

Company Registration Number 05745753

DECO 8-UK CONDUIT 2 HOLDING LIMITED
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2011

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DECO 8–UK CONDUIT 2 HOLDING LIMITED
FOR THE YEAR ENDED 31 MARCH 2011

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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 3 rd Floor, 1 King's Arms Yard London EC2R 7AF
Auditor	Deloitte LLP London

DECO 8–UK CONDUIT 2 HOLDING LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 MARCH 2011

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 year ended 31 March 2011 with comparative figures for the year ended 31 March 2010

PRINCIPAL ACTIVITIES AND ENHANCED BUSINESS REVIEW

The Company's principal activity is to hold an investment in Deco 8 – UK Conduit 2 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 note holders 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 loans"), 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 indicators of the business are considered to be the net interest margin and impairments. During 2011, the Group achieved a net interest margin (net interest income divided by interest income) of 3.91% (2010 3.03%). At year-end, impairment against the mortgage loans was £12,618,123 (2010 £5,060,644). At the year end, the Group had net liabilities of £57,032,807 (2010 £54,738,100) due to fair value movement on derivatives and impairments made against the mortgage loans.

RESULTS AND DIVIDENDS

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

The loss of the Company for the year amounted to £2,294,707 (2010 £2,944,218 loss). The loss for the year was due to the impairment loss of £7,557,479 (2010 £5,060,644). The directors have not recommended a dividend (2010 £nil).

DIRECTORS

The directors who served the Company throughout the year were as follows:

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

PRINCIPAL RISKS AND UNCERTAINTIES

The directors acknowledge that the global macro-economic indicators and general business environment have improved in the year. However, market liquidity constraints, limited availability of credit and difficult trading conditions continue to pose significant challenges to all underlying businesses and borrowers with whom the Group has exposure through the mortgage loans as economic uncertainty continues to exist in global financial markets.

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 the interest bearing borrowings 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 YEAR ENDED 31 MARCH 2011

PRINCIPAL RISKS AND UNCERTAINTIES (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 pounds 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 maximum individual exposure to credit risk is considered to be Lea Valley Limited totalling £220,675,596 (2010 £220,675,596). At 31 March 2011, the gross amount outstanding on all mortgage loans was £559,694,458 (2010 £577,800,979). The mortgage loan portfolio consists of 14 loans secured over 62 properties (2010 17 loans secured over 65 properties).

Refinancing risk

The ability of a borrower to make timely payment of principal due on any loan on the relevant loan maturity date may be dependent upon that borrower's ability to refinance the loan. In the event a borrower cannot refinance before or at the loan maturity date, repayment may be delayed and in some circumstances the collateral which would be enforced and sold, or in the case that the charged property is sold at a value below the then outstanding principal of the loan, repayment of the loan may be made at below par. In such circumstances, the Group would be unable to repay certain classes of notes in full.

If in the event of the loans not being able to be repaid, the notes would be written down starting from the lowest class of note, G, to the highest class of note, A1.

Impairment

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset is impaired. A financial asset or portfolio of financial assets is impaired and an impairment loss incurred if there is objective evidence that an event or events since initial recognition of the asset have adversely affected the amount or timing of future cash flows from the asset.

During the year the K/S Focus loan, with an outstanding debt of £1,679,126 was fully impaired as a result of a new market value for the underlying property, an appraisal reduction by 99.6% has occurred. The other loans which have been impaired during the year, based on breaches of covenants and a reduction in the market value of the underlying properties, are MPH (UK) and Challenge & Wrencote. These loans comprise 0.71% and 0.54%, respectively of total loan assets. The total impairment provision charged in the year on these three loans was £7,557,479 (2010 £5,060,644).

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 Company being unable, on a temporary basis, to meet its financial commitments. The liquidity facility was renewed on 2 March 2011 to expire on 27 April 2012. The directors expect this facility to be renewed annually. Further discussion of the Company's approach to financial instruments is set out in note 13.

DECO 8-UK CONDUIT 2 HOLDING LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2011

FUTURE DEVELOPMENTS

The directors do not expect any significant changes in the operating activities of the Group or Company in the future

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.

AUDITOR

Deloitte LLP have expressed their willingness to continue in office as auditor and a resolution to re-appoint them as auditor for the ensuing year will be proposed at the next annual general meeting.

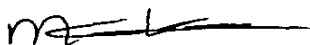
STATEMENT AS TO DISCLOSURE OF INFORMATION TO THE AUDITOR

The directors confirm that

- so far as the directors are aware, there is no relevant audit information of which the Company's auditor is unaware, and
- each of the directors have taken all steps that they ought to have as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Signed by order of the directors



Mignon Clarke for and on behalf of
WILMINGTON TRUST SP SERVICES (LONDON) LIMITED,
Director
Date 15 December 2011

DECO 8–UK CONDUIT 2 HOLDING LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT

FOR THE YEAR ENDED 31 MARCH 2011

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. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, International Accounting Standard 1 requires that directors

- 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 adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DECO 8-UK CONDUIT 2 HOLDING LIMITED

We have audited the financial statements of Deco 8-UK Conduit 2 Holding Limited for the year ended 31 March 2011 which comprise the consolidated statement of comprehensive income, the consolidated and company statements of financial position, the consolidated and company statements of changes in equity, the consolidated and company statements of cash flows and the related notes 1 to 17. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's 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 auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies with the audited financial statements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

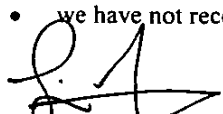
- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 31 March 2011 and of the group's loss for the year then ended,
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union,
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

- In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

- We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.



