



2005 Full Year Results⁽¹⁾

Standard Life shows strong momentum

18 April 2006

Today Standard Life is publishing its demutualisation and flotation proposal, which includes plans to raise £1.1bn of net new capital. It is also providing information on its 2005 financial performance. Full details of the demutualisation and flotation proposal can be found in the document *Proposal for Members and Policyholders* at www.standardlife.com. Highlights of the Proposal are set out in Appendix 1 and in Appendix 2 we include Part 8 of the *Proposal for Members and Policyholders*, which contains, among other things, certain summary financial information on the Standard Life group.

Financial Highlights

- Group EEV up 26% to £3,744m at 31 December 2005 (2004: £2,964m)
- New business contribution increased to £33m for the 12 months to 31 December 2005 (2004: loss £132m)⁽²⁾
- EEV operating profit before tax for the 12 months to 31 December 2005 up 119% to £395m (2004: £180m)⁽²⁾
- Profit before tax attributable to shareholders and minority interest for the 12 months to 31 December 2005 improved to £152m (2004: loss £340m)^(2 and 3)
- APE new business decreased by 4% to £1,238m when compared to the previous 12 months⁽⁴⁾ with significant product repositioning achieved
- Assets under management increased 24% to £119bn at 31 December 2005 (2004: £96bn)
- Standard Life Investments profits (IFRS)⁽⁵⁾ increased to £44m from £21m last year⁽²⁾

Sandy Crombie, Group Chief Executive said:

“Since January 2004, Standard Life has been repositioning its business to pursue profitable growth and I am pleased to report a significant improvement in profitability in 2005.

There has been a clear shift of emphasis in our core UK Life and Pensions business towards investment-driven single premium business. We have reduced commission on a number of our products. We have also made good progress in developing more profitable and less capital intensive products including Self Invested Personal Pensions (SIPP) and Investment Bonds.

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The Canadian business enjoyed an improved performance in 2005 due to strong group annuity sales with APE increasing by 17% to £184m compared to the previous 12 months^(4 and 6). EEV operating profit before tax for Canada increased 68% to £131m in the 12 months to 31 December 2005 (2004: £78m)⁽²⁾ benefiting from cost reductions.

Standard Life Investments has grown particularly strongly in 2005, winning new mandates and growing third-party funds by 56%, while delivering profits before tax of £44m⁽⁵⁾. Gross worldwide investment sales increased by 200% to £5,917m in 2005 on an annualised basis.

The Group's results show the benefit of the cost reduction initiatives which commenced in 2004. £483m of value in the in-force book was achieved over the last two years through our cost saving actions. We are now operating with over 3,000 less people than at the beginning of 2004.

We have also announced today that we intend to raise £1.1bn of net new capital which will be used predominantly to finance the growth of the UK business and support capital adequacy.

Our improved performance in 2005 reflects the success of our repositioning programme. We have a clear strategy for the future, built on Standard Life's exceptional strengths."

Notes

1. The EEV of the Group has been calculated as though the Group had operated under the post demutualisation structure over the period from 16 November 2003 to 31 December 2005. It has been calculated on the basis that demutualisation occurred at the end of 2005 but excludes the impact of £1.1bn of net new capital that is expected to be raised upon flotation. The Historical Financial Information ("HFI") is a representation of the accounting results of the Group as though the legal arrangements set out in the Main Scheme had applied to such results. The HFI is based on the consolidated annual financial statements prepared for Standard Life, which for FY 2005 and FY 2004 have been prepared under IFRS in line with changes to the UK financial reporting framework.
2. Prior reporting period of 13.5 months to 31 December 2004.
3. Profit before tax attributable to shareholders and minority interests is prepared on an IFRS basis.
4. Previous 12 month figures have been calculated on a pro forma basis.
5. Standard Life Investments £44m of profits before tax are shown on an IFRS basis including investment management profits and losses attributable to the life and pensions business which are captured in the results of the Covered Business under EEV.
6. Canadian APE growth was 11% in local currency.

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Notes to editors

- The IFRS financial statements of the Standard Life Assurance Company for the year ended 31 December 2005 are available at www.standardlife.com.
- The statutory solvency and realistic balance sheet position for The Standard Life Assurance Company is set out in Appendix 3. This information has been extracted or calculated from our 2005 FSA Return which is available at www.standardlife.com.
- The financial information contained in Appendix 2 (being Part 8 of the *Proposal for Members and Policyholders*) has been prepared on the basis that Standard Life had been a company owned by shareholders during the period and are based on the Scheme of Demutualisation and before inclusion of the proceeds from the flotation.
- Standard Life has also announced today that meetings of the holders of its Subordinated Bonds have been convened for 10 May 2006 to approve certain resolutions as set out in the relevant explanatory memorandum dated 18 April 2006.
- The costs of, and incidental to, the Proposal incurred or to be incurred by the Group are estimated to be approximately £158m. This amount does not include commissions, fees and expenses payable in respect of the Offers, which will be met from the new capital expected to be raised under the Offers.

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- Capitalised terms used in this document have the meaning given to them in Part 12 of the *Proposal for Members and Policyholders*.

This announcement is not for distribution in the United States, Japan, Australia, New Zealand, Italy or any other jurisdiction where such distribution would be illegal. The information contained in this announcement does not constitute an offer for sale of securities in the United Kingdom, Ireland, the United States, Japan, Australia, New Zealand, Italy or any other jurisdiction, nor does it constitute a public exchange or tender offer in any such jurisdiction. The securities referred to herein may not be offered or sold, directly or indirectly, into the United States unless they are registered under the U.S. Securities Act of 1933, as amended, or exempt from registration. Standard Life does not intend to register the securities referred to herein in the United States. No money, securities or other consideration is being solicited and, if sent in response to the information contained herein, will not be accepted.

There is no guarantee Standard Life will demutualise and financial decisions should not be based on our demutualisation plans at this stage.

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Appendix 1

Highlights of the Proposal

Capitalised terms used in this document have the meaning given to them in Part 12 of the *Proposal for Members and Policyholders*.

1.0 About the Proposal

1.1 Why is Standard Life proposing demutualisation and flotation?

On 17 October 2005, Standard Life announced its intention to put forward a proposal for its demutualisation and for the flotation of Standard Life plc. The main reasons for the Proposal are:

- It will unlock value for Eligible Members
- It will reduce the risks to which with profits investors are exposed
- It will provide access to external equity capital

Part 1 of the *Proposal for Members and Policyholders* contains a summary of the alternatives to demutualisation considered by the Board.

After reviewing the options available to Standard Life, the Board has concluded that the proposal to demutualise and float on the London Stock Exchange is the best option for Members, policyholders and our business.

The Board unanimously recommends the Proposal and urges Voting Members to vote for the Special Resolution to be proposed at the SGM. Each Director who is a Voting Member intends to vote 'yes'.

