

CANARY WHARF FINANCE II PLC
Registered Number: 3929593

DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

CANARY WHARF FINANCE II PLC

FINANCIAL STATEMENTS

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CANARY WHARF FINANCE II PLC

MANAGEMENT REPORT

BUSINESS REVIEW

The following business review aims to provide shareholders with an overall summary of the business of the company as at 31 December 2008 and during the year then ended. The main factors likely to affect the future development, performance and position of the business of the company are set out in the principal risks and uncertainties section of this Management Report.

This business review should be read in conjunction with the remainder of the Management Report, the Directors' Report and the financial statements.

At 31 December 2008, the company had £2,551,811,921 (2007: £2,558,722,801) of notes listed on the London Stock Exchange and had lent the proceeds to a fellow subsidiary undertaking, CW Lending II Limited. The notes are secured on seven properties at Canary Wharf, owned by fellow subsidiary undertakings, and the rental income therefrom.

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

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

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

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

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

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

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

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

CANARY WHARF FINANCE II PLC

MANAGEMENT REPORT

KEY PERFORMANCE INDICATORS

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

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

PRINCIPAL RISKS AND UNCERTAINTIES

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

The property market upheaval

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

Concentration risk

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

CANARY WHARF FINANCE II PLC

MANAGEMENT REPORT

Financing risk

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

The company holds debenture finance, at both fixed and floating rates, and uses interest rate swaps, caps or collars to modify exposure to interest rate fluctuations. All of the company's borrowings are fixed after taking account of interest rate hedges. When the company borrows in currencies other than sterling, the company engages in cross currency swaps to swap its foreign currency exposure into sterling, thereby matching the currency of its finance revenues. The company's remaining US\$ denominated bonds were repaid during the previous year. All remaining borrowings are denominated in sterling and the company has no current intention to borrow further amounts in currencies other than sterling.

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

The company is not subject to externally imposed capital requirements.

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

The maximum LMCTV ratio is 100.0%. Based on the 31 December 2008 valuations of the properties upon which the company's notes are secured, the LMCTV ratio was 86.2%, excluding the £224.0m of cash collateral posted by American International Group, Inc. ('AIG') in respect of 25 Bank Street (Note 10), and 78.6% including such cash collateral. The securitisation is not subject to a minimum interest coverage ratio.

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

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

Exposure Management

The mark-to-market positions of all the company's derivatives are reported to the Group Treasurer on a monthly basis and to the directors on a quarterly basis. The Group Treasurer monitors hedging activity on an ongoing basis, in order to notify the directors of any overhedging that may potentially occur and proposals to deal with such events.

Hedging Instruments and Transaction Authorisation

Instruments that may be used for hedging interest rate exposure include:

- Interest rate swaps
- Interest rate caps, collars and floors
- Gilt locks

Instruments that may be used for managing foreign exchange exposure include:

- Cross currency swaps
- Spot and forward foreign exchange contracts

No hedging activity is undertaken without explicit authority of the board.

CANARY WHARF FINANCE II PLC

MANAGEMENT REPORT

Transaction Accounting

Under FRS26, all derivatives are required to be measured on balance sheet at fair value (mark-to-market).

Certain derivatives may be designated as part of a hedge relationship, whereby the derivative and the underlying hedged item (financial instrument) are accounted for in a manner in order to reduce profit and loss account volatility ("hedge accounting").

In order to apply hedge accounting, the company must comply with the following procedures:

- All hedge relationships proposed must be in line with the company's risk management policy stated above.
- All hedge relationships must be documented in advance, stating the purpose, including the nature of the risk being hedged, the type of hedge being undertaken, the item being hedged and the related hedging instrument and the methodology to be adopted to assess and measure the hedge effectiveness.
- Provide supporting documentation to include excerpts from loan or debenture issuance documentation, detailing principal and amortisation schedules and relevant excerpts from hedging derivative documentation.
- Both prospective and retrospective effectiveness testing are undertaken and approved by the Group Financial Controller.

Credit Risk

The group's policies restrict the counterparties with which derivative transactions can be contracted and cash balances deposited. This ensures that exposure is spread across a number of approved financial institutions with high credit ratings.

