SL MACS (No. 2) PLC

Annual Financial Statements
for the year ended 31 December 2006

Registration no: England Number 05233313

REPORT AND ACCOUNTS

SL MACS (No 2) PLC

REPORT AND ACCOUNTS

SL MACS (No 2) PLC

STATUTORY INFORMATION

Directors	D T Nish, BAcc CA J J Cummins BA MBA D C Bentley BAcc CA
Secretary	S Forrest, LLB(Hons) Dip LP
Auditors	PricewaterhouseCoopers LLP Erskine House 68-73 Queen Street Edinburgh EH2 4NH
Registered Office	5 Devonshire Square London EC2M 4YD
Bankers	JP Morgan Chase Bank Trinity Towers 9 Thomas More Street London E1W 1YT
Solicitors	Clifford Chance LLP 10 Upper Bank Street London E14 5JJ

DIRECTORS' REPORT

The Directors submit their Report and Accounts of SL MACS (No 2) Plc (the Company) for the year ended 31 December 2006

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 MACS (No 2) PLC made a profit for the year ended 31 December 2006 of £3,000 (2005 £1,000)

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

Prior to 10 July 2006, the principal activity of the Company was to act as a financing company for the Standard Life Assurance Company (SLAC) On 4 November 2004 the Company issued Mutual Assurance Capital Securities ("MACS") which are listed on the London Stock Exchange The details of the issue are given in Note 10

On 10 July 2006 the Company's ultimate controlling party SLAC demutualised and a new holding company for the Group, Standard Life plc (SL plc), listed on the London Stock Exchange and became the ultimate controlling party for the Company

Immediately prior to the demutualisation of SLAC, it repaid its liabilities to its subsidiaries that had issued subordinated guaranteed bonds and Mutual Assurance Capital Securities (the instruments) and lent it the funds received The repayment proceeds were transferred to SL plc in return for its assumption of the obligations under the instruments At the time of the demutualisation transaction SL plc entered into a loan arrangement with Standard Life Assurance Limited under which it lent the proceeds it had received for assuming the obligations under the instruments The instruments were re-listed on the London Stock Exchange with SL plc as the issuer

Subsequent to 10 July 2006 and the repayment of its liabilities the Company no longer trades

Directors

The names of the Directors of the Company are listed on page 3 The changes to directors during the year, and subsequent to it, are shown below

LDC Corporate Director (resigned 8 February 2007)
John Hylands (resigned 31 March 2007)
David Nish (appointed 31 March 2007)

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

Prior to 10 July 2006, the Company's financial instruments comprised its MACS in issue and the loan of the proceeds of this debt to its parent undertaking, SLAC The Company did not bear any currency or interest rate risks in relation to its MACS in issue as these risks were passed onto SLAC under the terms of the Company's loan agreement with its parent undertaking The credit risk was considered to be minimal as the debtor balance was intercompany and this remains so for the period to 31 December 2006

Employees

The Company has no employees

Statement on disclosure of information to the auditors

In accordance with company law, as the company's directors, we certify that

- so far as we are aware, there is no relevant audit information of which the company's auditors are unaware, and
- as the directors of the company we have taken all the steps that we ought to have taken in order to make ourselves aware of any relevant audit information and to establish that the company's auditors are aware of that information

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

D C Bentley, Director

Edinburgh
26 July 2007

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

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

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union The financial statements are required by law to 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

In preparing those 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 that the financial statements comply with IFRSs as adopted by the European Union,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors confirm that they have complied with the above requirements in preparing the financial statements

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 the financial statements comply with the Companies Act 1985 They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

INCOME STATEMENT

For the year ended 31 December 2006

	Notes	2006 £000	2005 £000
Revenue			
Net investment return	2	10,279	19,008
Other income		41	33
Total revenue		**10,320**	**19,041**
Expenses			
Administration expenses	3	(40)	(33)
Interest payable on subordinated liabilities		(10,276)	(19,006)
Profit before tax		**4**	**2**
Income tax charge	5	(1)	(1)
Profit for the year		**3**	**1**

The notes on pages 11 to 18 form an integral part of these accounts

BALANCE SHEET

As at 31 December 2006

	Notes	2006 £000	2005 £000
Assets			
Loans to Group undertakings	6	-	318,195
Other assets	7	14	7
Cash and cash equivalents	8	80	78
Total assets		**94**	**318,280**
Equity			
Share capital	9	50	50
Retained earnings		3	-
Total equity		**53**	**50**
Liabilities			
Subordinated liabilities	10	-	318,195
Current tax liabilities		1	1
Other liabilities	11	40	34
Total liabilities		**41**	**318,230**
Total equity and liabilities		**94**	**318,280**