Simon Stephens, ACA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
15 December 2011

DECO 8–UK CONDUIT 2 HOLDING LIMITED**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME****FOR THE YEAR ENDED 31 MARCH 2011**


		2011 £	2010 £
Continuing operations	Notes		
Interest income	2	29,493,748	30,980,041
Interest expense	3	<u>(28,341,468)</u>	<u>(30,041,961)</u>
Net interest income		1,152,280	938,080
Fair value profit/(loss) on derivative financial instruments	14	5,259,954	2,101,607
Impairment to loans		<u>(7,557,479)</u>	<u>(5,060,644)</u>
Other operating expenses	4	<u>(1,149,329)</u>	<u>(934,982)</u>
Loss before tax for the year		(2,294,574)	(2,955,939)
Income tax (charge)/credit	5	<u>(133)</u>	<u>11,721</u>
Loss after tax for the year and total comprehensive loss for the year	10	<u><u>(2,294,707)</u></u>	<u><u>(2,944,218)</u></u>

The notes on pages 14 to 28 form part of these financial statements

DECO 8-UK CONDUIT 2 HOLDING LIMITED**CONSOLIDATED STATEMENT OF FINANCIAL POSITION****AS AT 31 MARCH 2011**

	Notes	2011 £	2010 £
Assets			
Non-current assets			
Mortgage loans	7	494,433,222	509,030,135
Current assets			
Mortgage loans	7	56,571,122	63,710,200
Trade and other receivables	8	5,164,754	5,246,507
Cash and cash equivalents	9	<u>468,243</u>	<u>1,191,413</u>
		<u>62,204,119</u>	<u>70,148,120</u>
Total assets		<u>556,637,341</u>	<u>579,178,255</u>
Equity			
Share capital	10	1	1
Retained losses	10	<u>(57,032,808)</u>	<u>(54,738,101)</u>
Total deficit		<u>(57,032,807)</u>	<u>(54,738,100)</u>
Non-current liabilities			
Interest-bearing loans	11	<u>507,051,345</u>	<u>514,090,779</u>
Total non-current liabilities		<u>507,051,345</u>	<u>514,090,779</u>
Current liabilities			
Interest-bearing loans	11	56,571,122	63,710,200
Accrued interest	11	1,740,176	975,921
Trade and other payables	12	3,660,565	5,339,249
Derivative financial instruments	14	44,539,185	49,799,139
Liquidity drawdown		106,973	-
Current tax liability		<u>782</u>	<u>1,067</u>
Total current liabilities		<u>106,618,803</u>	<u>119,825,576</u>
Total liabilities		<u>613,670,148</u>	<u>633,916,355</u>
Total equity and liabilities		<u>556,637,341</u>	<u>579,178,255</u>

These financial statements of Deco 8 – UK Conduit 2 Holding Limited, Company Registration 05745753 on pages 7 to 28 were approved by the directors and authorised for issue on 15 December 2011 and are signed on their behalf by

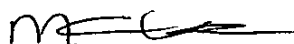

Mignon Clarke for and on behalf of
WILMINGTON TRUST SP SERVICES (LONDON) LIMITED
Director

The notes on pages 14 to 28 form part of these financial statements

DECO 8-UK CONDUIT 2 HOLDING LIMITED**COMPANY STATEMENT OF FINANCIAL POSITION****AS AT 31 MARCH 2011**

	Notes	2011 £	2010 £
Non-current asset			
Investment in subsidiary	6	<u>12,501</u>	<u>12,501</u>
Current assets			
Cash and cash equivalents	9	<u>1</u>	<u>1</u>
Total assets		<u>12,502</u>	<u>12,502</u>
Equity			
Share capital	10	1	1
Retained profit	10	<u>10,126</u>	<u>10,126</u>
Total equity		<u>10,127</u>	<u>10,127</u>
Current liabilities			
Other payable		2,375	2,375
Current tax liability		<u>-</u>	<u>-</u>
Total current liabilities		<u>2,375</u>	<u>2,375</u>
Total liabilities		<u>2,375</u>	<u>2,375</u>
Total equity and liabilities		<u>12,502</u>	<u>12,502</u>

These financial statements of Deco 8 – UK Conduit 2 Holding Limited, Company Registration 05745753 on pages 7 to 28 were approved by the directors and authorised for issue on 15 December 2011 and are signed on their behalf by



