

**OLD BROAD STREET INVESTMENTS (NUMBER 2) LIMITED**

**REPORT AND ACCOUNTS**

**FOR THE YEAR ENDED 31 DECEMBER 2005**

**COMPANY NUMBER: 2799756**



# OLD BROAD STREET INVESTMENTS (NUMBER 2) LIMITED

## CONTENTS

	Page
Directors and Company Information	2
Report of the Directors	3-6
Income Statement	7
Statement of Recognised Income & Expenses	8
Balance Sheet	9
Statement of Cashflows	10
Notes to the Accounts	11-23
Statement of Directors' Responsibilities	24
Independent Auditors' Report	25-26

# **OLD BROAD STREET INVESTMENTS (NUMBER 2) LIMITED**

## **DIRECTORS AND COMPANY INFORMATION**

### **DIRECTORS**

J M Morrissey  
S J Peters  
L J Town

### **SECRETARY**

P Gittins

### **REGISTERED OFFICE**

Level 7  
Bishopsgate Exchange  
155 Bishopsgate  
London  
EC2M 3YB

### **AUDITORS**

KPMG Audit Plc  
8 Salisbury Square  
London  
EC4Y 8BB

## **OLD BROAD STREET INVESTMENTS (NUMBER 2) LIMITED**

### **REPORT OF THE DIRECTORS**

The directors present their Report and the audited financial statements for the year ended 31st December 2005.

#### **PRINCIPAL ACTIVITY**

The Company's principal activity is to act as an investment company.

#### **BUSINESS REVIEW**

During the year the company continued to act as an investment company.

#### **RESULTS AND DIVIDEND**

The results for the year are shown in the Income Statement on page 7. The directors do not recommend the payment of a dividend (2004 – £148,000).

#### **FUTURE DEVELOPMENTS**

The directors are committed to the effective management of the company's investments. The company continues to look for new investment opportunities.

#### **FINANCIAL INSTRUMENTS**

The company's policy relating to the management of financial risk and potential exposures are detailed in note 14.

#### **SUPPLIER PAYMENT POLICY**

For the forthcoming year, the Company's policy for the payment of suppliers will be as follows:

- payment terms will be agreed at the start of the relationship with the supplier and will only be changed by agreement;
- standard payment terms to suppliers of goods and services will be 30 days from receipt of a correct invoice for satisfactory goods or services which we have ordered and received unless other terms are agreed in a contract;
- payment will be made in accordance with the agreed terms or in accordance with the law if no agreement has been made;
- suppliers will be advised when an invoice is contested without delay and we will settle disputes as quickly as possible.

The Company will comply with the Better Payment Practice Group's Code. Information regarding this code and its purpose can be obtained from the Better Payment Practice Group's website at [www.payontime.co.uk](http://www.payontime.co.uk).

The average number of day's credit taken at 31 December 2005 was 13 days (2004: 15 days).

## **OLD BROAD STREET INVESTMENTS (NUMBER 2) LIMITED**

### **REPORT OF THE DIRECTORS (Continued)**

#### **AUDITOR**

Elective resolutions to dispense with holding annual general meetings, the laying of accounts before the Company in general meeting and the appointment of auditors annually are currently in force. The auditor, KPMG Audit Plc, will therefore be deemed to have been reappointed at the end of the period of 28 days beginning with the day on which the copies of this report and accounts are sent to members unless a resolution is passed under section 393 of the Companies Act 1985 to the effect that their appointment be brought to an end.

#### **DIRECTORS AND DIRECTORS' INTERESTS**

The directors who served during the year were as follows:

M S Lodge (resigned on 1<sup>st</sup> December 2005)  
J M Morrissey  
S J Peters  
L J Town

#### **DIRECTORS' BENEFICIAL INTERESTS IN THE ORDINARY SHARES OF HBOS plc DURING THE YEAR WERE AS FOLLOWS:**

(References to "HBOS plc shares" are to ordinary shares of 25p each in HBOS plc)

During the year, no Director had any beneficial interest in the share capital of the Company or of any other Group undertaking other than in HBOS plc, the ultimate holding company.

