

OLD BROAD STREET INVESTMENTS (NUMBER 2) LIMITED

REPORT AND ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2006



COMPANY NUMBER: 2799756

OLD BROAD STREET INVESTMENTS (NUMBER 2) LIMITED

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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 31 December 2006

PRINCIPAL ACTIVITY

The company operates as an investment holding company and there has been no change in that activity during the year

BUSINESS REVIEW

During the year the company continued to manage investments acquired in previous years. In addition, new investments identified as having the potential to generate significant returns were acquired and managed by the company

RISK MANAGEMENT

The key risks and uncertainties faced by the company are managed within the framework established for the HBOS group. Exposure to credit risk, interest rate risk and foreign exchange risk arises in the normal course of the company's business. These risks are discussed below. The company is funded by its intermediate parent undertaking and as a result liquidity risk is managed within the HBOS group

Credit risk

Credit risk is the risk of financial loss from a counterparty's failure to settle financial obligations as they fall due

Day-to-day management of credit risk is undertaken by specialist credit teams working within the division in compliance with policies approved by the HBOS Board. Typical functions undertaken by these teams include credit sanctioning, portfolio management and management of high risk and defaulted accounts

To mitigate credit risk the company undertakes a full credit assessment of the financial strength of each potential transaction and/or customer, awarding an internal risk rating. Internal ratings are reviewed regularly

Interest rate risk

Financial assets which are income earning have both fixed and variable interest rates

PERFORMANCE

The company's profit before tax for the financial year is £7,204,000 (2005 £7,284,000). This represents a decrease in profit before tax of 1%

The Balance Sheet shows total assets of £251,009,000 in 2006 compared to £258,792,000 in 2005

The key performance indicator used in assessing the performance of the company is monitoring of actual cashflows from each investment against plan

OLD BROAD STREET INVESTMENTS (NUMBER 2) LIMITED

REPORT OF THE DIRECTORS

FUTURE DEVELOPMENTS

The company remains committed to the business of holding investments and will continue to manage new and existing investments in the future

RESULTS AND DIVIDENDS

The results for the year are shown in the Income Statement on page 8. A dividend of £24,000,000 was paid in the year (2005 £ nil)

GOING CONCERN

The Directors are satisfied that the company has adequate resources to continue in business for the foreseeable future and consequently the going concern basis continues to be appropriate in preparing the accounts

DISCLOSURE OF INFORMATION TO AUDITORS

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each director has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and establish that the Company's auditors are aware of that information

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

OLD BROAD STREET INVESTMENTS (NUMBER 2) LIMITED

REPORT OF THE DIRECTORS (Continued)

DIRECTORS AND DIRECTORS' INTERESTS

The directors who served during the year were as follows

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

	At 31.12.05	At 31.12.06
J M Morrissey	733	2,639
S J Peters	5,658	6,219
L J Town	11,338	21,203

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

	Grant effective from	Shares as at 31.12.06
J M Morrissey	March 2004	-
	March 2005	-
	March 2006	-
S J Peters	March 2004	1,102
	March 2005	360
	March 2006	1,318
L J Town	March 2004	-
	March 2005	-
	March 2006	-

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 2006

	Grant effective from	At 31 12 05	Granted (G) or lapsed (L) in year	Added as a result of performance	Dividend reinvestment shares	Released in year	At 31 12 06
J M Morrissey	January 2003	-	-	-	-	-	-
	January 2004	-	-	-	-	-	-
	January 2005	-	-	-	-	-	-
	January 2006	-	-	-	-	-	-
S J Peters	January 2003	-	-	-	-	-	-
	January 2004	-	-	-	-	-	-
	January 2005	-	-	-	-	-	-
	January 2006	-	-	-	-	-	-
L J Town	January 2003	6,757	-	6,478	1,048	(14,283)	-
	January 2004	7,670	-	-	-	-	7,670
	January 2005	9,473	-	-	-	-	9,473
	January 2006	-	15,702 (G)	-	-	-	15,702

