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DB U.K. FINANCE p.l.c.

Company Number: 1268118

REPORTS AND FINANCIAL STATEMENTS

31 December 1998

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REPORT OF THE DIRECTORS  
For the year ended 31 December 1998

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The Directors present their annual report and the audited financial statements for the year ended 31 December 1998.

### ACTIVITIES AND REVIEW OF BUSINESS

The principal activity of the Company is funding group undertakings. The Company has continued to consolidate its position as a group funding vehicle while retaining a certain volume of lending to international companies. The Directors do not envisage that there will be any substantial change in the foreseeable future in the operations of the Company and its business continues without significant change. During the year the Company provided against a loan to its subsidiary undertaking, DB Investments (AXM) Limited of £15,209,000 and provided for losses incurred by that company of £38,326,000. As a result of an undertaking from DB Investments (GB) Limited the Company is able to continue trading as a going concern. The position at the end of the year is reflected in the audited balance sheet as set out on page 5.

### RESULTS AND DIVIDENDS

The profit and loss account of the Company for the year ended 31 December 1998, after providing for taxation, show a loss of £51,422,000 (1997 - loss £18,088,000). The Directors do not recommend the payment of a dividend for the year ended 31 December 1998 (1997 - £nil).

### DIRECTORS

The Directors of the Company at 31 December 1998 were as follows:

SD Moeller	(appointed 22 September 1998)
DG Penfold	
O Santoro	(appointed 11 December 1998)
P Thomason	(appointed 2 October 1998)

Messrs C-W Bertram and CHS Low resigned as Directors of the Company on 10 February 1998 and 22 September 1998 respectively. Mr GS Clark resigned as Secretary and Mr D Cummins was appointed as Secretary on 12 November 1998. There were no further changes during the year or subsequent to the year end.

### 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 of the Company 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 which 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.

REPORT OF THE DIRECTORS (continued)  
For the year ended 31 December 1998

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### DIRECTORS' INTERESTS

None of the Directors had an interest in the share capital of the Company during the year.

None of the Directors had any disclosable interest in the shares or debentures of any UK group undertaking at the end of the year, or were granted or exercised any right to subscribe for shares in, or debentures of, any UK group undertaking during the year.

### YEAR 2000

The Directors are aware of the problem posed to computer systems by the Year 2000 date change and of its potential impact on the Company's financial condition and business operations.

Deutsche Bank AG, the Company's ultimate holding company, set up a global Year 2000 Project in 1996 which covers all consolidated Deutsche Bank Group companies. A global steering committee which reports to the Group Board supervises the Project. The Steering Committee is assisted by a global Year 2000 Project Management Office which monitors 290 local projects world-wide.

The global Year 2000 Project's programme of work includes the Group's entire internal IT-infrastructure, site-based services (embedded chips), external suppliers of hardware and software, self-developed software applications, end-user computing, a programme for risk management and business continuity planning. The Project is now in its final stage, which comprises the validation of renovated systems and applications through comprehensive testing, the implementation of tested systems and applications and the establishment of contingency arrangements for Year 2000 specific risks. Year 2000 conformance will be assessed when all external tests with exchanges, cash, payment and settlement systems, key clients, counterparties and regulatory bodies have been completed.

None of the Deutsche Bank Group systems are owned by the Company and accordingly no costs will be directly incurred by, or recharged to, the Company.

### AUDITORS

In accordance with Section 385 of the Companies Act 1985, a resolution for the reappointment of KPMG Audit Plc as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board of Directors this 25<sup>th</sup> day of May 1999.



**D Cummins**  
*Secretary*

6 Bishopsgate  
London  
EC2P 2AT

AUDITORS' REPORT TO THE  
MEMBERS OF DB U.K. FINANCE p.l.c.  
For the year ended 31 December 1998

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We have audited the financial statements on pages 4 to 11.