The beneficial interests of the Directors and their immediate families in HBOS plc shares are set out below:

	<b>At 31.12.04</b>	<b>At 31.12.05</b>
J M Morrissey	400	733
S J Peters	4,605	5,658
L J Town	3,142	11,338

In addition as at 31<sup>st</sup> December 2005 Mr S J Peters was also beneficially interested in 400 Halifax plc Preference Shares of £ 1 each (2004 – 400).

# OLD BROAD STREET INVESTMENTS (NUMBER 2) LIMITED

## REPORT OF THE DIRECTORS (Continued)

### SHORT-TERM INCENTIVE PLAN – HBOS SCHEME AND FORMER HALIFAX SCHEME

Certain Directors have conditional entitlements to shares arising from the annual incentive plan. Where the annual incentive for any year was taken in shares and these shares are retained in trust for three years, the following shares will also be transferred to the Directors:

	<b>Grant effective from</b>	<b>Shares as at 31.12.05</b>
J M Morrissey	March 2003	-
	March 2004	-
	March 2005	-
S J Peters	March 2003	610
	March 2004	1,102
	March 2005	360
L J Town	March 2003	-
	March 2004	-
	March 2005	-

### LONG-TERM INCENTIVE PLAN – HBOS SCHEME AND FORMER HALIFAX SCHEME

Details of the shares which have been conditionally awarded to Directors under the plans are set out below. The conditions relating to the long-term incentive plan may be found in the HBOS plc Annual Report & Accounts 2005.

	<b>Grant effective from</b>	<b>At 31.12.04</b>	<b>Granted (G) or lapsed (L) in year</b>	<b>Added as a result of performance</b>	<b>Dividend reinvestment shares</b>	<b>Released in year</b>	<b>At 31.12.05</b>
J M Morrissey	January 2002	-	-	-	-	-	-
	January 2003	-	-	-	-	-	-
	January 2004	-	-	-	-	-	-
	January 2005	-	-	-	-	-	-
S J Peters	January 2002	-	-	-	-	-	-
	January 2003	-	-	-	-	-	-
	January 2004	-	-	-	-	-	-
	January 2005	-	-	-	-	-	-
L J Town	January 2002	5,208	-	5,208	1,568	11,984	-
	January 2003	6,757	-	-	-	-	6,757
	January 2004	7,670	-	-	-	-	7,670
	January 2005	-	6,547(G)	-	-	-	6,547

Shares granted under these plans can crystallise at any level between 0% and 200% of the conditional award noted in the above table, dependant upon performance. The performance period for the January 2002 grant ended on 31 December 2004 and, in the light of the performance outcome, grants were released at 200% of the conditional award. On maturity, dividend reinvestment shares equivalent to approximately 30% of the original conditional grant were also released to participants in accordance with the rules of the plan.

# OLD BROAD STREET INVESTMENTS (NUMBER 2) LIMITED

## REPORT OF THE DIRECTORS (Continued)

### LONG – TERM INCENTIVE PLAN-HBOS SCHEME, FORMER BANK OF SCOTLAND SCHEME AND FORMER HALIFAX SCHEME

Share options granted between 1995 and 2000 under the Bank of Scotland Executive Stock Option Scheme 1995 are subject to performance pre-conditions which have now been satisfied. Share options granted under other plans are not subject to a performance precondition. Details of the options outstanding under these plans are set out below.