All other debtors are receivable from other group undertakings.

CANARY WHARF FINANCE II PLC

THE DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2008

The directors present their report with the audited financial statements for the year ended 31 December 2008.

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 next year.

A review of the business of the company during the year and its position at 31 December 2008, together with key performance indicators, can be found in the Management Report - Business Review. The principal risks and uncertainties facing the company can be found in the Management Report - Principal Risks and Uncertainties.

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

DIVIDENDS AND RESERVES

The profit and loss account for the year ended 31 December 2008 is set out on page 11. No dividends have been paid or proposed (2007: £Nil) and the retained loss of £83,850,206 (2007: £5,661,160) 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 2008 the company had a deficit of £194,252,290 attributable solely to the adoption of FRS26. Under the requirements of the standard the company recognises the fair value of its derivative financial instruments in the balance sheet. In the event that the company 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.

CANARY WHARF FINANCE II PLC

THE DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2008

DIRECTORS

The directors of the company throughout the year ended 31 December 2008 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 have been briefed during the year on their new statutory duties under the Companies Act 2006, with the core duty being 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 a 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. 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 2008 or at 31 December 2007.

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 Social Responsibility Report can be obtained from www.greencanarywharf.com.

CANARY WHARF FINANCE II PLC

THE DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2008

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 234ZA of the Companies Act 1985.

AUDITORS

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

BY ORDER OF THE BOARD



..... Company Secretary

28 April 2009

J R Garwood

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

CANARY WHARF FINANCE II PLC

STATEMENT OF THE DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual 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). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the results of the company for the year then ended. In preparing these financial statements, the directors are required to:

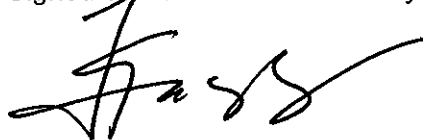
- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume 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 1985. 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 Transparency Rules of the United Kingdom's Financial Services Authority (the 'DTRs'); and
- the management report includes a fair review of the development and performance of the business and position of the company and the principal risks and uncertainties faced.

Signed on behalf of the board by:



G IACOBESCU
DIRECTOR
28 April 2009

CANARY WHARF FINANCE II PLC

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 2008 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet and the related Notes 1 to 16. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

CANARY WHARF FINANCE II PLC

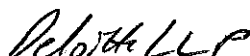
INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CANARY WHARF FINANCE II PLC

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2008 and of its loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.



Deloitte LLP
Chartered Accountants and Registered Auditors
London, UK

28 April 2009

CANARY WHARF FINANCE II PLC

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2008

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

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

All amounts relate to continuing activities in the United Kingdom.

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

CANARY WHARF FINANCE II PLC

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

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

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

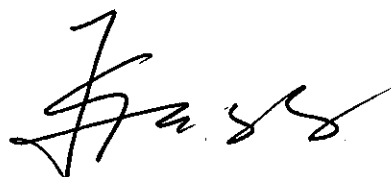
CANARY WHARF FINANCE II PLC

BALANCE SHEET AS AT 31 DECEMBER 2008

	Note	31 December 2008 £	31 December 2007 £
CURRENT ASSETS			
Debtors	6		
Amounts falling due after one year		2,593,864,979	2,625,079,707
Amounts falling due within one year		63,939,148	41,254,638
Cash at bank	7	1,031,711	617,394
		<u>2,658,835,838</u>	<u>2,666,951,739</u>
CREDITORS: Amounts falling due within one year	8	<u>(61,763,148)</u>	<u>(39,084,360)</u>
NET CURRENT ASSETS		<u>2,597,072,690</u>	<u>2,627,867,379</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		2,597,072,690	2,627,867,379
CREDITORS: Amounts falling due after more than one year	9	<u>(2,791,324,980)</u>	<u>(2,646,068,708)</u>
NET LIABILITIES		<u>(194,252,290)</u>	<u>(18,201,329)</u>
CAPITAL AND RESERVES			
Called-up share capital	12	50,000	50,000
Hedging reserve	13	(88,900,434)	3,300,321
Profit and loss account	13	(105,401,856)	(21,551,650)
SHAREHOLDER'S DEFICIT	14	<u>(194,252,290)</u>	<u>(18,201,329)</u>

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

APPROVED BY THE BOARD ON 28 APRIL 2009 AND SIGNED ON ITS BEHALF BY:



G IACOBESCU
DIRECTOR

CANARY WHARF FINANCE II PLC

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

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 in the period in which they fall due.

