CANARY WHARF FINANCE II PLC
Registered Number: 3929593

DIRECTORS' REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

CANARY WHARF FINANCE II PLC

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BUSINESS REVIEW

The following business review aims to provide shareholders with an overall summary of the business of the company as at 31 December 2009 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 2009, the company had £2,519,590,161 (2008: £2,551,811,921) 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.

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

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') currently leases 1.023m sq ft in 25 Bank Street on a tenancy which is due to expire in July 2033. The obligations of the lease are guaranteed by Lehman Brothers Holdings Inc, 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 (approximately) was sub-let to Nomura in March 2010. These sub-leases will expire in March 2011 subject to breaks in September and December 2010. A further 126,000 sq ft is sub-let, of which approximately 101,000 sq ft is sub-let until 2013 and the balance sub-let until September 2010. Each of these sub-lets will revert to Lehman on the expiry of the various sub-leases. The current rent payable by Lehman for the entire building increased from £53.00 psf to £54.59 psf in November 2009.

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 HQ2 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 properties which exceed the contracted rents that would have been received from Lehman under the lease. Under the HQ2 Facility, AIG are obliged to maintain a certain credit rating. Following the fall in its credit rating, AIG posted cash collateral of approximately £224.0m. This collateral is held in AIG bank accounts with the Bank of New York Mellon, London branch and AIG has granted security over the deposits as collateral for its obligations. The amount initially posted in respect of AIG's obligations is subject to a periodic adjustment to reflect movements in interest rates.

MANAGEMENT REPORT

On 21 January 2010 the administrator acting on behalf of Lehman advised that:

- As from 1 January 2010 Lehman had 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; and
- Lehman will move from 25 Bank Street by 31 March 2010 and from 1 April 2010 cease paying rent and estate service charge.

The administrator has since confirmed that Lehman has vacated the building and the rent for the second quarter has not been paid.

Sub-tenants which currently occupy 547,000 sq ft will continue to pay rent directly to the securitisation rental receipts account.

Notwithstanding any partial occupation or subsequent vacation of 25 Bank Street by the administrators, the directors continue to expect full performance of the Lehman obligations under the lease and payment of rent on 25 Bank Street is being pursued in line with a recent High Court ruling on administrator liability.Pending resolution of this issue there was a net shortfall in rental income of £2.6 million within thesecuritisation structure in the first quarter of 2010. The shortfall for the second quarter was £4.8m. These shortfalls were, however, 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 Agreement.

Separately, 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 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 £300.0 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.

As shown in the company's profit and loss account, the company's profit after tax for the year was £55,166,777 (2008: loss of £83,850,206). This included an unrealised fair value gain on derivative financial instruments of £53,852,000 (2008: loss of £85,353,000).

The balance sheet shows the company's financial position at the year end and indicates that net liabilities were £82,902,534 (2008: £194,252,290).

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 2009 was as follows:

	31 December 2009 £	31 December 2008 £
Net liabilities per statutory balance sheet	(82,902,534)	(194,252,290)
Add back: Effects of FRS26	86,380,000	197,460,000
Adjusted net assets	3,477,466	3,207,710

MANAGEMENT REPORT

KEY PERFORMANCE INDICATORS

	31 December 2009 £	31 December 2008 £
Securitised debt	2,519,590,161	2,551,811,921
Financing cost (before adjustments for FRS26)	153,304,806	154,263,224
Adjusted profit before tax and FRS26	269,755	420,039
Weighted average maturity of debt	17.1 years	17.9 years
Weighted average interest rate	6.2%	6.2%

The adjusted profit before tax comprises the profit on ordinary activities before tax of £55,166,777 (2008: loss of £83,850,206) adjusted for the FRS 26 items listed in Note 4, totalling £54,897,022 (2008: £84,270,245).

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 Canary Wharf 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 since the year end 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 Canary Wharf Group's real estate assets are currently located on or adjacent to the Canary Wharf Estate with tenants that are mainly linked to the financial services industry. Wherever possible steps are taken to mitigate or avoid material consequence arising from this concentration.

