate parent, Lehman Brothers Holdings Inc., applied for Chapter 11 insolvency protection in the USA.

Lehman Brothers Limited (in administration) ('Lehman') originally leased 1.023m sq ft in 25 Bank Street on a tenancy which is due to expire in July 2033. Although Lehman has ceased paying rent, the lease legally remains in place and its obligations are guaranteed by Lehman Brothers Holdings Inc, the US parent. Of the 1.023m sq ft, approximately 358,000 sq ft was sub-let in December 2008 to Nomura International Plc. A further 63,000 sq ft (approx) in aggregate was sub-let to Nomura in May 2009 and March 2010. These subleases will expire in 30 September 2010 following the exercise of breaks.

A further 126,000 sq ft is sublet, of which approximately 101,000 sq ft is sub-let until 2013 and the balance until September 2010. Each of these sub-lets revert to Lehman on the expiry of the various sub-leases. The current rent payable by Lehman for the entire building is £54.59 psf.

The securitisation has the benefit of a loan facility agreement ('the HQ2 Facility') with American International Group, Inc ('AIG') which provides for a shortfall of the contracted rent under the lease (for example following a default by Lehman or its administrators) to be made up by drawing upon the HQ2 Facility. The Facility provides for drawings over a period of 4 years from first drawdown. The amounts drawn are repayable from any recoveries received in respect of the amounts claimed under the Facility and rentals in the property which exceed the contracted rents that would have been received from Lehman under the lease.

Under the HQ2 Facility AIG is obliged to maintain a certain credit rating. Following the fall in its credit rating, AIG posted cash collateral of approximately £224.0 million. 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.

For the first quarter of 2010 Lehman paid rent in respect of 290,146 sq ft only, being the areas of 25 Bank Street which it occupied at that time and not for the whole of 25 Bank Street. From 1 April 2010 Lehman ceased paying all rent and estate service charge on the building. Sub-tenants which currently occupy 547,000 sq ft, including Nomura, continue to pay rent directly to the securitisation rental receipts account.

Notwithstanding any partial occupation or any subsequent vacation of 25 Bank Street by the administrators, the company continues to expect full performance of the Lehman obligations under the lease and payment of rent on the whole of 25 Bank Street is being pursued in line with a recent High Court ruling on administrator liability in relation to the first quarter of 2010 with the position reserved as to subsequently. Pending resolution of this issue there was a net shortfall in rental income of £2.6 million within the securitisation structure in the first quarter of 2010. The shortfall for the second quarter was £4.8m and for the third quarter was £5.8m. These shortfalls have been satisfied from existing cash resources in a coverage reserve account established within the securitisation to meet such shortfalls. There has therefore been no immediate drawdown under the HQ2 Facility.

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 £276.3 million as cash collateral in respect of this obligation.

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

As shown in the company's profit and loss account, the company's loss after tax for the six month period was £29,162,260 (period ended 30 June 2009: profit of £53,727,564).

The balance sheet shows the company's financial position at the period end and indicates that net liabilities were £142,758,625 (31 December 2009: £82,902,534).

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) ('FRS 26') and its impact on other financial reporting standards. FRS 26 requires recognition of the mark to market of derivative financial instruments, which hedge the company's exposure to interest rate fluctuations, but the mark to market of the company's debtor loan and securitised debt has not been recognised. Adjusting for the effects of FRS 26 the net asset value of the company at 30 June 2010 was as follows:

31 December 2009 £		30 June 2010 £	30 June 2009 £
(82,902,534)	Net (liabilities) per balance sheet	(142,758,625)	(83,716,114)
86,380,000	Effects of FRS 26	146,361,000	87,066,000
3,477,466	Adjusted net assets	3,602,375	3,349,886

The adjusted net assets position reflects the financial position that would result from the scheduled back to back repayment of the company's debt and debtor loan.

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

KEY PERFORMANCE INDICATORS

31 December 2009 £		30 June 2010 £	30 June 2009 £
2,519,590,161	Securitised debt	2,490,823,840	2,548,356,480
153,304,806	Financing cost (before adjustments for FRS 26)	75,205,877	76,699,771
269,755	Adjusted profit before tax and FRS 26	124,909	142,176
17.1 years	Weighted average maturity of debt	16.8 years	17.4 years
6.2%	Weighted average interest rate	6.2%	6.2%

The adjusted profit before tax comprises the loss on ordinary activities before tax of £29,162,260 (period ended 30 June 2009: profit of £53,727,564) adjusted for the FRS 26 items listed in Note 3, totalling £29,287,169 (period ended 30 June 2009: £(53,585,388)).