Interest bearing loans and borrowings

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

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

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

Derivative instruments

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

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

CANARY WHARF FINANCE II PLC

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

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 substantially 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.

Foreign currencies

At each balance sheet date, monetary assets and liabilities that are designated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Exchange differences arising on the settlement of monetary items and on the retranslation of monetary items, are included in the profit and loss account for the period.

CANARY WHARF FINANCE II PLC

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

2. OPERATING LOSS

Operating loss is stated after charging:

	Year Ended 31 December 2008 £	Year Ended 31 December 2007 £
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	-

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 2008 £	Year Ended 31 December 2007 £
Bank interest receivable	164,282	101,667
Interest receivable from group undertakings	154,532,931	151,781,201
	<u>154,697,213</u>	<u>151,882,868</u>

4. INTEREST PAYABLE AND SIMILAR CHARGES

	Year Ended 31 December 2008 £	Year Ended 31 December 2007 £
Interest payable on securitised debt (Note 10)	154,263,224	151,516,295
Fair value adjustments on derivative financial instruments	85,353,000	945,688
Foreign exchange movements	-	(3,431,053)
Hedge reserve recycling (Note 13)	(1,082,755)	(646,657)
Termination of hedge reserve recycling	-	9,152,705
	<u>238,533,469</u>	<u>157,536,978</u>

CANARY WHARF FINANCE II PLC

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

5. TAXATION

	Year Ended 31 December 2008 £	Year Ended 31 December 2007 £
Current tax:		
UK Corporation tax (see below)	<u>—</u>	<u>—</u>
Tax reconciliation:		
Loss on ordinary activities before tax	<u>(83,850,206)</u>	<u>(5,661,160)</u>
Tax on loss on ordinary activities at UK corporation tax rate of 28.5% (2007: 30%)	(23,897,309)	(1,698,348)
Effects of:		
Expenses not deductible for tax purposes	24,017,020	1,806,204
Tax losses and other timing differences	<u>(119,711)</u>	<u>(107,856)</u>
Current tax charge for the year	<u>—</u>	<u>—</u>

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

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

CANARY WHARF FINANCE II PLC

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

6. DEBTORS

	31 December 2008 £	31 December 2007 £
Due within one year:		
Loan to fellow subsidiary undertaking	61,804,637	39,131,220
Amount owed by fellow subsidiary undertaking	2,122,931	2,116,306
Accrued interest receivable	11,580	7,112
	<u>63,939,148</u>	<u>41,254,638</u>
Due in more than one year:		
Loan to fellow subsidiary undertaking	<u>2,593,864,979</u>	<u>2,625,079,707</u>

Amounts owed by group undertakings are non-interest bearing.

The amount of the loan due within one year comprises £29,582,877 (2007: £32,220,340) of interest and £32,221,760 (2007: £6,910,880) of capital.

The amounts at which financial assets are stated comprise:

	£
At 1 January 2008	2,631,990,587
Deferred financing expenses	1,007,032
Repaid in year	(6,910,880)
At 31 December 2008	<u>2,626,086,739</u>
Due within one year	32,221,760
Due after more than one year	<u>2,593,864,979</u>
	<u>2,626,086,739</u>

CANARY WHARF FINANCE II PLC

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

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

	31 December 2008	31 December 2007	Interest	Effective Interest	Repayment
	£m	£m			
A1	1,215.0	1,215.0	6.465%	6.600%	By instalment 2009-2033
A3	400.0	400.0	5.962%	5.769%	By instalment 2032-2037
A7	222.0	222.0	5.308%	5.308%	January 2035
B	210.8	217.7	6.810%	6.298%	By instalment 2005-2033
B3	104.0	104.0	5.445%	5.445%	January 2035
C2	275.0	275.0	6.069%	6.069%	January 2035
D2	125.0	125.0	6.753%	6.753%	January 2035
	<u>2,551.8</u>	<u>2,558.7</u>			
Unamortised premium	68.2	73.3			
	<u>2,620.1</u>	<u>2,632.0</u>			