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 2003 grant ended on 31 December 2005 and, in the light of the performance outcome, grants were released at 183% of the conditional award. On maturity, dividend reinvestment shares equivalent to approximately 15.5% 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 31.12.05	Granted (G)/ lapsed (L) or exercised (E) in year	At 31.12.06
J M Morrissey	4,825	2,437 (E)	2,388
S J Peters	6,128	3,180(E)	2,948
L J Town	8,598	3,967 (E)	4,631

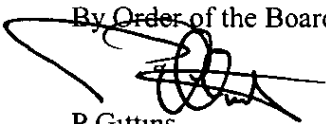
SHARESAVE PLAN

Share options granted under these plans are set out below.

	At 31.12.05	Grant (G) lapsed (L) or exercised (E) in year	At 31.12.06
J M Morrissey	2,933	1,581 (E)	1,352
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


P Gittins
Secretary

Level 7
Bishopsgate Exchange
155 Bishopsgate
London
EC2M 3YB

OLD BROAD STREET INVESTMENTS (NUMBER 2) LIMITED

YEAR ENDED 31 DECEMBER 2006

INCOME STATEMENT

	Notes	2006 £'000	2005 £'000
Financial income		12,250	12,019
Financial expense		<u>(5,046)</u>	<u>(4,735)</u>
Net financing income	5	<u>7,204</u>	<u>7,284</u>
Profit on ordinary activities before taxation		<u>7,204</u>	<u>7,284</u>
Income tax expense	6	<u>(2,161)</u>	<u>(2,092)</u>
Profit after tax for the financial year – all attributable to equity shareholders		<u>5,043</u>	<u>5,192</u>

The notes on pages 12 to 20 form part of the financial statements

OLD BROAD STREET INVESTMENTS (NUMBER 2) LIMITED

YEAR ENDED 31 DECEMBER 2006

STATEMENT OF RECOGNISED INCOME AND EXPENSE

	Note	2006 £'000	2005 £'000
Profit for the period		5,043	5,192
Effect of change in accounting policy			
Effect of adoption of IAS32 and 39, net of tax on 1 January 2006 on preference shares in issue		-	(125,275)
Total recognised income and expense for the period		<u>5,043</u>	<u>(120,083)</u>
Attributable to:			
Equity holders		<u>5,043</u>	<u>(120,083)</u>
Profit for the period		<u>5,043</u>	<u>(120,083)</u>

OLD BROAD STREET INVESTMENTS (NUMBER 2) LIMITED

AS AT 31 DECEMBER 2006

BALANCE SHEET

	Notes	2006 £'000	2005 £'000
Assets			
Trade and other receivables	7	1,678	1,432
Cash balances	8	249,331	257,360
Total current assets		<u>251,009</u>	<u>258,792</u>
Total assets		<u>251,009</u>	<u>258,792</u>
Equity			
Issued capital		960	960
Share premium		854	854
Capital contribution		101,500	101,500
Retained earnings		1,783	20,740
Total equity	9	<u>105,097</u>	<u>124,054</u>
Liabilities			
Preference Shares		94,983	89,984
Deferred tax liabilities	10	<u>37,106</u>	<u>38,606</u>
Total non current liabilities		<u>132,089</u>	<u>128,590</u>
Amounts due to group undertakings	8	10,162	4,185
Income tax payable	11	<u>3,661</u>	<u>1,963</u>
Total current liabilities		<u>13,823</u>	<u>6,148</u>
Total liabilities		<u>145,912</u>	<u>134,738</u>
Total equity and liabilities		<u>251,009</u>	<u>258,792</u>

