

UBERIOR INVESTMENTS PLC
REPORT AND ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2007

WEDNESDAY



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COMPANIES HOUSE

Directors

R L Adam
K M Bothwell
S A Campbell
P J Cummings
H C McMillan
G R A Shankland
A L Webster

Secretary

J E Nielsen

Registered Office

Level 1
Citymark
150 Fountainbridge
EDINBURGH
EH3 9PE

Auditors

KPMG Audit Plc
Saltire Court
20 Castle Terrace
EDINBURGH
EH1 2EG

Bankers

Bank of Scotland
Head Office
The Mound
EDINBURGH
EH1 1YZ

REPORT OF THE DIRECTORS

Directors

R L Adam
K M Bothwell
S A Campbell
P J Cummings

H C McMillan
G R A Shankland
A L Webster

The Directors submit their report and audited accounts of Uberior Investments plc ("the Company") for the year ended 31 December 2007

Incorporation

The Company was incorporated on 27 February 1981

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

The business is funded by the Company's immediate parent undertaking

Risk Management

The key risks and uncertainties faced by the Company are managed within the framework established for the HBOS group ("the group"). Exposures 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 and supplementary qualitative and quantitative information is provided in Note 20 to the financial statements. The Company is funded by its immediate parent undertaking and as a result liquidity risk is managed within the HBOS group

Credit risk

A full credit assessment of the financial strength of each potential transaction and / or customer is undertaken, awarding an internal risk rating. Internal ratings are reviewed regularly

Interest rate risk

In relation to income earning financial assets and interest bearing financial liabilities, the Company does not have any significant interest rate exposure

Loans and receivables investments which are interest earning have fixed interest rates. The financial liabilities which fund these investments are facilities provided by another HBOS group company which bears the interest rate risk arising. Consequently the company does not have any significant exposure to interest rate risk

Foreign exchange risk

Foreign exchange risk arises on investments and borrowings denominated in a currency other than Sterling. The currencies giving rise to this risk are US Dollars, Euros, Swiss Francs and New Zealand Dollars. The Company follows a policy of ensuring that all foreign currency investments are matched with borrowings in the same currency, thus no sensitivity to foreign exchange exposure is considered to exist

REPORT OF THE DIRECTORS (continued)Business review (continued)Performance

The Company's profit before tax for the financial year is £518,688,000 (2006 £323,111,000) This represents an increase in profit before tax of 61%

In 2007 the Company has assessed the requirement for specific provisions, and a charge of £10,010,000 was charged to the Income Statement (2006 £19,896,000) Improvements in the underlying performance of investments has meant a year on year reduction

In addition, this year saw a higher volume of disposal of investments resulting in profits of £329,755,000 being recognised in the Income Statement This compares to £234,174,000 of profits on disposal recognised last year The Company aims to hold each investment for the appropriate time period which will maximise returns to the HBOS group and therefore profits recognised on disposals can fluctuate year on year

The Balance Sheet total assets have risen to £1,392,848,000 in 2007 compared to £1,310,472,000 in 2006 This increase is mainly due to an increase in cash and cash equivalents of £167,896,000 and the acquisition of a listed investment for £40,000,000 This has been offset against a full disposal of a subsidiary entity of £174,285,285 and subsequent partial reclassification of £59,285,285 as an unlisted equity investment

The key performance indicator used in assessing the performance of the Company is monitoring rolling valuations of each investment At selected Board meetings the Directors review the performance of the Company's investments on both an individual and an industry sector basis

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 profit after tax for the Company for the year ended 31 December 2007 was £448,551,000 (2006 £277,006,000) Dividends of £280,000,000 were paid during the year (2006 £290,000,000)

Directors and their interests

The Directors at the date of this report are as stated on page 2

Dates of resignation were as follows

DirectorDate of Resignation

I Robertson

29th June 2007

The other Directors all served throughout the year

No Director had any interest in any material contract or arrangement with the company during or at the end of the year

Company Secretary

A I Macrae resigned as Company Secretary on 31st August 2007 J E Nielsen was appointed on 31st August 2007

REPORT OF THE DIRECTORS (continued)

Supplier Payment policy

It is the Company's policy that payments made to suppliers are made in accordance with those terms and conditions agreed between the Company and its suppliers

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

The Company has received a letter of support from the Bank of Scotland plc that confirms that it will provide sufficient funds or other financial support to enable the Company to continue in business for the next year

Audit information

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they each are 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 to establish that the Company's auditors are aware of that information