Mignon Clarke for and on behalf of
WILMINGTON TRUST SP SERVICES (LONDON) LIMITED
Director

The notes on pages 14 to 28 form part of these financial statements

DECO 8-UK CONDUIT 2 HOLDING LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2011

	Share Capital £	Retained loss £	Total equity £
Balance at 1 April 2009	1	(51,793,883)	(51,793,882)
Loss for the year	-	(2,944,218)	(2,944,218)
Other comprehensive income for the year 31 March 2010	-	-	-
Balance at 31 March 2010	<u>1</u>	<u>(54,738,101)</u>	<u>(54,738,100)</u>
	Share capital £	Retained earnings/(loss) £	Total equity £
Balance at 1 April 2010	1	(54,738,101)	(54,738,100)
Loss for the year	-	(2,294,707)	(2,294,707)
Other comprehensive income for the year 31 March 2011	-	-	-
Balance at 31 March 2011	<u>1</u>	<u>(57,032,808)</u>	<u>(57,032,807)</u>

The notes on pages 14 to 28 form part of these financial statements

DECO 8-UK CONDUIT 2 HOLDING LIMITED**COMPANY'S STATEMENT OF CHANGES IN EQUITY****FOR THE YEAR ENDED 31 MARCH 2011**

	Share Capital £	Retained earnings £	Total equity £
Balance at 1 April 2009	1	10,126	10,127
Loss for the year	-	-	-
Other comprehensive income for the year 31 March 2010	-	-	-
Balance at 31 March 2010	<u>1</u>	<u>10,126</u>	<u>10,127</u>

	Share capital £	Retained earnings/(loss) £	Total equity £
Balance at 1 April 2010	1	10,126	10,127
Loss for the year	-	-	-
Other comprehensive income for the year 31 March 2011	-	-	-
Balance at 31 March 2011	<u>1</u>	<u>10,126</u>	<u>10,127</u>

The notes on pages 13 to 28 form part of these financial statements

DECO 8-UK CONDUIT 2 HOLDING LIMITED
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2011

	Notes	2011 £	2010 £
Cash flows from operating activities			
Loss before tax for the year		(2,294,574)	(2,955,939)
<i>Adjustments for</i>			
Fair value movement on derivative financial instruments		(5,259,954)	(2,101,607)
Impairments to loans		7,557,479	5,060,644
Bank interest receivable	2	(908)	(648)
Decrease in trade and other receivables	8	81,753	232,061
(Decrease)/increase in trade and other payables	11,12	<u>(914,429)</u>	<u>602,149</u>
Net cash from operating activities		(830,633)	836,660
Tax paid		<u>(418)</u>	<u>(5,912)</u>
		(831,051)	830,748
Cash flows from investing activities			
Repayments of mortgage loans received during the year	7	14,178,512	10,535,783
Bank interest received	2	<u>908</u>	<u>648</u>
Net cash from investing activities		14,179,420	10,536,431
Cash flows used in financing activities			
Liquidity facility drawdown		106,973	-
Repayments of interest bearing loan notes during the year	11	<u>(14,178,512)</u>	<u>(10,535,783)</u>
Net cash used in financing activities		<u>(14,071,539)</u>	<u>(10,535,783)</u>
Net (decrease)/increase in cash and cash equivalents		(723,170)	831,396
Cash and cash equivalents at beginning of year		<u>1,191,413</u>	<u>360,017</u>
Cash and cash equivalents at 31 March 2011	9	<u><u>468,243</u></u>	<u><u>1,191,413</u></u>

(As explained in the accounting policies note on page 16, the cash is not freely available to be used)

DECO 8–UK CONDUIT 2 HOLDING LIMITED

COMPANY STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2011

	Notes	2011 £	2010 £
Cash flows from operating activities			
Profit before tax for the year		<u>-</u>	<u>-</u>
Net cash from operating activities		-	-
Net cash used in investing activities		-	-
Net cash from financing activities		<u>-</u>	<u>-</u>
Net increase in cash and cash equivalents		-	-
Cash and cash equivalents at beginning of year		<u>1</u>	<u>1</u>
Cash and cash equivalents at 31 March 2011	9	<u><u>1</u></u>	<u><u>1</u></u>

DECO 8-UK CONDUIT 2 HOLDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2011

1. SIGNIFICANT ACCOUNTING POLICIES

Deco 8-UK Conduit 2 Holding Limited is a Company incorporated in Great Britain under the Companies Act 2006 and domiciled in England

Statement of compliance

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union

The accounting policies set out below have been applied in respect of the financial year ended 31 March 2011 and for the previous financial year

Basis of preparation

The financial statements are presented in Pounds Sterling. The financial statements have been prepared on the historical cost basis as modified for the revaluation of certain financial instruments under IAS 39 Financial Instruments: Recognition and Measurement.

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 statement of comprehensive income.

Basis of preparation – going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position and its principal uncertainties are set out in the Directors' Report on pages 2 and 3. In addition, note 13 to the financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposures to credit risk and liquidity risk.

