

794936

SCOTTISH WIDOWS INVESTMENT PARTNERSHIP LIMITED

REPORT OF THE DIRECTORS

AND

FINANCIAL STATEMENTS

31 DECEMBER 2006



Member of Lloyds TSB Group

Scottish Widows Investment Partnership Limited
Report and Financial Statements for the Year Ended 31 December 2006

Contents

Company Information	2
Directors' Report	3-4
Independent Auditors' Report to the Members of Scottish Widows Investment Partnership Limited	5-6
Income Statement	7
Balance Sheet	8
Cash Flow Statement	9
Statement of Changes in Equity	10
Notes to the Financial Statements	11-23

Scottish Widows Investment Partnership Limited
Report and Financial Statements for the Year Ended 31 December 2006

Company Information

Board of Directors

A G Kane - Chairman

A C Frepp
A J November
G J Wood

Secretary

J M Brett

Auditors

PricewaterhouseCoopers LLP
Erskine House
68-73 Queen Street
Edinburgh
EH2 4NH

Registered Office

10 Fleet Place
London
EC4M 7RH

Company Number

794936

Scottish Widows Investment Partnership Limited
Report and Financial Statements for the Year Ended 31 December 2006

Directors' Report

The directors present their report and the audited financial statements of Scottish Widows Investment Partnership Limited (the "Company"), a company incorporated and domiciled in the United Kingdom, for the year ended 31 December 2006.

Principal activities and review of the business

During the year the Company carried on the business of investment management. This includes management of investments of Lloyds TSB Group plc and certain subsidiary companies, and specialist investment funds.

The Directors consider that the Company's activities will continue unchanged for the foreseeable future.

The directors of Lloyds TSB Group plc, which includes the Company, manage the group's operations on a divisional basis. For this reason the Company's directors believe that analysis using key performance indicators for the company is not necessary or appropriate for an understanding of the development, performance or position of the business of the Company. The development, performance and position of the Insurance and Investments division of Lloyds TSB Group plc, which includes the Company, is discussed on pages 16 to 18 of the group's annual report which does not form part of this report.

Results and dividend

The result of the Company for the year ended 31 December 2006 is a profit after tax of £10,968,000 (2005: profit of £5,534,000) and has been transferred to reserves. The Directors recommended and have paid a dividend of £1,000,000 in respect of 2006 (2005: £nil).

Principal risks and uncertainties

The key business risks and uncertainties affecting the company are considered to relate to credit, liquidity, market, currency and interest rate risk. Further discussion of these risks and uncertainties are covered in note 18, Risk Management Policies.

Policy and practice on payment of creditors

The processing of invoices from suppliers and settlement of trade creditors is undertaken by a separate company within the Lloyds TSB Group.

The Group follows "The Better Payment Practice Code" published by the Department of Trade and Industry, regarding the making of payments to suppliers. A copy of the code and information about it may be obtained from the Department of Trade and Industry, No1 Victoria Street, London, SW1H 0ET.

The Group's policy is to agree terms of payment with suppliers and these normally provide for settlement within 30 days after the date of the invoice, except where other arrangements have been negotiated. It is the policy of the Group to abide by agreed terms of payment, provided the supplier performs according to the terms of the contract. As the Group owed no amounts to trade creditors at 31 December 2006, the number of days shown in this report, to comply with the provisions of the Companies Act 1985, is nil (2005: nil).

Scottish Widows Investment Partnership Limited
Report and Financial Statements for the Year Ended 31 December 2006

Directors' Report (continued)

Directors

The names of the current Directors are listed on page 2. Changes in directorships during the year and subsequent to the year end are as follows:

C M Phillips (resigned 31 March 2007)

Particulars of the Directors' emoluments and interests in shares are given in note 17 to the financial statements.

Charitable and political contributions

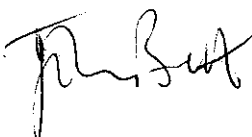
During the year, the company made contributions totalling £480 to charity (2005: £11,500, includes £10,000 to the Tsunami Fund). The company made no political contributions (2005: £nil).