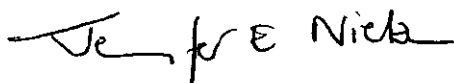
Company Secretary

J E Nielsen

Auditors

KPMG Audit Plc have signified their willingness to continue in office

By Order of the Board,



J E Nielsen

20th February 2008

Registered Office

Bank of Scotland
Level 1
Citymark
150 Fountainbridge
EDINBURGH
EH3 9PE

Income Statement**For the year ended 31 December 2007**

	<i>Note</i>	2007 £'000s	2006 £'000s
Income from investments in subsidiaries		164,035	73,256
Valuation gains on investments		17,957	24,645
Investment income	2	45,871	41,594
		<hr/> 227,863	<hr/> 139,495
Profit on disposal of investments		329,755	234,174
Amounts written off investments	9	(10,010)	(19,896)
Administrative expenses	3	(6,202)	(5,406)
Other income	4	2,549	856
Other expenses	5	(133)	(1,952)
Net other income/(expenses)		<hr/> 2,416	<hr/> (1,096)
Operating profit before financing costs		<hr/> 543,822	<hr/> 347,271
Financial expenses	6	(25,134)	(24,160)
Profit before tax		518,688	323,111
Income tax charge	7	(70,137)	(46,105)
Profit after tax for the year		<hr/> 448,551	<hr/> 277,006
Attributable to:			
Equity holders		448,551	277,006
Profit for the year		<hr/> 448,551	<hr/> 277,006

The notes on pages 10 to 25 form part of these accounts

Statement of Recognised Income and Expense**For the year ended 31 December 2007**

	<i>Note</i>	2007 £'000s	2006 £'000s
Change in fair value of equity securities available for sale	15	6,996	27,292
Profit for the year		448,551	277,006
Total recognised income and expense for the year		<u>455,547</u>	<u>304,298</u>
Attributable to:			
Equity holders		455,547	304,298
Profit for the year		<u>455,547</u>	<u>304,298</u>

The notes on pages 10 to 25 form part of these accounts

Balance Sheet**As at 31 December 2007**

	<i>Note</i>	2007 £'000s	2006 £'000s
Assets			
Investments	9	1,086,358	983,749
Interests in associates	11	1,709	12,593
Interests in jointly controlled entities	12	2,257	9,811
Investments in subsidiary undertakings	10	31,188	23,959
Investments in subsidiary undertakings held for sale	10		174,285
Total non-current assets		<u>1,121,512</u>	<u>1,204,397</u>
Trade and other receivables	18	1,368	17,216
Cash and cash equivalents	14	245,123	77,227
Due by related undertakings		24,845	11,632
Total current assets		<u>271,336</u>	<u>106,075</u>
Total assets		<u>1,392,848</u>	<u>1,310,472</u>
Equity			
Issued capital		2,000	2,000
Reserves		119,982	112,986
Retained earnings		449,871	281,320
Total equity	15	<u>571,853</u>	<u>396,306</u>
Liabilities			
Interest bearing loans and borrowings	17	232,968	402,596
Deferred tax liabilities	13	89,695	86,326
Total non current liabilities		<u>322,663</u>	<u>488,922</u>
Bank overdrafts	14	168,516	168,353
Interest bearing loans and borrowings	17	228,240	97,588
Due to related undertakings		6,842	2,305
Trade and other payables	19	34,003	99,310
Income tax payable	8	60,731	57,688
Total current liabilities		<u>498,332</u>	<u>425,244</u>
Total liabilities		<u>820,995</u>	<u>914,166</u>
Total equity and liabilities		<u>1,392,848</u>	<u>1,310,472</u>

The notes on pages 10 to 25 form part of these accounts

Approved by the Board at a meeting on 15th February 2008 and signed on its behalf by


Director

Statement of Cash Flows

For the year ended 31 December 2007

	<i>Note</i>	2007 £'000s	2006 £'000s
Cash flows from operating activities			
Operating profit		543,822	347,271
Profit on disposal of investments		(329,754)	(234,174)
Amounts written off investments		10,010	19,896
Increase in amounts due to related undertakings		4,537	449
(Increase) / decrease in amounts due by related undertakings		(13,213)	29,845
Exchange rate movement		(1,739)	472
Fair value gains through income statement		(17,957)	(24,645)
Decrease in trade and other receivables		15,848	426
(Decrease) / Increase in trade and other payables		(60,755)	60,121
Cash generated from operations		150,799	199,661
Interest paid		(20,352)	(17,865)
Income taxes (paid) / received		(61,959)	23,458
Net cash from operating activities		68,488	205,254
Cash flows from investing activities			
Proceeds from sale of subsidiary undertakings			711
Proceeds from sale of investments and interests		665,190	550,289
Acquisition of subsidiary undertakings			(174,828)
Acquisition of investments and interests		(216,868)	(229,563)
Net cash from investing activities		448,322	146,609
Cash flows from financing activities			
Decrease in borrowings		(38,976)	(48,969)
Dividends paid		(280,000)	(290,000)
Exchange rate movement		(31,400)	35,076
Net cash from financing activities		(350,376)	(303,893)
Net increase in cash and cash equivalents		166,434	47,970
Effect of exchange rate fluctuations on cash held		1,299	(759)
Cash and cash equivalents at 1 January		(91,126)	(138,337)
Cash and cash equivalents at 31 December	14	76,607	(91,126)

The notes on pages 10 to 25 form part of these accounts

Notes to the financial statements**1. Significant accounting policies**

Uberior Investments plc is a company domiciled in Scotland

The financial statements were authorised for issue by the Directors on 15th February 2008

(a) Statement of compliance

The financial statements of Uberior Investments plc comprise the Income Statement, Balance Sheet, Cash Flow Statement and the Statement of Recognised Income and Expense together with the related Notes to the Accounts. The 2007 financial statements set out on pages 6 to 25 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRS'). As the Company does not utilise the "carve out" in IAS39 adopted by the European Union, the financial statements comply with International Financial Reporting Standards. The standards applied by the Company are those endorsed by the European Union and effective at the date the financial statements are approved by the Board.

