

SPL (HOLDINGS 1) LIMITED
REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007
Registered No. SC214932

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Directors' report

The Directors present their report together with the audited financial statements for the year ended 31 December 2007

Principal activities

The principal activity of the Company is that of an investment holding company. All the Company's activities are undertaken in the United Kingdom.

The ultimate parent undertaking and controlling party is Resolution plc, a company incorporated in the United Kingdom.

Business review

The Company acted as an investment holding company until 16 October 2007. On this date it sold its 99% holding of ordinary shares in Scottish Provident Limited (SPL) to Resolution Life Limited, a fellow company in the Resolution plc group. The Company holds no other investments.

The Company made a profit in the year of £126,728,320 (2006: £138,790,060). The main driver of SPL (Holdings 1) Limited's result is the movement in the carrying value of its investment in group undertaking (SPL) which is stated at cost less provision for impairment.

The Company has no plans to make any new investments in the foreseeable future.

The position of the Company as at 31 December 2007 is presented in the balance sheet on page 5.

The principal risks associated with acting as an investment holding company are financial. The main risk to the Company prior to its sale of SPL related to its exposure to the underlying value of its investment in SPL. The Company's risk management processes and structures are described on pages 8 and 9. The main risk to the Company after its sale of SPL relates to its credit exposure to a receivable due from a fellow group company, Resolution Life Limited (RLL). Both SPL and RLL fall within the risk management framework of the Resolution plc group. The risk management framework of the Resolution plc group is disclosed within its publicly available accounts. As these balances are within the Resolution Group this risk is not considered significant.

Given the limited nature of the Company's activities, the Directors consider that there are no further Key Performance Indicators to be presented.

Further information concerning the business of the group of which the Company is a subsidiary may be found in the Annual Report and Accounts of Resolution plc, the Company's ultimate parent.

Dividends

The Directors paid dividends totalling £1,415,534,149 during the year (2006: £nil). Details are given in note 5.

Going concern

The Directors are satisfied that the Company has adequate resources to meet its liabilities as they fall due for the foreseeable future. The financial statements therefore continue to be prepared on a going concern basis.

Share capital

On 29 November 2007 the Company reduced both its authorised and issued share capital from £4,335,000,000 and £1,737,450,002 respectively to £1 and £1.

Details of the share capital structure of the Company are given in note 10 to the financial statements.

Directors

The Directors who served during the year were:

K Luscombe
I G Maidens
J A Newman
G L Singleton

Qualifying third party indemnity provisions are in place for the benefit of Directors in relation to certain losses and liabilities which they may potentially incur to third parties in the course of their duties.

Directors' report continued

Statement of directors' responsibilities

The Directors are responsible for preparing their report and financial statements. Company law requires the directors to prepare such financial statements in accordance with the Companies Act 1985. The Directors have chosen to prepare financial statements for the Company in accordance with International Financial Reporting Standards (IFRS) and Article 4 of the IAS Regulations.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the Preparation and Presentation of Financial Statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable International Financial Reporting Standards. Directors are also required to

- properly select and apply accounting policies,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,
- provide additional disclosures when compliance with the specific requirements in International Financial Reporting Standards is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance, and
- prepare the financial statements on a going concern basis unless, having assessed the ability of the Company to continue as a going concern, management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a Directors' report which complies with the requirements of the Companies Act 1985.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions.

Employment of disabled persons and employee involvement

The Company had no employees in the current or prior year.

Auditors

By a Board resolution on 10 April 2002, an election was made under section 386 of the Companies Act 1985 to dispense with the obligation to appoint auditors on an annual basis.

In the case of each of the persons who are Directors of the Company at the date of approval of this report

- so far as each of the Directors is aware, there is no relevant audit information (as defined in the Companies Act 1985) of which the Company's auditors are unaware, and
- each of the Directors has taken all the steps that they ought to have taken as a Director to make himself aware of any relevant audit information (as defined) and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 234ZA of the Companies Act 1985.

By Order of the Board



K Luscombe

Director

15 February 2008

Registered Office Address 301 St Vincent Street, Glasgow, G2 5HN

Independent auditors' report to the members of SPL (Holdings 1) Limited

We have audited the financial statements of SPL (Holdings 1) Limited for the year ended 31 December 2007 which comprise the Income Statement, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement, and the related notes 1 to 14. These financial statements have been prepared under the accounting policies set out therein.

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 auditors' 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 opinions we have formed.

Respective responsibilities of directors and auditors

The Directors' responsibilities for preparing the financial statements in accordance with applicable United Kingdom 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).

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 whether the information given in the Directors' report is consistent with the financial statements.

