

Standard Life group

Press release



Standard Life plc

2006 Preliminary Results 22 March 2007

A year of strong progress

- **EEV operating profit before tax up 55% to £614m (2005: £395m).**
- **New business contribution before tax up 521% to £205m (2005: £33m).**
- **IFRS underlying profit before tax up 272% to £540m (2005: £145m).**
- **EEV up 11% to £5,608m (2005: £5,048m including IPO proceeds), equivalent to 258p per share.**
- **EEV cash generation increased to £262m (2005: £17m outflow).**
- **Dividend of 5.4p in respect of period since IPO.**
- **Heritage With-Profits Fund Residual Estate increased to £1.3bn (2005: £0.5bn).**
- **Continuous improvement initiatives to deliver additional cost benefits of £100m per annum by 2009.**

Group Chief Executive, Sandy Crombie, said:

“We have achieved a strong improvement in our financial performance in 2006. Our strategy of concentrating on higher margin and less capital intensive products has delivered strong growth in new business volumes and profitability.

“Notwithstanding this strong progress, there is more we can do to increase the efficiency of our operations and to deliver further earnings growth and higher returns. Today we announce the next phase of our continuous improvement strategy, which will deliver a leaner and fitter Standard Life.

“These initiatives are in addition to the targets announced at the time of the IPO and will enhance our ability to grow profitably in the medium term. We are on track to achieve our return on embedded value target for 2007 of 9-10%, and increasing thereafter.”

Financial Highlights

	2006	2005	Change
New business PVNBP	£14,263m	£9,675m	47%
New business APE	£1,734m	£1,249m	39%
New business contribution	£205m	£33m	521%
PVNBP margin	1.4%	0.4%	+1.0% points
EEV operating profit before tax	£614m	£395m	55%
EEV profit before tax	£1,022m	£770m	33%
Diluted EEV operating EPS	20.7p	13.9p	49%
EEV	£5,608m	£5,048m	11%
ROEV	8.9%	7.4%	+1.5% points
IFRS underlying profit before tax	£540m	£145m	272%
Diluted IFRS underlying EPS	21.8p	5.8p	276%
Dividend per share in respect of period since IPO	5.4p	-	-
IFRS profit attributable to shareholders in respect of period since IPO	£283m	-	-

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EEV pro forma operating profit for the year ended 31 December	2006 £m	2005 £m
Life and Pensions by country		
UK	372	272
Canada	163	131
Europe	45	53
Other	(8)	(2)
HWPf TVOG	44	-
Life and Pensions operating profit	616	454
Life and Pensions by source		
New business contribution	205	33
In-force business		
expected return	392	328
experience variance	122	60
assumption changes	(58)	37
Other covered	(45)	(4)
Total Life and Pensions operating profit	616	454
Investment management	38	24
Banking	38	15
Healthcare and general insurance	16	7
Group corporate centre costs	(89)	(58)
Other	(5)	(47)
Operating profit before tax	614	395
Tax on operating profit	(185)	(125)
Operating profit after tax	429	270
IFRS pro forma underlying profit for the year ended 31 December	2006 £m	2005 £m
Life and Pensions by country		
UK	230	16
Canada	168	86
Europe	108	73
Other	(9)	-
Total Life and Pensions underlying profit	497	175
Investment Management	66	44
Banking	38	24
Healthcare and general insurance	16	7
Group corporate centre costs	(89)	(58)
Other	12	(47)
Total underlying profit before tax	540	145
Tax on underlying profit	(66)	(18)
Underlying profit after tax	474	127

Basis of Preparation

These results have been calculated for the year ended 31 December 2006 using assumptions to show the results which would have been attributable to shareholders had the company been owned by shareholders under the terms of the Scheme of demutualisation (the Scheme) throughout the year. The Scheme did not take effect until 10 July 2006. For further information please refer to basis of preparation sections 1.4.1 and 1.5.3.4 below for EEV and IFRS respectively. No account has been taken of any prospective tax changes announced by the Chancellor of the Exchequer on 21 March 2007.