GOING CONCERN

The company's business activities, together with the factors likely to affect its future development, performance and position (including the principal risks and uncertainties) are set out in this interim management statement. The finances of the company and its liquidity position and borrowings are, where relevant, also described in this statement.

As a result of the fair value of its derivative financial instruments the company is in a net liability position at 30 June 2010. However, the company's debtor loan provides an income stream which the directors forecast will enable it to meet its obligations as they fall due for a period of not less than twelve months from the signing date of this interim management statement.

Having made the requisite enquiries, the directors have a reasonable expectation that the company will have adequate resources to continue its operations for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the Half Yearly Financial Report.

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

These risks, which are summarised below are unchanged from the risks and uncertainties disclosed in the directors' report to the financial statements for the year ended 31 December 2009.

Cyclical nature of the property market

The valuation of the group's assets is subject to many external economic and market factors. The turmoil in the financial markets during 2008 and 2009 was reflected in the property market by such factors as the oversupply of available space in the office market, a 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. In the latter half of 2009 and the first half of 2010 there have been signs of a tightening of supply which has resulted in an increase in valuation and compression of yields. Changes in financial and property markets are kept under constant review so that the company can react appropriately. The impact of the ongoing uncertainty in the financial and property markets continues to be closely monitored.

Concentration risk

The majority of the 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 consequences arising from this concentration.

Financing risk

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

The company holds debenture finance in sterling at both fixed and floating rates and uses interest rate swaps to modify its 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 2009 valuations of the properties upon which the company's notes are secured, the LMCTV ratio at the interest payment date in July 2010 would have been 82.1%, excluding the £224.0m of cash collateral posted by AIG in respect of 25 Bank Street, and 74.4% including such cash collateral. The securitisation is not subject to a minimum interest coverage ratio. The 30 June 2010 valuations were not available at the date of signing this interim management statement.

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

DIRECTORS' RESPONSIBILITY STATEMENT

The board of directors, comprising G Iacobescu, A P Anderson II and P Harned, confirm to the best of their knowledge that:

a) the condensed set of financial statements on pages 8 to 14, which has been prepared in accordance with the applicable set of accounting standards, gives a true and fair view of the assets, liabilities, financial position and profit or loss of the Company as required by Rule 4.2.4 of the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority ('the DTRs'); and

b) the interim management statement includes a fair review of the information required by Rule 4.2.7 of the DTRs (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year).

Signed on behalf of the board by:

....

A P Anderson II
Director
25 August 2010

INDEPENDENT REVIEW REPORT TO CANARY WHARF FINANCE II PLC

We have been engaged by the company to review the condensed set of financial statements in the Half Yearly Financial Report for the six months ended 30 June 2010 which comprises the profit and loss account, the statement of total recognised gains and losses, the balance sheet and related Notes 1 to 9. We have read the other information contained in the Half Yearly Financial Report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. Our work has been undertaken so that we might state to the company those matters we are required to state to them in an independent review 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, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The Half Yearly Financial Report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

As disclosed in Note 1, the annual financial statements of the company are prepared in accordance with United Kingdom Generally Accepted Accounting Practice. The condensed set of financial statements included in this half-yearly financial report have been prepared in accordance with the accounting policies the company intends to use in preparing its next annual financial statements.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

INDEPENDENT REVIEW REPORT TO CANARY WHARF FINANCE II PLC

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the Half Yearly Financial Report for the six months ended 30 June 2010 is not prepared, in all material respects, in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

Deloitte LLP

Deloitte LLP
Chartered Accountants & Statutory Auditors
25 August 2010
London, United Kingdom

CANARY WHARF FINANCE II PLC

UNAUDITED PROFIT AND LOSS ACCOUNT FOR THE SIX MONTHS ENDED 30 JUNE 2010

Audited Year ended 31 December 2009 £		Note	Unaudited Six months ended 30 June 2010 £	Unaudited Six months ended 30 June 2009 £
(13,950)	Administrative expenses		(7,050)	(6,900)
(13,950)	**OPERATING LOSS**		(7,050)	(6,900)
153,588,511	Interest receivable and similar income	2	75,337,836	76,848,847
(98,407,784)	Interest payable and similar charges	3	(104,493,046)	(23,114,383)
55,166,777	**(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION**		(29,162,260)	53,727,564
–	Tax on (loss)/profit on ordinary activities	4	–	–
55,166,777	**(LOSS)/PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION FOR THE PERIOD**	8	(29,162,260)	53,727,564

All amounts relate to continuing activities in the United Kingdom.

The Notes on pages 11 to 14 form an integral part of this Half Yearly Financial Report.

The Half Yearly Financial Report for the six months ended 30 June 2010 was approved by the Board of Directors on 25 August 2010.