The Directors have received approaches in recent weeks relating to potential transactions. These approaches have included requests to take significant shareholdings in Standard Life plc and a specific approach involving an all share merger with Standard Life. In each case, the Directors have concluded that the potential transaction is not in the best interests of Members, policyholders and the business, having regard to factors such as the proposed valuation and other terms, the lack of certainty of outcome, the time that it would take to complete any agreement and the risk of disruption to the successful implementation of the Proposal. As required by their fiduciary duties, the Directors will, of course, keep under review whether any alternative may, in all the circumstances, offer material advantages when compared to the Proposal.

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1.2 Protection for Policyholders

The Proposal contains a number of protections for policyholders. These are outlined in Part 1 of the *Proposal for Members and Policyholders* and available on www.standardlife.com/members and described in more detail in Part 4 of the *Proposal for Members and Policyholders*. A number of these are listed below:

- All Standard Life policyholders will keep their existing policies – any shares or cash that Eligible Members receive will be in addition.
- All policyholders will still be customers of the Group. Instead of being with Standard Life, the policies will generally be with Standard Life Assurance, Standard Life Canada or our Bermudan subsidiary (though some of the Canadian policies will remain with Standard Life).
- Premiums will be collected in the same way as they are now.
- The Proposal includes provisions designed, among other things, to protect the security of policy benefits for all existing policyholders and the reasonable benefit expectations of with profits investors.
- The Proposal has been reviewed by the Company's regulator, the Financial Services Authority, and regulators in a number of other countries. Standard Life will not demutualise unless the plans to do so have been approved by the Court. Standard Life also needs the approval of the courts in Bermuda, Guernsey and Jersey for parts of the Proposal to be implemented.
- An Independent Expert, Mike Arnold, a Fellow of the Institute of Actuaries, has reviewed the Proposal and produced a report which will be considered by the Court before it decides whether to approve the plans to demutualise. Part 7 of the *Proposal for Members and Policyholders* contains a summary of the Independent Expert's report.
- Standard Life Assurance has approved the establishment of a With Profits Committee to oversee the management of the With Profits Fund. Its members will be two non-executive directors of Standard Life Assurance and an independent Chairman. It is intended that the With Profits Committee will always have a Chairman who is an appropriately experienced actuary and who is independent of the Standard Life Group.

1.3 Demutualisation Entitlement

Generally speaking, Members are entitled to receive a demutualisation entitlement if they are the Member for a policy which started on or before 30 March 2004 and which has been continuously invested in with profits with Standard Life from 30 March 2004 up to the date of the SGM (both dates inclusive).

There is only one Member for each policy. In the case of a policy held by more than one person, the Members will generally be the person whose name appears first on the policy or who was nominated by all

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the other policyholders to be the Member before Standard Life closed to new Members on 18 October 2005.

Members with a policy invested in with profits as at 30 March 2004, which matured on or after 18 October 2005, may still be eligible for a demutualisation entitlement. Standard Life is proposing to change the Regulations at the SGM to reinstate their membership if they would otherwise meet the eligibility requirements. They will not receive a demutualisation entitlement if all of their policies invested in with profits matured before 18 October 2005.

Members can find further information on eligibility for demutualisation entitlement, including any exceptions to the general rules on eligibility and other amendments to the Regulations to allow some other people to be Eligible Members in Parts 1 and 2 of the *Proposal for Members and Policyholders*, and available on www.standardlife.com/members. In this mailing, those Members who, according to Standard Life's records are currently eligible to receive shares or cash, will also receive a share allocation statement.

The value of an Eligible Member's demutualisation entitlement depends on the number of shares allocated to them. Each Eligible Member will be entitled to a single fixed allocation of 185 shares. This amount will be the same for all Eligible Members because each Eligible Member currently only has one vote at general meetings of the Members of Standard Life.

Most Eligible Members will also be entitled to a variable allocation of shares. This will be determined by reference to the with profits investments that they held as at 30 March 2004 under each policy for which they are the Eligible Member.

Eligible Members will receive shares in Standard Life plc or cash as compensation for the loss of their membership rights in Standard Life. Eligible Members will not have to pay for any shares or cash provided to them as their demutualisation entitlement. Most Eligible Members will be entitled to receive shares. However, for various legal and practical reasons, Eligible Members who are not resident in a Permitted Country on the SGM Date will only be able to receive cash. Eligible Members who according to our records are resident in a Permitted Country on the SGM Date will be able to choose whether to keep the shares they receive as their demutualisation entitlement or to have all of those shares sold on their behalf on flotation. The Permitted Countries are Austria, Canada, the Channel Islands, Germany, Ireland, the Isle of Man and the UK.

1.4 Value of Shares

The value of the shares to be issued to Eligible Members cannot be determined accurately yet, but Merrill Lynch International and UBS Limited (financial advisers to Standard Life) have estimated that, had the demutualisation and all other related matters been implemented and the Ordinary Shares been listed on the London Stock Exchange, the Ordinary Shares would have traded on 13 April 2006 within the likely price range of 240p and 290p.

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The offer price of the shares and the price at which they will subsequently trade on the London Stock Exchange will not necessarily be within this range and could be materially outside it, because of changes in, for example, stock market conditions or the financial position and performance of Standard Life's businesses between the time of the estimate and the time of Listing. In addition, the offer price set as part of the Offers will be determined with reference to demand for shares under the Offers.

This estimate has been provided to Standard Life on the bases and assumptions set out in the letter from Merrill Lynch International and UBS Limited, included in Part 11 of the *Proposal for Members and Policyholders*. The letter is not a recommendation on how to vote with respect to the Proposal and Merrill Lynch International and UBS Limited have consented to the inclusion of the letter in the *Proposal for Members and Policyholders* on the basis that, without prejudice to any responsibility or duty of care they may owe, or any liability they may have, to Standard Life in respect of the letter, no responsibility, duty of care or liability is accepted by them to Members, policyholders, or any third parties in respect of the letter or the *Proposal for Members and Policyholders*.

Merrill Lynch International and UBS Limited are acting exclusively for Standard Life and Standard Life plc in connection with the Proposal and not for anyone else, they will not advise or provide any protections to any other person and they make no representations with respect to the accuracy or completeness of any information contained in the *Proposal for Members and Policyholders*.