The financial statements also comply with the relevant provisions of Part VII of the Companies Act 1985, as amended by the Companies Act 1985 (International Accounting Standards and Other Accounting Amendments) Regulations 2004.

(b) Basis of preparation

The financial statements are presented in Sterling and rounded to the nearest thousand. They have been prepared under the historical cost basis, except that the following assets and liabilities are stated at their fair values: derivatives, financial instruments held for trading, financial instruments designated at fair value through the income statement and financial instruments classified as available for sale.

(c) IFRS Applied in 2007

The following IFRS standards have been applied in 2007:

IFRS 7 "Financial Instruments: Disclosures" and the amendment to IAS 1 "Presentation of Financial Statements" on capital disclosure. There is no material financial impact arising from their application.

(d) IFRS Not Yet Applied

The following standard has not yet been adopted by the European Union, is not effective for the year ended 31 December 2007 and has not been applied in preparing the financial statements:

IAS 1 "Presentation of Financial Statements" which is effective for periods commencing on or after 1 January 2009. The application of this revised standard in 2007 would not have had any financial impact on the financial statements. It will impact the presentation and format of the primary statements and notes and these disclosures will be revised accordingly in the 2009 financial statements.

(e) Foreign currency

The financial statements are presented in Sterling which is the Company's functional and presentation currency. Foreign currency transactions are translated into Sterling at the exchange rate prevailing at the date of the transaction.

Exchange gains and losses arising from the translation at balance sheet date exchange rates of monetary assets and liabilities are recognised in the income statement except for differences arising from net investment hedges and derivatives related to cash flow hedges which are recognised directly in equity.

(f) Investments**Investments in debt and equity securities**

Certain investments, such as equity investments, that are managed and evaluated on a fair value basis in accordance with documented risk management or investment strategy and reported to key management personnel on that basis are designated at fair value through the income statement. Gains, losses and related income are taken to operating income as they arise.

Notes to the financial statements (continued)

1. Significant accounting policies (continued)

(f) Investments (continued)

Debt securities for which there is no active market are classified as loans and receivables. They are initially recognised at fair value plus directly related transaction costs and are subsequently carried on the balance sheet at amortised cost using the effective interest method less provision for impairment.

All other investment securities are classified as available for sale. They are initially recognised at fair value plus directly related transaction costs and are subsequently carried on the balance sheet at fair value. Unrealised gains or losses are recognised directly in equity in the available for sale reserve, except for impairment losses or foreign exchange gains or losses related to debt securities, which are recognised immediately in the income statement in impairment on investment securities or other operating income respectively. Income on debt securities is recognised on an effective interest rate basis where it can be reliably estimated and recognised on a cash basis where it cannot be reliably estimated and taken to interest receivable through the income statement. Income from equity shares is credited to other operating income, with income on listed equity shares being credited on the ex-dividend date and income on unlisted equity shares being credited on an equivalent basis. On sale or maturity, previously unrealised gains and losses are recognised in other operating income.

Impairment losses on available for sale equity instruments are not reversed through the income statement. Any increase in the fair value of an available for sale equity instrument after an impairment loss has been recognised is treated as a revaluation and recognised directly in equity. An impairment loss on an available for sale debt instrument is reversed through the income statement, if there is evidence that the increase in fair value is due to an event that occurred after the impairment loss was recognised.

The fair value of investment securities is based on market prices or broker / dealer valuations. Where this information is not available, the fair value is estimated using quoted market prices for securities with similar credit, maturity and yield characteristics or similar valuation model.

The Company uses settlement date accounting when recording the purchase and sale of investment securities, with the exception of those held for trading for which trade date accounting is used.

(g) Derivatives

Derivatives are initially recognised at fair value on the date the contract is entered into. Where the fair value of a derivative is positive, it is carried as a derivative asset and where negative as a derivative liability. The gain or loss on remeasurement to fair value at the balance sheet date is taken to net trading income.

Derivative fair values are determined using valuation techniques that are consistent with techniques commonly used by market participants to price these instruments. These techniques include discounted cash flow analysis and other pricing models. The fair values calculated from these models are regularly compared with prices obtained in actual market transactions to ensure reliability. In all material instances these techniques use only observable market data.

