

**DECO 8-UK CONDUIT 2 HOLDING LIMITED**  
**REPORT AND FINANCIAL STATEMENTS**  
**FOR THE PERIOD FROM INCORPORATION**  
**ON 16 MARCH 2006 TO 31 MARCH 2007**

MONDAY



\*LN447ZN9\*

LD5

12/05/2008

75

COMPANIES HOUSE

# **DECO 8–UK CONDUIT 2 HOLDING LIMITED**

**FOR THE PERIOD FROM INCORPORATION ON 16 MARCH 2006 TO 31 MARCH 2007**

<b>CONTENTS</b>	<b>PAGE</b>
Company information	1
Directors' report	2 - 4
Statement of directors' responsibilities	5
Independent auditors' report	6
Consolidated income statement	7
Company income statement	8
Consolidated balance sheet	9
Company balance sheet	10
Consolidated statement of changes in equity	11
Company statement of changes in equity	11
Consolidated statement of cash flows	12
Company statement of cash flows	13
Notes to the financial statements	14 - 25

## **DECO 8-UK CONDUIT 2 HOLDING LIMITED**

### **COMPANY INFORMATION**

**The board of directors**

Wilmington Trust SP Services (London) Limited  
Mr M H Filer  
Mr J Traynor

**Company secretary**

Wilmington Trust SP Services (London) Limited

**Registered office**

c/o Wilmington Trust SP Services (London) Limited  
Tower 42 (level 11)  
25 Old Broad Street  
London  
EC2N 1HQ

**Auditors**

Deloitte & Touche LLP  
London

# **DECO 8-UK CONDUIT 2 HOLDING LIMITED**

## **DIRECTORS' REPORT**

### **FOR THE PERIOD FROM INCORPORATION ON 16 MARCH 2006 TO 31 MARCH 2007**

The directors have pleasure in presenting their report and the financial statements of the Group, which comprise the results of the company and its subsidiary Deco 8 – UK Conduit 2 Plc for the period from incorporation on 16 March 2006 to 31 March 2007. Consequently there are no comparative figures.

#### **PRINCIPAL ACTIVITIES AND ENHANCED BUSINESS REVIEW**

The Company's principal activity is to hold an investment in Deco 8 – UK Conduit 1 Plc and hold the Post-Enforcement Call Option and other similar options granted in respect of securities granted by other issuers.

The Post-Enforcement Call Option will permit the Company to acquire from the noteholders all the notes then outstanding at a price of one penny per note when notice is received from the Issuer Security Trustee.

Deco 8 – UK Conduit 1 Plc is a special purpose company established in order to issue floating rate loan notes due April 2018 and January 2036 ("the Notes"), to acquire the beneficial interest in a mortgage portfolio from Deutsche Bank AG, London Branch, ("the Mortgage Loan"), to open accounts, to create security and receive interest in respect thereof, and to enter into certain related transactions as described in the Offering Circular dated 3 May 2006. On 4 May 2006, the Company issued £630,131,634 floating rate loan notes in accordance with the Offering Circular.

#### **BUSINESS REVIEW**

The key performance indicator of the business is considered to be the net interest margin. During 2007, the Group achieved a net interest margin of 2.22%. At the period end, the Group had net assets of £18,750,320.

#### **RESULTS AND DIVIDENDS**

The trading results for the period and the Group's financial position at the end of the period are shown in the attached financial statements.

The profit of the Group for the period after tax amounted to £18,750,319. The directors have not recommended a dividend.

#### **DIRECTORS AND THEIR INTERESTS**

The directors who served the Company during the period, together with their beneficial interests in the shares of the Company, were as follows:

Wilmington Trust SP Services (London) Limited	(appointed 16 March 2006)
Mr M R G Baker	(appointed 16 March 2006 and resigned on 28 February 2008)
Mr M H Filer	(appointed 16 March 2006)
Mr J Traynor	(appointed 28 February 2008)

Ordinary shares

At 31 March

Wilmington Trust SP Services (London) Limited

1

Wilmington Trust SP Services (London) Limited holds the sole share in the Company under a declaration of trust for charitable purposes. No other director had any beneficial interest in the shares of the Company during the period.

#### **FINANCIAL INSTRUMENTS AND RISK MANAGEMENT POLICIES**

The Group's financial instruments, other than derivatives, comprise the mortgage loans, cash and cash equivalents, interest-bearing borrowings and various receivables and payables that arise directly from its operations. The main purpose of these financial instruments is to acquire the mortgage loans from Deutsche Bank AG, London Branch.

The Group also enters into derivative transactions. The purpose of such transactions is to manage the interest rate risk arising from the Group's operations and its sources of finance.

It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments is undertaken.

## **DECO 8-UK CONDUIT 2 HOLDING LIMITED**

### **DIRECTORS' REPORT (CONTINUED)**

#### **FOR THE PERIOD FROM INCORPORATION ON 16 MARCH 2006 TO 31 MARCH 2007**

##### **FINANCIAL INSTRUMENTS (CONTINUED)**

The main risks arising from the Group's financial instruments are interest rate risk and credit risk. The Board reviews and agrees policies for managing these and the other risks arising on the Group's financial instruments and they are summarised below.

##### **Currency risk**

All of the Group's assets and liabilities are denominated in pound Sterling and therefore there is no foreign currency risk.

##### **Interest rate risk**

Interest rate risk exists where assets and liabilities have interest rates set under a different basis or which reset at different times. The Group minimises its exposure to interest rate risk by ensuring that the interest rate characteristics of its assets and liabilities are similar, where this is not possible the Group uses interest rate swaps to mitigate any residual interest rate risk.