1.5 Flotation

Some of the key features of the flotation of Standard Life plc are:

- Standard Life plc will apply for its shares to be admitted to the Official List and admitted to trading on the London Stock Exchange. This will put a market value on any shares that Eligible Members receive on demutualisation.
- Standard Life plc intends to raise approximately £1.1 billion of net new capital on flotation. There is more information in Part 8 of the *Proposal for Members and Policyholders* on how it is expected that Standard Life plc will use this money.
- Subject to certain conditions, Standard Life plc intends to give Eligible Members, other Standard Life policyholders and certain other Group customers (as at 18 April 2006) and Group employees the opportunity to buy New Shares at a discounted price if they are resident in a Permitted Country (see paragraph 1.3 above for list of Permitted Countries). This will be called the Preferential Offer. The United States is not a permitted country so policyholders resident in the United States or any other jurisdiction which is not a permitted country will not be eligible to participate in the Preferential Offer.
- The flotation will also involve Standard Life plc making two other offers – the Institutional Offer (which will offer shares to certain large institutional and other significant investors) and the Retail Offer (which will offer shares to certain individuals and other investors). The allocation of New Shares in Standard Life plc between the Offers will be described in the Prospectus.

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- Standard Life plans to write to people who are eligible to buy New Shares in the Preferential Offer with more information in June 2006. This will include an indication of the estimated price payable for shares under the Preferential Offer and the size of the discount this represents to the Institutional Offer and the Retail Offer.
- Eligible Members will only be able to participate in the Preferential Offer if the shares which they receive as their demutualisation entitlement are not sold as part of the flotation.
- Standard Life plc also intends to issue free bonus shares to anybody who: receives shares as their demutualisation entitlement; buys shares in the Preferential Offer; or receives free shares under the Proposal as an employee of the Group and keeps those shares for a period of 12 months from the date of Listing. One free bonus share will be given for every 20 shares held continuously throughout this 12 month period.
- The Preferential Offer is being made available to give eligible customers and employees the opportunity to acquire shares in Standard Life plc on favourable terms. The free bonus issue is to encourage people who receive shares on demutualisation, as employees or through the Preferential Offer to retain those shares. The Board does not believe that any reduction in value for Eligible Members as a result of these arrangements is significant overall.

This release should be read in conjunction with the *Proposal for Members and Policyholders* which can be found on the Standard Life website at www.standardlife.com/members.

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Appendix 2

(The following is Part 8 of the *Proposal for Members and Policyholders*)

Part 8, Information on the Group

This section tells you more about the activities of the Group and contains certain financial information.

Operational performance and strategy

Strategic review and demutualisation

In the early part of 2004, we initiated a strategic review of our business. The strategic review was wide-ranging and examined all of our businesses, both in the UK and overseas.

Based on the conclusions of the strategic review, the Board decided that it would be in the best interests of Members, policyholders and the business for Standard Life to work towards demutualisation and flotation. The main reasons to demutualise and float are to unlock value for Eligible Members, reduce the risks to which with profits investors are exposed and to provide access to external equity capital.

Repositioning achievements and ongoing transformation

The strategic review assessed the potential for operational and financial improvements in the business. Since then a number of key steps have been implemented to reposition the Group to secure a platform for profitable growth. The last two years has seen significant financial improvement. In order to illustrate this, we have shown the key financial results below on the basis that Standard Life had been a company owned by shareholders:

- Group EEV (a term which is explained in the section below headed 'European Embedded Value') has increased to £3,744 million at 31 December 2005 from £2,964 million at 31 December 2004.
- New business contribution increased to £33 million for the twelve months ended 31 December 2005 ("FY 2005") from a loss of £132 million for the 13.5 month period to 31 December 2004 ("FY 2004").
- Profit/loss before tax attributable to shareholders and minority interest has moved to a profit of £152 million for FY 2005 from a loss of £340 million for FY 2004.

The following factors have made a substantial contribution to these results:

- targeting more profitable market segments;
- changing the commission structure on certain UK life and pensions products;
- reducing costs, primarily through the elimination of over 3,000 jobs; and

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- focusing all our businesses on profit generation.

Alongside these achievements the financial strength of the Group has improved. The Directors believe that the results demonstrate that Standard Life has made significant progress towards the operational repositioning of the business.

The Board is committed to continuing this business transformation. It believes that this will be best supported through the structural changes which the Proposal, if implemented, will bring about. Importantly, the Directors believe that it will enable the Group to capitalise on its strengths to create value for the future owners of the business.

The Group's strategy

Key strengths

The Directors believe that the key strengths which will enable Standard Life to deliver its strategy are as follows:

- **Our customers** – we have approximately 7 million customers worldwide, ranging from private individuals to large corporate clients.
- **Our brand** – the “Standard Life” name is a long-standing and well recognised life assurance and pensions brand in the UK and is well known in Canada. The Group has a strong reputation among financial intermediaries and our brand is associated with high quality service.
- **Our position in our core markets** – Standard Life is an established financial services provider in the UK and Canada with particular strength in the products and distribution channels relating to savings and investments:
 - we provide an extensive range of financial products and services to consumers which are aimed at meeting their financial requirements throughout their lives;
 - we have a product range that is known for its breadth and design, and the innovative features that are built into a number of our products;
 - we have a leading position in retirement provision;
 - we have a strong distribution capability through independent channels. We also use other distribution channels (including agents, other financial intermediaries and corporate partners, direct sales and e-commerce);
 - we are recognised for the high quality of our customer service and for providing consistent, reliable and responsive service; and
 - we have integrated IT platforms as a result of significant investment in the development of our systems.
- **Our investment management capability** – Standard Life Investments has established itself as an investment manager with a reputation for delivering strong investment performance. It attracts a significant proportion of its business from third party institutions and retail investors.
- **Our international presence** – Standard Life has developed operations in selected key overseas markets.

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Strategy

Our objective is to create a leading savings and investment business which we believe will create sustainable increases in value for shareholders and customers. The key elements of our strategy are:

- **Develop valuable customer relationships** – we aim to be the provider of choice for our customers throughout their lifetime. We will focus on retaining existing and attracting new customers through the quality of our products and services.
- **Exploit the strengths of the Standard Life brand** – we will use the strengths of our brand and the quality of our products to help us achieve deeper and longer-lasting customer relationships.
- **Enhance our position in our core markets and develop our presence in the key overseas markets we have selected** – we intend to grow our operations in the UK and Canada and the other mature markets in which we operate, and to develop in the Asian markets where we are already established.
- **Build on and diversify our distribution strength** – we will strengthen and develop our position in existing distribution channels and open up new distribution channels using technology, where appropriate.
- **Extend our operational capabilities** – we will increase our ability, including through the use of technology, to offer more flexibility and a greater range of investment options.
- **Leverage our investment management expertise** – we will build on our successful track record to grow our funds under management for both internal and third party clients.
- **Effective capital utilisation and risk management** – we will use our capital effectively by focusing on products which offer higher margins and are less capital intensive, and which reduce our exposure to investment risk.
- **Drive profit and value** – we will focus on profitability through careful targeting of products to our customers. We will also continue to reduce our unit costs through process improvements, implementation of operational efficiencies and the effective use of technology. This will enable us to deliver shareholder value.