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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 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 January 2010 would have been 83.8%, excluding the £224.0m of cash collateral posted by AIG in respect of 25 Bank Street (Note 10), and 76.2% including such cash collateral. 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.

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.

The directors present their report with the audited financial statements for the year ended 31 December 2009.

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.

The principal activity of the company is to act as a finance company. The company is engaged in the provision of finance to the Canary Wharf Holdings Limited group, comprising Canary Wharf Holdings Limited and its subsidiaries. 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 2009, 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, which is to be treated as being part of this Directors' Report.

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

Details of significant events since the balance sheet date are contained in note 15.

DIVIDENDS AND RESERVES

The profit and loss account for the year ended 31 December 2009 is set out on page 12. No dividends have been paid or proposed (2008: £Nil) and the retained profit of £55,166,777 (2008: loss of £83,850,206) has been transferred to 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 2009 the company had a deficit of £82,902,534 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.

DIRECTORS

The directors of the company throughout the year ended 31 December 2009 were:

A P Anderson II
G Iacobescu
B P Niles

J R Garwood (alternate director to G Iacobescu)
R J J Lyons (alternate director to A P Anderson II)

The directors are fully aware of their statutory duties under 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 2009 and at the time of the approval of this Directors' Report. Neither the indemnity or 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 2009 or at 31 December 2008.

Employment

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

Environmental and Social Responsibility

Canary Wharf Group plc has adopted a formal environmental and social responsibility policy 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.

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

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 auditors are aware of that information. As far as the directors are aware, there is no relevant audit information of which the company's auditors are 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

JRGarwood.

....Company Secretary 28 April 2010

J R Garwood

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

Registered Number: 3929593

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 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, G Iacobescu and B P Niles, confirms to the best of its knowledge that:

- the financial statements, prepared in accordance with the applicable set of accounting standards give a true and fair view of the assets, liabilities, financial position and loss of the company as required by Rule 4.1.12 (3a) of the Disclosure and Transparancy Rules of the United Kingdom's Financial Services Authority (the 'DTRs'); and
- the management report includes a fair review of the development and performance of the business and position of the company and the principal risks and uncertainties faced.

Signed on behalf of the board by:

A P ANDERSON II
DIRECTOR
28 April 2010

INDEPENDENT AUDITORS' 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 2009 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet and the related Notes 1 to 17. 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 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.

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 2009 and of its profit 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.

INDEPENDENT AUDITORS' 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

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

28 April 2010

CANARY WHARF FINANCE II PLC

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2009

	Note	Year Ended 31 December 2009 £	Year Ended 31 December 2008 £
Administrative expenses		(13,950)	(13,950)
OPERATING LOSS	**2**	(13,950)	(13,950)
Interest receivable and similar income	**3**	153,588,511	154,697,213
Interest payable and similar charges	**4**	(98,407,784)	(238,533,469)
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION		55,166,777	(83,850,206)
Tax on profit/(loss) on ordinary activities	**5**	–	–
PROFIT/(LOSS) ON ORDINARY ACTIVITIES AFTER TAXATION FOR THE YEAR	**13**	55,166,777	(83,850,206)

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 15 to 28 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 2009

	Year Ended 31 December 2009 £	Year Ended 31 December 2008 £
Profit/(loss) for the financial year	55,166,777	(83,850,206)
Fair value movement on effective hedging instruments	51,512,715	(87,373,784)
Interest paid/(received) on effective hedging instruments	5,715,286	(3,744,216)
Hedge reserve recycling	(1,045,022)	(1,082,755)
Total recognised gains/(losses) relating to the year	111,349,756	(176,050,961)

The Notes on pages 15 to 28 form an integral part of these financial statements.

