AIRE VALLEY MORTGAGES 2004 – 1 PLC
Formerly Nightlynx PLC

REPORT AND ACCOUNTS 2004

Registered number
5154235

Registered Office

35 Great St. Helen's
London
EC3A 6AP

Directors' report and financial statements

Contents

Directors' report	3-4
Statement of directors' responsibilities	5
Independent auditors report to the members of Aire Valley Mortgages 2004 - 1 PLC	6
Profit and loss account	7
Balance sheet	8
Notes to the financial statements	9-18

Directors' report for the period ended 31 December 2004

Principal activity

The company was incorporated on 15 June 2004 under the name of Nightlynx PLC and subsequently changed its name to Aire Valley Mortgages 2004 - 1 PLC.

The principal activity of the company is to issue floating and/or fixed rate debt securities and to enter into financial arrangements to fund the activities of certain subsidiaries of Aire Valley Holdings Limited by means of intercompany loans. The debt securities are issued in US Dollars, Euros and Sterling.

Business review

The result for the period is shown in the profit and loss account on page 7. The result for the period ended 31 December 2004 was a profit after tax of £1,760.

Dividend

The directors do not recommend the payment of a final dividend for the period.

Payment policy

Standard terms provide for payment of all invoices within thirty days after the date of the invoice, except where different arrangements have been agreed with suppliers. It is the policy of the company to abide by the agreed terms of payment.

Financial Instruments

The Company's financial instruments, other than derivatives, comprise loans to group undertakings, borrowings, cash and liquid resources, and various items such as debtors and creditors that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Company's operations.

The Company also enters into derivatives transactions (principally cross currency swaps). The purpose of such transactions is to manage the currency risks arising from the Company's operations and its sources of finance.

It is, and has been throughout the period under review, the Company's policy that no trading in financial instruments shall be undertaken.

The main risk arising from the Company's financial instruments is currency risk. The Board reviews and agrees policies for managing this risk and they are summarised below.

Currency Risk

The Company has debt securities in issue denominated in US Dollars and Euros. The Company's policy is to eliminate all exposures arising from movements in exchange rates by the use of cross currency swaps to hedge payments of interest and principal on the securities. All other assets, liabilities and transactions are denominated in Sterling.

Directors' report (cont'd)

Interest Rate Risk

Interest rate risk exists where assets and liabilities have interest rates set under different bases or which reset at different times. The Company minimises its exposure to interest rate risk by ensuring that the characteristics of its assets and liabilities are similar; where this is not possible the Company considers the use of derivative financial instruments to mitigate any residual interest rate risk.

Credit Risk

The principal credit risk to the Company is that repayments on intercompany loans will not be met as they fall due. Such loans are ultimately secured against a beneficial interest in a mortgage portfolio held in trust on behalf of the Aire Valley Holdings Limited Group.

Liquidity Risk

A facility provided by Rabo Bank Group 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.

Directors

The directors who served during the period were as follows:

Instant Companies Ltd	(Appointed 15 June 2004 and resigned 2 July 2004)
Swift Incorporations Ltd	(Appointed 15 June 2004 and resigned 2 July 2004)
Giles Belsey	(Appointed 2 July 2004 and resigned 16 July 2004)
Marc Hutchinson	(Appointed 2 July 2004 and resigned 16 July 2004)
SFM Directors Ltd	(Appointed 16 July 2004)
SFM Directors (No.2) Ltd	(Appointed 16 July 2004)
Rosemary Prudence Thorne	(Appointed 16 July 2004)

No director had any interest in the share capital of the company at any time during the period.

International Financial Reporting Standards.

The Aire Valley Holdings Group, including Aire Valley Mortgages 2004 - 1 PLC is implementing International Financial Reporting Standards with effect from 1 January 2005.