##### **Credit risk**

Credit risk arises where the borrower will not be able to meet their obligations as they fall due. The mortgage loans are secured on a number of UK commercial properties which are geographically diverse and include a diverse tenant portfolio.

The most significant concentration of credit risk is considered to be a mortgage loan to Lea Valley Limited totalling £224,943,918. At 31 March 2007, the total amount outstanding on the mortgage loans was £624,167,982. The mortgage loan portfolio consists of 20 loans secured over 71 properties.

##### **Liquidity risk**

A facility provided by Danske Bank A/S (London Branch) has been established which will be available, subject to certain criteria and circumstances, in the event of the Group being unable, on a temporary basis, to meet its financial commitments. The liquidity facility was renewed on 3 May 2007 to expire on 2 May 2008. The directors expect this facility to be renewed annually.

Further discussion of the Group's approach to financial instruments is set out in note 1 (significant accounting policies) and in note 14.

##### **FUTURE DEVELOPMENTS**

The directors will continue to closely monitor the Group's progress. There were no significant events affecting the Group after the period end. The directors do not expect any significant changes in the operating activities of the Group or company after the period end.

##### **CREDITOR PAYMENT POLICY**

The Group's policy concerning payment of its trade creditors is to pay in accordance with its contractual and other legal obligations. Due to the nature of the business, the main creditors are the noteholders. Principal and interest is repaid quarterly in accordance with the agreements in place. The Group does not follow any other code or standard on payment practice.

##### **AUDITORS**

Deloitte & Touche LLP were appointed as the first auditors of the Company. A resolution to re-appoint Deloitte & Touche LLP as auditors for the ensuing year will be proposed at the annual general meeting in accordance with section 385 of the Companies Act 1985.

**DECO 8-UK CONDUIT 2 HOLDING LIMITED**

**DIRECTORS' REPORT (CONTINUED)**

**FOR THE PERIOD FROM INCORPORATION ON 16 MARCH 2006 TO 31 MARCH 2007**

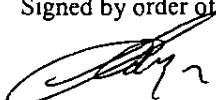
**STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS**

In the case of each of the persons who are directors of the company at the date when this report was approved

- so far as each of the directors is aware, there is no relevant audit information (as defined in the Companies Act 1985) of which the company's auditors are unaware, and
- each of the directors has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information (as defined) and to establish that the company's auditors are aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985

Signed by order of the directors



For and on behalf of

**WILMINGTON TRUST SP SERVICES (LONDON) LIMITED**

Company Secretary

Date 9 May 2008

## **DECO 8–UK CONDUIT 2 HOLDING LIMITED**

### **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

#### **FOR THE PERIOD FROM INCORPORATION ON 16 MARCH 2006 TO 31 MARCH 2007**

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 International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial statements are required by law to be properly prepared in accordance with IFRSs as adopted by the European Union and the Companies Act 1985.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. However, directors are also required to

- properly select and apply accounting policies,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance, and
- make an assessment of the company's ability to continue as a going concern.

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 directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DECO 8-UK CONDUIT 2 HOLDING LIMITED**

We have audited the group and parent company financial statements (the "financial statements") of Deco 8-UK Conduit 2 Holding Limited for the period from incorporation on 16 March 2006 to 31 March 2007 which comprise the Group and Company income statements, the Group and Company balance sheets, the Group and Company cash flow statements, the Group and Company statement of changes in equity and the related notes 1 to 17. 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 Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union 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 other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or inconsistencies with the financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

### **Basis of audit opinion**

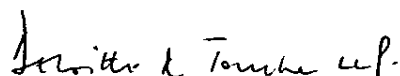
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the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

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 group and parent financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's and the parent company's affairs as at 31 March 2007 and of the group's and the parent company profit for the period from incorporation on 16 March 2006 to 31 March 2007,
- the group and parent company 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 & Touche LLP**  
Chartered Accountants and Registered Auditors  
London, United Kingdom  
9 May 2008



**DECO 8-UK CONDUIT 2 HOLDING LIMITED****CONSOLIDATED INCOME STATEMENT****FOR THE PERIOD FROM INCORPORATION ON 16 MARCH 2006 TO 31 MARCH 2007**

		2007 £
<b>Continuing operations</b>	<b>Notes</b>	
Interest income	2	33,969,382
Interest expense	3	<u>(33,214,185)</u>
<b>Net interest income</b>		<b>755,197</b>
Fair value gain on derivative financial instruments		23,104,084
Operating expenses	4	<u>(710,739)</u>
<b>Profit before tax for the period</b>		<b>23,148,542</b>
Income tax charge	5	<u>(4,398,223)</u>
<b>Profit after tax for the period attributable to equity holders</b>	<b>11</b>	<b><u>18,750,319</u></b>

The notes on pages 14 to 25 form part of these financial statements

**DECO 8-UK CONDUIT 2 HOLDING LIMITED**

**COMPANY INCOME STATEMENT**

**FOR THE PERIOD FROM INCORPORATION ON 16 MARCH 2006 TO 31 MARCH 2007**

		2007 £
Continuing operations	Notes	
Other operating income		12,501
Profit before tax for the period		<u>12,501</u>
Income tax expense	5	<u>(2,375)</u>
Profit after tax for the period attributable to equity holders	11	<u>10,126</u>

