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PRESS RELEASE

St. James's Place Wealth Management Preliminary Announcement

26 February 2008

St. James's Place plc, the wealth management group, today announces its annual results for the year ended 31 December 2007.

The text of the announcement is attached:

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ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2007

OPERATING PROFIT OF £244.7 MILLION UP 39%

St. James's Place Wealth Management group, announces its annual results for the year ended 31 December 2007.

Profit - EEV basis

- Operating profit of £244.7 million (2006: £176.0 million) up 39%
 - New business profits of £150.9 million (2006: £115.2 million) up 31%
 - Net asset value per share 252.5 pence (2006: 222.6 pence) up 13%
- IFRS basis
- Profit before shareholder tax of £96.1 million (2006: £107.6 million)
 - Net asset value per share 92.9 pence (2006: 82.4 pence) up 13%

Dividend

- Proposed final dividend of 2.55p per share up 19% making a total dividend for the year of 4.3p (2006: 3.65p) an increase of 18%.

Other highlights include:

- Funds under management at £18.2 billion up 18%
- New business for the year of £428.6 million (measured on an annual premium equivalent) up 23%
- Total single investments of £3.4bn up 28%
- Partnership numbers at 1,251 up 8%

Mike Wilson, Chairman, commented:

“We are delighted with the 39% increase in operating profit and the strength of our financial results.

“For the fourth consecutive year substantial growth has been achieved in operating profit, new business and funds under management.

“There is an increasing demand for financial advice and our own team of advisers, the St. James's Place Partnership, is ideally placed to capitalise on this. The strength, quality and the 8% increase in the size of the Partnership gives us a major competitive edge in the UK wealth management market.

“New business has grown at a compound rate of 16% per annum over the last 10 years and 23% per annum over the last five years. Whilst 2008 could be a challenging year in view of current market uncertainty, we remain confident that we will continue to achieve our objective of growing new business at 15-20% per annum in the longer term.”

CHAIRMAN'S STATEMENT

I am delighted to report that 2007 has been the fourth consecutive year of substantial growth in new business, funds under management and profits for the Group.

New business from long-term savings and investments (measured on an APE basis, the standard industry measure of annual premiums plus one tenth of single premiums) was up 23%, funds under management at £18.2bn were up 18% and European Embedded Value operating profits increased by 39% to £244.7 million.

Financial Performance

The results have been presented on both an IFRS (International Financial Reporting Standards) basis and an EEV (European Embedded Value) basis. We continue to believe that the EEV basis provides a more meaningful measure of the Group's operating performance.

On the IFRS basis the operating profit, before shareholder tax, was £96.1 million compared with £107.6 million for the prior year. As detailed in the Financial Commentary the IFRS result is complicated by one off items in both the current year and the comparative year. Ignoring these one off items, the operating profit before shareholder tax for the current year would have been £76.4 million compared with £78.0 million for 2006.

On the EEV basis, the pre-tax operating profit increased by 39% to £244.7 million (2006:£176.0 million). The total pre-tax profit for the year was £230.4 million marginally lower than the £244.0 million for 2006. Shareholders will recall that total pre-tax profit includes the so called investment variance which takes account of the investment returns in a particular year. The current year investment variance is a negative of £14.5 million compared with a positive £70.8 million in 2006. The figures reflect the respective stock market conditions over the two years.

The Financial Commentary on pages 7 to 16 provides further details on the results for the year.

Dividend

In the Interim Report I indicated that, barring unforeseen circumstances, shareholders could expect a similar rise in the full year dividend to that of the Interim dividend. Due to the continued strong performance in the second half of the year, the Board has recommended a 19% increase in the final dividend to 2.55 pence per share (2006: 2.15 pence per share). This increase provides for a full year dividend of 4.3 pence per share (2006: 3.65 pence per share) an increase of 18%.

Over recent years shareholders have been offered an alternative of a scrip dividend and this offer will continue for the current dividend payment.

Subject to the approval of shareholders at the Annual General Meeting the final dividend will be paid on 14 May 2008 to those shareholders on the register as at 7 March 2007.

Board changes

On 29 May 2007 David Bellamy was appointed Chief Executive following the departure of the previous Chief Executive earlier in the year.

As I commented in my Interim statement David's appointment was a reflection of the Board's confidence in his experience and proven management ability.

On 3rd December 2007 David Lamb, Group Business Development Director, was appointed as an Executive Director of St. James's Place plc. David has made an excellent contribution to the success of the Group and his appointment will further strengthen the Board.

On 5th February 2008 Simon Gulliford resigned from the Board as a non-executive director in the light of his new appointment to work with Standard Life Group on their marketing and communication strategy. I would like to thank Simon for his excellent contribution during his time on the St. James's Place Board.

The Nomination Committee will consider and make their recommendation to the Board as to a suitable replacement for Simon as an independent non-executive director.

Partners and staff

As stated earlier, 2007 has been our fourth year of substantial growth in the business which is a reflection of the continued enthusiasm, commitment and dedication at every level of our community.

On behalf of the Board and shareholders I would like to thank the Partnership, our employees and the staff in our administration centres for their outstanding contribution to our results last year.

Mike Wilson
25 February 2008

CHIEF EXECUTIVE'S STATEMENT

This is my first statement to shareholders since being appointed Chief Executive in May of 2007.

I have been with St. James's Place since the company was founded and it has been a pleasure to have been involved in the company's growth and to have helped its evolution to the successful wealth management business it is today.

St. James's Place is a unique business, built around people and with a proven track record of successfully creating long term relationships with our Partners and our Clients. The Company has a very distinctive culture built on integrity, hard work, mutual trust and caring for each other and those less fortunate than us.

I hope shareholders can see that demonstrated from some of the content in these report and accounts.

We remain committed to those values and to building long term relationships and consequently believe we will continue to deliver strong long term returns for shareholders.

New Business

Our stated aim has been to grow new business by 15-20% p.a. over the longer term and it is very pleasing to report that over the last 10 years we have achieved 16% p.a. compound growth and an even more impressive 23% over the last 5 years.

In keeping with that sustained track record, 2007 was another record year for new business with APE increasing by 23% to £428.6 million. The main drivers of the growth were investment business which was up 27% and pension business which increased by 23%.

Total single investments were some £3.4bn for the year and the final quarter of 2007 was our largest quarter ever for pension business and our second largest quarter ever for investment business – this despite the difficult market conditions in the latter part of the year.

Shareholders may recall that our other new business target is for our own manufactured products to represent at least 80% new business. As has been the case over recent years the 87% (2006: 87%) we achieved last year has significantly exceeded this stated target.

The St. James's Place Partnership

I am also delighted to report growth of 8% in the size of the Partnership in 2007 to 1,251 at the year end, which is our highest annual growth since 1999.

This was achieved through a combination of levels of recruitment and retention of our existing Partners. The market place for good advisers is very active at the present time and we are confident we can continue to attract the appropriate number and quality in line with our objectives. Alongside our traditional recruitment activity, we are also pleased with the progress of our 'Academy' initiative. This initiative aims to "grow our own" advisers to supplement our recruitment efforts in the medium to long term.

In addition to the increase in the size of the Partnership, in recent years the growth in new business has been significantly impacted by the substantial increase in the productivity per Partner. This trend continued in 2007 with Partner productivity increasing by 14.1% from £312,000 to £356,000. We continue to see an increase in business from both existing clients and introductions from them.

Investment Management

Funds under management at the end of the year of £18.2bn (2006: £15.4bn) were up 18% over the year. In addition to these direct funds under management we have placed a further £1.6bn of funds with our third party service providers for banking, portfolio management services and cash deposit funds.

2007 was a difficult year for the US, UK and Japanese markets. The FTSE gained 3.8%, the more broadly based FTSE All Share index rose just 2.0% with the S&P also ahead only 1.8% (3.5% on US\$ terms) and Japan falling some 6.8%. Europe and the emerging markets performed better, with the FTSE Europe index up nearly 9.7% and Asian markets (excluding Japan) up over 25% on the year.

Against this backdrop I am pleased to report that our distinctive approach to investment management continues to deliver superior investment performance. Two thirds of our funds under management are in the top half of their peer groups in 9 out of the last 10 years. The key results for 2007 were:

Managed funds: top quartile performance from THSP, Newton, Jupiter and AXA-Framlington.

Income funds: top quartile performance from all our income managers.

Specialist funds: top quartile results from our new MPC UK Growth Unit Trust and Neil Woodford's UK equity funds.

During 2008 we will continue to broaden the range of funds available within our investment management approach.

External Recognition

In October we were delighted to be informed that St. James's Place had won the inaugural *Daily Telegraph* Wealth Manager of the Year Award which is a great testament to the Partnership, the quality of their advice and their relationships with their clients.

This was immediately followed by our elevation to the top 50 of Britain's 'Management Today's – Most Admired Companies' list for 2007 – a tribute to everyone's hard work and commitment to St. James's Place.

Foundation and Community

The St. James's Place Foundation, the Group's charitable trust, plays an important role within the lives of partners and employees. 2007 has been our best fundraising year yet with money raised £2.4 million (2006: £1.9 million) including the Company matching. This brings our cumulative funds raised to some £13 million.

With the funds raised we have been able to award grants to almost 200 individual charities in 2007 whilst maintaining our commitments to the small number of larger charities with which we have relationships (Hope & Homes, Teenage Cancer Trust, Hospice Movement).

In addition to our fundraising for the Foundation, SJP also supports charitable work in our local communities through our Employee Volunteering Scheme which enables staff at all levels to give time, skills and experience to charities in their local communities. We have also recently linked up with Young Gloucestershire, a leading voluntary youth organisation, delivering programmes for vulnerable young people.

On behalf of the Board I would like to thank all members of St. James's Place and those suppliers who have generously supported the Foundation by way of sponsorship, time and donations.

Outlook

Looking forward, shareholders may be aware that Mike Wilson, our Chairman, is 65 in December and his contract is scheduled to end then. However I am delighted to say that the Board and Mike have agreed to extend his contract for a minimum of three years beyond that date. Mike will reduce his hours to equate to three days a week from 1 January 2009.

We have now had four consecutive years of strong growth in new business, funds under management and profits.

Despite recent economic indicators confirming a slowdown in the economy and continued stock market uncertainty, the social and demographic conditions remain positive for a proven adviser based approach to wealth management. We remain convinced that there is a growing demand for advice and believe that the strength, quality and the increase in the size of our team of advisers, gives us a major competitive advantage.

