

Report by the Directors

The directors present their report and the audited financial statements for the year ended 31 December 2005.

Principal activities and business review

The Standard Life Group commenced business in Edinburgh in 1825. Today we are one of the largest financial services groups in the United Kingdom with gross earned premiums of £3,609m and contributions received under investment contracts of £6,952m for the 12 months ended 31 December 2005, and funds under management for Standard Life Investments of £119bn at 31 December 2005. We are a diversified financial services group and our principal activities consist of the provision of life assurance and pensions, investment management, banking and healthcare insurance products. We use the "Standard Life" brand to promote, market and sell financial products in these sectors.

Life assurance and pensions

We have a significant position in the United Kingdom life assurance and pensions market with a market share of 8.4% in 2005 in terms of new business annual premium equivalent (APE) having written £908m of new business APE in 2005. The principal distribution channel for life assurance and pensions products in the United Kingdom is Independent Financial Advisers (IFAs). We have a strong position in this sector of the market with a market share of 10.9% of new business APE written through IFAs in 2005. In addition, we are the fourth largest life assurance and pensions provider (by gross premium income) in Canada, with a market share of approximately 9.8%.

We also have operations in life assurance and pensions in Germany, Ireland and Hong Kong and interests in life assurance and pensions joint ventures in India and China.

Investment management

Our investment management business is principally operated by Standard Life Investments, which managed £119bn of assets for both the Standard Life Group and third parties as at 31 December 2005.

Third party funds under management have grown from £5.3bn in 1998 to £28.1bn as at 31 December 2005. Through Standard Life Investments, we also have an interest in an asset management joint venture in India.

Banking

Our banking business is operated through Standard Life Bank, which offers a range of mortgages and savings products. Standard Life Bank had a mortgage portfolio of approximately £10.6bn as at 31 December 2005. Approximately £4bn of the funding for this portfolio was provided by Standard Life Bank's deposit book and the balance of the funding comes from external debt and capital.

Healthcare insurance

Our UK healthcare insurance business is operated by Standard Life Healthcare and is one of the largest private medical insurers in the United Kingdom (ranking third with a market share of 5.7% in terms of APE).

Strategic review

In the early part of 2004, the Group undertook a strategic review of its businesses. As a result, the Directors decided to proceed with a plan to demutualise the Group and subsequently list the shares on the London Stock Exchange, subject to the satisfactory completion of all legal, regulatory and other requirements. A Special General Meeting is proposed for 31 May 2006, to seek approval of the demutualisation and flotation plans.

As part of the demutualisation, the Company will transfer substantially all of its business, undertakings and assets to several wholly owned subsidiaries of the newly formed proprietary company, Standard Life PLC. The membership rights of all Standard Life's members will cease, subject to receipt of the demutualisation shares or other demutualisation benefits, in accordance with the provisions of the Scheme of Demutualisation.

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Directors

The names of the current directors are listed on page 3. Kent Atkinson was appointed a director of the Company on 26 January 2005. Sir Nicholas Monck retired as a director on 22 March 2005. David Newlands resigned as a director on 6 March 2006. Alison Reed was appointed as Group Finance Director on 13 June 2005. Keith Skeoch was appointed a director of the Company on 6 March 2006.

The directors who will retire by rotation at the Annual General Meeting are Sir Brian Stewart, Lord Norman Blackwell, Gerry Grimstone and Alison Mitchell and their re-election will be proposed. Alison Reed and Keith Skeoch, who have been appointed to office since the last Annual General Meeting, will also retire at the Annual General Meeting and will be proposed for re-election.

Employees

The Group is committed to an equal opportunities policy. The sole criterion for selection or promotion is the suitability of any applicant for the job regardless of ethnic origin, religion, sex, marital status or disablement. The Group will continue to employ, arrange for retraining, or retire on disability pension any member of staff who becomes disabled, as may be appropriate.

Employee engagement

It is the Group's policy to have effective communication and consultation with staff. Staff involvement is achieved through meetings, briefings and newsletters which help to ensure that staff are fully aware of the organisation's goals and results. In addition, staff representatives are elected to a number of Area Consultative Committees and to National Consultative Committees which meet formally with management twice a year to discuss matters of general staff interest or concern. Minutes of these meetings are made available to staff. Since the Company is mutual, there is no employee share scheme but appropriate long-term incentive schemes are in place.

Use of voting rights

As an institutional investor the Group has a policy of always voting on resolutions at General Meetings of UK companies. If the Group intends to vote against or abstain from voting on such resolutions this will be made known to the company concerned beforehand.

Supplier payment policy

It is the Group's policy to negotiate payment terms with suppliers and to pay in accordance with the terms agreed. The average duration of amounts owing to Group trade creditors at 31 December 2005 was 7 days (2004 : 11 days), based on the ratio of Group trade creditors at the end of the year to the amounts invoiced during the year by trade creditors.

Charitable and other donations

The Group supports charitable and other appropriate bodies through its Community Investment Programme. Cash donations to charities in the UK amounted to £342,364 (2004: £445,709), of which £246,063 related to donations to the Standard Life Charity Fund.

At the Annual General Meeting on 6 April 2004, a resolution was passed authorising the Company to make political donations to EU political organisations and to incur EU political expenditure up to £50,000 in total. This resolution was updated and passed at the 2005 Annual General Meeting to authorise the Company to make donations and incur expenditure to which section 347C(1) of the Companies Act 1985 ("the Act") applies. The definitions of 'donations' and 'EU political expenditure' which are contained in Part XA of the Act are very broad, and might cover activities which form part of the normal non-political relationship between the Group and the political world. The Board does not believe that the Group has, in the year to 31 December 2005, made any such donations or incurred any such expenditure.

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Risk Management

The Group manages its various risks as outlined in Note 31 of the financial statements.

Directors' responsibilities

Company law requires the directors to prepare financial statements for each financial period which comply with the Act and give a true and fair view of the state of affairs of the Group and the Company and of the results of the Group for that period. In addition, the directors should take all reasonable steps to ensure that adequate accounting records are maintained, that the assets of the Group are safeguarded and that fraud and other irregularities are prevented or detected.

The annual financial statements for the year ended 31 December 2005 are published in hard copy printed form and on the Group's website at www.standardlife.com. The directors are responsible for the maintenance and integrity of the annual financial statements on this website in accordance with UK legislation governing the preparation and dissemination of financial statements. Access to the website is available outside the UK, where comparable legislation may be different.

The directors confirm that suitable accounting policies, consistently applied with the exception of the change in accounting policy referred to in section (a) of the Accounting Policies, and supported by reasonable and appropriate judgements and estimates, have been used in the preparation of the financial statements of the Group and the Company for the year ended 31 December 2005. The directors also confirm that the financial statements have been appropriately prepared on a going concern basis and that applicable accounting standards have been followed as described in the Accounting Policies.

Corporate Social Responsibility policy

A Corporate Social Responsibility (CSR) committee reviews CSR policies, practices and performance, drives development, highlights risks and opportunities and serves as a reference point for all CSR work throughout the Group. The Group maintains a section of the corporate website devoted to CSR, www.standardlife.com/responsibility. It contains statements of the Group's policies relating to community investment, employees, the environment, human rights and socially responsible investment. Further details of the Group's social and environmental practices and achievements are set out in the Corporate and Social Responsibility Report.

Auditors

The reappointment of the auditors, PricewaterhouseCoopers LLP will be proposed at the Annual General Meeting.

On behalf of the Board of Directors

Malcolm Wood, Secretary

Edinburgh, 28 March 2006