The notes on pages 14 to 25 form part of these financial statements

**DECO 8-UK CONDUIT 2 HOLDING LIMITED****CONSOLIDATED BALANCE SHEET****AS AT 31 MARCH 2007**

	Notes	2007 £
<b>Assets</b>		
<b>Non-current assets</b>		
Mortgage loans	8	<u>618,547,758</u>
<b>Current assets</b>		
Derivative financial statements	15	23,104,084
Mortgage loan	8	5,620,224
Trade and other receivables	9	6,852,073
Cash and cash equivalents	10	<u>65,921</u>
		<u>35,642,302</u>
<b>Total assets</b>		<u>654,190,060</u>
<b>Equity</b>		
Share capital	11	1
Retained profit	11	<u>18,750,319</u>
<b>Total equity</b>		18,750,320
<b>Non-current liabilities</b>		
Interest-bearing loans	12	<u>618,547,758</u>
<b>Total non-current liabilities</b>		<u>618,547,758</u>
<b>Current liabilities</b>		
Interest-bearing loans	12	5,620,224
Accrued interest	12	6,293,134
Trade and other payables	13	580,401
Current tax liability		8,447
Deferred tax liability	6	<u>4,389,776</u>
<b>Total current liabilities</b>		16,891,982
<b>Total liabilities</b>		<u>635,439,740</u>
<b>Total equity and liabilities</b>		<u>654,190,060</u>

These financial statements on pages 7 to 25 were approved by the directors and authorised for issue on 9 May 2008 and are signed on their behalf by

For and on behalf of  
**WILMINGTON TRUST SP SERVICES (LONDON) LIMITED**  
Director



The notes on pages 14 to 25 form part of these financial statements

**DECO 8-UK CONDUIT 2 HOLDING LIMITED****COMPANY BALANCE SHEET****AS AT 31 MARCH 2007**

	Notes	2007 £
<b>Non-current asset</b>		
Investment in subsidiary	7	<u>12,501</u>
<b>Current assets</b>		
Cash and cash equivalents	10	<u>1</u> <u>1</u>
<b>Total assets</b>		<u>12,502</u>
<b>Equity</b>		
Share capital	11	1
Retained profit	11	<u>10,126</u>
<b>Total equity</b>		<u>10,127</u>
<b>Current liabilities</b>		
Current tax liability		<u>2,375</u>
<b>Total current liabilities</b>		<u>2,375</u>
<b>Total liabilities</b>		<u>2,375</u>
<b>Total equity and liabilities</b>		<u>12,502</u>

These financial statements on pages 7 to 25 were approved by the directors and authorised for issue on 9 May 2008 and are signed on their behalf by

For and on behalf of  
**WILMINGTON TRUST SP SERVICES (LONDON) LIMITED**  
Director



The notes on pages 14 to 25 form part of these financial statements

**DECO 8-UK CONDUIT 2 HOLDING LIMITED****CONSOLIDATED STATEMENT OF CHANGES IN EQUITY****FOR THE PERIOD FROM INCORPORATION ON 16 MARCH 2006 TO 31 MARCH 2007**

	Note	2007 £
At start of period 16 March 2006		-
Profit for the period	11	<u>18,750,319</u>
Total recognised income and expense for the period		18,750,319
Issue of share capital	11	<u>1</u>
Closing equity at 31 March 2007		<u>18,750,320</u>

**COMPANY'S STATEMENT OF CHANGES IN EQUITY****FOR THE PERIOD FROM INCORPORATION ON 16 MARCH 2006 TO 31 MARCH 2007**

	Note	2007 £
At start of period 16 March 2006		-
Profit for the period	11	<u>10,126</u>
Total recognised income and expense for the period		10,126
Issue of share capital	11	<u>1</u>
Closing equity at 31 March 2007		<u>10,127</u>

The notes on pages 14 to 25 form part of these financial statements

**DECO 8-UK CONDUIT 2 HOLDING LIMITED****CONSOLIDATED STATEMENT OF CASH FLOWS****FOR THE PERIOD FROM INCORPORATION ON 16 MARCH 2006 TO 31 MARCH 2007**

	Notes	2007 £
<b>Cash flows from operating activities</b>		
Profit before tax for the period		23,148,542
<i>Adjustments for</i>		
Fair value movement on derivative financial instruments		(23,104,084)
Bank interest receivable	2	(35,545)
Increase in trade and other receivables	9	(6,852,073)
Increase in trade and other payables	12,13	6,873,535
<b>Net cash used in operating activities</b>		<b>30,375</b>
 <b>Cash flows from investing activities</b>		
Acquisition of beneficial interest in mortgage portfolio	8	(630,131,634)
Repayments during period	8	5,963,652
Bank interest received	2	35,545
<b>Net cash used in investing activities</b>		<b>(624,132,437)</b>
 <b>Cash flows from financing activities</b>		
Proceeds on issue of shares	11	1
Proceeds on issue of loan notes	12	630,131,634
Redemption of loan notes during the period	12	(5,963,652)
<b>Net cash from financing activities</b>		<b>624,167,983</b>
<b>Net increase in cash and cash equivalents</b>		<b>65,921</b>
Cash and cash equivalents at beginning of period		-
<b>Cash and cash equivalents at 31 March 2007</b>	10	<b>65,921</b>

(As explained in the accounting policies note on page 15, the cash is not freely available to be used )

**DECO 8-UK CONDUIT 2 HOLDING LIMITED****COMPANY STATEMENT OF CASH FLOWS****FOR THE PERIOD FROM INCORPORATION ON 16 MARCH 2006 TO 31 MARCH 2007**

