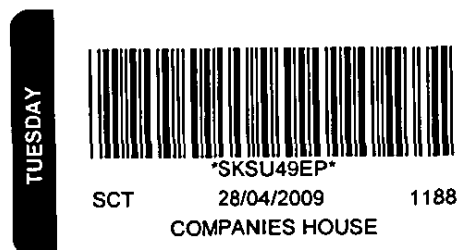


SMNE Limited

Directors' report and accounts
for the year ended 30 June 2008

Registered Number 02296339



SMNE Limited

Directors' report and accounts for the year ended 30 June 2008

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SMNE Limited

Directors and advisers

Directors

C T Greener

S K Dhirani

Company secretary

C T Greener

Registered office

Northern Rock House

Gosforth

Newcastle upon Tyne

NE3 4PL

Registered number

02296339

Registered auditors

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

89 Sandyford Road

Newcastle upon Tyne

NE1 8HW

SMNE Limited

Directors' report for the year ended 30 June 2008

The directors present their report and the audited financial statements of the company for the year ended 30 June 2008. The report has been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies.

Principal activities

The company was incorporated in England and Wales and is a private limited company domiciled in England. The company's principal activity has been the development and disposal of land, primarily for residential purposes. The company has not traded during the current or preceding period.

Results and dividends

The results for the year are set out in the income statement on page 6. The directors do not propose the payment of a dividend (Eighteen months ended 30 June 2007: £nil).

Post balance sheet events

Details of post balance sheet events are given in note 13 to the accounts.

Directors

The directors who held office during the year and up to the date of signing the financial statements are given below:

C T Greener

G C Williams (resigned 24 September 2007)

S K Dhirani (appointed 30 October 2007)

Going concern

As set out in note 1 to the accounts, HM Treasury continues to provide financing facilities to Northern Rock plc, the parent entity. These facilities are subject to approval being obtained from the European Commission. If such approval is not obtained then the facilities may be withdrawn. Subject to this material uncertainty pertaining to Northern Rock's funding requirements, the directors are satisfied at the time of approval of the financial statements that the group has adequate resources to continue in business for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Statement of directors' responsibilities in respect of the Annual Report and the financial statements

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 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 those financial statements the directors are required to:

- select suitable accounting policies and apply them consistently.
- make judgements and estimates that are reasonable and prudent.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

SMNE Limited

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.

Disclosure of information to auditors

Each of the persons who is a director at the date of approval of this report confirms that:

- (1) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- (2) each director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information 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.

Independent auditors

The independent auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office, and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

By order of the board



C T Greener

Company secretary

24 April 2009

SMNE Limited

Independent auditors' report to the members of SMNE Limited

We have audited the financial statements of SMNE Limited for the year ended 30 June 2008 which comprise the income statement, the balance sheet, the statement of changes in shareholders' deficit, the cash flow statement, the statement of accounting policies and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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 director's 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). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

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

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the director 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.

SMNE Limited

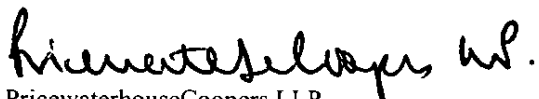
Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the company's affairs as at 30 June 2008 and of its result and cash flows for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

Emphasis of matter – going concern

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of disclosure made in note 1 to the financial statements concerning the ability of the company and Northern Rock plc, the parent entity, to continue as a going concern. As described in note 1 to the financial statements, Northern Rock plc is reliant upon the continuation of on demand facilities provided by HM Treasury which are subject to approval being obtained from the European Commission for State Aid for Northern Rock plc. This outstanding approval indicates the existence of a material uncertainty which may cast significant doubt about the ability of the company and Northern Rock plc to continue as a going concern. The financial statements do not include adjustments that would result if the company was unable to continue as a going concern.



PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors, Newcastle upon Tyne

24 April 2009

SMNE Limited

Income statement for the year ended 30 June 2008

	Note	Year ended 30 June 2008 £	18 months ended 30 June 2007 £
Other operating income		-	20,000
Finance income	4	-	4
Profit before income tax		-	20,004
Income tax expense	5	-	(3,834)
Profit for the financial year attributable to equity holders		-	16,170


All of the results of the company relate to discontinued operations.

