

**ABBAY NATIONAL DECEMBER LEASING (2) LIMITED**

**REPORT AND ACCOUNTS**

**FOR THE YEAR ENDED 31 DECEMBER 2002**

**REGISTERED NO. 2488040**



# **ABBEY NATIONAL DECEMBER LEASING (2) LIMITED** **REPORT OF THE DIRECTORS**

The Directors submit their report together with the accounts for the year ended 31 December 2002.

## **1. Principal activity and review of the year**

The principal activity of the Company is the leasing of commercial properties, commercial vehicles, plant and equipment, and is likely to remain so for the foreseeable future.

The results for the year are presented in the profit and loss account on page 5. The results reflect the acquisition of a freight rail leasing business. Going forward, the results will reflect the increased level of assets.

## **2. Results and dividends**

The profit for the year on ordinary activities after taxation amounted to £724,342, (2001: profit £351,076) and has been taken from the reserves.

The Directors do not propose a dividend for the year (2001:£nil).

## **3. Directors and their interests**

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

R Garratt	Chairman	(Resigned on 30 June 2002)
D J Ellis		
A Merrick		(Resigned on 30 June 2002)
S A E Edwards		(Resigned on 12 April 2002)
G M Batchelor	Alternate to S A E Edwards	(Resigned on 12 April 2002)
J P Cohen	Alternate to W N Lowe	(Appointed on 30 June 2002)
W N Lowe		(Appointed on 30 June 2002)
D M Green	Alternate to D J Ellis	(Appointed on 30 June 2002)

None of the Directors had interests in the Company at the year end or any subsidiary of Abbey National plc.

The Directors' interests in the shares of the ultimate holding company, Abbey National plc, were as follows:

### **Ordinary Shares of 10 pence each**

	<b>As at 1 January 2002 or date of Appointment if later</b>	<b>As at 31 December 2002</b>
J P Cohen	4,022	4,022
D J Ellis	100	100
D M Green	107	107
W N Lowe	3,664	3,726

**ABBHEY NATIONAL DECEMBER LEASING (2) LIMITED**  
**REPORT OF THE DIRECTORS (continued)**

**3. Directors and their interests (continued)**

**Options Schemes - Ordinary Shares of 10 pence each**

	<b>Options As at 1 January 2002 or date of appointment if later</b>	<b>Options granted during the year or since appointment if later</b>	<b>Options exercised during the year or since appointment if later</b>	<b>As at 31 December 2002</b>
J P Cohen	2,639	-	-	2,639
D J Ellis	5,568	4,944	712	9,800
D M Green	24,213	-	-	24,213
W N Lowe	1,457	-	-	1,457

Options granted to Directors under the Abbey National Sharesave Scheme are exercisable at prices between 565 pence and 989 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 590 pence and 1154 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 2002 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 2002 the Trust held 8,639,158 ordinary shares (2001 - 5,890,235 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 matching awards are included, where applicable, in the options shown for the Directors above. The shares automatically transfer to the individual as and when they vest.

The Partnership Share Scheme is available to all eligible employees, including the Directors named above. Under this scheme, participants may make 12 monthly contributions up to a maximum of £1500 per annum, to acquire shares in Abbey National. These shares may be purchased within 30 days from 31 May 2003 at their market value on 1 June 2002 or, if lower, their market value on or shortly after 31 May 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 1 June 2002 (1021 pence per share), is 146 shares. If the share price at 31 May 2003 (or shortly after) is lower than 1021 pence per share, then the number of shares which may be acquired, may be more than 146 shares. On the basis of the share price at 31 December 2002 (518 pence per share), 289 shares would be the maximum number of shares that could be acquired under the scheme.

**ABBEY NATIONAL DECEMBER LEASING (2) LIMITED**  
**REPORT OF THE DIRECTORS (continued)**

**3. Directors and their interests (continued)**

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 2002, the Employee Trust held 1,559,738 ordinary shares (2002 – 604,362 shares).