	Notes	2007 £
<b>Cash flows from operating activities</b>		
Profit before tax for the period		12,501
<b>Net cash from operating activities</b>		<u>12,501</u>
<b>Cash flows from Investing activities</b>		
Investments	7	<u>(12,501)</u>
<b>Net cash used in investing activities</b>		<u>(12,501)</u>
<b>Cash flows from financing activities</b>		
Proceeds on issue of shares	11	<u>1</u>
<b>Net cash from financing activities</b>		<u>1</u>
Net increase in cash and cash equivalents		<u>1</u>
Cash and cash equivalents at beginning of period		-
<b>Cash and cash equivalents at 31 March 2007</b>	10	<u>1</u>

(As explained in the accounting policies note on page 15, the cash is not freely available to be used )

# **DECO 8-UK CONDUIT 2 HOLDING LIMITED**

## **NOTES TO THE FINANCIAL STATEMENTS**

### **FOR THE PERIOD FROM INCORPORATION ON 16 MARCH 2006 TO 31 MARCH 2007**

#### **1. SIGNIFICANT ACCOUNTING POLICIES**

Deco 8-UK Conduit 2 Holding Limited is a Company incorporated in the United Kingdom under the Companies Act 1985 and domiciled in England. The address of the registered office is given on page 1.

##### **Statement of compliance**

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU as they apply to the financial statements of the Group and the Company for the period ended 31 March 2007.

The accounting policies set out below have been applied in respect of the financial period, from incorporation on 16 March 2006 to 31 March 2007.

##### **Basis of preparation**

The financial statements are presented in Pound Sterling. The financial statements cover a period of less than a year as this is the first period of account. The financial statements have been prepared on the historical cost basis as modified for the revaluation of certain financial instruments.

Due to the fact that the nature of the business is to provide finance, the directors are of the opinion that it is more appropriate to use interest income and interest expense rather than turnover and cost of sales in preparing the profit and loss account.

##### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (the Subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

##### **- Subsidiaries**

Subsidiaries are those entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to benefit from its activities.

##### **- Transactions eliminated on consolidation**

Intra-group balances and any unrealised gains and losses arising from intra-group transactions are eliminated in preparing the Consolidated Financial Statements.

##### **Business combinations**

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non Current Assets Held for Sale and Discontinued Operations*, which are recognised and measured at fair value less costs to sell.

##### **Critical accounting judgements and key sources of estimation and uncertainty**

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. In particular for the fair value of derivatives and the recoverability of assets. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements and carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates used in the financial statements.



## **DECO 8-UK CONDUIT 2 HOLDING LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

#### **FOR THE PERIOD FROM INCORPORATION ON 16 MARCH 2006 TO 31 MARCH 2007**

##### **1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both the current and future years.

##### **Financial instruments**

The Group's financial instruments comprise the mortgage loans, cash and liquid resources, derivatives, interest-bearing borrowings and various receivables and payables that arise directly from its operations. The main purpose of these financial instruments is to acquire a beneficial interest in a mortgage portfolio. These financial instruments are classified in accordance with the principles of IAS 39 Financial Instruments: Recognition and Measurement as described below.

##### **Mortgage Loans**

The acquisition in the beneficial interest of the mortgage loans is initially measured at fair value with subsequent measurement being at amortised cost using the effective interest method.

Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

##### **Deferred consideration**

Deferred purchase consideration represents further amounts payable on the acquisition of commercial mortgage loans from Deutsche Bank AG, London Branch. Provision is made for the deferred purchase consideration as amounts become payable as a result of the performance of the acquired commercial mortgage loans and is included in the income statement as an expense.

##### **Cash and cash equivalents**

Cash and cash equivalents in the balance sheet comprise cash at banks and in hand and short-term deposits with an original maturity of three months or less.

The Group has deposits in bank accounts held in the Group's name which meet the definition of cash and cash equivalents but their use is restricted by a detailed priority of payments set out in the securitisation transaction agreements. As the cash can only be used to meet certain specific liabilities and is not available to be used with discretion, it is viewed as restricted cash.

##### **Derivative financial instruments and hedging activities**

The Group uses derivative financial instruments to hedge its exposure to interest rate risk arising from operational, financing and investment activities. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes.

IAS 39 requires all financial assets and liabilities to be recognised initially at fair value on the balance sheet. All derivatives have been designated at fair value through profit and loss. Hence, subsequent to initial recognition, any changes in fair value of the derivatives held are recognised in the income statement.

The fair value of interest rate swaps and basis swaps is the estimated amount that the Company would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties.

Interest income receivable or interest expense on the interest rate swap is accounted for on an effective interest rate basis within interest income or interest expense in the income statement.

##### **Interest-bearing loans**

Interest-bearing loans are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing loans are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

## **DECO 8-UK CONDUIT 2 HOLDING LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

#### **FOR THE PERIOD FROM INCORPORATION ON 16 MARCH 2006 TO 31 MARCH 2007**

##### **1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

###### **Embedded derivatives**

Certain derivatives are embedded within other non-derivative host financial instruments to create a hybrid instrument. Where the economic characteristics and risks of the embedded derivatives are not closely related to the economic characteristics and risks of the host instrument, and where the hybrid instrument is not measured at fair value, the embedded derivative is separated from the host instrument with changes in fair value of the embedded derivative recognised in the income statement. Depending on the classification of the host instrument, the host is then measured in accordance with IAS 39.

###### **Interest income and expense**

Interest income and expense is accounted for on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability to that asset's or liability's net carrying amount.

###### **Value added tax**

Value added tax is not recoverable by the Group and is included with its related cost.