Disclosure of Information to auditors

The Directors confirm that, as far as they are aware, there is no relevant audit information of which the Company's auditors are unaware. Relevant information is defined as "information needed by the Company's auditors in connection with preparing their report".

Each Director has taken all the steps that he ought to have taken in his duty as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

On behalf of the Board of Directors



J M Brett
Company Secretary
16 April 2007

Scottish Widows Investment Partnership Limited
Report and Financial Statements for the Year Ended 31 December 2006

**Independent Auditors' Report to the
Members of Scottish Widows Investment Partnership Limited**

We have audited the financial statements of Scottish Widows Investment Partnership Limited for the year ended 31 December 2006 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, the Statement of Changes in Equity and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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 European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 judgments 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.

Scottish Widows Investment Partnership Limited
Report and Financial Statements for the Year Ended 31 December 2006

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the company's affairs as at 31 December 2006 and of its profit and cash flows 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.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Edinburgh
16 April 2007

Scottish Widows Investment Partnership Limited
Report and Financial Statements for the Year Ended 31 December 2006

Income Statement

	Note	2006 £000	2005 £000
Revenue	4	102,177	88,716
Administrative expenses	5	(90,949)	(86,745)
Other operating income		1,954	3,708
Operating profit		<u>13,182</u>	<u>5,679</u>
Interest receivable		2,538	2,284
Finance cost	6	(51)	(89)
Profit before tax		<u>15,669</u>	<u>7,874</u>
Income tax expense	7	(4,701)	(2,340)
Profit for the year		<u><u>10,968</u></u>	<u><u>5,534</u></u>

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

Scottish Widows Investment Partnership Limited
Report and Financial Statements for the Year Ended 31 December 2006

Balance Sheet

	Note	2006 £000	2005 £000
ASSETS			
Non-current assets			
Investment in group undertakings	8	229	96
Deferred tax assets	14	259	-
		<u>488</u>	<u>96</u>
Current assets			
Trade and other receivables	9	14,821	13,377
Cash and cash equivalents	10	67,149	51,145
		<u>81,970</u>	<u>64,522</u>
TOTAL ASSETS		<u>82,458</u>	<u>64,618</u>
EQUITY AND LIABILITIES			
Capital & Reserves attributable to Company's			
Equity Holders			
Share capital	11	20,000	20,000
Other Reserves		2,000	2,000
Retained earnings		13,977	4,009
TOTAL EQUITY		<u>35,977</u>	<u>26,009</u>
LIABILITIES			
Current liabilities			
Trade and other payables	12	40,283	36,057
Deferred income	13	20	-
Current income tax liabilities	14	5,149	2,552
		<u>45,452</u>	<u>38,609</u>
Non-current liabilities			
Deferred income	13	164	-
Other non-current liabilities	15	865	-
		<u>1,029</u>	<u>-</u>
TOTAL LIABILITIES		<u>46,481</u>	<u>38,609</u>
TOTAL EQUITY AND LIABILITIES		<u>82,458</u>	<u>64,618</u>

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

Approved on behalf of the Board on 16 April 2007.



Andy Frepp
Director

Scottish Widows Investment Partnership Limited
Report and Financial Statements for the Year Ended 31 December 2006

Cash Flow Statement

	Note	2006 £000	2005 £000
Cash flows from operating activities			
Profit before tax		15,669	7,874
Adjustments for:			
Interest receivable		(2,538)	(2,284)
Finance cost		51	89
Net decrease / (increase) in operating assets and liabilities	16	3,838	(6,864)
Taxation (paid) / received		(2,362)	371
Net cash flows from operating activities		14,658	(814)
Cash flow from investing activities			
Investment in group undertaking		(133)	-
Interest received		2,530	2,190
Net cash flows from investing activities		2,397	2,190
Cash flows from financing activities			
Finance costs		(51)	(89)
Dividends paid to company shareholders		(1,000)	-
Net cash flows from financing activities		(1,051)	(89)
Net increase in cash and cash equivalents		16,004	1,287
Cash and cash equivalents at the beginning of the year		51,145	49,858
Cash and cash equivalents at the end of the year	10	67,149	51,145