The Directors believe that carrying out the Proposal will facilitate their ability to pursue this strategy successfully. The associated business risks will be assumed by shareholders, who will also be one of the future providers of capital to support the continued implementation and development of the strategy.

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Overview of Standard Life's businesses

Standard Life is a financial services group whose principal activities consist of the provision of life assurance and pensions, investment management, banking and healthcare insurance products. We use the "Standard Life" name to promote, market and sell financial products in these sectors.

Today we are one of the largest life insurance groups in the UK, with net earned premiums (£3.5 billion) and deposits received under investment contracts (£6.9 billion) totalling £10.4 billion for FY 2005 and total funds under management for Standard Life Investments of £119 billion as at 31 December 2005. Standard Life intends to be a leader in savings and investments using its strengths to take advantage of significant change in its key markets and to create sustainable increases in value for shareholders and customers.

Life assurance and pensions

We have a significant position in the UK life assurance and pensions market having written £908 million of new business annual premium equivalent ("APE") in 2005, representing a market share of 8.4%. The principal distribution channel for life assurance and pensions products in the UK is Independent Financial Advisers ("IFAs"). We have a strong position in this sector of the market with a market share of 11.1% of new business APE written through IFAs in 2005. In addition, we are the fourth largest life assurance and pensions provider in Canada, with new business APE of £184 million in 2005.

We also have life assurance and pensions operations 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 manages assets for both the Group and third parties. Third party funds under management have grown from £5.3 billion in 1998 to £28.1 billion as at 31 December 2005.

Banking

Our banking business is operated by Standard Life Bank, which offers a range of mortgages and savings products. Standard Life Bank had mortgage balances under management of approximately £10.6 billion as at 31 December 2005. Approximately £4.2 billion of the funding for Standard Life Bank's business was via Standard Life Bank's retail savings book, with the balance of funding from borrowing in the financial markets as well as by capitalising on its high quality mortgage book by means of its ongoing securitisation programme.

Healthcare insurance

Our UK healthcare and private medical insurance business is operated by Standard Life Healthcare with in-force premiums of £191.5 million and 411,000 lives insured as at 31 December 2005. It has recently

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expanded through the acquisition of the private medical insurance (“PMI”) business of FirstAssist Group Limited (“FirstAssist”) which completed in March 2006. Standard Life Healthcare is now one of the largest private medical insurers in the UK.

Financial information

Change of the year-end reporting date

We changed our financial year-end reporting date during 2004 from 15 November to 31 December. As a result, the financial information for 2004 included in this section, unless otherwise noted, shows results for the 13.5 month period ended 31 December 2004 while FY 2005 shows results over 12 months.

We highlight below three commonly used performance measures for the Group namely APE, European Embedded Value (“EEV”) and International Financial Reporting Standards (“IFRS”) accounting basis.

Insurance, retail investment and institutional funds new business

New business sales for life assurance and pensions and other insurance business are expressed as APE. APE equals the total of new regular premiums plus 10% of single premiums received during the applicable period.

Retail mutual fund sales relate to sales of investment products offered through open ended investment companies (“OEICs”) or as unit trusts, either directly or through an ISA wrapper. Mutual funds are managed by Standard Life Investments and are included as part of the third party funds under management shown in the table in the following section.

Institutional and other sales include the management of investment portfolios for corporate and public sector clients, for example managing the assets of pension schemes.

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The following table shows insurance APE by geographic segment as well as product line in the UK for the Group for the periods presented. Investment sales are shown on a gross sales basis. We have also included comparative data for the 12 months ended 31 December 2004 ("Calendar 2004"):

Insurance APE	APE		
	FY 2005 12 months £ million	Calendar 2004 12 months £ million	FY 2004 13.5 months £ million
UK insurance:			
Individual pensions	135	248 ⁽⁴⁾	277
SIPP ⁽¹⁾	127	36	39
Group pensions	403	375 ⁽⁴⁾	416
Investment (TIP & PPIP) ⁽²⁾	93	54	64
Investment bonds	112	80	95
Annuities	30	37	43
Protection	6	14	16
Other	2	12	13
UK life and pensions	908	856	963
Standard Life Healthcare	20	29	33
UK insurance	928	885	996
European and other insurance⁽³⁾	126	253	274
Canadian insurance	184	157	173
Total worldwide insurance	1,238	1,295	1,443

(1) "SIPP" means self invested personal pensions and includes drawdown facilities.

(2) "TIP" means trustee investment plans and "PPIP" means personal pension investment plans.

(3) Includes premiums from branch operations in Germany (which also writes business in Austria), Ireland and operations in Spain (Spanish operations were sold in October 2005) as well as in Hong Kong, India and China.

(4) Figures have been restated since the February 2006 New Business Announcement to reflect more accurate extraction of Calendar 2004.

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Gross sales			
Investment gross sales	FY 2005 12 months £ million	Calendar 2004 12 months £ million	FY 2004 13.5 months £ million
Retail Mutual Funds			
UK	605	324	364
Canada	324	182	204
Total retail mutual funds	929	506	568
Institutional and other funds	4,988	1,467	1,785
Total worldwide investments	5,917	1,973	2,353

Insurance APE

On an APE basis, total worldwide insurance new business decreased by 14% to £1,238 million for FY 2005 compared to £1,443 million for FY 2004. When compared to Calendar 2004, the reduction in APE was 4% from £1,295 million to £1,238 million. The decrease was primarily due to exceptionally strong sales in Germany at the end of 2004, in advance of tax changes which became effective 1 January 2005 and which consequently depressed sales in FY 2005.

Sales of UK life and pensions products on an APE basis decreased by 6% to £908 million in FY 2005 compared to £963 million for FY 2004, although when compared to Calendar 2004 APE increased by 6% in FY 2005. Overall there was a shift from regular to single premium business with an increase in single premium business of 23% and a reduction in regular premium business of 7% between FY 2005 and Calendar 2004 consistent with our strategy to reposition our business.

In the UK, sales of individual pensions on an APE basis fell by 51% in FY 2005 compared to FY 2004. The decline followed the reduction in commission rates paid to IFAs on these products. This decline was offset in part by sales of SIPP which, on an APE basis, increased by 226% to £127 million in FY 2005 from £39 million in FY 2004 after its introduction in the last quarter of 2004. Investment bonds APE increased by 18% to £112 million in FY 2005 from £95 million in FY 2004 as a result of enhancements to make these products more attractive by offering a wider selection of investment options and making pricing changes which were all in line with the stated repositioning plan. Group Pensions APE decreased 3% to £403 million in FY 2005 from £416 million in FY 2004. However, when compared to Calendar 2004 this increased by 7%.

