

**ABBAY NATIONAL BAKER STREET INVESTMENTS**

**REPORT AND ACCOUNTS**

**For the year ended 31 December 1998**

**Registered in England and Wales No. 2468307**



## **ABBNEY NATIONAL BAKER STREET INVESTMENTS**

### **DIRECTORS' REPORT**

The directors present their report and accounts of Abbey National Baker Street Investments for the year ended 31 December 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**

Profit for the year on ordinary activities after taxation amounted to £2,597,229 (1997: £2,057) 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	Resigned 1 March 1998
I K Treacy	
J King	
M A Pain	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.

M A Pain and I K Treacy were directors of Abbey National plc, the ultimate parent undertaking at 31 December 1998 and their interests in the shares and share options of that company are disclosed in the accounts of that company.

The interests of J King in the ordinary shares of 10p each of Abbey National plc are shown below:

	<b>Shares at 1 Jan 1998</b>	<b>Shares at 31 Dec 1998</b>	<b>Options at 1 Jan 1998</b>	<b>Granted</b>	<b>Exercised</b>	<b>Options at 31 Dec 1998</b>
J King	20,957	36,500	104,781	349	60,357	44,773

## **ABBEE NATIONAL BAKER STREET INVESTMENTS**

### **DIRECTORS' REPORT (continued)**

#### **DIRECTORS AND THEIR INTERESTS (continued)**

Options granted to directors under the ultimate holding company's Sharesave Schemes are exercisable at prices between 232p to 1087p 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 Scheme are exercisable at prices between 254p to 1195p per share after three or five years and before ten years from the date of the grant.

Shares in respect of Executive Share Options granted in 1998 are held by the Abbey National Executive Share Option Plan 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 1998, the Trust held 784,663 Ordinary Shares. (1997:nil)

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 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 December 1998, the Trust held 268,936 ordinary shares (1997:129,780 ).

#### **YEAR 2000 AND ECONOMIC AND MONETARY UNION**

The company is aware of the significant compliance and operational risks faced in connection with Year 2000 and the strategic and operational risks posed by Economic and Monetary Union (EMU). These issues are being addressed by the ultimate parent undertaking, Abbey National plc, through the provision of management, technology and systems support, and 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.

The Board of the parent company, Abbey National plc, announced on 10 November 1998 its intention to nominate Deloitte & Touche for appointment as auditors of Abbey National plc and its subsidiaries. Deloitte & Touche have expressed their willingness to accept this appointment. Accordingly, Cooper & Lybrand will retire following approval of the 1998 accounts, and Deloitte & Touche will be appointed.

## **ABBNEY NATIONAL BAKER STREET INVESTMENTS**

### **DIRECTORS' REPORT (continued)**

#### **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The directors of Abbey National Baker Street 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 group 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 Ltd.  
company Secretary**

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

## **REPORT OF THE AUDITORS TO THE MEMBERS OF ABBEY NATIONAL BAKER STREET INVESTMENTS**

We have audited the accounts on pages 5 to 10.

### **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

The directors are responsible for preparing the Reports and Accounts including, as described on page 3, the accounts. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board and our profession's ethical guidance.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the accounts, if the company has not kept proper accounting records, if we have not received all the information and explanation we require for our audit, or if information specified by law regarding directors' remuneration and transaction is not disclosed.

We read the other information contained in the Report and Accounts and consider the implications for our report if we become aware of any misstatement or material inconsistencies with the accounts.

### **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 December 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**

*28 Oct 1999*

# **ABBAY NATIONAL BAKER STREET INVESTMENTS**

## **PROFIT AND LOSS ACCOUNT**

**For the year ended 31 December 1998**

	<b>Notes</b>	<b>1998 £</b>	<b>1997 £</b>
Investment income	3	10,512,104	8,923,184
Other income		-	6,415,603
Interest expense		-	(4,426,766)
Administrative expenses		(45,229)	(50,385)
Adjustment to indemnities		-	(9,236,827)
		<hr/>	<hr/>
<b>Profit on ordinary activities before taxation</b>	4	10,446,875	1,624,809
Taxation	5	(7,869,646)	(1,622,752)
		<hr/>	<hr/>
<b>Profit for the year after taxation</b>	9	<u>2,597,229</u>	<u>2,057</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.

**ABBAY NATIONAL BAKER STREET INVESTMENTS**

**BALANCE SHEET**  
as at 31 December 1998

	Notes	1998 £	1997 £
<b>Called up share capital not paid</b>	8	<u>2,401,098</u>	<u>2,401,098</u>
<b>Fixed assets</b>			
Investments	6	<u>149,642</u>	<u>149,642</u>
<b>Current assets</b>			
Amounts due from fellow subsidiary undertakings		145,884,283	138,296,790
Indemnities		51,120,671	66,138,027
Other debtors		3,548	3,548
Cash at bank		17,327	6,713
		<hr/>	<hr/>
		197,025,829	204,445,078
<b>Current liabilities</b>			
Creditors: amounts falling due within one year	7	<u>(67,112,750)</u>	<u>(77,129,228)</u>
<b>Net current assets</b>		<u>129,913,079</u>	<u>127,315,850</u>
<b>Total assets less current liabilities</b>		<u>132,463,819</u>	<u>129,866,590</u>
<b>Capital and reserves</b>			
Called up share capital	8	123,173,813	123,173,813
Profit and loss account	9	9,290,006	6,692,777
		<hr/>	<hr/>
<b>Equity shareholders' funds</b>	10	<u>132,463,819</u>	<u>129,866,590</u>

The accounts on pages 5 to 10 were approved by the Board of Directors on 26/10/99 and were signed on its behalf by:

M.A.P. Director

## ABBAY NATIONAL BAKER STREET 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

Dividend income is recognised on a receipts basis. All other investment income is recognised on an accruals basis.