CANARY WHARF FINANCE II PLC

UNAUDITED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE SIX MONTHS ENDED 30 JUNE 2010

Audited Year ended 31 December 2009 £		Unaudited Six months ended 30 June 2010 £	Unaudited Six months ended 30 June 2009 £
55,166,777	(Loss)/profit for the financial year	(29,162,260)	53,727,564
51,512,715	Fair value adjustment on effective hedging instruments	(38,282,920)	55,878,562
5,715,286	Payments from effective hedging instruments	8,096,920	1,457,438
(1,045,022)	Hedge reserve recycling	(507,831)	(527,388)
111,349,756	Total recognised (losses)/ gains relating to the year	(59,856,091)	110,536,176

The Notes on pages 11 to 14 form an integral part of this Half Yearly Financial Report.

CANARY WHARF FINANCE II PLC

UNAUDITED BALANCE SHEET AS AT 30 JUNE 2010

Audited 31 December 2009 £		Note	Unaudited 30 June 2010 £	Unaudited 30 June 2009 £
	CURRENT ASSETS			
	Debtors:	5		
2,534,909,653	Amounts falling due after one year		2,505,469,849	2,564,355,281
88,744,717	Amounts falling due within one year		88,405,287	89,113,193
1,513,916	Cash at bank		1,441,134	1,189,590
2,625,168,286			2,595,316,270	2,654,658,064
(86,781,165)	**CREDITORS: Amounts falling due within one year**	6	(86,244,045)	(86,952,897)
2,538,387,121	**NET CURRENT ASSETS**		2,509,072,225	2,567,705,167
2,538,387,121	**TOTAL ASSETS LESS CURRENT LIABILITIES**		2,509,072,225	2,567,705,167
(2,621,289,655)	**CREDITORS: Amounts falling due after more than one year**	7	(2,651,830,850)	(2,651,421,281)
(82,902,534)	**NET LIABILITIES**		(142,758,625)	(83,716,114)
	CAPITAL AND RESERVES			
50,000	Called-up share capital		50,000	50,000
(32,717,455)	Hedging reserve	8	(63,411,286)	(32,091,822)
(50,235,079)	Profit and loss account	8	(79,397,339)	(51,674,292)
(82,902,534)	**SHAREHOLDER'S DEFICIT**		(142,758,625)	(83,716,114)

The Notes on pages 11 to 14 form an integral part of this Half Yearly Financial Report.

CANARY WHARF FINANCE II PLC

NOTES TO THE INTERIM REPORT
FOR THE SIX MONTHS ENDED 30 JUNE 2010

1. PRINCIPAL ACCOUNTING POLICIES

The Half Yearly Financial Report has been prepared on a going concern basis and in accordance with pronouncements on interim reporting issued by the Accounting Standards Board and on the basis of the accounting policies set out in the company's financial statements for the year ended 31 December 2009, which are prepared in accordance with UK GAAP.

The financial information relating to the six month periods ended 30 June 2010 and 30 June 2009 is unaudited.

The results for the year ended 31 December 2009 are not statutory accounts. A copy of the statutory accounts for the year has been delivered to the Registrar of Companies. The auditors report on those accounts was not qualified, did not contain a reference to any matters which the auditors drew attention by way of emphasis without qualifying the report and did not contain statements under Section 498(2) or (3) of the Companies Act 2006.

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 makes its consolidated financial statements publicly available.

2. INTEREST RECEIVABLE AND SIMILAR INCOME

Audited Year ended 31 December 2009 £		Unaudited Six months Ended 30 June 2010 £	Unaudited Six months ended 30 June 2009 £
30,373	Bank interest receivable	7,870	21,938
153,558,138	Interest receivable from group undertakings	75,329,966	76,826,909
153,588,511		75,337,836	76,848,847

3. INTEREST PAYABLE AND SIMILAR CHARGES

Audited Year ended 31 December 2009 £		Unaudited Six months Ended 30 June 2010 £	Unaudited Six months ended 30 June 2009 £
153,304,806	Interest payable on securitised debt (Note 7)	75,205,877	76,699,771
(53,852,000)	Fair value adjustments on derivative financial instruments	29,795,000	(53,058,000)
(1,045,022)	Hedge reserve recycling (Note 8)	(507,831)	(527,388)
98,407,784		104,493,046	23,114,383

Of the interest payable on securitised debt £2,538,604 (30 June 2008: £3,863,902) was due to a fellow subsidiary undertaking.

4. TAXATION

No provision for corporation tax has been made since the tax 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. It is anticipated that group relief and other tax reliefs will impact on future tax charges. There is no unprovided deferred taxation.