CANARY WHARF FINANCE II PLC

BALANCE SHEET AS AT 31 DECEMBER 2009

	Note	31 December 2009 £	31 December 2008 £
CURRENT ASSETS			
Debtors	6		
Amounts falling due after one year		2,534,909,653	2,593,864,979
Amounts falling due within one year		88,744,717	63,939,148
Cash at bank	7	1,513,916	1,031,711
		2,625,168,286	2,658,835,838
CREDITORS: Amounts falling due within one year	8	(86,781,165)	(61,763,148)
NET CURRENT ASSETS		2,538,387,121	2,597,072,690
TOTAL ASSETS LESS CURRENT LIABILITIES		2,538,387,121	2,597,072,690
CREDITORS: Amounts falling due after more than one year	9	(2,621,289,655)	(2,791,324,980)
NET LIABILITIES		(82,902,534)	(194,252,290)
CAPITAL AND RESERVES			
Called-up share capital	12	50,000	50,000
Hedging reserve	13	(32,717,455)	(88,900,434)
Profit and loss account	13	(50,235,079)	(105,401,856)
SHAREHOLDER'S DEFICIT	14	(82,902,534)	(194,252,290)

The Notes on pages 15 to 28 form an integral part of these financial statements.

APPROVED BY THE BOARD ON 28 APRIL 2010 AND SIGNED ON ITS BEHALF BY:

A P ANDERSON II
DIRECTOR

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 impariment 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.

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.

2. OPERATING LOSS

Operating loss is stated after charging:

	Year Ended 31 December 2009 £	Year Ended 31 December 2008 £
Remuneration of the auditors:		
Audit fees for the audit of the company	6,000	6,000
Fees to the auditors for other services:		
Other services pursuant to legislation	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 2009 £	Year Ended 31 December 2008 £
Bank interest receivable	30,373	164,282
Interest receivable from group undertakings	153,558,138	154,532,931
	153,588,511	154,697,213

4. INTEREST PAYABLE AND SIMILAR CHARGES

	Year Ended 31 December 2009 £	Year Ended 31 December 2008 £
Interest payable on securitised debt (Note 10)	153,304,806	154,263,224
Fair value adjustments on derivative financial instruments	(53,852,000)	85,353,000
Hedge reserve recycling (Note 13)	(1,045,022)	(1,082,755)
	98,407,784	238,533,469

Included in the interest payable on securitised debt is £1,457,104 (2008: £nil) payable to a fellow subsidiary undertaking in respect of notes acquired during the year (Note 10).

5. TAXATION

	Year Ended 31 December 2009 £	Year Ended 31 December 2008 £
Current tax:		
UK Corporation tax (see below)	–	–
Tax reconciliation:		
Profit/(loss) on ordinary activities before tax	55,166,777	(83,850,206)
Tax on profit/(loss) on ordinary activities at UK corporation tax rate of 28% (2008: 28.5%)	15,446,698	(23,897,309)
Effects of:		
Items not chargeable to tax	(15,371,166)	–
Expenses not deductible for tax purposes	–	24,017,020
Tax losses and other timing differences	(75,532)	(119,711)
Current tax charge for the year	–	–

The tax rate for the prior year of 28.5% was calculated by reference to the current corporation tax rate of 28% which was in effect for the final three quarters of that year and the previous rate of 30% which was in effect for the first quarter of that 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.

6. DEBTORS

	31 December 2009 £	31 December 2008 £
Due within one year:		
Loan to fellow subsidiary undertaking	86,617,063	61,804,637
Amounts owed by fellow subsidiary undertakings	2,126,381	2,122,931
Accrued interest receivable	1,273	11,580
	88,744,717	63,939,148
Due in more than one year:		
Loan to fellow subsidiary undertaking	2,534,909,653	2,593,864,979

Amounts owed by group undertakings are non-interest bearing.

The amount of the loan due within one year comprises £29,084,423 (2008: £29,582,877) of interest and £57,532,640 (2008: £32,221,760) of capital.

