

ABBNEY NATIONAL BAKER STREET INVESTMENTS

REPORT AND ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2003

Registered in England and Wales No. 2468307



ABBEY NATIONAL BAKER STREET INVESTMENTS

Report of the Directors

The Directors submit their report together with the accounts for the year ended 31 December 2003.

1. Principal activity

The principal activity of the Company is to act as an investment company. In March 2004 the decision was taken to cease investment activities, as a result the existing portfolio will be disposed of in an orderly manner.

2. Results and dividends

Profit for the year on ordinary activities after taxation amounted to £2,649,972 (2002 - £4,506,167). No dividends were paid during the year (2002 - £nil). The profit after dividend of £2,649,972 (2002 - £4,506,167) has been transferred to reserves.

3. Directors and their interests

The Directors who served throughout the year, except as noted below, were:

N Wilkes	(Resigned 1 December 2003)
J R Smart	(Resigned 14 March 2003)
P A Ramsell	(Appointed 1 December 2003)
A Newell	

None of the Directors had any interests in the shares of the Company or any subsidiaries of Abbey National plc, the ultimate parent undertaking, at the year end.

The Directors' interests in the shares of the ultimate holding company, Abbey National plc, were as follows:

Ordinary shares of 10 pence each

	As at 1 January 2003 or date of appointment if later	As at 31 December 2003
A Newell	1,444	6,607
P A Ramsell	1,673	1,673

Option schemes – ordinary shares of 10 pence each

	As at 1 January 2003 or date of appointment if later	Options granted during the year	Options exercised/lapsed during the year	As at 31 December 2003
A Newell	76,230	85,338	3,289	158,279
P A Ramsell	46,449	-	-	46,449

ABBEY NATIONAL BAKER STREET INVESTMENTS

Report of the Directors (continued)

Options granted to Directors under the Abbey National Sharesave Scheme are exercisable at prices between 337 pence and 513 pence 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 Schemes are exercisable at prices between 373 pence and 1306 pence per share after three years or five years and before ten years from the date of grant.

Shares in respect of Executive Share Options granted in 2003 are held by the Abbey National ESOP 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 2003 the Trust held 7,694,620 ordinary shares (2002 – 8,639,158 shares).

Abbey National also operates a Share Matching Scheme and a Partnership Share Scheme under its Employee Share Option Scheme.

Under the Share Matching Scheme all eligible employees who are invited to participate can choose to use all or part of their annual bonus to buy shares under the Scheme. Abbey National grants matching awards over shares ("matching shares") equal in value to the amount of the bonus before tax that the employee uses to buy the shares. These will normally vest on the third anniversary of the date on which they are granted, as long as specified performance conditions are met. The shares automatically transfer to the individual as and when they vest.

The Partnership Share Scheme available to all eligible employees, including the Directors named above was terminated on 31 May 2003. Under this scheme, participants made 12 monthly contributions up to a maximum of £1,500 per annum, to acquire shares in Abbey National plc. These shares were purchased at their market value on 3 June 2003. The number of shares which may be acquired under this scheme, calculated on the basis of the maximum contribution and the share price on 3 June 2003 (519.5p) was 288 shares.

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 members of the Abbey National plc Executive Committee, each of the Directors of the Company is a potential beneficiary of the Employee Trust and is therefore deemed to have an interest in the shares held by the Employee Trust. At 31 December 2003, the Employee Trust held 1,580,736 ordinary shares (2002 – 1,559,738 shares).

4. Auditors

On 1 August 2003, Deloitte & Touche transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The Company's consent has been given to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP with effect from 1 August 2003 under the provisions of section 26(5) of the Companies Act 1989.

The Company has elected to dispense with the obligation to appoint auditors annually and, accordingly, Deloitte & Touche LLP are deemed to be re-appointed as auditors of the company.

ABBEY NATIONAL BAKER STREET INVESTMENTS

Report of the Directors (continued)


5. Directors' responsibilities in respect of the preparation of the accounts

The Directors are required by UK company law to prepare financial statements that give a true and fair view of the state of affairs of the Company as at the end of the financial year and the profit or loss of the Company for that period.

The Directors confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 December 2003. The Directors also confirm that applicable accounting standards have been followed and that the statements have been prepared on the going concern basis.

The Directors are responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the Company's system of internal control and for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By Order of the Board



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

5 October 2004

Registered Office Address:

**Abbey National House
2 Triton Square
Regent's Place
London
NW1 3AN**

ABBEY NATIONAL BAKER STREET INVESTMENTS

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

We have audited the financial statements of Abbey National Baker Street Investments for the year ended 31 December 2003 which comprise the profit and loss account, the balance sheet and the related notes 1 to 12. 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 auditors' 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

As described in the statement of Directors' responsibilities, the Company's Directors' are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

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 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.

We read the Directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with United Kingdom 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 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London

5 October 2004

ABBEY NATIONAL BAKER STREET INVESTMENTS

Profit and loss account

For the year ended 31 December 2003

	Notes	2003 £	2002 £
Investment income	3	3,774,312	6,460,959
Administrative expenses		<u>9,850</u>	<u>(26,167)</u>
Operating profit on ordinary activities before taxation	4	3,784,162	6,434,792
Tax charge on profit on ordinary activities	5	<u>(1,134,190)</u>	<u>(1,928,625)</u>
Profit on ordinary activities after taxation		<u>2,649,972</u>	<u>4,506,167</u>
Retained profit for the financial year	10	<u><u>2,649,972</u></u>	<u><u>4,506,167</u></u>

All activities of the Company are regarded as continuing. The Company has no recognised gains and losses for either year 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 a historical cost basis. Accordingly, no separate statement of historical cost profits and losses has been presented.