Auditors

KPMG Audit plc were appointed as auditors on 28 September 2004.
In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board

SFM Corporate Services Limited
Company Secretary

29 June 2005

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company and of the profit or loss for that period. In preparing those 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 applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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 which 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 have 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 Mortgages 2004 – 1 PLC

We have audited the financial statements on pages 7 to 18.

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 auditors

The directors are responsible for preparing the directors' report and, as described on page 5, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority and by our profession's ethical guidance.

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 to you 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.

Basis of audit opinion

We conducted our audit in accordance with 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 2004 and of its profit for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
29 June 2005

1 The Embankment
Neville Street
Leeds
LS1 4DW

Profit and loss account for the period ended 31 December 2004

	Notes	2004 £000
Interest receivable	2	25,145
Interest payable	3	(25,135)
Net interest receivable		**10**
Administrative expenses		(7)
Profit on ordinary activities before tax	4	3
Tax on profit on ordinary activities	5	(1)
Profit for the financial period after tax		2
Retained profit for the period	15, 16	2

The company had no recognised gains or losses other than the current period's profits and therefore no separate statement of total recognised gains and losses has been presented.

There is no difference between the profit on ordinary activities before taxation and the retained profit for the period stated above and their historical cost equivalent.

All the operations of the company are continuing.

The notes on pages 9 to 18 form part of these financial statements.

Balance sheet as at 31 December 2004

	Notes	2004 £000
Current assets		
Debt securities	7	27,688
Debtors: amounts falling due within one year	8	229,552
Cash at bank and in hand		4,213
		261,453
Creditors: amounts falling due within one year	10	(233,821)
Net current assets		27,632
Debtors: amounts falling due after more than one year	9	1,775,000
Creditors: amounts falling due after more than one year	11	(1,802,617)
Net assets		15
Capital and reserves		
Called up share capital	14	13
Profit and loss account	15	2
Shareholder's funds	16	15

The notes on pages 9 to 18 form part of these financial statements.

Approved by the Board on 29 June 2005 and signed on its behalf.

..........S F M Directors Limited - **Director**

Notes to the financial statements for the period ended 31 December 2004

1. Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

Basis of accounting

The financial statements are consistently prepared on the historical cost basis of accounting and in accordance with applicable accounting standards. The financial statements are prepared on a going concern basis.

Interest

Receipts and payments are accounted for on an accruals basis.

Loans to group undertakings

Loans to group undertakings are stated at cost, less provisions, to the extent that the directors consider these amounts may not be recoverable.

Derivatives

Transactions are undertaken in derivative financial instruments, "derivatives", which include cross currency swaps. Derivatives are entered into for the purpose of eliminating risk from potential movement in exchange rates inherent in the Company's non-trading assets and liabilities. Non-trading assets and liabilities are those intended for use on a continuing basis in the activities of the Company.

A derivative is designated as non-trading where there is an offset between the effects of potential movements in market rates of the derivative and the designated asset or liability being hedged. Non-trading derivatives are reviewed regularly for their effectiveness as hedges. Non-trading derivatives are accounted for on an accruals basis, consistent with the asset or liability being hedged. Income and expense on non-trading derivatives are recognised as they accrue over the life of the instruments as an adjustment to interest receivable or payable.

The cost of interest rate and cross currency swaps, which are used to hedge on balance sheet assets and liabilities, is included in interest payable.

Foreign Currencies

Assets and liabilities are translated at the rates of exchange ruling on the balance sheet date or at the forward exchange rate as appropriate.

Profit retention

Under the terms of the securitisation the Company retains the right to a maximum of 0.01% of interest received on loans to Aire Valley Funding 1 Limited.

1. Accounting policies (cont'd)

Taxation

Corporation tax and any group relief arising is provided at the current rate on the taxable profit for the period. The charge for taxation is based on profit for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Full provision is made for deferred tax in accordance with Financial Reporting Standard No.19 *"Deferred Tax"*.

Cash flow statement

Under Financial Reporting Standard No.1 (Revised 1996) the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements.