The Group has a net liability position on the balance sheet due to the cumulative impairment on the loans and the fair value movement of the derivatives. However, the terms of the loan notes issued by the Group and associated securitisation arrangements are such that amounts due are only payable to the extent that there are sufficient receipts from the Group's assets. As a consequence, the directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Company statement of comprehensive income

As permitted by section 408 of the Companies Act 2006, the Company's statement of comprehensive income has not been included in these financial statements. The Company's result for the financial year was £nil (2010: £nil).

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.

DECO 8-UK CONDUIT 2 HOLDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2011

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 interest-bearing borrowings are classified in accordance with the principles of IAS 39 *Financial Instruments: Recognition and Measurement* as described below.

Mortgage loans

The mortgage loans and interest receivable thereon are classified as loans and receivables. 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.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Deferred consideration

A deferred consideration charge is included in interest expense. Deferred consideration is payable to the Class X certificates holders dependent on the extent to which the surplus income, in excess of the agreed margin, generated by the mortgage loans in which the Company has purchased an interest, exceeds the administration costs of the mortgage loans. Deferred consideration is recognised on an accruals basis.

DECO 8-UK CONDUIT 2 HOLDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2011

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Cash and cash equivalents are classified as loans and receivables.

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

Derivative financial instruments are classified as at fair value through profit and loss. 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 statement of comprehensive income.

The fair value of interest rate swaps and basis swaps is the estimated amount that the Group 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 statement of comprehensive income.

Interest-bearing loans

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

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 statement of comprehensive income. Depending on the classification of the host instrument, the host is then measured in accordance with IAS 39.

Interest income and expense

Interest income on financial assets that are classified as loans and receivables and interest expense on financial liabilities other than those at fair value through profit or loss is determined using the effective interest rate method. The effective interest rate method is a method of calculating the amortised cost of a financial asset or financial liabilities and of allocating the interest income or interest expense over the expected life of the asset or liability. The effective interest rate is the rate that exactly discounts estimated future cash flows to the instrument's initial carrying amount.

Value added tax

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

DECO 8-UK CONDUIT 2 HOLDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2011

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 statement of comprehensive income 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.

Standards issued but not adopted

The adoption of Standards and Interpretations issued by the International Accounting Standards Board (IASB) that were effective for the current year has not had a material impact on the financial statements of the Company. At the date of authorisation of these financial statements, the following Standards and Interpretations, which have not been applied in these financial statements, were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

Name of new Standards/amendments	Effective date
Amendments to IAS 1 (June 2011) - Presentation of Items of Other Comprehensive Income	Accounting periods beginning on or after 1 July 2012
IAS 24 (Amendment) - Related Party Disclosures	Accounting periods beginning on or after 1 January 2011
Improvements to IFRSs 2010 (May 2010)	Accounting periods beginning on or after 1 January 2011
IFRS 9 - Financial Instruments	Accounting periods beginning on or after 1 January 2013
IFRS 13 - Fair Value Measurement	Accounting periods beginning on or after 1 January 2013

The directors are currently considering the potential impact of the adoption of IFRS 9 and IFRS 13 on the financial statements of the Company, but the Company does not believe that the adoption at any time in the future of the remaining Standards above will have any material impact on the amounts reported in these financial statements.

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. As such the entity has one reportable operating segment and geographical area. 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.

DECO 8-UK CONDUIT 2 HOLDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2011

2. INTEREST INCOME

	2011 Group £	2010 Group £
Income from mortgage loans	29,492,840	30,979,393
Net swap interest receivable	-	-
Bank interest received	908	648
	<u>29,493,748</u>	<u>30,980,041</u>

3. INTEREST EXPENSE

	2011 Group £	2010 Group £
Interest on loan notes	6,994,559	8,126,898
Net swap interest payable	19,761,541	20,126,122
Deferred consideration	1,585,368	1,788,941
	<u>28,341,468</u>	<u>30,041,961</u>

4. OPERATING EXPENSES

	2011 Group £	2010 Group £
Administration and cash management fees	1,102,457	891,769
Audit fees for the audit of the Company's accounts	2,350	2,350
Audit fees for audit of subsidiary's accounts	25,955	25,226
Tax fees paid to the auditor for taxation services provided	8,225	5,901
Corporate services fees	10,342	9,736
	<u>1,149,329</u>	<u>934,982</u>

Other than the fees received for the provision of corporate services as detailed in note 15, the directors received no emoluments for their services as directors to the Group during the period. The directors had no material interest in any contract of significance in relation to the business of the Group (2010: none). The Group did not have any employees in the current year or in the previous year.

5. INCOME TAX EXPENSE

The subsidiary, Deco 8-UK Conduit 2 Plc, has elected to be taxed under the Taxation of Securitisation Companies 2006 (Regulations). Corporation tax is therefore calculated by reference to the profit of the securitisation company required to be retained in accordance with the relevant capital market arrangement.