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

Scottish Widows Investment Partnership Limited
Report and Financial Statements for the Year Ended 31 December 2006

Statement of Changes in Equity

	Share Capital £000	Retained Earnings £000	Other Reserves £000	Total £000
Balance at 1 January 2005	20,000	(1,525)	2,000	20,475
Net profit for the year	<u>-</u>	<u>5,534</u>	<u>-</u>	<u>5,534</u>
Balance at 31 December 2005	20,000	4,009	2,000	26,009
Net profit for the year	-	10,968	-	10,968
Dividend paid to shareholders	<u>-</u>	<u>(1,000)</u>	<u>-</u>	<u>(1,000)</u>
Balance at 31 December 2006	<u>20,000</u>	<u>13,977</u>	<u>2,000</u>	<u>35,977</u>

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

Scottish Widows Investment Partnership Limited
Report and Financial Statements for the Year Ended 31 December 2006

Notes to the financial statements

1. Basis of preparation

The financial statements of the Company have been prepared in accordance with:

(1) the standards issued by the International Accounting Standards Board and interpretations issued by its International Financial Reporting Interpretations Committee as endorsed by the European Union; and

(2) those parts of the Companies Act 1985 applicable to companies reporting under IFRS.

As the Company is a wholly owned subsidiary undertaking of Lloyds TSB Group plc, a company registered in the United Kingdom, Scottish Widows Investment Partnership Limited has taken advantage of the Companies Act 1985 and has not produced consolidated financial statements.

At balance sheet date the following International Financial Reporting Standards (IFRSs), International Accounting Standards (IASs) and International Financial Reporting Interpretation Committee Pronouncements (IFRICs) were issued but not yet effective:

- IFRS 7 Financial Instruments – Disclosures (effective 1/1/07)
- IFRS 8 Operating Segments (effective 1/1/09)
- IAS 1 Amendment (effective 1/1/07)
- IFRIC 8 (effective 1/5/06)
- IFRIC 9 (effective 1/6/06)
- IFRIC 10 (effective 1/11/06)
- IFRIC 11 (effective 1/3/07)

Had the Company elected to adopt these standards and pronouncements early the effect and impact would be:

- IFRS 7: Enhanced qualitative and quantitative reporting of the nature and extent of risks arising from financial instruments to which the Company is exposed at reporting date.
- IFRS 8: Requires reporting of financial and descriptive information about operating segments. No impact as the Company only operates in one segment.
- IAS 1: Additional disclosure of the objectives, policies and processes for managing capital and compliance with capital requirements.
- IFRIC 8: Effects where an entity receives goods or services in consideration for equity instruments. No impact as the Company does not issue equity instruments in consideration for goods or services.
- IFRIC 9: Subsequent re-assessment of whether contracts contain embedded derivatives prohibited after the Company first becomes a party to the contract. No impact as the company does not have any contracts with embedded derivatives.
- IFRIC 10: Impairment losses recognised in previous interim periods in respect of goodwill or an investment could not be reversed. No impact as the entity does not have any impairment losses in respect of previous periods.
- IFRIC 11: Enhanced clarification of the application of IFRS 2 (Share Based Payments) to certain share-based payment arrangements. No impact as the Company is not party to share-based payment arrangements.

Scottish Widows Investment Partnership Limited
Report and Financial Statements for the Year Ended 31 December 2006

Notes to the financial statements (continued)

2. Summary of significant accounting policies

The Company has identified the accounting policies that are the most significant to its business operations and the understanding of its results. The significant accounting policies adopted in the preparation of the financial statements are set out below.