Transactions with related parties

Aire Valley Mortgages 2004 - 1 PLC as a wholly owned subsidiary undertaking of Aire Valley Holdings Limited, has prepared its financial statements in accordance with an exemption contained in FRS 8 "Related Party Disclosures". Under this exemption the Company has not disclosed details of transactions with other group companies or undertakings of the group qualifying as related parties, as the consolidated financial statements in which Aire Valley Mortgages 2004 - 1 PLC is included are publicly available.

2. Interest receivable and similar income

	2004 £000
Interest on loans to group undertakings	25,145
	25,145

3. Interest payable and similar charges

	2004 £000
Interest on floating rate notes	15,193
Swap interest	9,942
	25,135

4. Profit on ordinary activities before tax

Profit on ordinary activities before tax is stated After charging:	2004 £000
Amortisation of set up costs	4

Auditor's remuneration for 2004 was borne by another group company.

5. Tax on profit on ordinary activities

	2004 £
a) Analysis of charge in the period	
Current tax at 30%	754

b) The 2004 current tax charge of £754 equates to an effective tax rate of 30%

6. Employees' and directors' emoluments

There were no employees during the period and none of the directors received emoluments in respect of their services to the company

7. Debt securities

The balance represents collateral provided by Credit Suisse First Boston International (CFSB) to provide security for the currency swaps held with Aire Valley Mortgages 2004 – 1 PLC. CSFB has been subject to a ratings downgrade and in consequence has posted collateral of £27.7m in respect of its obligations under the related swap agreement. This amount is held by CFSB on behalf of Aire Valley Mortgages 2004 - 1 PLC as a contingency against a default on the swap agreement. At the present time it is unlikely that a default will occur. CSFB earns interest on the collateral deposit.

8. Debtors: amounts falling due within one year

	2004 £000
Amounts due from group undertakings	228,377
Other debtors	1,175
	229,552

The inter company loans are all denominated in Sterling and are at variable rates of interest, based on LIBOR for three-month sterling deposits. The fair value of these assets is not considered materially different to the book value. Such loans have ultimately been secured against a beneficial interest in a mortgage portfolio held in trust on behalf of the Aire Valley Holdings Limited Group.

9. Debtors: amounts falling due after one year

	2004 £000
Amounts due from group undertakings	1,775,000
	1,775,000

10. Creditors: amounts falling due within one year

	2004 £000
Amounts due to note holders (see note 12)	225,000
Corporation tax payable	1
Accruals and deferred income	8,820
	233,821

11. Creditors: amounts falling due after more than one year

	2004 £000
Amounts due to note holders (see note 12)	1,775,000
Unamortised issue costs	(71)
Other creditors	27,688
	1,802,617

The other creditors balance relates to the swap collateral deposited by Credit Suisse First Boston International (see note 7).

12. Floating rate notes

The floating rate notes were issued on 5 October 2004.

Under the terms of the notes any shortfalls arising on the redemption or repossession of the mortgage assets held in Aire Valley Funding 1 Limited, over which the note holders have a floating charge, may result in a reduction in the liability under the notes. Shortfalls are allocated against the notes in reverse order to the seniority of the class of note, resulting in any such reductions being first allocated against the Class D notes.

Class	Maturity	Original Cost £000	Repaid £000	C/fwd 31 December 2004 £000
Series 1 A	Sep 2005	225,000	-	225,000
Series 2 A1	Sep 2034	250,000	-	250,000
Series 2 A2	Sep 2034	550,000	-	550,000
Series 2 A3	Sep 2034	200,000	-	200,000
Series 2 B1	Sep 2066	20,000	-	20,000
Series 2 B2	Sep 2066	44,900	-	44,900
Series 2 C1	Sep 2066	20,000	-	20,000
Series 2 C2	Sep 2066	51,800	-	51,800
Series 3 A1	Sep 2066	215,000	-	215,000
Series 3 A2	Sep 2066	315,000	-	315,000
Series 3 B1	Sep 2066	20,000	-	20,000
Series 3 B2	Sep 2066	17,000	-	17,000
Series 3 C1	Sep 2066	20,000	-	20,000
Series 3 C2	Sep 2066	21,300	-	21,300
Series 3 D1	Sep 2066	15,000	-	15,000
Series 3 D2	Sep 2066	15,000	-	15,000
		2,000,000		2,000,000