In addition we report to you 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

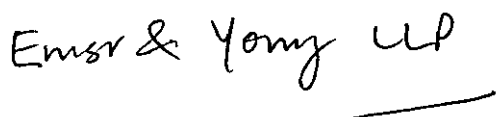
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the 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 2007 and of its profit 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.



Ernst & Young LLP

Registered auditor

Glasgow

United Kingdom

15 February 2008

Income statement for the year ended 31 December 2007

	Notes	2007 £	2006 £
Interest income	2	13,091,018	2,094,062
Reversal of impairment of investments in subsidiary undertaking	7	117,465,768	138,619,720
Other income		141,726	1,233
Interest expense	3		(1,852,420)
Administrative expenses	4		(61)
PROFIT BEFORE TAX		130,698,512	138,862,534
Tax	6	(3,970,192)	(72,474)
PROFIT AFTER TAX attributable to equity holders		126,728,320	138,790,060

All the activities of the Company are classed as continuing

Balance sheet at 31 December 2007

	Notes	2007 £	2006 £
ASSETS			
Investment in subsidiary undertaking	7		1,287,344,231
Other receivables	8	3,898,290	
Tax assets			158
Cash and cash equivalents		<u>75,344</u>	<u>1,705,607</u>
TOTAL ASSETS		<u>3,973,634</u>	<u>1,289,049,996</u>
LIABILITIES			
Tax liabilities		3,970,192	
Other payables	9	<u></u>	<u>141,725</u>
TOTAL LIABILITIES		<u>3,970,192</u>	<u>141,725</u>
EQUITY			
Share capital	10	1	1,737,450,002
Capital contribution reserve	11		99,000
Retained earnings		<u>3,441</u>	<u>(448,640,731)</u>
TOTAL EQUITY attributable to equity holders of the company		<u>3,442</u>	<u>1,288,908,271</u>
TOTAL EQUITY AND LIABILITIES		<u>3,973,634</u>	<u>1,289,049,996</u>

The financial statements were approved by the Board of Directors and authorised for issue on 15 February 2008 and were signed on its behalf by



K Luscombe
Director

Statement of changes in equity for the year ended 31 December 2007

	Notes	Share capital £	Retained earnings £	Capital contribution reserve £	Total £
Balance at 1 January 2006		1,737,450,002	(587,430,791)	99,000	1,150,118,211
Profit for the period			138,790,060		138,790,060
Balance at 31 December 2006		<u>1,737,450,002</u>	<u>(448,640,731)</u>	<u>99,000</u>	<u>1,288,908,271</u>
Balance at 1 January 2007		1,737,450,002	(448,640,731)	99,000	1,288,908,271
Share capital reduction	10	(1,737,450,001)	1,737,450,001		
Repayment of capital contribution	11			(99,000)	(99,000)
Profit for the period			126,728,320		126,728,320
Total recognised income and expense for the year attributable to equity holders		1	1,415,537,590		1,415,537,591
Dividends	5		(1,415,534,149)		(1,415,534,149)
Balance at 31 December 2007		<u>1</u>	<u>3,441</u>		<u>3,442</u>

Cash flow statement for the year ended 31 December 2007

	Note	2007 £	2006 £
Cash flows from operating activities			
Net increase in operating assets and liabilities	12	1	(404,606)
Taxation received		20,959	
Taxation paid		(20,802)	68,567
Net cash flows from operating activities		<u>158</u>	<u>(336,039)</u>
Cash flows from investing activities			
Interest received		96,718	2,053,943
Net cash flows from investing activities		<u>96,718</u>	<u>2,053,943</u>
Cash flows from financing activities			
Dividend paid		(1,628,139)	
Repayment of capital contribution		(99,000)	
Interest paid			(1,758,233)
Repayment of borrowings			(4,809,877)
Transfer of borrowings			(68,194,126)
Net cash flow from financing activities		<u>(1,727,139)</u>	<u>(74,762,236)</u>
Net decrease in cash and cash equivalents		(1,630,263)	(73,044,332)
Cash and cash equivalents at beginning of year		1,705,607	74,749,939
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u>75,344</u>	<u>1,705,607</u>

Notes to the financial statements

1 Accounting policies

Basis of preparation

SPL (Holdings 1) Limited's financial statements have been prepared in accordance with IFRS as adopted by the European Union. The financial statements have been prepared under the historical cost convention.

The information presented in these financial statements relates to the Company only and not the consolidated position of the group headed by SPL (Holdings 1) Limited. The Company is exempt from the requirement to prepare consolidated financial statements as its ultimate United Kingdom parent company produces consolidated financial statements available for public use that comply with IFRS.