	Options outstanding At 31.12.04	Granted (G)/ lapsed (L) or exercised (E) in year	At 31.12.05
J M Morrissey	6,875	2,050 (E)	4,825
S J Peters	8,790	2,662 (E)	6,128
L J Town	11,926	3,328 (E)	8,598

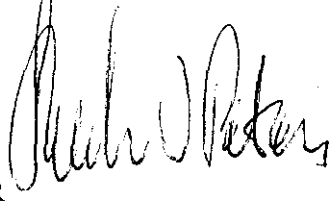
### SHARESAVE PLAN

Share options granted under these plans are set out below.

	At 31.12.04	Grant (G) lapsed (L) or exercised (E) in year	At 31.12.05
J M Morrissey	1,581	1,352 (G)	2,933
S J Peters	1,740	-	1,740
L J Town	1,740	-	1,740

Options under these plans were granted using middle market prices shortly before the dates of the grants, discounted by 20%.

By Order of the Board



DIRECTOR

Level 7  
Bishopsgate Exchange  
155 Bishopsgate  
London  
EC2M 3YB

21<sup>st</sup> June 2006

**OLD BROAD STREET INVESTMENTS (NUMBER 2) LIMITED**

**YEAR ENDED 31 DECEMBER 2005**

**INCOME STATEMENT**

	<b>Notes</b>	<b>2005 £'000</b>	<b>2004 £'000</b>
Investment income	<b>4</b>	-	3,283
Administrative expenses		-	(13)
<b>Operating profit before financing costs</b>		<u>-</u>	<u>3,270</u>
Financial income		12,019	7,097
Financial expense		(4,735)	-
<b>Net financing income</b>	<b>5</b>	<u>7,284</u>	<u>7,097</u>
<b>Profit on ordinary activities before taxation</b>		<u>7,284</u>	<u>10,367</u>
Income tax expense	<b>6</b>	<u>(2,092)</u>	<u>(2,637)</u>
<b>Profit after tax for the financial year – all attributable to equity shareholders</b>		<u>5,192</u>	<u>7,730</u>

The notes on pages 11 to 23 form part of the financial statements.



**OLD BROAD STREET INVESTMENTS (NUMBER 2) LIMITED**

**YEAR ENDED 31 DECEMBER 2005**

**STATEMENT OF RECOGNISED INCOME AND EXPENSE**

	Note	2005 £'000	2004 £'000
Profit for the period		5,192	7,730
Effect of change in accounting policy			
Effect of adoption of IAS32 and 39, net of tax on 1 January 2005 on preference shares in issue	15	(125,275)	-
Total recognised income and expense for the period		<u>(120,083)</u>	<u>7,730</u>
Attributable to:			
Equity holders		<u>(120,083)</u>	<u>7,730</u>
Profit for the period		<u>(120,083)</u>	<u>7,730</u>

# OLD BROAD STREET INVESTMENTS (NUMBER 2) LIMITED

AS AT 31 DECEMBER 2005

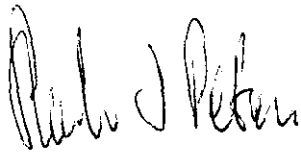
## BALANCE SHEET

	Notes	2005 £'000	2004 £'000
<b>Assets</b>			
Trade and other receivables	7	1,432	1,478
Cash balances	8	257,360	245,648
<b>Total current assets</b>		<u>258,792</u>	<u>247,126</u>
<b>Total assets</b>		<u>258,792</u>	<u>247,126</u>
<b>Equity</b>			
Issued capital		960	219,630
Share premium		854	854
Capital contribution		101,500	-
Retained earnings		20,740	23,653
<b>Total equity</b>	9	<u>124,054</u>	<u>244,137</u>
<b>Liabilities</b>			
Preference Shares		89,984	-
Deferred tax liabilities	10	<u>38,606</u>	-
<b>Total non current liabilities</b>		<u>128,590</u>	-
Amounts due to group undertakings	8	4,185	
Trade and other payables	11	<u>1,963</u>	<u>2,989</u>
<b>Total current liabilities</b>		<u>6,148</u>	<u>2,989</u>
<b>Total liabilities</b>		<u>134,738</u>	<u>2,989</u>
<b>Total equity and liabilities</b>		<u>258,792</u>	<u>247,126</u>

The notes on pages 11 to 23 form part of the financial statements.

