Registered in England Number 4420535

# SL FINANCE PLC

## REPORT AND ACCOUNTS
## FOR THE YEAR ENDED
## 31 DECEMBER 2005

**REPORT AND ACCOUNTS**

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STATUTORY INFORMATION

| | | |
|---|---|---|
| Directors | : | J.F. Hylands, BSc FFA (Chief Executive Officer)<br>J.J. Cummins BA MBA<br>D.C. Bentley BAcc CA |
| Secretary | : | P.W. Somerville LLB |
| Auditors | : | PricewaterhouseCoopers LLP<br>Erskine House<br>68-73 Queen Street<br>Edinburgh<br>EH2 4NH |
| Registered Office | : | 5 Devonshire Place<br>London<br>EC2M 4YD |
| Bankers | : | JP Morgan Chase Bank<br>Trinity Towers<br>9 Thomas More Street<br>London<br>E1W 1YT |
| Solicitors | : | Clifford Chance LLP<br>10 Upper Bank Street<br>London<br>E14 5JJ |

# DIRECTORS' REPORT

The directors submit their Report and Accounts for the year ended 31 December 2005.

**Annual General Meeting**

As permitted by Section 366A of the Companies Act 1985, the Company has passed an elective resolution to dispense with the holding of an annual general meeting.

**Results and dividends**

SL Finance PLC made a profit for the year ended 31 December 2005 of £2,844 (2004: £1,963).

The directors do not recommend the payment of a dividend for the year. The directors consider the results to be satisfactory.

**Principal activities and business review**

The principal activity of the Company is to continue to act as a financing company for the Standard Life Assurance Company. On 12 July 2002 the Company issued subordinated guaranteed bonds which are listed on the London Stock Exchange. The details of the issue are given in Note 12.

In 2004 the Company changed its year end from 15 November to 31 December and consequently the comparatives given in these accounts cover the thirteen and a half month period from 16 November 2003 to 31 December 2004.

On 17 October 2005, the Board of The Standard Life Assurance Company, the Company's parent undertaking, confirmed it intends to recommend to members that The Standard Life Assurance Company should demutualise and list on the London stock exchange, subject to satisfactory completion of all legal, regulatory and other requirements. The vote on demutualisation is scheduled to take place at a Special General Meeting on 31 May 2006.

**Directors**

The names of the directors of the Company, who held office throughout the year, are listed on page 3.

The directors are not subject to retirement by rotation. None of the directors has a beneficial interest in the shares of the Company.

**Financial instruments and risk management**

The Company's financial instruments comprise its subordinated guaranteed bonds in issue and the loan of the proceeds of this debt to its parent undertaking, the Standard Life Assurance Company. The Company does not bear any currency or interest rate risks in relation to its bonds in issue as these risks are passed onto The Standard Life Assurance Company under the terms of the Company's loan agreement with its parent undertaking. The credit risk is considered to be minimal as the debtor balance is intercompany.

**Auditors**

The auditors, PricewaterhouseCoopers LLP, Chartered Accountants have indicated their willingness to continue in office and a resolution concerning their re-appointment will be proposed by the directors.

On behalf of the Board of Directors

DCBentley

D C Bentley, Director

Edinburgh,
18 April, 2006

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare accounts for each financial period which comply with the Companies Act 1985 and give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. The directors are required to prepare the accounts on the going concern basis, unless it is inappropriate to presume that the company will continue in business. In addition, the directors should take all reasonable steps to ensure that adequate accounting records are maintained, that the assets of the Company are safeguarded and that fraud and other irregularities are prevented or detected.

The directors confirm that suitable accounting policies, consistently applied, subject to any material departure being disclosed and explained and supported by reasonable and prudent judgements and estimates, have been used in the preparation of the accounts of the Company for the year ended 31 December 2005. The directors also confirm that the accounts have been appropriately prepared on a going concern basis and that applicable accounting standards have been followed as described in the Accounting Policies.

**PROFIT AND LOSS ACCOUNT**

For the year ended 31 December 2005

| | Notes | 12 months to 31 December 2005 £000 | 13 ½ months to 31 December 2004 (restated) £000 |
|---|---|---|---|
| Turnover | 3 | 8 | 3 |
| Administration expenses | 4 | (7) | (3) |
| Operating profit | | 1 | - |
| Interest receivable | 5 | 67,287 | 67,202 |
| Interest payable and similar charges | 6 | (67,284) | (67,199) |
| Profit on ordinary activities before tax | | 4 | 3 |
| Tax on profit on ordinary activities | 9 | (1) | (1) |
| Profit on ordinary activities after tax | | 3 | 2 |
| Retained profit brought forward | | 4 | 2 |
| Retained profit carried forward | | 7 | 4 |

There are no recognised gains or losses other than the profit for the period and therefore a separate Statement of Total Recognised Gains and Losses is not included in these accounts.