**4. Directors' Responsibilities in respect of the Preparation of Accounts**

The Directors are required by United Kingdom company law to prepare financial statements 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 reasonable and prudent judgements and estimates have been made in the preparation of the accounts for the year ended 31 December 2002. 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, for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**5. Payment Policy**

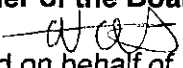
In the forthcoming year, the Company will continue to deal with a large number of suppliers operating in a diverse range of industries and so will not operate a single payment policy in respect of all classes of suppliers. It is the Company's policy to ensure payments are made in accordance with the terms and conditions agreed, except where the supplier fails to comply with those terms and conditions.

The Company's practice on payment of creditors has been quantified under the terms of the Companies Act 1985 (Directors' Report) (Statement Payment Practice) Regulations 1997. The number of days supplier invoices which are included in trade creditors at 31 December 2002 is nil (2001: 34).

**6. Auditors**

In accordance with Section 386 of the Companies Act 1985, the Company has elected to dispense with the obligation to appoint auditors annually. Accordingly, Deloitte & Touche LLP are deemed to have been re-appointed as auditors of the Company.

**By order of the Board**

  
For and on behalf of

Abbey National Secretariat Services Limited,  
Company Secretary

12/8/03

**ABBEY NATIONAL DECEMBER LEASING (2) LIMITED  
INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF  
ABBEY NATIONAL DECEMBER LEASING (2) LIMITED**

We have audited the financial statements of Abbey National December Leasing (2) Limited for the year ended 31 December 2002 which comprise the profit and loss account, the balance sheet and the related notes 1 to 14. 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 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*Deloitte & Touche LLP*  
**Deloitte & Touche LLP**

**Chartered Accountants and Registered Auditors  
London**

*12 August 2003*

**ABBEY NATIONAL DECEMBER LEASING (2) LIMITED****PROFIT AND LOSS ACCOUNT****For the year ended 31 December 2002**

	Notes	<u>2002</u> £	<u>2001</u> £
Turnover	3	11,501,016	12,727,368
Administrative expenses		(180,000)	(186,880)
Interest payable	4	<u>(10,333,797)</u>	<u>(11,578,924)</u>
<b>Operating profit on ordinary activities before taxation</b>	5	987,219	961,564
Tax on profit on ordinary activities	6	<u>(262,877)</u>	<u>(610,488)</u>
<b>Retained Profit for the year</b>	11	<u>724,342</u>	<u>351,076</u>

All activities of the Company are regarded as continuing. The Company has no recognised gains or losses other than those included in the profit above and therefore no separate statement of total recognised gains and losses has been presented.

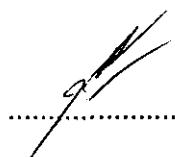
**ABBEY NATIONAL DECEMBER LEASING (2) LIMITED**

**BALANCE SHEET**  
**At 31 December 2002**

	Notes	<u>2002</u> £	<u>2001</u> £
<b>CURRENT ASSETS</b>			
<b>Debtors</b>			
- amounts falling due after one year		-	-
Net Investment in finance leases		239,535,204	223,416,860
- amounts falling due within one year	7	<u>5,580,129</u>	<u>1,784,798</u>
		245,115,333	225,201,658
<b>Creditors</b>			
- amounts falling due within one year	8	<u>(185,794,218)</u>	<u>(174,658,743)</u>
<b>NET CURRENT ASSETS</b>		59,321,115	50,542,915
<b>PROVISION FOR LIABILITIES AND CHARGES</b>			
	9	<u>(58,121,923)</u>	<u>(50,068,065)</u>
		<u>1,199,192</u>	<u>474,850</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	10	2	2
Profit and loss account	11	<u>1,199,190</u>	<u>474,848</u>
<b>EQUITY SHAREHOLDERS' FUNDS</b>	12	<u>1,199,192</u>	<u>474,850</u>

The notes on pages 7 to 11 form part of these accounts.