Approved by the Board of Directors on 21<sup>st</sup> June 2006 and signed on its behalf by

DIRECTOR



**OLD BROAD STREET INVESTMENTS (NUMBER 2) LIMITED**

**YEAR ENDED 31 DECEMBER 2005**

**STATEMENT OF CASHFLOWS**

	Note	2005 £'000	2004 £'000
<b>Cash flows from operating activities</b>			
Cash paid to suppliers and employees		(352)	(13)
<b>Cash generated from operations</b>		(352)	(13)
Income taxes paid		(4,185)	(258)
Interest received		12,064	5,619
<b>Net cash from operating activities</b>		7,879	5,361
<b>Cash flows from investing activities</b>			
Proceeds from sale of investments		-	238,462
Dividends received		-	3,283
<b>Net cash from investing activities</b>		-	240,106
<b>Cash flows from financing activities</b>			
Dividends paid		-	(148)
<b>Net cash from financing activities</b>		-	(148)
Net increase in cash and cash equivalents		7,527	245,306
Cash and cash equivalents at 1 January		245,648	342
<b>Cash and cash equivalents at 31 December</b>	<b>8</b>	253,175	245,648

# **OLD BROAD STREET INVESTMENTS (NUMBER 2) LIMITED**

**YEAR ENDED 31 DECEMBER 2005**

## **NOTES TO THE FINANCIAL STATEMENTS**

### **1. Accounting policies**

Old Broad Street Investments (Number 2) Limited is a company domiciled in England.

The financial statements were authorised for issue by the directors on 21<sup>st</sup> June 2006.

#### **Statement of compliance**

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and its interpretations as adopted by the EU.

The accounting policies set out below have been applied in respect of the financial year ended 31 December 2005. The company has adopted the following exemptions set out in IFRS 1, 'First-time Adoption of International Financial Reporting Standards'. Using the exemptions within IFRS 1, IAS 32, IAS 39 and IFRS 4 only became effective from 1 January 2005. Where the implementation of these standards resulted in a change in accounting policy from 1 January 2005, the 2004 comparatives do not reflect the provisions of these standards.

IFRS 7 'Financial instruments: Disclosure' applicable for years commencing on or after 1 January 2007 has not been applied. The application of IFRS 7 in 2005 would not have affected the balance sheet or income statement as the standard is only concerned with disclosure.

These are the company's first IFRS financial statements and IFRS 1 has been applied.

#### **Basis of preparation**

The financial statements are presented in Sterling, rounded to the nearest thousand. They are prepared on the historical cost basis.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements and in preparing an opening IFRS balance sheet at 1 January 2004 for the purposes of the transition to IFRSs.

# **OLD BROAD STREET INVESTMENTS (NUMBER 2) LIMITED**

**YEAR ENDED 31 DECEMBER 2005**

## **NOTES TO THE FINANCIAL STATEMENTS (Continued)**

### **1. Accounting policies (continued)**

#### **Trade and other receivables**

Trade and other receivables are stated at their cost less impairment losses.

#### **Cash and cash equivalents**

Cash and cash equivalents comprises cash balances and call deposit held with group undertakings. These are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

#### **Share capital**

Dividends are recognised as a liability in the period in which they are declared.

#### **Preference share capital**

The company has in issue zero coupon preference shares. These have been valued at the date of issue at fair value and are subsequently measured using the effective interest rate method to accrete the book value to the redemption amount at the redemption date.

#### **Trade and other payables**

Trade and other payables are stated at cost.

#### **Financial expenses**

Financial expense comprise dividends on redeemable preference shares.

#### **Financial income**

Financial income comprises of interest receivable from call deposits and is recognised in the income statement as it accrues, using the effective interest method.

