

ABBEY NATIONAL HOMES LIMITED
REPORT AND ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2003
Registered No. 2055102



ABBEY NATIONAL HOMES LIMITED

Report of the Directors

The Directors submit their report together with the audited accounts for the year ended 31 December 2003.

1. Principal activity and review of the year

The principal activity of the company continues to be the development and sale of residential properties. The Directors envisage that the principal activity of the company will not change and will continue for the foreseeable future.

2. Results and Dividend

The results for the year are set out on page 5. The loss of £88,680 (2002 – £70,011) will be transferred from reserves. The Directors do not recommend the payment of a dividend (2002 - £nil).

3. Directors and their interests

The Directors who served throughout the year, except as noted below, were:

| | |
|--------------------|----------------------------|
| Mr D Y H Gilchrist | |
| Mr J Cornie | Resigned 30 September 2003 |
| Mrs A P Dixon | |
| Mr R V Jones | Appointed 5 November 2003 |

Since the year end Mr J F O'Mahoney was appointed a director on 7 April 2004 and Mrs A P Dixon resigned on 7 April 2004.

None of the Directors had any interests in the shares of the company at the year end. The Directors' interests in the shares of the ultimate holding company, Abbey National plc, were as follows:

Ordinary shares 10p each

| Directors | As at 1 January 2003 or at date of appointment if later | Shares acquired during the year or since appointment if later | Shares disposed of during the year or since appointment if later | As at 31 December 2003 |
|--------------------|---|--|---|---------------------------|
| Mr D Y H Gilchrist | 666 | 290 | - | 956 |
| Mrs A P Dixon | - | - | - | - |
| Mr R V Jones | 1,075 | - | - | 1,075 |

Option schemes - ordinary shares 10p each

| Directors | As at 1 January 2003 or at date of appointment if later | Options granted during the year or since appointment if later | Options exercised during the year or since appointment if later | As at 31 December 2003 |
|--------------------|---|--|--|---------------------------|
| Mr D Y H Gilchrist | 4,993 | 23,592 | - | 28,585 |
| Mrs A P Dixon | 4,064 | 5,367 | 3,289 | 6,142 |
| Mr R V Jones | 3,311 | - | - | 3,311 |

ABBEY NATIONAL HOMES LIMITED

Report of the Directors (continued)

Options granted to Directors under the Abbey National Sharesave Scheme are exercisable at prices between 306 pence and 337 pence per share within six months of the third, fifth or seventh anniversary of the contract start date. Options granted under the Executive Share Option Scheme and Employee Share Option Schemes are exercisable at prices between 373 pence and 543 pence per share after three years or five years and before ten years from the date of grant.

Shares in respect of Executive Share Options granted in 2003 are held by the Abbey National ESOP Trust (the "Trust"). Whilst the Directors' interests in these shares (if any) are included above, each of the Directors of the company is a potential beneficiary of the Trust and is therefore deemed to have an interest in the shares held by the Trust. At 31 December 2003 the Trust held 7,694,620 ordinary shares (2002 – 8,639,158 shares).

Abbey National also operates a Share Matching Scheme and a Partnership Share Scheme under its Employee Share Option Scheme.

Under the Share Matching Scheme all eligible employees who are invited to participate can choose to use all or part of their annual bonus to buy shares under the Scheme. Abbey National grants matching awards over shares ("matching shares") equal in value to the amount of the bonus before tax that the employee uses to buy the shares. These will normally vest on the third anniversary of the date on which they are granted, as long as specified performance conditions are met. The shares automatically transfer to the individual as and when they vest.

The Partnership Share Scheme available to all eligible employees, including the directors named above was terminated on 31 May 2003. Under this scheme, participants made 12 monthly contributions up to a maximum of £1,500 per annum, to acquire shares in Abbey National Plc. These shares were purchased at their market value on 3 June 2003. The number of shares which may be acquired under this scheme, calculated on the basis of the maximum contribution and the share price on 3 June 2003 (519.5p) was 288 shares.

Shares awarded under the Abbey National Long Term Incentive Plan (the "Plan") are held by the Abbey National Employee Trust (the "Employee Trust"). Whilst the Plan is currently restricted to members of the Abbey National plc Executive Committee, each of the Directors of the company is a potential beneficiary of the Employee Trust and is therefore deemed to have an interest in the shares held by the Employee Trust. At 31 December 2003, the Employee Trust held 1,580,736 ordinary shares (2002 – 1,559,738 shares).