(h) Subsidiaries

The financial statements of subsidiaries and special purpose entities controlled by the Company are consolidated within the financial statements of the Company's ultimate parent undertaking, HBOS plc, commencing on the date control is obtained until the date control ceases. Control is defined as being where the Company has power, directly or indirectly, to govern the financial and operating policies of such entities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. Accordingly, the Company records such investments at historic cost.

Where the Company has acquired a subsidiary with a view to subsequent disposal, the subsidiary is held at the lower of cost and fair value less costs of disposal.

Notes to the financial statements (continued)**1. Significant accounting policies (continued)****(i) Associated undertakings and jointly controlled entities**

Associated undertakings are entities over which the Company has significant influence, but not control over the financial and operating policies. Significant influence is the power to participate in the financial and operating policy decisions of the entity but is not control over those policies.

Jointly controlled entities are entities over which the Company has joint control under a contractual arrangement with other parties.

The attributable share of results of associated undertakings and jointly controlled entities, generally based on audited accounts, are included in the consolidated financial statements of the Company's ultimate parent undertaking, HBOS plc using the equity method of accounting. The share of any losses is restricted to a level that reflects an obligation to fund such losses. Accordingly the Company records such investments at historic cost.

(j) Trade and other receivables

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

(k) Cash and cash equivalents

Cash and cash equivalents are held for the purpose of meeting short term cash commitments rather than investing or other purposes. Cash and cash equivalents consist of cash and balances at central banks that are freely available, loans and advances to banks with a maturity of three months or less excluding financial assets that are held for trading purposes.

(l) Impairment

The carrying amounts of the Company's assets, and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. Individual impairment is identified at a counterparty specific level following objective evidence that a financial asset is impaired. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

When a decline in the fair value of an available for sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is recognised in the income statement even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in the income statement is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in the income statement.

(i) Calculation of recoverable amount

The recoverable amount of assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

(ii) Reversal of impairment

An impairment loss in respect of a receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised. In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Notes to the financial statements (continued)

1. Significant accounting policies (continued)

(m) Share capital

(i) Dividends

Dividends are recognised in the period in which they are paid

(n) Trade and other payables

Trade and other payables are stated at cost

(o) Expenses

(i) Net financing costs

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method

Interest income is recognised in the income statement as it accrues, using the effective interest method

(p) Taxation

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.

(q) Interest bearing borrowings

Interest bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis. Interest bearing borrowings are derecognised from the balance sheet upon settlement of all monies due in connection with such borrowings or forgiveness by the lender of all indebtedness.

Notes to the financial statements (continued)

2. Investment income

	2007	2006
	£'000s	£'000s
Income from investment securities available for sale	26,054	20,047
Income from investment securities loans and receivables	16,141	16,852
Redemption premium	3,676	4,695
	<u>45,871</u>	<u>41,594</u>

3. Administrative expenses

	2007	2006
	£'000s	£'000s
Management fees	<u>6,202</u>	<u>5,406</u>

4. Other income

	2007	2006
	£'000s	£'000s
Interest from HMRC	713	497
Other	1,836	359
	<u>2,549</u>	<u>856</u>

5. Other expenses

	2007	2006
	£'000s	£'000s
Audit Fee	9	8
Other Expenses	124	1,944
	<u>133</u>	<u>1,952</u>

6 Financial expenses

	2007	2006
	£'000s	£'000s
Interest expense	<u>25,134</u>	<u>24,160</u>

Notes to the financial statements (continued)

7 Income tax expense

Recognised in the income statement

	2007 £'000s	2006 £'000s
Current tax expense		
Current year	66,030	46,880
Adjustments for prior years	(1,028)	(12,095)
	<u>65,002</u>	<u>34,785</u>
Deferred tax expense		
Deferred tax charge for the year	12,514	5,783
Deferred tax (credit) / charge in respect of prior years	(4,305)	5,537
Deferred tax credit due to change in tax rate	(3,074)	
	<u>5,135</u>	<u>11,320</u>
	<u>70,137</u>	<u>46,105</u>
Total income tax charge in income statement		

Reconciliation of effective tax rate

	2007 £'000s	2006 £'000s
Profit before tax	518,688	323,111
Income tax using the corporation tax rate of 30%	155,606	96,933
Non deductible income / expenses not taxable	(52,229)	(27,087)
Impact of change in rate of Corporation tax	(3,074)	
Book gains covered by capital losses / exempt under SSHE	(30,053)	(22,919)
Amounts written off fixed asset investments	5,221	5,735
Adjustments for prior years	(5,334)	(6,557)
	<u>70,137</u>	<u>46,105</u>

Deferred tax recognised directly in equity

	2007 £'000s	2006 £'000s
Relating to equity securities available for sale	1,766	(11,697)

8. Current tax liabilities

The current tax liability of £60,731k (2006 £57,688k) represents the amount of income taxes payable in respect of current and prior years

Notes to the financial statements (continued)