European APE was exceptionally high in FY 2004 as a result of a one-off surge in new business in Germany at the end of 2004, which preceded tax changes that became effective on 1 January 2005. This resulted in a significant decline in new business in FY 2005 compared to FY 2004.

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Canadian APE increased by 6% in FY 2005 compared to FY 2004 and increased 17% in FY 2005 (11% in local currency) when compared to Calendar 2004. The increase was due to strong Group Annuity sales in 2005 with a number of large contracts being secured in the latter part of the year.

Investment gross sales

Retail mutual funds gross sales in the UK for FY 2005 increased by 66% to £605 million compared to £364 million for FY 2004. Mutual funds sales in 2004 were lower across the industry following three years of weak stock market returns, but recovered in 2005 due to improved investment performance.

Gross sales of retail mutual funds in Canada increased by 59% to £324 million in FY 2005 when compared to FY 2004 mainly due to the recovery of the financial markets.

Institutional and other funds gross sales in FY 2005 increased by 179% to £4,988 million compared to £1,785 million in FY 2004. This increase was primarily due to strong sales in both UK institutional funds, which reached £2,350 million, an increase of 179% from FY 2004, and UK Triple A Money Market Fund which increased by 200% to £1,925 million in FY 2005 compared with £641 million in FY 2004.

Assets under management

The following table shows Standard Life Investments' assets under management:

	As at 31 December 2005 £billion	As at 31 December 2004 £billion
Assets under management:		
Group	91	78
Third party	28	18
Total	119	96

Standard Life Investments' assets under management rose by 24% to £119 billion at 31 December 2005 from £96 billion at 31 December 2004. This increase reflected strong retail sales, new institutional mandates and strong equity markets over the period.

European Embedded Value

EEV measures the value of the net assets plus the expected future profits from a life assurance and pensions business to its owners. The embedded value of the Group has been calculated in accordance with the EEV principles and guidance issued by the CFO Forum. The CFO Forum represents the chief financial officers of major European insurers and it believes that its EEV principles have improved the quality and consistency of supplementary reporting in the life sector.

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The EEV of the Group has been calculated as though the Group had operated under the post-demutualisation structure over the period from 16 November 2003 to 31 December 2005. It has been calculated on the basis that demutualisation occurred at the end of 2005 but excludes the impact of the £1.1 billion of net new capital that is expected to be raised upon flotation. The EEV includes the net assets of the businesses that will be owned by shareholders of Standard Life plc following demutualisation plus the present value of future profits expected to arise from in-force long-term insurance policies where these future profits are attributable to shareholders under the Main Scheme.

The table below presents the risk discount rates used to discount the future profits attributable to shareholders from the in-force business of the Group's principal geographic segments as of the dates shown. (Note that for some geographic areas lower risk discount rates have been used to calculate the New Business Contribution).

	As at 31 December 2005	As at 31 December 2004	As at 15 November 2003
UK	7.62%	8.37%	8.92%
Europe	7.02%	7.80%	8.64%
Canada	6.52%	7.13%	7.66%

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The table below shows the summary consolidated balance sheet of the Group on an EEV basis.

	As at 31 December 2005 £million	As at 31 December 2004 £million	As at 15 November 2003 £million
Covered Business⁽¹⁾:			
Present value of in-force: ⁽²⁾			
- UK	2,399	1,955	1,633
- Europe and other	303	312	145
- Canada	406	198	148
Time value of options and guarantees ("TVOG") ⁽³⁾			
- UK and Europe	(200)	(170)	(159)
- Canada	(19)	(14)	(14)
Total value of in-force	2,889	2,281	1,753
Net assets ⁽⁴⁾	712	606	1,054
Total EEV of Covered Business	3,601	2,887	2,807
Net assets of Non-Covered Business ⁽⁵⁾			
Investment management	105	71	57
Banking	284	260	275
Healthcare and general insurance	73	72	75
Other ⁽⁶⁾	128	96	147
Pension Fund Deficit ⁽⁷⁾	(228)	(248)	(221)
Mark to Market of Subordinated Debt ⁽⁸⁾	(219)	(174)	(122)
Total Group EEV⁽⁹⁾	3,744	2,964	3,018

- (1) The Standard Life Group's "Covered Business" is the business of its life assurance and pensions operations in the UK, Europe, Canada and Asia as well as the present value of future profits and losses from Standard Life Investments, arising on transactions Standard Life Investments conducts with the life assurance and pensions business to the extent they relate to Covered Business. The operations of Asia have been included in the EEV at IFRS net asset values. In determining future expenses in relation to Covered Business no allowance has been made in the EEV or the value of new business for any allocation of corporate centre costs (£58 million for FY 2005 and £38 million for FY 2004).
- (2) The present value of in-force Covered Business represents the present value of future cash flows attributable to shareholders. It has been calculated allowing for the economic and non-economic risks inherent in the Covered Business, in respect of which the assumptions may vary from year to year. It is shown in this table net of the cost of capital.
- (3) Under EEV methodology, an allowance for the TVOG is required where a financial option exists which affects policyholder benefits and is exercisable at the option of the policyholder. The minimum guaranteed returns of certain of the Group's unitised with profits contracts are examples of such guarantees.
- (4) Net assets of Covered Business represent assets held to cover any capital requirements plus any free surplus. These assets mainly arise within Canada.
- (5) Net assets of the Non-Covered Business are stated on an IFRS basis unless otherwise stated.
- (6) "Other" includes the net assets of the other non life and pensions subsidiaries in FY 2005 of £73 million (FY 2004 £96 million), plus an additional £55 million of assets set aside in 2005 as a consequence of the acquisition of the PMI business of FirstAssist which completed in March 2006.
- (7) The pension fund deficit reflects the accounting value (IAS19) of the deficit in the Group's final salary pension schemes, adjusted for self-invested assets in Canada which are not admissible under IFRS and liabilities already recognised within the Canadian EEV.
- (8) This adjustment represents the difference between the market value of the Subordinated Debt and the IFRS valuation, net of deferred taxation. As the market value exceeds the IFRS valuation this reduces EEV. Under the Main Scheme, the Subordinated Debt will be transferred to Standard Life plc at the IFRS valuation together with assets equalling this amount.
- (9) The opening and closing EEV numbers for Covered Business are presented net of tax which Standard Life expects to pay following demutualisation as a proprietary company rather than as a mutual. The tax deducted has been reduced to take into account transfers to shareholders from unallocated surplus which it is considered can be made without incurring tax and has been assessed on the basis of the current tax law, the current Finance Bill, HM Revenue & Customs practice and the provisions of the Main Scheme. The tax deducted also takes into account the risk of markets moving adversely in the future which would reduce the amount that can be so transferred to shareholders.

