

ABBHEY NATIONAL UK INVESTMENTS
REPORT AND ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 1998
Registered No. 2957569



ABBEY NATIONAL UK INVESTMENTS

Report of the Directors

The Directors submit their report together with the accounts for the year ended 31 December 1998.

1. Principal activity and review of the year

The principal activity of the Company continues to be that of an investment company. No future changes in activity are envisaged.

From 26 September 1997 the Company has carried on business as a UK investment company following a cessation of the Company's activities in France.

2. Results and Dividend

The results for the year are set out on page 5. The profit of £32,873,060 will be transferred to reserves. The Directors do not recommend the payment of a dividend.

3. Directors and their interests

The Directors who served during the year were :

Mr I Harley	(resigned 1 March 1998)
Mr M A Pain	
Mr I K Treacy	
Mr J King	(appointed 1 March 1998)

None of the Directors had a beneficial interest in the shares of the Company at the year end. The Directors' interests in the shares of the ultimate holding Company, Abbey National plc. (other than those disclosed in that Company's annual report) were as follows :

Ordinary Shares 10p each

Directors	As at 1 January 1998 or at date of appointment if later	As at 31 December 1998
Mr J King	20,996	36,500

Option Schemes - Ordinary Shares 10p each

Directors	As at 1 January 1998 or at 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 1998
Mr J King	104,781	349	60,357	44,773

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Report of the Directors (continued)

Options granted to Directors under the ultimate holding company's Sharesave Scheme are exercisable at prices between 232p and 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 Schemes are exercisable at prices between 254p and 1195p 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 1998 are held by the Abbey National ESOP Trust (the Trust). Whilst the directors' interest 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 31st 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 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 1998, the Employee Trust held 268,936 ordinary shares (1997 - 129,780).

4. Directors' Responsibility in respect of the Preparation of Accounts

The Directors are required by UK company law to prepare accounts for each financial year that 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 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 accounts for the year ended 31 December 1998. 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, for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

5. 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 and a resolution to give effect to it will be approved by the Board of the Company. Accordingly, Coopers & Lybrand will retire following approval of the 1998 accounts and Deloitte & Touche will be appointed.

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Report of the Directors (continued)

6. 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 the ultimate parent undertaking.

By order of the Board



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

10/8

1999:

Registered Office:
Abbey House
Baker Street
London
NW1 6XL

ABBEY NATIONAL UK INVESTMENTS

Report of the Auditors to the members of ABBEY NATIONAL UK INVESTMENTS

We have audited the financial statements on pages 5 to 9 which have been prepared under the historical cost convention and the accounting policies set out on page 7.

Respective responsibilities of Directors and Auditors

The Directors are responsible for preparing the Annual Report, including as described on page 2 the financial statements. 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 financial statements 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 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 is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit 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 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

Date *12 Aug 1999*

ABBEY NATIONAL UK INVESTMENTS

Profit and Loss Account

For the year ended 31 December 1998

	Notes	1998 <u>£,000</u>	1997 <u>£,000</u>
Interest receivable	2	47,642	12,059
Other operating expenses	3	<u>-</u>	<u>(46,040)</u>
		47,642	(33,981)
Administrative expenses		<u>-</u>	<u>(14)</u>
PROFIT/(LOSS) on ORDINARY ACTIVITIES BEFORE TAXATION	4	47,642	(33,995)
Taxation on profit/(loss) on ordinary activities	5	<u>(14,769)</u>	<u>(3,838)</u>
PROFIT/(LOSS) on ORDINARY ACTIVITIES AFTER TAXATION	9	<u>32,873</u>	<u>(37,833)</u>

There is no difference between the profit/(loss) on ordinary activities before taxation and the retained profit/(loss) for the year stated above and their historical cost equivalents.

All activities of the Company are regarded as continuing.

Statement of recognised gains and losses for the year ended 31 December 1998

	1998 <u>£,000</u>	1997 <u>£,000</u>
Profit attributable to the shareholders of Abbey National UK Investments	32,873	(37,833)
Write off of accumulated losses	<u>-</u>	<u>(80,894)</u>
Total recognised gains/(losses) relating to the period	<u>32,873</u>	<u>(118,727)</u>

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Balance Sheet

As at 31 December 1998

	Notes	1998 <u>£,000</u>	1997 <u>£,000</u>
CURRENT ASSETS			
Debtors	6	<u>662.137</u>	<u>618.100</u>
		662.137	618.100
CREDITORS - amounts falling due within one year	7	<u>(14.769)</u>	<u>(3.605)</u>
NET ASSETS		<u>647.368</u>	<u>614.495</u>
CAPITAL and RESERVES			
Called-up share capital	8	606.212	606.212
Profit and loss account		<u>41.156</u>	<u>8.283</u>
EQUITY SHAREHOLDERS' FUNDS	9	<u>647.368</u>	<u>614.495</u>

The financial statements on pages 5 to 9 were approved by the Board of Directors on and were signed on its behalf by :

10/8/99

H.A.P.