The directors are satisfied that the subsidiary meets the definition of a 'securitisation company' as defined by both The Finance Act 2005 and the subsequent secondary legislation and that no incremental unfunded tax liabilities will arise.

The subsidiary is therefore taxed by reference to the profit required to be retained in accordance with the pre-enforcement priority of payments as defined in the terms and conditions of the loan notes.

	2011 Group £	2011 Company £	2010 Group £	2010 Company £
Current tax.				
Corporation tax charge for the year at a rate of 21%	619	-	651	-
Adjustment to the prior year	(486)	-	(12,372)	-
Total income tax charge in statement of comprehensive income	<u>133</u>	<u>-</u>	<u>(11,721)</u>	<u>-</u>

DECO 8-UK CONDUIT 2 HOLDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2011

5 INCOME TAX EXPENSE (CONTINUED)

Reconciliation of total tax charge	2011 Group £	2011 Company £	2010 Group £	2010 Company £
The tax assessed for the period is at the small companies rate of corporation tax in the UK of 21%				
Loss before tax	<u>(2,294,574)</u>	<u>-</u>	<u>(2,955,939)</u>	<u>-</u>
Loss before tax multiplied by the standard rate of corporation tax in the UK 21%	(481,861)	-	(620,747)	-
Adjustment in respect of the prior year	(486)	-	(12,372)	-
Permanent differences relating to application of Taxation of Securitisation Companies Regulations 2006	<u>482,347</u>	<u>-</u>	<u>621,398</u>	<u>-</u>
Total tax charge reported in the Statement of comprehensive income	<u>133</u>	<u>-</u>	<u>(11,721)</u>	<u>-</u>

6. INVESTMENT IN SUBSIDIARY

Company	2011 £	2010 £
At 1 April 2010 and 31 March 2011	<u>12,501</u>	<u>12,501</u>

The shares were purchased at par for cash consideration of £12,501 and the net assets of the subsidiary were £12,501 at this date (comprising only cash on issuance of shares), hence no goodwill arose on acquisition. In the opinion of the directors, the aggregate value of the Company's investment in subsidiary undertakings is not less than the amount included in the balance sheet.

Shares in group undertakings

The Company has the following interests in group undertakings

Subsidiary undertakings	Country of incorporation	Class of shares	Holding (%)
Deco 8 – UK Conduit 2 Plc	Great Britain	Ordinary	99.98

Principal activity

Deco 8 – UK Conduit 2 Plc was established as a special purpose vehicle for the sole purpose of issuing commercial mortgage-backed loan notes secured by a pool of commercial mortgages.

7. MORTGAGE LOANS

Group	2011 £	2010 £
At the start of year	572,740,335	588,336,762
Redemptions	(14,178,512)	(10,535,783)
Impairments	<u>(7,557,479)</u>	<u>(5,060,644)</u>
At 31 March	<u>551,004,344</u>	<u>572,740,335</u>
The balance can be analysed as follows		
Current assets	56,571,122	63,710,200
Non-current assets	<u>494,433,222</u>	<u>509,030,135</u>
	<u>551,004,344</u>	<u>572,740,335</u>

DECO 8-UK CONDUIT 2 HOLDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2011

7. MORTGAGE LOANS (CONTINUED)

The mortgage loans are due for repayment between April 2011 and April 2016. At 31 March 2011, the fixed rate of interest on the mortgage loans ranged from 5.3756% to 6.33% (2010: 5.3756% to 6.33%). The loan is secured over commercial properties in the UK.

The Servicer, Deutsche Bank, AG London Branch is responsible for monitoring compliance with the loan to value and coverage covenants in accordance with the servicing agreement dated 4 October 2005. At its sole discretion it has the ability to call for a revaluation of the mortgage property.

During the year the K/S Focus loan was fully provided with an outstanding gross debt of £3,928,025 as a result of a revised property valuation. The opening provision on this loan was £1,679,126 and a further £2,248,899 was impaired in the year. The Rowan (UK) Commercial Property loan, with an opening provision of £1,599,016, was further impaired by £3,547,664 due to a decrease in the market value of the underlying property. The other loans which have been impaired during the year, based on breaches of covenants and a reduction in the market value of the underlying properties, are the MPH (UK) and Challenge & Wrencote loans. These loans comprise 0.71% and 0.54%, respectively of total loan assets. MPH (UK) had an opening provision of £1,782,502 and the total impairment provision charged in the year on these loans was £1,760,916.