The notes on pages 12 to 20 form part of the financial statements

Approved by the Board of Directors on 31 July 2007 and signed on its behalf by

L.J TOWN
DIRECTOR



OLD BROAD STREET INVESTMENTS (NUMBER 2) LIMITED

YEAR ENDED 31 DECEMBER 2006

STATEMENT OF CASHFLOWS

	Note	2006 £'000	2005 £'000
Cash flows from operating activities			
Cash paid to suppliers and employees		-	(352)
Cash generated from operations		-	(352)
Income taxes paid		(1,962)	(4,185)
Interest paid		(49)	-
Interest received		12,005	12,064
Net cash from operating activities		<u>9,994</u>	<u>7,879</u>
Cash flows from financing activities			
Dividends paid		(24,000)	-
Net cash from financing activities		<u>(24000)</u>	<u>-</u>
Net increase in cash and cash equivalents		(14,006)	7,527
Cash and cash equivalents at 1 January		253,175	245,648
Cash and cash equivalents at 31 December	8	<u>239,169</u>	<u>253,175</u>

OLD BROAD STREET INVESTMENTS (NUMBER 2) LIMITED

YEAR ENDED 31 DECEMBER 2006

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 31 July 2007

Statement of compliance

The 2006 financial statements set out on pages 8 to 11 have been prepared in accordance with International Financial Reporting Standards as adopted by the EU (IFRSs)

The accounting policies set out below have been applied in respect of the financial year ended 31 December 2006

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 2006 would not have affected the balance sheet or income statement as the standard is only concerned with disclosure

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.

OLD BROAD STREET INVESTMENTS (NUMBER 2) LIMITED

YEAR ENDED 31 DECEMBER 2006

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 deposits 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 2006

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 Halifax plc 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

	2006	2005
	£'000	£'000
Income from investments	<u>-</u>	<u>-</u>

5. Net financing income

	2006	2005
	£'000	£'000
Interest income	<u>12,250</u>	<u>12,019</u>
Financial income	<u>12,250</u>	<u>12,019</u>
Interest expense	<u>(5,046)</u>	<u>(4,735)</u>
Financial expenses	<u>(5,046)</u>	<u>(4,735)</u>
Net financing income	<u>7,204</u>	<u>7,284</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 2006

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6. Income tax expense

Recognised in the income statement

	2006	2005
	£'000	£'000
Current tax		
Current tax charge for the period at a rate of 30% (2005 30%)	(3,661)	(3,606)
Adjustments for prior years	-	94
	<u>(3,661)</u>	<u>(3,512)</u>
Deferred tax		
Deferred tax credit for the period at a rate of 30% (2005 30%)	1,500	1,420
	<u>(2,161)</u>	<u>(2,092)</u>
Total income tax expense in income statement		

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%

	2006	2005
	£'000	£'000
Profit on ordinary activities before taxation	<u>7,204</u>	<u>7,284</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2005 30%)	(2,161)	(2,186)
Adjustment for prior years	-	94
Total income tax expense in income statement	<u>(2,161)</u>	<u>(2,092)</u>

7. Trade and other receivables

	2006	2005
	£'000	£'000
Interest receivable on cash and cash equivalents	<u>1,678</u>	<u>1,432</u>

8. Cash and cash equivalents

	2006	2005
	£'000	£'000
Bank balances	2	3
Call deposits	<u>249,329</u>	<u>257,357</u>
Cash balances	<u>249,331</u>	<u>257,360</u>
Amounts due to group undertakings	<u>(10,162)</u>	<u>(4,185)</u>
Cash and cash equivalents in the statement of cash flows	<u>239,169</u>	<u>253,175</u>

OLD BROAD STREET INVESTMENTS (NUMBER 2) LIMITED

YEAR ENDED 31 DECEMBER 2006

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 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
Balance at 1 January 2006	960	854	101,500	20,740	124,054
Profit for the year				5,043	5,043
Dividend paid				(24,000)	(24,000)
Balance at 31 December 2006	960	854	101,500	1,783	105,097