The accounts on pages 5 to 11 were approved  
by the Board of Directors on 12/8/03  
and were signed on its behalf by D Ellis:

 Director

**ABBEY NATIONAL DECEMBER LEASING (2) LIMITED**  
**NOTES TO THE ACCOUNTS**

**1. ACCOUNTING POLICIES**

**Basis of accounting**

The Company prepares its accounts under the historical cost convention and in accordance with applicable United Kingdom law and accounting standards. These accounts comply with the relevant Statement of Recommended Accounting Practice for the asset finance and leasing industry.

**Equipment leased to customers**

Assets leased to customers under agreements which transfer substantially all the risks and rewards associated with ownership, other than legal title, are classified as finance leases. All other assets leased to customers are classified as operating lease assets.

Net investment in finance leases is included in debtors and represents total minimum lease payments less gross earnings allocated to future years and non refundable rents in advance. Income from finance leases is credited to the profit and loss account using the actuarial after tax method to give a constant periodic rate of return on the net cash investment.

**Deferred taxation**

During the year the Company has adopted a new accounting standard FRS 19 – Deferred Tax. In accordance with this standard, deferred tax liabilities have been recognised on the timing differences in respect of the capital allowances received on finance leases and effects of tax rate changes in prior years.

The Company has not opted to discount its deferred tax balances and adoption of the standard has made no impact on the opening reserves and therefore, no restatement was made to the 2001 comparative results.

**2. CASH FLOW STATEMENT**

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 cashflow statement as prescribed in paragraph 5(a) of Financial Reporting Standard 1, Cash Flow Statements (Revised).

**3. TURNOVER**

Turnover, stated net of VAT and other sales taxes, comprises the following:

	<u>2002</u> £	<u>2001</u> £
Income from finance leases	14,772,336	14,944,807
Rental rebates – interest variations	(3,285,863)	(2,219,032)
Fees payable	(255,902)	(197,210)
Fees receivable	270,445	198,803
	<hr/> 11,501,016	<hr/> 12,727,368



**ABBHEY NATIONAL DECEMBER LEASING (2) LIMITED**  
**NOTES TO THE ACCOUNTS (continued)**

**4. INTEREST PAYABLE**

	<u>2002</u> £	<u>2001</u> £
In respect of amounts due to parent undertaking on loans repayable on demand	10,333,797	11,578,924
	<u>10,333,797</u>	<u>11,578,924</u>

**5. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION**

Profit on ordinary activities before taxation is stated after charging:

	<u>2002</u> £	<u>2001</u> £
Auditors' remuneration	-	6,880

The audit fee for 2002 has been paid on the Company's behalf by its immediate parent company, Abbey National Treasury Services plc, for which no recharge has been made.

During the year the Directors of the Company were employed by the ultimate parent undertaking, Abbey National plc. No apportionment of Directors' remuneration had been made by the parent undertaking to the Company (2001: £nil).

The Company had no directly employed staff during the year (2001: nil).

A management charge of £180,000 (2001: £180,000) in respect of administration and other services was paid to the parent undertaking during the year.

Gross rentals receivable for the years in respect of finance leases amounted to £14,763,635 (2001: £14,927,754)

**ABBEY NATIONAL DECEMBER LEASING (2) LIMITED**  
**NOTES TO THE ACCOUNTS (continued)**

**6. TAX ON PROFIT ON ORDINARY ACTIVITIES**

**a) Analysis of charge in the year**

	£	<u>2002</u> £	£	<u>2001</u> £
Current tax:				
UK corporation tax on profits of the year		<u>(3,080,209)</u>		<u>(4,189,175)</u>
Total current tax ( note 6(b))		(3,080,209)		(4,189,175)
Deferred tax:				
Capital allowances on finance lease receivables	3,276,658		4,658,453	
Adjustment in respect of prior years	<u>66,428</u>		<u>141,210</u>	
Total deferred tax ( note 10)		<u>3,343,086</u>		<u>4,799,663</u>
Tax on profit on ordinary activities		<u>262,877</u>		<u>610,488</u>

