2468722

LLOYDS INVESTMENT BONDS LIMITED

31 December 2006

Member of Lloyds TSB Group

25 Gresham Street London EC2V 7HN

DIRECTORS

T J Cooke
A J Cumming
J M Herbert
P Higgins
A B Vowles (Alternate A M Basing)

SECRETARY

S Slattery

AUDITORS

PricewaterhouseCoopers LLP

REGISTERED OFFICE

25 Gresham Street
London EC2V 7HN

REGISTERED NUMBER

2468722

REPORT OF THE DIRECTORS

REVIEW OF BUSINESS

During the year the principal activity of the company was investment, and this is likely to continue for the foreseeable future The directors consider the results for this year to be satisfactory

The results of the company show a pre-tax profit of £21,290,000 (2005 £24,871,000 loss) for the year as set out in the income statement on page 5

The company has a net surplus on shareholders' equity of £9,570,000 (2005 £19,299,000 deficit)

DIVIDENDS

No dividends were paid in respect of the financial year ending 31 December 2006 and 31 December 2005

FUTURE OUTLOOK

The company will continue to look for appropriate investment opportunities

DIRECTORS

The names of the directors of the company are shown on page 1 The following changes in directors have taken place during the year and since the year end

	Appointed	Resigned/Ceased to be a director
T J Cooke	18 June 2007	
J M Herbert	18 June 2007	
M W Joseph		15 November 2006
R F Pelly		27 February 2007

RESPONSIBILITIES OF DIRECTORS

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the year and of the profit or loss of the company for that year 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 whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and which 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

AUDITORS AND DISCLOSURE OF INFORMATION TO AUDITORS

In the case of each director in office at the date the directors' report is approved

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- the director has taken all the steps that he ought to have taken 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

PRINCIPAL RISKS AND UNCERTAINTIES

From the perspective of the company, the principal risks and uncertainties are integrated with the principal risks of the group and are not managed separately For further details please refer to note '1 (f) – Financial risk management' in these financial statements

KEY PERFORMANCE INDICATORS ('KPIs')

Given the straightforward nature of the business, the company's directors are of the opinion that analysis using KPIs is not necessary for an understanding of the development, performance or position of the business

POLICY AND PRACTICE ON PAYMENT OF CREDITORS

The company 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 DTI Publications Orderline 0845-0150010 (quoting ref URN 04/606)

The company'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 company to abide by the agreed terms of payment, provided the supplier performs according to the terms of the contract

As the company owed no amounts to trade creditors at 31 December 2006, the number of days required to be shown in this report, to comply with the provisions of the Companies Act 1985, is nil

On behalf of the board

P Higgins
Director

29 October 2007

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF LLOYDS INVESTMENT BONDS LIMITED

We have audited the financial statements of Lloyds Investment Bonds Limited for the year ended 31 December 2006 which comprise the Income Statement, the Balance Sheet, the Statement of Changes in Shareholder's Equity, the Cash Flow Statement 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 Annual Report and the financial statements in accordance with applicable law and International Financial

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 member 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 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 judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the 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

The Quay
30 Channel Way
Ocean Village
Southampton
SO14 3QG

31 October 2007

INCOME STATEMENT
For the year ended 31 December 2006

	Note	2006 £000	2005 £000
Finance costs	2	(15,833)	(14,670)
Foreign exchange gain/(loss)		37,123	(10,201)
Profit/(loss) before tax	3	21,290	(24,871)
Taxation credit	4	1,109	6,817
Profit/(loss) for the year		22,399	(18,054)

The accompanying notes are an integral part of the Financial Statements

BALANCE SHEET
As at 31 December 2006

	Note	2006 £000	2006 £000	2005 £000	2005 £000
Assets					
Non-current assets					
Investment in subsidiary undertakings	6	281,871		281,871	
Deferred taxation	9	900	282,771	1,441	283,312
Current assets					
Amounts owed by group companies	7		34,328		28,969
Total assets			317,099		312,281
Liabilities					
Current liabilities					
Amounts owed to group companies	8		307,529		331,580
Total liabilities			307,529		331,580
Equity					
Share capital	10	10		10	
Other reserves	11	(2,099)		(6,154)	
Retained earnings	12	11,659	9,570	(13,155)	(19,299)
Total liabilities and equity			317,099		312,281

The directors approved the accounts on 29 October 2007

P Higgins
Director

The accompanying notes are an integral part of the Financial Statements

STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

	Note	Share capital and premium £000	Other reserves £000	Retained profits £000	Total £000
Balance at 1 January 2005	12	10	(11,215)	28,223	17,018
Currency translation differences		-		(23,324)	(23,324)
Loss for the year	12	-	-	(18,054)	(18,054)
		10	(11,215)	(13,155)	(24,360)
Changes in fair value of cash flow hedges	11	-	5,061	-	5,061
Balance at 31 December 2005 and 1 January 2006	12	10	(6,154)	(13,155)	(19,299)
Currency translation differences	12	-		2,415	2,415
Profit for the year	12	-	-	22,399	22,399
		10	(6,154)	11,659	5,515
Changes in fair value of cash flow hedges	11	-	4,055	-	4,055
Balance at 31 December 2006	11,12	10	(2,099)	11,659	9,570