8. TRADE AND OTHER RECEIVABLES

	Group 2011 £	Company 2011 £	Group 2010 £	Company 2010 £
Other debtors	21,303	-	23,603	-
Prepayments and accrued income	<u>5,143,451</u>	<u>-</u>	<u>5,222,904</u>	<u>-</u>
	<u>5,164,754</u>	<u>-</u>	<u>5,246,507</u>	<u>-</u>

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

9. 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 2011 £	Company 2011 £	Group 2010 £	Company 2010 £
Cash and cash equivalents	<u>468,243</u>	<u>1</u>	<u>1,191,413</u>	<u>1</u>

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 YEAR ENDED 31 MARCH 2011

10. TOTAL EQUITY

Group	Issued share capital £	Retained losses £	Total £
Balance at 31 March 2009	1	(51,793,883)	(51,793,882)
Loss after tax for the year	-	(2,944,218)	(2,944,218)
Balance at 31 March 2010	1	(54,738,101)	(54,738,100)
Loss after tax for the year	-	(2,294,707)	(2,294,707)
Balance at 31 March 2011	1	(57,032,808)	(57,032,807)

Company	Issued share capital £	Retained profit £	Total £
Balance at 31 March 2009	1	10,126	10,127
Profit after tax for the year	-	-	-
Balance at 31 March 2010	1	10,126	10,127
Profit after tax for the year	-	-	-
Balance at 31 March 2011	1	10,126	10,127

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.

11. 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 13.

	Group 2011 £	Group 2010 £
Non-current liabilities		
Loan notes	<u>507,051,345</u>	<u>514,090,779</u>
	<u>507,051,345</u>	<u>514,090,779</u>
Current liabilities		
Loan notes	56,571,122	63,710,200
Interest payable on loan notes	1,740,176	975,921
Liquidity drawdown	<u>106,973</u>	-
	<u>58,418,271</u>	<u>64,686,121</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 Company. The facility is in place to allow the Company to meet its obligations should there be a shortfall in the revenue or principal received from the mortgage loans. 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 1.089% per annum. This fee would increase on any drawn balance. The liquidity facility is secured by way of fixed and floating charges over the Company's assets including the mortgage loans.

DECO 8-UK CONDUIT 2 HOLDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2011

11. INTEREST-BEARING LOANS (Continued)

The loan notes are denominated in the following currencies

	2011 £	2010 £
Sterling	<u>559,694,458</u>	<u>577,800,979</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 £134,818,058 (2010: £148,996,570) in respect of the Class A1 notes was outstanding, £255,808,228 (2010: £255,808,228) in respect of Class A2 notes, £32,300,026 (2010: £32,300,026) in respect of Class B notes, £33,895,089 (2010: £33,895,089) in respect of Class C notes, £23,427,488 (2010: £23,427,488) in respect of the Class D notes, £60,911,468 (2010: £60,911,468) in respect of Class E notes, £14,156,184 (2010: £14,156,184) in respect of F notes and £8,305,926 (2010: £8,305,926) 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.

12. TRADE AND OTHER PAYABLES

	Group 2011 £	Company 2011 £	Group 2010 £	Company 2010 £
Current liabilities				
Other payable	-	2,375	-	2,375
Accruals and deferred income	<u>3,660,565</u>	<u>-</u>	<u>5,339,249</u>	<u>-</u>
	<u>3,660,565</u>	<u>2,375</u>	<u>5,339,249</u>	<u>2,375</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 YEAR ENDED 31 MARCH 2011

13. PRINCIPAL RISK AND UNCERTAINTIES

Financial risk management

The Group's financial instruments, other than derivatives, comprise mortgage loans, cash and liquid resources, interest-bearing borrowings and various receivables and payables that arise directly from its operations. The Group also enters into derivative transactions (principally interest rate swaps). The purpose of such transactions is to manage the interest rate risks 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.

The principal risk and uncertainties are set out in the Directors' Report on pages 2 to 3.

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 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 the mortgage loans to Lea Valley Limited totalling £220,675,596 (2010: £220,675,596). The maximum exposure to credit risk is the balance sheet amount.

The credit quality of the underlying mortgage loans is summarised as follows:

	31 March 2011 £	31 March 2010 £
Neither past due nor impaired	537,582,107	569,829,042
Impaired	<u>26,040,360</u>	<u>7,971,937</u>
	563,622,467	577,800,979
Less: allowance for impairment	<u>(12,618,123)</u>	<u>(5,060,644)</u>
	<u>551,004,344</u>	<u>572,740,335</u>

With regard to credit risk on derivatives, the directors monitor the credit rating of the swap provider and in case of any downgrade may require the swap provider to provide sufficient collateral or transfer its obligations to another bank of the better credit rating.

Interest rate risk profile of financial liabilities

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. Interest rate swaps have been entered into with Deutsche Bank AG to manage the Group's exposure to interest rate risk associated with the mortgage loans. This is to reduce interest rate risk as a result of the possible variance between the fixed rate of interest receivable on the mortgage loans and the variable rate of interest payable on the floating rate loan notes.

DECO 8-UK CONDUIT 2 HOLDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2011

13. PRINCIPAL RISK AND UNCERTAINTIES (Continued)

Interest rate sensitivity

The sensitivity of the Company to interest rate changes, and the resulting changes in net assets attributable to equity shareholders, is limited as the Group uses interest rate swaps to mitigate the risk and only retains 0.01% of available revenue receipts from the beneficial interest in the mortgage portfolio

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

During the year ended 31 March 2011 this facility was used to draw down £452,575 and the full amount was repaid before the year end except for £106,973 which was paid after year end. The liquidity facility was renewed on 2 March 2011 to expire on 27 April 2012. The directors expect this facility to be renewed annually.