#### **Income tax**

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided: goodwill not deductible for tax purposes, the initial recognition of assets and liabilities that affects neither accounting nor taxable profit and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates at the balance sheet date.

**OLD BROAD STREET INVESTMENTS (NUMBER 2) LIMITED**

**YEAR ENDED 31 DECEMBER 2005**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**2. Staff numbers and costs**

The company has no employees. It uses the services of its immediate parent undertaking Bank of Scotland Structured Asset Finance Limited for which no charge is made.

Auditor's remuneration is borne by Bank of Scotland Structured Asset Finance Limited.

**3. Directors' emoluments**

None of the Directors received any emoluments for their services as Directors of the company.

**4. Investment income**

	<b>2005</b>	<b>2004</b>
	<b>£'000</b>	<b>£'000</b>
Income from investments	<u>-</u>	<u>3,283</u>

**5. Net financing income**

	<b>2005</b>	<b>2004</b>
	<b>£'000</b>	<b>£'000</b>
Interest income	<u>12,019</u>	<u>7,097</u>
Financial income	<u>12,019</u>	<u>7,097</u>
Interest expense	<u>(4,735)</u>	<u>-</u>
Financial expenses	<u>(4,735)</u>	<u>-</u>
Net financing income	<u>7,284</u>	<u>7,097</u>

Interest expense is calculated using the effective interest rate method and relates to the non current amounts due to group undertakings.

# **OLD BROAD STREET INVESTMENTS (NUMBER 2) LIMITED**

**YEAR ENDED 31 DECEMBER 2005**

## **NOTES TO THE FINANCIAL STATEMENTS (Continued)**

### **6. Income tax expense**

#### **Recognised in the income statement**

	<b>2005</b>	<b>2004</b>
	<b>£'000</b>	<b>£'000</b>
<b>Current tax</b>		
Current tax charge for the period at a rate of 30% (2004:30%)	(3,606)	(2,605)
Adjustments for prior years	<u>94</u>	<u>(32)</u>
	(3,512)	(2,637)
<b>Deferred tax</b>		
Deferred tax credit for the period at a rate of 30% (2004: 30%)	1,420	-
Total income tax expense in income statement	<u>(2,092)</u>	<u>(2,637)</u>

#### **Reconciliation of effective tax rate**

The tax assessed for the year is equal to the standard rate of corporation tax in the UK of 30%.

	<b>2005</b>	<b>2004</b>
	<b>£'000</b>	<b>£'000</b>
Profit on ordinary activities before taxation	<u>7,284</u>	<u>10,367</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2004: 30%)	(2,186)	(3,110)
Non-deductible expenses	-	(19)
Tax exempt revenues	-	524
Adjustment for prior years	94	(32)
Total income tax expense in income statement	<u>(2,092)</u>	<u>(2,637)</u>

### **7. Trade and other receivables**

	<b>2005</b>	<b>2004</b>
	<b>£'000</b>	<b>£'000</b>
Interest receivable on cash and cash equivalents	<u>1,432</u>	<u>1,478</u>

### **8. Cash and cash equivalents**

	<b>2005</b>	<b>2004</b>
	<b>£'000</b>	<b>£'000</b>
Bank balances	3	99
Call deposits	<u>257,357</u>	<u>245,549</u>
Cash balances	<u>257,360</u>	<u>245,648</u>
Amounts due to group undertakings	<u>(4,185)</u>	-
Cash and cash equivalents in the statement of cash flows	<u>253,175</u>	<u>245,648</u>