There is no difference between the profit on ordinary activities before tax and the retained profit for the year stated above and their historical equivalents.

The result for the period relates wholly to continuing activities.

The notes on pages 8 to 11 form an integral part of these accounts.

## BALANCE SHEET

As at 31 December 2005

| | Notes | 31 December 2005 £000 | 31 December 2004 (restated) £000 |
|---|---|---|---|
| **Assets** | | | |
| Debtors – amounts falling due within one year | 10 | 83,232 | 83,709 |
| Debtors – amounts falling due after more than one year | 10 | 947,880 | 962,567 |
| Total debtors | | 1,031,112 | 1,046,276 |
| Cash at bank | | 57 | 55 |
| Total assets | | 1,031,169 | 1,046,331 |
| **Current Liabilities** | | | |
| Creditors – amounts falling due within one year | 11 | (83,232) | (83,710) |
| **Net Current Assets** | | 947,937 | 962,621 |
| Creditors – amounts falling due after more than one year | 12 | (947,880) | (962,567) |
| **Net Assets** | | 57 | 54 |
| **Capital and Reserves** | | | |
| Called up share capital | 13 | 50 | 50 |
| Profit and loss account | | 7 | 4 |
| ***Total shareholder's funds*** | 14 | 57 | 54 |

On behalf of the Board of Directors

D C Bentley, Director

Edinburgh,
18 April, 2006

The notes on pages 8 to 11 form an integral part of these accounts.

NOTES TO THE ACCOUNTS

## 1. ACCOUNTING POLICIES

(a) Basis of presentation

The accounts have been prepared in accordance with The Companies Act 1985 and Accounting Standards issued by the Accounting Standards Board.

(b) Foreign currencies

Assets and liabilities denominated in foreign currencies are translated into sterling at the exchange rates ruling at the balance sheet date. Other foreign currency transactions are translated at the rate of exchange ruling on the date on which the transaction occurred.

(c) Debt due from the parent undertaking

The debt due from the parent undertaking is recognised on the origination date and initially measured at fair value. Any directly attributable transaction costs were excluded from the initial measurement value as these were met by The Standard Life Assurance Company. At each subsequent reporting date this debt is measured at amortised cost, using the effective interest rate method (EIM). The EIM is calculated based on estimated future cash flows considering all the contractual terms of the debt and the expected life of the loan.

(d) Subordinated Guaranteed Bonds

The 6.75% Fixed Rate Perpetual Reset Subordinated Guaranteed Sterling Bonds and the 6.735% Fixed/Floating Rate 2022 Subordinated Guaranteed Euro Bonds are recognised on the origination date and initially measured at fair value. Any directly attributable transaction costs were excluded from the initial measurement value as these were met by The Standard Life Assurance Company. At each subsequent reporting date this debt is measured at amortised cost using the EIM which is used to allocate all cash flows over the expected life of the debt.

(e) Change of accounting policy

In accordance with FRS 25 ('Financial Instruments: Disclosure and Presentation') and FRS 26 ('Financial Instruments: Measurement'), in 2005 the company changed from the straight line method of calculating the book value of the bonds and the intercompany loan to the effective interest rate method of calculating amortised cost. As a consequence of this change the following 2004 comparatives were restated (as any adjustments are entirely offset by a corresponding debit or credit the net of effect of these adjustments is nil):

| | 13½ months to 31 Dec 2004 As previously reported £'000 | 13½ months to 31 Dec 2004 Restated for FRS 25 & 26 £'000 | Difference £'000 |
|---|---|---|---|
| *PROFIT AND LOSS ACCOUNT:* | | | |
| Interest receivable | 76,573 | 67,202 | (9,371) |
| Interest payable and similar charges | (76,570) | (67,199) | 9,371 |
| | 3 | 3 | - |
| *BALANCE SHEET:* | | | |
| Debtors falling due within one year | 32,264 | 83,709 | 51,445 |
| *Creditors falling due within one year* | *(32,265)* | *(83,710)* | *(51,445)* |
| Debtors falling due after more than one year | 1,015,630 | 962,567 | (53,063) |
| Creditors falling due after more than one year | (1,015,630) | (962,567) | 53,063 |
| | (1) | (1) | - |

(f) Interest recognition

Interest receivable and interest payable are calculated using the EIM and are recognised in the profit and loss account.