The accompanying notes are an integral part of the Financial Statements

CASHFLOW STATEMENT
For the year ended 31 December 2006

	Note	2006 £000	2005 £000
Net cash flow from operating activities	13	(250)	(1,459)
Net decrease in cash and cash equivalents		(250)	(1,459)
Cash and cash equivalents at the beginning of the year		17,267	18,726
Cash and cash equivalents at the end of the year	7,8	17,017	17,267

The accompanying notes are an integral part of the Financial Statements

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below

The financial information has been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets at fair value through profit or loss and all derivative contracts, on the basis of International Financial Reporting Standards ('IFRS')

There are no critical areas which require disclosure where management have exercised judgement in applying the company's accounting policies or in determining accounting estimates

(a) Investment

Investments in subsidiary undertakings are stated at historical cost, less any provisions for impairment

(b) Impairment

At each balance sheet date the company assesses whether, as a result of one or more events occurring after initial recognition, there is objective evidence that a financial asset or group of financial assets has become impaired

If there is objective evidence that an impairment loss has been incurred, a provision is established which is calculated as the difference between the balance sheet carrying value of the asset and the present value of the estimated future cash flows discounted at the assets implicit rate in the lease

(c) Taxation

Current income tax which is payable on taxable profits is recognised as an expense in the period in which the profits arise

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements However, deferred income tax is not accounted for if it arises from 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 Deferred tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date which are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised Income tax payable on profits is recognised as an expense in the period in which those profits arise The tax effects of losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised

(d) Cash and cash equivalents

Cash and cash equivalents comprises cash on hand, bank overdrafts and demand deposits as well as short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value See note 7 and 8

(e) Derivative financial instruments

All derivatives are recognised at their fair value Fair values are obtained from quoted market prices in active markets, including recent market transactions, and using valuation techniques, including discounted cash flow and options pricing models, as appropriate Derivatives are carried in the balance sheet as assets when their fair value is positive and as liabilities when their fair value is negative

(f) Financial risk management

The company is exposed through its operations to a variety of financial risks that include credit risk and interest rate risk Risk management is performed by various Committees established by its ultimate parent, Lloyds TSB Group plc for the management of these risks

NOTES TO THE FINANCIAL STATEMENTS

(g) 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 sterling, which is the Company's functional and presentation currency

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year and exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement except when deferred in equity as qualifying cash flow hedges

2 Finance costs

	2006 £000	2005 £000
Interest due to other group companies on bank loans and overdrafts	15,833	14,670

3 Profit before tax

Audit fees for the company are borne by the immediate parent company, the audit fee attributed to this company for the year was £3,600 The company has no employees and the directors received no remuneration in respect of their services to the company

4 Taxation

	2006 £000	2005 £000
(a) The credit for the year comprises		
Group relief receivable on current taxation profit/(loss) for the year	1,617	6,817
Adjustment in respect of prior years	(1,704)	-
Total group relief (payable)/receivable for year	(87)	6,817
Deferred taxation - adjustment in respect of prior years	1,196	-
	1,109	6,817

(b) Factors affecting the tax credit for the year

	2006 £000	2005 £000
Profit/(loss) on ordinary activities before taxation	21,290	(24,871)
(Loss)/profit on ordinary activities at the standard rate of corporation tax	(6,387)	7,461
Non-taxable FX movements	8,004	(644)
Adjustment in respect of prior years	(508)	-
Total tax credit for the year	1,109	6,817

NOTES TO THE FINANCIAL STATEMENTS

5 Derivative financial instruments

The principal derivatives used by the company are designated as cash flow hedges and are detailed below

	Contract/notional Amount £000	Fair values Assets £000	Fair values Liabilities £000
31 December 2006			
Interest rate swaps	168,731	1,118	4,117
31 December 2005			
Interest rate swaps	204,952	577	9,369

6 Investment in subsidiary undertakings

	2006 £000	2005 £000
At 1 January and 31 December		
The company holds the following investment	281,871	281,871

	2006 £	2005 £
Silentdale Limited		
Ordinary non-voting shares of £0 25 each	50	50
6% preference shares of £0 25 each	50	50
	100	100

	2006 US$	2005 US$
Silentdale Limited		
Redeemable non-voting shares of US$1 00 each	418,615,689	418,615,689

The company was incorporated in the United Kingdom and is 100% owned by Lloyds Investment Bonds Limited