##### Fixed asset investments

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 asset or liability crystallises.

##### 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 has taken advantage of the exemption in paragraph 5(a) of Financial Reporting Standard 1 (Revised), Cash Flow Statements and not published its own cashflow statement.

#### 3. INVESTMENT INCOME

	1998 £	1997 £
Income from listed investments	9,312	7,661
Bank interest	1,469	285
Interest received from group undertakings	<u>10,501,323</u>	<u>8,915,238</u>
	<u>10,512,104</u>	<u>8,923,184</u>



## ABBAY NATIONAL BAKER STREET 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 apportionment of directors' remuneration has been made by the ultimate parent undertaking to the company (1997: nil). However, I Harley, M A Pain and I K Treacy received emoluments in respect of their services as directors of Abbey National plc, details of which can be found in the accounts of Abbey National plc.

The auditors' 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 £39,471 (1997: £50,385) to a fellow subsidiary undertaking during the year.

#### 5. TAXATION

	1998 £	1997 £
Group relief - current payable at 31% (1997:31.5%)	3,241,845	2,792,519
Group relief - prior period	<u>4,703,408</u>	<u>(555,918)</u>
	<u>7,945,253</u>	<u>2,236,601</u>
Corporation tax -current at 31% (1997:31.5%)	-	1,541,364
Corporation tax - prior period	<u>(76,407)</u>	<u>(2,156,510)</u>
	<u>(76,407)</u>	<u>(615,146)</u>
Tax on FII	<u>800</u>	<u>1,297</u>
	<u>7,869,646</u>	<u>1,622,752</u>

The provision for UK corporation tax (see note 7) in the sum of £59,167,497 (1997: £74,261,259) represents the UK tax resulting from the redemption of bonds in previous years. In 1998 the Special Commissioners ruled in favor of the Inland Revenue in its contention that the bonds did not qualify for exemption as Qualifying Indexed Securities. Subsequent to the year end the liability was agreed with the Inland Revenue. The liability at the balance sheet date is stated at the agreed value. However, the issuers of the bonds are liable to make a payment of £51,120,671 (1997: £66,138,027) to the Company under the terms of indemnity arrangements.

# **ABBAY NATIONAL BAKER STREET INVESTMENTS**

## **NOTES TO THE ACCOUNTS (continued)**

### **6. INVESTMENTS**

	£
Cost	
As at 1 January 1998 and 31 December 1998	<u>149,642</u>

	1998 £	1997 £
Listed on a recognised stock exchange	83,495	149,642
Unlisted	<u>66,147</u>	<u>-</u>
	<u>149,642</u>	<u>149,642</u>

The market value of the listed investments at 31 December 1998 was £156,553 (1997: £203,765).

### **7. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	1998 £	1997 £
Amounts due to parent undertaking in respect of group relief	7,945,253	2,791,581
Amounts due to group undertakings	-	76,388
Taxation	<u>59,167,497</u>	<u>74,261,259</u>
	<u>67,112,750</u>	<u>77,129,228</u>

### **8. SHARE CAPITAL**

	1998 £	1997 £
Authorised: 1,361,702,250 ordinary shares of £0.092 each (1997: £0.092)	<u>125,753,104</u>	<u>125,753,104</u>
Allotted: 1,333,772,715 ordinary shares of £0.092 each (1997: £0.092)	<u>123,173,813</u>	<u>123,173,813</u>
Called up and fully paid: 1,307,772,715 ordinary shares of £0.092 each (1997: £0.092)	120,772,715	120,772,715
Called up and unpaid: 26,000,000 Ordinary shares of £0.092 each (1997: £0.092)	<u>2,401,098</u>	<u>2,401,098</u>
	<u>123,173,813</u>	<u>123,173,813</u>

## ABBNEY NATIONAL BAKER STREET INVESTMENTS

### NOTES TO THE ACCOUNTS (continued)

#### 9. PROFIT AND LOSS ACCOUNT

	£
As at 1 January 1998	6,692,777
Profit for the year	<u>2,597,229</u>
As at 31 December 1998	<u>9,290,006</u>

#### 10. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	1998 £	1997 £
Opening shareholders' funds	129,866,590	129,864,533
Profit for the financial year	<u>2,597,229</u>	<u>2,057</u>
Closing shareholders' funds	<u>132,463,819</u>	<u>129,866,590</u>

#### 11. 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 had a 100% interest in the equity capital of Abbey National Baker Street Investments at 31 December 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 December 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 6XL.