The amounts at which financial assets are stated comprise:

	31 December 2009 £	31 December 2008 £
At 1 January	2,626,086,739	2,634,452,095
Amortisation of issue premium	(4,990,673)	(5,024,307)
Accrued financing expenses	3,567,987	3,569,831
Repaid in year	(32,221,760)	(6,910,880)
At 31 December	2,592,442,293	2,626,086,739
Due within one year	57,532,640	32,221,760
Due after more than one year	2,534,909,653	2,593,864,979
	2,592,442,293	2,626,086,739

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 2009	31 December 2008
				£m	£m
A1	6.465%	6.163%	By instalment 2009-2033	1,189.7	1,215.0
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%	6.429%	By instalment 2005-2033	203.9	210.8
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
				2,519.6	2,551.8
Unamortised premium				63.3	68.2
Accrued financing costs				9.6	6.0
				2,592.4	2,626.1

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 2009 was £2,289,728,000 (2008: £2,132,110,000), 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 2009	31 December 2008
	£	£
Within one year	209,784,550	187,496,494
In one to two years	206,041,222	209,784,550
In two to five years	608,425,124	610,556,909
In five to ten years	968,431,057	986,618,622
In ten to twenty years	1,555,749,285	1,611,540,496
In twenty to thirty years	1,646,935,434	1,776,866,095
	5,195,366,672	5,382,863,166
Comprising:		
Principal repayments	2,519,590,160	2,551,811,921
Interest repayments	2,675,776,512	2,831,051,245
	5,195,366,672	5,382,863,166

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.

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 £1,513,916 at 31 December 2009 (2008: £1,031,711), comprising £1,504,720 in Sterling (2008: £1,022,516), £1,474 (€2,432) in Euros (2008: £1,473/€2,432) and £7,722 (US$11,012) in US Dollars (2008: £7,722/$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 2009 £	31 December 2008 £
Securitised debt (Note 10)	86,774,115	61,756,248
Accruals and deferred income	7,050	6,900
	86,781,165	61,763,148

The amount of the securitised debt due within one year comprises £29,241,475 (2008: £29,534,488) of interest and £57,532,640 (2008: £32,221,760) of capital.

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

	31 December 2009 £	31 December 2008 £
Securitised debt (Note 10)	2,534,909,655	2,593,864,980
Derivative financial instruments (Note 11)	86,380,000	197,460,000
	2,621,289,655	2,791,324,980

10. SECURITISED DEBT

The amounts at which borrowings are stated comprise:

	31 December 2009 £	31 December 2008 £
Brought forward	2,626,086,740	2,631,990,588
Repaid in year	(32,221,760)	(6,910,880)
Amortisation of issue premium	(4,990,672)	(5,024,307)
Accrued financing expenses	3,567,987	6,031,339
Carried forward	2,592,442,295	2,626,086,740
Payable within one year or on demand	57,532,640	32,221,760
Payable after more than one year	2,534,909,655	2,593,864,980
	2,592,442,295	2,626,086,740

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 2009 £63,252,808 (2008: £68,243,480) remained unamortised.

At 31 December 2009 there were accrued financing costs of £9,599,326 (2008: £6,031,339) relating to future increases in margins as described below.

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.

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

The securitisation has the benefit of the HQ2 Facility with AIG which provides for a shortfall of the contracted rent under the lease (for example, following a default by Lehman or its administrator) to be made up by drawing upon the HQ2 Facility. The HQ2 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 properties which exceed the contracted rents that would have been received from Lehman under the lease. Under the HQ2 Facility, AIG are 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 a periodic adjustment to reflect movements in interest rates.

Separately, the securitisation has the benefit of an arrangement with AIG which covers the rent in the event of a default by the tenant of 33 Canada Square, over the entire term of the lease. AIG has posted a further £276.3m as cash collateral in respect of this obligation.

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

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

At 31 December 2009 the securitised debt comprised the following:

Tranche	Principal	Market value	Interest	Weighted average interest	Repayment
	£m	£m			
A1	1,189.7	1,268.2	6.455%	6.153%	By instalment 2009-2033
A3	400.0	397.2	5.952%	5.816%	By instalment 2032-2037
A7	222.0	122.1	Floating	5.298%	January 2035
B	203.9	205.9	6.800%	6.419%	By instalment 2005-2033
B3	104.0	62.4	Floating	5.435%	January 2035
C2	275.0	110.0	Floating	6.059%	January 2035
D2	125.0	37.5	Floating	6.743%	January 2035
	2,519.6	2,203.4			