9. Investments

	Loans and receivables £'000s	Designated at fair value through income statement £'000s	Available for sale £'000s	2007 Total £'000s	2006 Total £'000s
Gross investments					
Listed					
Equity shares			73,673	73,673	18,883
			73,673	73,673	18,883
Unlisted					
Debt securities	309,712			309,712	327,516
Equity shares		121,695	591,288	712,983	657,246
	309,712	121,695	591,288	1,022,695	984,762
Less amounts written off					
Debt securities	(136)			(136)	(2,427)
Equity shares		12,529	(22,403)	(9,874)	(17,469)
	(136)	12,529	(22,403)	(10,010)	(19,896)
Total investments	309,576	134,224	642,558	1,086,358	983,749
Comprising					
Debt securities	309,576			309,576	325,089
Equity shares		134,224	642,558	776,782	658,660
	309,576	134,224	642,558	1,086,358	983,749

The movement in investments can be summarised as follows

	Loans and receivables £'000s	Designated at fair value through income statement £'000s	Available for sale £'000s	2007 Total £'000s
At 1 January 2007	325,089	43,843	614,817	983,749
Exchange translation	13,624	(11)	18,426	32,039
Changes to fair value in available for sale investments		17,956	5,230	23,186
Additions & transfers in	287	184,212	208,092	392,591
Disposals & transfers out	(29,288)	(124,305)	(181,604)	(335,197)
Amounts written off	(136)	12,529	(22,403)	(10,010)
As at 31 December 2007	309,576	134,224	642,558	1,086,358

Notes to the financial statements (continued)

10. Investments in subsidiaries

	£'000s
At cost 1 January 2007	23,959
Exchange rate movements	(141)
Additions	7,370
Disposals	
At cost 31 December 2007	<u>31,188</u>

Investments in subsidiaries held for sale

	£'000s
At cost 1 January 2007	174,285
Disposals	(174,285)
At cost 31 December 2007	<u></u>

Details of the subsidiary undertakings are noted below

<u>Name of Company</u>	<u>% of Ordinary shares held</u>	<u>Principal business</u>	<u>Reference date</u>	<u>Country of incorporation</u>
Above Bar (Southampton) Limited	100	Property Letting	31 December	UK
BOS Capital Funding LP	100	Debt Issuance	31 December	Jersey
HBOS Capital Funding LP	100	Investment / Debt Issuance	31 December	Jersey
Tantallon Investments Inc	100	Investment	31 December	USA
HBOS Capital Funding LP No 1	100	Investment / Debt Issuance	31 December	Jersey
Uberior Equity Limited	100	Investment	31 December	UK
Uberior Fund Investments Limited	100	Investment	31 December	UK
Uberior Infrastructure Investments Limited	100	Investment	31 December	UK
Uberior Properties (2002) Limited	100	Property Letting	31 December	UK
Uberior Ventures Limited	100	Investment	31 December	UK
BOS PF Holdings Inc	100	Investment	31 December	Jersey
Uberior Frenchgate Limited	100	Investment	31 May	UK
Uberior Integrated Limited	100	Investment	31 December	UK
Uberior ENA Limited	100	Investment	31 December	UK
Bosint Investments Limited	100	Investment	31 December	Jersey
Uberior Fund Managers Ltd	100	Investment	31 December	UK
Uberior Oil and Gas Limited	100	Investment	31 December	UK
Indicus North Limited	100	Investment	31 December	UK

During the year the Company partially disposed of Mother Topco Limited and the remaining investment was reclassified as unlisted equity

Notes to the financial statements (continued)

11. Interests in associates

	£'000s
At cost 1 January 2007	12,593
Additions	3
Disposals	(10,887)
At cost 31 December 2007	1,709

Details of the Company's individual investments in associates have not been disclosed on a separate basis as they are not considered to be material to the activities of the Company

12. Interests in jointly controlled entities

	£'000s
At cost 1 January 2007	9,811
Disposals	(7,554)
At cost 31 December 2007	2,257

Details of the Company's individual investments in jointly controlled entities have not been disclosed on a separate basis as they are not considered to be material to the activities of the Company

13. Deferred tax asset and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following

	Assets		Liabilities		Net	
	2007 £'000s	2006 £'000s	2007 £'000s	2006 £'000s	2007 £'000s	2006 £'000s
Other	938	4,008	(32,217)	(34,518)	(31,279)	(30,510)
Equity shares Available for sale equities			(46,657)	(55,816)	(46,657)	(55,816)
Equity shares – Investments designated at FV through income statement			(11,759)		(11,759)	
Tax assets/(liabilities)	938	4,008	(90,633)	(90,334)	(89,695)	(86,326)

Movement in temporary differences in the year

	Balance at 1 Jan 2007	Recognised in income	Change in Rate Income	Recognised in equity	Change in Rate Equity	Balance at 31 Dec 2007
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
Rolled over gains	(34,518)		2,301			(32,217)
Other	237	(142)	(6)			89
Investment write offs	3,771	(2,861)	(61)			849
	(30,510)	(3,003)	2,234			(31,279)
Investments designated at fair value through income statement		(12,599)	840			(11,759)
Available for sale equities	(55,816)	7,393		(1,566)	3,332	(46,657)
	(55,816)	(5,206)	840	(1,566)	3,332	(58,416)
Total	(86,326)	(8,209)	3,074	(1,566)	3,332	(89,695)