Consequently, we are confident about the prospects for continued growth in our business over the longer term, providing we maintain a clear focus on looking after our clients and managing the investments they entrust with us to their satisfaction. That's been our focus to date and will continue to be in the future.

As a result, our longer term growth target for new business remains 15-20% per annum.

David Bellamy
25 February 2008

FINANCIAL COMMENTARY

The Group has delivered a fourth consecutive year of strong profit growth.

The financial performance is covered in the first section of this Financial Commentary, whilst the second section covers other matters of interest to shareholders and investors.

SECTION 1: COMMENTARY ON THE RESULTS

Life business differs from most other businesses, in that the expected shareholder cash flow from a sale of a product emerges over a long period in the future.

The results are therefore presented not only on an IFRS basis, but also on an EEV basis, which brings into account the net present value of the expected future cash flows.

As noted in the Chairman's statement the Board continue to believe that the EEV basis provides a more meaningful measure of the Group's operating performance.

International Financial Reporting Standards (IFRS)

The IFRS result is shown on pages 29 to 43.

As noted in previous financial commentaries the IFRS result requires the pre-tax profit of the life business to be 'grossed up' for policyholder tax, with the corresponding amount then being deducted within the tax charge. The table below reflects the IFRS result after eliminating this 'gross up' in order to show the shareholder return from the business.

| | Year Ended 31 December 2007 £' Million | Year Ended 31 December 2006 £' Million |
|-------------------------------|--|--|
| Life business | 84.4 | 85.5 |
| Unit trust business | 15.9 | 18.0 |
| Other | (4.2) | (2.9) |
| Operating profit | 96.1 | 100.6 |
| LAHC | - | 7.0 |
| Profit before shareholder tax | 96.1 | 107.6 |
| Policyholder tax | 7.1 | 72.3 |
| Total pre-tax profit | 103.2 | 179.9 |
| Profit after tax | 78.1 | 88.0 |

Life Business

The life IFRS result is complicated by one off items in both the current year and the comparative year.

- Current year one off item – in the half year Financial Commentary I highlighted that the profit before shareholder tax was being distorted by the interaction between policyholder and shareholder tax and that we were exploring an alternative presentation to reduce the distortion. For the full year result we have adopted an alternative methodology which has resulted in a one off increase in pre-tax profit of £19.7 million. This is a presentational change and profit after tax is unchanged.
- 2006 one off item – shareholders will recall that during 2006 we obtained tax relief for prior years unrelieved expenses which gave rise to a positive impact on pre-tax profit of £22.6 million.

After eliminating the effect of these one off items the life business pre-tax operating profit for the current year at £64.7 million was marginally higher compared with £62.9 million for the prior year.

This result reflects increased investment management charges from the higher funds under management. The increase is offset by higher costs associated with the new business written during the year.

Following the change in methodology for presenting tax the results in future years should be less complicated.

Unit Trust Business

The pre-tax operating profit for the unit trust business was £15.9 million, some £2.0 million lower than the comparative year profit of £18.0 million. The net movement between the deferral of acquisition costs and the deferral of the upfront margin has reduced profit by £5.9 million (2006: £2.4 million). This reflects the higher level of new business in the current year.

Other

Other operations contributed a loss for the year of £4.2 million, compared with a loss of £2.9 million for 2006. Included within this figure is the cost of expensing share options at £12.5 million (2006: £7.6 million). The prior year loss also included the benefit of deferred income of £1.75 million from the transfer of mortgage advisers to a third party.

At the Annual General Meeting in 2005, shareholders approved a Purchase Share Scheme for members of the Partnership. The new scheme was launched in January 2008 and is aimed at the top end of the Partnership to further align their interests with shareholders and to aid retention. Under accounting rules the deemed cost of the share scheme is expensed through the profit and loss account. The actual accounting expense will be dependent upon the level of new business growth and we estimate there will be an annual cost of some £5 – 7 million over the four year period 2008-2011.

Operating Profit

The total operating profit for the year was £96.1 million (2006: £100.6 million).

Excluding the effect of the life business one off items described earlier, the operating profit for 2007 was £76.4 million compared to £78.0 million for 2006.

Net Assets

The total net assets were £442.5 million (2006: £382.2 million) resulting in a net asset value per share of 92.9 pence (2006: 82.4 pence).

European Embedded Value Basis

The table below summaries the pre-tax profit of the combined business and the detailed result is shown on pages 17 to 27.

| | Year Ended 31 December 2007 £' Million | Year Ended 31 December 2006 £' Million |
|-----------------------------|--|--|
| Life business | 189.9 | 139.0 |
| Unit trust business | 59.0 | 39.9 |
| Other | (4.2) | (2.9) |
| Operating profit | 244.7 | 176.0 |
| Investment return | (14.5) | 70.8 |
| Economic assumption changes | 0.2 | (9.8) |
| Profit from core business | 230.4 | 237.0 |
| Profit on sale of LAHC | - | 7.0 |
| Total pre-tax profits | 230.4 | 244.0 |
| Post tax profit | 188.4 | 184.2 |

Life Business

Operating profit has increased by 37% to £189.9 million from £139.0 million and a full analysis of the result is shown on page 23.

The **new business profit** was up 31% from £87.6 million to £114.5 million.

The growth in this figure is a combination of the increased volumes, the favourable business mix and limiting establishment expense growth. These two points mean that not only is there more profit from the higher volumes, but we are also making more profit per pound of APE. Section 2 of this commentary provides further detail on the new business margin.

The **unwind of the discount rate** for the year was £59.1 million compared with £50.3 million for the prior year. The additional unwind in 2007 is due to the higher value of the in-force business at the start of the year.

The **investment income** of £6.9 million represents the income on the free assets of the life companies and is marginally higher than the £6.1 million in 2006.

The **experience variance** during the year increased operating profit by £12.2 million (2006: negative variance of £2.6 million). Shareholders will recall from the Financial Commentary at the half year that, following correspondence with HM Revenue & Customs, we have been able to obtain relief for prior years excess unrelieved foreign withholding tax. This has resulted in a one-off benefit of £9.7 million in the year. The balance of the experience variance represents a number of offsetting factors.

There is a small cost of £2.8 million from **operating assumption changes** (2006: negative £2.4 million) which have been made to the calculation of the embedded value.

Unit Trust Business

The operating profit has increased by 48% from £39.9 million to £59.0 million and a full analysis of the unit trust result is shown on page 24.

The **new business profit** has increased by 32% to £36.4 million from £27.6 million for the prior year reflecting the stronger new business during the year and a small amendment to the calculation methodology.

The **unwind of the discount rate** at £18.6 million was higher than the £15.2 million for the prior year reflecting the higher opening value of the in-force.

There was a positive **experience variance** for the year of £4.0 million (2006: £0.2 million) reflecting a number of small positive items including expenses and improved persistency.

Other

The loss from other operations has previously been commented on in the IFRS section.

Investment Return

The average after tax increase in our fund prices during 2007 were some 2 - 3% below the assumed growth rate in the EEV calculation resulting in a negative **investment variance** of £14.5 million (2006: £70.8 million positive).

Economic Assumption

The **economic assumptions** used for the projection of cash flows, together with the discount rate are based on the yield on 10 year gilts. This yield has reduced marginally since the start of the year, resulting in an increase in the embedded value of £0.2 million (2006: decrease of £9.8 million).

The total pre-tax profit for the year was £230.4 million compared with £244.0 million for the prior year.

Net Assets

The total net assets on an EEV basis were £1,203.3 million (2006: £1,032.7 million) resulting in a net asset value per share of 252.5 pence (2006: 222.6 pence).

SECTION 2: OTHER MATTERS

Noted below are a number of issues about the Group that are of interest to shareholders.

(i) Expenses

This section provides a reminder to shareholders of categories and nature of expenditure incurred.

Shareholders will recall that “commission, investment expenses and third party administration costs” are met from corresponding policy margins. Any variation in these costs flowing from changes in the volumes of new business or the level of the stock markets does not directly impact the profitability of the Company.

The direct expenses of the group which are not met from corresponding policy margins have been categorised as follows:

“Other new business related costs”, such as sales force incentivisation, vary with the level of sales – determined on our internal measure. As production rises or falls these costs will move in the corresponding direction.

“Establishment costs” are the running costs of the Group’s infrastructure and are relatively fixed in nature in the short term, however these will increase as the infrastructure expands to manage the higher number of existing clients and the growth in the Partnership.

“Contribution from third party product sales” reflects the net income received from wealth management sales of £6.1 million (2006: £6.6 million), sales of stakeholder products of £0.6 million (2006: £1.4 million) and sales through the Protection Panel of £7.7 million (2006: £9.7 million).

The table below provides the familiar breakdown of expenses.

| Category | Year Ended 31 December 2007 £' Million | Year Ended 31 December 2006 £' Million |
|--|---|---|
| <i>Paid from policy margins</i> | | |
| Commission | 191.8 | 167.2 |
| Investment expenses | 68.4 | 55.7 |
| Third party administration | 24.7 | 20.9 |
| | <u>284.9</u> | <u>243.8</u> |
| <i>Direct expenses</i> | | |
| Other new business related costs | 44.4 | 35.4 |
| Establishment costs | 91.9 | 86.2 |
| Contribution from third party product sales | (14.4) | (17.7) |
| | <u>121.9</u> | <u>103.9</u> |
| | <u><u>406.8</u></u> | <u><u>347.7</u></u> |

At the start of the year we set a target of increasing the growth in the establishment expenses by less than 10%.

The establishment expense growth for the year was 7% and importantly the gap between the new business growth and the expense growth ended the year at some 15%, well above our stated objective. Consequently, as shown below, the new business margin expanded.

For 2008 we have set a target of limiting the growth in the establishment expenses to around 10%; if we achieve both this target and the new business growth target, then shareholders can expect a further expansion in new business margins in the coming year.

(ii) New Business margin

The insurance sector has historically disclosed new business in terms of Annual Premium Equivalent (APE). Most commentators would agree that APE no longer has much correlation with the underlying profitability of the new business and consequently the industry is moving to provide additional disclosure on the present value of new business premiums (PVNBP).

