

MENLO INVESTMENTS
Formerly Leman Investments

REPORT AND FINANCIAL STATEMENTS
FOR THE PERIOD 5 DECEMBER 1997 TO 31 DECEMBER 1997

Registered Number 3479178



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CONTENTS

	Page
Officers and professional advisors	1
Directors' report	2
Statement of Directors' responsibilities in respect of the financial statements	3
Auditors' report to the members	4
Profit and loss account	5
Balance sheet	6
Notes to the financial statements	7-9

MENLO INVESTMENTS
Formerly Leman Investments

OFFICERS AND PROFESSIONAL ADVISORS

Directors	Christopher Ballinger Stephen Clowes Steven Dixon Sunder Iyer Gordon Sangster
Secretary	Stephen Clowes
Registered Office	1 Alie Street London E1 8DE
Auditors	Ernst & Young Chartered Accountants

MENLO INVESTMENTS
Formerly Leman Investments

DIRECTORS' REPORT

The company was incorporated on 5 December 1997. The directors present their report and the financial statements for the period 5 December 1997 to 31 December 1997. The accounts are presented in pounds sterling. On 9 January 1998, the company changed its name from Leman Investments to Menlo Investments.

1. Principal activities

The company is an investment company.

2. Review of the business

The results for the period are set out in the profit and loss account on page 5 of the financial statements.

3. Dividend

The directors do not recommend the payment of a dividend.

4. Directors

The present directors are shown on page 1. The directors who served during the period were:

Christopher Ballinger	(Appointed 17 December 1997)
Stephen Clowes	(Appointed 5 December 1997)
Steven Dixon	(Appointed 17 December 1997)
Sunder Iyer	(Appointed 5 December 1997)
Gordon Sangster	(Appointed 5 December 1997)

The directors have not at any time during the period held any beneficial interest in the shares of the company.

6. Auditors

A resolution for the reappointment of Ernst & Young as auditors of the company is to be proposed at the annual general meeting.

By order of the board



Secretary

11 May 1998

MENLO INVESTMENTS
Formerly Leman Investments

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The directors are required to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- * select suitable accounting policies and then apply them consistently;
- * make judgements and estimates that are reasonable and prudent;
- * state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- * prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company. The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

REPORT OF THE AUDITORS, ERNST & YOUNG

TO THE MEMBERS OF MENLO INVESTMENTS (formerly Leman Investments)

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

Respective responsibilities of directors and auditors

As described on page 3 the company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements 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 financial statements. It also includes an assessment of the significant estimates and judgements made by directors in the preparation of the financial statements, and 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 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 1997 and of its profit for the period then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young
Chartered Accountants
Registered Auditor
London

28 May 1998

MENLO INVESTMENTS
Formerly Leman Investments

PROFIT AND LOSS ACCOUNT

For the period 5 December 1997 to 31 December 1997

	Note	1997 £000
Operating income	2	93
Less operating expense	3	(31)
Profit on ordinary activities before taxation		<u>62</u>
Tax on profit on ordinary activities	4	(19)
Profit on ordinary activities after taxation		<u><u>43</u></u>

There are no recognised gains or losses other than the profit attributable to shareholders of the company of £43,000 for the period from 5 December 1997 to 31 December 1997.

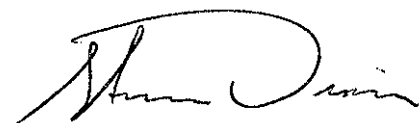
The notes on pages 7 to 9 form part of these financial statements.

MENLO INVESTMENTS
Formerly Leman Investments

BALANCE SHEET AT 31 DECEMBER 1997

	Note	1997 £000
Current Assets		
Debtors	5	166,919
Creditors		
Amounts falling due within one year	6	(72,224)
		<hr/>
Net Current Assets		<u>94,695</u>
Creditors		
Amounts falling due after one year	7	(88,652)
		<hr/>
Net Assets		<u><u>6,043</u></u>
Shareholders Equity		
Ordinary share capital	8	6,000
Retained earnings	9	43
		<hr/>
Total Liabilities and Equity	9	<u><u>6,043</u></u>

Approved by the Board of Directors on 11 May 1998.


 Director.