Notes to the financial statements (continued)

14. Cash and cash equivalents

	2007 £'000s	2006 £'000s
Bank balances	245,123	77,227
Bank overdrafts	(168,516)	(168,353)
Cash and cash equivalents in the statement of cash flows	<u>76,607</u>	<u>(91,126)</u>

15. Capital and reserves

The distributable reserves of the Company are managed through the Group Capital and Funding Policy in order to maximise capital efficiency within the HBOS Group. Dividends are paid from reserves available for distribution to the parent undertaking as reported by the previously approved annual accounts according to parameters set out at a Group level so as to avoid any build up of reserve balances within the Company. Other reserves, such as those arising on the revaluation of assets classified as 'available for sale' that are booked directly to equity, are not managed as part of capital.

Reconciliation of movement in capital and reserves

Attributable to equity holders of the parent	Share capital £'000s	Fair value reserve £'000s	Retained earnings £'000s	Total equity £'000s
Balance at 1 January 2006	2,000	85,694	294,314	382,008
Total recognised income and expense			277,006	277,006
Dividends to shareholders			(290,000)	(290,000)
Fair value changes on AFS equities		38,989		38,989
Deferred tax on AFS equities		(11,697)		(11,697)
Balance at 31 December 2006	<u>2,000</u>	<u>112,986</u>	<u>281,320</u>	<u>396,306</u>
Balance at 1 January 2007	2,000	112,986	281,320	396,306
Total recognised income and expense			448,551	448,551
Dividends to shareholders			(280,000)	(280,000)
Fair value changes on AFS equities		5,230		5,230
Deferred tax on AFS equities		1,766		1,766
Balance at 31 December 2007	<u>2,000</u>	<u>119,982</u>	<u>449,871</u>	<u>571,853</u>

Share capital	Ordinary shares 2007 £'000s	Ordinary shares 2006 £'000s
On issue at 1 January and at 31 December – fully paid	<u>2,000</u>	<u>2,000</u>

At 31 December 2007, the authorised share capital comprised 2,000,000 £1 Ordinary Shares (2006 2,000,000)

The holder of the Ordinary Shares is entitled to receive dividends as declared from time to time and is entitled to vote at meetings of the Company

Fair value reserve

The fair value reserve includes the cumulative net change in the fair value of available for sale investments until the investment is derecognised

Notes to the financial statements (continued)**16. Dividends**

After the balance sheet date the Directors did not propose any further dividends

17. Interest bearing loans and borrowings

This note provides information about the contractual terms of the Company's interest bearing loans and borrowings. For more information about the Company's exposure to interest rate and foreign currency risk, see Note 20

	2007 £'000s	2006 £'000s
Non current liabilities		
Unsecured bank loans	232,968	402,596
Current liabilities		
Current portion of unsecured bank loans	228,240	97,588

Terms and debt repayment schedule

The bank loans are unsecured and represent amounts due to the Company's immediate parent undertaking, Bank of Scotland plc. The loans fall due for repayment at various dates between May 2008 and May 2010. Interest is fixed on each loan at the date the loan is advanced to the Company.

18. Trade and other receivables

	2007 £'000s	2006 £'000s
Other debtors and accrued income	1,368	17,216

19. Trade and other payables

	2007 £'000s	2006 £'000s
Accruals	22,372	18,272
Creditors	11,631	81,038
	34,003	99,310

20. Financial Instruments**Credit Risk**

Credit risk is the risk of financial loss from a counterparty's failure to settle financial obligations as they fall due. Credit exposures arise in the normal course of the Company's business, principally from investment activities that bring debt securities into the Company's asset portfolio. The table below sets out the maximum exposure to credit risk at the balance sheet date.

	2007 £'000s	2006 £'000s
On Balance sheet		
Investments - Debt securities	309,576	325,089
Trade and other receivables	1,368	17,216
Cash and cash equivalents	245,123	77,227
Due by related undertakings	24,845	11,632
	580,912	431,164
Off balance sheet items		
Loan commitments and other credit related liabilities (see Note 22)	272,797	301,400
Total	853,709	732,564

Notes to the financial statements (continued)**20. Financial Instruments (continued)****Credit Risk (continued)**

Debt securities in issue are carried at amortised cost adopting the impairment policy described within Note 1(l), exposure is concentrated amongst UK registered institutions who are primarily engaged in financial intermediation and real estate activities. Other exposures consist of Bank and other inter company balances with the HBOS group and trade receivables which consist predominantly of accrued interest. At the reporting date none of the debt securities were considered past due or impaired neither were there any financial assets that would otherwise be past due or impaired had their terms not have been renegotiated.