At 31 December 2008 the securitised debt comprised the following:

Tranche	Principal	Market value	Interest	Weighted average interest	Repayment
	£m	£m			
A1	1,215.0	1,143.9	6.455%	6.153%	By instalment 2009-2033
A3	400.0	306.0	5.952%	5.816%	By instalment 2032-2037
A7	222.0	133.2	Floating	5.298%	January 2035
B	210.8	147.6	6.800%	6.419%	By instalment 2005-2033
B3	104.0	57.2	Floating	5.435%	January 2035
C2	275.0	115.5	Floating	6.059%	January 2035
D2	125.0	31.3	Floating	6.743%	January 2035
	2,551.8	1,934.6			

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.

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 weighted average 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 2009 £	31 December 2008 £
Within one year	181,200,633	179,025,057
In one to two years	188,858,554	190,763,996
In two to five years	593,592,607	578,094,490
In five to ten years	968,299,979	944,104,242
In ten to twenty years	1,542,168,397	1,526,201,111
In twenty to thirty years	1,602,240,720	1,665,031,241
	5,076,360,890	5,083,220,137
Comprising:		
Principal repayments	2,519,590,160	2,551,811,921
Interest repayments	2,556,770,730	2,531,408,216
	5,076,360,890	5,083,220,137

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 2009 was 17.1 years (2008: 17.9 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 2009 was 6.2% (2008: 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.

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 2009 the fair value of these derivatives resulted in the recognition of a net liability of £86,380,000 (2008: £197,460,000). Of this net liability £44,501,000 (2008: £101,729,000) was in respect of interest rate swaps which qualify for hedge accounting and £41,879,000 (2008: £95,731,000) was in respect of interest rate swaps and collars which do not qualify for hedge accounting.

At 31 December 2009, there were hedges on certain of the notes as follows:

Hedge type		Swap rate	Fair Value 31 December 2009	Fair Value 31 December 2008
		£	£	
Highly effective hedges:				
B3	interest rate swap	4.883%	(12,103,000)	(27,795,000)
C2	interest rate swap	4.892%	(32,398,000)	(73,934,000)
			(44,501,000)	(101,729,000)
Hedges not designated highly effective:				
A7	interest rate swap	4.924%	(26,327,000)	(60,730,000)
D2	interest rate swap	4.960%	(15,552,000)	(35,001,000)
			(41,879,000)	(95,731,000)

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.

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 2009 £	31 December 2008 £
Within one year	28,334,523	8,216,935
In one to two years	16,940,207	18,770,704
In two to five years	14,156,015	31,773,351
In five to ten years	(904,492)	41,469,302
In ten to twenty years	11,989,712	83,769,358
In twenty to thirty years	44,176,490	111,206,970
	114,692,455	295,206,620

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 2009 £	31 December 2008 £
0.5% increase in interest rates		
Impact on profit and loss account	26,265,524	31,831,502
Impact on hedging reserve	28,551,543	34,607,009
Impact on net assets	54,817,067	66,438,511
0.5% decrease in interest rates		
Impact on profit and loss account	(29,135,072)	(35,461,042)
Impact on hedging reserve	(31,674,600)	(38,557,496)
Impact on net assets	(60,809,672)	(74,018,538)

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.

12. CALLED-UP SHARE CAPITAL

Authorised share capital:

	31 December 2009 £	31 December 2008 £
50,000 ordinary shares of £1 each	50,000	50,000

Allotted, called up and fully paid:

	31 December 2009 £	31 December 2008 £
50,000 ordinary shares of £1 each	50,000	50,000

13. RESERVES

	Hedging reserve £	Profit and loss account £	Total £
At 1 January 2009	(88,900,434)	(105,401,856)	(194,302,290)
Profit for the year	–	55,166,777	55,166,777
Fair value movement on effective hedging instruments	51,512,715	–	51,512,715
Interest paid on effective hedging instruments	5,715,286	–	5,715,286
Transferred to the profit and loss account:			
Movements on discontinued hedge accounting	(1,045,022)	–	(1,045,022)
At 31 December 2009	(32,717,455)	(50,235,079)	(82,952,534)