*Respective responsibilities of directors and auditors*

As described on page 1 the Company's Directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

*Basis of 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 1998 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*KPMG Audit Plc*

KPMG Audit Plc  
Chartered Accountants  
Registered Auditor

8 Salisbury Square  
London EC4Y 8BB

25<sup>th</sup> May 1999

PROFIT AND LOSS ACCOUNT  
For the year ended 31 December 1998

	<i>Note</i>	<u>1998</u> £000	<u>1997</u> £000
Income from loans to subsidiary undertakings	2	813	1,008
Income from shares in associated undertakings		2,644	1,325
Other interest receivable and fee income	3	10,589	11,739
Interest payable and similar charges	4	(11,114)	(11,866)
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Administrative expenses		2,932 (165)	2,206 (154)
Provision against loans to, and investments in, subsidiary undertakings	10	(15,209)	(19,900)
Provision for losses of subsidiary undertakings	15	(38,326)	-
Other operating income		-	1
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Loss on ordinary activities before taxation	5,6	(50,768)	(17,847)
Tax on loss on ordinary activities	9	(654)	(241)
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Loss after tax for the financial year	17	(51,422)	(18,088)
Retained (loss)/profit brought forward		(17,387)	701
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Retained loss carried forward		(68,809)	(17,387)
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All the above items relate to the continuing operations of the Company.

The Company has no recognised gains and losses in the period other than those passing through the profit and loss account, therefore a statement of total recognised gains and losses is not required.

BALANCE SHEET  
31 December 1998

	Note	1998 £000	1997 £000
Fixed assets			
Investments	10	38,400	63,065
Current assets			
Investments	11	8,641	-
Debtors:			
amounts falling due within one year	12	155,459	109,153
amounts falling due after more than one year	12	11,794	37,176
Creditors: amounts falling due within one year	13	175,894 (169,402)	146,329 (141,505)
Net current assets		6,492	4,824
Total assets less current liabilities		44,892	67,889
Creditors: amounts falling due after more than one year	14	(25,375)	(35,276)
Provision for liabilities and charges	15	(38,326)	-
Net (liabilities)/assets		(18,809)	32,613
Capital and reserves			
Called up share capital	16	50,000	50,000
Profit and loss account		(68,809)	(17,387)
Shareholders' funds	17	(18,809)	32,613

These financial statements were approved by the Board of Directors on 25<sup>th</sup> May 1999.

  
 Signed by DG Penfold for and  
 on behalf of the Board of Directors  
 this      day of May 1999

NOTES TO THE ACCOUNTS  
For the year ended 31 December 1998

**1. ACCOUNTING POLICIES**

The financial statements have been prepared in accordance with the Companies Act 1985 and applicable accounting standards. DB Investments (GB) Limited, the immediate parent undertaking, has undertaken to support the Company and ensure that it is in a position to settle its debts as and when they fall due. Accordingly, the Directors consider that it is appropriate to prepare these financial statements on a going concern basis. The particular accounting policies are described below.

**(a) Basis of preparation**

The financial statements have been prepared in accordance with applicable accounting standards, and under the historical cost accounting convention.

The Company is exempt by virtue of section 228 of the Companies Act 1985 from the requirement to prepare group accounts. These financial statements present information about the Company as an individual undertaking and not about its group.

**(b) Interest income/expense**

Interest income and expense is accounted for on an accruals basis.

**(c) Commitment/participation fee income**

Commitment and participation fee income is accounted for on an accruals basis.

**(d) Foreign currencies**

Foreign currency assets and liabilities have been translated into sterling at the market rates of exchange ruling at the balance sheet date. Gains and losses on exchange are included in the profit and loss account. Foreign currency income and expense is translated into sterling at the rate ruling on the date of receipt or payment.

**(e) Deferred taxation**

Deferred taxation is provided in respect of timing differences which result from the allocation of items to different periods for taxation and accounting purposes, to the extent that it is probable that the liability or asset will crystallise.

**(f) Cash Flow Statement**

The Company is exempt from the requirement to prepare a Cash Flow Statement under Financial Reporting Standard 1 (Revised 1996) as it is a wholly owned subsidiary undertaking of a company which prepares consolidated financial statements which are publicly available.

**(g) Current asset investments**

Current asset investments are held at the lower of cost and their estimated market value. Where a diminution in value occurs, the investments will be written down accordingly.