4. Directors' responsibilities in respect of the preparation of accounts

The Directors are required by United Kingdom company law to prepare accounts for each financial year that give a true and fair view of the state of affairs of the company as at the end of the financial year and the profit or loss for that period.

The Directors confirm that suitable accounting policies have been used and applied consistently and that reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 December 2003. The Directors also confirm that applicable accounting standards have been followed and that the statements have been prepared on the going concern basis.

The Directors are responsible for keeping proper accounting records which 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 1985. They are also responsible for the company's system of internal control and for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

ABBEY NATIONAL HOMES LIMITED

Report of the Directors (continued)

5. Auditors

The company has elected to dispense with the obligation to appoint auditors annually and, accordingly, Deloitte & Touche LLP shall be deemed to be re-appointed as auditors for a further term under the provisions of section 386(2) of the Companies Act 1985.

By order of the Board

Helen McKenzie

For and on behalf of
Abbey National Secretariat Services Limited, Secretary

7 OCTOBER 2004

Registered Office:
Abbey National House
2 Triton Square
Regent's Place
London
NW1 3AN

ABBEY NATIONAL HOMES LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ABBEY NATIONAL HOMES LIMITED

We have audited the financial statements of Abbey National Homes Limited for the year ended 31 December 2003 which comprise the profit and loss account, the balance sheet, and the related notes 1 to 18. 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

As described in the statement of Directors' responsibilities, the company's Directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

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 if, in our opinion, the Directors' report is not consistent with the financial statements, if 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 transactions with the company is not disclosed.

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

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2003 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche LLP

Chartered Accountants and Registered Auditors
London

Date: 27 September 2004

ABBEY NATIONAL HOMES LIMITED**Profit and loss account****For the year ended 31 December 2003**

| | Notes | 2003 £ | 2002 £ |
|--|-------|---------------------|---------------------|
| Administrative expenses | 2 | (3,150) | (3,374) |
| Other income | 3 | 39,175 | 114,832 |
| OPERATING PROFIT | | <u>36,025</u> | <u>111,458</u> |
| Interest receivable | 4 | 90,721 | 64,674 |
| Interest payable | 5 | (253,430) | (276,147) |
| LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION | 6 | <u>(126,684)</u> | <u>(100,015)</u> |
| Tax credit on loss on ordinary activities | 7 | <u>38,004</u> | <u>30,004</u> |
| LOSS ON ORDINARY ACTIVITIES AFTER TAXATION | 13 | <u>(88,680)</u> | <u>(70,011)</u> |
| Profit and loss account brought forward | | <u>(35,630,586)</u> | <u>(35,560,575)</u> |
| Profit and loss account carried forward | | <u>(35,719,266)</u> | <u>(35,630,586)</u> |

There are no recognised gains or losses in either the current or previous financial years other than the loss for the financial year and the loss for the prior year therefore no statement of total recognised gains and losses is required.

There is no difference between the loss on ordinary activities before taxation and the retained loss for the year stated above and their historical cost equivalents.

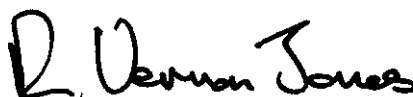
All transactions are derived from continuing operations.

ABBEY NATIONAL HOMES LIMITED**Balance sheet****As at 31 December 2003**

| | Notes | 2003 £ | 2002 £ |
|--|-------|---------------------|---------------------|
| CURRENT ASSETS | | | |
| Debtors | 8 | 2,154,824 | 2,335,719 |
| Cash at bank | | <u>3,943,858</u> | <u>3,850,368</u> |
| | | 6,098,682 | 6,186,087 |
| CREDITORS - amounts falling due within one year | | | |
| | 10 | <u>(41,817,848)</u> | <u>(41,816,573)</u> |
| NET CURRENT LIABILITIES | | <u>(35,719,166)</u> | <u>(35,630,486)</u> |
| CAPITAL and RESERVES | | | |
| Called up share capital | 12 | 100 | 100 |
| Profit and loss account | | <u>(35,719,266)</u> | <u>(35,630,586)</u> |
| EQUITY SHAREHOLDERS' DEFICIT | 13 | <u>(35,719,166)</u> | <u>(35,630,486)</u> |

The financial statements on pages 5 to 11 were approved by the Board of Directors on : 27 SEPTEMBER 2004

Signed on behalf of the Board of Directors



Director

ABBEY NATIONAL HOMES LIMITED

Notes to the accounts for the year ended 31 December 2003

1. Accounting policies

Basis of accounting

The accounts are prepared under the historical cost convention and in accordance with applicable United Kingdom law and accounting standards. The particular accounting policies adopted are described below.

