

ABBEY NATIONAL BAKER STREET INVESTMENTS

REPORT AND ACCOUNTS

For the year ended 31 December 2001

Registered in England and Wales No. 2468307



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ABBEY NATIONAL BAKER STREET INVESTMENTS

DIRECTORS' REPORT

The Directors submit their report together with the accounts for the year ended 31 December 2001.

BUSINESS REVIEW

The principal activity of the Company is to act as an investment company. The Directors foresee no change in its activities.

RESULTS AND DIVIDENDS

Profit for the year on ordinary activities after taxation amounted to £5,620,364 (2000: £6,200,945). An interim dividend of £20,000,000 was paid during the year (2000: £ nil). The loss after dividend of £(14,379,636) (2000: profit £6,200,945) has been transferred (from)/to reserves.

DIRECTORS AND THEIR INTERESTS

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

M A Pain (Resigned 31 October 2001)
I K Treacy
N Wilkes
A Newell (Appointed 31 October 2001)

Since the year end I K Treacy resigned (28 February 2002) as a Director and J R Smart was appointed a Director of the Company with effect from 28 February 2002.

In accordance with the Articles of Association of the Company, the Directors are not required to apply for re-election.

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

I K Treacy was also a director of Abbey National plc at 31 December 2001 and his interests in the shares and share options of that company are disclosed in the accounts of that company.

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 2001 or date of appointment if later	As at 31 December 2001
N Wilkes	13,370	8,539
A Newell	189	189

Option Schemes – Ordinary Shares of 10 pence each

	As at 1 January 2001 or date of appointment if later	Options granted during the year or since appointment if later	Options exercised during the year or since appointment if later	As at 31 December 2001
N Wilkes	36,402	8,303	-	44,705
A Newell	58,785	-	-	58,785

ABBHEY NATIONAL BAKER STREET INVESTMENTS

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 428p and 906p 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 the Employee Share Option Scheme are exercisable at prices between 590p and 1306p per share after three years or five years and before ten years from the date of the grant.

Shares in respect of Executive Share Options granted in 2000 are held by the Abbey National ESOP Trust (the "ESOP Trust"). Whilst the Directors' interests in the shares (if any) are included on page 1, each of the Directors of the Company is a potential beneficiary of the ESOP Trust and is therefore deemed to have an interest in the shares held by the ESOP Trust. At 31 December 2001 the ESOP Trust held 5,890,235 ordinary shares (2000: 4,323,411).

Abbey National also operates a Partnership Share Scheme under its Employee Share Option Scheme. This is available to all eligible employees, including the directors named above. Under this scheme, participants may make 12 monthly contributions up to a maximum of £1,500 per annum, to acquire shares in Abbey National. These shares may be purchased within 30 days from 31 May 2002 at their market value on 1 June 2001 or, if lower, their market value on or shortly after 31 May 2002. The number of shares which may be acquired under this scheme, calculated on the basis of the maximum contribution and the share price on 1 June 2001 (£12.35), is 121 shares. If the share price at 31 May 2002 (or shortly after) is lower than £12.35, then the number of shares which may be acquired, may be more than 121 shares. On the basis of the share price at 31 December 2001 (£9.80), 153 shares would be the maximum number of shares that could be acquired under the scheme.

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 2001, the Employee Trust held 604,362 ordinary shares (2000: 604,362).

AUDITORS

In accordance with Section 386 of The Companies Act 1985 (as amended), the Company has elected to dispense with the obligation to appoint auditors annually.

Deloitte & Touche, the Company's auditors, are therefore deemed to be re-appointed as the Company's auditors for each succeeding financial year, so long as such election remains in force.

ABBEY NATIONAL BAKER STREET INVESTMENTS

DIRECTORS' REPORT (continued)

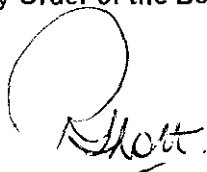
STATEMENT OF DIRECTORS' RESPONSIBILITIES

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 2001. 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**

29th May 2002

Registered Office:

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

ABBNEY NATIONAL BAKER STREET INVESTMENTS

REPORT OF THE AUDITORS TO THE MEMBERS OF ABBNEY NATIONAL BAKER STREET INVESTMENTS

We have audited the financial statements of Abbey National Baker Street Investments for the year ended 31 December 2001 which comprise the profit and loss account, the balance sheet and the related notes 1 to 13. These financial statements have been prepared under the accounting policies set out therein.

