

AIRE VALLEY FUNDING 3 PLC

(Formerly Waveangel Public Limited Company)

Directors' Report and Financial Statements

Registered number. 5154132

31 December 2006

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Directors' Report and Financial Statements

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Company Information

Directors

SFM Directors Limited
SFM Directors (No 2) Limited
Christopher Patrick Willford

(Appointed 9 January 2007)

Company Secretary

SFM Corporate Services Limited

Registered Office

35 Great St Helen's
London
EC3A 6AP

Auditor

KPMG Audit Plc
1 The Embankment
Neville Street
Leeds
LS1 4DW

Directors' Report for the year ended 31 December 2006

The Directors present their Report and Financial Statements for the year ended 31 December 2006

Principal activity

Aire Valley Funding 3 plc ("the Company") is a public limited company incorporated in the United Kingdom under the Companies Act 1985 and registered in England and Wales. The Company was incorporated on 15 June 2004 under the name of Waveangel Public Limited Company. The Company changed its name to Aire Valley Funding 3 plc on 7 July 2004.

Aire Valley Holdings Limited holds one £1 ordinary fully paid share and 49,998 quarter paid ordinary shares in the Company. One £1 ordinary fully paid share is held by SFM Nominees Limited.

Business review

The Company has not traded since incorporation.

Dividend

The Directors do not recommend the payment of a final dividend for the year (2005: £nil).

Directors

The Directors who served during the year were as follows:

SFM Directors Limited

SFM Directors (No 2) Limited

Christopher Donald Gillespie (Resigned 9 January 2007)

Christopher Gillespie, SFM Directors Limited and SFM Directors (No 2) Limited are or have been Directors of Aire Valley Holdings Limited. No Director had any interest in the loan or share capital of Aire Valley Holdings Limited, or any of its subsidiaries, at any time during the year.

Disclosure of information to auditors

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

International Financial Reporting Standards

Aire Valley Holdings group and subsidiaries, including the Company, adopted International Financial Reporting Standards ("IFRS") with effect from 1 January 2005.

Political and charitable contributions

During the year no political or charitable contributions were made (2005: £nil).

Auditor

In accordance with Section 384 of the Companies Act 1985 a resolution for the re-appointment of KPMG Audit Plc as auditor of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board

SFM Corporate Services Limited

Company Secretary

18th July 2007

Statement of Directors' Responsibilities in respect of the Directors' Report and Financial Statements

The Directors are responsible for preparing the Directors' Report and 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 IFRS as adopted by the EU, and applicable laws.

The Financial Statements are required by law to present fairly the financial position and performance of the Company. The Companies Act 1985 provides in relation to such Financial Statements that references in the relevant part of that Act to Financial Statements giving a true and fair view are references to their achieving a fair presentation.

In preparing the Financial Statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether the Financial Statements have been prepared in accordance with IFRS as adopted by the EU, and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and which enable them to ensure that its Financial Statements comply with the Companies Act 1985. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Independent Auditor's Report to the members of Aire Valley Funding 3 plc

We have audited the Financial Statements of Aire Valley Funding 3 plc for the year ended 31 December 2006 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, the Statement of Changes in Equity and the related notes. 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 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

The Directors' responsibilities for preparing the Financial Statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the EU are set out in the Statement of Directors' Responsibilities on page 5.

Our responsibility is to audit the Financial Statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Financial Statements give a true and fair view and 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 information given in the Directors' Report is consistent with the Financial Statements.

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

We read the 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 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, in accordance with IFRS as adopted by the EU, of the state of the Company's affairs as at 31 December 2006 and of its result for the year then ended, and
- 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.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

18 July 2007

1 The Embankment
Neville Street
Leeds
LS1 4DW

Income Statement for the year ended 31 December 2006

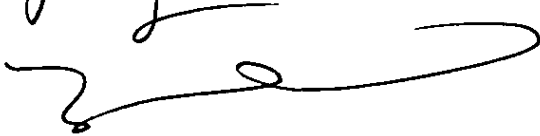
During the current and preceding financial year the Company received no income and incurred no expenditure. Consequently during those years the Company made neither a profit nor a loss and no Income Statement has been prepared.