Director

ABBEY NATIONAL UK INVESTMENTS

Notes to the Financial Statements for the year ended 31 December 1998

1. Accounting Policies

- a. Basis of Accounting
The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards in the United Kingdom.
- b. Interest Receivable
Interest receivable is calculated on an accruals basis.
- c. Foreign Currency Translation
Income and expenses arising in foreign currencies are translated into sterling at the rate ruling at the transaction date. Assets and liabilities in foreign currencies are translated into sterling at the rate ruling at the balance sheet date. Non sterling share capital is translated at historic rates of exchange. All other translation differences are dealt with through the profit and loss account.
- d. Cash Flow Statement
The Company is a wholly owned subsidiary of Abbey National plc, a Company incorporated 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 No.1 (revised 1996). Cash Flow Statements.

2. Interest Receivable

	1998 <u>£,000</u>	1997 <u>£,000</u>
Bank interest	-	26
Interest receivable from Group Companies	47,642	12,033
Total	<u>47,642</u>	<u>12,059</u>

3. Other Operating Expenses

The 1997 other operating expenses includes realised exchange losses of £46,040,531 arising from the translation of the Company's investments which were denominated in French Francs.

4. Profit/(Loss) on Ordinary Activities before Taxation

Directors' emoluments and auditors' remuneration are borne by the Parent Company, Abbey National plc. No emoluments were paid to Directors by the Company during the year and it is not practical for the Parent Company to apportion Directors' emoluments.

The Company has no employees. No management fee for administration services is charged by the immediate parent.

5. Taxation

	1998 <u>£,000</u>	1997 <u>£,000</u>
French Corporation Tax	-	(233)
Group relief payable at 31% (1997 - 31.5%)	(14,769)	(3,605)
Total	<u>(14,769)</u>	<u>(3,838)</u>

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Notes to the Financial Statements for the year ended 31 December 1998 (continued)

6. Debtors : amounts falling due within one year

	1998	1997
	<u>£,000</u>	<u>£,000</u>
Amounts due from Group Companies	<u>662,137</u>	<u>618,100</u>

7. Creditors : amounts falling due within one year

	1998	1997
	<u>£,000</u>	<u>£,000</u>
Group relief payable	<u>(14,769)</u>	<u>(3,605)</u>

8. Share Capital

	1998	1997
	<u>£,000</u>	<u>£,000</u>
Authorised: 6,000,000,000 Ordinary shares of 1 French franc each	627,035	627,035
Alotted, called up and fully paid : 5,800,755,657 Ordinary shares of 1 French franc each	<u>606,212</u>	<u>606,212</u>

9. Reconciliation of Movements in Shareholders' Funds

	1998	1997
	<u>£,000</u>	<u>£,000</u>
Retained profit for the year	32,873	(37,833)
Cancellation of share capital	-	(687,106)
Write off of accumulated losses	-	80,894
Issue of share capital	-	606,212
Opening shareholders' funds	<u>614,495</u>	<u>652,328</u>
Closing shareholders' funds	<u>647,368</u>	<u>614,495</u>

10. Capital Commitments and Contingent Liabilities

There were no outstanding capital commitments or contingent liabilities at 31st December 1998 (1997 - nil).

11. Related Party Transactions

There were no related party transactions during the period, or existing at the balance sheet date, with Directors of the Company.

The Company has taken advantage of the exemption covered by paragraph 3(c) of FRS8 'Related parties' not to disclose transactions with entities that are part of the Abbey National Group.

ABBEY NATIONAL UK INVESTMENTS

Notes to the Financial Statements for the year ended 31 December 1998 (continued)

12. Ultimate Parent Company

The controlling and ultimate Parent Company is Abbey National plc, which is registered in England and Wales. Copies of the consolidated financial statements of Abbey National plc may be obtained from Abbey House, Baker Street, London, NW1 6XL.