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 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 2001 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Deloitte & Touche
Chartered Accountants and Registered Auditors
Stonecutter Court
1 Stonecutter Street
London, EC4A 4TR

6 June 2002

ABBEY NATIONAL BAKER STREET INVESTMENTS

PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2001

	Notes	2001 £	2000 £
Investment income	3	8,058,421	8,887,125
Administrative expenses		<u>(31,103)</u>	<u>(30,852)</u>
Operating profit on ordinary activities before taxation	4	8,027,318	8,856,273
Taxation charge on ordinary activities	5	<u>(2,406,954)</u>	<u>(2,655,328)</u>
Profit on ordinary activities after taxation		5,620,364	6,200,945
Dividends	6	<u>(20,000,000)</u>	<u>-</u>
Retained (loss)/profit for the financial year	11	<u><u>(14,379,636)</u></u>	<u><u>6,200,945</u></u>

All activities of the Company are regarded as continuing. The Company has no recognised gains and losses for either period 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.

ABBHEY NATIONAL BAKER STREET INVESTMENTS

BALANCE SHEET
as at 31 December 2001

	Notes	2001 £	2000 £
Called up share capital not paid	10	<u>2,401,098</u>	<u>2,401,098</u>
Fixed assets			
Investments	7	<u>83,495</u>	<u>83,495</u>
Current assets			
Debtors	8	149,384,607	144,004,416
Cash at bank		<u>11,488</u>	<u>7,213</u>
		149,396,095	144,011,629
Creditors: amounts falling due within one year	9	<u>(22,630,408)</u>	<u>(2,866,306)</u>
Net current assets		<u>126,765,687</u>	<u>141,145,323</u>
Total assets less current liabilities		<u>129,250,280</u>	<u>143,629,916</u>
Capital and reserves			
Called up share capital	10	123,173,813	123,173,813
Profit and loss account	11	<u>6,076,467</u>	<u>20,456,103</u>
Equity shareholders' funds	12	<u>129,250,280</u>	<u>143,629,916</u>

The financial statements on pages 5 to 10 were approved by the Board of Directors on *29th May 2002* and were signed on its behalf by: *N. Wilkes*.

 Director

ABBNEY 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 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 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

	2001 £	2000 £
Income from listed investments	4,238	5,179
Interest income from group undertakings	8,053,910	8,876,387
Bank interest	273	5,559
	<u>8,058,421</u>	<u>8,887,125</u>

ABBEY NATIONAL BAKER STREET INVESTMENTS

NOTES TO THE ACCOUNTS (continued)

4. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

The Directors did not receive any emoluments for their services to the company in the current or preceding year and no apportionment of Directors' remuneration has been made by the ultimate parent undertaking to the Company (2000: £nil). However, 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.

	2001 £	2000 £
Auditors' remuneration	<u>5,000</u>	<u>4,700</u>

The company had no directly employed staff during the period (2000: nil).

The company paid a management charge of £25,867 (2000: £25,867) to a fellow subsidiary undertaking during the year.

5. TAXATION

	2001 £	2000 £
Group relief payable at 30% (2000: 30%)	2,406,924	2,655,328
Prior year	30	-
	<u>2,406,954</u>	<u>2,655,328</u>

6. DIVIDENDS

	2001 £	2000 £
Interim dividend paid	20,000,000	-
16.56 pence per share (2000: nil)	<u>20,000,000</u>	<u>-</u>

7. INVESTMENTS

	2001 £	2000 £
Cost as at 1 January 2001 and 31 December 2001		<u>83,495</u>
	<u>83,495</u>	<u>83,495</u>

The market value of the listed investments at 31 December 2001 was £158,351 (2000: £220,348).

ABBEY NATIONAL BAKER STREET INVESTMENTS

NOTES TO THE ACCOUNTS (continued)

8. DEBTORS

	2001 £	2000 £
Amounts owed by group undertakings	149,381,059	144,000,868
Other debtors	3,548	3,548
	<u>149,384,607</u>	<u>144,004,416</u>

9. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2001 £	2000 £
Amounts due to fellow subsidiary undertakings	20,025,867	-
Group relief owed to group undertakings	2,406,924	2,673,689
Sundry creditors	197,617	192,617
Taxation	-	-
	<u>22,630,408</u>	<u>2,866,306</u>

10. SHARE CAPITAL

	2001 £	2000 £
Authorised: 1,361,702,250 Ordinary shares of £0.092 each	<u>125,753,104</u>	<u>125,753,104</u>
Allotted, called up and fully paid: 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>

11. PROFIT AND LOSS ACCOUNT

	£
As at 1 January 2001	20,456,103
Retained loss for the year	<u>(14,379,636)</u>
As at 31 December 2001	<u>6,076,467</u>

ABBNEY NATIONAL BAKER STREET INVESTMENTS

NOTES TO THE ACCOUNTS (continued)

12. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	2001 £	2000 £
Shareholders' funds at 1 January	143,629,916	137,428,971
(Loss)/Profit for the financial year	<u>(14,379,636)</u>	<u>6,200,945</u>
Shareholders' funds at 31 December	<u>129,250,280</u>	<u>143,629,916</u>

13. 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 2001.

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 2001.

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