The table below sets out the internal credit rating of debt securities

	2007	2006
	%	%
Internal rating Better than satisfactory risk	9	6
Internal rating Satisfactory risk	88	89
Internal rating Viable but monitoring	3	5

Market risk

Market risk is defined as the potential loss in value or earnings of the Company arising from changes in external market factors such as

- Interest rates (interest rate risk)
- Foreign exchange rates (foreign exchange risk)
- Equity markets (equity risk)

Interest rate risk

Interest rate risk exists where the Company's financial assets and liabilities have interest rates set under different bases, or which reset at different times

Debt securities which provide fixed rate earnings have been matched with fixed rate financial liabilities provided by another HBOS group Company. Other interest bearing financial instruments are primarily limited to variable interest rates which respond to prevailing market rates of interest. Accordingly the Company does not have any significant interest rate exposures as demonstrated by the Net Interest Income Sensitivity note below

Interest rate exposure is concentrated primarily within the UK money markets. The principal internal control metric is the Net Interest Income ("NII") sensitivity which measures how much of the current projection for the next 12 months' NII would alter if different assumptions are made about the future levels of interest rates

The table below sets out the sensitivity of the Company's net interest income over a 12 month period to an immediate up and down 25 basis points change to all interest rates as at the balance sheet date

	2007	2006
	£000	£000
Impact of +25 bps shift	(421)	(421)
Impact of – 25 bps shift	421	421

The measure, however, is simplified in that it assumes all interest rates, for all currencies and maturities, move at the same time and by the same amount. Also, it does not recognise the impact of management actions that, in the event of an adverse rate movement, could reduce the impact on NII

Foreign exchange risk

Foreign exchange risk arises on investments and borrowings denominated in a currency other than Sterling. The currencies giving rise to this risk are US Dollars, Euros, Swiss Francs and New Zealand Dollars. The Company follows a policy of ensuring that all foreign currency investments are matched with borrowings in the same currency, thus no sensitivity to foreign exchange exposure is considered to exist

Notes to the financial statements (continued)

20. Financial Instruments (continued)

Equity risk

Equity risk exists from the Company's exposure to listed and unlisted equity shares. The Company undertakes a full assessment of each entity's potential for value creation prior to entering into a new transaction. Thereafter the performance of each investment is continually monitored and action taken as deemed appropriate in the circumstances. Further information about the Company's sensitivity to changes in the fair value of equity investments is set out below.

At the reporting date the carrying value of equity investments amounted to £777m. For investments carried at fair value through profit and loss, changes in fair value would have a direct impact on profit before tax (PBT) whereas available for sale investments will be taken directly to equity through the available for sale (AFS) reserve. The table below sets out the sensitivity of PBT and the AFS reserve (before tax) to a 10% fall in fair value of equity investments as at the balance sheet date.

	2007 PBT	2007 AFS reserve	2006 PBT	2006 AFS reserve
	£000	£000	£000	£000
Unlisted equity investments	13,422	56,923	4,384	59,744
Listed equity investments		7,332		1,738
	13,422	64,255	4,384	61,482

The fund investment portfolio remains well diversified across five major concentration indicators: Fund type, Fund Manager, Underlying Investment Volume, Underlying Investment Sector and Underlying Investment Geographic Location.

Geographic exposure is predominantly within the UK and there is an insignificant market concentration outside of the European Union at fund manager level.

Liquidity Risk

Liquidity risk is the risk that the Company does not have sufficient financial resources to meet its obligations when they fall due, or will have to do so at excessive cost. This risk can arise from mismatches in the timing of cash flows relating to assets, liabilities and off balance sheet instruments. The Company's short term liquidity requirements are supported by a facility with another HBOS group Company subject to internal limits. Overall liquidity of the HBOS plc Group is managed centrally.

The table below sets out the cash flows payable by the Company in respect of financial liabilities, by remaining contractual undiscounted repayments of principal and interest at the balance sheet date.

As at 31 December 2007

	Up to 1 mth	1 3 mths	3 12 mths	1 5 yrs	Total
	£000	£000	£000	£000	£000
Bank overdrafts	168,516				168,516
Interest bearing loans and borrowings	7,070	7,891	236,180	268,574	519,715
Due to related undertakings	6,842				6,842
Trade and other payables	34,003				34,003
Total liabilities	216,431	7,891	236,180	268,574	729,076

Notes to the financial statements (continued)**20 Financial Instruments (continued)**

As at 31 December 2006

	Upto 1 mth	1 3 mths	3 12 mths	1 5 yrs	Total
	£000	£000	£000	£000	£000
Bank overdrafts	168,353				168,353
Interest bearing loans and borrowings	43,914	3,744	67,961	450,217	565,836
Due to related undertakings	2,305				2,305
Trade and other payables	99,310				99,310
Total liabilities	313,882	3,744	67,961	450,217	835,804