# **OLD BROAD STREET INVESTMENTS (NUMBER 2) LIMITED**

**YEAR ENDED 31 DECEMBER 2005**

## **NOTES TO THE FINANCIAL STATEMENTS (Continued)**

### **9. Capital and reserves**

#### **Reconciliation of movement in capital and reserves**

#### **Attributable to equity holders of the parent**

	Share capital £'000	Share premium £'000	Capital contribution £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2004	219,630	854	-	16,071	236,555
Profit for the year				7,730	7,730
Dividends to shareholders				(148)	(148)
Balance at 31 December 2004	219,630	854	-	23,653	244,137
Balance at 1 January 2005	960	854	101,500	15,548	118,862
Profit for the year				5,192	5,192
Balance at 31 December 2005	960	854	101,500	20,740	124,054

#### **Share capital**

	2005 £	2004 £
<b>Authorised</b>		
1 'A' ordinary share of £0.50	1	1
5,999,999 ordinary shares of 50p each	2,999,999	2,999,999
<b>Allotted, called up and fully paid</b>		
	1	1
1,920,002 ordinary shares of 50p each	960,001	960,001

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.



**OLD BROAD STREET INVESTMENTS (NUMBER 2) LIMITED**

**YEAR ENDED 31 DECEMBER 2005**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**10. Deferred tax liabilities**

	<b>2005</b>	<b>2004</b>
	<b>£'000</b>	<b>£'000</b>
Deferred tax liabilities	(38,606)	-
Net position	<u>(38,606)</u>	<u>-</u>

The movement for the year in the company's net deferred tax position was as follows:

	<b>2005</b>	<b>2004</b>
	<b>£'000</b>	<b>£'000</b>
At 1 January	(40,026)	-
Credit to income for the year (note 6)	1,420	-
Balance carried forward as at 31 December	<u>(38,606)</u>	<u>-</u>

<b>Deferred tax liabilities</b>	<b>Timing differences</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>
At 1 January 2005	(40,026)	(40,026)
Credit to income for the year (note 6)	1,420	1,420
Balance carried forward as at 31 December 2005	<u>(38,606)</u>	<u>(38,606)</u>

# OLD BROAD STREET INVESTMENTS (NUMBER 2) LIMITED

YEAR ENDED 31 DECEMBER 2005

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 11. Trade and other payables

	2005 £'000	2004 £'000
Group relief	1,963	2,637
Other liabilities	-	352
	<u>1,963</u>	<u>2,989</u>

### 12. Related parties

Key management personnel and members of their close families have not undertaken any transactions with Old Broad Investments (Number 2) Limited in the normal course of business.

The balances due to and from the related parties are shown within the notes to the accounts.

#### Amounts due to/(from) group undertakings

	2005 £'000	2004 £'000
The Governor and the Company of the Bank of Scotland	(3)	(99)
HBOS Treasury Services plc	(258,789)	(247,027)
HBOS Group - Group relief	1,963	2,637
Halifax plc - Preference shares	(89,984)	-
Bank of Scotland Structured Asset Finance Limited	(4,185)	-
	<u>(350,998)</u>	<u>(244,489)</u>

#### During the year the following transactions took place between group companies

	2005 £'000	2004 £'000
Interest receivable - HBOS Treasury Services plc	11,962	7,047
Interest receivable - The Governor and the Company of the Bank of Scotland	57	50
Interest payable - Halifax plc	(4,735)	-
	<u>7,284</u>	<u>7,097</u>

The Group's policy in relation to lending to related parties and other product offering is disclosed in the Group accounts of HBOS plc, the ultimate parent company undertaking of Old Broad Investments (Number 2) Limited.

# OLD BROAD STREET INVESTMENTS (NUMBER 2) LIMITED

YEAR ENDED 31 DECEMBER 2005

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 13. Parent undertaking

HBOS plc is the ultimate parent undertaking of Old Broad Street Investments (Number 2) Limited and heads the largest group into which the accounts of the Company are consolidated. The consolidated accounts of HBOS plc may be obtained from its head office at The Mound, Edinburgh EH1 1YZ.

Halifax plc heads the smallest group into which the accounts of the Company are consolidated. The accounts of Halifax plc may be obtained from its head office at Trinity Road, Halifax HX1 2RG.

