

**Registered Number 2554213**

**Prudential Annuities Limited**

**Annual Report and Financial Statements  
For the year ended 31 December 2004**



# **Prudential Annuities Limited**

Incorporated and registered in England and Wales Registered Number 2554213  
Registered Office: 142 Holborn Bars London EC1N 2NH

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# **Prudential Annuities Limited**

## **Directors' report for the year ended 31 December 2004**

### **Principal activity and business review**

The principal activity of the Company is the writing of pension annuity long term insurance business. This will continue in 2005.

The Company ceased to accept annuity business reassured from group companies during the year. This represented the majority of the Company's new business. The amount of new business in future years is expected to be negligible.

### **Results and dividends**

The result for the year ended 31 December 2004 is set out in the profit and loss account on pages 7 and 8. The directors do not recommend payment of a dividend (2003: £Nil).

### **Certificates**

The Company is able to give, and deposit with the Financial Services Authority, all those certificates which are required under the Financial Services and Markets Act 2000 - Integrated Prudential Sourcebook for Insurers 2004, in relation to the Company for 2004.

### **Directors and their interests**

The directors who served during the year were:

D J Belsham  
T V Boardman  
A D Briggs  
T J W Tookey  
G M Wood (Chairman)

The interests of Mr G M Wood who was a director in office at the end of the year and who was also a director of the ultimate parent company, Prudential plc, are shown in the annual report and financial statements of that company.

The interests of Mr D J Belsham and Mr T J W Tookey who were directors in office at the end of the year and who were also directors of the immediate parent company, The Prudential Assurance Company Limited, are shown in the annual report and financial statements of that company.

# Prudential Annuities Limited

## Directors' report for the year ended 31 December 2004 (continued)

### Directors and their interests (continued)

Other directors in office at the end of the year had interests:

(i) in shares of 5p each in Prudential plc as follows:

(a) in shares, including rights granted under the Prudential Restricted Share Plan where the relevant directors have yet to exercise their right to receive shares:

		01/01/04	31/12/04
T V Boardman	Note 1	50,046	45,663
A D Briggs		4,404	5,138

Note 1: Mr T V Boardman's interests includes 385 non-beneficial shares held in a Trust of which his spouse is a trustee.

(b) in conditional awards that have been made under the Prudential Restricted Share Plan, in which the shares are held in trust and represent the maximum awards for which rights may be granted, at the end of the relevant performance period, if the performance requirements of the Plan are met:

	01/01/04	31/12/04*
T V Boardman	22,771	42,094
A D Briggs	35,568	65,674

\* Includes adjustment to conditional awards for the Rights Issue of Prudential plc on 11 November 2004.

(c) in options to subscribe for shares in the Prudential Savings-Related Share Option Scheme:

	01/01/04	Granted	Exercised	During the period: Lapsed or Cancelled	Adjustment for Rights Issue of Prudential plc	31/12/04
T V Boardman	2,731	-	-	-	134	2,865
A D Briggs	5,866	-	-	-	287	6,153

(ii) In shares of 50p each in Egg plc as follows:

	01/01/04	31/12/04
A D Briggs	470	470

## **Prudential Annuities Limited**

### **Directors' report for the year ended 31 December 2004 (continued)**

#### **Directors and their interests (continued)**

- (iii) Except as stated above, none of the directors in office at the end of the year or their immediate families:
  - (a) had any interest in shares in, or debentures of, any Group company either at the beginning of the year or at the end of the year; or
  - (b) were granted or exercised any right to subscribe for shares in, or debentures of, any Group company during the year, or up to the end of the year.

#### **FRS 27 disclosures**

The Accounting Standards Board ("ASB") published FRS27 ("Life Assurance") in December 2004. The implementation of FRS27 is governed by a Memorandum of Understanding ("MoU") agreed between the UK's leading life assurance companies, the Association of British Insurers, and the ASB.

Under the terms of the MoU certain unaudited disclosures are required in the annual reports of UK regulated life assurance companies on the assumptions used in the measurement of liabilities and the options and guarantees relating to life assurance contracts.

The process for setting assumptions and determining liabilities is described in note 11 of the financial statements (together with key assumptions).

The Company's liabilities are for contracts that provide individual immediate and bulk immediate and deferred annuities.