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Group EEV increased by £780 million from £2,964 million as at 31 December 2004 to £3,744 million as at 31 December 2005. An analysis of this movement is provided in the table below which sets out selected financial information from the Group's EEV profit & loss account for FY 2005 and FY 2004. It shows operating profits/(losses) for the Covered Business, for the Non-Covered Business and from variations in market and economic conditions. In addition to movement in profits set out in the table below, the Group EEV also benefited from positive foreign exchange movements of £110 million during FY 2005 (FY 2004 negative £45 million) mainly in respect of Canada and positive capital movements (capital transferred out of the With Profits fund for investment in subsidiaries including £55 million of assets set aside as a result of the acquisition of the PMI business of FirstAssist) totalling £135 million (FY 2004 negative £57 million). In line with the EEV approach, these movements are not reflected in the profitability statement.

The table below shows the Group Profitability on an EEV basis.

	FY 2005	FY 2004
	12	13.5
	months	months
	£ million	£ million
Covered Business:		
Group new business contribution	33	(132)
Expected return on in-force business	341	338
Experience variances	43	67
Operating assumption changes ⁽¹⁾	37	7
EEV operating profit before tax	454	280
Non- Covered Business		
Investment management ⁽²⁾	24	9
Banking	15	(13)
Healthcare and general insurance	7	(1)
Other ⁽³⁾	(105)	(95)
EEV operating profit before tax	395	180
Long term investment return and tax variances ⁽⁴⁾	231	61
Movement of TVOG	(44)	(16)
Effect of economic assumption changes ⁽⁵⁾	232	(16)
Movement in pension scheme deficit	19	(34)
Movement in value of subordinated debt	(63)	(75)
EEV profit before tax	770	100
Attributed tax	(235)	(52)
Total EEV profit after tax⁽⁶⁾	535	48

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- (1) Operating assumption changes includes maintenance cost improvements of £339 million in FY 2005 and £144 million in FY 2004, largely offset by the impact of mortality reserve strengthening of £291 million in FY 2005 and £128 million in FY 2004. The strengthening mainly relates to annuities.
- (2) Investment management profits are shown on an IFRS basis but exclude investment management profits and losses attributable to the Life and Pensions business which are captured in the results of the Covered Business.
- (3) "Other" includes corporate centre costs (£58 million for FY 2005 and £38 million for FY 2004), the net interest on the subordinated debt (£28 million for FY 2005 and £25 million for FY 2004) and net losses from other non life and pension Group companies including mutual fund companies (£19 million for FY 2005 and £32 million for FY 2004).
- (4) Long term investment return and tax variances measure the impact on EEV profits arising from the differences between actual investment returns and tax experienced over the period and those assumed at the start of the year. The most significant areas of variation arose from better than expected stock market performance of equity investments and changes in government bond yields in 2005.
- (5) Effect of economic assumption changes includes changes to expected returns on assets and future inflation. These are set by reference to market conditions, and so may change from period to period.
- (6) All of the movements in the embedded value, including the new business contribution, are presented on the basis that full shareholder tax is payable. This is consistent with Standard Life's expectations for business sold after demutualisation. However, for surplus emerging after demutualisation from business in the With Profits Fund, shareholder tax is not expected to be payable for a period of years following demutualisation as a result of the transfers that it is considered can be made to shareholders without incurring tax as referred to in Note 9 above.

EEV operating profits for the Group's Covered Business comprised:

- profits generated by writing new business;
- profits expected from the existing business, based on the assumptions used at the start of the year;
- the impact of actual surrenders, lapses, deaths and expenses experienced during the year being different to those expected at the start of the year; and
- the impact of changing operating assumptions applied to future years.

EEV profit after tax increased to £535 million in FY 2005 from £48 million in FY 2004. This increase was driven by improvements in operating profits of £215 million, positive variances in respect of long term investment return and tax of £170 million (linked to strong returns on global stock markets and growth in fixed interest market values during FY 2005) and economic assumption changes of £248 million. These economic assumption changes mainly relate to changes in the Canadian best estimate valuation basis and reductions in the risk discount rates partially offset by the impact of lower investment return assumptions. The resulting positive effect of these contributions was reduced by the related increase in the tax charge of £183 million.

The movement in the TVOG in the UK and Europe is principally as a result of the reduction in the yield on the bonds matching guaranteed with profits liabilities, increasing the potential cost of these guarantees.

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Covered Business EEV operating profit before tax is further analysed below:

	FY 2005 12 months £ million	FY 2004 13.5 months £ million
UK	272	92
Europe and other	51	110
Canada	131	78
Covered Business EEV operating profit before tax	454	280

EEV operating profit for Covered Business increased by 62% in FY 2005 to £454 million from £280 million in FY 2004 principally due to improved new business profitability and reduced costs. This improvement was particularly marked in the UK, which had an operating profit of £272 million in FY 2005 compared to £92 million in FY 2004. The increase was mainly due to improved new business contribution ("NBC") as the profitability of the underlying products sold rose due to significant reductions in acquisition costs and a shift in the product mix. Increased profits in the UK were also attributable to a fall in renewal expenses with a corresponding operating assumption that these would remain lower in future. Offsetting these increases were reductions to profits due to increased annuity reserves reflecting the assumed increase in life expectancy of policyholders, and an increase in predicted lapse rates.

The reduction in operating profit in FY 2005 for Europe and other from £110 million in FY 2004 to £51 million was due to the high level of profits which were generated in Germany in FY 2004. This was primarily driven by exceptionally high new business volumes in 2004 in advance of tax changes which became effective on 1 January 2005 and which increased NBC to EEV. This large increase in volumes also reduced unit costs which positively impacted Group EEV operating profit assumption changes in FY 2004.

Canada also increased its EEV operating profit by 68%. This improvement was mainly attributable to reduced expenses reflected in operating assumption changes in FY 2005.

The table below shows the NBC before tax and after allowing for the cost of capital for the Group by geographic area for FY 2005 and FY 2004. This is included within the Covered Business EEV operating profit analysis shown in the above table.

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	FY 2005 12 months £ million	FY 2004 13.5 months £ million
UK	27	(151)
Europe and other	8	30
Canada	(2)	(11)
Group new business contribution	33	(132)

Profitability of the Group's new business improved from a loss of £132 million in FY 2004 to a profit of £33 million in FY 2005. The increase in the UK of £178 million reflects the repositioning to restore the underlying profitability of existing products. In Europe and other, the reduction in NBC reflected the exceptionally high levels of new business and related profits in Germany in FY 2004. The NBC in Canada was adversely affected by a line of products that have now been re-priced and which generated significant losses in FY 2005 of £36 million (FY 2004 £28 million).