Movements on discontinued hedge accounting relate 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 2009 £	31 December 2008 £
Opening shareholders' deficit	(194,252,290)	(18,201,329)
Profit/(loss) for the year	55,166,777	(83,850,206)
Fair value movement on effective hedging instruments	51,512,715	(87,373,784)
Interest paid/(received) on effective hedging instruments	5,715,286	(3,744,216)
Transferred to the profit and loss account:		
Movements on discontinued hedge accounting	(1,045,022)	(1,082,755)
Closing shareholders' deficit	(82,902,534)	(194,252,290)

15. POST BALANCE SHEET EVENTS

On 21 January 2010 the administrator acting on behalf of Lehman advised that:

- As from 1 January 2010 Lehman had 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; and

- Lehman will move from 25 Bank Street by 31 March 2010 and from 1 April 2010 will cease paying rent and estate service charge.

The administrator has since confirmed that Lehman has vacated the building and the rent for the second quarter has not been paid.

The securitisation has the benefit of a loan facility agreement with AIG which provides for a shortfall of the contracted rent under the lease to be made up by a drawing under such facility. The facility provides for drawings over a period of 4 years from first drawdown, which had yet to occur at the date of approving these financial statements.

16. CONTINGENT LIABILITIES AND FINANCIAL COMMITMENTS

As at 31 December 2009 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.

17. ULTIMATE PARENT UNDERTAKING AND RELATED PARTY TRANSACTIONS

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

As at 31 December 2009, 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.

MANAGEMENT REPORT

On 21 January 2010 the administrator acting on behalf of Lehman advised that:

- As from 1 January 2010 Lehman had 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; and
- Lehman will move from 25 Bank Street by 31 March 2010 and from 1 April 2010 cease paying rent and estate service charge.

The administrator has since confirmed that Lehman has vacated the building and the rent for the second quarter has not been paid.

Sub-tenants which currently occupy 547,000 sq ft will continue to pay rent directly to the securitisation rental receipts account.

Notwithstanding any partial occupation or subsequent vacation of 25 Bank Street by the administrators, the directors continue to expect full performance of the Lehman obligations under the lease and payment of rent on 25 Bank Street is being pursued in line with a recent High Court ruling on administrator liability.Pending resolution of this issue there was a net shortfall in rental income of £2.6 million within thesecuritisation structure in the first quarter of 2010. The shortfall for the second quarter was £4.8m. These shortfalls were, however, 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 Agreement.

Separately, 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 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 £300.0 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.

As shown in the company's profit and loss account, the company's profit after tax for the year was £55,166,777 (2008: loss of £83,850,206). This included an unrealised fair value gain on derivative financial instruments of £53,852,000 (2008: loss of £85,353,000).

The balance sheet shows the company's financial position at the year end and indicates that net liabilities were £82,902,534 (2008: £194,252,290).

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 2009 was as follows:

	31 December 2009 £	31 December 2008 £
Net liabilities per statutory balance sheet	(82,902,534)	(194,252,290)
Add back: Effects of FRS26	86,380,000	197,460,000
Adjusted net assets	3,477,466	3,207,710

15. POST BALANCE SHEET EVENTS

On 21 January 2010 the administrator acting on behalf of Lehman advised that:

- As from 1 January 2010 Lehman had 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; and

- Lehman will move from 25 Bank Street by 31 March 2010 and from 1 April 2010 will cease paying rent and estate service charge.

The administrator has since confirmed that Lehman has vacated the building and the rent for the second quarter has not been paid.

The securitisation has the benefit of a loan facility agreement with AIG which provides for a shortfall of the contracted rent under the lease to be made up by a drawing under such facility. The facility provides for drawings over a period of 4 years from first drawdown, which had yet to occur at the date of approving these financial statements.

16. CONTINGENT LIABILITIES AND FINANCIAL COMMITMENTS

As at 31 December 2009 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.

17. ULTIMATE PARENT UNDERTAKING AND RELATED PARTY TRANSACTIONS

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

As at 31 December 2009, 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.