The immediate annuities are either fixed or retail price-index linked (referred to as RPI), where annuity payments are guaranteed from the outset. These products provide guaranteed income for a specified time, usually the life of the policyholder, in exchange for a lump sum capital payment. No surrender value is available under any of these products.

The deferred annuities are also either fixed or RPI linked, both during deferment and in payment.

The primary risks to the company are therefore mortality, investment and credit risk.

The Company's fixed-increase annuities may incorporate automatic increases in annuity payments by fixed amounts over the policyholder's life. The Company's RPI annuity contracts provide for a regular annuity payment to which an additional amount is added periodically based on the increase in the UK Retail Prices Index, subject to pre-defined minima and maxima.

For bulk annuity business the Company manages the assets and accepts the liabilities of a company pension scheme, to the extent to which they are funded, usually when it is wound up by the employer.

The MoU also requires an abridged statement of capital held within life assurance businesses with supporting disclosures to be reported either within the accounts of the Company or, if the Company is more than 90 per cent owned within a group, with the consolidated financial statements of the parent company. The abridged statement of capital pertaining to the Company, and other Prudential Group subsidiaries with life assurance businesses, is contained within the 2004 Annual Report for Prudential plc.

The Company does not fall within the scope of the FSA's realistic capital regime.

# **Prudential Annuities Limited**

## **Directors' report for the year ended 31 December 2004 (continued)**

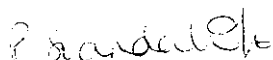
### **Going concern**

After making appropriate enquiries, the directors consider that the Company has adequate resources to continue in operational existence for the foreseeable future. They therefore continue to use the going concern basis in preparing the financial statements.

### **Auditors**

In accordance with section 386 of the Companies Act 1985, an elective resolution has been passed by the Company dispensing with the need to appoint auditors annually. Accordingly, KPMG Audit Plc will be deemed to be re-appointed auditors of the Company for the current financial year.

On behalf of the board of directors.



Prudential Group Secretarial Services Limited  
Company Secretary  
24 March 2005

## **Prudential Annuities Limited**

### **Statement of Directors' Responsibilities in respect of the Financial Statements**

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 and of the profit or loss 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 whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.



G M Wood  
Chairman

24 March 2005

# Prudential Annuities Limited

## Profit and Loss Account for the year ended 31 December 2004

<b>Long Term Business - Technical Account</b>	<b>Note</b>	<b>2004 £m</b>	<b>2003 £m</b>
<b>Earned premiums, net of reinsurance</b>			
Gross premiums written	1	364	837
		<b>364</b>	<b>837</b>
Investment income	2	872	887
Unrealised gains on investments		393	111
		<b>1,265</b>	<b>998</b>
<b>Claims incurred, net of reinsurance</b>			
Claims paid		(913)	(883)
<b>Change in other technical provisions, net of reinsurance</b>			
Long-term business provision, net of reinsurance	10	(474)	(677)
<b>Change in technical provision for linked liabilities, net of reinsurance</b>	10	(95)	(120)
		<b>(569)</b>	<b>(797)</b>
<b>Net operating expenses</b>			
- Acquisition costs	7	(4)	(11)
- Administrative expenses		(12)	(14)
- Investment expenses and charges		(13)	(11)
		<b>(29)</b>	<b>(36)</b>
<b>Tax attributable to the long term business</b>		<b>(36)</b>	<b>(36)</b>
<b>Balance on the technical account – long term business</b>		<b>82</b>	<b>83</b>

The amounts shown above are in respect of continuing operations.

The accounting policies and notes on pages 11 to 18 form an integral part of these financial statements.