The notes on pages 7 to 9 form part of these financial statements.

MENLO INVESTMENTS
Formerly Leman Investments

NOTES TO THE FINANCIAL STATEMENTS

For the period 5 December 1997 to 31 December 1997

1. ACCOUNTING POLICIES

Basis of accounting

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

Off balance sheet financial instruments

Interest rate swap transactions and a forward borrowing commitment have been entered into for hedging purposes. Interest arising is accounted for on an accruals basis to reflect the underlying assets or liabilities.

1997
£000

2. OPERATING INCOME

Interest receivable from group undertakings	<u>93</u>
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3. OPERATING EXPENSE

Swaption premium	20
Audit fees	6
Miscellaneous	5
	<u>31</u>

4. TAXATION

Taxation based on the profit for the period.

UK Mainstream Corporation tax at 31%	27,501
Deferred tax (see note 5)	<u>(27,482)</u>
Profit and loss account	<u>19</u>

MENLO INVESTMENTS
Formerly Leman Investments

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the period 5 December 1997 to 31 December 1997

	1997 £000
5. DEBTORS	
Swap assignment proceeds receivable	88,652
Demand deposit placed with group undertaking	6,000
Certificate of deposit held with group undertaking	44,573
Accrued interest	93
Deferred tax asset	27,482
Receivable from group undertaking	119
	<u>166,919</u>

The deferred tax asset of £27,482,237 relates to the current corporation tax charge relating to the swap assignment proceeds shown above and explained further in note 7. As these proceeds will be recognised in the profit and loss account over the life of the related interest rate swap contract, it is appropriate to recognise the tax charge in the same period.

6. CREDITORS

Amounts falling due within one year

Due to group undertaking	44,692
Corporation tax payable	27,501
Swaption premium payable	20
Accruals	11
	<u>72,224</u>

7. CREDITORS

Amounts falling due after one year

Deferred income	<u>88,652</u>
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On 29 December 1997, the company assigned to a third party the fixed interest receivable in respect of the years three to nineteen of a twenty year interest rate swap (see note 10). The assignment proceeds of £88,652,379 were received on 15 January 1998. The assignment proceeds will be deferred in the balance sheet and amortised on a constant yield basis over years three to nineteen of the swap agreement.

MENLO INVESTMENTS
Formerly Leman Investments

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the period 5 December 1997 to 31 December 1997

	1997 £000
8. SHARE CAPITAL	
Authorised:	
28,000,000 ordinary voting shares of £1 each	<u>28,000</u>
Allotted, called up and fully paid:	
6,000,000 ordinary voting shares of £1 each	<u>6,000</u>

**9. RECONCILIATION OF SHAREHOLDERS' FUNDS AND
MOVEMENTS ON RESERVES**

	Share Capital	Profit and loss account	Total share- holders funds
	£000	£000	£000
At 5 December 1997	6,000	-	6,000
Profit for the period	-	43	43
	<u>6,000</u>	<u>43</u>	<u>6,043</u>
At 31 December 1997	<u>6,000</u>	<u>43</u>	<u>6,043</u>

10. OFF BALANCE SHEET COMMITMENTS

On 31 December 1997, the company entered into a twenty year fixed/floating interest rate swap, on the exercise of a swaption agreement entered into on 29 December 1997, with a notional principal value of £150,000,000, receiving fixed interest at a rate of 6.458% and paying three month LIBOR.

On 30 January 1998, the company issued a perpetual note in the principal amount of £44,692,100 paying interest at a fixed rate of 6.458% to a group undertaking.

In addition, the company has entered into a commitment with a third party to borrow £53,035,604 on 6 January 2002, and to repay £150,000,000 on 6 January 2018. This commitment can be terminated at the option of either party at any time after 5 April 1998, at market value.

The purpose of these transactions taken together with the transactions recorded on the balance sheet is to substantially reduce the company's exposure to interest rate movements.

11. ULTIMATE HOLDING COMPANY

The ultimate holding company is BankAmerica Corporation, which is incorporated in the United States of America. Copies of BankAmerica Corporation's accounts can be obtained from Corporate Public Relations, Unit 3124, Bank of America, Box 37000, San Francisco, California 94137, USA.