The tenor of the floating rate notes is designed to match the term of the limited recourse notes and hence, there are deemed to be limited liquidity risks facing the Group.

The table below reflects the undiscounted contractual cash flows of financial liabilities at the balance sheet date of non-derivative financial instruments

As at 31 March 2011	Carrying value	Gross cash flows	After 1 month but within 3 months	After 3 months but within one year	After 1 year but within 5 years	After 5 years
	£	£	£	£	£	£
Notes	559,694,458	559,694,458	19,044,214	37,526,908	117,241,503	385,881,833
Liquidity draw down	106,973	106,973	106,973	-	-	-
Interest payable on notes	<u>1,740,176</u>	<u>60,402,291</u>	<u>1,948,461</u>	<u>5,845,383</u>	<u>31,175,376</u>	<u>21,433,071</u>
Total non-derivative financial instruments	<u>561,541,607</u>	<u>620,203,722</u>	<u>21,099,648</u>	<u>43,372,291</u>	<u>148,416,879</u>	<u>407,314,904</u>

As at 31 March 2010	Carrying value	Gross cash flows	After 1 month but within 3 months	After 3 months but within one year	After 1 year but within 5 years	After 5 years
	£	£	£	£	£	£
Notes	577,800,979	577,800,979	2,015,698	61,694,502	335,460,342	178,630,437
Interest payable on notes	<u>975,921</u>	<u>44,613,536</u>	<u>1,394,173</u>	<u>4,182,519</u>	<u>22,306,768</u>	<u>16,730,076</u>
Total non-derivative financial instruments	<u>578,776,900</u>	<u>622,414,515</u>	<u>3,409,871</u>	<u>65,877,021</u>	<u>357,767,110</u>	<u>195,360,513</u>

The redemption of the notes is dependent on the receipt of payments on the loan notes. In accordance with the respective Prospectus for each of the notes, Class A notes will be redeemed in priority to redemption of the remaining classes of notes followed by Class B, C, D, E and G. Interest payable on floating rate notes was estimated based on the floating rate amounts as at 31 March 2011.

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for the shareholder and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 11 and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in the balance sheet.

DECO 8-UK CONDUIT 2 HOLDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2011

13. PRINCIPAL RISK AND UNCERTAINTIES (Continued)

Fair values

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

Group	Notes	Carrying amount 2011 £	Fair value 2011 £	Carrying amount 2010 £	Fair value 2010 £
Mortgage loan	7	551,004,344	441,916,599	572,740,335	373,089,510
Trade and other receivables	8	5,164,754	5,164,754	5,246,507	5,246,507
Cash and cash equivalents	9	468,243	468,243	1,191,413	1,191,413
		<u>556,637,341</u>	<u>447,549,596</u>	<u>579,178,255</u>	<u>379,527,430</u>
Group					
Interest-bearing loans	11	563,622,467	397,377,414	577,800,979	323,705,020
Interest payable	11	1,740,176	1,740,176	975,921	975,921
Liquidity draw down		106,973	106,973	-	-
Trade and other payables	12	3,660,565	3,660,565	5,339,249	5,339,249
Derivative financial instruments	14	44,539,185	44,539,185	49,799,139	49,799,139
Current tax liability		782	782	1,067	1,067
		<u>613,670,148</u>	<u>447,425,095</u>	<u>633,916,355</u>	<u>379,820,396</u>
Company					
	Notes	Carrying amount 2011 £	Fair value 2011 £	Carrying amount 2010 £	Fair value 2010 £
Investments	6	12,501	12,501	12,501	12,501
Cash and cash equivalents	9	1	1	1	1
		<u>12,502</u>	<u>12,502</u>	<u>12,502</u>	<u>12,502</u>
Intercompany balance		2,375	2,375	2,375	2,375
		<u>2,375</u>	<u>2,375</u>	<u>2,375</u>	<u>2,375</u>

Fair value hierarchy

Categorisation within the hierarchy has been determined on the basis of the lowest level input that is significant to the fair value measurement of the relevant asset or liability as follows

Level 1 - valued using quoted prices in active markets for identical assets or liabilities

Level 2 - valued by reference to valuation techniques using observable inputs other than quoted prices included within Level 1

Level 3 - valued by reference to valuation techniques using inputs that are not based on observable market data. The valuation techniques used by the company are explained in the accounting policies note

The only financial instruments held at fair value on the balance sheet are derivatives. The derivatives all fall within the level 2 fair value hierarchy. The fair value of the derivatives is determined by discounting the future cash flows using the applicable yield curves derived from quoted interest rates

Effective interest rates and repricing analysis

The following table details the Company's exposure to interest rate risk by the earlier of contractual maturities or re-pricing