## Prudential Annuities Limited

### Profit and Loss Account for the year ended 31 December 2004 (continued)

Non-Technical Account	Note	2004 £m	2003 £m
<b>Balance on the long term business technical account</b>		<b>82</b>	<b>83</b>
Tax credit attributable to the balance on the long term business technical account		<b>36</b>	<b>36</b>
Investment income	2	<b>47</b>	<b>46</b>
Unrealised gains /(losses) on investments		<b>27</b>	<b>(5)</b>
Investment management expenses		<b>(1)</b>	<b>-</b>
<b>Profit on ordinary activities before tax</b>		<b>191</b>	<b>160</b>
Tax on profit on ordinary activities	4	<b>(56)</b>	<b>(48)</b>
<b>Retained profit for the financial year transferred to reserves</b>	<b>10</b>	<b>135</b>	<b>112</b>

### Statement of total recognised gains and losses

Year ended 31 December 2004

	2004 £m	2003 £m
Retained profit for the financial year	<b>135</b>	<b>112</b>
<b>Total recognised gains and losses recognised since the last annual report</b>	<b>135</b>	<b>112</b>

### Reconciliation of movement in Shareholder's Funds

Year ended 31 December 2004

	2004 £m	2003 £m
Shareholders' capital and reserves at beginning of year	<b>1,216</b>	<b>1,104</b>
Retained profit for the financial year	<b>135</b>	<b>112</b>
<b>Shareholders' capital and reserves at end of year</b>	<b>1,351</b>	<b>1,216</b>

The amounts shown above are in respect of continuing operations.

The accounting policies and notes on pages 11 to 18 form an integral part of these financial statements.

# Prudential Annuities Limited

## Balance sheet as at 31 December 2004

<b>ASSETS</b>	Note	<b>2004 £m</b>	<b>2003 £m</b>
<b>Investments</b>			
Land and buildings		296	285
Other financial investments		12,630	11,954
	8	12,926	12,239
<b>Assets held to cover linked liabilities</b>	9	2,010	1,915
<b>Reinsurers' share of technical provisions</b>			
Long term business provision	10	4	4
Technical provision for linked liabilities	10	2	2
		6	6
<b>Debtors</b>			
Debtors arising out of reinsurance operations		1	14
Other debtors		25	26
		26	40
<b>Other assets</b>			
Cash at bank and in hand		47	26
<b>Prepayments and accrued income</b>			
Accrued interest and rent		214	205
<b>Total assets</b>	1(b)	15,229	14,431

The accounting policies and notes on pages 11 to 18 form an integral part of these financial statements.

# Prudential Annuities Limited

## Balance sheet as at 31 December 2004 (continued)

<b>LIABILITIES</b>	<b>Note</b>	<b>2004 £m</b>	<b>2003 £m</b>
<b>Capital and reserves</b>			
Called up share capital	15	550	550
Profit and loss account	10	801	666
<b>Total shareholders' funds</b>		<b>1,351</b>	<b>1,216</b>
<b>Technical provisions</b>			
Long term business provision	10	11,600	11,126
Claims outstanding	10	17	13
<b>Technical provisions for linked liabilities</b>	10	<b>2,012</b>	<b>1,917</b>
<b>Provision for other risks and charges</b>			
Deferred tax	12	172	135
<b>Creditors</b>			
Creditors arising out of direct insurance operations		-	3
Other creditors including taxation and social security	13	75	19
		<b>75</b>	<b>22</b>
<b>Accruals and deferred income</b>		<b>2</b>	<b>2</b>
<b>Total liabilities</b>		<b>15,229</b>	<b>14,431</b>

The financial statements on pages 7 to 18 were approved by the board of directors on 24 March 2005.



G M Wood  
Chairman

The accounting policies and notes on pages 11 to 18 form an integral part of these financial statements.

# Prudential Annuities Limited

## Accounting Policies

### (a) Basis of preparation

The financial statements have been prepared in accordance with the provisions of Section 255 of, and Schedule 9A to, the Companies Act 1985, which cover the disclosures applicable to insurance companies.

The financial statements have been prepared in accordance with applicable accounting standards and with the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers in November 2003.

### (b) Long term business

Annuity considerations are accounted for when due. Annuities are accounted for when the annuity becomes due for payment. Surrenders are accounted for when paid. Death claims and all other claims are accounted for when notified. Index linked business has been disclosed as linked for the purposes of these financial statements.

Investment income and realised and unrealised investment gains attributable to long term business are credited to the long term business technical account.

The costs of acquiring new business, principally commission and certain costs associated with policy issue and underwriting which are not matched by policy charges, are written off in the year they are incurred.