Share capital

	2006	2005
	£	£
Authorised		
1 'A' ordinary share of £0 50	1	1
5,999,999 ordinary shares of 50p each	2,999,999	2,999,999
Allotted, called up and fully paid		
1 'A' ordinary share of £0 50	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 2006

NOTES TO THE FINANCIAL STATEMENTS (Continued)

10 Deferred tax liabilities

	2006	2005
	£'000	£'000
Deferred tax liabilities	(37,106)	(38,606)
Net position	<u>(37,106)</u>	<u>(38,606)</u>

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

	2006	2005
	£'000	£'000
At 1 January	(38,606)	(40,026)
Credit to income for the year (note 6)	1,500	1,420
Balance carried forward as at 31 December	<u>(37,106)</u>	<u>(38,606)</u>

Deferred tax liabilities

	Timing differences	Total
	£'000	£'000
At 1 January 2006	(38,606)	(38,606)
Credit to income for the year (note 6)	1,500	1,500
Balance carried forward as at 31 December 2006	<u>(37,106)</u>	<u>(37,106)</u>

OLD BROAD STREET INVESTMENTS (NUMBER 2) LIMITED

YEAR ENDED 31 DECEMBER 2006

NOTES TO THE FINANCIAL STATEMENTS (Continued)

11 Trade and other payables

	2006	2005
	£'000	£'000
Tax payable	3,661	1,963
	<u>3,661</u>	<u>1,963</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

	2006	2005
	£'000	£'000
The Governor and the Company of the Bank of Scotland	(2)	(3)
HBOS Treasury Services plc	(245,031)	(258,789)
HBOS Group - Group relief	3,661	1,963
Halifax plc – Preference shares	94,983	89,984
Bank of Scotland Structured Asset Finance Limited	4,185	4,185
	<u>(142,204)</u>	<u>(162,660)</u>

During the year the following transactions took place between group companies

	2006	2005
	£'000	£'000
Interest receivable - HBOS Treasury Services plc	12,077	11,962
Interest receivable - The Governor and the Company of the Bank of Scotland	126	57
Interest payable - Halifax plc	<u>(4,999)</u>	<u>(4,735)</u>
	<u>7,204</u>	<u>7,284</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 2006

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 2006 £'000	Fair value 2006 £'000	Carrying amount 2005 £'000	Fair value 2005 £'000
Cash balances	8	249,331	249,331	257,360	257,360
Preference shares		(94,983)	(94,983)	(89,984)	(89,984)
Amounts owed to group undertakings	8	(10,162)	(10,162)	(4,185)	(4,185)
		144,186	144,186	163,191	163,191

OLD BROAD STREET INVESTMENTS (NUMBER 2) LIMITED

YEAR ENDED 31 DECEMBER 2006

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

		2006 £'000					2005 £'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	5 23%	249,331	249,331				4 62%	257,360	257,360	-	-	-	-
Preference shares		5 56%	(94,983)				(94,983)	5 56%	(89,984)	-	-	-	-	(89,984)
Amounts due to group undertakings	8	3 08%	(10,162)	(10,162)				-	(4,185)	(4,185)	-	-	-	-
<hr/>														
		144,186	239,169				(94,983)		163,191	253,175		-	-	(89,984)

OLD BROAD STREET INVESTMENTS (NUMBER 2) LIMITED

YEAR ENDED 31 DECEMBER 2006

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

The directors are responsible for preparing the Directors' Report and 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 and applicable laws.

The financial statements are required by law to present fairly the financial position and the 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 judgments 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 2006

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 2006 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 financial statements 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 21.

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. We also report to you whether, in our opinion, the information given in the directors' report is consistent with the financial statements.

In addition, we report to you if, in our opinion, 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 the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

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 2006

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 2006 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
- the information given in the directors' report is consistent with the financial statements

KPMG Audit Plc

KPMG Audit Plc

*Chartered Accountants
Registered Auditor*

8 Salisbury Square
London EC4Y 8BB

10 August 2007