SMNE Limited

Balance sheet as at 30 June 2008

	Note	30 June 2008 £	30 June 2007 £
ASSETS			
Non-current assets			
Investments	6	100	100
		100	100
Current assets			
Other receivables	7	250,900	250,900
		250,900	250,900
Total assets		251,000	251,000
LIABILITIES			
Current liabilities			
Corporation tax payable		-	(3,838)
Other payables	8	(330,591)	(326,753)
Total liabilities		(330,591)	(330,591)
Net liabilities		(79,591)	(79,591)
Shareholders' deficit			
Ordinary shares	9	100	100
Deficit		(79,691)	(79,691)
Total shareholders' deficit		(79,591)	(79,591)

The financial statements on pages 6 to 17 were approved and authorised for issue by the board of directors on 24 April 2009 and were signed on its behalf by:


S.T. Greener
Director

SMNE Limited

Statement of changes in deficit for the year ended 30 June 2008

	Ordinary shares £	Deficit £	Total £
Balance at 1 January 2006	100	(95,861)	(95,761)
Profit for the period	-	16,170	16,170
Balance at 30 June 2007	100	(79,691)	(79,591)
Balance at 1 July 2007	100	(79,691)	(79,591)
Profit for the year	-	-	-
Balance at 30 June 2008	100	(79,691)	(79,591)

SMNE Limited

Cash flow statement for the year ended 30 June 2008

	Year ended 30 June 2008 £	18 months ended 30 June 2007 £
Net cash inflow from operating activities		
Profit before taxation	-	20,004
Adjusted for:		
Income taxes paid	(3,838)	-
Net cash (outflow) / inflow from operating profits before changes in operating assets and liabilities	(3,838)	20,004
 Changes in operating assets and liabilities		
Net increase / (decrease) in other payables	3,838	(20,004)
Net increase in cash and cash equivalents	-	-
Opening cash and cash equivalents	-	-
Closing cash and cash equivalents	-	-

SMNE Limited

Statement of accounting policies

The principal accounting policies adopted in the preparation of these accounts are set out below. Accounting policies have been applied consistently to all the periods presented, unless otherwise stated.

Accounting convention

These accounts have been prepared in accordance with EU endorsed International Financial Reporting Standards (IFRS) and IFRIC interpretations and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS. The accounts have been prepared on the going concern basis under the historical cost convention. A summary of the more important accounting policies is set out below, together with an explanation of where changes have been made to previous policies on the adoption of new accounting standards in the period, if applicable.

The preparation of accounts in conformity with generally accepted accounting principles requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the accounts and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimated.

The previous financial statements were for a period longer than one year as the accounting year end was changed from 31 December to 30 June. This means that the comparative amounts for the income statement, changes in equity, cash flows and related notes are not comparable.

At 30 June 2008, the company's liabilities exceeded its assets. However, the directors have prepared the accounts on the going concern basis of accounting in view of an undertaking by Northern Rock plc to continue to provide financial support to the company to enable it to meet its debts as they fall due. The basis of preparation is discussed in note 1 to the accounts.

Consolidation

The company has taken advantage of the exemption given by Section 228 of the Companies Act 1985 from the requirement to prepare group financial statements consolidating the results of the company's subsidiary undertaking, MNE Limited, because the company itself is a wholly owned subsidiary undertaking of Northern Rock plc which prepares group financial statements.

Investments

Investments in group undertakings are stated at cost. As permitted by section 133 of the Companies Act 1985, where the relief afforded under section 131 of the Companies Act 1985 applies, cost is the aggregate of the nominal value of the relevant number of the company's shares and the fair value of any other consideration given to acquire the share capital of the subsidiary undertakings.

Share capital

Ordinary shares are classified as equity.

Finance income

Interest income is recognised on a time-proportion basis using the effective interest method.

Currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the company operates ('the functional currency'). The financial statements are presented in sterling, which is the company's functional and presentational currency.

SMNE Limited

Taxation

Income tax payable on taxable profits ('current tax') based on the applicable tax law in each jurisdiction is recognised as an expense in the period in which the profits arise. Income tax recoverable on tax allowances is recognised as an asset only to the extent that it is regarded as recoverable by offset against current or future taxable profits.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax is determined using tax rates and laws that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the deferred tax asset is realised or the deferred tax liability is settled. Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

New standards, amendments and interpretations

The following new standards, amendments to standards or interpretations are mandatory for the first time for financial years beginning 1 July 2007 and have been endorsed for adoption by the EU, but have no financial impact on the company:

IFRIC 11 – IFRS 2 – Group and treasury share transactions

The following new standards, amendments to standards or interpretations that are relevant to the company have been issued but have not yet been endorsed for adoption by the EU, are not effective for financial years beginning 1 July 2007 and have not been early adopted:

IAS 23 (amendment) – Borrowing costs, effective for financial years beginning on or after 1 January 2009. The Group believes the application of this amendment will have no material impact on the financial statements in the period of initial application.