**2. INCOME FROM LOANS TO SUBSIDIARY UNDERTAKINGS**

	<u>1998</u> £000	<u>1997</u> £000
Income from loans to subsidiary undertakings	813	1,008

NOTES TO THE ACCOUNTS (continued)  
For the year ended 31 December 1998

**3. OTHER INTEREST RECEIVABLE AND FEE INCOME**

	<u>1998</u>	<u>1997</u>
	£000	£000
Receivable from group undertakings	2,709	7,008
Other	7,880	4,731
	<u>10,589</u>	<u>11,739</u>

**4. INTEREST PAYABLE AND SIMILAR CHARGES**

All interest payable and similar charges are payable to group undertakings.

**5. ANALYSIS OF LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION**

	<u>1998</u>	<u>1997</u>
	Attributable pre-tax loss £000	Attributable pre-tax loss £000
<i>By activity</i>		
Lending	123	728
Investment holding	(50,891)	(18,575)
	<u>(50,768)</u>	<u>(17,847)</u>

No amounts for turnover have been disclosed as there is no meaningful equivalent for the Company's business.

**6. LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION**

	<u>1998</u>	<u>1997</u>
	£000	£000
<i>Operating loss on ordinary activities before taxation is stated after charging:</i>		
Administration fee payable to parent undertaking	161	153
Auditors' remuneration:		
Audit	4	9
	<u></u>	<u></u>

**7. REMUNERATION OF DIRECTORS**

None of the Directors received any emoluments during the year (1997 - £nil).

**8. STAFF NUMBERS AND COSTS**

There were no employees or staff costs during the year (1997 - £nil).



NOTES TO THE ACCOUNTS (continued)  
For the year ended 31 December 1998

9. TAXATION

	<u>1998</u> £000	<u>1997</u> £000
Payment for group relief at 31% (1997 - 31.5%)	40	115
Tax credit on franked investment income	529	265
Adjustments relating to prior years	<u>85</u>	<u>(139)</u>
	<u>654</u>	<u>241</u>

10. FIXED ASSET INVESTMENTS

	Shares in group undertakings £000	Loans to group undertakings £000	Total £000
<i>Cost</i>			
At 1 January	64,364	28,601	92,965
Additions	-	15,209	15,209
Disposals	(27)	(24,601)	(24,628)
Exchange adjustment	(37)	-	(37)
At 31 December	<u>64,300</u>	<u>19,209</u>	<u>83,509</u>
<i>Provision</i>			
At 1 January	29,900	-	29,900
Charge for the year	-	15,209	15,209
At 31 December	<u>29,900</u>	<u>15,209</u>	<u>45,109</u>
<i>Net book amount</i>			
At 31 December 1998	<u>34,400</u>	<u>4,000</u>	<u>38,400</u>
At 31 December 1997	<u>34,464</u>	<u>28,601</u>	<u>63,065</u>
Comprising:			
Subsidiary undertakings	29,616	4,000	33,616
Associated undertaking	4,784	-	4,784
	<u>34,400</u>	<u>4,000</u>	<u>38,400</u>

NOTES TO THE ACCOUNTS (continued)  
For the year ended 31 December 1998

10. FIXED ASSET INVESTMENTS (continued)

Details of the Company's investments are as follows:

	Country of registration	Principal activity	Class and percentage of shares held
<i><b>Subsidiary undertakings</b></i>			
Deutsche Bank Gilts Limited	England and Wales	Non-trading	100% ordinary shares
DB U.K. Nominees Limited	England and Wales	Nominee holding company	100% ordinary shares
Deutsche Sharps Pixley Metals Limited	England and Wales	Ring dealing member of The London Metal Exchange	100% ordinary shares
Deutsche Sharps Pixley Metals Inc	USA	Non-Ferrous broking services	100% ordinary shares
Deutsche Financial Services (U.K.) Limited	England and Wales	Consumer finance	100% ordinary shares
Deutsche Futures London Limited (formerly Deutsche Morgan Grenfell Futures Limited)	England and Wales	Futures and options broking	100% ordinary shares
DB Investments (AXM) Limited	England and Wales	Holding company	100% ordinary shares
Morgan Grenfell Investments N.V. ¶	Netherlands	Holding company	100% ordinary shares
UKF Building Services Limited	England and Wales	Leasing and building contractor	100% ordinary shares
UKF Leasing Limited	England and Wales	Leasing	100% ordinary shares
Sturt No. 1 Limited	England and Wales	Investment holding company	100% ordinary shares
Sturt No. 2 Limited	England and Wales	Investment holding company	100% ordinary shares
Sturt No. 3 Limited	England and Wales	Investment holding company	100% ordinary shares
<i><b>Associate undertaking</b></i>			
Gordian Knot Limited	England and Wales	Investment management	33.7% ordinary shares

Investments marked ¶ are held indirectly by the Company. Those subsidiary undertakings which do not materially affect the financial position of the Company have not been shown. Full details have been included in the Company's 1998 annual return in accordance with Section 231 (6) of the Companies Act 1985.

NOTES TO THE ACCOUNTS (continued)  
For the year ended 31 December 1998

# 11. INVESTMENTS

	<u>1998</u> £000
At 1 January	-
Addition	8,641
At 31 December	<u>8,641</u>

During the year, the company purchased several unlisted investments. The investments are held at cost which is not significantly different from market value.

# 12. DEBTORS

	<u>1998</u>		<u>1997</u>	
	Due within one year £000	Due after one year £000	Due within one year £000	Due after one year £000
Commercial loans, advances and similar items	116,574	-	67,396	-
Amounts owed by group undertakings	38,599	11,794	41,063	37,176
Other debtors	286	-	694	-
	<u>155,459</u>	<u>11,794</u>	<u>109,153</u>	<u>37,176</u>

# 13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	<u>1998</u> £000	<u>1997</u> £000
Amounts owed to parent and fellow subsidiary undertakings	169,271	141,348
Other creditors	131	157
	<u>169,402</u>	<u>141,505</u>

# 14. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	<u>1998</u> £000	<u>1997</u> £000
Amounts owed to parent and fellow subsidiary undertakings all repayable within five years	25,375	35,276

NOTES TO THE ACCOUNTS (continued)  
For the year ended 31 December 1998

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**15. PROVISION FOR LIABILITIES AND CHARGES**

	<u>1998</u> £000
Balance at 1 January	-
Charge for year	38,326
Balance at 31 December	<u>38,326</u>

Due to significant losses incurred by DB Investments (AXM) Limited the Directors have decided that it is prudent for the Company to provide for these amounts.

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**16. CALLED UP SHARE CAPITAL**

	<u>1998</u> £000	<u>1997</u> £000
<i>Authorised, issued and fully paid</i>		
50,000,000 ordinary shares of £1 each	<u>50,000</u>	<u>50,000</u>

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

	<u>1998</u> £000	<u>1997</u> £000
Loss after tax for the financial year	(51,422)	(18,088)
Opening shareholders' funds	<u>32,613</u>	<u>50,701</u>
Closing shareholders' funds	<u>(18,809)</u>	<u>32,613</u>

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**18. CONTINGENT LIABILITIES**

At 31 December 1998 the Company had entered into forward foreign exchange contracts in the normal course of business.

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**19. ULTIMATE PARENT COMPANY AND OTHER PARENT UNDERTAKINGS**

DB Investments (GB) Limited, a company registered in England and Wales, is the Company's immediate controlling entity.

Deutsche Bank AG, a company incorporated in Germany, is the ultimate parent company, the ultimate controlling entity and the parent undertaking of the only group of undertakings for which group financial statements are drawn up. Copies of the Group financial statements of this company are available to the public and may be obtained from 6 Bishopsgate, London EC2P 2AT. No other group accounts include the results of the Company.

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**20. RELATED PARTY TRANSACTIONS**

As permitted by paragraph 3(c) of Financial Reporting Standard 8, no disclosure is made of transactions with members or associates of the Deutsche Bank AG group.

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