APE is calculated as the sum of regular premiums plus 1/10th single premiums. PVNBPs are calculated as single premiums plus the present value of expected premiums from regular premium business, allowing for lapses and other EEV assumptions. Noted in the table below is the new business margin calculated both as a % of APE and PVNBP.

| | <u>2007</u> | <u>2006</u> |
|----------------------------|-------------|-------------|
| <u>Life business</u> | | |
| New business profit (£' m) | 114.5 | 87.6 |
| APE (£' m) | 359.1 | 294.6 |
| Margin (%) | <u>31.9</u> | <u>29.7</u> |
| PVNBP (£' m) | 2,661.7 | 2,124.1 |
| Margin (%) | <u>4.3</u> | <u>4.1</u> |
| <u>Unit trust business</u> | | |
| New business profit (£' m) | 36.4 | 27.6 |
| APE (£' m) | 69.5 | 54.5 |
| Margin (%) | <u>52.4</u> | <u>50.6</u> |
| PVNBP (£' m) | 694.6 | 534.2 |
| Margin (%) | <u>5.2</u> | <u>5.2</u> |
| <u>Total business</u> | | |
| New business profit (£' m) | 150.9 | 115.2 |
| APE (£' m) | 428.6 | 349.1 |
| Margin (%) | <u>35.2</u> | <u>33.0</u> |
| PVNBP (£' m) | 3,356.3 | 2,658.3 |
| Margin (%) | <u>4.5</u> | <u>4.3</u> |

The PVNBP calculation only includes our manufactured business, as we do not apply these principles to the non-manufactured business.

The new business margin has been beneficially affected by the rate of growth in new business, the proportion of manufactured business, the underlying business mix and by maintaining the growth in the level of expenses to well below the growth in new business. In respect of the unit trust margin there has also been a small amendment to the calculation methodology.

(iii) Cash flow

Last year we provided additional disclosure on the underlying cash flow of the Group. We have further enhanced this disclosure by analysing the cash flow between that arising from the opening in-force business and the cash flow arising from new business.

As noted last year, to obtain the underlying cash flow of the business it is first necessary to adjust the post tax IFRS profits for the 'non- cash' items.

The table below sets out these adjustments:

| | <u>2007</u> £'million | <u>2006</u> £'million |
|---|--------------------------|--------------------------|
| Post tax IFRS result | 78.1 | 88.0 |
| <u>Adjustments</u> | | |
| Movement in deferred acquisitions cost | (91.0) | (68.6) |
| Movement in deferred income | 55.9 | 42.2 |
| Amortisation of purchased VIF | 3.3 | 3.1 |
| Movement in financial reassurance balance | - | (8.9) |
| Release of LAHC provision | - | (7.0) |
| Share option expense | 12.5 | 7.6 |
| Movement in deferred tax asset | (41.4) | (13.3) |
| Movement in deferred tax liability* | 12.8 | 23.2 |
| Other | <u>2.9</u> | <u>(0.9)</u> |
| Adjusted post tax cash flow | <u>33.1</u> | <u>65.4</u> |

* excluding amounts in respect of the unit linked funds.

Taking account of these non-cash adjustments the Group generated positive cash flow of £33.1 million during 2007 (2006: £65.4 million). The tables and commentary below provide an indicative analysis of the sources of this cash flow.

| <u>2007</u> | Note | Arising from business in-force at 1 January 2007 £'million | Arising from new business in year £'million | Total: £'million |
|--------------------------------|------|--|--|---------------------|
| Net annual management fee | 1 | 109.3 | 13.9 | 123.2 |
| Unwind of surrender penalties | 2 | (40.2) | (4.4) | (44.6) |
| Loss arising from new business | 3 | - | (7.7) | (7.7) |
| Establishment expenses | 4 | (6.7) | (60.6) | (67.3) |
| Investment income | 5 | 10.5 | | 10.5 |
| Miscellaneous | 6 | <u>11.8</u> | | <u>11.8</u> |
| Underlying cash flow | | 84.7 | <u>(58.8)</u> | 25.9 |
| EUFT | 7 | <u>7.2</u> | - | <u>7.2</u> |
| Post tax cash flow | | <u>91.9</u> | <u>(58.8)</u> | <u>33.1</u> |

| <u>2006</u> | Note | Arising from business in-force at 1 January 2006 £' million | Arising from new business in year £' million | Total: £' million |
|----------------------------------|------|---|---|----------------------|
| Net annual management fee | 1 | 82.8 | 10.4 | 93.2 |
| Unwind of surrender penalties | 2 | (29.9) | (2.7) | (32.6) |
| Profit arising from new business | 3 | - | 1.9 | 1.9 |
| Establishment expenses | 4 | (6.2) | (55.9) | (62.1) |
| Investment income | 5 | 9.4 | - | 9.4 |
| Miscellaneous | 6 | 12.1 | - | 12.1 |
| Underlying cash flow | | 68.2 | (46.3) | 21.9 |
| Tax relief on b/fwd expenses | 8 | 22.6 | - | 22.6 |
| FSA reserving change | 9 | 20.9 | - | 20.9 |
| Post tax cash flow | | 111.7 | (46.3) | 65.4 |

Notes

1. The net annual management fee: this is the income on the funds under management that the group retains after payment of the associated costs. Broadly speaking the group retains around 1% pre-tax of funds under management.
2. Unwind of surrender penalties: this relates to the reserving methodology applied to the surrender penalties within the charging structure of the single premium life bonds. At the outset of the life bond we establish a liability net of the outstanding surrender penalty which would apply if the policy were to be encashed. As the surrender penalty reduces to zero so the liability to the policyholder is enhanced by increasing their funds by 1% per annum over the first six years of the product life, to correspond to this 'unwind' of the surrender penalty. In other words there is a cash transfer from the shareholder to the policyholder.
3. Profit /loss arising from new business: this is the cash flow arising in the year after taking into account the directly attributable expenses. The movement from the small profit in 2006 to a loss in 2007 is due to the change in mix of the new business particularly in respect of pensions business.
4. Establishment expenses: these are the post tax expenses commented on in point (i) above and represent the running costs of the Group's infrastructure.
5. Investment income: this is the assumed income accruing on the investments and cash held for regulatory purposes together with the interest received on the surplus capital held by the Group.
6. Miscellaneous: this represents the cash flow of the business not covered in any of the other categories. It will include miscellaneous product charges, reserving changes, experience variances and the income and expenses included within the Other operations of the business.
7. EUFT: as noted in Section 1 of the Financial Commentary we have been able to obtain relief for prior year *excess unrelieved foreign withholding tax*. This has resulted in a one off post tax benefit of £7.2 million.
8. Tax relief on expenses b/fwd; as shareholders will recall from previous financial commentaries the UK life company obtains tax relief for its expenses against the tax deductions on the income and capital gains within the unit-linked life funds. At the start of 2006 there was approximately £112.9 million of excess unrelieved expenses for which we obtained relief giving rise to a one off positive cash flow of £22.6 million in that year.

9. FSA reserving change: in 2006 the FSA relaxed the reserving methodology required to be followed by life companies. The adoption of these changes resulted in a one off £20.9 million in that year.

(iv) Movement in funds under management

There has been considerable industry debate concerning the movement of funds under management and the apparent high level of outflows being experienced.

St. James's Place has not experienced any significant fund outflows and the table below provides additional disclosure on the movement in our funds under management.

| | Year Ended 31 December 2007 | Year Ended 31 December 2006 |
|--|-----------------------------------|-----------------------------------|
| | <u>£' billion</u> | <u>£' billion</u> |
| Opening funds under management | 15.4 | 12.3 |
| New money invested | 3.1 | 2.4 |
| Investment return | <u>0.9</u> | <u>1.7</u> |
| | 19.4 | 16.4 |
| Regular income withdrawals / maturities | (0.3) | (0.2) |
| Surrender / part surrenders | <u>(0.9)</u> | <u>(0.8)</u> |
| Closing funds under management | <u>18.2</u> | <u>15.4</u> |
| Implied surrender rate as % of average funds under management | <u>5.4%</u> | <u>5.8%</u> |

The regular income withdrawals represent those amounts, selected by clients at the plan outset, which are paid out by way of periodic income. The withdrawals have been assumed in the calculation of the embedded value new business profit.

Maturities are those sums paid out where the plan has reached the selected maturity date (e.g. retirement date). The expected maturities have been assumed in the calculation of the embedded value new business profit.

Surrenders and part surrenders are those amounts where clients have chosen to withdraw money from their plan. Surrenders are assumed to occur in the calculation of the embedded value new business profit based on actual experience, updated on an annual basis, by plan duration and the age of the client. The implied surrender rate shown in the table above is very much a simple average and it should not be assumed that small movements in this rate will result in a change to the embedded value assumptions.

(v) Analysis of the Embedded Value

The table below provides a summarised breakdown of the Embedded Value position at the reporting dates:

| | Year Ended 31 December 2007 £' Million | Year Ended 31 December 2006 £' Million |
|----------------------|--|--|
| Value of in-force | | |
| - Life | 746.2 | 590.8 |
| - Unit trust | 199.7 | 171.5 |
| Solvency assets | 257.4 | 270.4 |
| Total embedded value | <u>1,203.3</u> | <u>1,032.7</u> |

(vi) Share options maturity

Options outstanding under the various share option schemes at 31 December 2007 amount to 35.0 million (31 December 2006: 46.2 million).

The total number of options including those in the SJP Employee Trust, together with their anticipated proceeds, are set out in the table below:

| Earliest date of exercise | Average exercise price £ | Number of Share options outstanding No. | Anticipated proceeds £' Million |
|---------------------------|--------------------------------|--|---------------------------------------|
| Prior to 1 Jan 2008 | 1.72 | 14,140,719 | 24.3 |
| Jan – Jun 2008 | 1.05 | 2,292,404 | 2.4 |
| Jul – Dec 2008 | 1.83 | 421,648 | 0.8 |
| Jan – Jun 2009 | 2.23 | 1,038,143 | 2.3 |
| Jul – Dec 2009 | 2.75 | 16,191,862 | 44.5 |
| Jan – Jun 2010 | 2.84 | 716,226 | 2.0 |
| Jul – Dec 2010 | 2.59 | 177,742 | 0.5 |
| Jan – Jun 2011 | 2.42 | 3,334 | 0.1 |
| | | <u>34,982,078</u> | <u>76.9</u> |

Of those options with an earliest date of exercise prior to 1 January 2008, 0.9 million options require further performance conditions to be met before vesting unconditionally.