The principal accounting policies applied in the preparation of the financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

Revenue recognition

Interest income is recognised when due by reference to the principal outstanding and prevailing contractual or market interest rates as appropriate.

Income tax, including deferred income taxes

Income tax payable on profits is recognised as an expense in the period in which profits arise. The tax effects of income tax losses available to 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.

Deferred income 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. Currently enacted tax rates are used in the determination of deferred income tax.

Deferred and current tax assets and liabilities are only offset when they arise in the same tax reporting group and where there is both the legal right and the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Cash and cash equivalents

Cash and cash equivalents comprise balances with less than three months maturity from the date of acquisition, including cash and short term investments in securities.

Investment in subsidiary undertakings

Investments in subsidiary undertakings are stated at cost less provision for impairment.

The carrying values of investments in subsidiary undertakings are written down by the amount of any impairment in the underlying fair value of the net assets of the subsidiary and the loss is recognised in the income statement in the period in which it occurs. A previously recognised impairment loss relating to an investment in a subsidiary undertaking may be reversed in part or in full when a change in circumstances leads to a change in the estimates used to determine the investment's recoverable amount. The carrying amount of the investment will only be increased up to the amount that it would have been had the original impairment not been recognised.

Financial risk factors

The Resolution Risk Management Framework sets out the high level arrangements for risk management, control and assurance within Resolution plc. It is designed to provide a structured approach for identifying, assessing, controlling and monitoring financial and non financial risk within Resolution plc.

The Company has implemented processes and structures to support the effective management of risk. The Company's Directors are responsible for the system of risk management and internal control, including financial, operational and compliance controls and for reviewing its effectiveness. Due to the limitations that

Notes to the financial statements continued

1 Accounting policies continued

Financial risk factors continued

are inherent in any system of internal controls, this system is designed to manage, rather than eliminate risk. In assessing these risks, the Directors take into account any benefits that may accrue from risk acceptance before making a commercial decision to ensure that risks are commensurate with the anticipated returns.

The Company's principal risks are financial. The main risk to the Company relates to its credit exposure to a receivable due from a fellow group company, RLL. RLL falls within the risk management framework of the Resolution plc group. The risk management framework of the Resolution plc group is disclosed within its publicly available accounts.

The company's other credit risk arises from its cash holdings. All cash balances are held with highly credit rated approved counterparties.

Capital management

The Company's objective in managing its capital is to ensure that there are adequate resources to meet the Company's liabilities as they fall due for the foreseeable future. The Company manages its capital by measuring its resources available on a regular basis. The financial statements have been prepared on a going concern basis as there are adequate resources to meet the Company's liabilities as they fall due for the foreseeable future. The Company's capital position and the movement in this from the prior year are disclosed within the Statement of Changes in Equity on page 6.

The Company falls within the risk management framework of the Resolution plc group.

The entity has no externally imposed capital requirements.

2 Interest income

	2007 £	2006 £
Bank interest	96,718	2,094,062
Interest on amount owed by fellow group company	12,994,300	
	<u>13,091,018</u>	<u>2,094,062</u>

3 Interest expense

	2007 £	2006 £
Loan note interest		1,758,233
Other interest		94,187
		<u>1,852,420</u>

4 Administrative expenses

	2007 £	2006 £
Bank charges		61

From 1 January 2007 goods and business administration services are supplied by Resolution Management Services Limited following a new service contract being entered into. The previous service contract with RMS (Glasgow) Limited terminated on 31 December 2006.

The remuneration of auditors for the period was £1,000 (2006: £1,000) for auditing the financial statements.

4 Administrative expenses continued

Notes to the financial statements continued

These costs were met by Resolution Management Services Limited in 2007 and by RMS (Glasgow) Limited in 2006

No management fee for administrative services is charged to the Company (2006 £nil)

The Company has no employees and paid no emoluments to the Directors during the current or prior year

5 Dividends

	2007 £	2006 £
Amounts recognised as distributions to equity holders in the period		
Interim dividend paid (£1,628,139 per share)	1,628,139	
In specie dividend (£1,413,906,010 per share)	<u>1,413,906,010</u>	
	<u>1,415,534,149</u>	

The interim dividend for the year ended 31 December 2007 was declared and approved on 13 December 2007 and was paid on 20 December 2007

The in specie dividend for the year ended 31 December 2007 was by way of a distribution of the Company's right to receive the sum of £1,413,906,010 due to the Company by RLL and was declared and settled on 13 December 2007

6 Tax

Corporation tax is calculated at 30% (2006 30%) of the estimated assessable profit for the year

The charge can be reconciled to the (loss)/profit per the income statement as follows