The carrying values of debtors due within one year also represent their fair values. The fair value of the loans to group undertakings at 31 December 2008 was £2,132,110,000 (2007: £2,606,215,000), calculated by reference to the fair values of the company's financial liabilities. The carrying value of financial assets represents the company's maximum exposure to credit risk.

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

	31 December 2008	31 December 2007
	£	£
Within one year	187,496,494	162,967,661
In one to two years	209,784,550	187,603,367
In two to five years	610,556,909	618,123,665
In five to ten years	986,618,622	999,103,471
In ten to twenty years	1,611,540,496	1,671,430,739
In twenty to thirty years	1,776,866,095	1,907,412,481
	<u>5,382,863,166</u>	<u>5,546,641,384</u>
Comprising:		
Principal repayments	2,551,811,921	2,558,722,800
Interest repayments	2,831,051,245	2,987,918,584
	<u>5,382,863,166</u>	<u>5,546,641,384</u>

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

CANARY WHARF FINANCE II PLC

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

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 £1,031,711 at 31 December 2008 (2007: £617,394), comprising £1,022,516 in Sterling (2007: £608,224), £1,473 (€2,432) in Euros (2007: £1,464/€2,416) and £7,722 (US\$11,012) in US Dollars (2007: £7,706/\$10,989), 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 2008 £	31 December 2007 £
Securitised debt (Note 10)	61,756,248	39,077,310
Accruals and deferred income	6,900	7,050
	<u>61,763,148</u>	<u>39,084,360</u>

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

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

	31 December 2008 £	31 December 2007 £
Securitised debt (Note 10)	2,593,864,980	2,625,079,708
Derivative financial instruments (Note 11)	197,460,000	20,989,000
	<u>2,791,324,980</u>	<u>2,646,068,708</u>

CANARY WHARF FINANCE II PLC

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

10. SECURITISED DEBT

The amounts at which borrowings are stated comprise:

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

Certain of the A1, A3 and B notes were issued at a premium which is being amortised to the profit and loss account on a straight-line basis over the life of the relevant notes. At 31 December 2008 £74,274,819 (2007: £73,267,787) remained unamortised.

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

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

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

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

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

CANARY WHARF FINANCE II PLC

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

In April 2007 the company completed a restructuring of its debt involving the redemption of its A5 notes, B2 notes, C1 notes and D1 notes at a total cost of £573,169,823 and the issue of £222,000,000 of A7 notes, £104,000,000 of B3 notes, £275,000,000 of C2 notes and £125,000,000 of D2 notes. All of the notes are repayable in January 2035. The net proceeds were on lent to the company's fellow subsidiary undertaking.

The cross currency swap on the A5 notes and the interest rate swaps relating to the A5, B2, C1 and D1 notes were either closed out or novated into new interest rate swaps for the A7, B3, C2 and D2 notes. There were no net proceeds.

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%	6.590%	By instalment 2009-2033
A3	400.0	306.0	5.952%	5.759%	By instalment 2032-2037
A7	222.0	133.2	Floating	5.298%	January 2035
B	210.8	147.6	6.800%	6.288%	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
	<u>2,551.8</u>	<u>1,934.6</u>			

At 31 December 2007 the securitised debt comprised the following:

Tranche	Principal	Market value	Interest	Weighted average interest	Repayment
	£m	£m			
A1	1,215.0	1,274.9	6.455%	6.590%	By instalment 2009-2033
A3	400.0	411.9	5.952%	5.759%	By instalment 2032-2037
A7	222.0	210.4	Floating	5.298%	January 2035
B	217.7	230.0	6.800%	6.288%	By instalment 2005-2033
B3	104.0	95.8	Floating	5.435%	January 2035
C2	275.0	252.8	Floating	6.059%	January 2035
D2	125.0	109.4	Floating	6.743%	January 2035
	<u>2,558.7</u>	<u>2,585.2</u>			