Andrew Croft
25 February 2008

EUROPEAN EMBEDDED VALUE BASIS

The following supplementary information shows the result for the Group adopting a European Embedded Value (EEV) basis for reporting the results of its wholly owned life and unit trust businesses.

CONSOLIDATED INCOME STATEMENT

| | Year Ended 31 December 2007 | Year Ended 31 December 2006 |
|---|-----------------------------------|-----------------------------------|
| | <u>£' Million</u> | <u>£' Million</u> |
| Life business | 189.9 | 139.0 |
| Unit trust business | 59.0 | 39.9 |
| Other | (4.2) | (2.9) |
| Operating profit | <u>244.7</u> | <u>176.0</u> |
| Investment return variances | (14.5) | 70.8 |
| Economic assumption changes | 0.2 | (9.8) |
| Profit from core business | <u>230.4</u> | <u>237.0</u> |
| Profit from other business | | |
| Profit on sale of LAHC | - | 7.0 |
| EEV profit on ordinary activities before tax | <u>230.4</u> | <u>244.0</u> |
| Taxation | | |
| Life business | (44.8) | (46.5) |
| Unit trust business | (15.3) | (19.4) |
| Other | (2.0) | 6.1 |
| LAHC | - | - |
| Tax rate change | 20.1 | |
| | <u>(42.0)</u> | <u>(59.8)</u> |
| EEV profit on ordinary activities after tax | <u><u>188.4</u></u> | <u><u>184.2</u></u> |

EUROPEAN EMBEDDED VALUE BASIS continued

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Year Ended 31 December 2007 | Year Ended 31 December 2006 |
|--|-----------------------------------|-----------------------------------|
| | <u>£' Million</u> | <u>£' Million</u> |
| Opening equity shareholders' funds on an EEV basis | 1,032.7 | 828.8 |
| Post tax profit for the year | 188.4 | 184.2 |
| Dividends | (47.7) | (15.1) |
| Issue of share capital | 26.7 | 30.3 |
| Consideration paid for own shares | (10.3) | (5.4) |
| P&L reserve credit in respect of share option charges | 12.5 | 7.6 |
| P & L reserve credit in respect of proceeds from exercise of share options of shares held in trust | 1.0 | 2.3 |
| Closing equity shareholders' funds on an EEV basis | <u>1,203.3</u> | <u>1,032.7</u> |

EUROPEAN EMBEDDED VALUE BASIS continued

CONSOLIDATED BALANCE SHEET

| | 31 December 2007 | 31 December 2006 |
|---|------------------------|------------------------|
| | £' Million | £' Million |
| Assets | | |
| Intangible assets | | |
| Deferred acquisition costs | 484.6 | 393.6 |
| Value of long-term business in-force | | |
| - long-term insurance | 605.1 | 524.1 |
| - unit trusts | 199.7 | 171.5 |
| | <u>1,289.4</u> | <u>1,089.2</u> |
| Property & equipment | 10.4 | 6.3 |
| Deferred tax assets | 125.2 | 83.8 |
| Investment property | 642.5 | 568.2 |
| Investments | 12,599.9 | 10,573.8 |
| Reinsurance assets | 32.9 | 28.3 |
| Insurance and investment contract receivables | 18.0 | 11.5 |
| Income tax assets | 19.5 | 9.7 |
| Other receivables | 160.2 | 87.1 |
| Cash & cash equivalents | 1,929.2 | 1,606.9 |
| | <u>1,929.2</u> | <u>1,606.9</u> |
| Total assets | <u>16,827.2</u> | <u>14,064.8</u> |
| Liabilities | | |
| Insurance contract liabilities | 405.4 | 374.3 |
| Other provisions | 5.3 | 3.1 |
| Financial liabilities | 14,155.4 | 11,833.0 |
| Deferred tax liabilities | 251.2 | 258.4 |
| Insurance and investment contract payables | 21.8 | 18.5 |
| Deferred income | 347.8 | 291.9 |
| Income tax liabilities | 50.0 | 19.9 |
| Other payables | 119.4 | 100.5 |
| Net asset value attributable to unit holders | 267.6 | 132.5 |
| | <u>267.6</u> | <u>132.5</u> |
| Total liabilities | <u>15,623.9</u> | <u>13,032.1</u> |
| Net assets | <u>1,203.3</u> | <u>1,032.7</u> |
| Shareholders' equity | | |
| Share capital | 71.5 | 69.6 |
| Share premium | 82.2 | 57.4 |
| Other reserves | 1,049.6 | 905.7 |
| | <u>1,049.6</u> | <u>905.7</u> |
| Total shareholders' equity | <u>1,203.3</u> | <u>1,032.7</u> |
| | <u>Pence</u> | <u>Pence</u> |
| Net assets per share | <u>252.5</u> | <u>222.6</u> |

NOTES TO THE EUROPEAN EMBEDDED VALUE BASIS

I. BASIS OF PREPARATION

The supplementary information on pages 17 to 27 shows the Group's results as measured on a European Embedded Value (EEV) basis. This includes results for the life, pension and investment business, including unit trust business. The valuation is undertaken on a basis determined in accordance with the EEV Principles issued in May 2004 by the Chief Financial Officers Forum, a group of chief financial officers from 19 major European insurers, as supplemented by the Additional Guidance on EEV Disclosures issued in October 2005 (together "the EEV Principles"). The treatment of all other transactions and balances is unchanged from the primary financial statements on an IFRS basis. The objective of the EEV basis is to provide shareholders with more realistic information on the financial position and performance of the Group than that provided by the IFRS basis.

Under the EEV methodology, profit is recognised as it is earned over the life of the products within the covered business. The embedded value of the covered business is the sum of the shareholders' net worth in respect of the covered business and the present value of the projected profit stream.

II. METHODOLOGY

(a) Covered business

The covered business is the life, pension and investment business, including unit trust business, undertaken by the Group.

(b) Calculation of EEV on existing business

Profit from existing business comprises the expected return on the value of in-force business at the start of the year plus the impact of any changes in the assumptions regarding future operating experience, plus changes in reserving basis (other than economic assumption changes), plus profits and losses caused by differences between the actual experience for the period and the assumptions used to calculate the embedded value at the end of the period.

(c) Allowance for risk

The allowance for risk in the shareholder cash flows is a key feature of the EEV Principles. The EEV Principles set out three main areas of allowance for risk in the embedded value:

- the risk discount rate;
- the allowance for the cost of financial options and guarantees; and
- the cost of holding both prudential reserves and any additional capital required.

The reported EEV allows for risk via a risk discount rate based on a bottom-up market-consistent approach, plus an appropriate additional margin for non-market risk. The Group does not offer products that carry any significant financial guarantees or options.

(d) Non-market risk

Best estimate assumptions have been established based on available information and when used within the market consistent calculations provide the primary evaluation of the impact of non-market risk. However, some non-market operational risks are not symmetric, with adverse experience having a higher impact on the EEV than favourable experience. Allowance has been made for this by increasing the risk discount rate by 0.8%.

(e) The risk discount rate

A market-consistent embedded value for each product class has been calculated.

In principle, each cash flow is valued using the discount rate applied to such a cash flow in the capital markets. However in practice, where cash flows are either independent or move linearly with market movement, it is possible to apply a simplified method known as the “certainty equivalent” approach. Under this approach all assets are assumed to earn the risk free rate and are discounted using that risk free rate. A market-consistent cost of holding the required capital has also been calculated.

As part of this approach, an appropriate adjustment has been made to reflect the fact that the value of tax relief on expenses does not move linearly with market movements. Finally, an additional allowance for non-market risk has been made by increasing the discount rate by 0.8%.

For presentational purposes, a risk discount rate has then been calculated which under the EEV basis gives the same value determined above. This provides an average risk discount rate for the EEV and is described in relation to the risk free rate. This average risk discount rate has also been used to calculate the published value of new business.

(f) Cost of required capital

In light of the results of internal analysis, the Directors consider that the minimum regulatory capital provides adequate capital cover for the risks inherent in the covered business. The required capital for the EEV calculations has therefore been set to the minimum regulatory capital.

The EEV includes a reduction for the cost of holding the required capital. No allowance has been made for any potential adjustment that the investors may apply because they do not have direct control over their capital. Any such adjustment would be subjective, as different investors will have different views of what, if any, adjustment should be made.

(g) New business

The new business contribution arising from reported new business premiums has been calculated using the same assumptions as used in the EEV at the end of the financial year. The value of contractual incremental premiums to existing business is treated as new business in the year of the increment, rather than at the outset of the policy. This approach better reflects the way the Group manages its business.

The value of new business has been established at the end of the reporting period and has been calculated using actual acquisition costs.

(h) Taxation

The EEV includes the present value of tax relief on life assurance expenses calculated on a market-consistent basis. This calculation takes into account all expense and income amounts projected for the in-force business (including any carried forward unutilised relief on expenses).

NOTES TO THE EUROPEAN EMBEDDED VALUE BASIS continued

In determining the market-consistent value an appropriate allowance is made to reflect the fact that the value of tax relief on expenses does not move linearly with market movements. The impact of this is assessed using a stochastic simulation model that is regularly calibrated to market conditions.

When calculating the value of new business, priority is given to relieving the expenses relating to that business.

III. ASSUMPTIONS

(a) Economic Assumptions

The principal economic assumptions used within the cash flows at 31 December 2007 are set out below:

| | Year Ended 31 December 2007 | Year Ended 31 December 2006 |
|---------------------------------|-----------------------------------|-----------------------------------|
| Risk free rate | 4.7% | 4.9% |
| Inflation rate | 3.1% | 3.0% |
| Risk discount rate (net of tax) | 7.8% | 8.0% |
| Future investment returns: | | |
| - Gilts | 4.7% | 4.9% |
| - Equities | 7.7% | 7.9% |
| - Unit linked funds | | |
| - Capital growth | 3.9% | 4.5% |
| - Dividend income | 3.2% | 2.8% |
| - Total | 7.1% | 7.3% |
| Expense inflation | 3.8% | 3.6% |
| Indexation of capital gains | 2.2% | 2.2% |

The risk free rate is set by reference to the yield on 10 year gilts. Other investment returns are set by reference to the risk free rate.