Approved on behalf of the Board of Directors on 26 July 2007 by the following Director

D C Bentley

The notes on pages 11 to 18 form an integral part of these accounts

RECONCILIATION OF MOVEMENTS IN EQUITY

For the year ended 31 December 2006

	Retained Earnings £000	Share Capital £000	Total Equity £000
At 31 December 2004	(1)	50	49
Profit	1	-	1
At 31 December 2005	-	50	50
Profit	3	-	3
At 31 December 2006	3	50	53

The notes on pages 11 to 18 form an integral part of these accounts

CASH FLOW STATEMENT

For the year ended 31 December 2006

	Notes	2006 £000	2005 £000
Cash flows from operating activities			
Profit before tax		**4**	**2**
Investment income		10,276	19,006
Net movement in operating assets and liabilities	13	(1)	2
Taxation paid		(1)	-
Net cash flows from operating activities		**10,278**	**19,010**
Cash flows from financing activities			
Interest paid on subordinated liabilities		(10,276)	(19,007)
Net cash flows from financing activities		**(10,276)**	**(19,007)**
Net increase in cash and cash equivalents		**2**	**3**
Cash and cash equivalents at the beginning of the year		78	75
Cash and cash equivalents at the end of the year	8	**80**	**78**
Supplemental disclosures on cash flow from operating activities			
Interest received		2	2

The notes on pages 11 to 18 form an integral part of these accounts

NOTES TO THE ACCOUNTS

1 ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the International Accounting Standards Board (IASB) as endorsed by the European Commission (EC) for use in the European Union (EU) All relevant standards and interpretations have been endorsed by the EU

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivative instruments) at fair value through profit or loss (FVTPL), property and investment property These are the Company's first financial statements under IFRS and IFRS 1 *First time Adoption of International Financial Reporting Standards* has been applied The principal accounting policies set out below have been consistently applied to all financial reporting periods presented in these financial statements

Unless otherwise stated in the notes to these financial statements all amounts are expected to be settled/recovered after more than 12 months

The date of transition to IFRS is 1 January 2005 There were no differences between UK GAAP and IFRS at 1 January 2005, and therefore there is no impact on profit for the 2005 year end as a result of this transition

Standards, interpretations and amendments to published standards that are not yet effective and have not been early adopted by the Company

Certain new standards, amendments and interpretations to existing standards have been published that the Company has not adopted for the accounting period ended 31 December 2006 These standards, amendments and interpretations as described below

IFRS 7 *Financial Instruments Disclosures,* a complementary amendment to IAS 1 *Presentation of Financial Statements* on capital disclosures and complementary revised guidance on implementing IFRS 4 *Insurance Contracts* (all effective from 1 January 2007)

IFRS 7 introduces new disclosures to the information on financial instruments and the revision to IFRS 4 reflects the changes made by IFRS 7 and affects the disclosure section of the amended IFRS 4 The amendment to IAS 1 introduces disclosures on the level of management of capital resources This will be applied by the Company for annual periods beginning 1 January 2007 The Standard has no financial impact but will change the disclosures surrounding the Company's Financial Instruments

IFRIC 8 *Scope of IFRS 2* (effective for annual periods beginning on or after 1 May 2006)
The interpretation requires consideration of transactions involving the issuance of equity instruments – where the identifiable consideration received is less than the fair value of the equity instruments issued – to establish whether they fall within the scope of IFRS 2 The Company will apply IFRIC 8 from 1 January 2007, but it is not expected to have a significant impact on the Company's financial statements

IFRIC 9 *Reassessment of embedded derivatives* (effective for annual periods beginning on or after 1 June 2006)
The interpretation requires an assessment of whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the Company first becomes a party to the contract Subsequent reassessment is prohibited, unless there is a change in the contract's terms, in which case it is required The Company will apply IFRIC 9 from 1 January 2007, but it is not expected to have a significant impact on the Company's financial statements

IFRIC 10 *Interim Financial Reporting and Impairment* (effective for annual periods beginning on or after 1 November 2006)
The interpretation prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date The Company will apply IFRIC 10 from 1 January 2007 but it is not expected to have any impact on the Company's financial statements

NOTES TO THE ACCOUNTS

1 ACCOUNTING POLICIES (continued)

IFRIC 11 *IFRS 2 – Group and treasury share transactions* (effective for annual periods beginning on or after 1 March 2007)
The interpretation provides guidance on accounting for share-based transactions involving treasury shares or involving group entities and considers accounting for such transactions as equity-settled and as cash-settled share-based payment transactions The Company will apply IFRIC 11 from 1 January 2008, but it is not expected to have a significant impact on the Company's financial statements