The preparation of the financial statements necessitates the use of estimates and assumptions in calculating accruals. These estimates and assumptions affect the reported amounts of assets and liabilities, contingent or otherwise, at the balance sheet date as well as affecting the reported income and expenses for the year. Although the estimates are based on management's best knowledge of current facts as at the balance sheet date, the actual outcome may differ from those estimates.

a) Revenue and other operating income

Revenue, which wholly arose in the United Kingdom, represents fees in respect of investment management services provided.

Revenue comprises the following:

i) Investment Management Fees

Fee income is derived from investment management contracts with clients of the Company. Income is accrued on a monthly basis based on the underlying terms of each client's individual contracts at the fair value of the amount receivable.

ii) Performance Fees

Performance fees are calculated with reference to performance against a benchmark index. They are recognised only at the end of the period to which the performance relates, as set out in the underlying contracts. These fees are recognised as revenue in the period in which these are charged unless these relate to services to be provided in future periods. If the fees are for services to be provided in future periods, these are deferred and recognised in the income statement as revenue as the service is provided.

b) Interest receivable and finance cost

Interest receivable and finance cost are recognised in the Income Statement as they accrue.

c) Investment in subsidiaries

The Company owns a variety of subsidiaries. Certain subsidiaries trade with a view to making a profit or loss, and the risk and rewards of owning those subsidiaries primarily rests with the equity holders of the Company. Those subsidiaries are held at cost subject to impairment.

Notes to the financial statements (continued)

The SEC registered Emerging Markets Investment Fund is held for investment purposes. This subsidiary holds assets in a regulated collective investment scheme which are held for trading and changes in the fair value of the investments are recognised through the income statement in accordance with International Accounting Standard ("IAS") 39 "Financial Instruments – Recognition and Measurement". Accordingly, the measurement requirements of IAS 27 "Investments in subsidiaries" do not apply. The value of such investments has been separately disclosed within the financial statements.

d) Trade and other receivables and payables

Trade and other receivables and payables are stated at amortised cost, with the exception of accrued interest which is accounted for on an accruals basis.

e) Cash and cash equivalents

Cash and cash equivalents includes:

- i. cash at bank and in hand and short-term highly liquid investments with original maturities of three months or less.
- ii. short-term investments in a cash fund.

f) Impairment

The carrying value of all assets is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. The identification of impairment and the determination of recoverable amounts is an inherently uncertain process involving various assumptions and factors, including the financial condition of the counterparty, expected future cash flows, observable market prices and expected net selling prices.

g) Income taxes

Income tax on the profit or loss for the year is recognised in the income statement and comprises current and deferred tax.

Current tax

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date together with adjustments to tax payable in respect of prior years.

Scottish Widows Investment Partnership Limited
Report and Financial Statements for the Year Ended 31 December 2006

Notes to the financial statements (continued)

Deferred income tax

Deferred income tax is provided in full on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the balance sheet date. However, if the deferred income tax arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. 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 the tax rates enacted or substantially enacted at the balance sheet date.

Deferred income tax assets are only recognised to the extent that it is probable that the future taxable profits will be available against which the temporary differences, carry-forward of unused tax assets and unused tax losses can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred income tax asset to be utilised.

h) Deferred income

The Company receives investment management fees in respect of services rendered in conjunction with the issue and management of investment contracts where the Company actively manages the consideration received from its customers to fund a return that is based on the investment profile that the customer selected on origination of the contract. These services comprise an undetermined number of acts over the lives of the individual contracts and, therefore, the Company recognises these fees on a straight-line basis over the estimated lives of the contracts.

i) Foreign Currency Translation

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The financial statements are presented in thousands of pounds sterling, which is the Company’s presentational and functional currency.

Assets and liabilities in foreign currencies are translated into sterling at the exchange rates ruling at the balance sheet date. Revenue transactions have been translated at rates of exchange ruling at the time of the respective transactions. Any exchange differences are dealt with in that part of the income statement in which the underlying transaction is reported.

j) Operating Leases

The Company is not party to any operating leases.