Falling due within one year	225,000
Falling due after one year	1,775,000

12. Floating Rate Notes (cont'd)

The floating rate notes are denominated in the following currencies:

	2004 £000
Sterling	560,000
US Dollars	425,000
Euros	1,015,000
	2,000,000

Subject to their scheduled redemption dates, the Class A notes rank, irrespective of series, without preference or priority among themselves. Subject to the relevant scheduled and/or, as applicable, permitted redemption dates or other payment conditions of the issuer notes, payments of principal and interest due and payable on the Class A notes will rank ahead of payments of principal and interest due and payable on the Class B issuer notes and the Class C issuer notes, subject to the terms and conditions of the issuer notes, the issuer cash management agreement, the issuer deed of charge and the other issuer transaction documents. Similarly, payments of principal and interest due and payable on the Class B issuer notes will rank ahead of payments of principal and interest due and payable on the Class C issuer notes.

Interest is payable on the Series 1 Class A notes at a variable rate based on one month US Dollar LIBOR. Interest is payable on the Series 2 Class A3 notes at a variable rate based on three month US Dollar LIBOR. Interest is payable on the Series 2 Class A2, Series 2 Class B2, Series 2 Class C2, Series 3 Class A2, Series 3 Class B2, Series 3 Class C2 and Series 3 Class D2 issuer notes at variable rates based upon three month EURIBOR. Interest is payable on Series 2 Class A1, Series 2 Class B1, Series 2 Class C1, Series 3 Class A1, Series 3 Class B1, Series 3 Class C1 and Series 3 Class D1 issuer notes at variable rates based upon three month sterling LIBOR.

The Company's obligations to noteholders and to other secured creditors, are secured under a deed of charge which grants security over all of its assets in favour of the security trustee. The principal assets of the Company are loans made by it to Aire Valley Funding 1 Limited, a group company, whose obligations in respect of these loans are secured pursuant to a deed of charge which grants security over all its assets, primarily consisting of its beneficial interest in a portfolio of residential mortgage loans, in favour of the security trustee. The security trustee holds this security for the benefit of all secured creditors of Aire Valley Funding 1 Limited, including the Company.

12. Floating Rate Notes (cont'd)

The estimated fair values of the floating rate notes, based on the mid-market price on 31 December 2004, are as follows:

	2004
	£
Series 1 Class A Floating Rate Notes 2005	210,214,886
Series 2 Class A1 Floating Rate Notes 2034	250,000,000
Series 2 Class A2 Floating Rate Notes 2034	568,495,575
Series 2 Class A3 Floating Rate Notes 2034	186,857,677
Series 2 Class B1 Floating Rate Notes 2066	20,000,000
Series 2 Class B2 Floating Rate Notes 2066	46,371,681
Series 2 Class C1 Floating Rate Notes 2066	20,000,000
Series 2 Class C2 Floating Rate Notes 2066	53,451,327
Series 3 Class A1 Floating Rate Notes 2066	215,000,000
Series 3 Class A2 Floating Rate Notes 2066	325,663,717
Series 3 Class B1 Floating Rate Notes 2066	20,000,000
Series 3 Class B2 Floating Rate Notes 2066	17,699,115
Series 3 Class C1 Floating Rate Notes 2066	20,000,000
Series 3 Class C2 Floating Rate Notes 2066	21,946,903
Series 3 Class D1 Floating Rate Notes 2066	15,000,000
Series 3 Class D2 Floating Rate Notes 2066	15,575,221
	2,006,276,102

13. Financial instruments

The Company's policies as regards derivatives and financial instruments are set out in the report of the Directors on page 3 and the accounting policies on page 9. The Company does not trade in financial instruments. The following disclosures are made in respect of financial instruments. Short term debtors and creditors are excluded from the following disclosures, except for note 13(a).