The inflation rate is derived from the implicit inflation in the valuation of 10 year index-linked gilts. This rate is increased to reflect higher increases in earnings related expenses. The inflation rate is reduced by 10% to derive the indexation of capital gains for the proportion of the fund invested in equities.

(b) Experience Assumptions

The principal experience assumptions have been set on a best estimate basis. They are reviewed regularly.

The persistency assumptions are derived from the Group's own experience, or where insufficient data exists, from external industry experience.

The expense assumptions include allowance for both the costs charged by the relevant third party administrators for acquisition and maintenance, and the corporate costs incurred in respect of covered business. The corporate costs have been apportioned so that the total maintenance costs represent the anticipated ongoing expenses, including systems development costs, which are expected to arise in future years in meeting the policy servicing requirements of the in-force business.

NOTES TO THE EUROPEAN EMBEDDED VALUE BASIS continued

Mortality and morbidity assumptions have been set by reference to the Group's own experience, published industry data and the rates set by the Group's reinsurers.

(c) Taxation

Future taxation has been determined assuming a continuation of the current tax legislation. The EEV result has been calculated on an after-tax basis and has been grossed up to a pre-tax level for presentation in the profit and loss account. The corporation tax rate used for this grossing up is 26% for UK life and pensions business, 12.5% for Irish life and pensions business and 28% for unit trust business. These tax rates reflect the change in the rate of corporation tax from 30% to 28% with effect from 1 April 2008, as included within the 2007 Finance Act.

IV. COMPONENTS OF EEV PROFIT

(a) Life Business

| | Note | Year Ended 31 December 2007 <u>£' Million</u> | Year Ended 31 December 2006 <u>£' Million</u> |
|------------------------------------|------|--|--|
| New business contribution | 1 | 114.5 | 87.6 |
| Profit from existing business | | | |
| Unwind of discount rate | | 59.1 | 50.3 |
| Experience variances | | 12.2 | (2.6) |
| Operating assumption changes | | (2.8) | (2.4) |
| Investment income | | <u>6.9</u> | <u>6.1</u> |
| Operating profit before tax | | 189.9 | 139.0 |
| Investment return variances | | (9.5) | 46.8 |
| Economic assumption changes | | <u>(0.3)</u> | <u>(10.6)</u> |
| Profit before tax | | 180.1 | 175.2 |
| Attributed tax | | (44.8) | (46.5) |
| Tax rate change | | <u>15.8</u> | <u>-</u> |
| Profit after tax | | <u>151.1</u> | <u>128.7</u> |

Note 1: New business contribution after tax is £86.3 million (2006: £63.9 million)

NOTES TO THE EUROPEAN EMBEDDED VALUE BASIS continued

(b) Unit Trust Business

| | Note | Year Ended 31 December 2007 £' Million | Year Ended 31 December 2006 £' Million |
|------------------------------------|------|---|---|
| New business contribution | 1 | 36.4 | 27.6 |
| Profit from existing business | | | |
| Unwind of discount rate | | 18.6 | 15.2 |
| Experience variances | | 4.0 | 0.2 |
| Operating assumption changes | | - | (3.1) |
| Operating profit before tax | | 59.0 | 39.9 |
| Investment return variances | | (5.0) | 24.0 |
| Economic assumption changes | | 0.5 | 0.8 |
| Profit before tax | | 54.5 | 64.7 |
| Attributed tax | | (15.3) | (19.4) |
| Tax rate change | | 4.3 | - |
| Profit after tax | | 43.5 | 45.3 |

Note 1: New business contribution after tax is £26.2 million (2006: £19.3 million)

(c) Combined Life and Unit Trust Business

| | Note | Year Ended 31 December 2007 £' Million | Year Ended 31 December 2006 £' Million |
|------------------------------------|------|---|---|
| New business contribution | 1 | 150.9 | 115.2 |
| Profit from existing business: | | | |
| Unwind of discount rate | | 77.7 | 65.5 |
| Experience variances | | 16.2 | (2.4) |
| Operating assumption changes | | (2.8) | (5.5) |
| Investment income | | 6.9 | 6.1 |
| Operating profit before tax | | 248.9 | 178.9 |
| Investment return variances | | (14.5) | 70.8 |
| Economic assumption changes | | 0.2 | (9.8) |
| Profit before tax | | 234.6 | 239.9 |
| Attributed tax | | (60.1) | (65.9) |
| Tax rate change | | 20.1 | - |
| Profit after tax | | 194.6 | 174.0 |

Note 1: New business contribution after tax is £112.5 million (2006: £83.2 million).

NOTES TO THE EUROPEAN EMBEDDED VALUE BASIS continued

(d) Detailed Analysis

In order to better explain the movement in capital flows, the components of the EEV profit for the year ended 31 December 2007 are shown separately between the movement in IFRS net assets and the present value of the in-force business (PVIF) in the table below. All figures are shown net of tax.

| | Movement in IFRS Net Assets <u>£' Million</u> | Movement in PVIF <u>£' Million</u> | Movement in EEV <u>£' Million</u> |
|-------------------------------|--|--|---|
| New business contribution | (54.6) | 167.1 | 112.5 |
| Profit from existing business | 95.4 | (95.4) | - |
| Unwind of discount rate | - | 57.8 | 57.8 |
| Experience variances | 28.4 | (16.8) | 11.6 |
| Operating assumption changes | 5.4 | 12.6 | 18.0 |
| Investment return | 5.5 | - | 5.5 |
| Investment return variances | (1.1) | (9.9) | (11.0) |
| Economic assumption changes | (0.6) | 0.8 | 0.2 |
| Miscellaneous | (0.3) | (5.9) | (6.2) |
| Profit after tax | <u>78.1</u> | <u>110.3</u> | <u>188.4</u> |

The main component of the experience variances derives from the change in approach to deferred tax, which reduces the VIF and increases the net assets.

The comparative figures for 2006 are as follows:

| | Movement in IFRS Net Assets <u>£' Million</u> | Movement in PVIF <u>£' Million</u> | Movement in EEV <u>£' Million</u> |
|-------------------------------|--|--|---|
| New business contribution | (52.9) | 136.1 | 83.2 |
| Profit from existing business | 83.2 | (83.2) | - |
| Unwind of discount rate | - | 47.5 | 47.5 |
| Experience variances | 13.2 | (14.5) | (1.3) |
| Operating assumption changes | 20.4 | (24.4) | (4.0) |
| Investment return | 4.6 | 0.1 | 4.7 |
| Investment return variances | 3.9 | 47.2 | 51.1 |
| Economic assumption changes | (1.1) | (6.1) | (7.2) |
| Profit on sale of LAHC | 7.0 | - | 7.0 |
| Miscellaneous | 9.7 | (6.5) | 3.2 |
| Profit after tax | <u>88.0</u> | <u>96.2</u> | <u>184.2</u> |

NOTES TO THE EUROPEAN EMBEDDED VALUE BASIS continued

V. EUROPEAN EMBEDDED VALUE SENSITIVITIES

The table below shows the estimated impact on the combined life and unit trust reported value of new business and EEV to changes in various assumptions. In each case, only the indicated item is varied relative to the restated values.

| | Note | Change in new business contribution | | Change in European Embedded Value |
|--|------|-------------------------------------|-------------------------------|-----------------------------------|
| | | <u>Pre-tax</u> £' Million | <u>Post-tax</u> £' Million | <u>Post-tax</u> £' Million |
| Value at 31 December 2007 | | 150.9 | 112.5 | 1,203.3 |
| 100bp reduction in risk discount rate | 1 | 20.6 | 15.3 | 73.5 |
| 100bp reduction in risk free rates, with corresponding change in fixed interest asset values | | (1.6) | (1.1) | (5.0) |
| 10% reduction in withdrawal rates | | 12.3 | 9.2 | 50.9 |
| 10% reduction in expenses | | 3.4 | 2.5 | 13.3 |
| 10% reduction in market value of equity assets | | - | - | (99.7) |
| 5% reduction in mortality and morbidity | 2 | 0.0 | 0.0 | 0.6 |
| 100bp increase in equity expected returns | 3 | - | - | - |

Note 1: Although not directly relevant under a market-consistent valuation where the risk discount rate is a derived disclosure only, this sensitivity shows the level of adjustment which would be required to reflect differing investor views of risk.

Note 2: Assumes the benefit of lower experience is passed on to clients and reassurers at the earliest opportunity.

Note 3: As a market-consistent approach is used, equity expected returns only affect the derived discount rates and not the embedded value or contribution to profit from new business.

VI. RECONCILIATION OF IFRS AND EEV PROFIT BEFORE TAX AND NET ASSETS

| | Year Ended 31 December 2007 | Year Ended 31 December 2006 |
|--|-----------------------------------|-----------------------------------|
| | £' Million | £' Million |
| IFRS profit before tax | 103.2 | 179.9 |
| Movement in life value of in-force | 88.6 | 17.4 |
| Movement in unit trust value of in-force | 38.6 | 46.7 |
| Total EEV profit before tax | 230.4 | 244.0 |

| | Year Ended 31 December 2007 | Year Ended 31 December 2006 |
|---|-----------------------------------|-----------------------------------|
| | £' Million | £' Million |
| IFRS net assets | 442.5 | 382.2 |
| Less: acquired value of in-force | (61.0) | (64.3) |
| Add: deferred tax on acquired value of in-force | 17.0 | 19.2 |
| Add: life value of in-force | 605.1 | 524.1 |
| Add: unit trust value of in-force | 199.7 | 171.5 |
| EEV net assets | 1,203.3 | 1,032.7 |

VII. RECONCILIATION OF LIFE COMPANY FREE ASSETS TO CONSOLIDATED GROUP EQUITY AND ANALYSIS OF MOVEMENT IN FREE ASSETS

| | Year Ended 31 December 2007 | Year Ended 31 December 2006 |
|--|-----------------------------------|-----------------------------------|
| | £' Million | £' Million |
| Life company free assets | 100.5 | 105.4 |
| Required life company solvency capital | 39.5 | 33.0 |
| Other subsidiaries, consolidation and IFRS adjustments | 302.5 | 243.8 |
| IFRS net assets | 442.5 | 382.2 |

| | Year Ended 31 December 2007 | Year Ended 31 December 2006 |
|--|-----------------------------------|-----------------------------------|
| | £' Million | £' Million |
| Life company free assets at 1 January | 105.4 | 65.0 |
| Investment in new business | (55.6) | (54.2) |
| Profit from existing business | 51.8 | 91.0 |
| Investment return | 5.4 | 4.6 |
| Movement in required solvency capital | (6.5) | (1.0) |
| Life company free assets at 31 December | 100.5 | 105.4 |