Scottish Widows Investment Partnership Limited
Report and Financial Statements for the Year Ended 31 December 2006

Notes to the financial statements (continued)

k) Other reserves

The amount of other reserves represents irrevocable gifts to the company as contributions to capital. These amounts are distributable at the discretion of the Directors.

3. Segmental analysis

In accordance with International Accounting Standard (IAS) 14 "Segmental Reporting", a business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

In the opinion of the Directors the Company operates in a single business segment, that being the management of investment funds, and therefore there are no specific disclosure requirements under IAS 14.

4. Revenue

	2006	2005
	£000	£000
Revenue represents the following:		
Investment Management and Performance Fees	<u>102,177</u>	<u>88,716</u>

5. Administrative expenses

Administrative expenses relate to the costs incurred in the administration and investment management of investments.

(a) The company had no direct employees during the year (2005: nil). The employee costs, including pension costs, are included within Administrative Expenses as a recharge from Scottish Widows Investment Partnership Group Limited. Details of numbers of employees and costs, including costs of the pension scheme, can be found in the financial statements of Scottish Widows Investment Partnership Group Limited.

(b) Audit fees for the year were £58,000 (2005: £58,000). Fees paid to the auditors for non audit services were £88,000 (2005: £67,000), broken down as follows:

	2006	2005
	£000	£000
FRAG 21 internal controls report attestation	62	60
Services supplied pursuant to legislation	21	3
Services relating to taxation	5	3
All other services	-	1
	<u>88</u>	<u>67</u>

Scottish Widows Investment Partnership Limited
Report and Financial Statements for the Year Ended 31 December 2006

Notes to the financial statements (continued)

6. Finance cost

Finance cost relates to interest payable on bank overdraft borrowings.

7. Income tax expense

(a) Current year tax charge

	2006	2005
	£000	£000
Current tax:		
UK corporation Tax	4,960	2,362
Adjustment in respect of prior years	-	(22)
Total current tax	<u>4,960</u>	<u>2,340</u>
Deferred tax:		
Origination of temporary differences	(259)	-
Adjustment in respect of prior years	-	-
Total current tax	<u>(259)</u>	<u>-</u>
Total income tax expense	<u>4,701</u>	<u>2,340</u>

(b) Reconciliation of tax charge

	2006	2005
	£000	£000
Profit (Loss) before tax	15,669	7,874
Tax at 30%	4,701	2,362
Effects of:		
Adjustment to tax charge in respect of prior years	-	(22)
Total tax charge for the year	<u>4,701</u>	<u>2,340</u>

Scottish Widows Investment Partnership Limited
Report and Financial Statements for the Year Ended 31 December 2006

Notes to the financial statements (continued)

8. Subsidiary undertakings

The following are particulars of the Company's subsidiary undertakings:

Name	Class of Share	Percentage held	Country of Registration or Incorporation	Nature of Business
Scottish Widows Property Partners (SPF) Limited	Ordinary	100	Scotland	Property
Airport Industrial GP Limited	Ordinary	100	England/ Wales	Property
Bedfont Lakes Business Park (GP1) Limited	Ordinary	100	England/ Wales	Property
Bedfont Lakes Business Park (GP2) Limited	Ordinary	100	England/ Wales	Property
SWIP (Luxembourg) S.a.r.l	Ordinary	100	Luxembourg	Management Company to the European Balanced Property Fund
Unitair General Partner Limited	Ordinary	50	England/ Wales	Property
Scottish Widows Investment Partnership Trust	Ordinary / Common	100	United States	Emerging Markets Investment Fund

During 2006, the Company launched a SEC-registered Emerging Markets Fund to provide US investors with an attractive vehicle for accessing SWIP's Emerging Markets capabilities. This institutional Fund is called the Scottish Widows Investment Partnership Trust and has one sub-fund, the Global Emerging Markets Fund, which the Company is currently the sole investor. The value of the investment is £132,424 as at 31 December 2006.