###### **Income tax expense**

The tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on the profit for the period. Taxable profit differs from net profit as reported in the income statement because it excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither the accounting nor taxable profit or loss, and
- deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Under special rules issued by the Inland Revenue for securitisation companies, the company's charge for taxation is based on its taxable profits calculated on a UK GAAP basis but is disclosed in accordance with IAS 12.

###### **Standards issued but not adopted**

The directors are considering the following standards which are currently in issue but are not yet effective and are not intended to be adopted in the current period financial statements:

IAS 1 Presentation of Financial Statements – amendment on Capital Management

IFRS 7 Financial Instruments Disclosures

IFRS 8 Operating Segments

IFIRC 11 IFRS 2 – Group and treasury share transaction

IFRIC 12 Service concession arrangements

IFRIC 14 IAS 19 The limit on a defined benefit asset, minimum funding requirements and their interaction

# DECO 8-UK CONDUIT 2 HOLDING LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE PERIOD FROM INCORPORATION ON 16 MARCH 2006 TO 31 MARCH 2007

#### 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The directors anticipate that the adoption of these standards and interpretations in future periods will have no material impact on the financial statements of the company and group

Upon the adoption of IFRS 7, the company will have to disclose additional information about its financial instruments, their significance and the nature and extent of the risks that they give to rise. More specifically the Company will need to disclose the fair value of its financial instruments and its risks in greater detail. There will be no effect on reported income or net assets.

#### Segmental reporting

The principal asset of the Group is the beneficial interest in the mortgage portfolio originated in the United Kingdom which is funded by floating rate notes issued in the United Kingdom. The directors do not consider it necessary to provide a further analysis of the results of the Group from those already disclosed in these financial statements.

#### 2. INTEREST INCOME

	2007 Group £
Income from mortgage loans	32,130,992
Net swap interest receivable	1,790,344
Bank interest received	35,545
Other income	12,501
	<u>33,969,382</u>

#### 3. INTEREST EXPENSE

	2007 Group £
Interest on loan notes	30,887,558
Deferred consideration	2,326,627
	<u>33,214,185</u>

#### 4. OPERATING EXPENSES

	2007 Group £
Administration and cash management fees	684,330
Audit fees	17,625
Corporate services fees	8,784
	<u>710,739</u>

Other than the fees received for the provision of corporate services as detailed in note 16, the directors received no emoluments for their services as directors to the Group during the period. The directors had no any material interest in any contract of significance in relation to the business of the Group. The Group did not have any employees in the current period.

# DECO 8-UK CONDUIT 2 HOLDING LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD FROM INCORPORATION ON 16 MARCH 2006 TO 31 MARCH 2007

### 5 INCOME TAX EXPENSE

	2007 Group £	2007 Company £
<b>Current tax:</b>		
Corporation tax charge for the period at a rate of 19%	8,447	2,375
<b>Deferred tax:</b>		
Deferred tax charge for the period at a rate of 19% (see note 6)	<u>4,389,776</u>	<u>-</u>
Total income tax charge in income statement	<u>4,389,223</u>	<u>2,375</u>

	2007 Group £	2007 Company £
<b>Reconciliation of total tax charge</b>		
The tax assessed for the period is at the small companies rate of corporation tax in the UK of 19%		
Profit before tax	<u>23,148,542</u>	<u>12,501</u>
Profit before tax multiplied by the standard rate of corporation tax in the UK 19%	<u>4,398,223</u>	<u>2,375</u>

### 6 DEFERRED TAX

	2007 Group £
<b>Deferred tax liability</b>	
At 13 March 2006	-
Charge to income for the period	<u>4,389,776</u>
Balance carried forward at 31 March 2007	<u>4,389,776</u>

The deferred tax liability of £4,389,776 represents the amount of deferred tax payable in respect of the fair value on the derivative financial instruments

### 7. INVESTMENT IN SUBSIDIARY

	2007 Company £
<b>Company</b>	
At 16 March 2006	-
Acquisitions during the period	<u>12,501</u>
Balance carried forward at 31 March 2007	<u>12,501</u>

The investment represents the acquisition of 99.98% of the issued ordinary share capital of Deco 8 – UK Conduit 2 Plc, a special purpose entity incorporated in England and Wales. Deco 8 – UK Conduit 2 Plc was established in order to issue floating rate loan notes due July 2017 (“the Notes”), to acquire the beneficial interest in a mortgage portfolio (“the mortgage loans”) from Deutsche Bank AG, London Branch, to open accounts, to create security and receive interest in respect thereof, and to enter into certain related transactions as described in the Offering Circular dated 3 May 2006.

This transaction has been accounted for by the purchase method of accounting.

# DECO 8-UK CONDUIT 2 HOLDING LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD FROM INCORPORATION ON 16 MARCH 2006 TO 31 MARCH 2007

### 8. MORTGAGE LOANS

Group	£
At 16 March 2006	-
Originations	630,131,634
Redemptions	(5,962,652)
At 31 March 2007	<u>624,168,982</u>

The balance can be analysed as follows

Non-current assets	618,547,758
Current assets	<u>5,620,224</u>
	<u>624,168,982</u>

The mortgage loan is due for repayment between April 2007 and April 2016. At 31 March 2007, £624,167,982 was outstanding. At 31 March 2007, the fixed rate of interest on the mortgage loan ranged from 5.3756% to 6.25%. The loan is secured over commercial properties held by Deutsche Bank AG, London Branch in its capacity of Borrower Security Trustee on behalf of the Company.