7 Amounts owed by group companies

	2006 £000	2005 £000
Amounts falling due within one year		
Bank deposits	26,054	21,389
Amounts due from fellow subsidiary undertaking	4,669	3,841
Group relief receivable	2,487	3,162
Derivative financial instruments	1,118	577
	34,328	28,969

For further details please refer to note 14

NOTES TO THE FINANCIAL STATEMENTS

8 Amounts owed to group companies

	2006 £000	2005 £000
Amounts falling due within one year		
Bank overdraft	9,037	4,122
Bank borrowings	204,384	248,484
Derivative financial instruments	4,117	9,369
Amounts due to fellow subsidiary undertaking	84,850	68,619
Group relief payable	4,108	-
Interest payable	1,033	986
	307,529	331,580

For further details please refer to note 14

9 Deferred tax

The following are the major deferred tax liabilities and assets recognised by the company and movements thereon during the current and the prior period

	2006 £000	2005 £000
At 1 January	1,441	1,197
(Credit)/Charge for the year	(1,738)	244
Adjustment in respect of prior years	1,197	-
At 30 December	900	1,441

The deferred tax credit in the income statement comprises the following temporary differences

	2006 £000	2005 £000
(Credit)/Charge for the year	(1,738)	244

Deferred tax assets are comprised as follows

	2006 £000	2005 £000
Cash flow hedge reserve	900	1,441

10 Share capital

	2006 £000	2005 £000
Authorised, allotted and issued		
Ordinary shares of £1 each	10	10

The company regarded by the directors as the ultimate parent company is Lloyds TSB Group plc, which is also the parent company of the largest group of companies for which group accounts are drawn up and of which the company is a member Lloyds TSB Bank plc is the parent company of the smallest such group of companies Copies of the group accounts of both may be obtained from the company secretary's office, Lloyds TSB Group plc, 25 Gresham Street, London EC2V 7HN

The immediate parent company is Lloyds TSB Leasing Limited

NOTES TO THE FINANCIAL STATEMENTS

11 Other reserves

	2006 £000	2005 £000
At 1 January 2006	(6,154)	(11,215)
Change in fair value of cash flow hedge	5,793	7,230
Deferred tax thereon	(1,738)	(2,169)
At 31 December 2006	(2,099)	(6,154)

12 Retained earnings

	2006 £000	2005 £000
At 1 January	(13,155)	28,223
Currency translation differences	2,415	(23,324)
Net profit/(loss) for the year	22,399	(18,054)
At 31 December	11,659	(13,155)

13 Notes to the cash flow statement

	2006 £000	2005 £000
Profit/(loss) from operations	21,290	(24,871)
Operating cash flows before movements in working capital	21,290	(24,871)
(Increase)/decrease in receivables	(829)	(2,134)
(Decrease)/increase in payables	(27,789)	43,812
Cash generated by operations	(7,328)	16,807
Group relief received	4,663	5,058
Currency translation difference on reserves (Note 12)	2,415	(23,324)
Net cash flow from operating activities	(250)	(1,459)

NOTES TO THE FINANCIAL STATEMENTS

14 Related party transactions

In respect of related party transactions, the outstanding balances receivable/(payable) as at 31 December were as follows

Nature of transaction	Related party	2006 £000	2005 £000
Bank deposits	Intermediate parent undertaking	26,054	21,389
Group relief receivable	Intermediate parent undertaking	2,487	3,162
Bank borrowings	Intermediate parent undertaking	(204,384)	(248,484)
Bank overdraft	Intermediate parent undertaking	(9,037)	(4,122)
Group relief payable	Intermediate parent undertaking	(4,108)	-
Interest payable	Intermediate parent undertaking	(1,033)	(986)
Financial derivative asset	Intermediate parent undertaking	1,118	577
Financial derivative liability	Intermediate parent undertaking	(4,117)	(9,369)
Sums due from fellow subsidiary undertaking	Fellow subsidiary	4,669	2,509
Sums due from subsidiary undertaking	Silentdale Limited	-	1,332
Sums due to subsidiary undertaking	Silentdale Limited	(84,850)	(68,619)

The bank overdraft and bank deposits is non-interest bearing and are repayable on demand The bank borrowings are interest bearing and are repayable on maturity During the year rates of interest of up to 4 81% (2005 4 99%) were charged on the borrowings Finance costs of £15,833,000 (2005 £14,670,000) were incurred during the year

The company received group relief of £4,663,000 (2005 £5,058,000) during the year to Lloyds TSB Bank plc

15 Post Balance Sheet event

Following substantive enactment of the Finance Bill on 28 June 2007, the Corporation Tax rate has changed from 30% to 28% with effect from 01 April 2008 The change in corporation tax rate will give rise to a reduction in deferred tax and a recalculation of future rentals, because of tax rate variation clauses in leases, in next year's financial statements