### 14. Financial Instruments

#### Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed for all customers.

At the balance sheet date there was no financial instrument that presents credit risk to the company.

#### Fair values

The fair values together with the carrying amounts shown in the balance sheet are as follows:

	Notes	Carrying amount	Fair value	Carrying amount	Fair value
		2005	2005	2004	2004
		£'000	£'000	£'000	£'000
Cash balances	8	257,360	257,360	245,648	245,648
Preference shares		(89,984)	(89,984)	-	-
Amounts owed to group undertakings	8	(4,185)	(4,185)	-	-
		163,191	163,191	245,648	245,648

# OLD BROAD STREET INVESTMENTS (NUMBER 2) LIMITED

YEAR ENDED 31 DECEMBER 2005

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 14. Financial Instruments (continued)

#### Interest rate risk

Exposure to the interest rate risk arises in the normal course of the company's business.

#### Effective interest rates and repricing analysis

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice.

		2005 £'000					2004 £'000							
Notes	Effective Interest rate	Total	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years	Effective Interest rate	Total	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Cash balances	8	257,360	257,360	-	-	-	-	4.88%	245,648	245,648	-	-	-	-
Preference shares		(89,984)	-	-	-	-	(89,984)	-	-	-	-	-	-	-
Amounts due to group undertakings	8	(4,185)	(4,185)	-	-	-	-	-	-	-	-	-	-	-
<hr/>														
		163,191	253,175	-	-	-	(89,984)	-	245,648	245,648	-	-	-	-

**OLD BROAD STREET INVESTMENTS (NUMBER 2) LIMITED**

**YEAR ENDED 31 DECEMBER 2005**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**15. Explanation of transition to IFRSs**

As stated in note 1 these are the Company's first financial statements prepared in accordance with IFRSs.

The accounting policies applied in preparing the financial statements are set out in Note 1.

*In preparing its opening IFRS balance sheet, the Company has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (UK GAAP). An explanation of how the transition from UK GAAP has affected the Company's financial performance and cash flows is set out in the following tables and the notes that accompany the table. There were no material differences between the balance sheet and cash flow statement presented under IFRS and those presented under UK GAAP. Hence the company has not adjusted the previously reported amounts.*

As stated in note 1 IAS 32, IAS 39 and IFRS 4 became effective from 1 January 2005. The impact of this transition on the balance sheet is set out in the following table

OLD BROAD STREET INVESTMENTS (NUMBER 2) LIMITED

YEAR ENDED 31 DECEMBER 2005

NOTES TO THE FINANCIAL STATEMENTS (Continued)

15. Explanation of transition to IFRSs (continued)

Reconciliation of equity

	Notes	1 January 2004		31 December 2004		1 January 2005	
		UK GAAP	Effect of Transition to IFRS	IFRSs	UK GAAP	Effect of Transition to IFRS	IFRSs
		£'000	£'000	£'000	£'000	£'000	£'000
<b>Assets</b>							
Investments		235,450	-	235,450	-	-	-
Other assets		351	-	351	-	-	-
<b>Total non-current assets</b>		<b>235,801</b>	<b>-</b>	<b>235,801</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Trade and other receivables</b>	7	<b>670</b>	<b>-</b>	<b>670</b>	<b>1,478</b>	<b>1,478</b>	<b>1,478</b>
Cash and cash equivalents	8	342	-	342	245,648	245,648	245,648
<b>Total current assets</b>		<b>1,012</b>	<b>-</b>	<b>1,012</b>	<b>247,126</b>	<b>247,126</b>	<b>247,126</b>
<b>Total assets</b>		<b>236,813</b>	<b>-</b>	<b>236,813</b>	<b>247,126</b>	<b>247,126</b>	<b>247,126</b>
<b>Equity</b>							
Issued capital		219,630	-	219,630	219,630	(218,670)	960
Share premium		854	-	854	854	-	854
Capital contribution		-	-	-	-	101,500	101,500
Retained earnings		16,071	-	16,071	23,653	(8,105)	15,548
<b>Total equity attributable to equity holders of the parent</b>		<b>236,555</b>	<b>-</b>	<b>236,555</b>	<b>244,137</b>	<b>(125,275)</b>	<b>118,862</b>
<b>Total equity</b>	9	<b>236,555</b>	<b>-</b>	<b>236,555</b>	<b>244,137</b>	<b>(125,275)</b>	<b>118,862</b>