**b) Factors affecting tax charge for year**

The tax assessed for the year differs from the standard rate of corporation tax in the UK (30 percent). The differences are explained below:

	<u>2002</u> £	<u>2001</u> £
Profit on ordinary activities before tax	<u>987,219</u>	<u>961,564</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2001: 30%)	296,166	288,469
Effects of:		
Capital allowances on finance lease receivables	<u>(3,376,375)</u>	<u>(4,477,644)</u>
Current tax credit for year (note 6(a))	<u>(3,080,209)</u>	<u>(4,189,175)</u>

**ABBEY NATIONAL DECEMBER LEASING (2) LIMITED**  
**NOTES TO THE ACCOUNTS (continued)**

**7. DEBTORS**  
**-amounts falling due within one year**

	<u>2002</u> £	<u>2001</u> £
Net investment in finance leases	239,795	-
Amounts due from parent undertaking in respect of group relief	5,333,621	1,775,677
VAT recoverable	6,713	-
Other debtors	-	9,121
	<u>5,580,129</u>	<u>1,784,798</u>

**8. CREDITORS**  
**-amounts falling due within one year**

	<u>2002</u> £	<u>2002</u> £
Amounts due to parent undertaking	184,990,001	173,969,927
Other creditors	804,217	688,816
	<u>185,794,218</u>	<u>174,658,743</u>

The amounts due to the parent undertaking are unsecured, repayable on demand and bear interest at market rates.

**9. PROVISION FOR LIABILITIES AND CHARGES**  
**Deferred taxation**

	<u>2002</u> £	<u>2001</u> £
Capital allowances on finance lease receivables	58,121,923	50,068,065
Provision for deferred tax	<u>58,121,923</u>	<u>50,068,065</u>
Provision at 1 January 2002		50,068,065
Transfer from profit and loss account ( note 6)		3,343,086
Acquisition of freight rail leasing business		4,710,772
Provision at 31 December 2002		<u>58,121,923</u>

**ABBEY NATIONAL DECEMBER LEASING (2) LIMITED**  
**NOTES TO THE ACCOUNTS (continued)**

**10. CALLED UP SHARE CAPITAL**

	<u>2002</u> £	<u>2001</u> £
<b>Authorised</b>		
100 ordinary shares of £1 each	<u>100</u>	<u>100</u>
	£	£
<b>Allotted, called up and fully paid</b>		
2 ordinary shares of £1 each	<u>2</u>	<u>2</u>

**11. PROFIT AND LOSS ACCOUNT**

	£
At 1 January 2002	474,848
Profit for the year	<u>724,342</u>
At 31 December 2002	<u>1,199,190</u>

**12. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS**

	<u>2002</u> £	<u>2001</u> £
Opening equity shareholders' funds	474,850	123,774
Profit for the year after taxation	<u>724,342</u>	<u>351,076</u>
Closing equity shareholders' funds	<u>1,199,192</u>	<u>474,850</u>

**13. RELATED PARTY DISCLOSURES**

The Company has taken advantage of the exemption allowed by paragraph 3(c) of the Financial Reporting Standard 8, "Related Party Disclosures", not to disclose transactions with entities that are part of the Abbey National Group. The Company did not enter into any transactions with related parties during the financial year.

**14. ULTIMATE PARENT UNDERTAKING**

The Company's immediate parent undertaking is Abbey National Treasury Services plc which is registered in England and Wales. Abbey National Treasury Services plc had a 100% interest in the equity capital of the Company at 31 December 2002.

The Company's ultimate parent and controlling undertaking is Abbey National plc which is registered in England and Wales. Abbey National plc had a 100% interest in the equity capital of Abbey National Treasury Services plc at 31 December 2002.

Consolidated accounts for Abbey National plc and Abbey National Treasury Services plc are available from Abbey National House, 2 Triton Square, London, NW1 3AN.