ABBEEY NATIONAL BAKER STREET INVESTMENTS

Balance sheet as at 31 December 2003

	Notes	2003 £	2002 £
Called up share capital not paid	9	<u>2,401,098</u>	<u>2,401,098</u>
Fixed assets			
Investments	6	<u>83,495</u>	<u>83,495</u>
Current assets			
Debtors	7	137,151,303	133,380,660
Cash at bank		<u>20,954</u>	<u>17,436</u>
		137,172,257	133,398,096
Creditors: amounts falling due within one year	8	<u>(3,250,431)</u>	<u>(2,126,242)</u>
Net current assets		<u>133,921,826</u>	<u>131,271,854</u>
Total assets less current liabilities		<u>136,406,419</u>	<u>133,756,447</u>
Capital and reserves			
Called up share capital	9	123,173,813	123,173,813
Profit and loss account	10	<u>13,232,606</u>	<u>10,582,634</u>
Equity shareholders' funds	11	<u>136,406,419</u>	<u>133,756,447</u>

The financial statements on pages 5 to 10 were approved by the Board of Directors on 5 October 2004 and were signed on its behalf by:

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Director

ABBEY NATIONAL BAKER STREET INVESTMENTS

Notes to the accounts for the year ended 31 December 2003

1. ACCOUNTING POLICIES

Basis of accounting

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

Investment income

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

Fixed asset investments

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

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is measured on a non-discounted basis.

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 cash flow statement.

3. INVESTMENT INCOME

	2003 £	2002 £
Income from listed investments	3,527	6,043
Interest income from group undertakings	3,770,643	6,454,711
Bank interest	142	205
	<u>3,774,312</u>	<u>6,460,959</u>

ABBEY NATIONAL BAKER STREET INVESTMENTS

Notes to the accounts for the year ended 31 December 2003 (continued)

4. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

The audit fee for 2003 has been paid on the Company's behalf by its ultimate parent company, Abbey National plc, for which no recharge has been made (2002 - £nil). A past over accrual of £10,000 for audit fees was released in the year, resulting in negative administrative expenses.

No emoluments were paid to the Directors for their services to the Company during the year and no apportionment of Directors' remuneration has been made by the ultimate parent undertaking to the Company (2002 - £nil).

The Company had no directly employed staff during the period (2002 - nil).

The Company paid a management charge of £nil (2002 - £25,867) to a fellow subsidiary undertaking during the year.

5. TAX CHARGE ON PROFIT ON ORDINARY ACTIVITIES

	2003 £	2002 £
Group relief payable at 30% (2002: 30%)	1,134,190	1,928,625
	<u>1,134,190</u>	<u>1,928,625</u>

Factors affecting the current tax charge for the year:

	£	£
Profit on ordinary activities before tax	<u>3,784,162</u>	<u>6,434,792</u>
Profit on ordinary activities multiplied by the standard rate of UK corporation tax (30%)	1,135,248	1,930,437
Effects of:		
Non-taxable UK dividends	(1,058)	(1,812)
	<u>1,134,190</u>	<u>1,928,625</u>

6. INVESTMENTS

Cost as at 1 January 2003 and 31 December 2003		£ <u>83,495</u>
	2003 £	2002 £
Listed on a recognised stock exchange	<u>83,495</u>	<u>83,495</u>

The market value of the listed investments at 31 December 2003 was £155,362 (2002: £120,979).

ABBEY NATIONAL BAKER STREET INVESTMENTS

Notes to the accounts for the year ended 31 December 2003 (continued)

7. DEBTORS

	2003 £	2002 £
Amounts owed by group undertakings	137,147,755	133,377,112
Other debtors	<u>3,548</u>	<u>3,548</u>
	<u>137,151,303</u>	<u>133,380,660</u>

8. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2003 £	2002 £
Sundry creditors	187,617	197,617
Group relief and taxation	<u>3,062,814</u>	<u>1,928,625</u>
	<u>3,250,431</u>	<u>2,126,242</u>

9. SHARE CAPITAL

	2003 £	2002 £
Authorised: 1,361,702,250 ordinary shares of £0.092 each	<u>125,753,104</u>	<u>125,753,104</u>
Allotted and called up : 1,333,772,715 ordinary shares of £0.092 each	<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	120,772,715	120,772,715
Called up and unpaid: 26,000,000 ordinary shares of £0.092 each	<u>2,401,098</u>	<u>2,401,098</u>
	<u>123,173,813</u>	<u>123,173,813</u>

10. PROFIT AND LOSS ACCOUNT

	£
As at 1 January 2003	10,582,634
Retained profit for the year	<u>2,649,972</u>
As at 31 December 2003	<u>13,232,606</u>

ABBEY NATIONAL BAKER STREET INVESTMENTS

Notes to the accounts for the year ended 31 December 2003 (continued)

11. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	2003 £	2002 £
Shareholders' funds at 1 January	133,756,447	129,250,280
Profit for the financial year	<u>2,649,972</u>	<u>4,506,167</u>
Shareholders' funds at 31 December	<u><u>136,406,419</u></u>	<u><u>133,756,447</u></u>

12. ULTIMATE PARENT UNDERTAKINGS

The Company's immediate parent undertaking is Abbey National Investments Holdings Limited, which is incorporated in Great Britain and 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 Baker Street Investments at 31 December 2003

The Company's ultimate parent undertaking and controlling party is Abbey National plc, a company incorporated in Great Britain and 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 2003

Consolidated accounts for Abbey National plc are available from Abbey National House, 2 Triton Square, Regent's Place, London, NW1 3AN.