**RESULTS UNDER UNDER
INTERNATIONAL FINANCIAL REPORTING STANDARDS**

CONSOLIDATED INCOME STATEMENT

| | Note | Year Ended 31 December 2007 £' Million | Year Ended 31 December 2006 £' Million |
|---|------|---|---|
| Insurance premium revenue | | 97.2 | 101.2 |
| Less premiums ceded to reinsurers | | (27.3) | (33.8) |
| Net insurance premium revenue | | 69.9 | 67.4 |
| Fee and commission income | | 83.8 | 87.6 |
| Profit on sale of investment in Life Assurance Holding Corporation | | - | 7.0 |
| Other investment return | | 1,088.8 | 1,519.3 |
| Total investment income | | 1,088.8 | 1,526.3 |
| Other operating income | | 2.5 | 1.8 |
| Net revenue | 4 | 1,245.0 | 1,683.1 |
| Policy claims and benefits | | | |
| Gross amount | | (50.7) | (58.2) |
| Reinsurers' share | | 18.2 | 23.1 |
| Net policyholder claims and benefits incurred | | (32.5) | (35.1) |
| Change in insurance contract liabilities | | | |
| Gross amount | | (31.0) | 62.0 |
| Reinsurers' share | | 4.6 | (41.0) |
| Net change in insurance contract liabilities | | (26.4) | 21.0 |
| Investment contract benefits | | (697.1) | (1,139.3) |
| Fees, commission and other acquisition costs | | (269.9) | (260.6) |
| Administration expenses | | (112.6) | (86.1) |
| Other operating expenses | | (3.3) | (3.1) |
| | | (385.8) | (349.8) |
| Operating profit and profit before tax | | 103.2 | 179.9 |
| Tax on policyholders' return | 5 | (7.1) | (72.3) |
| Tax on shareholders' return | 5 | (18.0) | (19.6) |
| Total tax expense | 5 | (25.1) | (91.9) |
| Profit for period attributable to shareholders | | 78.1 | 88.0 |
| | | Pence | Pence |
| Basic earnings per share | 6 | 16.8 | 19.4 |
| Diluted earnings per share | 6 | 16.1 | 18.4 |

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Year Ended 31 December 2007 | Year Ended 31 December 2006 |
|--|-----------------------------------|-----------------------------------|
| | <u>£' Million</u> | <u>£' Million</u> |
| Opening equity shareholders' funds | 382.2 | 274.5 |
| Profit for the financial period, being total recognised income for the financial period | 78.1 | 88.0 |
| Dividends | (47.7) | (15.1) |
| Issue of share capital | | |
| Scrip dividend | 10.7 | 11.1 |
| Exercise of share options | 16.0 | 19.2 |
| Consideration paid for own shares | (10.3) | (5.4) |
| P & L reserve credit in respect of share option charges | 12.5 | 7.6 |
| P & L reserve credit in respect of proceeds from exercise of share options of shares held in trust | <u>1.0</u> | <u>2.3</u> |
| Net increase to shareholders' funds | <u>60.3</u> | <u>107.7</u> |
| Closing equity shareholders' funds | <u>442.5</u> | <u>382.2</u> |

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER

| | Note | 2007 £' Million | 2006 £' Million |
|---|------|------------------------|------------------------|
| Assets | | | |
| Intangible assets | | | |
| Deferred acquisition costs | | 484.6 | 393.6 |
| Acquired value of in force business | | 61.0 | 64.3 |
| | | <u>545.6</u> | <u>457.9</u> |
| Property & equipment | | 10.4 | 6.3 |
| Deferred tax assets | | 125.2 | 83.8 |
| Investment property | | 642.5 | 568.2 |
| Investments | | | |
| Equities | | 10,780.4 | 9,014.5 |
| Fixed income securities | | 720.7 | 595.2 |
| Investment in Collective Investment Schemes | | 1,098.8 | 963.9 |
| Currency forwards | | - | 0.2 |
| Reinsurance assets | | 32.9 | 28.3 |
| Insurance and investment contract receivables | | 18.0 | 11.5 |
| Income tax assets | | 19.5 | 9.7 |
| Other receivables | | 160.2 | 87.1 |
| Cash & cash equivalents | | 1,929.2 | 1,606.9 |
| Total assets | | <u>16,083.4</u> | <u>13,433.5</u> |
| Liabilities | | | |
| Insurance contract liabilities | 8 | 405.4 | 374.3 |
| Other provisions | 9 | 5.3 | 3.1 |
| Financial liabilities | | | |
| Investment contracts | | 14,144.0 | 11,819.8 |
| Borrowings | | 11.2 | 13.1 |
| Currency forwards | | 0.2 | 0.1 |
| Deferred tax liabilities | | 268.2 | 277.6 |
| Insurance and investment contract payables | | 21.8 | 18.5 |
| Deferred income | | 347.8 | 291.9 |
| Income tax liabilities | | 50.0 | 19.9 |
| Other payables | | 119.4 | 100.5 |
| Net asset value attributable to unit holders | | 267.6 | 132.5 |
| Total liabilities | | <u>15,640.9</u> | <u>13,051.3</u> |
| Net assets | | <u>442.5</u> | <u>382.2</u> |
| Shareholders' equity | | | |
| Share capital | 10 | 71.5 | 69.6 |
| Share premium | 11 | 82.2 | 57.4 |
| Other reserves | 11 | (15.9) | (8.4) |
| Retained earnings | 11 | 304.7 | 263.6 |
| Total shareholders' equity | | <u>442.5</u> | <u>382.2</u> |
| | | <u>Pence</u> | <u>Pence</u> |
| Net assets per share | | <u>92.9</u> | <u>82.4</u> |

CONSOLIDATED STATEMENT OF CASH FLOWS

| | Year Ended 31 December 2007 | Year Ended 31 December 2006 |
|--|-----------------------------------|-----------------------------------|
| | £' Million | £' Million |
| Cash flows from operating activities | | |
| Profit before tax for the period | 103.2 | 179.9 |
| Adjustments for: | | |
| Depreciation | 2.2 | 2.5 |
| Amortisation of acquired value of in-force business | 3.3 | 3.1 |
| Fair value gains on non-operating investments | - | (0.1) |
| Share based payment charge | 12.5 | 7.6 |
| Profit on sale of investment | - | (7.0) |
| Changes in operating assets and liabilities | | |
| Increase in deferred acquisition costs | (91.0) | (68.6) |
| Increase in investment property | (74.3) | (248.8) |
| Increase in investments | (2,026.1) | (2,100.2) |
| (Increase) / decrease in reinsurance assets | (4.6) | 49.6 |
| (Increase) / decrease in insurance and investment contract receivables | (6.5) | 3.6 |
| Increase in other receivables | (75.8) | (3.5) |
| Increase / (decrease) in insurance contract liabilities | 31.1 | (56.3) |
| Increase in provisions (excluding LAHC) | 2.2 | 0.5 |
| Increase in financial liabilities (excluding borrowings) | 2,319.0 | 2,408.0 |
| Decrease in reinsurance liabilities | - | (8.9) |
| Increase / (decrease) in insurance and investment contract payables | 3.3 | (1.0) |
| Increase in deferred income | 55.9 | 42.2 |
| Increase in other payables | 18.9 | 29.1 |
| Increase in net assets attributable to unit holders | 135.1 | 40.2 |
| | 408.4 | 271.9 |
| Cash generated from operations | | |
| Income taxes paid | (52.8) | (9.3) |
| | 355.6 | 262.6 |
| Net cash from operating activities | | |
| Cash flows from investing activities | | |
| Acquisition of property & equipment | (6.5) | (3.0) |
| Proceeds from sale of plant and equipment | 0.1 | 0.2 |
| Proceeds from sale of LAHC | - | 3.9 |
| | (6.4) | 1.1 |
| Net cash from investing activities | | |
| Cash flows from financing activities | | |
| Proceeds from the issue of share capital | 26.7 | 30.3 |
| Consideration paid for own shares | (10.3) | (5.4) |
| Proceeds from exercise of options over shares held in trust | 1.0 | 2.3 |
| Repayment of borrowings | (1.9) | (4.1) |
| Dividends paid | (47.7) | (15.1) |
| | (32.2) | 8.0 |
| Net cash from financing activities | | |
| Net increase in cash & cash equivalents | 317.0 | 271.7 |
| Cash & cash equivalents at 1 January | 1,606.9 | 1,337.7 |
| Effect of exchange rate fluctuations on cash held | 5.3 | (2.5) |
| | 1,929.2 | 1,606.9 |
| Cash & cash equivalents at 31 December | 1,929.2 | 1,606.9 |

NOTES TO THE CONSOLIDATED ACCOUNTS UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS

1. BASIS OF PREPARATION

St. James's Place plc ("the Company") is a company incorporated and domiciled in England and Wales.

The group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group"). The group financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ("adopted IFRSs"). The Group has applied all IFRSs and interpretations adopted by the EU excluding *IFRS 8 Operating Segments*. The effective date for IFRS 8 is for accounting periods commencing 1 January 2009 and it is likely that further disclosures will be required when the standard is applied. During 2007, the Group has applied for the first time, the following:

- *Amendments to IAS 1 Presentation of Financial Statements (Capital Disclosures)*
- *IFRS 7 Financial Instruments: Disclosures*

The group financial statements also comply with the revised Statement of Recommended Practice issued by the Association of British Insurers in December 2005 in so far as these requirements do not contradict IFRS requirements.

2. OTHER ACCOUNTING POLICIES

The other accounting policies used by the Group in preparing the results are also consistent with those applied in preparing statutory accounts for the year ended 31 December 2006.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Judgements

The primary area in which the Group has applied judgement in applying accounting policies lies in the classification and unbundling of contracts between insurance and investment business. Contracts with a significant degree of insurance risk are treated as insurance; pension contracts in general have been treated as investment contracts and, where they contain a significant degree of insurance risk, the insurance and investment components have been unbundled. All other contracts are treated as investment contracts. The Group has also elected to treat all assets backing linked and non unit linked contracts as fair value through profit or loss although some of the assets in question may ultimately be held to maturity.