9. Trade and other receivables

	2006 £000	2005 £000
Trade receivables	256	543
Amounts due from group undertakings	5,142	4,950
Prepayments and accrued income	8,304	7,884
Other receivables	1,119	0
	<u>14,821</u>	<u>13,377</u>

Scottish Widows Investment Partnership Limited
Report and Financial Statements for the Year Ended 31 December 2006

Notes to the financial statements (continued)

10. Cash and cash equivalents

Cash and cash equivalents include the following:

	2006 £000	200 £000
Cash at bank	66,124	49,321
Short-term investments in a cash fund	1,025	1,824
Total cash and cash equivalents	<u>67,149</u>	<u>51,145</u>

11. Called up share capital

	2006 £000	2005 £000
Authorised 21,000,000 ordinary shares of £1 each	<u>21,000</u>	<u>21,000</u>
Allotted, issued and fully paid 20,000,100 ordinary shares of £1 each	<u>20,000</u>	<u>20,000</u>

There are no restrictions on share capital.

12. Trade and other payables

	2006 £000	2005 £000
Amounts due to group undertakings	37,680	34,190
Other payables	2,333	1,657
Other taxes	270	210
	<u>40,283</u>	<u>36,057</u>

Included within amounts due to Group undertakings are subordinated loans of £11,000,000 (2005: £11,000,000) from Scottish Widows Investment Partnership Group Limited and £14,000,000 (2005: £14,000,000) from Scottish Widows Group Limited. These loans are non-interest bearing and have no fixed repayment date. The lenders reserve the right to demand repayment of the loans and the loans have been classified as debt in accordance with IAS32 'Financial Instruments: Disclosure and Presentation'. FSA approval is required before repayment of these loans can be made.

Scottish Widows Investment Partnership Limited
Report and Financial Statements for the Year Ended 31 December 2006

Notes to the financial statements (continued)

13. Deferred income

	2006 £000	2005 £000
At 1 January	-	-
Amounts incurred during the period	204	-
Amortisation during the period	(20)	-
At 31 December	<u>184</u>	<u>-</u>
Non current	164	-
Current	20	-
Total	<u><u>184</u></u>	<u><u>-</u></u>

14. Tax assets and liabilities

	2006 £000	2005 £000
Deferred tax assets	259	-
Total tax assets	<u>259</u>	<u>-</u>
Current income tax liabilities	5,149	2,552
Total tax liabilities	<u>5,149</u>	<u>2,552</u>

Deferred tax asset relates to expenses deductible in future periods.

15. Other non-current liabilities

During 2006 the Company implemented an additional incentive scheme solely in relation to 2006 performance, the benefits of which will be paid over a 3 year period.

	2006 £000	2005 £000
Other non-current liabilities	<u>865</u>	<u>-</u>

16. (Increase) / decrease in operating assets and liabilities

	2006 £000	2005 £000
Trade and other receivables	(1,437)	(1,824)
Trade and other payables	5,275	(5,040)
Net Decrease / (Increase) in operating assets and liabilities	<u><u>3,838</u></u>	<u><u>(6,864)</u></u>

Notes to the financial statements (continued)

17. Key Management Personnel emoluments and interests

The Chairman and Directors consider that they receive no remuneration for their services to the Company (2005: £nil). The Chairman and Directors are also directors of certain key operating companies within the Lloyds TSB Group, of which the Company is a member.

A G Kane is also a Director of the Company's ultimate parent undertaking, Lloyds TSB Group plc and his emoluments and interests can be found in the financial statements of that company.

C M Phillips is also a Director of the Company's intermediate parent undertaking, Scottish Widows Group Limited and his emoluments and interests can be found in the financial statements of that company.

A C Frepp, A J November and G J Wood are also Directors of the Company's immediate parent undertaking, Scottish Widows Investment Partnership Group Limited and their emoluments and interests can be found in the financial statements of that company.