### 9. TRADE AND OTHER RECEIVABLES

	Group	Company
	2007	2007
	£	£
Prepayments and accrued income	<u>6,852,073</u>	<u>-</u>

The directors consider that the carrying value of trade and other receivables approximate their fair value.

### 10. CASH AND CASH EQUIVALENTS

Withdrawals from the Group's bank accounts are restricted by the detailed priority of payments set out in the securitisation agreements.

	Group	Company
	2007	2007
	£	£
Cash and cash equivalents	<u>65,921</u>	<u>1</u>

The directors consider that the carrying value of cash and cash equivalents approximate their fair value.

The Group has deposits in bank accounts held in the Group's name which meet the definition of cash and cash equivalents but their use is restricted by a detailed priority of payments set out in the securitisation transaction agreements. As the cash can only be used to meet certain specific liabilities and is not available to be used with discretion, it is viewed as restricted cash.

# DECO 8-UK CONDUIT 2 HOLDING LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD FROM INCORPORATION ON 16 MARCH 2006 TO 31 MARCH 2007

### 11. TOTAL EQUITY

Group	Issued share capital £	Retained profit £	Total £
Issued share capital	1	-	1
Reserves	-	16,205,354	16,205,354
Balance at 31 March 2007	<u>1</u>	<u>16,205,354</u>	<u>16,205,355</u>

Company	Issued share capital £	Retained profit £	Total £
Issued share capital	1	-	1
Reserves	-	10,126	10,126
Balance at 31 March 2007	<u>1</u>	<u>10,126</u>	<u>10,127</u>

There are 100 authorised ordinary shares of £1 each. The issued share capital comprises one allotted £1 share called up and fully paid at par. Wilmington Trust SP Services (London) Limited holds the share under a declaration of trust for charitable purposes.

### 12. INTEREST-BEARING LOANS

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. For more information about the Group's exposure to interest rate risk, see note 14.

	Group 2007 £	Company 2006 £
Loan notes issued	630,131,634	-
Redemptions in period	<u>(5,963,652)</u>	-
	<u>624,167,982</u>	-
<b>Non-current liabilities</b>		
Loan notes	<u>618,547,758</u>	-
<b>Current liabilities</b>		
Loan notes	5,620,224	-
Interest payable on loan notes	<u>6,293,134</u>	-
	<u>11,913,358</u>	-

Current liabilities due within one year are paid when cash is available after other commitments have been fulfilled in order of priority in accordance with the Offering Circular.

On 4 May 2006 an agreement was entered into with Danske Bank A/S (London Branch) for the provision of a liquidity facility for the Group. The facility is in place to allow the Group to meet its obligations should there be a shortfall in the revenue or principal received from the mortgage loan. At the balance sheet date, the limit on this facility was £37,870,140. A fee is charged on the undrawn balance, currently set out at 0.15% per annum. This fee would increase on any drawn balance. No amounts have been drawn under the facility since inception. The liquidity facility is secured by way of fixed and floating charges over the Group's assets including the mortgage loans.

# DECO 8-UK CONDUIT 2 HOLDING LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD FROM INCORPORATION ON 16 MARCH 2006 TO 31 MARCH 2007

### 12. INTEREST-BEARING LOANS (CONTINUED)

Interest-bearing loans and borrowings are repayable as follows

	Total £	Less than 1 year £	1-2 years £	2-5 years £	More than 5 years £
<b>Liabilities</b>					
Floating rate notes due 2018 and 2036	624,167,982	5,620,224	6,270,224	70,258,573	542,018,961
Interest payable	<u>6,293,134</u>	<u>6,293,134</u>	-	-	-
	<u>630,461,116</u>	<u>11,913,358</u>	<u>6,270,224</u>	<u>70,258,573</u>	<u>542,018,961</u>

The loan notes are denominated in the following currencies

	2007 £
Sterling	<u>624,167,982</u>

On 4 May 2006, the Group issued £200,000,000 Class A1 notes due April 2018, £256,600,000 Class A2 notes due January 2036, £32,400,000 Class B notes due January 2036, £34,000,000 Class C notes due January 2036, £23,500,000 Class D notes due January 2036, £61,100,000 Class E notes due January 2036, £14,200,000 Class F notes due January 2036 and £8,331,634 Class G notes due January 2036. Interest on the Class A1 notes is payable at a rate of 3 month LIBOR plus 0.18%. Interest on the Class A2 notes is payable at a rate of 3 month LIBOR plus 0.24%. Interest on the Class B notes is payable at a rate of 3 month LIBOR plus 0.33%. Interest on the Class C notes is payable at a rate of 3 month LIBOR plus 0.48%. Interest on the Class D notes is payable at a rate of 3 month LIBOR plus 0.65%. Interest on the Class E notes is payable at a rate of 3 month LIBOR plus 1.10%. Interest on the Class F notes is payable at a rate of 3 month LIBOR plus 1.40%. Interest on the Class G notes is payable at a rate of 3 month LIBOR plus 3.75%.

At the balance sheet date £194,278,006 in respect of the Class A1 notes was outstanding, £256,455,836 in respect of Class A2 notes, £32,381,797 in respect of Class B notes, £33,980,898 in respect of Class C notes, £23,486,797 in respect of the Class D notes, £61,065,673 in respect of Class E notes, £14,192,022 in respect of F notes and £8,326,953 in respect of Class G notes. The notes are secured by way of a fixed and floating charge over the assets of the Group. The proceeds of the notes were used by the Group to acquire the mortgage loan from Deutsche Bank AG in accordance with the terms of the securitisation documents.