IFRS 3 (revised) – Business combinations and consequential revisions to IAS 27 – Consolidated and separate financial statements, effective prospectively for business combinations with an effective date on or after 1 July 2009. Management is assessing the impacts of these amendments on acquisition accounting and group consolidation.

IAS 1 (amendment) – Presentation of financial statements, effective for financial years beginning on or after 1 January 2009. Management is assessing the impact of this amendment on its financial statements, to ensure it meets the revised disclosure requirements introduced by this amendment.

IAS 32 (amendment) – Financial instruments: presentation, and consequential amendments to IAS 1 – Presentation of financial statements, effective for financial years beginning on or after 1 January 2009. This amendment has no impact on the financial statements of the company as it has no puttable instruments.

IFRIC 12 – Service concession arrangements

IFRIC 15 – Agreements for the construction of real estate

SMNE Limited

Notes to the financial statements for the year ended 30 June 2008

1 Basis of preparation

Principles underlying going concern assumption

The financial statements of the Company have been prepared on a going concern basis. The Company is a wholly owned subsidiary of Northern Rock plc. As noted above SMNE Limited depends upon the parent company for ongoing support. The validity of the going concern basis at the date of approving these financial statements is dependent on State aid approval from the European Commission for the financing facilities provided to Northern Rock plc by HM Treasury. HM Treasury has confirmed to Northern Rock plc that it will continue to fund its liabilities as they fall due for a period of not less than 12 months from 2 March 2009. If State aid approval is not received, or if HM treasury facilities were withdrawn, it is likely Northern Rock plc would then submit a solvent wind down plan for European Commission State aid approval. If this were not forthcoming the financing facilities may be withdrawn in which case Northern Rock plc may not be able to meet its financial obligations as they fall due to Group companies. Northern Rock plc may then have to take appropriate insolvency proceedings and cease to trade as a going concern. This may have an impact on the recoverability of certain assets in the balance sheet of the Company and adjustments may have to be made to reduce the monetary value of assets to recoverable amounts and to provide for further liabilities that might arise.

2 Auditors' remuneration

The audit fee of £1,300 (18 months ended 30 June 2007 £1,400) has been included in the overall audit fee for the Northern Rock group, which has been paid by Northern Rock plc. Details of the overall fee can be found in the Northern Rock Annual Report and Accounts.

3 Directors' emoluments and employee information

The directors received no remuneration for their services to the company during the year or in the previous period.

The company has no employees other than its directors in the current year or in the previous period.

4 Finance income

	Year ended 30 June 2008 £	18 months ended 30 June 2007 £
Bank interest	-	4

SMNE Limited

5 Income tax expense

	Year ended 30 June 2008 £	18 months ended 30 June 2007 £
The income tax expense for the year comprises:		
UK corporation tax on profits for the year	-	3,834
Income tax expense	-	3,834

Factors affecting the tax charge in the year

The charge for the year can be reconciled to the profit per the income statement as follows:

	Year ended 30 June 2008 £	18 months ended 30 June 2007 £
Profit before taxation	-	20,004
Tax thereon at 29.5% (18 months ended 30 June 2007: 30%)	-	6,001
Benefit of small companies rate	-	(2,167)
Income tax expense	-	3,834

6 Investments

	Subsidiary undertaking £
Shares at cost and net book value	
At 1 July 2007 and 30 June 2008	100

The company owns the entire issued share capital of MNE Limited which is incorporated and registered in England and Wales. Its principal activity is the development and disposal of land, primarily for residential purposes. However MNE Limited has not traded in the current or preceding financial period.

In the opinion of the director, the value of the investment in MNE Limited is not less than the aggregate amount at which it is shown in the balance sheet.

SMNE Limited

7 Other receivables

	30 June 2008 £	30 June 2007 £
Amounts owed by fellow subsidiaries	246,998	246,998
Group relief receivable	3,803	3,803
Other receivables	99	99
	250,900	250,900

Amounts owed by fellow subsidiaries are unsecured, do not carry any interest and are payable on demand, but are not expected to be fully repaid within the next 12 months.