5. DEBTORS

Audited 31 December 2009 £		Unaudited 30 June 2010 £	Unaudited 30 June 2009 £
	Due within one year:		
86,617,063	Loans to fellow subsidiary undertaking	86,284,622	86,994,209
2,126,381	Amount owed by fellow subsidiary undertaking	2,119,331	2,116,031
1,273	Accrued interest receivable	1,334	2,953
88,744,717		88,405,287	89,113,193
	Due in more than one year:		
2,534,909,653	Loans to fellow subsidiary undertaking	2,505,469,849	2,564,355,281
2,534,909,653		2,505,469,849	2,564,355,281

The loans to a fellow subsidiary undertaking bear fixed rates of interest between 5.12% and 6.81% and are repayable in instalments between 2005 and 2035. At 30 June 2010 the fair value of the loan was £2,527,739,000 (31 December 2009: £2,289,728,000), calculated by reference to the fair values of the company's financial liabilities.

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

6. CREDITORS: Amounts falling due within one year

Audited 31 December 2009 £		Unaudited 30 June 2010 £	Unaudited 30 June 2009 £
86,774,115	Securitised debt (Note 7)	86,236,995	86,945,997
7,050	Accruals and deferred income	7,050	6,900
86,781,165		86,244,045	86,952,897

The amount of the securitised debt due within one year comprises £28,704,355 (31 December 2009: £29,241,475) of interest and £57,532,640 (31 December 2009: £57,532,640) of capital.

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

Audited 31 December 2009 £		Unaudited 30 June 2010 £	Unaudited 30 June 2009 £
2,534,909,655	Securitised debt	2,505,469,850	2,564,355,281
86,380,000	Derivative financial instruments	146,361,000	87,066,000
2,621,289,655		2,651,830,850	2,651,421,281

The amounts at which the securitised debt is stated comprise:

Audited 31 December 2009 £		Unaudited 30 June 2010 £	Unaudited 30 June 2009 £
2,626,086,740	Brought forward	2,592,442,295	2,626,086,740
(32,221,760)	Repaid in period	(28,766,320)	(3,455,440)
(4,990,672)	Amortisation of issue premium	(2,442,816)	(2,512,710)
3,567,987	Accrued financing expenses	1,769,331	1,769,331
2,592,442,295	Carried forward	2,563,002,490	2,621,887,921
57,532,640	Payable within one year or on demand	57,532,640	57,532,640
2,534,909,655	Payable after more than one year	2,505,469,850	2,564,355,281
2,592,442,295		2,563,002,490	2,621,887,921

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 30 June 2010 £60,809,992 (31 December 2009: £63,252,808) remained unamortised.

On 2 April 2009, a fellow subsidiary undertaking acquired £119,778,000 of notes comprising £26,101,000 of B3 notes, £35,338,000 of C2 notes and £58,339,000 of D2 notes. These notes remain in issue and have not been cancelled.

At 30 June 2010 there were accrued financing costs of £11,368,657 (31 December 2009: £9,599,326) relating to future increases in margins.

The securitised debt has a face value of £2,490,823,840 (31 December 2009: £2,519,590,161), of which £1,764,823,840 (31 December 2009: £1,793,590,160) carries fixed rates of interest between 5.95% and 6.80%. The other £726,000,000 (31 December 2009: £726,000,000) of the securitised debt 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 notes, including the margins, are between 5.11% and 5.80%.

The market value of the securitised debt at 30 June 2010 was £2,381,378,000 (31 December 2009: £2,203,349,000). At 30 June 2010 the fair value of the interest rate derivatives resulted in the recognition of a net liability of £146,361,000 (31 December 2009: £86,380,000). Of this net liability, £74,687,000 was in respect of interest rate swaps which qualify for hedge accounting (31 December 2009: £44,501,000) and £71,674,000 was in respect of interest rate swaps which do not qualify for hedge accounting (31 December 2009: £41,879,000).

The notes are secured on certain property interests in fellow subsidiary undertakings and the rental income stream therefrom.

8. RESERVES

	Hedging reserve	Profit and loss account	Total
	£	£	£
At 1 January 2010	(32,717,455)	(50,235,079)	(82,952,534)
Loss for the period	–	(29,162,260)	(29,162,260)
Fair value adjustment on effective hedging instruments	(38,282,920)	–	(38,282,920)
Payments from effective hedging instruments	8,096,920	–	8,096,920
Movements on discontinued hedge accounting transferred to the profit and loss account	(507,831)	–	(507,831)
At 30 June 2010	(63,411,286)	(79,397,339)	(142,808,625)

9. CAPITAL COMMITMENTS

As at 30 June 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 7.