Historical Financial Information ("HFI")

The Historical Financial Information is a representation of the accounting results of the Group as though the legal arrangements set out in the Main Scheme had applied to such results. The HFI is based on the consolidated annual financial statements prepared for Standard Life, which for FY 2005 and FY 2004 have been prepared under IFRS in line with changes to the UK financial reporting framework. Those financial statements were audited and are available for inspection. Details of how they can be viewed are set out in the section headed 'Documents on display' in Part 9. In preparing the HFI, those audited financial statements have been adjusted to reflect the terms of the Main Scheme and any adjustments required to the underlying financial records in order to illustrate the financial result that would have been attributable to shareholders if Standard Life had operated as a shareholder-owned company during the two accounting periods.

The profit or loss attributable to shareholders reported in the income statement comprises five components:

- a) The transfer of assets between shareholders and policyholders that would have arisen under the Main Scheme in respect of the UK and Irish unitised with profits and non profit business. These transfers are based on amounts reported in the regulatory returns and therefore exclude any deferral of acquisition costs;
- b) The recharge in respect of business written in the German branch;
- c) The profits attributable to the operating subsidiaries which, under the Main Scheme, will transfer to the Shareholder Fund or Non Profit Fund;
- d) The amount by which the return on the assets backing the subordinated debt exceeds or is less than the coupon paid; and
- e) In relation to annuities, the amount attributable to shareholders will be the profit or loss resulting from the difference between actual mortality experience and the mortality reserving assumptions used to

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determine the reinsurance premium received by Standard Life Investment Funds from the With Profits Fund.

The sources of cash for shareholders are very similar to the components above, as Standard Life plc's income is expected to comprise principally of dividends from its operating subsidiaries including Standard Life Assurance. These will be based on the distributable profits of the subsidiaries subject to any requirements to hold extra capital to meet regulatory requirements.

Standard Life's FY 2003 and FY 2004 annual financial statements were prepared in accordance with UK Generally Accepted Accounting Principles ("UK GAAP"). As a result of changes to the UK financial reporting framework, the 2005 annual financial statements were prepared in accordance with IFRS; these financial statements included restated 2004 comparatives. Going forward, the Group financial statements will continue to be presented under IFRS and, accordingly, the summary information presented below is only under IFRS.

The table below shows a summary income statement on an HFI basis:

	HFI IFRS	
	FY 2005	FY 2004
	12	13.5
	months	months
	£ million	£ million
Net earned premiums	3,516	4,255
Net investment income	14,377	9,892
Fee and commission income	360	296
Other income	153	134
Total revenues	18,406	14,577
Net insurance claims and changes in other policyholder liabilities	15,503	12,219
Operating and administrative expenses	2,150	2,348
Total expenses	17,653	14,567
Finance costs	109	80
Profit/(loss) before tax	644	(70)
Income tax expense attributable to policyholder returns	(492)	(270)
Profit/(loss) before tax attributable to shareholders and minority interest	152	(340)
Tax attributable to shareholder profits	(39)	(83)
Profit/(loss) for the period	113	(423)
Profit attributable to minority interest	83	33
Profit/(loss) attributable to shareholders	30	(456)

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The profit attributable to shareholders improved by £486 million to £30 million in FY 2005, principally due to reduced losses within the UK life and pensions business, and the German life and pensions business moving to a profit from a loss in FY 2004. An analysis of the geographic areas is shown in the next table.

Net earned premiums consist of premiums received in relation to life and pensions products including with profits business, but exclude premiums received on contracts such as unit linked bonds and certain pension contracts, which are classified as non participating investment contracts under IFRS and are therefore not recognised in the income statement. The decrease in FY 2005 related primarily to the shift in underlying business away from with profits business to unit linked products. Income earned on non-participating investment contracts increased by 16.1% in FY 2005.

Net investment income increased due to growth in underlying asset values reflecting market movements and the effect of investing new business premiums.

Fee and commission income principally comprises charges on investment contracts and fees earned by our investment management business. The latter increased due to the underlying increase in asset values on which fees are earned and strong growth in third party assets under management, as described in the section above headed 'Assets under management'. Investment contract charges increased due to the underlying increase in asset values and growth in investment business.

Other income comprises general business income, and investment management charges received (FY 2005 £54 million, FY 2004 £48 million) plus income arising from associates and joint ventures (FY 2005 £99 million, FY 2004 £86 million).

The increase in net insurance claims paid and changes in other policyholder liabilities was primarily driven by increases in reserves reflecting the increased value of policyholder assets due to new business received and growth in investment values.

Operating and administrative expenses declined in FY 2005 to £2,150 million from £2,348 million in FY 2004. Commissions paid to intermediaries reduced significantly, reflecting the decision in the UK to reduce these on certain product lines and to focus on lower commission based products and distribution, and the reduced volumes of new business in Germany. Staff costs also reduced as a result of management actions to lower headcount.

Finance costs increased primarily because of the issue of further subordinated debt of £265 million in 2005 and a full year's interest cost on subordinated debt issued in 2004.

The increase in profit attributable to minority interests which relate to policyholder assets from £33 million in FY 2004 to £83 million in FY 2005 can be attributed to the improved performance of a number of investment funds with external investors, such as the Standard Life European Private Equity Trust plc.

Set out below is a high level summary of the profit/(loss) before tax attributable to shareholders and minority interests analysed by certain of the Group's business and geographic areas:

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	HFI IFRS	
	FY 2005	FY 2004
	12	13.5
	months	months
	£ million	£ million
Life assurance and pensions:		
UK ⁽¹⁾	(141)	(359)
Europe and other	73	(153)
Canada	154	165
Profit/(loss) before tax – L&P operations including minority interests	86	(347)
Investment management	44	21
Banking	15	(13)
Healthcare and general insurance	7	(1)
Profit/(loss) before tax attributable to shareholders and minority interests	152	(340)

(1) UK life assurance and pensions profits include profits in relation to minority interests of £83 million in FY 2005, and £33 million in FY 2004.

The loss in FY 2004 of £340 million moved to a profit of £152 million in FY 2005 principally due to the sharp reduction in losses in the Group's UK life assurance and pensions business, a move to profitability of banking and of the Group's German life and pensions business, and significant increase in profits in investment management.

The operating loss in the UK and the profits and losses in the European and other life and pensions businesses reflect the defined cash flows to shareholders under the Main Scheme. The profits include both margins from the in-force policies and new business strain, the latter being the excess of costs over margins on new business. Losses in the UK have been adversely affected by the significant increases in annuity reserves in FY 2004 (£170 million) and FY 2005 (£193 million). The reduced loss in the UK in FY 2005 was primarily due to reduced commissions and expenses and increased management charges reflecting higher assets under management. The improvement in Germany reflected reduced new business expenses together with charges from business written in the previous year.

Under the Main Scheme, Standard Life's subordinated debt, together with appropriate matching assets, will be allocated to shareholders. The operating loss in the UK includes the net interest expense of the subordinated debt of £28 million in FY 2005 and £25 million in FY 2004.