Estimates

The principal areas in which the Group applies accounting estimates are:

- determining the value of insurance contract liabilities;
- deciding the amount of management expenses that are treated as acquisition expenses;
- amortisation and recoverability of deferred acquisition costs and deferred income; and
- determining the fair value, amortisation and recoverability of acquired in-force business.

Estimates are also applied in determining the amount of deferred tax asset recognised on unrelieved expenses and the value of other provisions. The basis of estimation has changed during the year.

NOTES TO THE CONSOLIDATED ACCOUNTS UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Measurement of insurance contract liabilities

The assumptions used in the calculation of insurance contract liabilities that have a significant effect on the income statement of the Group are:

- the lapse assumption, which is set prudently based on an investigation of experience during the year;
- the level of expenses, which is based on actual expenses in 2007 and expected long term rates;
- the mortality and morbidity rates, which are based on the results of an investigation of experience during the year; and
- the assumed rate of investment return, which is based on current gilt rates.

Acquisition expenses

Certain management expenses vary with the level of sales and have been treated as acquisition costs. Each line of costs has been reviewed and its variability to sales volumes estimated on the basis of the level of costs that would be incurred if sales ceased.

Amortisation and recoverability of DAC and DIR

Deferred acquisition costs and income on investment contracts are amortised on a straight-line basis over the average lifetime of the underlying contracts. The average lifetime of the contracts has been estimated from the experienced termination rates and the average age of clients at inception and maturity.

Deferred acquisition costs and income on insurance contracts are amortised over the period during which the costs are expected to be recoverable in accordance with the projected emergence of future margins.

Deferred acquisition costs relating to insurance and investment contracts are tested annually for recoverability by reference to expected future income levels.

Acquired in-force business

There have been no new business combinations during the year. The acquired value of the in-force business is amortised on a basis that reflects the expected profit stream arising from the business acquired at the date of acquisition. This profit stream is estimated from the experienced termination rates, expenses of management and age of the clients under the individual contracts as well as global estimates of investment growth, based on recent experience at the date of acquisition.

The acquired value of in-force business relating to insurance and investment contracts is tested annually for recoverability by reference to expected future income levels.

4. SEGMENT REPORTING

The Group segments its operations into three lines of business:

1. Life business – offering pensions, protection and investment products through the Group's life assurance subsidiaries;
2. Unit trust business – offering unit trust investment products, including ISAs and PEPs, through the St. James's Place Unit Trust Group; and
3. Other – offering financial products such as annuities, mortgages and stakeholder pensions, from third party providers.

**NOTES TO THE CONSOLIDATED ACCOUNTS UNDER
INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)**

The income and results of these segments are as follows:

| Net Revenue | Year Ended 31 December 2007 £' Million | Year Ended 31 December 2006 £' Million |
|--|---|---|
| Life business | | |
| Net insurance premium income | 69.9 | 67.4 |
| Net movement on deferred income | (30.5) | (23.3) |
| Investment income – unit linked policyholders | 1,063.9 | 1,503.9 |
| Segment revenue | <u>1,103.3</u> | <u>1,548.0</u> |
| Unit trust business | | |
| Fee income (excluding deferred income) | 85.4 | 67.7 |
| Net movement on deferred income | (25.4) | (18.9) |
| Segment revenue | <u>60.0</u> | <u>48.8</u> |
| Other business | | |
| Commission income | 54.3 | 62.1 |
| Investment income – sale of investment in LAHC | - | 7.0 |
| Investment income – other shareholders | 11.6 | 6.7 |
| Investment income – other ⁽¹⁾ | 13.3 | 8.7 |
| Other operating income | 2.5 | 1.8 |
| Segment revenue | <u>81.7</u> | <u>86.3</u> |
| Total net revenue⁽²⁾ | <u>1,245.0</u> | <u>1,683.1</u> |

(1) *Investment income - other* relates to investment income on third party holdings in the St. James's Place unit trusts which are subject to consolidation (the third party holdings are disclosed as "net asset value attributable to unit holders" within the balance sheet). This income is offset by a change in investment contract benefits within the income statement.

(2) All revenue is generated from external transactions.

**NOTES TO THE CONSOLIDATED ACCOUNTS UNDER
INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)**

| Segment Result | Year Ended 31 December 2007 <u>£' Million</u> | Year Ended 31 December 2006 <u>£' Million</u> |
|---|--|--|
| Life business | | |
| Shareholder | 84.4 | 85.5 |
| Policyholder tax gross up | 7.1 | 72.3 |
| Unit trust business | 15.9 | 18.0 |
| Profit on sale of investment – LAHC | - | 7.0 |
| Other loss | (4.2) | (2.9) |
| Total other business | (4.2) | 4.1 |
| Total operating profit and profit before tax | 103.2 | 179.9 |
| Income taxes | | |
| Policyholder tax | (7.1) | (72.3) |
| Shareholder tax | (18.0) | (19.6) |
| Profit after tax | 78.1 | 88.0 |
| Other Segmental Information | | |
| | Year Ended 31 December 2007 <u>£' Million</u> | Year Ended 31 December 2006 <u>£' Million</u> |
| Segment Assets | | |
| Life business | 15,385.0 | 12,963.5 |
| Unit trust business | 150.6 | 103.3 |
| Other business | 300.5 | 303.9 |
| Unallocated assets | 144.7 | 93.5 |
| Consolidation adjustments | 102.6 | (30.7) |
| Total Assets | 16,083.4 | 13,433.5 |
| Segment Liabilities | | |
| Life business | 14,879.7 | 12,481.8 |
| Unit trust business | 130.1 | 94.0 |
| Other business | 76.1 | 69.4 |
| Unallocated liabilities | 318.2 | 297.5 |
| Consolidation adjustments | 236.8 | 108.6 |
| Total Liabilities | 15,640.9 | 13,051.3 |
| Capital expenditure | | |
| Other business | 6.5 | 3.0 |
| Depreciation Expense | | |
| Other business | 2.2 | 2.5 |
| Amortisation Expense | | |
| Life business – DAC | 38.6 | 35.0 |
| Life business – acquired value of in-force business | 3.3 | 3.1 |
| Unit trust business - DAC | 6.8 | 5.2 |

**NOTES TO THE CONSOLIDATED ACCOUNTS UNDER
INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)**

5. INCOME TAXES

| | Year Ended 31 December 2007 | Year Ended 31 December 2006 |
|---|-----------------------------------|-----------------------------------|
| | £' Million | £' Million |
| Policyholder tax | | |
| Overseas withholding taxes | 12.4 | 9.2 |
| Deferred tax on unrelieved expenses | | |
| - Current year credit | (7.5) | - |
| - Prior year credit | (30.4) | - |
| Deferred tax on unrealised gains in unit linked funds | (23.2) | 41.8 |
| UK corporation tax | 55.8 | 21.3 |
| Total policyholder tax charge for the year | 7.1 | 72.3 |

| | Year Ended 31 December 2007 | Year Ended 31 December 2006 |
|--|-----------------------------------|-----------------------------------|
| | £' Million | £' Million |
| Shareholder tax | | |
| UK corporation tax | | |
| Current year charge | 4.6 | 8.7 |
| Prior year charge | 1.0 | 0.1 |
| Overseas taxes | 2.2 | 0.9 |
| | 7.8 | 9.7 |
| Deferred tax charge / (credit) | | |
| On unrelieved expenses | - | (1.1) |
| Other | 10.2 | 11.0 |
| Total shareholder tax charge for the year | 18.0 | 19.6 |

The prior year credit for deferred tax on unrelieved expenses relates to the change in basis of valuation for tax relief from a market consistent stochastic model to the recognition of deferred tax on the entire balance of unrelieved expenses. In addition, where deferred tax balances represent future adjustments at the policyholder rate, these are now recognised as policyholder items.

The change in the corporation tax rate from 30% to 28% effective from 1 April 2008 included in the 2007 Finance Act has been incorporated into the deferred tax balances.

6. EARNINGS PER SHARE

| | Year Ended 31 December 2007 | Year Ended 31 December 2006 |
|-------------------------------------|-----------------------------------|-----------------------------------|
| | Pence | Pence |
| Basic earnings per share | 16.8 | 19.4 |
| Adjustments – disposal of LAHC | - | (1.5) |
| Basic adjusted earnings per share | 16.8 | 17.9 |
| Diluted earnings per share | 16.1 | 18.4 |
| Adjustments – disposal of LAHC | - | (1.5) |
| Diluted adjusted earnings per share | 16.1 | 16.9 |

**NOTES TO THE CONSOLIDATED ACCOUNTS UNDER
INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)**

The earnings per share (EPS) calculations are based on the following figures:

| | Year Ended 31 December 2007 <u>£' Million</u> | Year Ended 31 December 2006 <u>£' Million</u> |
|---|--|--|
| Earnings | | |
| Profit after tax (<i>for both basic and diluted EPS</i>) | 78.1 | 88.0 |
| Adjustments – disposal of LAHC | - | (7.0) |
| Adjusted profit (<i>for both basic and diluted EPS</i>) | <u>78.1</u> | <u>81.0</u> |
| Weighted average number of shares | | |
| Weighted average number of ordinary shares in issue (<i>for basic EPS</i>) | 465.6 | 452.8 |
| Adjustments for outstanding share options | 20.4 | 25.8 |
| Weighted average number of ordinary shares (<i>for diluted EPS</i>) | <u>486.0</u> | <u>478.6</u> |

7. DIVIDENDS

The following dividends have been paid by the Group:

| | Year Ended 31 December 2007 <u>Pence per share</u> | Year Ended 31 December 2006 <u>Pence per share</u> | Year Ended 31 December 2007 <u>£' Million</u> | Year Ended 31 December 2006 <u>£' Million</u> |
|---|---|---|--|--|
| Final dividend in respect of previous financial year | 2.15 | 1.85 | 10.0 | 8.3 |
| Special dividend in respect of previous financial year | 6.35 | - | 29.4 | - |
| Interim dividend in respect of current financial year | <u>1.75</u> | <u>1.50</u> | <u>8.3</u> | <u>6.8</u> |
| Total | <u>10.25</u> | <u>3.35</u> | <u>47.7</u> | <u>15.1</u> |

The Directors have recommended a final dividend of 2.55 pence per share (2006: 2.15 pence). This amounts to £12.2 million (2006: £10.0 million) and will, subject to shareholder approval at the Annual General Meeting, be paid on 14 May 2008 to those shareholders on the register as at 7 March 2008.