### (c) Investments

#### (i) *Land and buildings*

Land and buildings are valued annually by the Prudential group's qualified surveyors or by professional external valuers on an Open Market Value basis, as defined in the Appraisal and Valuation Manual issued by the Royal Institute of Chartered Surveyors, in particular Practice Statement 4.2. No depreciation is provided on land and buildings, held for investment purposes, in accordance with Statement of Standard Accounting Practice 19, Accounting for Investment Properties.

#### (ii) *Other financial investments valuation*

Listed investments are shown at market value. Unlisted investments are valued on quotations provided by external fund managers, brokers, independent pricing services or values as determined by the directors.

#### (iii) *Realised gains and losses on investments*

Realised gains and losses on investments represent the difference between the value on disposal and the original cost.

#### (iv) *Unrealised gains and losses on investments*

Unrealised gains and losses on investments represent the difference between the market value or directors' valuation (as appropriate) and the market value at the previous balance sheet date or the original cost if acquired during the year.

## **Prudential Annuities Limited**

### **Accounting Policies (continued)**

#### **(d) Long term business provision**

The long term business provision is determined by the Company's directors based on advice from the Company's actuarial function holder, who determined the provision using recognised actuarial methods, with due regard to the actuarial principles laid down in Directive 2002/83/EC. It is calculated initially on a statutory solvency basis to comply with the reporting requirements under the Financial Services and Markets Act 2000. The valuation is then modified to remove certain resilience, contingency and other reserves required by the Prudential Sourcebook issued by the Financial Services Authority.

The technical provisions are the discounted value of future claim payments, adjusted for investment expenses and future administration costs. Claim payments allow for the effects of mortality in line with the bases set out in Note 11. These bases have been derived from an analysis of recent population and internal mortality experience and include an allowance for improvements in mortality in the future.

The interest rates used for discounting claim payments are derived from the yield on the assets held and makes allowance for potential defaults on those assets. Historical market rates of defaults have been investigated. The analysis takes into account credit rating, term to redemption and security. Using this information, default rates are derived appropriate to the assets within the portfolio. (See Note 11.)

#### **(e) Cash flow statement**

The Company has availed itself of the exemption from preparing a cash flow statement allowed under section 5(a) of Financial Reporting Standard Number 1, Cash Flow Statements, on the grounds that it is a wholly owned subsidiary of Prudential plc which publishes a consolidated cash flow statement incorporating the cash flows of the Company.

#### **(f) Taxation**

Tax is charged on all taxable profits arising in the accounting period.

Except where otherwise required by accounting standards, full provision for deferred tax without discounting is made for all timing differences which have arisen but not reversed at the balance sheet date.

# Prudential Annuities Limited

## Notes to the financial statements for the year ended 31 December 2004

### 1. Segmental analysis

(a) Gross premiums written	2004 £m	2003 £m
<b>Pension annuities:</b>		
- Non-participating	355	828
- Linked	9	9
	364	837
<b>Comprising:</b>		
<b>External premiums:</b>		
- Immediate annuities	14	12
- Deferred annuities	2	5
	16	17
<b>Reinsurance from a related party:</b>		
- Immediate annuities	348	819
- Deferred annuities	-	1
	348	820
<b>Total</b>	<b>364</b>	<b>837</b>

All income is single premium business written in the United Kingdom. Group pension scheme buyouts included in external premiums are £6m (2003: £9m).

#### (b) Assets attributable to the long term business fund

Of the total assets shown on page 9, £14,316m (2003: £13,624m) is attributable to the long term business fund.

### 2. Investment income

	Long term business technical account		Non technical account	
	2004 £m	2003 £m	2004 £m	2003 £m
Income from land and buildings	19	18	-	-
Income from listed investments	714	671	40	33
Income from other investments	84	107	3	2
Gains on the realisation of investments	55	91	4	11
	872	887	47	46

### 3. Staff costs

The Company has no employees (2003: Nil). Included within net operating expenses are amounts paid in return for management services provided to the Company by other group companies.