OLD BROAD STREET INVESTMENTS (NUMBER 2) LIMITED

YEAR ENDED 31 DECEMBER 2005

NOTES TO THE FINANCIAL STATEMENTS (Continued)

15. Explanation of transition to IFRS (continued)

Reconciliation of equity (continued)

Notes	1 January 2004		31 December 2004		1 January 2005	
	UK GAAP	Effect of transition to IFRS	UK GAAP	Effect of transition to IFRS	UK GAAP	Effect of transition to IFRS
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Liabilities</b>						
Preference Shares	-	-	-	-	-	85,249
Deferred tax liabilities	-	-	-	-	-	40,026
<b>Total non-current liabilities</b>	-	-	-	-	-	125,275
						125,275
<b>Trade and other payables</b>	258	-	258	-	2,989	-
<b>Total current liabilities</b>	258	-	258	-	2,989	-
<b>Total liabilities</b>	258	-	258	-	2,989	125,275
<b>Total equity and liabilities</b>	236,813	-	236,813	-	247,126	247,126

**OLD BROAD STREET INVESTMENTS (NUMBER 2) LIMITED**

**YEAR ENDED 31 DECEMBER 2005**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**15. Explanation of transition to IFRS (continued)**

**Reconciliation of profit for 2004**

*No adjustments to the Income Statement arose on transition to IFRS as at 1 January 2004 and 1 January 2005.*

**Explanation of material adjustments to the cash flow statement for 2004**

A cashflow statement was not included in the financial statements under previous UK GAAP.



## **OLD BROAD STREET INVESTMENTS (NUMBER 2) LIMITED**

**YEAR ENDED 31 DECEMBER 2005**

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

#### **Statement of directors' responsibilities in respect of the Report and the financial statements**

The directors are responsible for preparing the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with IFRSs as adopted by the EU.

The financial statements are required by law to present fairly the financial position and performance of the company; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

In preparing these 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 they have been prepared in accordance with IFRSs as adopted by the EU; and
- 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 that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

## **OLD BROAD STREET INVESTMENTS (NUMBER 2) LIMITED**

**YEAR ENDED 31 DECEMBER 2005**

### **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF**

### **OLD BROAD STREET INVESTMENTS (NUMBER 2) LIMITED**

We have audited the financial statements of Old Broad Street Investments (Number 2) Limited for the year ended 31 December 2005 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, the Statement of Recognised Income and Expense and the related notes. 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 auditor's 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**

The directors' responsibilities for preparing the Report and Accounts in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of Directors' Responsibilities on page 24.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 and Article 4 of the IAS Regulation. 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 other transactions is not disclosed.

We read other information contained in the Directors' Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

#### **BASIS OF AUDIT OPINION**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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.

**OLD BROAD STREET INVESTMENTS (NUMBER 2) LIMITED**

**YEAR ENDED 31 DECEMBER 2005**

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF**

**OLD BROAD STREET INVESTMENTS (NUMBER 2) LIMITED (continued)**

**Opinion**

In our opinion the financial statements:

- give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the company's affairs as at 31 December 2005 and of its profit for the year then ended; and the
- financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

*KPMG Audit Plc*

**KPMG Audit Plc**

Chartered Accountants  
Registered Auditor

8 Salisbury Square  
London EC4Y 8BB

*8 July 2006*