Interpretations to existing standards that are not yet effective and not relevant for the Company's operations

IFRS 8 *Operating Segments* (effective from 1 January 2009)
IFRS 8 will replace IAS 14, *Segment reporting* and proposes that the 'management approach' is adopted for reporting the financial performance of operating segments The Company is not required to adopt this standard since it is not included in its scope

IFRIC 7 *Applying the Restatement Approach under IAS 29, Financial Reporting in Hyper-inflationary Economies* (effective for annual periods beginning on or after 1 March 2006)
The interpretation is not deemed relevant to the Company's operations since the Company does not operate in hyper-inflationary economies

IFRIC 12 *Service concession arrangements* (effective for annual periods beginning on or after 1 January 2008)
The interpretation applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services and as such is not relevant to the Company's operations

Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles (GAAP), requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period Consistent with IFRS 1, any estimates included in the Company's opening IFRS Balance Sheet have been made by considering the information that existed at the time the estimate was made under previous GAAP, rather than information that became available after that date, after taking into account any applicable adjustments resulting from differences in accounting policies There are no critical estimates used by the Company in the preparation of its financial statements

Foreign currency translation

The financial statements are presented in pounds Sterling, which is the Company's presentation currency

Foreign currency transactions are translated at the exchange rate prevailing at the date of the transaction Gains and losses arising from such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement

Translation differences on non-monetary items, such as equities held at FVTPL, are reported as part of the fair value gain or loss in the income statement

(b) Revenue Recognition

Investment income

For loans and receivables measured at amortised cost, interest income is calculated using the effective interest rate (EIR) method and is recognised in the Income Statement

Other income

The amounts shown represent cost recoveries from other Standard Life Group undertakings in respect of administration services

NOTES TO THE ACCOUNTS

1 ACCOUNTING POLICIES (continued)

(c) Income tax

The current tax expense is based on the taxable profits for the year Amounts are charged or credited to the income statement or equity as appropriate

The income tax expense is determined using rates enacted or substantively enacted at the balance sheet date

(d) Loans to Group undertakings

Loans to Group undertakings are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the Company intends to sell in the short term or that it has designated as FVTPL

Loans are initially measured at fair value less directly attributable transaction costs Subsequently, they are measured at amortised cost, using the EIR method, less any impairment losses Revenue from financial assets classified as loans and receivables is recognised in the income statement on an EIR basis

Impairment on individual loans is determined, at each reporting date, by an evaluation of the exposure on a case-by-case basis The impairment loss is calculated as the difference between the present value of future cash flows, discounted at the loan's original effective rate, and the loan's current carrying value Any impairment loss identified is recognised in the income statement Subsequent recoveries are credited to the income statement

(e) Cash and cash equivalents

Cash and cash equivalents consist of cash in hand

(f) Subordinated liabilities

Subordinated liabilities are initially recognised at the value of proceeds received net of transaction costs The total finance costs are charged to the income statement over the relevant term of the instrument on an EIR basis The carrying amount of the debt is increased by the finance cost in respect of the reporting period and reduced by payments made in respect of the debt in the period

The 6 546% £300,000,000 Mutual Assurance Capital Securities ("MACS") were 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 these MACS are measured at amortised cost using the EIR which is used to allocate all cash flows over the expected life of the debt

2 NET INVESTMENT RETURN

Financial instruments other than those at fair value through profit or loss

	2006 £000	2005 £000
Interest income		
Loans to Group undertakings	10,277	19,006
Cash and cash equivalents	2	2
Net investment return	**10,279**	**19,008**

3 ADMINISTRATION EXPENSES

	Note	2006 £000	2005 £000
Auditors' remuneration	4	13	7
Other administration expenses		27	26
Total administration expenses		**40**	**33**

NOTES TO THE ACCOUNTS

4 AUDITORS' REMUNERATION

Auditors' remuneration amounted to £13,101 (2005 £6,763) in respect of audit services There were no fees paid to the auditors in respect of non-audit services (2005 nil)

5 TAX CHARGE

	2006 £000	2005 £000
Current tax charge – United Kingdom	1	1
Total income tax charge	1	1

Current tax charge is 30% of profit before tax – there are no timing or permanent differences

6 LOANS TO GROUP UNDERTAKINGS

The intercompany loan represents funds received from the issue of securities which were loaned to The Standard Life Assurance Company under a Subordinated Members Account (SMA) See Note 10 for further details of the SMA