# Prudential Annuities Limited

## Notes to the financial statements for the year ended 31 December 2004 (continued)

### 4. Tax on profit on ordinary activities

#### (a) Analysis of charge in the period

	2004 £m	2003 £m
<b>Current Tax</b>		
UK Corporation tax on profits of the period	20	28
Adjustments in respect of previous periods	(1)	(1)
<b>Deferred Tax</b>		
Origination and reversal of timing differences	37	21
<b>Tax on profits on ordinary activities</b>	<b>56</b>	<b>48</b>

#### (b) Factors affecting tax charge for the period

	2004 £m	2003 £m
Profit on ordinary activities before tax	191	160
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2003 : 30%)	57	48
<i>Effects of</i>		
Adjustments in respect of previous periods	(1)	(1)
Timing differences		
Transfer to the non-technical account in excess of the statutory surplus	(36)	(21)
Capital allowances on items expensed in the accounts	(1)	-
Permanent differences	-	1
<b>Current tax charge for the period</b>	<b>19</b>	<b>27</b>

### 5. Auditors' remuneration

The remuneration of the auditors in respect of the statutory audit amounted to £60,000, (2003: £40,000). Fees payable to the auditors for statutory audit related services amounted to £Nil, (2003: £10,000). Fees payable to the auditors and their associates other than for the statutory audit amounted to £Nil (2003: £Nil).

# Prudential Annuities Limited

## Notes to the financial statements for the year ended 31 December 2004 (continued)

### 6. Directors' emoluments

During the year the directors received the following emoluments in respect of work on behalf of the Company. Five (2003: five) directors were entitled to shares under Prudential's main long term incentive scheme and to retirement benefits under defined benefit schemes.

	2004 £	2003 £
Aggregate emoluments and non-pension benefits	125,803	240,437
Aggregate compensation for loss of office	-	10,864
	<b>125,803</b>	<b>251,301</b>

### 7. Acquisition costs

Included within the total for acquisition costs are total commissions for external insurance accounted for by the Company during the year amounting to £Nil (2003: £Nil).

### 8. Investments

	Cost		Current Value	
	2004 £m	2003 £m	2004 £m	2003 £m
Freehold land and buildings	195	202	211	213
Leasehold land and buildings	79	72	85	72
Debt securities and other fixed income securities	10,841	10,573	12,189	11,631
Loans secured by mortgages	212	253	251	275
Deposits with credit institutions	190	48	190	48
	<b>11,517</b>	<b>11,148</b>	<b>12,926</b>	<b>12,239</b>

Amounts included above ascribed to listed investments:

	Current Value	
	2004 £m	2003 £m
Debt securities and other fixed income securities	10,807	10,240

### 9. Assets held to cover linked liabilities

	Cost		Current Value	
	2004 £m	2003 £m	2004 £m	2003 £m
Assets held to cover linked liabilities	1,630	1,641	2,010	1,915



# Prudential Annuities Limited

## Notes to the financial statements for the year ended 31 December 2004 (continued)

### 10. Reserves and policyholder liabilities (net of reinsurance)

	Claims Outstanding	Technical provision for linked liabilities	Long term business provision	Profit and loss account
	£m	£m	£m	£m
<b>Balance at 1 January 2004</b>	13	1,915	11,122	666
Movement in:				
- technical provisions for the year	4	95	474	-
- profit and loss account	-	-	-	135
<b>Balance at 31 December 2004</b>	17	2,010	11,596	801

Of the balance on the profit and loss account of £801m (2003: £666m), £347m (2003: £296m) is distributable to the shareholder. The remaining balance on the profit and loss account is not distributable due to the need to maintain the required margin of solvency, as computed under the rules of the Integrated Prudential Sourcebook for Insurers.

### 11. Long term business provisions

The provision is the present value of the annuity payments and expenses. The principal assumptions used in the calculation are set out below.

#### Mortality

The mortality assumptions were set in light of recent population and internal experience. The assumptions used were percentages of standard actuarial mortality tables with an allowance for future mortality improvements and, for 2003, additional age adjustments were made for bulk schemes. Where annuities have been sold on an enhanced basis to impaired lives an additional age adjustment is made. The percentages of the standard table used are selected according to the source of business. The range of percentages used is set out in the following table:

	2004		2003	
	Males	Females	Males	Females
In payment	97% - 111% PMA92(C = 2004) with medium cohort improvement table with a minimum annual improvement of 1.25%	92% - 105% PFA92 (C = 2004) with 75% of medium cohort improvement table with a minimum annual improvement of 0.75%	102% PMA92 (C = 2004) with medium cohort improvement table with a minimum annual improvement of 2.0%	84% PFA92 (C = 2004) medium cohort improvement table
In deferment	AM92 - 4 years	AF92 - 4yrs	AM92 - 3 years	AF92 - 3 years

The change in mortality assumptions resulted in a decrease in liabilities of £36m.