21. Fair values

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

	Note	Carrying amount 2007 £'000s	Fair value 2007 £'000s	Carrying amount 2006 £'000s	Fair value 2006 £'000s
Equity securities available for sale	9	642,558	642,558	614,817	614,817
Equity securities designated at fair value through the income statement	9	134,224	134,224	43,843	43,843
Debt securities – loans & receivables	9	309,576	309,576	325,089	325,089
Trade and other receivables	18	1,368	1,368	17,216	17,216
Cash and cash equivalents	14	245,123	245,123	77,227	77,227
Amounts due by subsidiary undertakings		24,845	24,845	11,632	11,632
Unsecured bank facilities		(461,208)	(464,943)	(500,184)	(480,995)
Trade and other payables	19	(34,003)	(34,003)	(99,310)	(99,310)
Due to related undertaking		(6,842)	(6,842)	(2,305)	(2,305)
Bank overdrafts	14	(168,516)	(168,516)	(168,353)	(168,353)
		687,125	683,390	319,672	338,861
Unrecognised (losses) / gains			(3,735)		19,189

Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table above

Equity Securities

Fair value of listed securities available for sale is based on quoted market prices at the balance sheet date without any deduction for transaction costs

Fair value of unlisted equity securities available for sale is calculated in accordance with the guidelines set out by the British Venture Capital Association. In summary, the valuation model will include the review of operational performance to budget, future profitability forecasts and other general operational risk indicators

Debt securities

There is no active market for the debt securities held by the company, nor does the portfolio contain securities with regular payment profiles which would allow fair values to be calculated using a discounted cashflow model. Accordingly the fair value has been held at amortised cost

Trade and other receivables / payables

For receivables/payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value. All other receivables/payables are discounted to determine the fair value

Notes to the financial statements (continued)**22. Capital commitments**

The Company has committed £1,142.8 million (2006 £1,177.1 million) as a limited partner in private equity funds of which £272.8 million (2006 £301.4 million) is undrawn

23. Related parties

The Company's immediate parent undertaking is Bank of Scotland plc

A number of related party banking transactions are entered into with Bank of Scotland plc in the normal course of business including loans and overdrafts. The balances due to Bank of Scotland plc are shown within the notes to the financial statements. Details of the related party transactions during the period are disclosed in the table below

Nature of transaction	Outstanding balance at 1 January 2007	Outstanding balance at 31 December 2007	Income/expense included in the income statement for the year ended 31 December 2007	Disclosure in financial statement	Counterparty
	£'000s	£'000s	£'000s		
Bank balance GBP account	76,997 CR	245,122 CR		Cash and cash equivalents	Bank of Scotland
Bank balance GBP account	150,044 DR	150,186 DR		Bank overdraft	Bank of Scotland
Bank balance GBP account	18,309 DR	18,330 DR		Bank overdraft	Bank of Scotland
Bank balance GBP account	1 CR	1 CR		Cash and cash equivalents	Bank of Scotland
Term loans Euro account	262,773 DR	218,785 DR		Interest bearing loans and borrowing	Bank of Scotland International
Term loans USD account	50,214 DR	41,959 DR		Interest bearing loans and borrowing	Bank of Scotland International
Term loans CHF account	237 DR			Interest bearing loans and borrowing	Bank of Scotland International
Term loans NZD account	171,960 DR	185,465 DR		Interest bearing loans and borrowing	Bank of Scotland International
Term loans	15,000 DR	15,000 DR		Interest bearing loans and borrowing	Bank of Scotland
Bank balance Euro account				Cash and cash equivalents	Bank of Scotland
Bank balance CHF account				Cash and cash equivalents	Bank of Scotland
Bank balance USD account	229 CR			Cash and cash equivalents	Bank of Scotland
Interest payable			25,134 DR	Financial expense	Bank of Scotland

Notes to the financial statements (continued)**24 Parent undertakings**

HBOS plc is the ultimate parent undertaking of Uberior Investments Plc 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.

On 17 September 2007 in accordance with the provisions of the HBOS Group Reorganisation Act 2006 ('the Act'), the Governor and Company of the Bank of Scotland registered as a public limited company under the Companies Act and changed its name to Bank of Scotland plc. On the same day, under the Act, the business activities, assets (including investments in subsidiaries) and liabilities of CAPITAL BANK plc, Halifax plc and HBOS Treasury Services plc transferred to Bank of Scotland plc.

Consequently, Bank of Scotland plc heads the smallest group into which the accounts of the Company are consolidated. The accounts of Bank of Scotland plc may be obtained from its head office at The Mound, Edinburgh EH1 1YZ.

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE UBERIOR INVESTMENTS PLC 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 company financial statements for each financial year. Under that law the Directors have elected to prepare the company financial statements in accordance with IFRSs as adopted by the EU.

The company financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position of the company and the performance for that period. 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 the company 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.

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report and a Business Review.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF UBERIOR INVESTMENTS PLC

We have audited the financial statements of Uberior Investments plc for the year ended 31 December 2007 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 26.

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 whether the financial statements have been 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.

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 2007 and of its profit for the year then ended,
- 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

Edinburgh

20 February 2008