Balance Sheet as at 31 December 2006

	<i>Note</i>	2006 £	2005 £
Cash and cash equivalents		12,502	12,502
Total current assets		12,502	12,502
Total assets		12,502	12,502
Equity			
Capital and reserves attributable to equity holders			
Share capital	3	12,502	12,502
Retained earnings		-	-
Total attributable equity		12,502	12,502
Total equity and liabilities		12,502	12,502

The notes on pages 11 and 12 form part of these Financial Statements

The Financial Statements were approved by the Board of Directors and authorised for issue on 18 July 2007 and signed on its behalf by

18 July


per pro SFM Directors Limited
as Director

Director

18 July

2007

Statement of Changes in Equity for the year ended 31 December

	Retained earnings £000	Share capital £000	Total equity £000
As at 1 January 2006 and 31 December 2006	-	12,502	12,502
As at 1 January 2005	-	2	2
Issue of share capital	-	12,500	12,500
As at 31 December 2005	-	12,502	12,502

Cash Flow Statement for the year ended 31 December

	2006	2005
	£	£
Cash and cash equivalents at beginning and end of year	<u>12,502</u>	<u>12,502</u>

Notes to the Financial Statements for the year ended 31 December 2006**1. Significant accounting policies**

Aire Valley Funding 3 plc (the "Company") is a company incorporated in the UK under the Companies Act 1985 and registered in England and Wales. The Company was incorporated on 15 June 2004.

(a) Statement of compliance

The Company's Financial Statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRS"). The Company has not adopted the following two statements issued by the IASB in August 2005 and mandatory for 2007 Financial Statements:

- The Capital Disclosures amendment to IAS 1, and
- IFRS 7 "Financial Instruments Disclosures"

These two statements relate to disclosures only, and adoption of them would have no impact on the Company's Income Statement, Balance Sheet or Cash Flow Statement.

The Financial Statements also comply with the relevant provisions of Part VII of the Companies Act 1985, as amended by the Companies Act 1985 (International Accounting Standards and other Accounting Amendments) Regulations 2004.

(b) Basis of preparation

The Financial Statements are prepared on the historical cost basis.

The Financial Statements are presented in pounds sterling, which is the currency of the Company's primary operating environment.

The Directors consider that the accounting policies set out below are the most appropriate to the Company's circumstances.

(c) Cash and cash equivalents

For the purposes of the Cash Flow Statement, cash and cash equivalents comprise balances which had an original maturity of three months or less.

Notes to the Financial Statements for the year ended 31 December 2006 (continued)**2. Employees and directors' emoluments**

There were no employees during the year and none of the Directors received emoluments in respect of their services to the Company

3. Called up share capital

Ordinary shares of £1 each	2006 Shares	2006 £	2005 Shares	2005 £
Authorised				
At 1 January and 31 December	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>
Allotted and Issued				
Ordinary shares of £1 each fully paid				
At 1 January and 31 December	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>
Ordinary shares of £1 each, 25p paid				
At 1 January and 31 December	<u>49,998</u>	<u>12,500</u>	<u>49,998</u>	<u>12,500</u>

The ordinary shares rank equally in respect of rights attached to voting, dividends and in the event of a winding up

4. Ultimate parent undertaking

The immediate parent undertaking of Aire Valley Funding 3 plc is Aire Valley Holdings Limited, a Company incorporated and registered in England and Wales

The ultimate parent undertaking of Aire Valley Funding 3 plc is SFM Corporate Services Limited, a Company incorporated and registered in England and Wales, which holds the shares of Aire Valley Holdings Ltd on a discretionary trust basis for charitable purposes

Copies of the financial statements of Aire Valley Holdings Limited and SFM Corporate Services Limited may be obtained from the Company Secretary at 35 Great St Helen's, London EC3A 6AP

Under IFRS, the Company's ultimate controlling party is Bradford & Bingley plc, a company incorporated and registered in England and Wales. Bradford & Bingley plc heads the largest and smallest group of companies into which the Financial Statements of the Company are consolidated. Copies of the financial statements of Bradford & Bingley plc may be obtained from the Company Secretary, Bradford & Bingley plc, Croft Road, Crossflatts, Bingley, West Yorkshire BD16 2UA

5. Related party disclosures

The Company had no transactions with related parties during the current or preceding financial year

6. Financial instruments

In the opinion of the Directors, the fair value of the Company's cash and cash equivalents equates to their carrying value

No financial assets were categorised as "held for trading" or "at fair value through profit or loss" in the year or preceding year

The Company's exposure to credit risk, ie the risk that a counterparty of the Company will be unable or unwilling to meet a commitment that it has entered into with the Company, is the carrying value of the Company's cash and cash equivalents

The Company has no other material exposures to market risks