8 Other payables

	30 June 2008 £	30 June 2007 £
Amounts due to parent undertaking	330,591	326,753

Amounts due to the parent undertaking are unsecured, do not carry any interest and are payable on demand, but are not expected to be fully paid within the next 12 months.

9 Ordinary shares

	30 June 2008 £	30 June 2007 £
Authorised, allotted and fully paid		
50 "A" ordinary shares of £1 each	50	50
50 "B" ordinary shares of £1 each	50	50
	100	100

The "A" ordinary shares and the "B" ordinary shares are separate classes of shares, but carry the same rights and privileges and rank pari passu in all respects.

SMNE Limited

10 Ultimate parent undertaking

As a result of The Northern Rock plc Transfer Order 2008, which transferred all shares in Northern Rock plc to the Treasury Solicitor as nominee for HM Treasury on 22 February 2008, the Company considers Her Majesty's Government to be the ultimate controlling party from that date.

The results of SMNE Limited are consolidated into Northern Rock plc. Copies of the Group accounts can be obtained from Northern Rock plc, Northern Rock House, Gosforth, Newcastle upon Tyne, NE3 4PL.

11 Related party transactions

	30 June 2008 £
Amounts owed to Northern Rock plc:	
Loans outstanding at 1 June 2007	326,753
Net amounts advanced	3,838
Loans outstanding at 30 June 2008	330,591

	30 June 2007 £
Amounts owed to Northern Rock plc:	
Loans outstanding at 1 January 2006	346,757
Net amounts repaid	(20,004)
Loans outstanding at 30 June 2007	326,753

	30 June 2008 £
Amounts owed by MNE Limited:	
Loans outstanding at 1 July 2007 and at 30 June 2008	246,998

SMNE Limited

11 Related party transactions (continued)

	30 June 2007 £
Amounts owed by MNE Limited:	
Loans outstanding at 1 January 2006 and at 30 June 2007	246,998

12 Financial Risk Management

Balance sheet reconciliation

30 June 2008	Financial assets	Total
	Loans and receivables	
	£	£
Investments	100	100
Other receivables	250,900	250,900
Total assets	251,000	251,000

30 June 2007	Financial assets	Total
	Loans and receivables	
	£	£
Investments	100	100
Other receivables	250,900	250,900
Total assets	251,000	251,000

30 June 2008	Financial liabilities at amortised cost	Total
	£	£
Other payables	330,591	330,591
Total liabilities	330,591	330,591
Equity		(79,591)
		251,000

SMNE Limited

12 Financial Risk Management (continued)

30 June 2007	Financial liabilities at amortised cost	Total
	£	£
Corporation tax payable	3,838	3,838
Other payables	326,753	326,753
Total liabilities	330,591	330,591
Equity		(79,591)
		251,000

Market Risk

Market risk is the risk that changes in the level of interest rates, the rate of exchange between currencies or the price of securities or other financial contracts, including derivatives, will have an adverse impact on the results and operations or financial condition of the company.

Other receivables and other payables within SMNE Limited largely comprise amounts owed by and due to fellow subsidiaries and the parent undertaking. These loans do not carry any interest.

Credit Risk

The credit risk on amounts owed by fellow subsidiaries is mitigated by the ongoing financial support provided by HM Treasury. This financial support is subject to approval by the European Commission under State Aid rules (see note 1).

Liquidity Risk

Liquidity risk represents the risk of being unable to pay liabilities as they fall due and arises from the mismatch in cash flows generated from current and expected assets, liabilities and derivatives.

Amounts due to the parent undertaking and amounts owed by fellow subsidiaries are all repayable on demand but are not expected to be fully repaid within the next 12 months.

13 Events after the balance sheet date

On 28 August 2008, the Bank of England loan facilities to Northern Rock plc were novated to HM Treasury.

On 23 February 2009, Northern Rock plc announced that it had concluded the strategic review of its business plan, in close consultation with the Government. As part of this revised plan Northern Rock plc will offer up to £14 billion of new mortgage lending over the next two years. Additional funding to support new lending will be partly provided by an increase in the Government loan, with an extended repayment schedule. To facilitate the new lending a legal and capital restructuring of Northern Rock plc will be undertaken.