## 2. CASH FLOW STATEMENT

The company is a wholly owned subsidiary of Standard Life Assurance Company and is included in the consolidated accounts of The Standard Life Assurance Company, which are available from 30 Lothian Road, Edinburgh, EH1 2DH. Consequently the Company has taken advantage of the exemption from preparing a cash-flow statement under the terms of FRS 1 (Revised 1996).

## 3. TURNOVER

The amounts shown represent cost recoveries from other group undertakings in respect of administration services.

**NOTES TO THE ACCOUNTS (Continued)**

**4. ADMINISTRATION EXPENSES**

The Company has no employees and was managed by the parent undertaking.

**5. INTEREST RECEIVABLE**

| | 12 months to 31 December 2005 £000 | 13 ½ months to 31 December 2004 (restated) £000 |
|---|---|---|
| Interest receivable from parent undertaking | 67,284 | 67,199 |
| Bank interest receivable | 3 | 3 |
| | 67,287 | 67,202 |

**6. INTEREST PAYABLE**

| | 12 months to 31 December 2005 £000 | 13 ½ months to 31 December 2004 (restated) £000 |
|---|---|---|
| Interest payable on 6.75% Fixed Rate Perpetual Reset Subordinated Guaranteed Sterling Bonds | 33,978 | 33,964 |
| Interest payable on 6.375% Fixed/Floating Rate 2022 Subordinated Guaranteed Euro Bonds | 33,306 | 33,235 |
| | 67,284 | 67,199 |

**7. DIRECTORS' REMUNERATION**

No amounts are payable to the directors in respect of their services to the Company.

**8. AUDITORS' REMUNERATION**

Auditors' remuneration amounted to £6,225 (2004: £3,000) in respect of audit services. There were no fees paid to the auditors in respect of non-audit services (2004: nil).

**9. TAX ON PROFIT ON ORDINARY ACTIVITIES**

| | 12 months to 31 December 2005 £000 | 13 ½ months to 31 December 2004 (restated) £000 |
|---|---|---|
| UK Corporation tax at 30% (2004: 30%) | | |
| Amount payable to group undertakings in respect of group relief | 1 | 1 |

There are no additional taxation liabilities arising from timing differences that have originated but not reversed at the balance sheet date. The Company has no other taxation liabilities.

**10. DEBTORS**

| | 31 December 2005 £000 | 31 December 2004 (restated) £000 |
|---|---|---|
| Due from parent undertaking: | | |
| - Within 1 year | 83,231 | 83,709 |
| - In more than 1 year | 947,880 | 962,567 |
| Prepayments | 1 | - |
| | 1,031,112 | 1,046,276 |

The intercompany loan represents funds received from the issue of securities which have been lent to The Standard Life Assurance Company under a Subordinated Guaranteed Bond Agreement. Please see Note 12 for further details of the Guaranteed Bond Agreement.

**NOTES TO THE ACCOUNTS (Continued)**

## 11. CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR

| | 31 December 2005 £000 | 31 December 2004 (restated) £000 |
|---|---|---|
| Interest payable | 83,229 | 83,708 |
| *Corporation tax* | 3 | 2 |
| | 83,232 | 83,710 |

## 12. CREDITORS - AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

| | 31 December 2005 £000 | 31 December 2004 (restated) £000 |
|---|---|---|
| 6.75 % £500,000,000 Fixed Rate Perpetual Reset Subordinated Guaranteed Bonds | 466,006 | 466,022 |
| 6.375% €750,000,000 Fixed/Floating Rate Subordinated Guaranteed Bonds 2022 | 481,874 | 496,545 |
| | 947,880 | 962,567 |

Subordinated Guaranteed Bonds

On 12 July 2002 the Company issued £500,000,000 6.75% Fixed Rate Perpetual Reset Subordinated Guaranteed Bonds and *€750,000,000 6.375% Fixed/Floating Rate 2022 Subordinated Guaranteed Bonds. The bonds are listed on the London Stock* Exchange. The proceeds, after deduction of costs associated with the issue, were lent to Standard Life Assurance Company ("SLAC") on equal terms to those applicable to the bonds.

The bonds are unconditionally and irrevocably guaranteed on a subordinated basis by the Company's ultimate parent, SLAC. The non payment of interest or principal does not itself bear interest and does not constitute a default if payment is deferred under the specific terms of the bond.

The Sterling Bonds are redeemable at par at the option of the issuer on 12 July 2027 and on every fifth anniversary thereafter. If the Sterling Bonds are not redeemed on 12 July 2027, the interest rate payable will be reset to an amount of 2.8 per cent over the Gross Redemption Yield on the appropriate 5 year benchmark gilt on the reset date. The Euro Bonds are redeemable at par at the option of the issuer on 12 July 2012 and on any interest payment date thereafter until maturity. From 12 July 2012 the Euro Bonds will bear interest quarterly in arrears at a floating rate determined by the 3 month Euro deposit rate.