None of the Directors who held office during the period ending 31 December 2006 had any interest in the shares of the Company (2005: none).

A K Sarwal, J M Brett and L M Dalgarno are considered key management personnel of the Company and their interests and emoluments are disclosed in the financial statements of the Company's immediate parent company, Scottish Widows Investment Partnership Group Limited.

18. Risk management policies

(a) Governance framework

The Company is part of the Insurance and Investments division of Lloyds TSB Group plc. This division has established a risk management function with clear terms of reference and with the responsibility for implementing the LTSB framework and monitoring Lloyds TSB Group wide policies on insurance and financial risks.

The key risk policies relevant to the Company are summarised below (which are subject to at least an annual review or earlier if deemed necessary by circumstances).

(b) Regulatory framework

Regulators are interested in protecting the rights of the investors and ensuring that the Company is satisfactorily managing affairs on their behalf. Regulators are also keen to ensure that the Company maintains appropriate solvency levels to meet unforeseen liabilities. As such the Company is subject to regulatory requirements which prescribe approval and monitoring of activities and also impose certain restrictive provisions.

Notes to the financial statements (continued)

(c) Financial risks

(1) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Credit risk to the Company arises primarily from exposure to trade debtors. Exposure to trade debtors is assessed on a case by case basis, using a credit rating agency where appropriate. The Company's largest exposure is with a Group related entity as detailed in Note 19, Related Party Transactions.

(2) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet its cash commitments as they fall due. Liquidity risk may result from either the inability to sell financial assets quickly at their fair values; or from a counterparty defaulting on repayment of a contractual obligation; or from the inability to generate cash inflows as anticipated.

Liquidity risk is managed in line with the Lloyds TSB Group Liquidity Risk Policy.

(3) Market risk

Market risk is the risk of fair value changes in the value of assets and liabilities from fluctuations in market prices (price risk), market interest rates (interest rate risk) and foreign exchange rates (currency risk), whether such changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. The company's exposure to price, currency and interest rate risk is addressed below.

(i) Price risk

The company's price risk exposure relates to financial assets and liabilities whose values will fluctuate as a result of changes in market prices other than from interest and foreign exchange fluctuations. This is due to factors specific to individual instruments, their issuers or factors affecting all instruments traded in the market. Accordingly, the company maintains exposure limits both to any one counterparty and any one market.

(ii) Currency risk

Currency risk is the risk of transactions denominated in foreign currencies being affected by fluctuations in exchange rates.

While the Company's principal transactions are carried out in pounds sterling, the Company invests in US Dollar and Euro denominated short term investment funds. There is a foreign exchange risk to the extent that any assets and their respective liabilities are not held in the same currency. The Company does not consider the risk to be significant enough to use risk mitigating instruments such as forward contracts.

Scottish Widows Investment Partnership Limited
Report and Financial Statements for the Year Ended 31 December 2006

Notes to the financial statements (continued)

(iii) Interest Rate risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in interest rates. The Company is exposed to floating interest rate risk through the investment in the SWIP Global Liquidity Fund plc.. The year end rate incurred on this Fund was 4.96% (2005: 4.36%).

The Company has no other significant risk exposures.

19. Related party transactions

The company entered into the following transactions with other related parties, all members of the Lloyds TSB Group:

Certain current account bank balances within the Company are held with Lloyds TSB Scotland. The total amount held in these bank accounts was £10,124,000 at 31 December 2006 (2005: £1,981,000). The interest received in the year on these accounts was £247,000 (2005: £255,000).

Excess cash balances are held in the SWIP Global Liquidity Fund plc. The total amount held in this fund at 31 December 2006 was £1,025,000 (2005: £1,825,000). The interest earned in the year on this investment was £60,684 (2005: £74,000).