7 OTHER ASSETS

	Note	2006 £000	2005 £000
Due from related parties	15	14	7
Total Other Assets		**14**	**7**

The carrying amounts disclosed above reasonably approximate the fair values as at the year end

All other assets are expected to be recovered within twelve months

8 CASH AND CASH EQUIVALENTS

	2006 £000	2005 £000
Total cash and cash equivalents	**80**	**78**

9 SHARE CAPITAL

	2006 £000	2005 £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

NOTES TO THE ACCOUNTS

10 SUBORDINATED LIABILITIES

During the period ended 31 December 2004, the Company raised finance through the issue of Mutual Assurance Capital Securities ("MACS") The MACS are perpetual securities and as such have no fixed date for redemption The gross proceeds of the issue of MACS were made available to The Standard Life Assurance Company ("SLAC") pursuant to the Subordinated Members' Account ("SMA") Agreement The obligations of SLAC under the SMA Agreement constitute direct, unsecured and, save as to subordination, unconditional obligations The claims of the Company would, on a winding up of SLAC, be subordinated and rank junior to the full satisfaction of the claims of (i) all unsubordinated creditors of SLAC, including all policyholders, and (ii) the subordinated Guaranteed Bonds of SLAC

There was no fixed date for repayment of the amounts under the SMA Agreement and accordingly there was no fixed due date for redemption of the MACS Under the SMA Agreement, SLAC may have elected to repay all amounts payable together with accrued interest up to (but excluding) the first redemption date of 6 January 2020 or any interest payment date thereafter In certain circumstances SLAC may also have elected to repay all amounts payable under the respective SMA Agreement prior to the applicable first optional redemption date noted above SLAC was required to give not less than 25 days prior notice of its intention to repay the SMA principal amount In the event that SLAC repaid all amounts due under the SMA Agreement then the Company would have to repay all amounts due to the holders of the MACS If a demutualisation of SLAC was to take place, the SMA Agreement contained provisions for the conversion into a replacement instrument and obligation to deliver financial assets, or under certain circumstances provided that SLAC would repay the SMA, resulting in the redemption of the MACS

The MACS started accruing interest from 4 November 2004 and would bear interest of 6 546% per annum payable annually in arrears in Pounds Sterling on 6 January each year, commencing 6 January 2006 From, and including, 6 January 2020 and every fifth anniversary thereafter, the MACS would bear interest annually in arrears based on the aggregate of a margin plus the gross redemption yield of specific gilts

The SMA Agreement effectively provided that interest is payable by SLAC to the Company at the same rate and in the same amount as that paid by the Company in respect of the MACS

The payment of interest by SLAC to the Company under the SMA Agreement may have been deferred in certain circumstances, in which case the payment of interest by the Company under the MACS would also be deferred If interest was deferred under the SMA Agreement, SLAC may have elected to capitalise the amount deferred in certain circumstances and in other circumstances this would occur automatically If such deferred interest was capitalised under the SMA Agreement then a corresponding amount would be capitalised by the Company under the MACS

On 10 July 2006 Standard Life plc was substituted as the new issuer of the subordinated guaranteed bonds and MACS and the instruments were re-listed on the London Stock Exchange

11 OTHER LIABILITIES

	Note	2006 £000	2005 £000
Trade creditors		40	33
Due to parent undertaking	15	-	1
Total other liabilities		**40**	**34**

12 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The estimated fair values of financial assets and liabilities are as follows

	2006		2005	
	Book value £000	Fair value £000	Book value £000	Fair value £000
Loan to Group undertaking	-	-	318,195	363,287
Subordinated liabilities	-	-	(318,195)	(363,287)

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

NOTES TO THE ACCOUNTS

13. NET MOVEMENT IN OPERATING ASSETS AND LIABILITIES

	2006 £000	2005 £000
(Increase)/decrease in operating assets		
Other assets	318,188	(19,013)
Increase/(decrease) in operating liabilities		
Other liabilities	(318,189)	19,015
Net (increase)/decrease in operating assets and liabilities	(1)	2

14 RISK MANAGEMENT POLICIES

The risk management policies of the Company are in line with those of the ultimate controlling party and are described in detail below

(a) Governance framework

Standard Life's Group Risk Management Policy ensures that the risks taken in meeting the Group's corporate, financial and regulatory objectives are identified and managed in accordance with the approved risk framework

The Group takes and manages risks to achieve its corporate, financial and regulatory objectives The types of risk inherent in the pursuit of these objectives and the extent of exposure to these risks form the Group risk profile The risk profile of the individual business units within the Group is similarly set by reference to its objectives