	2007 £	2006 £
Profit before tax	<u>130,698,512</u>	<u>138,862,534</u>
Tax at the UK corporation tax rate of 30% (2006 30%)	39,209,553	41,658,760
Adjust for tax effect of		
Non deductible provision movement	(35,239,731)	(41,585,916)
Non taxable sundry write-back		(370)
Prior year item	370	
Tax charge for the year	<u>3,970,192</u>	<u>72,474</u>

7 Investment in subsidiary undertaking

	2007 £	2006 £
Cost		
At 1 January	1,737,549,000	1,737,549,000
Disposals	<u>(1,737,549,000)</u>	
At 31 December		<u>1,737,549,000</u>
Provisions		
At 1 January	(450,204,769)	(588,824,489)
Movement in provision during the year	117,465,768	138,619,720
Disposals	<u>332,739,001</u>	
At 31 December		<u>(450,204,769)</u>
Net book value		
At 31 December		<u>1,287,344,231</u>

7 Investment in subsidiary undertaking continued

Notes to the financial statements continued

The Company's shareholding in Scottish Provident Limited was sold on 16 October 2007 to Resolution Life Limited for a consideration equal to the fair market value of this shareholding. Following calculation of this fair market value a reduction of £117,465,768 was made to the impairment provision to reflect the increase in the value of the group company at sale date and this amount was recognised in the income statement.

8 Other receivables

	2007 £	2006 £
Amounts due from fellow group company	<u>3,898,290</u>	<u> </u>

Due from fellow group company relates to an inter company receivable from RLL which is not interest bearing and is due on demand.

9 Other payables

	2007 £	2006 £
Other payables and accruals	<u> </u>	<u>141,725</u>

10 Share capital

	2007 £	2006 £
Authorised		
1 (2006 4,335,000,000) Ordinary shares of £1 each	<u>1</u>	<u>4,335,000,000</u>
Issued and fully paid.		
1 (2006 1,737,450,002) Ordinary shares of £1 each	<u>1</u>	<u>1,737,450,002</u>

A court approved reduction in both the authorised and issued share capital took place on 29 November 2007.

The holder of the ordinary share is entitled to receive dividends as declared from time to time and is entitled to one vote per share at meetings of the Company. The ordinary shareholder is entitled to any residual assets in the winding up of the Company.

11 Capital contribution reserve

The capital contribution reserve represented a capital contribution from the Company's parent. Subject to the Company having distributable reserves, the capital was permitted to be repaid at the Company's discretion. This reserve was repaid on 20 December 2007.

12 Cash flows from operating activities

	2007 £	2006 £
Profit before tax for the year	130,698,512	138,862,534
Adjustments to reconcile profit to net cash flow from operating activities		
Reversal of impairment of investment in group undertakings	(117,465,768)	(138,619,720)
Interest income	(13,091,018)	
Decrease in other payables	<u>(141,725)</u>	<u>(647,420)</u>
Net increase in operating assets and liabilities	<u>1</u>	<u>(404,606)</u>

13 Related party transactions

Notes to the financial statements continued

The Company entered into the following transactions with related parties

Related party	Income		Amounts owed by related parties	
	2007	2006	2007	2006
	£	£	£	£
Former UK ultimate parent company (prior to 10 August 2006) – Abbey National plc		2,053,943		
Fellow group company – Resolution Life Limited	12,994,300		3,898,290	

Abbey National plc was the Company's UK ultimate parent company until 10 August 2006. From that date, Resolution plc has been the ultimate parent company.

Income from Abbey National plc was in respect of the Company's bank accounts with Abbey National plc (prior to 10 August 2006).

Income from and balances owed by the Company's indirect parent were in respect of monies due for the sale of the Company's shareholding in Scottish Provident Limited to RLL.

A loan of £1,404,810,000 was granted to RLL on 17 October 2007. Interest of £12,994,300, based on LIBOR, was accrued on this loan up to 12 December 2007. £1,413,906,010 of this loan and accrued interest was settled by way of the in specie dividend (see note 5).

There were no related party transactions during the year, or existing at the balance sheet date, with the current UK ultimate parent company.

The Company held an investment in a fellow group company in 2006 and this is outlined in note 7.

There were no related party transactions during the year, or existing at the balance sheet date, with the Company's or parent company's key management personnel.

14 Parent undertaking and controlling party

The Company's immediate parent is SPL (Holdings) Limited.

The Company's ultimate parent undertaking and controlling party is Resolution plc, a company incorporated in the United Kingdom.

The only group in which the results of the Company are consolidated is headed by Resolution plc.

The consolidated accounts of Resolution plc are available to the public and may be obtained from Resolution plc, Juxon House, 100 St Paul's Churchyard, London, EC4M 8BU.