If a demutualisation of SLAC takes place, the Subordinated Guaranteed Bond Agreement contains provisions for the conversion into a replacement instrument and obligation to deliver financial assets, or under certain circumstances provides that SLAC will repay the SMA, resulting in the redemption of the bonds.

## 13. CALLED UP SHARE CAPITAL

| | 31 December 2005 £000 | 31 December 2004 (restated) £000 |
|---|---|---|
| Authorised: | | |
| 50,000 Ordinary shares of £1 each | 50 | 50 |
| Allotted, Called up and Fully Paid: | | |
| 50,000 Ordinary shares of £1 each | 50 | 50 |

## 14. RECONCILIATION OF MOVEMENTS IN SHAREHOLDER'S FUNDS

| | 31 December 2005 £000 | 31 December 2004 (restated) £000 |
|---|---|---|
| Opening shareholders' funds | 54 | 52 |
| Profit for the period | 3 | 2 |
| Closing shareholders' funds | 57 | 54 |

*NOTES TO THE ACCOUNTS (Continued)*

## 15. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

The Company has not entered into any derivative contracts. The Company's other financial instruments comprise the issue of subordinated guaranteed bonds and the loan of the proceeds of that debt to Standard Life Assurance Company. The main purpose of the issue was to fund the operations of Standard Life Assurance Company and the proceeds were lent on equal terms to those applicable to the bonds. The main risks arising from the issue of the bonds are interest rate risk and currency risk. Due to the terms of the loan with SLAC these risks are passed on to Standard Life Assurance Company, the parent undertaking of the Company. The company therefore retains no exposure to the risks.

The interest rate profile of the subordinated guaranteed bonds, which are fixed rate liabilities, is given in Note 12. There is no interest payable on the short term creditors of £83,232,000 (2004: £83,710,000). The weighted average fixed interest rate for the subordinated guaranteed bonds is 6.557%.

The fair values of financial instruments are as follows:

| | 31 December 2005 | | 31 December 2004 (restated) | |
|---|---|---|---|---|
| | Book value £000 | Fair value £000 | Book value £000 | Fair value £000 |
| Short term debtor to parent undertaking | 83,231 | 83,231 | 83,709 | 83,709 |
| *Long term loan to parent undertaking* | *947,880* | *1,169,414* | *962,567* | *1,154,251* |
| Short term creditor | (83,232) | (83,232) | (83,710) | (83,710) |
| Long term borrowings | (947,880) | (1,169,414) | (962,567) | (1,154,251) |

The fair value of the subordinated guaranteed bonds and the corresponding debt due from the parent undertaking are calculated by reference to the quoted mid market price of the subordinated guaranteed bonds as at the balance sheet date.

The debt due from the parent undertaking and the amounts repayable under the terms of the bonds are receivable/repayable as follows:

| | 31 December 2005 £000 | 31 December 2004 (restated) £000 |
|---|---|---|
| Within one year | 83,229 | 83,708 |
| Between one and two years | 67,497 | 68,458 |
| Between two and five years | 202,852 | 205,722 |
| After five years | 677,531 | 688,387 |
| | 1,031,109 | 1,046,275 |

The weighted effective rate of interest used in determining the book value of the debt due from the parent undertaking and the amount repayable under the terms of the bonds is 6.54%

## 16. RELATED PARTY TRANSACTIONS

The Company has taken advantage of the exemption under paragraph 3(c) of Financial Reporting Standard 8 from disclosing transactions with other undertakings of the Standard Life Group.

## 17. PARENT UNDERTAKING

The Company is a wholly owned subsidiary of The Standard Life Assurance Company and consequently the assets and liabilities of the Company are consolidated in The Standard Life Assurance Company's accounts, copies of which can be obtained at *Standard Life House, 30 Lothian Road, Edinburgh EH1 2DH.*

## 18. EVENTS AFTER THE BALANCE SHEET DATE

There have been no significant events occurring after the balance sheet date that will have an impact on the Company.

AUDITORS REPORT

**Independent auditors' report to the members of SL Finance PLC**

We have audited the financial statements of SL Finance PLC for the year ended 31 December 2005 which comprise the Profit and Loss Account, the Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

**Respective responsibilities of directors and auditors**

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read 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.

**Opinion**

In our opinion the financial statements:

- give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005 and of its profit for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

*PricewaterhouseCoopers LLP*
*Chartered Accountants and Registered Auditors*
*Edinburgh*
*18 April 2006*