- (1) Interest receivable is calculated on an accruals basis.
- (2) Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.
A net deferred tax asset is regarded as recoverable and therefore recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.
Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date.
Deferred tax is measured on a non-discounted basis.
- (3) Provisions are established for liabilities and charges where it is considered that the company has present obligations from past events and that these obligations can be measured with sufficient reliability. A specific provision is established for all debtors where it is likely that debt will not be repaid or recovered through enforcement of security. A general provision is made against loans and advances to cover bad and doubtful debts which have not been separately identified, but which are known from experience to be present in portfolios of loans and advances. The specific and general provisions are deducted from the debtor balances.
- (4) The company is a wholly owned subsidiary of Abbey National plc, a company registered in England and Wales. Accordingly the company is not required to produce a cash flow statement as prescribed in paragraph 5 (a) of Financial Reporting Standard No.1 (revised 1996), Cash Flow Statements.

2. Administrative expenses

| | 2003 | 2002 |
|--|----------------|----------------|
| | £ | £ |
| Administration expenses payable to group companies | (2,853) | (2,853) |
| Other expenses | (297) | (521) |
| | <u>(3,150)</u> | <u>(3,374)</u> |

3. Other income

| | 2003 | 2002 |
|---|---------------|----------------|
| | £ | £ |
| Other income | - | 17,627 |
| Increase in property values recovered from customers | 36,520 | 55,960 |
| Movement in provision for bad and doubtful debts (note 11) | 2,655 | 41,245 |
| | <u>39,175</u> | <u>114,832</u> |

ABBEY NATIONAL HOMES LIMITED

Notes to the accounts for the year ended 31 December 2003 (continued)

4. Interest receivable

| | 2003 | 2002 |
|--|---------------|---------------|
| | £ | £ |
| Interest receivable from bank accounts | 90,059 | 60,977 |
| Other interest receivable | 662 | 3,697 |
| | <u>90,721</u> | <u>64,674</u> |

5. Interest payable

| | 2003 | 2002 |
|--|------------------|------------------|
| | £ | £ |
| On loans repayable within five years, not by instalments, to Group Companies | <u>(253,430)</u> | <u>(276,147)</u> |

6. Loss on ordinary activities before taxation

Directors' emoluments and auditors' remuneration are borne by the parent company, Abbey National plc. No emoluments were paid to Directors by the company during the year (2002 – £nil) and it is not practicable for the parent company to apportion Directors' emoluments.

The company has no employees (2002 – nil). No management fee for administration services is charged by the parent company (2002 – £nil).

7. Tax credit on loss on ordinary activities

| | 2003 | 2002 |
|---|---------------|---------------|
| | £ | £ |
| Group relief receivable at 30% (2002: 30%) | 38,390 | 55,416 |
| Deferred taxation - current year (see note 9) | (386) | (25,412) |
| Total | <u>38,004</u> | <u>30,004</u> |

The standard rate of tax for the year based on the UK standard rate of corporation tax is 30%. The actual tax credit for the current and previous year is different to the standard rate for the reasons set out in the following reconciliation

| | 2003 | 2002 |
|--|------------------|------------------|
| | £ | £ |
| Loss on ordinary activities before taxation | <u>(126,684)</u> | <u>(100,015)</u> |
| Tax credit on loss on ordinary activities at standard rate | 38,004 | 30,004 |
| <i>Factors affecting credit for the year</i> | | |
| Capital allowances timing differences | 386 | 513 |
| Other timing differences | - | 24,899 |
| Current tax credit for year (as above) | <u>38,390</u> | <u>55,416</u> |

ABBEY NATIONAL HOMES LIMITED

Notes to the accounts for the year ended 31 December 2003 (continued)

8. Debtors

Debtors : amounts falling due within one year

| | 2003 | 2002 |
|---|----------------|----------------|
| | £ | £ |
| Other debtors | 4,488 | 4,279 |
| Equity participation mortgages (see note below) | 106,325 | 155,249 |
| Deferred taxation (see note 9) | 1,153 | 1,539 |
| Group relief receivable | 38,390 | 55,416 |
| VAT recoverable | 166 | 169 |
| Total | <u>150,522</u> | <u>216,652</u> |

Other debtors is shown net of provisions of £21,050 (2002 - £23,705).