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

CANARY WHARF FINANCE II PLC

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

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 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 2008 £	31 December 2007 £
Within one year	179,025,057	168,735,612
In one to two years	190,763,996	186,533,291
In two to five years	578,094,490	618,556,099
In five to ten years	944,104,242	997,772,164
In ten to twenty years	1,526,201,111	1,637,339,209
In twenty to thirty years	1,665,031,241	1,834,819,477
	<u>5,083,220,137</u>	<u>5,443,755,852</u>
Comprising:		
Principal repayments	2,551,811,921	2,558,722,800
Interest repayments	2,531,408,216	2,885,033,052
	<u>5,083,220,137</u>	<u>5,443,755,852</u>

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

The weighted average maturity of the debentures at 31 December 2008 was 17.9 years (2007: 18.8 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 2008 was 6.2% (2007: 6.2%).

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

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

CANARY WHARF FINANCE II PLC

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

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 2008 the fair value of these derivatives resulted in the recognition of a net liability of £197,460,000 (2007: £20,989,000). Of this net liability £101,729,000 (2007: £10,611,000) was in respect of interest rate swaps which qualify for hedge accounting and £95,731,000 (2007: £10,378,000) was in respect of interest rate swaps and collars which do not qualify for hedge accounting.

At 31 December 2008, there were hedges on certain of the notes as follows:

Hedge type	Swap rate	Fair Value	
		31 December 2008	31 December 2007
	£	£	
Highly effective hedges:			
B3 interest rate swap	4.883%	(27,795,000)	(2,807,000)
C2 interest rate swap	4.892%	(73,934,000)	(7,804,000)
		<u>(101,729,000)</u>	<u>(10,611,000)</u>
Hedges not designated highly effective:			
A7 interest rate swap	4.924%	(60,730,000)	(6,189,000)
D2 interest rate swap	4.960%	(35,001,000)	(4,189,000)
		<u>(95,731,000)</u>	<u>(10,378,000)</u>

The fair values of the derivative financial instruments have been determined by reference to market values provided by the relevant counter party.

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

CANARY WHARF FINANCE II PLC

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

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 2008 £	31 December 2007 £
Within one year	8,216,935	(6,033,450)
In one to two years	18,770,704	815,470
In two to five years	31,773,351	(1,164,578)
In five to ten years	41,469,302	233,400
In ten to twenty years	83,769,358	32,381,353
In twenty to thirty years	111,206,970	71,777,546
	<u>295,206,620</u>	<u>98,009,741</u>

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

	31 December 2008 £	31 December 2007 £
0.5% increase in interest rates		
Impact on profit and loss account	31,831,502	24,562,912
Impact on hedging reserve	34,607,009	26,693,431
Impact on net assets	<u>66,438,511</u>	<u>51,256,343</u>
0.5% decrease in interest rates		
Impact on profit and loss account	(38,557,496)	(27,309,936)
Impact on hedging reserve	(35,461,042)	(29,682,401)
Impact on net assets	<u>(74,018,538)</u>	<u>(56,992,337)</u>

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

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

CANARY WHARF FINANCE II PLC

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

12. CALLED-UP SHARE CAPITAL

Authorised share capital:

	31 December 2008	31 December 2007
	£	£
50,000 ordinary shares of £1 each	<u>50,000</u>	<u>50,000</u>

Allotted, called up and fully paid:

	31 December 2008	31 December 2007
	£	£
50,000 ordinary shares of £1 each	<u>50,000</u>	<u>50,000</u>

13. RESERVES

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

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

CANARY WHARF FINANCE II PLC

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

15. CONTINGENT LIABILITIES AND FINANCIAL COMMITMENTS

As at 31 December 2008 the company had given a fixed charge over all its assets, including first fixed charges over its bank accounts, to secure the notes referred to in Note 10.

16. ULTIMATE PARENT UNDERTAKING AND RELATED PARTY TRANSACTIONS

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

As at 31 December 2008, 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 group companies.