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Overview of results

In 2006 EEV operating profit before tax increased by 55% to £614m delivering a return on embedded value of 8.9% (2005: 7.4%). Increased life and pensions new business contribution, improved experience variances and greater profits from our asset management, banking and healthcare businesses more than offset the impact of increased lapse assumptions. On an IFRS basis, pro forma underlying profit before tax increased by 272% to £540m. This increase was driven by higher fee and commission income resulting from increased funds under management, greater profitability in new business and the prior year including £189m in reserve strengthening in the UK life and pensions business. Worldwide insurance sales were up by 47% to £14,263m, on a PVNBP basis, reflecting strong new business performance in UK life and pensions. This substantial improvement in trading performance gives rise to diluted EEV operating earnings per share 49% higher at 20.7p. Diluted underlying earnings per share on an IFRS basis increased by 276% to 21.8p.

UK life and pensions benefited from a substantial increase in new business contribution of 519% to £167m (2005: £27m). This reflects margin improvement in every product group and the significant growth in PVNBP new business volumes of 69% to £11,400m (2005: £6,763m) driven by the success of SIPP, Capital Investment Bonds and TIP, and the impact of A-day on customer activity. EEV operating profit before tax increased by 37% to £372m despite changes in long term assumptions and provisions for lapses of £207m. Although UK life and pensions product lapses continued at levels in excess of long-term trends, net fund flows remained strongly positive and amounted to £3.2bn during 2006. We anticipate the continuation of strong underlying sales momentum in 2007, underpinned by our market-leading service and innovative product offerings coupled with our impressive track record in investment performance.

In our Canadian life and pensions business the focus on margin over volume and the repricing of certain Universal Life products resulted in a turnaround in new business contribution from a loss of £2m in 2005 to a profit of £28m in 2006, which helped EEV operating profit before tax increase 24% to £163m. While we expect market conditions to remain challenging this year, our continued efforts on cost control and the product initiatives undertaken in the second half of 2006 will support steady profitable growth in 2007.

The EEV operating profit before tax from European businesses decreased 15% to £45m reflecting the further investment in product development in Germany and Ireland. Following successful product launches in both countries, we expect to build on the sales momentum we achieved in the second half of 2006.

The Asian life and pensions EEV operating loss increased to £8m (2005: £2m loss) due to the continued expansion of the operations in India and China. These businesses are expected to achieve improved sales in 2007, driven by new product launches, wider distribution and market growth.

Standard Life Investments' third party funds under management increased by 32% to £38.5bn at the end of 2006, reflecting continued investment outperformance, which has driven record levels of both institutional and retail third party mandate wins. Standard Life Investments' operating profit before tax increased 50% to £66m on an IFRS basis as a result of the higher funds under management leading to a significant improvement in the EBIT margin to 27.0% (2005: 22.3%). The pipeline of new business remains strong and this, along with Standard Life Investments' impressive performance track record and the successful introduction of additional products in both the retail and institutional markets, provides a powerful platform to deliver continued growth in 2007.

Standard Life Bank increased underlying profit before tax by 58% to £38m on an IFRS basis as a result of improved interest margin and cost control in a year when gross mortgage lending was similar to the prior year. In 2007 we expect Standard Life Bank to benefit from continued reduction in its cost income ratio and increasing SIPP and Wrap balances. Credit quality remains extremely high; the arrears rate of 0.17% at the year end continues to be well below the industry average of 0.95%.

Through a disciplined approach to business Standard Life Healthcare more than doubled 2005 IFRS underlying profit before tax. Standard Life Healthcare's new policy administration system coupled with the launch of a new product proposition is expected to increase sales and reduce operating costs in 2007. The integration of FirstAssist continues to plan with the full benefits being realised in 2008 and thereafter.

EEV increased to £5,608m, equivalent to 258p per share (diluted), driven by the strong operating performance for the year and positive investment return variances. EEV cash generation increased to a £262m inflow (2005: £17m outflow) due to a reduction in new business strain, improved contribution from in-force life business and greater non life profits.