**NOTES TO THE CONSOLIDATED ACCOUNTS UNDER
INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)**

8. INSURANCE LIABILITIES

| | 2007 £' Million | 2006 £' Million |
|---|--------------------|--------------------|
| Balance at 1 January | 374.3 | 430.6 |
| Movement in unit linked liabilities | 26.3 | 32.9 |
| Movement in non-unit linked liabilities | | |
| New business | (2.6) | (2.9) |
| Existing business | 3.4 | 2.9 |
| Effect of PS06/14 | - | (43.7) |
| Other assumption changes | (6.0) | (29.4) |
| Claims reserve reclassification | - | (14.9) |
| Experience variance | 10.0 | (1.2) |
| Total movement in non-unit linked liabilities | 4.8 | (89.2) |
| Balance at 31 December | 405.4 | 374.3 |
| Unit linked | 333.8 | 307.5 |
| Non-unit linked | 71.6 | 66.8 |
| | 405.4 | 374.3 |
| Current | 56.4 | 52.5 |
| Non current | 349.0 | 321.8 |
| | 405.4 | 374.3 |

Assumptions used in the calculation of liabilities

The principal assumptions used in the calculation of the liabilities are:

| <u>Assumption</u> | <u>Description</u> | | | | | | | | |
|-------------------|--|------------|-------------|----|----------|----|----------|----|----------|
| Interest rate | The valuation interest rate is calculated by reference to the long term gilt yield at 31 December 2007 and the specific gilts backing the liabilities. The specific rates used are between 3.2% and 4.6% depending on the tax regime (3.2% and 4.5% at 31 December 2006). | | | | | | | | |
| Mortality | Mortality is based on company experience and is set at 72% of the TM/F92 tables with an additional loading for smokers. There has been no change since 2006. | | | | | | | | |
| Morbidity – CI | Morbidity is based on company experience. The shape and level are unchanged since last year. Sample annual rates per £ for a male non-smoker are: | | | | | | | | |
| | <table border="1"> <thead> <tr> <th style="text-align: left;"><u>Age</u></th> <th style="text-align: left;"><u>Rate</u></th> </tr> </thead> <tbody> <tr> <td>25</td> <td>0.000703</td> </tr> <tr> <td>35</td> <td>0.001235</td> </tr> <tr> <td>45</td> <td>0.002953</td> </tr> </tbody> </table> | <u>Age</u> | <u>Rate</u> | 25 | 0.000703 | 35 | 0.001235 | 45 | 0.002953 |
| <u>Age</u> | <u>Rate</u> | | | | | | | | |
| 25 | 0.000703 | | | | | | | | |
| 35 | 0.001235 | | | | | | | | |
| 45 | 0.002953 | | | | | | | | |

**NOTES TO THE CONSOLIDATED ACCOUNTS UNDER
INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)**

Morbidity – PHI Morbidity is based on company experience. Sample annual rates per £ income benefit p.a. for a male non-smoker are:

| <u>Age</u> | <u>Rate</u> | |
|------------|-------------|-------------|
| | <u>2007</u> | <u>2006</u> |
| 25 | 0.00510 | 0.00586 |
| 35 | 0.01345 | 0.01547 |
| 45 | 0.02918 | 0.03356 |

Expenses Contract liabilities are calculated allowing for the actual costs of administration of the business. The assumption has been increased to allow for inflation but is otherwise unchanged.

| <u>Product</u> | <u>Annual cost</u> | |
|---------------------|--------------------|-------------|
| | <u>2007</u> | <u>2006</u> |
| Investment bonds | £20.65 | £19.63 |
| Pension business | £40.48 | £39.07 |
| Protection business | £32.38 | £31.28 |

Persistency Allowance is made for a prudent level of lapses within the calculation of the liabilities. There has been no change in the allowance for lapses since 2006. Sample annual lapse rates include:

| <u>Product</u> | <u>1 – 5 years</u> | <u>6 + years</u> |
|-------------------------|--------------------|------------------|
| Bond | 3% | 5% |
| Protection | 14% | 11% |
| Single premium pensions | 2% | 8% |

Note: the lapse assumptions for single premium pension business vary by age rather than duration. The rates included in the table above are in respect of a plan commencing at age 55.

Sensitivity analysis

The table below sets out the sensitivity of the profit and net assets to key assumptions. The analysis reflects the change in the variable / assumption shown while all other variables / assumptions are left unchanged. In practice variables / assumptions may change at the same time as some may be correlated (for example, an increase in interest rates may also result in an increase in expenses if the increase reflects higher inflation). It should also be noted that in some instances sensitivities are non-linear.

**NOTES TO THE CONSOLIDATED ACCOUNTS UNDER
INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)**

| Sensitivity analysis | Change in assumption | Change in profit before tax 2007 | Change in profit before tax 2006 | Change in net assets 2007 | Change in net assets 2006 |
|-----------------------|----------------------|----------------------------------|----------------------------------|---------------------------|---------------------------|
| | % | £' Million | £' Million | £' Million | £' Million |
| Withdrawal rates | -10% | (2.3) | (1.4) | (1.9) | (1.0) |
| Expense assumptions | -10% | 1.3 | 2.1 | 1.0 | 1.8 |
| Mortality / morbidity | -5% | 0.8 | 0.2 | 0.6 | 0.2 |

A change in interest rates will have no material impact on insurance profit or net assets.

9. OTHER PROVISIONS

| | Endowments | Office Restructuring | Other Provisions | Total |
|--|------------|----------------------|------------------|------------|
| | £' Million | £' Million | £' Million | £' Million |
| At 1 January 2007 | 0.8 | 2.1 | 0.2 | 3.1 |
| Charged to the consolidated income statement | (0.3) | (1.3) | - | (1.6) |
| Additional provisions | - | 2.9 | 1.1 | 4.0 |
| Unused amounts released | - | - | (0.2) | (0.2) |
| At 31 December 2007 | 0.5 | 3.7 | 1.1 | 5.3 |
| Current | 0.4 | 2.9 | 1.1 | 4.4 |
| Non current | 0.1 | 0.8 | - | 0.9 |
| | 0.5 | 3.7 | 1.1 | 5.3 |

The endowments provision relates to the cost of redress for mortgage endowment complaints. The provision is based on estimates of the total number of complaints expected to be upheld, the average cost of redress and the estimated timing of settlement.

The office restructuring provision represents the expected amounts payable under a number of non-cancellable operating leases for office space that the Group no longer occupies. The provision is based on estimates of the rental payable until the approximate dates on which the Group expects either to have sublet the affected space or to have reached break clauses within the relevant lease agreements and making appropriate allowance for the time value of money.

Other provisions refer to sundry miscellaneous items.

**NOTES TO THE CONSOLIDATED ACCOUNTS UNDER
INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)**

10. SHARE CAPITAL

| | <u>Number of Ordinary Shares</u> | <u>Share Capital £' Million</u> |
|----------------------------|--------------------------------------|-------------------------------------|
| At 1 January 2006 | 447,431,123 | 67.1 |
| Scrip dividend | 3,553,044 | 0.5 |
| Exercise of options | <u>12,874,781</u> | <u>2.0</u> |
| At 31 December 2006 | 463,858,948 | 69.6 |
| Scrip dividend | 2,422,538 | 0.4 |
| Exercise of options | <u>10,204,367</u> | <u>1.5</u> |
| At 31 December 2007 | <u>476,485,853</u> | <u>71.5</u> |

The total authorised number of ordinary shares is 605 million (2006: 605 million), with a par value of 15 pence per share (2006: 15 pence per share). All issued shares are fully paid.

11. RESERVES

| | <u>Share Premium £' Million</u> | <u>Treasury Shares Reserve £' Million</u> | <u>Profit and Loss Reserve £' Million</u> | <u>Miscellaneous Reserves £' Million</u> | <u>Total £' Million</u> |
|--|---|---|---|--|-----------------------------|
| At 1 January 2006 | 29.6 | (11.0) | 186.5 | 2.3 | 207.4 |
| Profit for the year | | | 88.0 | | 88.0 |
| Dividends | | | (15.1) | | (15.1) |
| Issue of share capital | | | | | |
| Scrip dividend | 10.6 | | | | 10.6 |
| Exercise of options | 17.2 | | | | 17.2 |
| Consideration paid for own shares | | (5.4) | | | (5.4) |
| Own shares vesting charge | | 5.7 | (5.7) | | - |
| P & L reserve credit in respect of proceeds from exercise of share options of shares held in trust | | | 2.3 | | 2.3 |
| P & L reserve credit in respect of share option charges | | | <u>7.6</u> | | <u>7.6</u> |
| At 31 December 2006 | 57.4 | (10.7) | 263.6 | 2.3 | 312.6 |
| Profit for the year | | | 78.1 | | 78.1 |
| Dividends | | | (47.7) | | (47.7) |
| Issue of share capital | | | | | |
| Scrip dividend | 10.3 | | | | 10.3 |
| Exercise of options | 14.5 | | | | 14.5 |
| Consideration paid for own shares | | (10.3) | | | (10.3) |
| Own shares vesting charge | | 2.8 | (2.8) | | - |
| P & L reserve credit in respect of proceeds from exercise of share options of shares held in trust | | | 1.0 | | 1.0 |
| P & L reserve credit in respect of share option charges | | | <u>12.5</u> | | <u>12.5</u> |
| At 31 December 2007 | <u>82.2</u> | <u>(18.2)</u> | <u>304.7</u> | <u>2.3</u> | <u>371.0</u> |

Miscellaneous reserves represent other non-distributable reserves.

**NOTES TO THE CONSOLIDATED ACCOUNTS UNDER
INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)**

12. NON STATUTORY ACCOUNTS

The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2007 or 2006 but is derived from those accounts. Statutory accounts for 2006 have been delivered to the registrar of companies, and those for 2007 will be delivered in due course. The auditors have reported on those accounts; their report was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 237 (2) or (3) of the Companies Act 1985.

13. ANNUAL REPORT

The Company's annual report and accounts for the year ended 31 December 2007 is expected to be posted to shareholders by 31 March 2008. Copies of both this announcement and the annual report and accounts will be available to the public at the Company's registered office at St. James's Place House, Dollar Street, Cirencester GL7 2AQ and through the Company's website at www.sjp.co.uk.