The Group manages risks through the group risk management framework, which allows for the identification, assessment, control and monitoring of risks across the Group The Group and each individual business unit establish effective risk management systems and controls within the framework for the following high-level categories of risk insurance, credit, liquidity, market and operational

The Group Board annually approves a separate Group Risk Policy for each category of risk specifying the procedures to be taken across the Group to identify, assess, control and monitor the risk The governing body of each individual business unit also approves, as applicable, its own risk policies in line with the applicable Group Risk Policy Each Group Risk Policy sets out minimum standards to which each individual business unit should adhere in constructing its own risk policies and procedures

The Group Board delegates responsibility for the implementation of the day-to-day process to manage risk across the Group, to the Group Chief Executive The Group Chief Executive is supported in this role by the Group Executive Committee and assisted by the Group Technical Risk Committee and the Group Operational Risk Committee These committees are constituted with formal terms of reference

The Group has an established risk management function whose role is to support the Board, the Group Chief Executive and the risk committees in meeting their risk management responsibilities This centralised function is headed by the Director, Group Risk & Compliance, who reports directly to the Group Finance Director and is the FSA Approved Person charged with reporting to the Group Board on setting and controlling risk exposure across the Group

A consolidated Group Board report is prepared on a quarterly basis summarising the information reported to the Group Risk Management Committees The report comprises detailed sections on

- Business Unit Risk Profiles,
- Strategic Risks,
- Group-wide Project Risks,
- Operational Risks,
- Technical Risks

(b) Credit risk

Credit risk is the risk incurred whenever the Company is exposed to loss if a counterparty fails to perform its contractual obligations, including failure to perform those obligations in a timely manner The Group sets the acceptable level of credit risk through the Group Credit Risk Policy

NOTES TO THE ACCOUNTS

14 RISK MANAGEMENT POLICIES (continued)

(c) Liquidity or funding risk

Liquidity risk is the risk that the Company, although solvent, does not have sufficient financial resources available to meet their obligations as they fall due, or can secure them only at excessive cost

The Group sets the acceptable level of liquidity risk through the Group Liquidity Risk Policy The methods used to manage liquidity risk include

- Limits on the volume of financial assets held which are both not quoted and not regularly traded on a recognised exchange
- Committed third party funding facilities
- Establishing contingency funding plans to ensure adequate liquid financial resources are in place to meet obligations as they fall due in the event of reasonably foreseeable abnormal circumstances

The central Group Treasury function has responsibility for mitigating liquidity, interest rate and foreign exchange risks across the Group and for arranging external financing

(d) Market risk

Market risk is the risk that as a result of market movements the Company may be exposed to fluctuations in the value of its assets, the amount of its liabilities or the income from its assets Sources of general market risk include movements in interest rates, equities and foreign exchange rates

The Group sets the acceptable level of market risk through the Group Market Risk Policy

The main features of the policy are

- Market risk is only incurred in the pursuit of the Group's corporate and financial objectives, in particular, its investment objectives
- Asset allocation and portfolio limit structures are established for each asset class
- Adequately diversified benchmarks set and approved
- Control over derivatives and hedging activities
- Aggregate exposure limits that are in line with the regulatory requirements

Currency risk

The Company's assets and liabilities are denominated in the same currencies as its investment liabilities, which mitigate the foreign currency exchange rate risk for the overseas operations Thus there are no significant foreign exchange risks arising

Interest rate risk

Interest rate risk refers to the potential variability in the Company's financial condition as a result of changes in interest rates

The interest rate profile is given in Note 10

15 RELATED PARTY TRANSACTIONS

The Company's immediate parent is The Law Debenture Intermediary Corporation Plc The Company's entire share capital is held subject to a trust agreement Prior to 10 July 2006, the ultimate controlling party was Standard Life Assurance Company, after 10 July 2006 Standard Life plc was the ultimate controlling party

In the normal course of business, the Company enters into transactions with related parties Interest income and other income was received from The Standard Life Assurance Company prior to 10 July 2006 and from Standard Life Assurance Limited after 10 July 2006

At 31 December 2006, the Company has year end balances being an intercompany payable to Standard Life Assurance Limited At 31 December 2005, the Company had year end balances being intercompany payable/receivable to/from Standard Life Assurance Company

NOTES TO THE ACCOUNTS

16 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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF STANDARD LIFE MACS (No 2) PLC

We have audited the financial statements of Standard Life MACS (No 2) Plc 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

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
31 July 2007