### 13. TRADE AND OTHER PAYABLES

	Group 2007 £	Company 2007 £
<b>Current liabilities</b>		
Accruals and deferred income	<u>580,401</u>	-
Current liabilities due within one year are paid when cash is available after other commitments have been fulfilled, in order of priority in accordance with the Offering Circular		

The directors consider that the carrying amount of trade and other payables approximates to their fair value

## DECO 8-UK CONDUIT 2 HOLDING LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

#### FOR THE PERIOD FROM INCORPORATION ON 16 MARCH 2006 TO 31 MARCH 2007

##### 14 FINANCIAL INSTRUMENTS

The Group's financial instruments comprise the mortgage loans, cash and liquid resources, derivatives, interest-bearing borrowings and various receivables and payables that arise directly from its operations

##### Currency risk

All of the Group's assets and liabilities are denominated in pounds sterling therefore there is no foreign currency risk

##### Credit risk

Credit risk on the mortgage loans arises where the mortgage loans are secured on underlying commercial properties. The maximum exposure to credit risk is considered to be Lea Valley Limited totalling £224,943,918. At 31 March 2006, the amount outstanding on the mortgage loans was £624,167,982. The directors consider that the Group's beneficial interest in the commercial property granted as security will be sufficient to recover the full amount of this loan.

##### Interest rate risk

Interest rate risk exists where assets and liabilities have interest rates under a different basis or which reset at a different time. The Group minimises its exposure to interest rate risk by ensuring that the interest rate characteristics of assets and liabilities are similar. Various interest rate and basis swaps have been entered into with Deutsche Bank AG, London Branch to manage the Group's exposure to interest rate risk associated with the mortgage loan. This is to reduce interest rate risk as a result of the possible variance between the fixed rates of interest receivable on the mortgage loan and the variable rate of interest payable on the floating rate loan notes.

##### Liquidity risk

A facility provided by Danske Bank A/S (London Branch) has been established which will be available, subject to certain criteria and circumstances, in the event of the Group being unable, on a temporary basis, to meet its financial commitments.

At 31 March 2007 this facility was not required, and has not been used during the period. The liquidity facility was renewed on 3 May 2007 to expire on 2 May 2008. The directors expect this facility to be renewed annually.

##### Effective interest rates and repricing analysis

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at 31 March 2007 and the periods in which they reprice.

Group	Effective interest rate (%)	Total £	6 months or less £	6-12 months £	More than 5 years £	Non interest-bearing £
<b>Assets</b>						
Derivative financial instruments		23,104,084				23,104,084
Mortgage loan	4.05	624,167,982	-	-	624,167,982	-
Trade and other receivables	-	6,852,073	-	-	-	6,852,073
Cash and cash equivalents	4.82	65,921	65,921	-	-	-
		<u>654,190,060</u>	<u>65,921</u>	<u>-</u>	<u>624,167,982</u>	<u>29,956,157</u>



# DECO 8-UK CONDUIT 2 HOLDING LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD FROM INCORPORATION ON 16 MARCH 2006 TO 31 MARCH 2007

### 14. FINANCIAL INSTRUMENTS (Continued)

Group	Effective interest rate	Total	6 months or less	6-12 months	More than 5 years	Non interest-bearing
<b>Liabilities</b>						
Loan notes – Class A1	LIBOR + 0.18	194,278,006	194,278,006	-	-	-
Loan notes – Class A2	LIBOR + 0.24	256,455,836	256,455,836	-	-	-
Loan notes – Class B	LIBOR + 0.33	32,381,797	32,381,797	-	-	-
Loan notes – Class C	LIBOR + 0.48	33,980,898	49,100,000	-	-	-
Loan notes – Class D	LIBOR + 0.65	23,486,797	23,486,797	-	-	-
Loan notes – Class E	LIBOR + 1.10	61,065,673	61,065,673	-	-	-
Loan notes – Class F	LIBOR + 1.40	14,192,022	14,192,022	-	-	-
Loan notes – Class G	LIBOR + 3.75	8,326,953	8,326,953	-	-	-
Interest payable	-	6,293,134	-	-	-	6,293,134
Trade and other payables	-	580,401	-	-	-	580,401
Current tax liability	-	8,447	-	8,447	-	-
Deferred tax liability	-	4,389,776	-	-	-	4,389,776
		<u>635,439,740</u>	<u>624,167,982</u>	<u>8,447</u>	<u>-</u>	<u>11,263,311</u>

Company	Effective interest rate	Total	6 months or less	6-12 months	More than 5 years	Non interest-bearing
<b>Assets</b>	(%)	£	£	£	£	£
Investments	-	12,501	-	-	12,501	-
Cash and cash equivalents	-	<u>1</u>	<u>1</u>	<u>-</u>	<u>-</u>	<u>-</u>
		<u>12,502</u>	<u>1</u>	<u>-</u>	<u>12,501</u>	<u>-</u>

<b>Company Liabilities</b>						
Current tax liability	-	<u>2,375</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,375</u>
		<u>2,375</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,375</u>

#### Fair values

The fair values together with the carrying amounts shown in the balance sheet are as follows

Group	Note	Carrying amount 2007	Fair value 2007
		£	£
Derivative financial instruments	14	23,104,084	23,104,084
Mortgage loan	6	624,167,982	621,444,460
Trade and other receivables	7	6,852,073	6,852,073
Cash and cash equivalents	8	65,921	65,921
Interest-bearing loans and borrowings	10	(624,167,982)	(624,359,087)
Interest payable	10	(6,293,134)	(6,293,134)
Trade and other payables	11	(580,401)	(580,401)
Current tax liability	5	(8,447)	(8,447)
Deferred tax liability	6	<u>(4,389,776)</u>	<u>(4,389,776)</u>
		<u>18,750,320</u>	<u>15,835,693</u>

