

ABBEY NATIONAL INDEPENDENT INVESTMENTS

REPORT AND ACCOUNTS

For the year ended 31 March 1998

Registered in England and Wales No. 2468305



ABBEY NATIONAL INDEPENDENT INVESTMENTS

DIRECTORS' REPORT

The directors present the report and accounts of Abbey National Independent Investments for the year ended 31 March 1998.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

Since incorporation the company has acted as an investment company. The directors foresee no change in its activities.

RESULTS FOR THE YEAR

The profit for the year on ordinary activities after taxation amounted to £10,817 (1997: £12,076) and has been transferred to reserves. The directors do not recommend the payment of a dividend.

DIRECTORS AND THEIR INTERESTS

The directors who held office during the year were:

I Harley	Chairman (Resigned 1 March 1998)
I K Treacy	
J King	
M A Pain	Chairman (Appointed 1 March 1998)

In accordance with the Articles of Association of the company the directors are not required to apply for re-election.

The directors did not have any interest in the shares and debentures of the company or any other subsidiaries of Abbey National plc.

I Harley was a director of Abbey National plc, the ultimate parent undertaking at 31 March 1998 and his interests in the shares and share options of that company are disclosed in the accounts of that company.

The interests of I K Treacy, J King and M A Pain in the ordinary shares of 10p each of Abbey National plc are shown below:

	Shares at 1 April 1997 (or date of appointment)	At 31 March 1998	Options at 1 April 1997 (or date of appointment)	Granted	Exercised	At 31 March 1998
I.K. Treacy	9,078	9,078	117,546	-	-	117,546
J. King	18,423	19,265	114,806	291	10,025	105,072
M.A. Pain	5,581	5,581	40,864	-	-	40,864

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DIRECTORS' REPORT (continued)

DIRECTORS AND THEIR INTERESTS (continued)

Options granted to directors under the ultimate parent undertaking's Sharesave Schemes are exercisable at prices between 149p to 668p per share within six months of the fifth and seventh anniversary of the contract start date. Options granted under the Executive Share Option Scheme are exercisable at prices between 254p to 722p per share after three or five years and within ten years from the date of the grant. Options granted under the Employee Share Option Scheme are exercisable at a price of 591p after three years and within ten years from the date of the grant.

Shares awarded under the Abbey National Long Term Incentive Plan (the 'Plan') are held by the Abbey National Employee Trust (the 'Trust'). Whilst the Plan is currently restricted to the members of the Abbey National plc Executive Committee, 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 March 1998, the Trust held 268,936 ordinary shares (1997: nil).

The directors did not have any interest in the shares and debentures of the company or other subsidiaries of Abbey National plc.

YEAR 2000 AND ECONOMIC AND MONETARY UNION

The Company is aware of the significant compliance risks faced on connection with Year 2000 and the strategic and operational risks posed by Economic and Monetary Union (EMU). These issues are being addressed by both the parent undertaking, Abbey National Treasury Services plc, through the provision of management, technology and systems support, and the ultimate parent undertaking, Abbey National plc, through a Group-wide steering committee.

Further disclosures in respect of both Year 2000 and EMU, including details of the impact on business, risks and uncertainties, general plans to address these issues and estimated costs of these plans are detailed in the consolidated accounts of both the parent and ultimate parent undertaking.

AUDITORS

In accordance with Section 386 of the Companies Act 1985, the company has elected to dispense with the obligation to appoint auditors annually.

Coopers & Lybrand, the company's auditors, are therefore deemed to be reappointed as the company's auditors for each succeeding financial year, so long as such election remains in force.

ABBEY NATIONAL INDEPENDENT INVESTMENTS

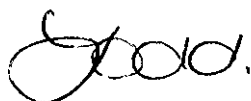
DIRECTORS' REPORT (continued)

STATEMENT OF THE DIRECTORS' RESPONSIBILITIES

The directors of Abbey National Independent Investments are required by UK company law to prepare accounts which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for the year. They are also responsible for ensuring that proper and adequate accounting records have been maintained, and that reasonable procedures have been followed for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities. In respect of the accounts, the directors are required to:

- ensure that appropriate accounting policies, which follow generally accepted accounting practice, have been applied consistently;
- ensure that reasonable and prudent judgements and estimates have been used in the preparation of the accounts;
- prepare the accounts on the going concern basis, unless it is inappropriate to presume that the company will continue in business; and
- state whether applicable accounting standards have been followed and to disclose and explain any material departures in the accounts.

By Order of the Board



For and on behalf of
Abbey National Secretariat Services Limited
Company Secretary

Registered Office: Abbey House
Baker Street
London
NW1 6XL
England

REPORT OF THE AUDITORS TO THE MEMBERS OF ABBEY NATIONAL INDEPENDENT INVESTMENTS

We have audited the accounts on pages 5 to 10.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on page 3, the company's directors are responsible for the preparation of accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts 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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 accounts 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 accounts.

OPINION

In our opinion the accounts give a true and fair view of the state of the company's affairs at 31 March 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Coopers & Lybrand

Coopers & Lybrand
Chartered Accountants and Registered Auditors
London

9 - Dec - 1998

ABBEY NATIONAL INDEPENDENT INVESTMENTS

PROFIT AND LOSS ACCOUNT

For the year ended 31 March 1998

	Notes	1998 £	1997 £
Investment income and gains	3	14,408	16,069
Administrative expenses	4	(321)	(322)
		<hr/>	<hr/>
Profit on ordinary activities before taxation		14,087	15,747
Taxation	5	(3,270)	(3,671)
		<hr/>	<hr/>
Profit for the financial year	10	<u>10,817</u>	<u>12,076</u>

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


The company's results as reported are on an historical cost basis. Accordingly, no separate statement of historical cost profits and losses has been presented.