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Pro forma financial information

In addition to the HFI, we have separately prepared Pro forma financial information for FY 2005. The unaudited Pro forma income statement presents the consolidated income statement as presented in the HFI but is then adjusted to reflect the profit that would have arisen had the Main Scheme as well as the anticipated post-demutualisation capital and debt structure been in place as at 1 January 2005. These adjustments impact the Group's UK and European life assurance and pensions business results. This Pro forma financial information is prepared for illustrative purposes only and, because of its nature, addresses a hypothetical situation. It does not, therefore, represent Standard Life Group's actual financial position or results.

	PRO FORMA
	FY 2005
	12 months
	£ million
Profit for the period attributable to shareholders per HFI	30
Pro forma adjustments:	
Deferral of acquisition costs	157
New business reserving strain	(55)
Investment return on flotation proceeds	33
Pro forma profit for the period attributable to shareholders	165

Deferral of acquisition costs

In the HFI, a component of shareholder profit is represented by the transfer of cash or other assets to the Non Profit Fund, calculated in accordance with the formula defined in the Main Scheme. These cash flows are based on the amounts reported in the regulatory return and therefore exclude any deferral of acquisition costs.

Following demutualisation, virtually all new business will be written in the Non Profit Fund for the benefit of shareholders, who will be entitled to all elements of profit arising on this business. Profits attributable to shareholders on all new business written after demutualisation will reflect the deferral of acquisition costs. The adjustment shown in the Pro forma financial information reflects the deferral of acquisition costs that would have been attributable to shareholders had the new business in 2005 been written in the Non Profit Fund.

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New business reserving strain

The reserving strain arising from new unitised with profits business (excluding increments) will change post demutualisation. This business will then be written in the Non Profit Fund, and will therefore be attributable to shareholders. The new business strain of £55 million is based on the reserves included in the 2005 regulatory return, which was prepared on the basis of the current group structure.

Investment return on flotation proceeds

An element of the flotation proceeds will be used to support the capital adequacy of the Group. An amount of £800 million of the proceeds will be used within the Group for capital adequacy purposes. The Pro forma statement includes additional investment income of £33 million to reflect a return of 4.18%; the rate of return achieved on gilts during the period. The return on the remaining expected flotation proceeds of £250 million (after the payment of £50 million to the UK Standard Life Staff Pension Scheme) is not shown in the Pro forma income statement and would have been £10 million before tax based on the rate of return of gilts (4.18%).

Financial strength

The proposal results in the transfer of a number of assets to Standard Life plc and also allocates much of the value of in-force business from with profits investors to shareholders. These structural changes reduce the capital resources of the life company and reduce the working capital available to with profits investors going forward. However, the Main Scheme contains mechanisms whereby the value of the in-force would not be transferred out of the With Profits Fund if needed to maintain the strength of the fund. The time value of options and guarantees included in the EEV reflects the potential costs to shareholders of providing this support to the With Profits Fund.

A description of the mechanisms built into the Main Scheme to maintain the security of the policyholders is set out in Part 4. In addition, the summary With Profits Actuary report in Part 7 provides information relating to financial strength and the security of policyholder benefits. A summary of this report is given in Part 7 and details of where you can inspect a copy of the full report are given in the section headed 'Documents on display' in Part 9.

Rating

Standard & Poor's published on 24 January 2006, a stable outlook on the insurer financial strength rating of Standard Life. The announcement commented that a demutualisation that raised sufficient new equity capital to maintain capital adequacy would remain supportive of that rating. On this basis and on the basis of preliminary discussions with Standard & Poor's, the board of Standard Life expects the ratings on Standard Life (its expected successor Standard Life Assurance) and Standard Life Bank to be unchanged by a successful demutualisation. A press release from Standard & Poor's shall be issued with regard to Standard Life's ratings.

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Moody's said that it is likely that an A1 Insurance Financial Strength Rating will be assigned to the principal new operating company, Standard Life Assurance, subject to the successful demutualisation and listing of Standard Life plc. Moody's added that the proposed demutualisation brings a number of positive benefits to the Group such as improved Group capitalisation and financial flexibility and reduced financial leverage, which supports the Group's ongoing repositioning of its UK life & pensions business. Moody's are going to review Standard Life Bank's deposit ratings for possible downgrade. A press release from Moody's shall be issued with regard to the Bank review.

Standard Life welcomes the views of both rating agencies. However, a rating is a statement of opinion, not a statement of fact or a recommendation to exchange, buy, sell, or hold any particular security, including the Ordinary Shares. Such ratings do not comment as to the market price or suitability for a particular investor. There can be no assurance that a rating will be maintained for any given period of time or that a rating will not be lowered or withdrawn in its entirety.

Use of proceeds

At the time of Listing, Standard Life plc expects to raise approximately £1,100 million of new capital, net of costs and amounts used to fund payments of approximately £60 million of demutualisation entitlements to Eligible Members who are not resident in a Permitted Country on the SGM Date.. Approximately £800 million of these proceeds will be held in shareholders' funds in our UK and European life assurance and pensions business, and is committed to support capital adequacy and the financing of new business. £50 million will be used to make an additional employer contribution to the UK Standard Life Staff Pension Scheme and the remaining £250 million will be used for Standard Life plc's general corporate purposes.

Dividend policy

The Directors' objective is to pay a progressive dividend which will take account of the long-term earnings and cash flow potential of the Group.

The Directors intend that the first dividend to be paid following Listing will be a dividend in respect of the period from Listing to 31 December 2006, payable in May 2007. This dividend is likely to represent one-half of the total dividend which the Directors would have expected to recommend for the year ended 31 December 2006 had Standard Life plc been listed throughout the year.

Thereafter, it is intended that an interim dividend will be paid in November and final dividends in May each year. The interim dividend is expected to represent approximately one-third of the expected total annual dividend. The ability of Standard Life plc to pay dividends will be dependent upon the availability of sufficient distributable reserves. The Directors may revisit the Group's dividend policy from time to time.

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Appendix 3

Statutory Solvency and Realistic Balance Sheet position for The Standard Life Assurance Company as extracted or calculated from our 2005 FSA Return.*

	31 December 2005	31 December 2004
	£m	£m
Capital resources	7,070	5,468
Capital Resource Requirement (CRR)	2,898	2,513
Excess of available capital resources over capital resource requirement	4,172	2,955
CRR cover	244%	217%

The realistic balance sheet position is shown below:

	31 December 2005	31 December 2004
	£m	£m
Realistic assets of the Fund	45,318	40,483
Realistic liabilities of the Fund	41,231	37,195
Working capital for the Fund	4,087	3,288
Risk Capital Margin for the Fund	735	929
RCM cover	556%	354%

*Our 2005 FSA Return is available on www.standardlife.com

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