Annual management charges are received from Scottish Widows plc. The amount received during 2006 totalled £18,961,000 (2005: £17,035,000) with amounts receivable from Scottish Widows plc at 31 December 2006 of £1,579,000 (2005: £1,483,000).

Annual management charges are received from Scottish Widows Annuities Ltd. The amount received during 2006 totalled £1,465,000 (2005: £1,319,000) with amounts receivable from Scottish Widows Annuities Ltd at 31 December 2006 of £126,000 (2005: £119,000).

Annual management charges are received from Scottish Widows Unit Trust Managers Limited. The amount received during 2006 totalled £14,089,000 (2005: £12,395,000) with amounts receivable from Scottish Widows Unit Trust Managers Limited at 31 December 2006 of £1,214,000 (2005: £1,093,000).

Annual management charges are received from Scottish Widows Unit Funds Limited. The amount received during 2006 totalled £15,389,000 (2005: £15,513,000) with amounts receivable from Scottish Widows Unit Fund Managers Limited at 31 December 2006 of £1,292,000 (2005: £1,860,000).

Annual management charges are received from Pensions Management (S.W.F.) Ltd. The amounts received during 2006 totalled £6,345,000 (2005: £5,400,000) with amounts receivable from Scottish Widows Pension Management Ltd at 31 December 2006 of £567,000 (2005: £646,000).

Annual management charges are received from Scottish Widows International Ltd. The amounts received during 2006 totalled £nil (2005: £162,000).

Scottish Widows Investment Partnership Limited
Report and Financial Statements for the Year Ended 31 December 2006

Notes to the financial statements (continued)

Annual management charges are received from Abbey Life Assurance Co Ltd. The amount received during 2006 totalled £3,076,726 (2005: £2,707,000) with amounts receivable from Abbey Life Assurance Co Ltd at 31 December 2006 of £401,000 (2005: £255,000).

Annual management charges are received from LTSB Offshore Fund Managers Ltd. The amount received during 2006 totalled £1,028,000 (2005: £950,000) with amounts receivable from LTSB Offshore Fund Managers Ltd at 31 December 2006 of £188,000 (2005: £79,000).

The company receives an investment management charge from SWIP Fund Management Ltd. The amount received in 2006 totalled £10,498,000 (2005: £8,283,000). The amount owing by SWIP Fund Management Limited at 31 December 2006 was £nil (2005: £nil).

The company receives payment for Custody fees from Scottish Widows Unit Trust Managers Limited. The amount received during 2006 totalled £216,000 (2005: £270,000) with the amount outstanding at 31 December 2006 of £54,000 (2005: £54,000).

The company receives payment for Fund management fees paid to Mackay Shields from Scottish Widows Unit Trust Managers Limited. The amount received during 2006 totalled £1,711,000 (2005: £1,811,000) with the amount outstanding at 31 December 2006 of £139,000 (2005: £149,000).

The company had amounts due to Group undertakings at 31 December 2006 in the form of subordinated loans as detailed in Note 12.

Key management compensation details are included in Note 17.

There were no other material transactions by the Company with related parties for the year ended 31 December 2006.

20. Post balance sheet events

On 16 January 2007 Chris Phillips announced his resignation as Chief Executive Officer of SWIP Group. His directorship of Scottish Widows Investment Partnership Limited ceased on 31 March 2007.

In the March 2007 budget it was announced that the corporation tax rate is to be reduced to 28% from 1 April 2008. This change, if enacted, will be expected to reduce the level of deferred tax assets and liabilities.

21. Parent undertaking

The Company's immediate parent undertaking is Scottish Widows Investment Partnership Group Limited, a Company registered in the United Kingdom.

Lloyds TSB Group plc is regarded by the Directors as the ultimate parent company and ultimate controlling party of Scottish Widows Investment Partnership Limited. Copies of the Lloyds TSB Group plc financial statements in which the company is consolidated can be obtained from the Group Secretary's Department, Lloyds TSB Group plc, 25 Gresham Street, London, EC2V 7HN.