Debtors : amounts falling due after more than one year

| | 2003 | 2002 |
|--------------------------------|------------------|------------------|
| | £ | £ |
| Equity participation mortgages | <u>2,004,302</u> | <u>2,119,067</u> |

Equity participation mortgages are interest-free loans, made as incentives on certain property sales, repayable within a specified period. Mortgages on sheltered or non-sheltered schemes are generally secured by a first or second charge on the property respectively.

Total debtors

| | 2003 | 2002 |
|---|------------------|------------------|
| | £ | £ |
| Debtors: amounts falling due within one year | 150,522 | 216,652 |
| Debtors: amounts falling due after more than one year | <u>2,004,302</u> | <u>2,119,067</u> |
| Total | <u>2,154,824</u> | <u>2,335,719</u> |

9. Deferred taxation

The amount of the deferred tax asset in the accounts is:

| | 2003 | 2002 |
|---|--------------|-----------------|
| | £ | £ |
| As at 1 January | 1,539 | 26,951 |
| Profit and loss account charge - current year | <u>(386)</u> | <u>(25,412)</u> |
| As at 31 December | <u>1,153</u> | <u>1,539</u> |

The provision for deferred tax consists of the following amounts:

| | 2003 | 2002 |
|---|--------------|--------------|
| | £ | £ |
| Timing differences – Capital allowances | <u>1,153</u> | <u>1,539</u> |

ABBEY NATIONAL HOMES LIMITED

Notes to the accounts for the year ended 31 December 2003 (continued)

10. Creditors: amounts falling due within one year

| | 2003 | 2002 |
|--------------------------------|---------------------|---------------------|
| | £ | £ |
| Amounts due to group companies | (41,817,572) | (41,816,573) |
| Other creditors | (276) | - |
| Total | <u>(41,817,848)</u> | <u>(41,816,573)</u> |

11. Provisions for bad and doubtful debts

| | 2003 | 2002 |
|------------------------------|-----------------|-----------------|
| | £ | £ |
| As at 1 January: | (23,705) | (109,357) |
| Transfer to profit and loss: | 2,655 | 41,245 |
| Utilisation: | - | 44,407 |
| As at 31 December: | <u>(21,050)</u> | <u>(23,705)</u> |

12. Called up share capital

| | 2003 | 2002 |
|---|------------|------------|
| | £ | £ |
| Authorised: 100 ordinary shares of £1 each | 100 | 100 |
| Allotted, called up and fully paid : 100 ordinary shares of £1 each | <u>100</u> | <u>100</u> |

13. Reconciliation of movements in shareholders' deficit

| | 2003 | 2002 |
|-------------------------------|---------------------|---------------------|
| | £ | £ |
| Retained loss for the year | (88,680) | (70,011) |
| Opening shareholders' deficit | <u>(35,630,486)</u> | <u>(35,560,475)</u> |
| Closing shareholders' deficit | <u>(35,719,166)</u> | <u>(35,630,486)</u> |

14. Contingent liability

The company has provided a guarantee in relation to the effectiveness of a land drainage undertaken at a former development site. The company will be required to undertake rectification work if the land drainage is not fully effective. The total cost incurred by the company should rectification work be required would be approximately £10,000.

15. Capital commitments

There were no outstanding capital commitments at 31 December 2003 (2002 - nil).

ABBEY NATIONAL HOMES LIMITED

Notes to the accounts for the year ended 31 December 2003 (continued)

16. Related party disclosures

There were no related party transactions during the year, or existing at the balance sheet date, with Directors of the company.

The company has taken advantage of the exemption covered by paragraph 3 (c) of FRS8 'Related party disclosures' not to disclose transactions with entities that are part of the Abbey National Group.

17. Ultimate parent and controlling party

The parent undertaking of the largest and smallest group of undertakings for which group accounts are drawn up and of which the company is a member is Abbey National plc, the company's immediate and ultimate parent and controlling party. Abbey National plc is incorporated in Great Britain and registered in England and Wales. Copies of the consolidated financial statements of Abbey National plc may be obtained from Abbey National House, 2 Triton Square, Regent's Place, London, NW1 3AN.

18. Parental support

The company's liabilities exceed its assets and accordingly it is dependent upon the continuing support of its parent company. The Directors have obtained an undertaking from its ultimate holding company that such support will be provided for a period of at least 12 months from the date of approval of these accounts.