13(a). Maturity profile of financial liabilities

2004

	Floating Rate Notes	Other liabilities	Total liabilities
	£000	£000	£000
Within one year or less on demand	225,000	8,821	233,821
More than one year but no more than two years	-	27,617	27,617
More than two years but no more than five years	-	-	-
More than five years	1,775,000	-	1,775,000
	2,000,000	36,438	2,036,438

13(a). Financial Instruments (cont'd)

There is a liquidity facility of £30.0m provided by Rabo Bank Group in the event that the Company is unable to meet its financial commitments, on a temporary basis, in certain circumstances and subject to certain criteria. At 31 December 2004 this facility was not required.

13(b). Interest rate profile of financial assets and liabilities

2004

After taking into account the cross currency and interest rate swaps entered into by Credit Suisse First Boston International, ABN AMRO and Barclays Capital on behalf of the company the interest rate profile of the Company's financial assets and liabilities as at 31 December 2004 was:

ASSETS	Total	Floating Rate	Non interest bearing	Fixed	Weighted average period until maturity*
	£000	£000	£000	£000	Years
Loans to group Undertakings	2,000,000	2,000,000	-	-	-
Cash at bank in hand	4,213	-	-	-	-
	2,004,213	2,000,000	-	-	-
LIABILITIES					
Floating rate notes	2,000,000	2,000,000	-	-	-

*for non-interest bearing assets/liabilities only.

Benchmark rates for determining interest payments for the floating rate assets and liabilities are given in the note to the financial statements relevant to the financial instrument type.

13. Financial Instruments (cont'd)

13(c). Gains and losses on hedges

2004

	Gains	Losses	Total net gains/(losses)
	£000	**£000**	**£000**
Unrecognised gains and losses on hedges at incorporation	-	-	-
Gains and losses arising in 2004 that were not recognised in 2004	34,203	(27,927)	6,276
Unrecognised gains and losses on hedges at 31 December 2004	34,203	(27,927)	6,276
Of which			
Gains and losses expected to be recognised in 2005	-	(14,785)	(14,785)
Gains and losses expected to be recognised in 2006, or later	34,203	(13,142)	21,061

At 31 December 2004 accrued interest receivable and accrued interest payable amounted to £(1.3)m; accordingly the fair value of derivative financial instruments at 31 December 2004 is £5.0m.

Unrecognised gains and losses are principally in respect of cross currency swaps.

14. Called up share capital

	2004
	£
Authorised	
100,000 Ordinary shares of £1 each	100,000
Allotted, and issued	
2 Ordinary shares of £1 each fully paid	2
49,998 Ordinary shares of £1 a quarter paid up	12,499
	12,501

15. Movement on reserves

	Profit and loss reserve 2004 £000
At the beginning of the period	-
Retained profit for the period	2
At the end of the period	2

16. Shareholder's funds

	2004 £000
New share capital subscribed	13
Profit for the period	2
Net movement in shareholder's funds	15
Opening shareholder's funds	-
Closing shareholder's funds	15

17. Ultimate parent undertaking

The immediate parent undertaking of Aire Valley Mortgages 2004 – 1 PLC is Aire Valley Holdings Limited a company incorporated in Great Britain and registered in England and Wales.

SFM Corporate Services Limited holds the shares in Aire Valley Holdings Limited under a declaration of trust for the benefit of certain charitable organisations.

The only group of which Aire Valley Mortgages 2004 – 1 PLC is a member and whose consolidated accounts are prepared is that headed by Aire Valley Holdings Limited. Copies of these accounts can be obtained from the Company Secretary, 35 Great St. Helen's, London EC3A 6AP.