# Prudential Annuities Limited

## Notes to the financial statements for the year ended 31 December 2004 (continued)

### 11. Long term business provisions (continued)

#### Interest rate

The Company is required, by an order issued under section 148 of the Financial Services and Markets Act 2000, to calculate the valuation rate of interest by reference to the aggregate yield on the assets rather than the market weighted gross redemption yield which is normally required by the Valuation Rules. In all other regards the valuation rates of interest comply with the requirements of Rule 7.3.33R of the Prudential Sourcebook and are adjusted to reflect investment expenses and the risk of default in the assets. The default adjustment is reviewed annually to reflect the assets held.

#### Other assumptions

An allowance was made for expenses, including investment management expenses, following an investigation into the Company's costs.

Additional margins for prudence required in setting the discount rate for the valuation of liabilities for statutory solvency purposes have been removed.

The allowance for asset defaults in the derivation of the valuation interest rate has been reduced by 0.1% for fixed assets and by 0.15% for linked assets. The impact of this change in the default assumptions was a decrease in liabilities in 2004 of £173m.

### 12. Provision for deferred tax

	2004 £m	2003 £m
Unrealised gains on investments	1	1
Transfer to the non-technical account in excess of the statutory surplus	173	137
Capital allowances on items expensed in the accounts	(2)	(3)
Undiscounted provision for deferred tax	172	135

	2004 £m	2003 £m
Deferred tax liability at start of year	135	114
Deferred tax charged in profit and loss account	37	21
Deferred tax liability at end of year	172	135

### 13. Creditors

All creditors are payable within a period of five years.

Other creditors including taxation and social security	2004 £m	2003 £m
Taxation	19	17
Other	56	2
	75	19

# **Prudential Annuities Limited**

## **Notes to the financial statements for the year ended 31 December 2004 (continued)**

### **14. Bank current accounts**

Under the terms of the Company's arrangements with the Prudential Group's main UK banker, the bank has a right of set-off between credit balances (other than those of long term business funds) and all overdrawn balances of those Group undertakings with similar arrangements.

### **15. Called up share capital**

The Company's authorised share capital is £800,000,000 (2003: £800,000,000) comprising 800,000,000 ordinary shares of £1 each, of which 550,000,000 (2003: 550,000,000) have been issued and fully paid.

### **16. Related party transactions**

The Company has taken advantage of the exemption under paragraph 3(c) of Financial Reporting Standard Number 8 from disclosing transactions with other subsidiary undertakings of the Prudential Group. There were no other transactions with related parties.

### **17. Immediate and ultimate parent company**

The immediate parent company is The Prudential Assurance Company Limited. The ultimate parent company is Prudential plc, which is the only parent company which prepares group financial statements. Copies of these financial statements can be obtained from the Company Secretary, Laurence Pountney Hill, London, EC4R 0HH.

### **18. Derivatives**

The Company continues to be party to, and has entered into, a number of currency and interest rate swap agreements in 2004. Currency swap agreements involve the exchange of payments in different currencies over the life of the agreement. The Company enters into currency swap transactions to hedge foreign currency risk on overseas investments. Interest rate swap agreements involve the exchange of fixed and floating payments over the life of the agreements without an exchange of the underlying principal amount. The Company enters into interest swap transactions to assist in the matching of contractual liabilities.

These currency and interest rate swap agreements are accounted for on a market value basis, consistent with the assets and liabilities hedged.

## **Independent Auditors' Report to the member of Prudential Annuities Limited**

We have audited the financial statements on pages 7 to 18.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinion we have formed.

### **Respective responsibilities of directors and auditors**

The directors are responsible for preparing the directors' report and, as described on page 6, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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 transactions is not disclosed.

### **Basis of audit opinion**

We conducted our audit in accordance with Auditing Standards 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 of the state of the Company's affairs as at 31 December 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*KPMG Audit Plc*

**KPMG Audit Plc**  
Chartered Accountants and  
Registered Auditor  
8 Salisbury Square  
London  
EC4Y 8BB

24 March 2005