As at 31 March 2011

Financial liabilities through profit or loss account	Total £	Level 1 £	Level 2 £	Level 3 £
Derivative financial instruments	<u>44,539,185</u>	<u>-</u>	<u>44,539,185</u>	<u>-</u>

DECO 8-UK CONDUIT 2 HOLDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2011

13. PRINCIPAL RISK AND UNCERTAINTIES (Continued)

As at 31 March 2010

Financial liabilities through profit or loss account	Total £	Level 1 £	Level 2 £	Level 3 £
Derivative financial instruments	<u>49,799,139</u>	<u>-</u>	<u>49,799,139</u>	<u>-</u>

Group 31 March 2011	Effective interest rate (%)	1 to 3 months £	Non interest -bearing £	Fixed rate	Total £
Assets					
Mortgage loan	5.56	-	-	551,004,344	551,004,344
Trade and other receivables		-	5,164,754	-	5,164,754
Cash and cash equivalents		<u>468,243</u>	<u>-</u>	<u>-</u>	<u>468,243</u>
		<u>468,243</u>	<u>5,164,754</u>	<u>551,004,344</u>	<u>556,637,341</u>

Liabilities					
Interest bearing loans	1 12	563,622,467	-	-	563,622,467
Interest payable		-	1,740,176	-	1,740,176
Trade and other payables		-	3,660,565	-	3,660,565
Derivative financial instruments		44,539,185	-	-	44,539,185
Liquidity drawdown		106,973	-	-	106,973
Current tax liability		-	782	-	782
		<u>608,268,625</u>	<u>5,401,523</u>	<u>-</u>	<u>613,670,148</u>

Group 31 March 2010	Effective interest rate (%)	1 to 3 months £	Non interest -bearing £	Fixed rate	Total £
Assets					
Mortgage loan	5 61	-	-	572,740,335	572,740,335
Trade and other receivables		-	5,246,507	-	5,246,507
Cash and cash equivalents		<u>1,191,413</u>	<u>-</u>	<u>-</u>	<u>1,191,413</u>
		<u>1,191,413</u>	<u>5,246,507</u>	<u>572,740,335</u>	<u>579,178,255</u>

Liabilities					
Interest bearing loans	1 71	577,800,979	-	-	577,800,979
Interest payable		-	975,921	-	975,921
Trade and other payables		-	5,339,249	-	5,339,249
Derivative financial instruments		49,799,139	-	-	49,799,139
Current tax liability		-	1,067	-	1,067
		<u>627,600,118</u>	<u>6,316,237</u>	<u>-</u>	<u>633,916,355</u>

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FOR THE YEAR ENDED 31 MARCH 2011

13. PRINCIPAL RISK AND UNCERTAINTIES (Continued)

	1 to 3 months	Non interest - bearing	Total
Company			
31 March 2011			
Assets	£	£	£
Investments	-	12,501	12,501
Cash and cash equivalents	<u>1</u>	<u>-</u>	<u>1</u>
	<u><u>1</u></u>	<u><u>12,501</u></u>	<u><u>12,502</u></u>
Liabilities			
Other payable	<u>-</u>	<u>2,375</u>	<u>2,375</u>
	<u><u>-</u></u>	<u><u>2,375</u></u>	<u><u>2,375</u></u>
Company	1 to 3 months	Non interest - bearing	Total
31 March 2010			
Assets	£	£	£
Investments	-	12,501	12,501
Cash and cash equivalents	<u>1</u>	<u>-</u>	<u>1</u>
	<u><u>1</u></u>	<u><u>12,501</u></u>	<u><u>12,502</u></u>
Liabilities			
Current tax liability	<u>-</u>	<u>2,375</u>	<u>2,375</u>
	<u><u>-</u></u>	<u><u>2,375</u></u>	<u><u>2,375</u></u>

14. DERIVATIVE FINANCIAL INSTRUMENTS

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

	Group 2011	Company 2011	Group 2010	Company 2010
	£	£	£	£
Interest rate swaps and basis swaps	<u>(44,539,185)</u>	<u>-</u>	<u>(49,799,139)</u>	<u>-</u>

The Company pays a fixed rate ranging from 4.6% to 4.978% (2010 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. 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.

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15. RELATED PARTY TRANSACTIONS

The Group is a special-purpose vehicle controlled by its Board of directors, which comprises three directors, Wilmington Trust SP Services (London) Limited, Mr J Traynor, and Mr M H Filer. 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 year ended on 31 March 2011 amounted to £10,749 (2010 £9,736) including irrecoverable VAT. At the end of year, an amount of £1,733 (2010 £2,139) was outstanding and is included within current liabilities: trade and other payables.

During the year, accounting services amounting to £4,200 (2010 £4,200) were charged by Wilmington Trust SP Services (London) Limited. At 31 March 2011, an amount of £8,400 (2010 £4,113) was outstanding and disclosed within current liabilities: trade and other payables.

16. 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.

17. POST BALANCE SHEET EVENT

There were no significant post balance sheet events to report.