The interest rate swaps have a principal notional value of £971,829,841 as at 31 March 2007

## DECO 8-UK CONDUIT 2 HOLDING LIMITED

### NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD FROM INCORPORATION ON 16 MARCH 2006 TO 31 MARCH 2007

#### 14 FINANCIAL INSTRUMENTS (Continued)

Company	Note	Carrying amount	Fair value
		2007	2007
		£	£
Investments	7	12,501	12,501
Cash and cash equivalents	10	1	1
Current tax liability	5	(2,375)	(2,375)
		<u>10,127</u>	<u>10,127</u>

#### Estimation of fair values

The Group has a number of interest rate swaps with a total notional principal value of £971,829,841, hedging the income stream from the mortgage loan with the payment on the floating rate loan notes

The following comments summarise the main methods and assumptions used in estimating the fair value of financial instruments that are reflected in the table above

The fair value of the mortgage loan has been approximated by using the combined fair values of the derivatives and the discounted cash flows of the floating rate notes. Cash and cash equivalents and interest-bearing loans and borrowings have been calculated using a discounted cash flow analysis. For other receivables and other payables, no calculation of fair value is prepared as their carrying amount is viewed as a reasonable approximation of fair value.

The fair value of the interest rate swaps and basis swaps between the Group and Deutsche Bank AG, London Branch are reflected as a derivative liability in the balance sheet of the Company as at 31 March 2007. The fair value of the interest rate swaps are determined by using a discounted cash flow analysis model that is consistent with commonly used market techniques. The fair value calculated using this technique is regularly compared with prices of similar instruments obtained in actual market transactions to ensure reliability. All inputs into valuation models adopted by the entity, including the sterling zero coupon yield curve used as the discount rate on the swap, are obtained from observable market data. The change in fair value that has been estimated using this valuation technique and has been recognised in the Income Statement for the period ended 31 March 2007 amounts to £23,104,084. The underlying cash flows are the relevant interest payments up to the maturity of the floating rate notes in 2018 and 2036.

#### 15. DERIVATIVE FINANCIAL INSTRUMENTS

The net fair values of derivative financial instruments at the balance sheet date were

	Group	Company
	2007	2007
	£	£
Interest rate swaps and basis swaps	<u>23,104,084</u>	<u>-</u>

The notional principal amount of the outstanding interest rate swap contracts at 31 March 2007 was £971,829,841. The Company pays a fixed rate ranging from 4.6% to 4.978% and receives 3-month LIBOR.

In accordance with IAS 39 'Financial instruments: Recognition and measurement', the Company has reviewed all contracts for embedded derivatives that are required to be separately accounted for if they do not meet certain requirements set out in the standard. In relation to the floating rate notes the Company has the ability to redeem the floating rate notes in full or part at their then principal amount outstanding, together with interest accrued to the date of redemption, on any interest payment date. The Company effectively has a call option on the floating rate notes exercisable on certain dates. The option constitutes an embedded derivative, however, as this is closely related to the underlying host contract (the floating rate notes) as set out in IAS 39, the option does not require separation.

## **DECO 8-UK CONDUIT 2 HOLDING LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE PERIOD FROM INCORPORATION ON 16 MARCH 2006 TO 31 MARCH 2007**

#### **15. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)**

In relation to the repayment of the floating rate notes, the Group has identified a hybrid instrument consisting of a debt contract and a credit derivative embedded in the debt contract. This arises because repayment of the floating rate notes is dependant on repayment of the mortgage loan, which in turn depends upon the lease payments and property sale proceeds arising from the property portfolio held by the chargors. However, the credit derivatives are regarded as closely related to the host contract and therefore do not require separation. A similar hybrid instrument consisting of a debt contract and a credit derivative embedded in the debt contract arises on the repayment of the Loan and, again, does not require separation.

The Group has the ability to redeem the floating rate notes in full or part at their then principal amount outstanding, together with interest accrued to the date of redemption, on any interest payment date. The Company effectively has a call option on the floating rate notes exercisable on certain dates. The option constitutes an embedded derivative, however, as this is closely related to the underlying host contract (the floating rate notes) as set out in IAS 39, the option does not require separation. A similar hybrid instrument arises on the mortgage loan whereby the Company has effectively sold a put option on the mortgage loan exercisable on certain dates. As this option is considered to be closely related to the underlying host contract, it does not require separation.

#### **16. RELATED PARTY TRANSACTIONS**

The Group is a special-purpose company controlled by its Board of directors, which comprises three directors, Wilmington Trust SP Services (London) Limited, Mr M H Filer and Mr J Traynor. Mr M H Filer, a director of the Company, is also a director of Wilmington Trust SP Services (London) Limited. The Group pays a corporate service fee to Wilmington Trust SP Services (London) Limited in connection with corporate services received. The fees payable to these directors for their services for the period ended on 31 March 2007 amounted to £8,784 including irrecoverable VAT.

#### **17. ULTIMATE PARENT UNDERTAKING**

Deco 8-UK Conduit 2 Holding Limited is a company registered in England and Wales.

Wilmington Trust SP Services (London) Limited holds one share in Deco 8-UK Conduit 2 Holding Limited under a declaration of trust for charitable purposes. The registered office of Wilmington Trust SP Services is given on page 1.

The Group is the smallest and largest group into which the Company is consolidated.