We are recommending the payment of our first dividend of 5.4p a share on 31 May 2007, as indicated at flotation, based on a record date of 30 March 2007. This dividend represents around half of the total dividend that we would have expected to pay if Standard Life plc had been listed throughout the year. Our intention is to pay a progressive dividend which will take account of the long-term earnings and cash flow potential of the Group.

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Delivering continuous improvement

We are announcing today further initiatives to increase the efficiency of our UK businesses and enhance their growth prospects. These initiatives focus on driving synergy benefits from UK Life and Pensions, Standard Life Healthcare, Standard Life Bank and shared services for Standard Life Investments. In due course we will look at achieving additional savings in our Canadian, German and Irish businesses.

At the time of the flotation in July 2006 we announced a target to reduce UK Life and Pensions' expenses by £30m by the end of 2007; £15m has been achieved to date. This commitment is being achieved at the same time as delivering strong sales growth. We also committed to reduce corporate costs in 2007 to £58m per annum, the 2005 level, despite the incremental costs of being a listed company. This target is also expected to be achieved. The initiatives announced today are in addition to those targets.

We aim to reduce underlying costs by a further £100m per annum by 2009. It is expected that the phasing of savings will be achieved as follows: in the second half of 2007 £15m, in 2008 a further £70m, and in 2009 an additional £15m. Through efficiency and productivity we can achieve a reduction in the underlying headcount requirement to service our existing levels of business by around 1,000 by 2009. We expect growth and natural turnover to keep involuntary job losses to a minimum. The one-off costs of implementing these savings are expected to be no greater than the annual savings achieved by 2009.

We are establishing a UK Retail Division, headed by Trevor Matthews, currently Chief Executive of Standard Life Assurance Limited. He will be responsible for the continued development of UK Life and Pensions, Standard Life Bank and Standard Life Healthcare and for driving synergies in both costs and revenues by streamlining common functions and enhancing our capability to grow. Duplication of activities which are currently taking place across multiple business units, divisions and product lines will be targeted.

Other key initiatives include the expansion of the use of shared service activities, rationalisation of group central functions, re-engineering of key processes and the implementation of smarter sourcing of services.

The cost savings are expected to be achieved roughly equally between covered and non-covered businesses. Within the covered business, we expect at least £20m would be capitalised into the EEV in long term maintenance unit cost savings by end 2009 after allowing for approximately 10% of the savings attributable to the with-profits policyholders.

These additional actions will strengthen further our customer focus and improve the efficiency of our operations. This will enhance our ability in the medium term to increase new business margins, drive higher profitability and augment future embedded value.

Outlook

We continue to drive our business forward and have exciting product and market opportunities both in the UK and overseas. Customers' needs will remain at the forefront of our thinking. Growth will continue to be driven by our strategy of concentrating on higher margin and less capital intensive products delivered with best in class customer service levels and through leading-edge platforms and efficient systems.

The trading performance across the group for the first two months of 2007 remains strong with the positive sales momentum continuing in the UK.

We remain on track to meet our 2007 target for return on embedded value of 9-10%, and increasing thereafter.

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Newsires

A conference call will take place for newswires and online publications from 8.00-9.00am. Participants should dial 020 7162 0125 and quote Standard Life Results.

Investors and Analysts

A presentation to investors and analysts will take place at 9.30am at Merrill Lynch, 100 Newgate Street, London EC1A 1HQ. A live webcast of the presentation and the presentation slides will be available on the Group's website, www.standardlife.com. In addition a replay will be available on this website later today.

There will also be a live listen only teleconference to the investor and analyst presentation at 9.30am. UK investors should dial 0845 245 5000, and overseas investors should dial +44 1452 562 719. Callers should quote Standard Life Results. The conference ID number is 1704831. A replay facility will be available for two weeks on +44 1452 55 00 00. The pass code is 1704831.

There will be a conference call for US and Canadian investors and analysts at 3:00pm (UK) hosted by Sandy Crombie, Group Chief Executive and David Nish, Group Finance Director. Dial in telephone number for international participants +1 866 779 1135 and UK participants 020 7162 0125. Callers should quote Standard Life Results. A recording of this call will be available for replay for one week by dialling +1 954 334 0342 (international) and 020 7031 4064 (UK), access code: 741172.