ABBEE NATIONAL INDEPENDENT INVESTMENTS

BALANCE SHEET as at 31 March 1998

	Notes	1998 £	1997 £
Fixed assets			
Investment	6	<u>195,891</u>	<u>206,176</u>
Current assets			
Amounts due from fellow subsidiary undertakings		81,004	53,050
Amounts due from group undertakings		2	2
Sundry debtors		48	-
Cash at bank and in hand		13,643	20,164
		<u>94,697</u>	<u>73,216</u>
Creditors: amounts falling due within one year	7	(3,183)	(2,804)
Net current assets		<u>91,514</u>	<u>70,412</u>
Total assets less current liabilities		<u>287,405</u>	<u>276,588</u>
Capital and reserves			
Called up share capital	9	181,736	181,736
Profit and loss account	10	105,669	94,852
Equity shareholders' funds	11	<u>287,405</u>	<u>276,588</u>

The accounts on pages 5 to 10 were approved by the Board of Directors on 9/12/98 and were signed on its behalf by:


..... Director

ABBNEY NATIONAL INDEPENDENT INVESTMENTS

NOTES TO THE ACCOUNTS

1. ACCOUNTING POLICIES

Basis of accounting

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

Investment income

Investment income is recognised upon receipt.

Fixed asset investments

Listed investments are shown at cost less provision for any permanent diminution in value.

Deferred taxation

Deferred taxation is provided only where it is probable that a taxation asset or liability will arise. Provision is made at rates expected to be applicable when the assets or liabilities are realised.

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.

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 cash flow statement as prescribed in Paragraph 5(a) of Financial Reporting Standard 1, Cash Flow Statements (Revised).

3. INVESTMENT INCOME AND GAINS

	1998 £	1997 £
Income from listed investments	9,731	11,826
Profit on disposal of listed investments	2,357	-
Loss on disposal of listed investments	(2,234)	-
Interest income from group undertakings	3,578	4,243
Other interest	976	-
	<u>14,408</u>	<u>16,069</u>

ABBEE NATIONAL INDEPENDENT INVESTMENTS

NOTES TO THE ACCOUNTS (continued)

4. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

No emoluments were paid to the directors by the company during the year and no appropriation of directors' remuneration has been made by the ultimate parent undertaking to the company (1997: nil). However I Harley received emoluments in respect of his service as a director of Abbey National plc, details of which can be found in the accounts of Abbey National plc.

The directors' remuneration has been borne by the immediate parent undertaking, Abbey National Investments Holdings Limited.

The company had no directly employed staff during the period (1997: nil).

The company paid a management charge of £321 (1997: £322) to a fellow subsidiary undertaking during the year.

5. TAXATION

	1998 £	1997 £
Gross profit payable at 33% (1997: 33%)	1,329	1,306
Tax on franked investment income	1,924	2,365
Corporation tax	17	-
Double taxation relief	(17)	-
Other tax	17	-
	<u>3,270</u>	<u>3,671</u>

6. INVESTMENTS

Investments listed on a recognised stock exchange:

	£
As at 31 March 1997	206,176
Acquisitions	6,767
Disposals	(17,052)
	<u>195,891</u>
As at 31 March 1998	<u>195,891</u>

The market value of the listed investments at 31 March 1998 was £257,761 (1997: £180,953).

ABBEY NATIONAL INDEPENDENT INVESTMENTS

NOTES TO THE ACCOUNTS (continued)

7. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	1998 £	1997 £
Amounts due to parent and subsidiary undertakings	<u>3,183</u>	<u>2,804</u>

8. SIGNIFICANT SHAREHOLDINGS

Investments where the aggregate amount of the shareholding in the undertaking exceeds 20 per cent of the total assets of the company as stated on the balance sheet:

Name	Country of incorporation or registration	Class of capital	% of class held
B...	England & Wales	Ordinary	< 1

9. CALLED UP SHARE CAPITAL

	1998 £	1997 £
Authorised: 186,000 ordinary shares of £1 each	<u>186,000</u>	<u>186,000</u>
Allocated: 181,736 ordinary shares of £1 each	<u>181,736</u>	<u>181,736</u>
Called up	<u>181,736</u>	<u>181,736</u>
Paid up	181,734	181,734
Called up but not yet paid	2	2
	<u>181,736</u>	<u>181,736</u>

10. PROFIT AND LOSS ACCOUNT

	£
As at 1 April 1997	94,852
Retained profit for the year	<u>10,817</u>
As at 31 March 1998	<u>105,669</u>

ABBNEY NATIONAL INDEPENDENT INVESTMENTS

NOTES TO THE ACCOUNTS (continued)

11. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	1998 £	1997 £
Shareholders' funds at 1 April	276,588	264,512
Profit for the financial year	<u>10,817</u>	<u>12,076</u>
Shareholders' funds at 31 March	<u>287,405</u>	<u>276,588</u>

12. ULTIMATE PARENT UNDERTAKING

The company's immediate parent undertaking is Abbey National Investments Holdings Limited which is registered in England and Wales. According to the register kept by the company, Abbey National Investments Holdings Limited has a 100% interest in the equity capital of Abbey National Independent Investments at 31 March 1998.

The company's ultimate parent undertaking and controlling party is Abbey National plc which is registered in England and Wales. Abbey National plc has a 100% interest in the equity capital of Abbey National Investments Holdings Limited according to the register kept by the latter company at 31 March 1998.

Consolidated accounts for Abbey National plc and the accounts of Abbey National Investments Holdings Limited are available from Abbey House, Baker Street, London, NW1 6XN.